

Teavana Holdings, Inc.

Fourth Quarter and 2012 Guidance Likely to Meet Expectations

- We expect Teavana will meet or modestly beat our fourth-quarter EPS estimate of \$0.31, at the high end of guidance of \$0.29 to \$0.31 and a penny below consensus. On January 11, management reiterated both sales and earnings guidance. Teavana will report fourth-quarter earnings before the market opens on Wednesday, March 28.
- Management reiterated guidance for a midsingle-digit same-store sales gain (including e-commerce) in early January, and we project a 6% comp gain. Excluding direct-to-consumer, we project a 4% comp gain against a 7.5% year-ago comparison, reflecting two-year trends similar to the third quarter's 6.0% increase against a 5.9% year-ago comparison. We project total sales growth of 33%, to \$68 million, ahead of management's guidance of \$62 million to \$66 million and in line with consensus.
- We expect gross margin contraction of about 40 basis points, to 67.3%, reflecting stronger sales of lower-margin merchandise (which underperformed in the year-ago period) and the lapping of the company's shift to direct sourcing. We expect SG&A to increase 150 basis points, to 34.4%, primarily reflecting accelerated new store openings, new hires and public company costs, start-up costs in Canada, and increased occupancy costs associated with the company's new store support center. We expect D&A to increase 10 basis points, to 2.5%, yielding overall operating margin contraction of 200 basis points, to 30.4%.
- We expect Teavana met its plan to open four new stores in the fourth quarter (including its first store in Canada), bringing total company-owned new store openings to 54 in 2011, 4 more than original guidance and representing growth of 37%. We believe the company remains on track to open 60 new company-owned stores this year, representing growth of 30%, as well as its first franchised store in the Middle East through its 10-year franchise development agreement with Alshaya (Teavana already has 19 franchised stores in Mexico through an agreement with Casa Internacional).
- We believe management will likely provide its first look at 2012 and expect EPS guidance will encompass our and consensus expectations of \$0.62 and \$0.61, respectively. Our estimate is predicated on a midsingle-digit comp gain (including e-commerce). For the first quarter, we project EPS of \$0.13 (up 43% and a penny ahead of consensus), predicated on a midsingle-digit comp increase. For 2013, our estimate is \$0.80, up 29% and a penny ahead of consensus.
- We continue to like Teavana's shares at 35 times our 2012 EPS estimate. While we would not call for multiple expansion from current levels, we believe Teavana's premium valuation is justified given its 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. We reiterate our Outperform rating.

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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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.

March 16, 2012

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

Symbol: TEA (NYSE)
Price: \$22.11 (52-Wk.: \$14-\$29)
Market Value (mil.): \$908
Fiscal Year End: January
Long-Term EPS Growth Rate: 30%
Dividend/Yield: None

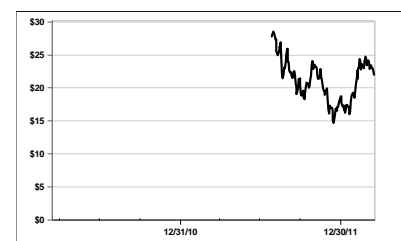
	2010A	2011E	2012E
Estimates*			
EPS Q1	\$0.05	A\$0.09	\$0.13
Q2	\$0.02	A\$0.03	\$0.04
Q3	\$0.01	A\$0.02	\$0.04
Q4	\$0.24	\$0.31	\$0.41
FY	\$0.32	\$0.45	\$0.62
CY		\$0.45	\$0.62
Sales (mil.)	125	168	213
Valuation			
FY P/E	69.1x	49.1x	35.7x
CY P/E		49.1x	35.7x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	255,892

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	846.2
EBITDA (TTM)	17.0
Enterprise Value/EBITDA (TTM)	49.6x
Return on Equity (TTM)	9.8

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

Teavana Holdings, Inc.
March 16, 2012: \$21.86 (\$14-\$30)
Quarterly Earnings Model

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

Rating: Outperform
Company Profile: Aggressive Growth

<u>FYE January</u>	<u>2009</u>	<u>Apr-10</u>	<u>Jul-10</u>	<u>Oct-10</u>	<u>Jan-11</u>	<u>2010</u>	<u>Apr-11</u>	<u>Jul-11</u>	<u>Oct-11</u>	<u>Jan-12E</u>	<u>2011E</u>	<u>Apr-12E</u>	<u>Jul-12E</u>	<u>Oct-12E</u>	<u>Jan-13E</u>	<u>2012E</u>	<u>2013E</u>
Company-owned	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
Franchised	15	15	15	15	15	15	19	19	19	19	19	19	20	20	20	20	22
Total stores	123	133	143	156	161	161	180	198	215	219	219	234	245	265	280	280	352
% change	20.6%	24.3%	23.3%	27.9%	30.9%	30.9%	35.3%	38.5%	37.8%	36.0%	36.0%	30.0%	23.7%	23.3%	27.9%	27.9%	25.7%
Same-store sales (excluding e-commerce)	6.9%	15.7%	6.9%	5.9%	7.5%	8.7%	6.0%	6.9%	6.0%	4.0%	4.8%	4.0%	3.0%	4.0%	4.0%	3.8%	4.0%
Revenues	\$90.3	\$25.8	\$23.0	\$24.7	\$51.2	\$124.7	\$34.9	\$31.3	\$33.4	\$68.0	\$167.6	\$46.5	\$39.5	\$41.2	\$85.4	\$212.6	\$267.4
Cost of sales (including occupancy)	36.4	10.0	9.5	10.2	16.6	46.3	12.5	12.2	12.7	22.2	59.6	16.5	15.2	15.7	27.6	75.1	93.6
Gross profit	\$53.8	\$15.8	\$13.5	\$14.5	\$34.6	\$78.4	\$22.5	\$19.1	\$20.7	\$45.7	\$108.0	\$29.9	\$24.2	\$25.5	\$57.8	\$137.5	\$173.8
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	17.5	23.4	71.0	19.9	19.5	20.7	28.9	89.1	111.5
Depreciation and amortization	3.5	1.0	1.1	1.1	1.2	4.4	1.3	1.4	1.6	1.7	6.0	1.7	1.8	1.9	2.2	7.6	9.5
Operating income	\$12.2	\$4.0	\$1.7	\$1.3	\$16.6	\$23.5	\$6.5	\$2.3	\$1.6	\$20.7	\$31.1	\$8.3	\$2.9	\$2.9	\$26.7	\$40.8	\$52.8
Interest expense, net	2.4	0.6	0.6	0.7	0.6	2.6	0.7	0.7	0.1	0.1	1.6	0.1	0.1	0.1	0.1	0.4	0.4
Pretax income	\$9.8	\$3.4	\$1.0	\$0.6	\$15.9	\$20.9	\$5.8	\$1.6	\$1.5	\$20.6	\$29.4	\$8.2	\$2.8	\$2.8	\$26.6	\$40.4	\$52.4
Tax rate	45.8%	42.6%	42.6%	42.7%	42.6%	42.6%	42.4%	35.2%	37.2%	41.0%	40.8%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net income	\$5.3	\$1.9	\$0.6	\$0.3	\$9.1	\$12.0	\$3.3	\$1.0	\$0.9	\$12.2	\$17.4	\$4.9	\$1.7	\$1.7	\$16.0	\$24.3	\$31.6
Diluted average shares	37.3	37.5	37.6	37.6	37.7	37.7	37.7	37.8	39.0	39.1	38.4	39.2	39.3	39.4	39.5	39.3	39.6
EPS	\$0.14	\$0.05	\$0.02	\$0.01	\$0.24	\$0.32	\$0.09	\$0.03	\$0.02	\$0.31	\$0.45	\$0.13	\$0.04	\$0.04	\$0.41	\$0.62	\$0.80
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	61.9%	67.3%	64.4%	64.4%	61.4%	61.9%	67.7%	64.7%	65.0%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	52.4%	34.4%	42.4%	42.9%	49.4%	50.3%	33.9%	41.9%	41.7%
Depreciation and amortization	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.6%	2.5%	3.6%	3.7%	4.6%	4.6%	2.6%	3.6%	3.6%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.8%	30.4%	18.5%	17.8%	7.4%	7.0%	31.2%	19.2%	19.7%
Growth rates:																	
Revenues	41.3%	43.3%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	35.1%	32.7%	34.4%	33.1%	26.0%	23.3%	25.7%	26.8%	25.8%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	44.5%	38.8%	40.4%	35.1%	26.8%	18.4%	23.8%	25.5%	25.1%
Depreciation and amortization	30.9%	21.6%	21.8%	22.0%	34.1%	25.0%	30.9%	34.7%	40.0%	39.3%	36.6%	33.4%	26.1%	22.3%	29.4%	27.6%	25.0%
Operating income	156.2%	276.4%	338.4%	100.3%	63.8%	92.6%	62.3%	40.7%	26.1%	24.6%	32.2%	28.5%	25.8%	78.8%	29.1%	31.3%	29.5%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	77.2%	165.9%	28.3%	42.8%	43.0%	59.3%	77.1%	30.2%	36.1%	29.0%

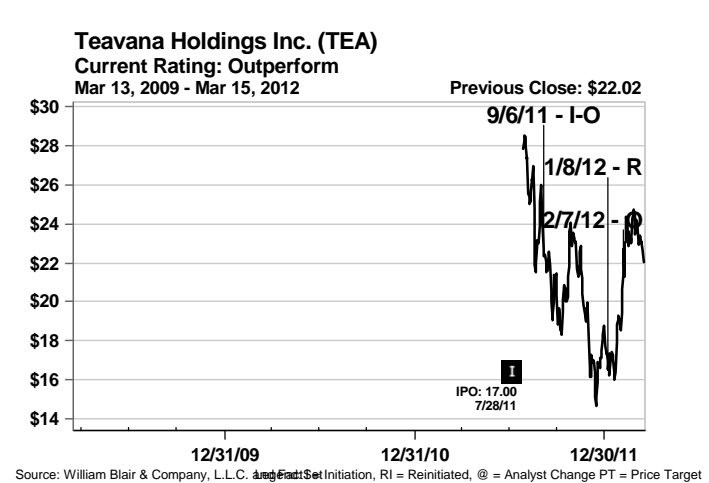
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Additional information is available upon request.



Current Rating Distribution (as of 02/29/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	7
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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