

Teavana Holdings, Inc.:

TEA: 4Q - Growth Thesis Intact, Differentiated Concept

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

Edward Yruma: (917) 368- 2394 — eyruma@keybanccm.com
 Jane Thorn Leeson: (917) 368- 2220 — jthornleeson@keybanccm.com

Rating	BUY
Price	\$19.43
12- Mo. Price Target	\$28.00
Dividend	\$0.00
Yield	NM
52- Wk. Range	\$14 - \$29
Trading Volume (000)	253
Market Cap. (mm)	\$757.8
Shares Out. (mm)	39.00
Book Value/Share	\$1.38

EPS (Net) Summary

FY Jan	2011A	2012E	2013E
1Q	\$0.09	\$0.10	--
Prior	\$0.09	\$0.12	--
2Q	\$0.03	\$0.04	--
3Q	\$0.02	\$0.03	--
4Q	\$0.32	\$0.42	--
Prior	\$0.31	\$0.40	--
YEAR	\$0.46	\$0.59	\$0.78
Prior	\$0.45	\$0.59	\$0.79
First Call	--	\$0.64E	\$0.78E
P/E	42.2x	32.9x	24.9x

ACTION STATEMENT

Teavana Holdings, Inc.'s (TEA-NYSE) 4Q results were strong, but had a few items worth closer consideration. The Company posted a 4Q EPS of \$0.32, above KBCM and consensus estimates of \$0.31. Transaction growth of 2.7% demonstrated that the concept continues to drive new customers. The Company also showed solid SG&A leverage of 67 bps, which helped offset some of the margin drag from non-tea merchandise. Worth noting is the 1Q12 comp outlook of low to mid single digits. Some of this may be attributed to store opening timing; management also called out the impact of warm weather. However, with e-commerce providing a 420 bps lift to 4Q comps, 1Q12 store comps may be hovering near flat. Comp volatility has occurred to others in our high-growth coverage, but is clearly an area to closely monitor going forward. Our long-term thesis articulated in our initiation dated March 22, 2012 remains unchanged; we think that Teavana is one of the most differentiated concepts in our coverage and has some of the strongest square footage growth opportunities. We reiterate our **BUY** rating and \$28 price target, which implies a 47.4x 2012 P/E compared to a 31.9x P/E for the active and healthy lifestyle peer group.

• **2013E: \$0.78 from \$0.79**

KEY INVESTMENT POINTS

A closer look at comps. Much angst centers around Teavana's comps (8.6% in the 4Q, 4.4% ex. e- comm). This concern is twofold. First, slower comps historically point to a concept nearing saturation. Second, high comps have historically correlated with premium multiples. On the former, we think that Teavana's comps are less indicative of a saturation point; geographic proximity of new stores to existing stores has not materially changed. Moreover, the recent acceleration of store openings (54 in 2011 alone) places some pressure on comp as stores entering the comp base lap the grand opening periods. A higher multiple may necessitate accelerating store comps. We also take a quick look at valuation within the framework of operating metrics – see Exhibit 1.

Growth remains strong. We look at two other drivers of top- line growth: e- commerce and new stores. E- commerce growth was a healthy 55% in the 4Q, and drove 420 bps of total comp. There is incremental opportunity here as online still only represents 7.6% of total FY11 sales (goal of 10% by 2015). The Company also opened 50 stores in 2011, which makes it one of the fastest growing retailers in our coverage. We see few reasons why both of the aforementioned should slow in the near to medium term.

Timing considerations. Store openings will be focused toward the end of 1- 3Q, which drives higher pre- opening absorption without corresponding revenue. This helps capitalize on the 4Q opportunity, but will make it more difficult to externally calculate new store productivity.

4Q wrap. TEA posted a 4Q EPS of \$0.32, above KBCM and consensus estimates of \$0.31. Sales increased 33.6% year-over-year to \$68.4 million and comps were up 8.6% (ex. e-commerce up 4.4%). Inventories increased 51.7% year-over-year. Gross margin declined - 202 bps year-over-year to 65.6%, driven by increased sales of lower-margin, non-tea merchandise. SG&A as a percentage of sales levered 67 bps to 32.2% and SG&A dollars rose 30.9% to \$22.0 million. The Company opened four new stores in 4Q11 and ended the quarter with 200 stores. Management guided 1Q12 EPS of \$0.09- \$0.10 and FY12 EPS of \$0.58- \$0.61.

VALUATION

At 32.9x 2012 P/E, 3.5x 2012 EV/Sales and 1.0x 2012 PEG, valuation is reasonable for a high-growth retailer. We think the Company can sustain accelerating earnings growth, particularly given its aggressive new store opening program and strong new store economics. Thus, we think Teavana deserves to trade at a premium to the active and healthy lifestyle peer group average of 31.9x 2012 P/E, 2.2x 2012 EV/Sales and 1.3x 2012 PEG. Additionally, the stock currently trades at a 15.8x 2012 EV/EBITDA compared to 13.2x EV/EBITDA of the peer group. We maintain our \$28 price target, which implies a 47.4x P/E based on our \$0.59 2012 EPS estimate.

RISKS

Risks specific to TEA that could impede the stock from reaching our upside price target include but are not limited to the following: ability to identify suitable locations to open new stores, a change in consumer spending behavior, and retention of senior management.

Revenue Summary

	2011A	Prior 2011A	2012E	Prior 2012E	2013E	Prior 2013E
1Q	\$34.9	\$34.9	\$45.1	\$47.1	--	--
2Q	\$31.3	\$31.3	\$39.9	\$40.9	--	--
3Q	\$33.4	\$33.4	\$41.9	\$42.9	--	--
4Q	\$68.4	\$66.6	\$86.1	\$85.7	--	--
YEAR	\$168.1	\$166.2	\$213.1	\$216.6	\$269.4	\$274.4

Source: KeyBanc Capital Markets Inc. estimates

LOOKING FORWARD

Long-term operating margin opportunity. Looking forward, we expect SG&A rate to de-leverage in 1H12, which will be offset on an annual basis by leverage in 2H12. Additionally, gross margin is expected to remain flat in FY12, resulting in a flat operating margin. Looking beyond 2012, we believe gross margin will expand as stores reach maturity and, in the long term, operating margin to expand.

- **Expect 200-300 bps of SG&A de-leverage in 1H12.** SG&A de-leverage in 1H12 will be the result of comparing the current company infrastructure to pre-IPO operations. The Company expects to leverage SG&A in 2H12 (mostly in 4Q12) to offset most of the de-leverage from 1H12.
- **Relatively flat gross margin and operating margin.** Gross margin is expected to be relatively flat year-over-year in FY12 due to the anniversary of direct sourcing benefits. Additionally, a significant portion of stores have recently opened within the past two years and are operating at lower gross margins. Coupled with a flat SG&A rate for FY12, operating margins should remain flat year-over-year.
- **Store penetration of high-traffic, domestic malls.** There seems to be some runway in store penetration given that approximately 50 A-mall locations will remain untouched at the end of 2012. With 60 planned store openings including the first stores outside of the United States, store count should grow to 260 by the end of the year.

THE KBCM LAUNDRY LIST

4Q11 EPS of \$0.32 was above KBCM and consensus estimate of \$0.31.



Gross margin declined 202 bps to 65.6% and operating margin declined 141 bps to 31.0%.



Inventory levels up 51.7% year-over-year, well above sales growth of 33.6% year-over-year.

CAUTIOUS SHORT-TERM; REMAIN OPTIMISTIC LONG-TERM**Exhibit 1. Above and Beyond: Operating Metrics and Valuation**

	VRA	LULU	KORS	TEA
4Q11 Y/Y Revenue Growth	23.0%	51.4%	67.9%	33.6%
4Q11 Y/Y Net Income Growth	41.2%	61.1%	40.4%	36.2%
2012E P/E	17.8x	46.1x	50.6x	32.9x
2012E EV/EBITDA	10.0x	19.5x	26.4x	15.8x

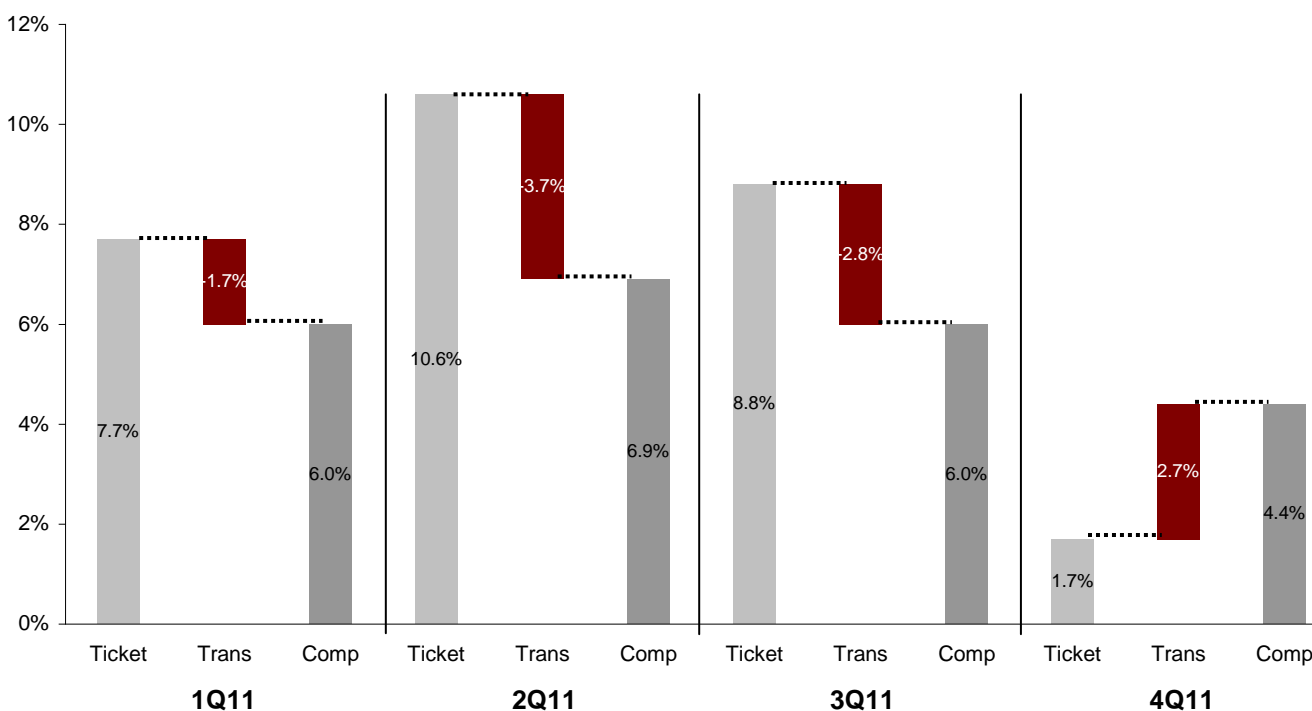
Source: Company reports, FactSet and KBCM estimates as of March 2012.

Exhibit 2. Gross Margin Declined in 4Q11; Expect Flat Gross Margin Change in FY12

	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Sales (\$mm)	36.3	25.8	23.0	24.7	51.2	34.9	31.3	33.4	68.4
Gross Margin (%)	63%	61%	59%	59%	68%	64%	61%	62%	66%
Y/Y change (bps)		321	198	167	448	325	223	323	-202

Source: KBCM estimates and Company reports.

Exhibit 3. Comp Drivers in FY11: Expect +MSD 1Q12 Comp



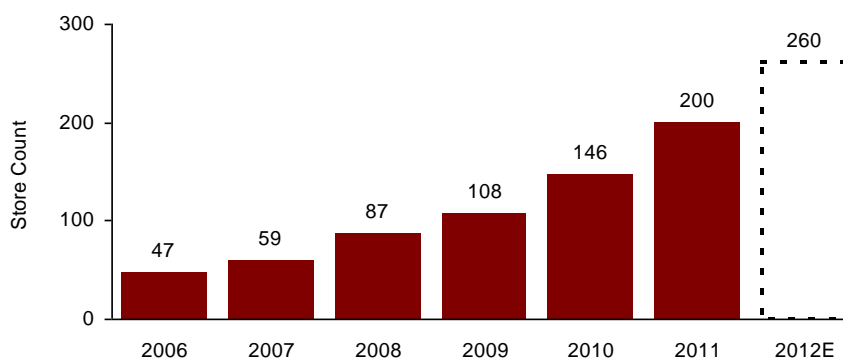
Note: Comparable store sales exclude e-commerce sales.
Source: Company reports

Exhibit 4. Expect SG&A Expense De-leverage in 1Q12

	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Comp Growth (%)	9%	16%	7%	6%	8%	6%	7%	6%	4%
SG&A		10.8	10.8	12.1	16.8	14.8	15.4	17.5	22.0
Y/Y change (%)						36.6%	42.2%	44.5%	30.9%
SG&A/sales		41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%
Y/Y change (bps)						34	204	341	-67

Source: Company reports.

Exhibit 5. Expect 60 Store Openings in 2012; First International Stores to Open in Canada



Source: Company reports.

EARNINGS REVISIONS

We are adjusting our estimates. We are adjusting our 1Q12 EPS estimate from \$0.12 to \$0.10, our 4Q12 EPS estimate from \$0.40 to \$0.42 and our FY13 EPS estimate from \$0.79 to \$0.78.

Exhibit 6. EPS Estimate Changes

	1Q12E	2Q12E	3Q12E	4Q12E	FY12E	FY13E
New EPS	\$0.10	\$0.04	\$0.03	\$0.42	\$0.59	\$0.78
Old EPS	\$0.12	\$0.04	\$0.03	\$0.40	\$0.59	\$0.79
Change	(\$0.02)	-	-	\$0.02	-	(\$0.01)

Source: Company, FactSet, & KBCM estimates.

Exhibit 7. EPS Beats Summary

	Consensus EPS	Reported EPS	Delta	Stock Price	Stock Reaction
4Q11	\$0.31	\$0.32	\$0.01	\$19.43	-5.6%
3Q11	\$0.02	\$0.02	\$0.00	\$18.28	9.8%
2Q11	\$0.03	\$0.03	\$0.00	\$25.98	8.3%

Source: Company reports and FactSet as of March 2012.

Note: Stock price reaction compares stock price close on day prior to earnings release with close on day of earnings release and may or may not reflect an impact from overall market conditions. Results presented cannot and should not be viewed as an indicator of future performance

Exhibit 8. KBCM Estimates vs. Actual

(\$ in millions)	4Q10 Actual	4Q11 Forecast	4Q11 Actual	+/- Actual vs. Forecast
Revenues	51.2	66.6	68.4	3%
Cost of goods sold	16.6	21.6	23.5	9%
Gross profit	34.6	45.0	44.9	0%
Selling, general & administrative expense	16.8	22.9	22.0	-4%
Depreciation and amortization expense	1.2	1.7	1.7	-3%
Operating profit	16.6	20.4	21.2	4%
Earnings before income taxes	16.0	20.3	21.1	4%
Income tax expense	6.8	8.3	8.6	4%
Net earnings(continued operations)	9.2	12.0	12.5	4%
Weighted average shares outstanding - diluted	37.8	39.1	39.1	0%
Net earnings per share - diluted	\$0.24	\$0.31	\$0.32	4%
Margins				
Gross margin	67.7%	67.6%	65.6%	
SG&A/Sales	32.9%	34.4%	32.2%	
Operating margin	32.4%	30.6%	31.0%	

Source: KBCM estimates and Company reports.

Exhibit 9. Updated Guidance Summary

Guidance	
1Q12	
Sales	\$44-\$45mm
Comp store sales	+LSD to +MSD
Net income	\$3.6-\$4.0mm
EPS	\$0.09-\$0.10
S/o	39.1mm
Store openings	18-20
SG&A	200-300 bps of deleverage
2012	
Sales	\$208-\$215mm
Comp store sales	+MSD
Net income	\$23.0-\$24.0mm
EPS	\$0.58-\$0.61
S/o	39.4mm
Store openings	60
Gross margin	relatively flat y/y
SG&A	slight deleverage
Operating margin	fairly flat y/y
CapEx	\$20mm

Source: KBCM estimates and Company reports.

VALUATION SUMMARY**Exhibit 10. Valuation Summary**

									EPS		P/E		EV/EBITDA		EV/Sales		PEG	
Company Name	TKR	Rating	Stock Price	52 Week Price Range	Price Target	2012E P/E on PT	Mkt Cap (\$mm)	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	
<u>SPECIALTY RETAIL</u>																		
Abercrombie	ANF	BUY	\$49.54	\$40.25 - \$78.25	\$61.00	16.9x	4,243	\$2.30	\$3.60	21.5x	13.7x	6.5x	5.0x	0.9x	0.8x	1.0x	0.6x	
Buckle	BKE	HOLD	\$48.48	\$33.97 - \$50.00	-	-	2,300	\$3.20	\$3.38	15.2x	14.3x	7.8x	7.3x	2.0x	1.9x	1.3x	1.2x	
Chico's	CHS	HOLD	\$15.35	\$9.57 - \$16.50	-	-	2,570	\$0.85	\$0.99	18.1x	15.5x	7.1x	6.3x	1.1x	0.9x	1.1x	1.0x	
Ascena Retail	ASNA	BUY	\$44.31	\$24.00 - \$45.24	\$46.00	15.5x	3,403	\$2.55	\$2.97	17.4x	14.9x	7.0x	6.3x	1.0x	0.9x	1.2x	1.0x	
Gap Inc	GPS	HOLD	\$26.26	\$15.08 - \$26.89	-	-	12,823	\$1.56	\$1.77	16.8x	14.8x	6.5x	6.4x	0.9x	0.8x	1.7x	1.5x	
New York & Company	NWY	HOLD	\$3.63	\$2.25 - \$7.50	-	-	225	(\$0.64)	(\$0.41)	NM	NM	61.1x	11.7x	0.2x	0.2x	NM	NM	
Urban Outfitters	URBN	HOLD	\$29.23	\$21.47 - \$33.90	-	-	4,228	\$1.19	\$1.48	24.6x	19.7x	10.1x	8.7x	1.6x	1.4x	1.4x	1.1x	
Wet Seal	WTSLS	HOLD	\$3.30	\$3.03 - \$5.23	-	-	299	\$0.19	\$0.19	17.6x	17.7x	2.9x	2.9x	0.2x	0.2x	1.0x	1.0x	
Peer Average											19.4x	18.7x	14.3x	8.1x	1.5x	1.3x	1.4x	1.1x
<u>ACTIVE AND HEALTHY LIFESTYLE</u>																		
Lululemon Athletica	LULU	BUY	\$73.32	\$39.74 - \$76.66	\$82.00	51.6x	10,520	\$1.26	\$1.59	58.3x	46.1x	24.6x	19.5x	7.7x	5.8x	1.9x	1.5x	
Pacific Sunwear	PSUN	HOLD	\$1.77	\$1.11 - \$4.06	-	-	119	(\$0.77)	(\$0.50)	NM	NM	NM	NM	0.2x	0.2x	NM	NM	
Skullcandy	SKUL	BUY	\$15.91	\$11.79 - \$23.40	\$21.00	18.0x	435	\$1.00	\$1.17	16.0x	13.6x	9.1x	7.3x	1.8x	1.5x	0.7x	0.6x	
Teavana	TEA	BUY	\$19.43	\$14.28 - \$29.35	\$28.00	47.4x	744	\$0.46	\$0.59	42.0x	32.9x	19.9x	15.8x	4.4x	3.5x	1.3x	1.0x	
Under Armour	UA	UW	\$95.88	\$52.62 - \$99.35	\$56.00	24.2x	4,963	\$1.85	\$2.31	52.0x	41.5x	19.2x	15.6x	2.6x	2.1x	2.3x	1.9x	
Zumiez	ZUMZ	HOLD	\$37.04	\$15.85 - \$37.34	-	-	1,155	\$1.20	\$1.39	30.9x	26.6x	12.3x	10.5x	1.8x	1.5x	1.4x	1.2x	
Peer Average											39.3x	31.9x	16.3x	13.2x	2.8x	2.2x	1.6x	1.3x

Source: Company reports, FactSet and KBCM estimates as of March 2012.

ASNA FY ends in July. EPS estimates represent calendar year estimates.

RISKS

The primary risks to our ratings and price targets continue to center around macroeconomic risk, particularly on the downside. Risks that could impede a stock from reaching our upside price target include but are not limited to deterioration in the consumer spending environment, slowdown in comparable store sales growth, and the fashion risk associated with being in a seasonal, cyclical, and trend focused sector. Risks that could impede a stock from reaching our downside price target include but are not limited to a significant positive improvement in the overall economy, which would subsequently impact consumer buying behavior.

Risks specific to TEA that could impede the stock from reaching our UPSIDE price target include but are not limited to the following: ability to identify suitable locations to open new stores, a change in consumer spending behavior, retention of senior management.

Exhibit 11. Income Statement

(\$ in millions except per share data)

	2009	2010	2011				2012E				2013E		
	Year	Year	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year	Year
Revenues	90.3	124.7	34.9	31.3	33.4	68.4	168.1	45.1	39.9	41.9	86.1	213.1	269.4
Cost of goods sold	36.4	46.3	12.5	12.2	12.7	23.5	60.9	16.5	15.7	16.0	28.9	77.1	94.7
Gross profit	53.8	78.4	22.5	19.1	20.7	44.9	107.2	28.7	24.3	25.9	57.1	136.0	174.7
Selling, general & administrative expense	38.1	50.6	14.8	15.4	17.5	22.0	69.7	19.7	20.1	21.9	26.9	88.6	112.0
Depreciation and amortization expense	3.5	4.4	1.3	1.4	1.6	1.7	5.9	1.7	1.8	2.0	2.1	7.6	10.2
Operating income	12.2	23.5	6.5	2.3	1.6	21.2	31.6	7.2	2.3	2.0	28.1	39.7	52.5
Interest expense, net	2.4	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.5	0.5
Earnings before income taxes	9.8	20.9	5.8	1.6	1.5	21.1	29.9	7.1	2.2	1.9	28.0	39.2	52.0
Income tax expense	4.5	8.9	2.4	0.6	0.6	8.6	12.2	3.0	0.8	0.7	11.4	15.9	21.1
Net earnings	5.3	12.0	3.3	1.0	0.9	12.5	17.8	4.1	1.4	1.2	16.6	23.3	30.9
Weighted average shares outstanding - dilute	37.3	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.3	39.5	39.7	39.4	39.7
Earnings per share - diluted	\$0.14	\$0.32	\$0.09	\$0.03	\$0.02	\$0.32	\$0.46	\$0.10	\$0.04	\$0.03	\$0.42	\$0.59	\$0.78
EBITDA	15.7	27.9	7.7	3.8	3.2	22.9	37.5	8.9	4.2	3.9	30.3	47.3	62.7
Comparable store sales	6.9%	8.7%	6.0%	6.9%	6.0%	4.4%	5.5%	4.0%	5.0%	5.0%	6.5%	5.4%	5.4%
Y/Y Inventory Growth		45.7%					51.7%					50.3%	21.2%
Margin analysis													
Cost of goods sold/revenue	40.4%	37.1%	35.6%	38.9%	38.1%	34.4%	36.2%	36.5%	39.2%	38.2%	33.6%	36.2%	35.2%
Y/Y change in bps	(222)	(326)	(325)	(223)	(323)	202	(88)	85	30	10	(75)	(4)	(103)
Gross margin	59.6%	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	63.5%	60.8%	61.8%	66.4%	63.8%	64.8%
Y/Y change in bps	222	326	325	223	323	(202)	88	(85)	(30)	(10)	75	4	103
Selling, general & administrative expense/sal	42.3%	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	43.7%	50.3%	52.3%	31.2%	41.6%	41.6%
Y/Y change in bps	(353)	(170)	34	204	341	(67)	90	150	125	(5)	(100)	15	(3)
Depreciation and amortization expense/sales	3.9%	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.7%	4.6%	4.7%	2.5%	3.6%	3.8%
Y/Y change in bps	(3)	(37)	(13)	(5)	16	6	3	10	5	5	5	6	20
Operating margin	13.5%	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.0%	5.8%	4.7%	32.7%	18.6%	19.5%
Y/Y change in bps	606	533	304	24	(34)	(141)	(5)	(245)	(160)	(10)	170	(17)	85
EBITDA margin	17.4%	22.3%	22.1%	12.0%	9.5%	33.4%	22.3%	19.8%	10.5%	9.4%	35.2%	22.2%	23.3%
Y/Y change in bps	575	496	291	19	(18)	(135)	(2)	(235)	(155)	(5)	175	(11)	106
Effective tax rate	45.8%	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	42.4%	35.2%	37.2%	40.8%	40.6%	40.6%
Y/Y change in bps	(986)	(320)	(20)	(746)	(548)	(177)	(196)	0	0	0	0	(3)	(6)
Y/Y growth													
Revenues	41.3%	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	29.2%	27.5%	25.3%	25.8%	26.7%	26.5%
Cost of goods sold	34.0%	27.0%	24.2%	28.9%	24.5%	42.0%	31.6%	32.3%	28.5%	25.7%	23.1%	26.6%	22.9%
Gross profit	46.8%	45.7%	42.8%	41.4%	42.5%	29.6%	36.7%	27.5%	26.9%	25.1%	27.2%	26.8%	28.5%
Selling, general & administrative expense	30.4%	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	33.8%	30.8%	25.2%	21.9%	27.2%	26.4%
Depreciation and amortization expense	30.9%	25.0%	30.9%	34.7%	40.0%	37.2%	35.9%	32.8%	28.9%	26.7%	28.4%	29.0%	33.7%
Operating income	156.2%	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	12.1%	0.1%	22.7%	32.7%	25.6%	32.3%
Net earnings	342.0%	126.9%	72.4%	78.1%	175.3%	36.2%	48.0%	23.4%	39.3%	24.7%	32.9%	31.1%	32.8%
EPS	339.3%	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	19.1%	34.0%	23.0%	30.8%	27.8%	31.8%
EBITDA	111.2%	77.6%	56.1%	38.4%	32.6%	28.4%	34.7%	15.5%	11.0%	24.7%	32.4%	26.1%	32.5%

Source: Company reports, FactSet and KBCM estimates as of March 2012.

KeyBanc Capital Markets Inc. Disclosures and Certifications

Teavana Holdings, Inc. - TEA

We expect to receive or intend to seek compensation for investment banking services from Teavana Holdings, Inc. within the next three months.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that: (1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					CONSUMER				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	228	44.53	47	20.61	BUY [BUY]	60	45.45	7	11.67
HOLD [HOLD]	272	53.12	49	18.01	HOLD [HOLD]	70	53.03	2	2.86
SELL [UND]	12	2.34	4	33.33	SELL [UND]	2	1.52	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

The information contained in this report is based on sources considered to be reliable but is not represented to be complete and its accuracy is not guaranteed. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities. Our company policy prohibits research analysts and members of their families from owning securities of any company followed by that analyst, unless otherwise disclosed. Our officers, directors, shareholders and other employees, and members of their families may have positions in these securities and may, as principal or agent, buy and sell such securities before, after or concurrently with the publication of this report. In some instances, such investments may be inconsistent with the opinions expressed herein. One or more of our employees, other than the research analyst responsible for the preparation of this report, may be a member of the Board of Directors of any company referred to in this report. The research analyst responsible for the preparation of this report is compensated based on various factors, including the analyst's productivity, the quality of the analyst's research and stock recommendations, ratings from investor clients, competitive factors and overall Firm revenues, which include revenues derived from, among other business activities, the Firm's performance of investment banking services. In accordance with industry practices, our analysts are prohibited from soliciting investment banking business for our Firm.

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.