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#### Reason for Report:

Earnings Announcement

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	\$27.00
FY12E Rev (mil)	\$163.7	\$165.3
FY13E Rev (mil)	\$206.6	\$208.5
FY12E EPS	\$0.44	\$0.45
FY13E EPS	\$0.59	\$0.60
Price		\$18.28
52 Week High		\$29.35
52 Week Low		\$17.00
12-Month Price Target		\$27.00
35x FY14E EPS		
Shares Out (mil)		39.0
Market Cap. (mil)		\$712.9
Avg Daily Vol (000)		229
Book Value/Share		\$1.38
Net Cash Per Share		NM
Debt to Total Capital		8%
Div (ann)		\$0.00
Est LT EPS Growth		35%
P/E to Est LT EPS Growth		1.2x
Fiscal Year End:		Jan

Rev (mil)	2011A	2012E	2013E
Apr	\$25.8A	\$34.9A	\$45.4E
Jul	\$23.0A	\$31.3A	\$38.7E
Oct	\$24.8A	\$33.4A	\$41.1E
Jan	\$51.2A	\$65.6E	\$83.3E
FY	\$124.7A	\$165.3E	\$208.5E
CY	\$165.3A	\$208.5E	\$261.8E
FY RM	5.7x	4.3x	3.4x
CY RM	4.3x	3.4x	2.7x

EPS	2011A	2012E	2013E
Apr	\$0.05A	\$0.09A	\$0.12E
Jul	\$0.02A	\$0.03A	\$0.04E
Oct	\$0.01A	\$0.02A	\$0.03E
Jan	\$0.24A	\$0.31E	\$0.41E
FY	\$0.32A	\$0.45E	\$0.60E
CY	\$0.45E	\$0.60E	\$0.79E
FY P/E	57.1x	40.6x	30.5x
CY P/E	40.6x	30.5x	23.1x

## Teavana Holdings, Inc. Overweight

(TEA – \$18.28)

### Enhanced Gift Assortment Could Be Teeing Up A Strong Holiday; Reit. OW Rating

#### CONCLUSION:

We are reiterating our Overweight rating on TEA shares following Teavana's FQ3 earnings report in which EPS and same-store sales exceeded our estimate. We are encouraged that the holiday merchandise assortment will feature new gift box and hard goods offerings, and we are raising our FQ4 EPS estimate in view of our expectation for a strong holiday season. Longer-term, we believe Teavana is still in the early stages of its domestic store growth, and we are encouraged by continued e-commerce strength as well as Teavana's upcoming market entry into Canada.

- Same-Store Sales Up 6% In FQ3; Up 8.5% Including E-Commerce.** For FQ3, same-store sales were up 6% y/y, ahead of our estimate of +3%. Including e-commerce, comparable sales were up 8.5%. Excluding prepared beverages, average ticket was up 8.3% and transactions were up 0.5%. Teavana's e-commerce channel continues to outpace overall sales results, with e-commerce sales growing 46% y/y during the quarter. Longer-term, we believe e-commerce penetration can exceed 10% of sales in the next three to four years, up from 7% in FY11. EPS was \$0.02 for FQ3, ahead of our estimate of \$0.01.
- Merchandise Assortment Features Upgraded Gift Assortment - This Should Bode Well For Holiday.** It appears that the better than expected top-line results were due in part to a strong customer response to Teavana's innovative new tea blends. Looking into the holiday season, management has indicated an upgraded assortment of gift sets, and it appears that the mix of hard goods relative to loose tea will increase versus last year. Although the higher contribution of hard goods will likely pressure gross margin, we expect this to create a more compelling assortment for gift giving purposes and believe we could potentially see upside in FQ4 as a result.
- Teavana Set To Open Its First Store In Canada In This Year.** On its conference call, management indicated that it will be opening four stores in FQ4, including its first store in Canada. This will be Teavana's first company-owned store outside the United States, and given the universal appeal of tea, we believe this could just be the start of a more meaningful international rollout over time.
- Adjusting Our EPS Outlook; Price Target Unchanged At \$27.** We are adjusting our EPS estimates as follows: from \$0.30 to \$0.31 in FQ4; from \$0.44 to \$0.45 in FY12; from \$0.59 to \$0.60 in FY13; and from \$0.77 to \$0.79 in FY14. Our price target remains unchanged at \$27.

#### INVESTMENT RECOMMENDATION:

We rate TEA shares Overweight with a \$27 price target based on 35x FY14E EPS.

#### RISKS TO ACHIEVEMENT OF TARGET PRICE:

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 196 stores.

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Income Statement  
(Millions of Dollars, Except Per-Share Data)

12/2/2011

	FY 2007	FY 2008	FY 2009	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
<b>Net sales</b>	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	33.426	65.613	165.291	45.362	38.690	41.114	83.329	208.495	261.811
% Change		39.8%	35.3%	41.3%	43.2%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	35.1%	28.2%	32.6%	29.8%	23.6%	23.0%	27.0%	26.1%	25.6%
Cost of goods sold	15.930	19.970	27.190	36.430	10.020	9.460	10.240	16.560	46.280	12.451	12.186	12.749	21.849	59.235	15.922	15.515	16.404	27.498	75.340	93.529
% of Net sales	47.2%	42.3%	42.6%	40.4%	38.9%	41.2%	41.4%	32.3%	37.1%	35.6%	38.9%	38.1%	33.3%	35.8%	35.1%	40.1%	39.9%	33.0%	36.1%	35.7%
<b>Gross profit</b>	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	20.677	43.764	106.056	29.440	23.175	24.710	55.830	133.155	168.283
% Gross Margin	52.8%	57.7%	57.4%	59.6%	61.1%	58.8%	58.6%	67.7%	62.9%	64.4%	61.1%	61.9%	66.7%	64.2%	64.9%	59.9%	60.1%	67.0%	63.9%	64.3%
Selling, general, and administrative expenses	16.500	22.230	29.240	38.140	10.800	10.810	12.120	16.840	50.570	14.758	15.367	17.511	21.679	69.315	19.733	18.958	20.598	27.415	86.704	107.865
% of Net sales	48.9%	47.1%	45.8%	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	52.4%	33.0%	41.9%	43.5%	49.0%	50.1%	32.9%	41.6%	41.2%
EBITDA	1.330	5.000	7.430	15.690	4.950	2.710	2.390	17.800	27.850	7.730	3.760	3.166	22.085	36.741	9.707	4.217	4.111	28.415	46.451	60.418
EBITDA Margin	3.9%	10.6%	11.6%	17.4%	19.2%	11.8%	9.7%	34.8%	22.3%	22.1%	12.0%	9.5%	33.7%	22.2%	21.4%	10.9%	10.0%	34.1%	22.3%	23.1%
Depreciation & amortization	1.510	2.020	2.670	3.490	0.970	1.060	1.110	1.220	4.360	1.274	1.428	1.554	1.690	5.946	1.800	1.900	2.030	2.150	7.880	9.900
% of Net sales	4.5%	4.3%	4.2%	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.6%	2.6%	3.6%	4.0%	4.9%	4.9%	2.6%	3.8%	3.8%
<b>Operating income</b>	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.612	20.395	30.795	7.907	2.317	2.081	26.265	38.571	50.518
% Operating Margin	-0.5%	6.3%	7.5%	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.8%	31.1%	18.6%	17.4%	6.0%	5.1%	31.5%	18.5%	19.3%
Interest expense	-1.270	-1.590	-2.060	-2.440	-0.620	-0.650	-0.690	-0.630	-2.590	-0.689	-0.742	-0.122	-0.060	-1.613	-0.060	-0.060	-0.060	-0.060	-0.240	-0.240
Pre-tax income	-1.450	1.390	2.700	9.760	3.360	1.000	0.590	15.950	20.900	5.767	1.590	1.490	20.335	29.182	7.847	2.257	2.021	26.205	38.331	50.278
Income Taxes	-0.100	1.010	1.500	4.470	1.430	0.430	0.250	6.800	8.910	2.444	0.559	0.554	8.338	11.895	3.123	0.898	0.805	10.430	15.256	20.011
Tax Rate	6.9%	72.7%	55.6%	45.8%	42.6%	43.0%	42.4%	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%
<b>Net income (GAAP)</b>	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.936	11.998	17.288	4.724	1.359	1.217	15.775	23.075	30.267
% Net Margin	-4.0%	0.8%	1.9%	5.9%	7.5%	2.5%	1.4%	17.9%	9.6%	9.5%	3.3%	2.8%	18.3%	10.5%	10.4%	3.5%	3.0%	18.9%	11.1%	11.6%
<b>Net income per share (Basic)</b>	\$ (0.04)	\$ 0.01	\$ 0.03	\$ 0.14	\$ 0.05	\$ 0.02	\$ 0.01	\$ 0.25	\$ 0.33	\$ 0.09	\$ 0.03	\$ 0.02	\$ 0.31	\$ 0.46	\$ 0.12	\$ 0.03	\$ 0.03	\$ 0.41	\$ 0.59	\$ 0.78
EPS Growth Rate		NM	NM	NM	NM	NM	NM	77%	127%	72%	81%	165%	24%	41%	35%	25%	28%	31%	29%	31%
<b>Net income per share (Diluted)</b>	\$ (0.04)	\$ 0.01	\$ 0.03	\$ 0.14	\$ 0.05	\$ 0.02	\$ 0.01	\$ 0.24	\$ 0.32	\$ 0.09	\$ 0.03	\$ 0.02	\$ 0.31	\$ 0.45	\$ 0.12	\$ 0.04	\$ 0.03	\$ 0.41	\$ 0.60	\$ 0.79
EPS Growth Rate		NM	NM	NM	NM	NM	NM	75%	124%	71%	81%	167%	29%	42%	40%	30%	32%	31%	33%	31%
<b>Shares outstanding (Millions)</b>																				
Basic	36.702	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.762	38.138	38.838	37.622	38.838	38.838	38.838	38.838	38.838	38.838
Diluted	36.702	36.751	37.095	37.322	37.472	37.725	37.725	37.725	37.725	37.729	37.802	38.965	38.315	38.203	38.315	38.315	38.315	38.315	38.315	38.315
<b>Same-Store Sales (% Change)</b>	3.7%	8.4%	3.0%	6.9%	15.7%	6.9%	5.9%	7.5%	8.7%	6.0%	6.4%	6.0%	3.0%	5.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Notes:

Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

**Teavana**

Piper Jaffray &amp; Co. - Neely Tamminga, Senior Research Analyst (612) 303-1537

## STORE ECONOMICS

	FY 2007	FY 2008	FY 2009	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
<b>NET SALES</b>																				
Stores				\$ 85,025					\$ 115,800											
% Change, year-over-year									36.2%											
E-Commerce				\$ 5,235					\$ 8,900											
% Change, year-over-year									70.0%											
% of total sales				5.8%					7.0%											
<b>Total net sales</b>	<b>\$ 33,760</b>	<b>\$ 47,200</b>	<b>\$ 63,860</b>	<b>\$ 90,260</b>	<b>\$ 25,770</b>	<b>\$ 22,980</b>	<b>\$ 24,750</b>	<b>\$ 51,200</b>	<b>\$ 124,700</b>	<b>\$ 34,939</b>	<b>\$ 31,313</b>	<b>\$ 33,426</b>	<b>\$ 65,613</b>	<b>\$ 165,291</b>	<b>\$ 45,362</b>	<b>\$ 38,690</b>	<b>\$ 41,114</b>	<b>\$ 83,329</b>	<b>\$ 208,495</b>	<b>\$ 261,811</b>
% Change, year-over-year		39.8%	35.3%	41.3%	43.2%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	35.1%	28.2%	32.6%	29.8%	23.6%	23.0%	27.0%	26.1%	25.6%
<b>% CHANGE SAME-STORE SALES</b>	<b>3.7%</b>	<b>8.4%</b>	<b>3.0%</b>	<b>6.9%</b>	<b>15.7%</b>	<b>6.9%</b>	<b>5.9%</b>	<b>7.5%</b>	<b>8.7%</b>	<b>6.0%</b>	<b>6.4%</b>	<b>6.0%</b>	<b>3.0%</b>	<b>5.4%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>
<b>NUMBER OF STORES</b>	<b>47</b>	<b>59</b>	<b>87</b>	<b>108</b>	<b>118</b>	<b>128</b>	<b>141</b>	<b>146</b>	<b>146</b>	<b>161</b>	<b>179</b>	<b>196</b>	<b>200</b>	<b>200</b>	<b>215</b>	<b>225</b>	<b>245</b>	<b>260</b>	<b>260</b>	<b>330</b>
% Change, year-over-year		25.5%	47.5%	24.1%	28.3%	26.7%	31.8%	35.2%	35.2%	36.4%	39.8%	39.0%	37.0%	37.0%	33.5%	25.7%	25.0%	30.0%	30.0%	26.9%
Average number of stores (T4Q)																				
<b>GROSS SQUARE FEET (Mil.)</b>	<b>43</b>	<b>54</b>	<b>77</b>	<b>95</b>					<b>130</b>											
% Change, year-over-year		25.6%	42.6%	23.4%					36.8%											
Average Square Footage (T4Q)																				

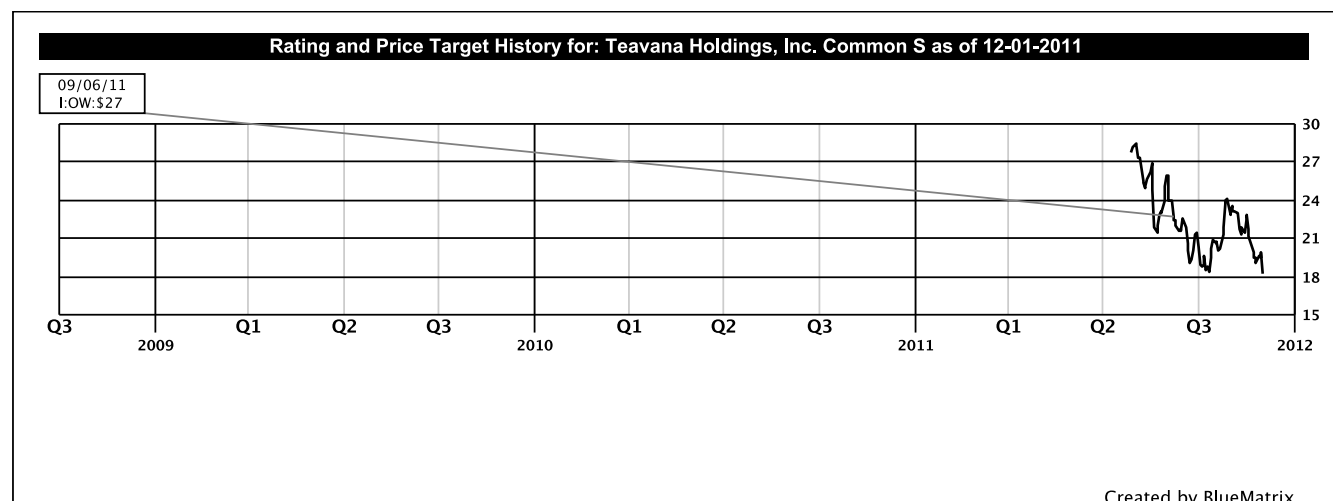
Consolidated Balance Sheet  
(Millions of Dollars)

	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents	\$1.314				\$7.901	\$7.901	\$3.740	\$1.623	\$0.036
Accounts receivable	0.284				0.292	0.292			
Prepaid expenses and other assets	1.003				2.041	2.041			4.082
Prepaid rent	1.061				1.400	1.400			
Inventory	11.615			18.000	16.928	16.928	18.286	22.720	32.512
Deferred tax asset and other	0.772				1.629	1.629	5.827	11.647	8.106
<b>Total current assets</b>	<b>16.049</b>	<b>0.000</b>	<b>0.000</b>	<b>18.000</b>	<b>30.191</b>	<b>30.191</b>	<b>27.853</b>	<b>35.990</b>	<b>44.736</b>
Property & equipment, net	22.513				31.028	31.028	34.795	38.000	40.669
Goodwill	2.394				2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184				0.000	-			
Other non-current assets	0.627				0.513	0.513	0.760	0.693	0.673
<b>Total assets</b>	<b>\$41.767</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$18.000</b>	<b>\$64.126</b>	<b>\$64.126</b>	<b>\$65.802</b>	<b>\$77.077</b>	<b>\$88.472</b>
<b>CURRENT LIABILITIES</b>									
Accounts payable	\$2.564				\$3.631	\$3.631	\$2.112	\$5.751	\$6.770
Income taxes payable	\$3.994				4.809	\$4.809			
Deferred revenue	\$1.083				1.344	\$1.344			
Note payable	\$0.250				-	\$0.000			
Series A redeemable preferred stock	\$0.000				12.992	\$12.992	13.591	14.217	
Other current liabilities	\$3.395				5.539	\$5.539	9.659	6.865	8.116
<b>Total current liabilities</b>	<b>11.286</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$28.315</b>	<b>28.315</b>	<b>\$25.362</b>	<b>\$26.833</b>	<b>\$14.886</b>
Deferred franchise income	0.600				0.525	0.525			
Deferred tax liability, non-current	-				0.420	0.420			2.547
Deferred rent	3.851				7.524	7.524	8.943	11.139	12.134
Long-term debt	1.000				1.000	1.000	1.000	5.359	4.501
Series A redeemable preferred stock	10.848				-	-			
Other long-term liabilities							0.870	2.997	0.575
<b>Total liabilities</b>	<b>27.585</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>37.784</b>	<b>37.784</b>	<b>36.175</b>	<b>46.328</b>	<b>34.643</b>
<b>Stockholders' equity (deficit)</b>									
<b>Total stockholders' equity (deficit)</b>	<b>14.182</b>				<b>26.342</b>	<b>26.342</b>	<b>29.627</b>	<b>30.749</b>	<b>53.829</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$41.767</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$64.126</b>	<b>\$64.126</b>	<b>\$65.802</b>	<b>\$77.077</b>	<b>\$88.472</b>

*Condensed Statement of Cash Flows*  
(Millions of Dollars)

	<b>FY 2010</b>	<b>Q1 Apr-10</b>	<b>Q2 Jul-10</b>	<b>Q3 Oct-10</b>	<b>Q4 Jan-11</b>	<b>FY 2011</b>	<b>Q1 Apr-11</b>	<b>Q2 Jul-11</b>
<b>Operating activities:</b>								
<b>Net Income</b>	<b>\$5.291</b>	<b>\$1.927</b>	<b>\$2.506</b>		<b>\$12.003</b>	<b>\$12.003</b>	<b>\$3.323</b>	<b>\$4.354</b>
Adjustments to reconcile net income to net cash:	0.000							
Depreciation and amortization	3.489	0.973	2.033		4.361	4.361	1.274	2.703
Non-cash interest expense	1.925	0.570	1.140		2.279	2.279	0.633	1.282
Deferred income taxes	0.532				(0.253)	(0.253)		
Stock based compensation	0.169	0.034	0.068		0.157	0.157	0.037	0.063
Other		-			0.130	0.130	0.140	0.099
Change in assets and liabilities:								
Inventory	(3.646)	(0.571)	(0.875)		(5.313)	(5.313)	(1.359)	(5.792)
Other current assets	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)
Income taxes payable	2.772	(4.205)	(5.973)		0.815	0.815	(2.696)	(4.809)
Deferred rent	1.124	0.457	0.996		3.673	3.673	1.419	3.615
Accounts payable			(0.524)					1.164
Other current assets			0.130					1.866
Other accrued liabilities	(0.355)	0.305	(0.209)		2.997	2.997	(1.548)	1.018
<b>Net cash (used in) provided by operating activities</b>	<b>11.071</b>	<b>(0.329)</b>	<b>(0.687)</b>	<b>-</b>	<b>19.397</b>	<b>19.397</b>	<b>1.142</b>	<b>(0.311)</b>
<b>Investing activities:</b>								
Capital Expenditures	(6.640)	(2.346)	(5.038)		(12.560)	(12.560)	(5.056)	(8.848)
<b>Net cash used in investing activities</b>	<b>(6.640)</b>	<b>(2.346)</b>	<b>(5.038)</b>	<b>-</b>	<b>(12.560)</b>	<b>(12.560)</b>	<b>(5.056)</b>	<b>(8.848)</b>
<b>Financing activities:</b>								
Proceeds from revolving credit facility	93.980	29.815	56.489		132.239	132.239	35.510	74.338
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)		(132.239)	(132.239)	(35.510)	(69.979)
Payment on note payable					(0.250)	(0.250)		
Payments on term loan								
Cash paid for financing costs								(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)
Other								0.065
<b>Net cash used in financing activities</b>	<b>(4.285)</b>	<b>2.512</b>	<b>4.411</b>		<b>(0.250)</b>	<b>(0.250)</b>	<b>(0.247)</b>	<b>2.881</b>
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)		6.587	6.587	(4.161)	(6.278)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314		1.314	1.314	7.901	7.901
<b>Cash and cash equivalents, end of period</b>	<b>\$1.314</b>	<b>\$1.151</b>	<b>(\$0.000)</b>		<b>\$7.901</b>	<b>\$7.901</b>	<b>\$3.740</b>	<b>\$1.623</b>

## Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage

R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

B: Buy (Piper Jaffray discontinued use of the B, N, and S ratings on June 30, 2009)

N: Neutral

S: Sell

AL On/AL Off: Placed on/removed from the Alpha List maintained by Piper Jaffray (AL use discontinued March 2010)

NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
<b>BUY [OW]</b>	<b>359</b>	<b>54.60</b>	<b>62</b>	<b>17.27</b>
<b>HOLD [N]</b>	<b>261</b>	<b>39.70</b>	<b>23</b>	<b>8.81</b>
<b>SELL [UW]</b>	<b>38</b>	<b>5.80</b>	<b>0</b>	<b>0.00</b>

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

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

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