

## Teavana Holdings, Inc. (TEA)

Overweight

### Highlights from the 32nd Annual Piper Jaffray Consumer Conference

#### CONCLUSION

We are reiterating our Overweight rating and \$25 price target on TEA shares following management's presentation at the Piper Jaffray Consumer Conference. We believe that Teavana's underlying business remains strong despite recent weakness in the stock, and we are encouraged that management believes it can achieve a low-twenties operating margin as the business scales and loose tea grows as a percentage of total company revenue.

- Presenting at the conference were CEO Andrew Mack and CFO Dan Glennon.
- Management discussed its pending acquisition of Teaopia, which was announced on 4/16/12. Teaopia is a 46-store chain that began operations in 2005 and looks, acts, smells, and feels a lot like Teavana. During its presentation, management characterized Teaopia as a business occupying a profitable niche in Canada, but with meaningful opportunity to improve profitability by converting its stores into Teavana locations and improving store-level execution. We believe sales and margin expansion tied to this integration are on deck in the years to come. Our FY13 EPS estimate includes about \$0.05 in integration costs associated with the acquisition. Excluding these integration costs, management expects the acquisition to be accretive by \$0.03-\$0.04 to EPS in FY13.
- Management elaborated on its real estate strategy. It appears that Teavana is having success in expanding to new markets and is exploring new real estate formats, such as a broader street location strategy. Management indicated that it plans to open a store in New York City this July near the corner of 86th Street and Lexington Avenue.
- Regarding cost control, management sees opportunity to increase operating margins by containing product costs as well as by leveraging SG&A as the business grows. Longer-term, management indicated that it believes it can achieve a low-twenties operating margin as the business scales and loose tea represents an increasingly large share of total company revenue.
- Management also discussed the potential of launching a consumer packaged goods line for sale through other channels. Although the time line for the development of a CPG line was not discussed, management indicated it believes the high-end tea category is under penetrated in the grocery channel, and cited several examples of coffee brands which have thoughtfully executed a brand-sensitive channel expansion. We believe the launch of a CPG line could be meaningfully accretive within the first year or two of operations, although management has not yet discussed firm plans to make such a move.
- We rate TEA shares Overweight with a \$25 price target based on 30x FY14E EPS.

#### RISKS TO ACHIEVEMENT OF PRICE TARGET

Macroeconomic pressures, risk to opening stores internationally and working with franchise partners, reliance on key top management, limited ability to hedge costs.

#### COMPANY DESCRIPTION

Teavana is a specialty retailer of loose tea and related accessories operating approximately 223 stores.

PRICE: US\$13.42

TARGET: US\$25.00

30x FY14E EPS

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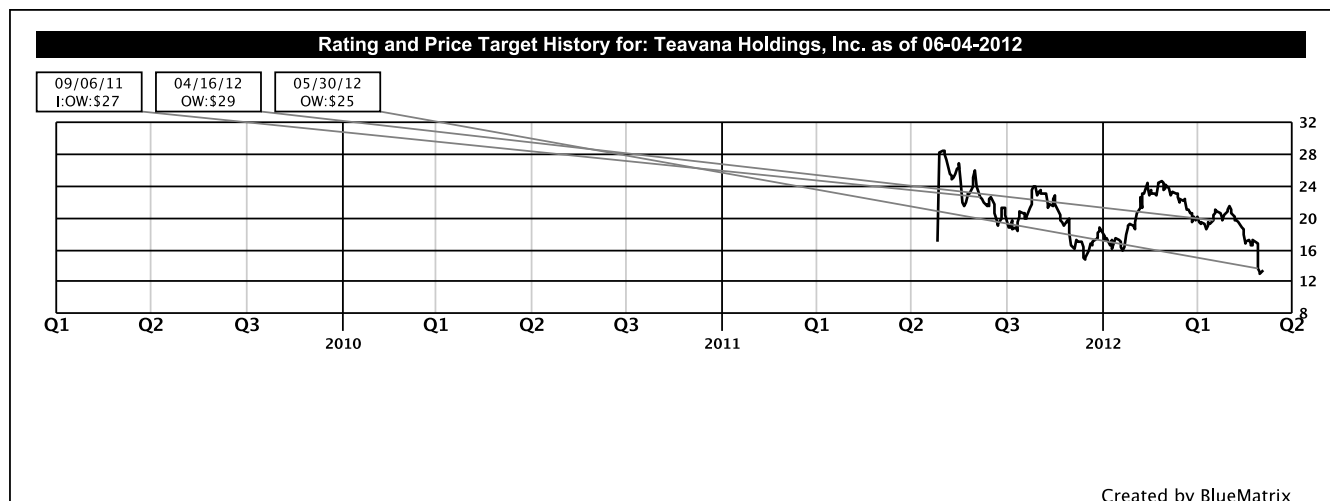
TEA

**Share Price:**

13.42

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OW: Overweight

N: Neutral

UW: Underweight

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			Count	Percent
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<b>HOLD [N]</b>	<b>264</b>	<b>39.94</b>	<b>19</b>	<b>7.20</b>
<b>SELL [UW]</b>	<b>29</b>	<b>4.39</b>	<b>1</b>	<b>3.45</b>

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**Analyst Certification — Neely J.N. Tamminga, Sr Research Analyst**  
**— Alex J. Fuhrman, Research Analyst**

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