

## Teavana Holdings, Inc.

### Expect First Quarter to Modestly Beat Consensus Expectations

- We expect Teavana will meet our first-quarter EPS estimate of \$0.11 (excluding a penny in anticipated transition and integration expenses related to the pending Teaopia acquisition), above the high end of guidance of \$0.09 to \$0.10 as well as consensus of \$0.10. Teavana will report first-quarter earnings before the markets open on Wednesday, May 30.
- We believe sales trends remained relatively healthy despite some softness during the quarter in the East and Midwest during periods of unusually warm weather and project a midsingle-digit same-store sales increase (including e-commerce), at the high end of management's guidance for a low- to midsingle-digit increase. Excluding direct-to-consumer, we are projecting a low-single-digit comp increase against a 6% year-ago comparison. We expect comps will be driven primarily by average ticket, as customers increasingly buy more tea per transaction (a unique but healthy dynamic given Teavana's long-shelf-life consumable product), and project total sales growth of 28% to \$45 million, at the high end of management's \$44 million to \$45 million guidance and in line with consensus.
- We expect gross margin expansion of about 30 basis points to 64.7%, primarily reflecting favorable mix shift toward higher-margin loose-leaf tea. We expect SG&A to increase 210 basis points to 44.3% on higher public company costs and expect D&A to increase 20 basis points to 3.8%, yielding overall operating margin contraction of 190 basis points to 16.6%.
- Teavana planned to open 18 to 20 new stores in the first quarter, bringing the quarter-end store count to about 220 company-owned stores, up 36%. We believe the company remains on track to open 60 new company-owned stores this year, representing organic growth of 30%, and its first franchised store in the Middle East through its 10-year franchise development agreement with Alshaya. In addition, the company's acquisition of Teaopia, with 46 company-owned stores in Canada, is expected to close in the second quarter.
- We expect management's first look at the second quarter will encompass our and consensus expectations of \$0.04 and \$0.03, respectively (versus \$0.03 last year), excluding any Teaopia-related expenses. We expect management to guide to comps in the low- to midsingle-digit range against an 8.7% year-ago comparison (including e-commerce), encompassing our estimate for a midsingle-digit comp gain.

*Teavana is a rapidly growing mall-based specialty tea retailer, specializing in premium loose-leaf teas, tea-related merchandise, and prepared beverages.*

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May 21, 2012

Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**

Symbol: TEA (NYSE)  
Price: \$16.62 (52-Wk.: \$14-\$29)  
Market Value (mil.): \$645  
Fiscal Year End: January  
Long-Term EPS Growth Rate: 30%  
Dividend/Yield: None

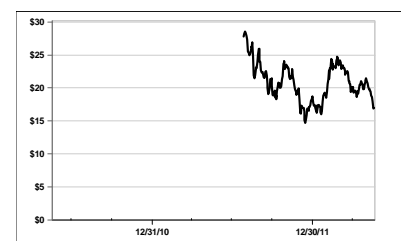
	2011A	2012E	2013E
<b>Estimates*</b>			
EPS Q1	\$0.09	\$0.11	NA
Q2	\$0.03	\$0.04	NA
Q3	\$0.02	\$0.03	NA
Q4	\$0.32	\$0.43	NA
FY	\$0.46	\$0.61	\$0.81
CY		\$0.61	\$0.81
Sales (mil.)	168	227	290
<b>Valuation</b>			
FY P/E	36.1x	27.2x	20.5x
CY P/E		27.2x	20.5x

\* Estimates do not reflect the adoption of FAS 123R.

<b>Trading Data</b> (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	236,248

<b>Financial Data</b> (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	632.3
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	16.9x
Return on Equity (TTM)	26.5

#### Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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Please consult the last page of this report for all disclosures.

William Blair & Company, L.L.C. receives or seeks to receive compensation for investment banking services from Teavana Holdings, Inc. Investors should consider this report as a single factor in making an investment decision.

- For 2012, management may formally raise revenue expectations to account for the Teaopia acquisition, and we project revenue of \$227 million (including roughly \$11 million from Teaopia), versus prior guidance of \$208 million to \$215 million and consensus of \$220 million. We expect EPS guidance to remain unchanged at \$0.58 to \$0.61 (excluding \$0.04 to \$0.05 in anticipated Teaopia transaction and integration expenses), versus our estimate of \$0.61 and consensus of \$0.60, as the Teaopia acquisition is expected to be neutral to earnings this year. For 2013, our estimate is \$0.81, up 33% and roughly in line with consensus of \$0.80.
- Teavana's shares have pulled back to 28 times our 2012 EPS estimate, and we continue to like shares given Teavana's strong growth prospects and historically resilient sales trends, and we expect investors to be rewarded with healthy 30% annual EPS growth with the potential for upside.

# Teavana Holdings, Inc.

May 21, 2012: \$16.70 (\$14-\$29)

## Quarterly Earnings Model

(\$ in millions, except per-share items)

Rating: Outperform

Company Profile: Aggressive Growth

FYE January	2010	Apr-11	Jul-11	Oct-11	Jan-12	2011	Apr-12 <sup>(a)</sup>	Jul-12E	Oct-12E	Jan-13E	2012E <sup>(b)</sup>	2013E
Company-owned	146	161	179	196	200	200	219	281	301	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	237	300	320	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	31.7%	52.3%	49.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	11.4%	8.9%	8.7%	8.5%	8.6%	8.6%	4.0%	6.0%	8.0%	8.0%	6.5%	6.5%
<b>Revenues</b>	\$124.7	\$34.9	\$31.3	\$33.4	\$68.4	\$168.1	\$44.8	\$40.0	\$47.0	\$95.6	\$227.4	\$290.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.8	15.4	17.6	32.3	81.1	102.2
Gross profit	\$78.4	\$22.5	\$19.1	\$20.7	\$44.9	\$107.2	\$29.0	\$24.6	\$29.4	\$63.3	\$146.3	\$188.1
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	19.9	20.4	25.4	32.5	98.1	124.5
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.7	1.8	2.2	2.3	8.0	10.0
Operating income	\$23.5	\$6.5	\$2.3	\$1.6	\$21.2	\$31.6	\$7.4	\$2.4	\$1.8	\$28.5	\$40.2	\$53.6
Interest expense, net	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.4	0.4
Pretax income	\$20.9	\$5.8	\$1.6	\$1.5	\$21.1	\$29.9	\$7.3	\$2.3	\$1.7	\$28.4	\$39.8	\$53.2
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net income	\$12.0	\$3.3	\$1.0	\$0.9	\$12.5	\$17.8	\$4.4	\$1.4	\$1.0	\$17.1	\$23.9	\$32.0
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.2	39.3	39.4	39.5	39.3	39.6
<b>EPS</b>	<b>\$0.32</b>	<b>\$0.09</b>	<b>\$0.03</b>	<b>\$0.02</b>	<b>\$0.32</b>	<b>\$0.46</b>	<b>\$0.11</b>	<b>\$0.04</b>	<b>\$0.03</b>	<b>\$0.43</b>	<b>\$0.61</b>	<b>\$0.81</b>
<b>Margins:</b>												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.7%	61.6%	62.5%	66.2%	64.3%	64.8%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	44.3%	51.0%	54.0%	34.0%	43.2%	42.9%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.8%	4.5%	4.7%	2.4%	3.5%	3.4%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.6%	6.1%	3.8%	29.8%	17.7%	18.5%
<b>Growth rates:</b>												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	28.2%	27.7%	40.7%	39.8%	35.3%	27.6%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	34.5%	32.7%	45.0%	47.5%	40.8%	26.9%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	33.4%	26.1%	41.6%	37.6%	35.0%	25.0%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	15.3%	4.5%	11.5%	34.5%	27.2%	33.3%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	28.1%	31.4%	8.1%	35.7%	31.8%	32.8%

<sup>(a)</sup>Excludes anticipated \$0.01 in transition and integration expenses related to Teaopia acquisition

<sup>(b)</sup>Excludes anticipated \$0.04 to \$0.05 in transition and integration expenses related to Teaopia acquisition

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Additional information is available upon request.



### Current Rating Distribution (as of 04/30/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	8
Market Perform (Hold)	32	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

\*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

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