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December 5, 2011

Stock Rating  
Equal-weight

Industry View  
In-Line

## Teavana Holdings, Inc.

### Quick Comment: 3Q Solid, But Falling Traffic, New Store Productivity Weigh on Stock

**3Q11's 35% revenue growth impresses;** added ~40% new store growth and a 6% increase in SSS (stores only). The +46% increase in e-commerce sales was also very solid. 3Q11 EPS of \$0.02 was in line with consensus and \$0.01 above our estimate.

**What's new:** Stock down 9% likely on inventory concerns, 2.5% decline in same store transactions, and decelerating new store productivity (we calculate ~74% vs. 77% last Q and 82% in 1Q). We think inventory concerns (inventory +79% y/y) are overblown as TEA eliminated the middleman to directly source product, which requires ownership of inventory earlier in the supply chain.

**Market concerns in declining transactions and lower new store productivity may be well-founded.** We would have expected consistently positive transaction growth in an underpenetrated category (tea) and with such a new store base (196 stores at 3Q11-end vs. 141 LY at this time and 107 2 years ago).

**New store productivity is inline with management expectations.** Existing fleet averages ~\$860,000 per store. New stores are expected to generate \$600,000 - \$700,000 annually, or 70-80% of the existing fleet productivity. While our 74% productivity calculation is inline with management plan they may have fallen short of market expectations.

**Maintaining our 4Q11 EPS;** raising FY11. We maintain our \$0.41 4Q11 EPS estimate (based on a 3% stores-only comp) and are raising our FY11 EPS to \$0.45 (from \$0.43). Management's updated FY11 EPS guidance is \$0.43-\$0.45 (vs. Street's \$0.46 and the previous \$0.42-\$0.44 plan).

#### Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US  
Retail, Softlines / United States of America

Price target	NA
Shr price, close (Dec 2, 2011)	\$16.65
Mkt cap, curr (mm)	\$635
52-Week Range	\$29.35-16.65

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(as of November 30, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1109</b>	<b>39%</b>	<b>453</b>	<b>44%</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1203</b>	<b>42%</b>	<b>434</b>	<b>42%</b>	<b>36%</b>
<b>Not-Rated/Hold</b>	<b>108</b>	<b>4%</b>	<b>24</b>	<b>2%</b>	<b>22%</b>
<b>Underweight/Sell</b>	<b>422</b>	<b>15%</b>	<b>122</b>	<b>12%</b>	<b>29%</b>
<b>Total</b>	<b>2,842</b>		<b>1033</b>		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

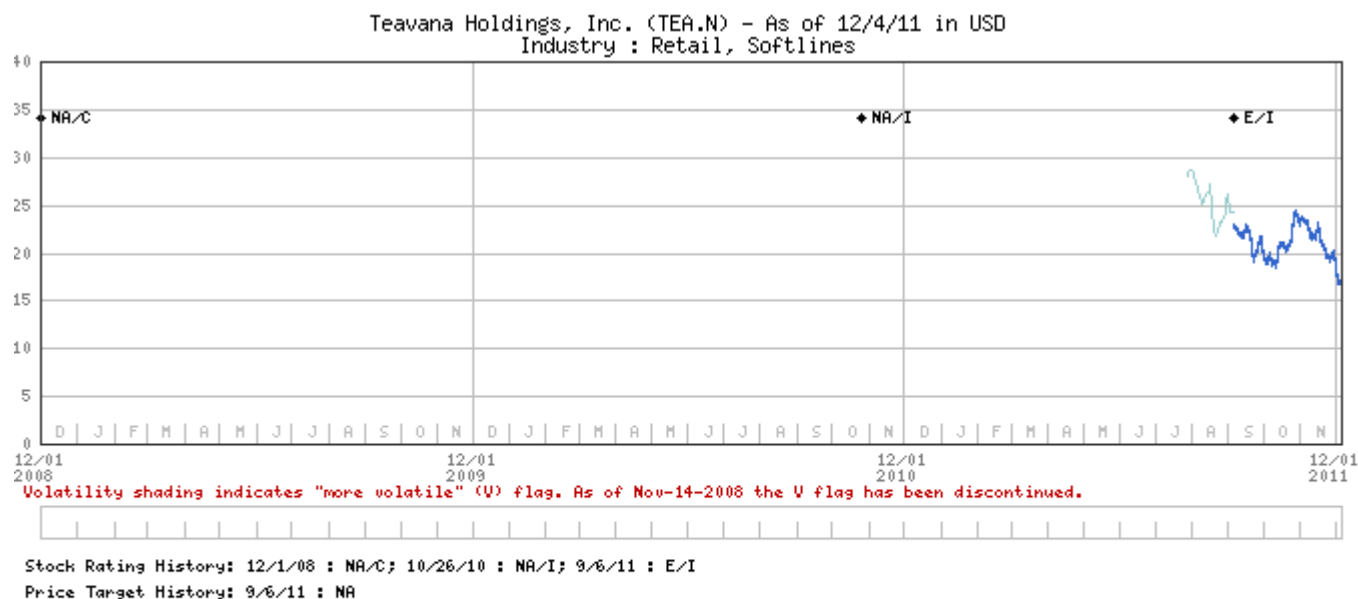
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

## Stock Price, Price Target and Rating History (See Rating Definitions)

December 5, 2011  
Teavana Holdings, Inc.



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
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## Industry Coverage: Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (12/02/2011)
<b>Kimberly C Greenberger</b>		
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	\$49
Aeropostale Inc (ARO.N)	U (10/26/2010)	\$16.27
American Eagle Outfitters, Inc. (AEO.N)	U (10/26/2010)	\$14.17
AnnTaylor Stores Corp (ANN.N)	O (10/26/2010)	\$24.43
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	\$10.22
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	\$53.98
Coach Inc (COH.N)	E (11/04/2011)	\$62.2
Express, Inc. (EXPR.N)	O (01/31/2011)	\$21.25
Gap Inc (GPS.N)	E (10/26/2010)	\$18.7
Guess (GES.N)	E (11/03/2008)	\$28.24
Limited Brands Inc (LTD.N)	O (10/26/2010)	\$42.61
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	\$49.69
Ross Stores Inc. (ROST.O)	E (10/26/2010)	\$92.42
Skullcandy Inc (SKUL.O)	O (08/29/2011)	\$13.86
TJX Companies Inc. (TJX.N)	E (10/26/2010)	\$62.24
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	\$16.65
Tiffany & Co. (TIF.N)	E (11/04/2011)	\$67.6
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	\$27.09

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\* Historical prices are not split adjusted.