

March 29, 2012

Teavana Holdings, Inc. Adjusting EPS; Examining Growth Beyond 500 Stores

We revise our 2012 estimates down after TEA reported 4Q EPS. Our various AlphaWise analyses suggest 300-500 store potential. Assuming full 500 store penetration, we estimate \$1.50 EPS power in 2015 and conclude TEA trades at an appropriate valuation discount to growth peers. Remain EW.

We adjust our 1Q12 EPS from \$0.12 to \$0.09 and FY12 EPS from \$0.62 to \$0.58. We forecast operating margins to remain flat on a full year basis, although GM may deleverage in the first 3 quarters of the year due to store pre-opening costs of \$40K/store. Public company costs should deleverage SG&A 200-300bps in 1H12 but could be offset by significant leverage in 4Q12 due to higher revenues from new stores added in the year.

Our varied AlphaWise analyses support 300-500 store potential. TEA's growth depends heavily on store openings rather than increased productivity given moderate +MSD historical comp average and go forward guidance. As such, we examine store saturation and income demographics to support a range of 300-500 Teavana stores domestically (see analysis on pages 3-4). TEA plans to open 60 stores in 2012 and reach 500 stores by 2015.

We monitor essential store productivity metrics for signs of deterioration. Positive 4Q store transactions (ex e-com and ex-bev) reversed prior negative trends. However, we do not assume this trend will continue into 2012. Given TEA's early stage growth, we should expect strong customer acquisition evidenced by transaction growth and robust comps.

Long-term outlook shows TEA is fully valued at current levels. We estimate 2015 earnings power of \$1.50 which leads us to a \$17 stock price today vs. our prior base case of \$26. Until growth drivers other than stores expansion are apparent, we expect TEA's multiple could be held back until we see stable positive transaction trends and strong consistent comp growth.

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Key Ratios and Statistics

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

Price target	NA
Shr price, close (Mar 28, 2012)	\$19.43
Mkt cap, curr (mm)	\$746
52-Week Range	\$29.35-14.28

Fiscal Year ending	01/11	01/12e	01/13e	01/14e
EPS (\$) **	0.32	0.46	0.58	0.85
Consensus EPS (\$) §	-	0.47	0.64	0.78
Div yld (%)	0.0	0.0	0.0	0.0
ModelWare EPS (\$)	0.41	0.38	0.49	0.75

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology

e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2010	2011e Prior	2011e Current	2012e Prior	2012e Current
Q1	0.05	-	0.09a	0.12	0.09
Q2	0.02	-	0.03a	0.04	0.02
Q3	0.01	-	0.02a	0.03	0.02
Q4	0.24	0.30	0.32	0.43	0.45

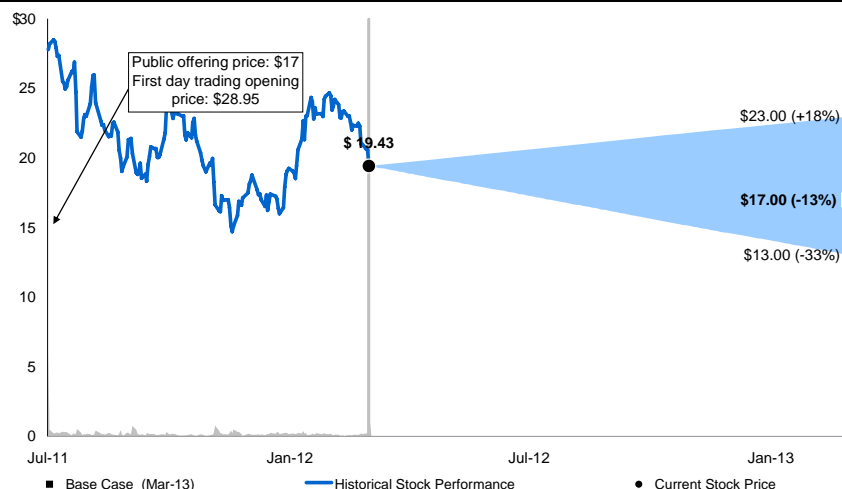
e = Morgan Stanley Research estimates, a = Actual company reported data

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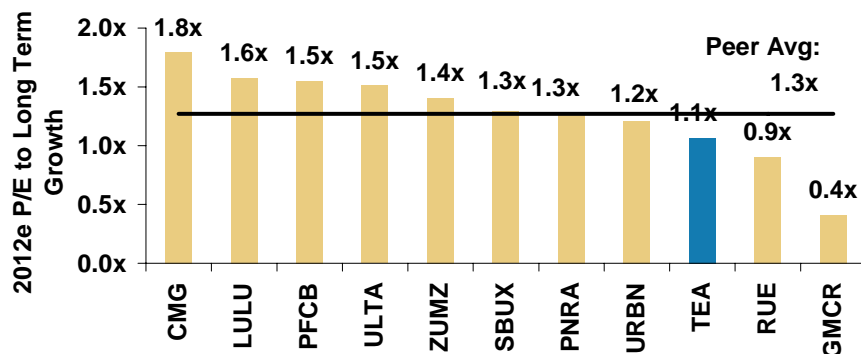
Risk-Reward Snapshot: Teavana (TEA, \$19.43, Equal-weight)

Risk-Reward View: TEA is currently fully valued



Price Target NA			Valuation Methodology – We derive our scenarios based on 2015 earnings potential and apply a 2015 P/E multiple to reflect maturity. The price is discounted back 3 years at 7%.
Bull Case	16x Bull Case 2015e EPS of \$1.75	Teavana achieves retail nirvana. Positive traffic and store transactions push comps to +HSD. Gross margins rise on sales leverage on new store occupancy costs to achieve a 25% op marg. We apply a 16x multiple in 2015 and discount back at 7%.	
Base Case	14x Base Case 2015e EPS of \$1.50	Steady as TEA goes. Teavana continues on its current trajectory with +MSD comps, 30% store growth and op marg expansion to 23%. We apply a 14x multiple in 2015 and discount back at 7%.	
Bear Case	14x Bear Case 2015e EPS of \$1.15	TEA taps out. Store transactions turn negative again, slowing comp growth to +LSD. Merchandise mix lowers GM and lower sales results in less than expected SGA leverage. We apply a 14x multiple in 2015 and discount back at 7%.	

As comps decelerate, TEA's PEG ratio is slightly below peer average



Source: Morgan Stanley, Thomson Reuters.

Investment Thesis

- **Following the Whole Foods/lululemon model.** TEA follows Whole Foods and lululemon in the healthy lifestyle focus, a growing market with high margins.
- **TEA has room to grow.** In our universe, TEA has the lowest saturation rate in our coverage (2011 stores vs. LT plan) at 40% vs. the 74% sector average. Our analysis supports 300-500 total potential stores.
- **Steady comp performance.** We think Teavana's moderate +MSD comp plan is achievable given past performance.

Risks

Positive:

- Potential growth from consumer packaged good products
- International store expansion outside North America

Negative:

- Declining store transaction trends
- Weakening / strengthening economy and mall traffic
- Increased competition (stores, online)
- Positive margin mix shift fails to materialize
- Smaller than anticipated addressable market

Valuation

- Current valuation reflects growth: At 33x our \$0.58 2012e EPS (and 1.1x our 31% long-term growth rate), we think Teavana's shares largely reflect its sales and earnings potential. We look for 1) a more attractive entry point or 2) sustained >MSD% same store sales growth in addition to improved store transaction trends.

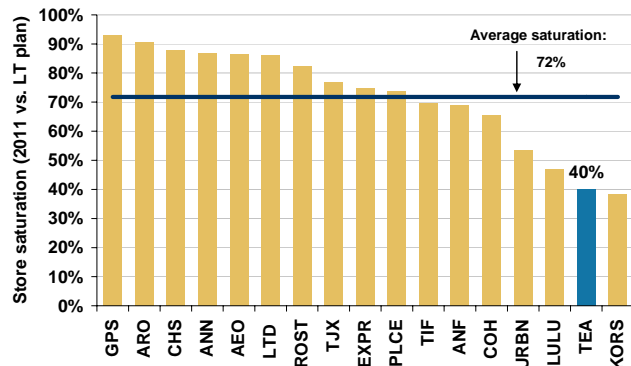
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Our Varied AlphaWise Analyses Support 300-500 Store Potential vs. Management Goal of 500 Stores

A 30% annual store base increase should drive top-line growth until 2015, but longer term growth remains a question. With comp expectations in the +MSD range, we do not expect significant growth from productivity improvements. Instead, adding 60 new stores on top of the existing 200 will drive the majority of TEA's expected 30%+ growth. As such, we revisit our store potential and saturation analysis from our initiation. Evaluating the company relative to our coverage universe, TEA currently has one of the lowest store penetration rates at 40% of management's long-term plan compared to the 72% sector average. However, we have little visibility into growth drivers after the company achieves store saturation.

Exhibit 1

TEA currently has the lowest store saturation rate in our universe but expected to be at 100% by 2015

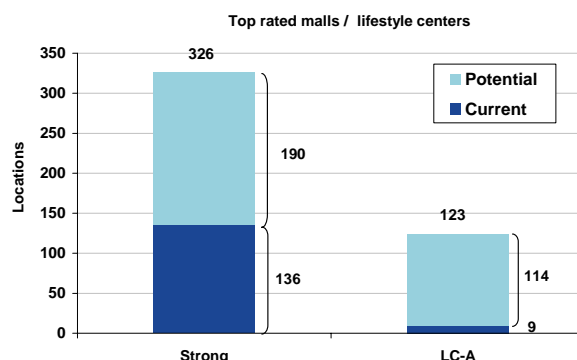


Source: Company data, Morgan Stanley Research. Reflects saturation of profitable divisions only.

Our mall / lifestyle center analysis supports the viability of management's 500 store plan by 2015. We analyzed Teavana locations (185 identified stores as of March 2012) and cross-checked our list against MS REIT Research Team's mall ratings (Paul Morgan and team). Of Morgan Stanley's top-rated 449 malls and lifestyle centers, only 145 include a Teavana location (32% penetration), leaving the potential for stores in an additional 304 top rated malls and lifestyle centers.

Exhibit 2

TEA is only 32% penetrated in top rated malls and lifestyle centers



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of March 2012 (185 surveyed locations).

Our store density study yields 300 TEA location potential.

Working with AlphaWise, we examined income and population levels surrounding existing Teavana stores. With 185 store locations surveyed, we estimate the median number of households per store at ~313,000 with median income of \$62K. Assuming a similar population density per store, we estimate a maximum 300 potential stores. In order to support management's 500 store goal, TEA would need to increase store density to serve only 184,000 households per store.

Exhibit 3

Our proprietary store saturation analysis suggests 300 Teavana stores

Store Saturation Summary (all applicable markets)						
HH income distribution						
Current HHs / store (median)	Current stores	\$40-60K	\$60-80K	\$80-100K	\$100K+	Total
312,809	185	93	78	12	2	185

Store saturation analysis						
Households per store	Potential stores	\$40-60K	\$60-80K	\$80-100K	\$100K+	Total
350,000	263	151	96	14	2	263
312,809	292	173	103	14	2	292
300,000	305	182	106	15	2	305
250,000	365	220	126	17	2	365
200,000	454	272	159	21	2	454
184,000	500	302	173	23	2	500

Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

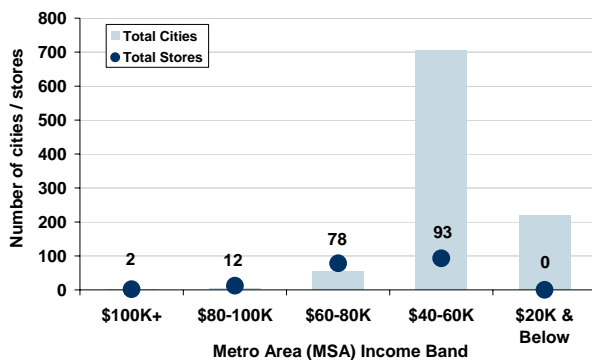
Our AlphaWise survey results provide evidence that TEA is saturated in upper income (>\$60K) MSAs. TEA has currently penetrated upper income demographic MSAs with multiple stores in wealthier cities. In order to expand its store

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base, TEA must open more stores in \$40-60K income band cities. Only a portion of these locations would fall in management's criteria for areas with household income of over \$50K. With only 93 stores out of 705 cities in this income band, Teavana could see significant growth potential if it is able to make these locations work. If TEA can successfully operate stores in half of these markets, we estimate store potential to be ~450 stores.

Exhibit 4

TEA's expansion opportunity lies in \$40-60K cities

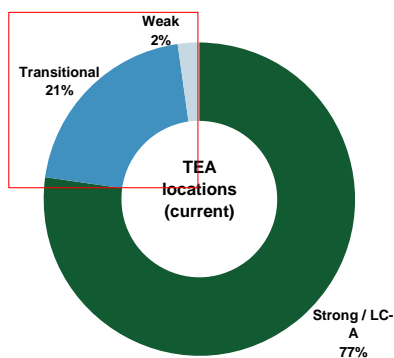


Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

Teavana's store mix is already shifting away from strong malls and Lifestyle Centers. Our updated store penetration analysis shows that TEA has slightly increased its mix of weak and transitional malls, which has gone from 20% to 23% of the total store base. We expect this trend to continue as the concept expands. Investors should continue to monitor new store productivity for any sign of deterioration.

Exhibit 5

23% of Teavana stores are in lower-rated locations

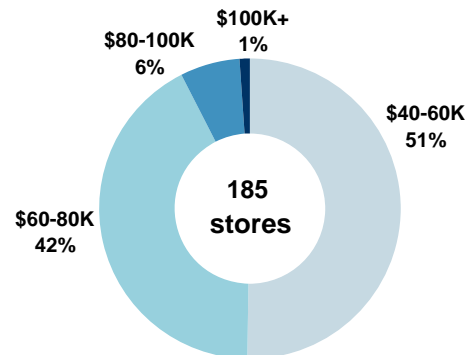


Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of March 2012 (188 mall and lifestyle center based locations).

According to Morgan Stanley AlphaWise, the average household income surrounding Teavana's current store base is \$62,000. Forty-nine percent of current TEA locations are in areas with at least \$60,000 in annual household income. Fifty-one percent of TEA locations have surrounding annual household income of \$40,000-\$60,000.

Exhibit 6

Current Teavana Store Base / \$62,000 Average HH Income

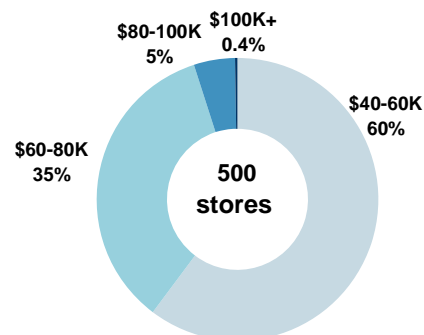


Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA. Store data in our analysis as of March 2012 (185 surveyed locations).

If TEA expands its store footprint to 500, we estimate the locations would have an average surrounding household income of \$59,000 (5% below current levels). About 60% of stores would have a surrounding annual household income of \$40,000-\$60,000 while ~40% would have surrounding income of at least \$60,000.

Exhibit 7

Projected Teavana Store Base / \$59,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA.

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2012 Outlook Reflects Changes in TEA's Business

Store transaction metrics improved in 4Q but do not indicate a trend. 4Q same store transactions (excluding e-commerce and beverage only) of +1.6% reversed recent negative trends (-1.8% in 2Q11 and -2.5% in 3Q11). While we are hopeful the positive momentum might continue, management warned investors not to "extrapolate the holiday performance into quarters 1 through 3," as "the holiday selling season can be its own animal and have its own dynamic." Given that TEA is still in early stages of growth, it should be rapidly acquiring new customers evidenced by increased transaction volume and robust comps.

Elimination of \$3M special tea business has skewed new store productivity metrics in 2011. In late 2010, TEA discontinued its \$3M special tea business, which comprised roughly 2.5% of revenues and resulted in 2011 sales growth headwinds. Beginning in 1Q12, we expect apples-to-apples comparisons on 2011 revenues excluding the special teas business to give us a better idea of core business performance and specifically new store productivity.

Inventory Growth Slows in 4Q and Is Expected to Be Roughly Flat Next Year

TEA ended 4Q11 with 51.7% total inventory growth year over year. This compares to 4Q's +33.6% sales increase and our forecast for +25.7% sales growth in 1Q12. We calculate balance sheet inventory per square foot increased +9.4% (vs. +24.7% in 3Q11 and +26.8% in 2Q11) due to direct sourcing initiatives that resulted in increased inventory in addition to early product deliveries to take advantage of favorable rates. Inventory turns for the year decreased to 2.57x vs. 3.24x last year. Looking ahead, we forecast a +4% y/y increase in 1Q inventory per square foot with total inventory dollars rising +41.9% vs. LY.

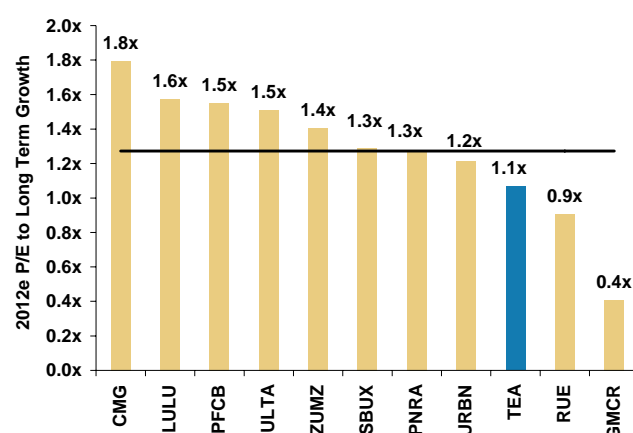
Valuation

While door expansion drives growth, lack of additional drivers restrains TEA's valuation relative to growth peers. Teavana currently trades at 33x our \$0.58 2012e EPS, which represents 1.1x our 31% long term growth rate. TEA's P/E to long-term growth trades at a slight discount to the high-growth peer average of 1.3x. However, compared to other growth companies which have shown an ability to consistently beat and raise EPS expectations, TEA's lower valuation reflects the company's history of moderate growth expectations, reflected in +MSD comp guidance and limited ability to drive store productivity improvements or margin expansion. Until growth drivers other than stores expansion are apparent, we expect

TEA's multiple could be held back. We believe TEA shares are fully valued given its current earnings potential.

Exhibit 8

TEA trades at a discount to growth peers' PEG ratio



Source: Thomson One and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Tuesday, March 28, 2012.

We forecast a base case 2015 scenario with TEA earning \$1.50/share. In order to gain a better understanding of TEA's current valuation, we examine its full business potential. We assume Teavana achieves maximum 2015 store penetration of 500 doors and generates a 6% comp based on its historical comp range of 3-9%. We forecast 23% operating margins (vs. 21% LT goal) and 90% new store productivity. Given these assumptions, we estimate TEA could earn \$1.50 EPS in 2015. Our analysis excludes any future earnings from international store expansion outside US/Canada and potential expansion into consumer packaged goods.

Exhibit 9

Mature Retailers Trade between 14-15x P/E

Ticker	Price	EPS		P/E	
	3/28/12	2012E	2013E	2012E	2013E
AEO	\$17.19	\$1.07	1.25	16.0x	13.8x
ANF	49.54	3.54	4.60	14.0	10.8
ANN	28.97	2.02	2.45	14.3	11.8
CHS	15.35	1.03	1.16	14.9	13.3
EXPR	25.09	1.90	2.05	13.2	12.2
GPS	26.26	1.83	1.87	14.4	14.0
LTD	48.54	2.96	3.30	16.4	14.7
Peer Group Average				14.7x	13.0x
Peer Group Median				14.4	13.3

Source: Morgan Stanley estimates, Thomson One.

Source: Company Data, Morgan Stanley Research

With \$1.50 in 2015 earnings power, we estimate a \$17 share price. Applying a 14x P/E multiple to reflect a mature company with moderate growth expectations, we use a 7.0%

discount rate to derive a current share price of \$17 today, a 13% discount to the current price of \$19.43. We believe the stock multiple could rerate if Teavana is able to capitalize on additional growth drivers from 1) sustained positive store transaction metrics and robust comp growth 2) evidence of successful international expansion beyond North America 3) opportunity to introduce a consumer packaged goods product to market.

Exhibit 10

With \$1.50 in 2015 earnings power, TEA should trade around \$17 today

Discount Rate	2015 P/E Multiple				
	12.0x	13.0x	14.0x	15.0x	16.0x
5.0%	\$15.55	\$16.84	\$18.14	\$19.44	\$20.73
6.0%	\$15.11	\$16.37	\$17.63	\$18.89	\$20.15
7.0%	\$14.69	\$15.92	\$17.14	\$18.37	\$19.59
8.0%	\$14.29	\$15.48	\$16.67	\$17.86	\$19.05
9.0%	\$13.90	\$15.06	\$16.22	\$17.37	\$18.53

Source: Company Data, Morgan Stanley Research

Exhibit 11

Summary Operating Results & Management Guidance (\$ millions)

Metric	4Q11	4Q10	% / Bps change	EPS Variance vs. MS	4Q Comments	Guidance
Sales	\$68.4mm	\$51.2mm	+33.6%	+1c	Total sales increased +34%, to \$68.4mm vs. \$51.2mm LY. Comparable store sales increased +8.6% (+4.4% excluding eCommerce), driven by a +2.1% increase in average ticket and a +6.5% growth in the number of transactions. Excluding beverage sales, the average ticket increased +2.3% and transactions +6.2%.	1Q12: We estimate +25.7% total sales growth. 1Q12: Expect total net sales to be \$44mm to \$45mm on +L-MSD comp growth. FY12: Expect total net sales to be \$208mm to \$215mm on +MSD comp growth.
Gross Margin	65.6%	67.7%	-210 bps	-1c	Gross margin for the quarter was 65.6% vs. 67.7% LY. The -210bps decline was mix driven due to increased sales contribution of the merchandise segment which carry lower margins than loose leaf tea. Sales mix in 4Q11 was tea 50%, merchandise 48%, and beverage 2% (vs. 52%, 46% and 2%, respectively LY).	1Q12: We estimate gross margin to be 63.0% vs. 64.4% LY.
SG&A Rate	32.2%	32.9%	-70 bps	+2c	SG&A dollars increased 31% to \$22.0mm vs. \$16.8mm. However, SG&A rate decreased -70bps due to corporate infrastructure leverage on sales growth.	1Q12: We estimate SG&A as a % of sales to be 44.5% vs. 42.2% LY.
Operating Margin	31.0%	32.4%	-140 bps			
Net Interest Expense (Income)	\$0.1mm	\$0.6mm	-80.9%			
Tax Rate	40.8%	42.6%	-180 bps			
Net Income	\$12.5mm	\$9.2mm	+36.2%			1Q12: Expect net income to be \$3.6mm to \$4.0mm. FY12: Expect net income to be \$23mm to \$24mm.
Shares Outstanding	39.1mm	37.7mm	+3.5%			
EPS	\$0.32	\$0.24	+31.6%			1Q12: We estimate EPS \$0.10. 1Q12: Expect EPS \$0.09-\$0.10 vs. \$0.09 LY. FY12: Expect EPS \$0.58-\$0.61 vs. \$0.46 LY.
Cash& Equivalent	\$17.8mm	\$7.9mm	+125.5%			FY12: Expect capex of ~\$20mm.
Inventory	\$25.7mm	\$16.9mm	+51.7%		Inventory at the close of the quarter increased +51.7% to \$25.7mm from \$16.9mm LY. We calculate inventory psf increased +9% vs. LY.	
Inventory Turn	0.81x	0.94x	-14% slower			
Net Store Openings	+4	+5	+39% square footage		During the quarter the company opened 4 stores, ending the year with 200 Company-owned stores.	1Q12: Expect to open 18-20 new stores. FY12: Expect to open 60 new stores.

Source: Company Data, Morgan Stanley Research

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Exhibit 12

Teavana Income Statement

Income Statement	2010				2011				2012E				2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan										
Total Sales	\$26	\$23	\$25	\$51	\$35	\$31	\$33	\$68	\$44	\$39	\$42	\$88	\$34	\$47	\$64	\$90	\$125	\$168	\$213	\$280	\$355	\$441
Cost of Goods Sold	10	9	10	17	12	12	13	24	16	16	17	29	\$16	\$20	\$27	\$36	\$46	\$61	\$78	\$99	\$124	\$152
Gross Profit	16	14	15	35	22	19	21	45	28	23	26	59	\$18	\$27	\$37	\$54	\$78	\$107	\$136	\$181	\$231	\$289
SG&A Expense	11	11	12	17	15	15	18	22	20	20	22	27	16	22	29	38	51	70	89	113	140	171
Depr. & Amort.	1	1	1	1	1	1	2	2	2	2	2	2	2	2	3	3	4	6	8	11	14	18
Operating Income	4	2	1	17	6	2	2	21	6	1	2	30	(\$0)	\$3	\$5	\$12	\$23	\$32	\$39	\$57	\$77	\$100
Interest Income/(Expense)	(0.6)	(0.7)	(0.7)	(0.6)	(0.7)	(0.7)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1)	(2)	(2)	(2)	(3)	(2)	(0)	0	0	0
Pretax Income	3.4	1.0	0.6	16.0	5.8	1.6	1.5	21.1	6.3	1.1	1.5	29.9	(\$1)	\$1	\$3	\$10	\$21	\$30	\$39	\$57	\$77	\$101
Taxes	1	0	0	7	2	1	1	9	3	0	1	12	(0)	1	2	4	9	12	16	23	31	41
Net Income from Operation	1.9	0.6	0.3	9.2	3.3	1.0	0.9	12.5	3.7	0.6	0.9	17.7	(\$1.3)	\$0.4	\$1.2	\$5.3	\$12.0	\$17.8	\$23.0	\$33.7	\$45.7	\$59.8
Earnings Per Share	\$0.05	\$0.02	\$0.01	\$0.24	\$0.09	\$0.03	\$0.02	\$0.32	\$0.09	\$0.02	\$0.02	\$0.45	(\$0.04)	\$0.01	\$0.03	\$0.14	\$0.32	\$0.46	\$0.58	\$0.85	\$1.15	\$1.50
Average Shares	37.5	37.6	38.0	37.7	36.7	37.8	39.0	39.1	39.2	39.4	39.5	39.7	36.7	36.8	37.1	37.3	37.7	38.4	39.4	39.8	39.8	39.8
EBITDA	\$5	\$3	\$2	\$18	\$8	\$4	\$3	\$23	\$8	\$3	\$4	\$32	\$1.3	\$5.0	\$7.4	\$15.7	\$27.9	\$37.5	\$46.9	\$67.4	\$90.6	\$118.1
Margin Analysis																						
Gross Margin	61.1%	58.9%	58.6%	67.7%	64.4%	61.1%	61.9%	65.6%	63.0%	59.5%	60.5%	67.4%	52.8%	57.7%	57.4%	59.6%	62.9%	63.8%	63.7%	64.5%	65.0%	65.5%
Expense Ratio	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%	44.5%	51.5%	52.0%	30.9%	48.9%	47.1%	45.8%	42.3%	40.6%	41.5%	41.7%	40.5%	39.5%	38.7%
Operating Margin	15.5%	7.2%	5.2%	32.4%	18.5%	7.4%	4.8%	31.0%	14.4%	2.9%	3.7%	34.1%	-0.5%	6.3%	7.5%	13.5%	18.8%	18.8%	18.3%	20.3%	21.7%	22.8%
Pretax Margin	13.0%	4.4%	2.4%	31.2%	16.5%	5.1%	4.5%	30.8%	14.3%	2.8%	3.6%	34.0%	-4.3%	2.9%	4.2%	10.8%	16.8%	17.8%	18.1%	20.3%	21.7%	22.9%
Tax Rate	42.6%	42.6%	42.4%	42.6%	42.4%	35.2%	37.2%	40.8%	40.7%	40.7%	40.7%	40.7%	7.1%	72.7%	55.7%	45.8%	42.6%	40.6%	40.7%	40.7%	40.7%	40.7%
Net Margin	7.5%	2.5%	1.4%	17.9%	9.5%	3.3%	2.8%	18.2%	8.5%	1.6%	2.1%	20.2%	-4.0%	0.8%	1.9%	5.9%	9.6%	10.6%	10.8%	12.0%	12.9%	13.6%
EBITDA Margin	19.2%	11.8%	9.7%	34.8%	22.1%	12.0%	9.5%	33.4%	18.5%	8.0%	8.5%	36.5%	4.0%	10.6%	11.6%	17.4%	22.3%	22.3%	22.0%	24.1%	25.5%	26.8%
Year-Over-Year Growth																						
Sales	43.3%	33.1%	32.4%	41.0%	35.6%	36.3%	35.1%	33.6%	25.7%	25.4%	26.5%	28.5%		39.8%	35.3%	41.3%	38.2%	34.8%	26.9%	31.1%	27.0%	24.1%
Comp. Store Sales	15.7%	6.9%	5.9%	7.5%	6.0%	6.9%	6.0%	4.4%	6.0%	6.9%	6.0%	4.4%		8.4%	3.0%	6.9%	8.7%	5.5%	2.5%	6.0%	6.0%	6.0%
SG&A Expense	26.2%	26.1%	33.2%	41.4%	36.6%	42.2%	44.5%	30.9%	32.4%	31.6%	25.6%	23.2%		34.8%	31.5%	30.4%	32.6%	37.8%	27.6%	27.2%	24.0%	21.6%
Operating Income	276.7%	338.1%	100.5%	63.8%	62.1%	40.8%	26.0%	27.8%	-2.0%	-51.1%	-3.0%	41.3%		NM	59.9%	156.2%	92.6%	34.4%	23.3%	45.7%	35.5%	30.7%
Earnings Per Share	674.2%	-567.6%	NM	75.0%	75.5%	77.5%	169.2%	31.6%	4.8%	-40.3%	-6.0%	39.9%		NM	213.7%	339.0%	124.6%	45.3%	26.0%	45.3%	35.5%	30.9%
EBITDA	166.7%	117.6%	54.3%	61.3%	56.1%	38.4%	32.5%	28.4%	5.1%	-16.5%	13.5%	40.3%		273.9%	48.5%	111.2%	77.6%	34.7%	25.1%	43.5%	34.4%	30.4%

Source: Company Data, Morgan Stanley Research

Exhibit 13

Teavana Balance Sheet

	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Assets										
Cash and cash equivalents	\$1.1	\$0.8	\$1.2	\$1.3	\$7.9	\$17.8	\$13.6	\$30.0	\$41.0	\$74.5
ST investments	0.0	0.0	0.0	0.0	0.0	0.0	5.0	10.0	15.0	20.0
Accounts receivable	0.0	0.0	0.0	0.3	0.3	0.4	0.5	0.7	0.8	1.0
Merchandise inventories	4.9	6.2	8.0	11.6	16.9	25.7	33.8	33.6	42.6	52.9
Prepaid minimum rent	0.0	0.0	0.0	1.1	1.4	1.9	2.4	3.1	3.9	4.9
Other	0.0	0.0	0.0	1.8	3.7	3.9	4.9	5.9	6.9	7.9
Total Current Assets	\$5.9	\$6.9	\$9.1	\$16.0	\$30.2	\$49.7	\$60.1	\$83.3	\$110.3	\$161.2
Net property and equipment	11.0	13.2	19.4	22.5	31.0	42.8	54.8	69.4	87.6	109.7
Goodwill, net	0.0	0.0	0.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Deferred income Taxes	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.3	5.4	6.8	0.6	0.5	0.8	0.8	0.8	0.8	0.8
TOTAL ASSETS	\$22.2	\$25.5	\$35.4	\$41.8	\$64.1	\$95.6	\$118.1	\$155.8	\$201.1	\$274.0
Liabilities and Shareholders' Equity										
Accounts payable	\$0.0	\$0.0	\$0.0	\$2.6	\$3.6	\$3.9	\$5.1	\$5.1	\$6.5	\$8.0
Line of credit	1.4	0.9	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	1.1	1.3	1.8	1.8	1.8	1.8	1.8
Other liabilities	7.7	9.8	12.0	7.6	23.3	1.8	10.7	14.0	17.8	22.0
Accrued expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable & accrued exp - related parties	0.0	0.0	0.0	0.0	0.0	5.0	6.4	8.2	12.3	2.3
Total Current Liabilities	\$9.1	\$10.7	\$17.6	\$11.3	\$28.3	\$12.6	\$24.0	\$29.1	\$38.4	\$34.2
Deferred Rent & Tenant Allowances	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$12.9	\$16.9	\$21.5	\$25.3	\$25.3
Long-term debt	0.0	0.0	0.0	1.0	1.0	2.6	2.6	2.6	2.6	2.6
Preferred Stock	6.3	7.6	9.1	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Retirement Benefit Plan Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	0.0	4.5	8.0	0.6	10.0	10.0	10.0	10.0
Deferred taxes	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Total Long-Term Liabilities	\$6.3	\$7.6	\$9.1	\$16.3	\$9.5	\$16.1	\$29.5	\$34.1	\$37.8	\$37.8
Shareholders' Equity:										
Common stock	\$10.1	\$12.2	\$15.8	\$21.9	\$81.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Additional paid-in capital	0.0	0.0	0.0	0.0	0.0	276.8	276.8	276.8	276.8	276.8
Retained earnings	(3.3)	(4.8)	(7.1)	(7.7)	(55.1)	(209.8)	(212.2)	(184.1)	(151.8)	(74.8)
Notes receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	\$6.8	\$7.3	\$8.7	\$14.2	\$26.3	\$67.0	\$64.6	\$92.6	\$124.9	\$202.0
TOTAL LIABILITIES AND S/H EQUITY	\$22.2	\$25.5	\$35.4	\$41.8	\$64.1	\$95.6	\$118.1	\$155.8	\$201.1	\$274.0

Source: Company Data, Morgan Stanley Research

Exhibit 14

Teavana Cash Flow Statement

	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Net income	\$1.2	\$5.3	\$12.0	\$17.8	\$23.0	\$33.7	\$45.7	\$59.8
Depreciation and amortization	2.7	3.5	4.4	5.9	8.0	10.6	13.7	17.6
Deferred income taxes	(0.6)	0.5	(0.3)	(0.4)	0.0	0.0	0.0	0.0
Other	1.9	2.1	2.6	0.3	1.0	(1.0)	(1.0)	(1.0)
TOTAL OPERATING SOURCES	\$5.2	\$11.4	\$18.7	\$23.5	\$31.9	\$43.3	\$58.3	\$76.4
Capital expenditures	8.8	6.6	12.6	16.4	20.0	25.2	32.0	39.7
Increase (decrease) in								
Inventories	\$1.8	\$3.6	\$5.3	\$8.7	\$8.1	(\$0.2)	\$9.0	\$10.3
Receivables	(0.2)	0.1	0.0	0.1	0.1	0.2	0.2	0.2
Prepaid expenses	0.7	(0.2)	1.1	0.5	0.5	0.7	0.8	0.9
Other assets	0.2	0.3	0.3	0.3	1.0	1.0	1.0	1.0
(Increase) decrease in								
Accounts payable, deferred revenue, accrued expenses, and ot	2.0	2.7	5.4	20.8	(10.1)	(3.3)	(5.1)	(5.8)
Accounts payable and accrued expenses, related parties	0.0	0.0	0.0	(5.0)	(1.4)	(1.8)	(4.1)	10.0
Other assets and liabilities	0.4	0.9	2.1	0.0	0.0	0.0	0.0	0.0
Total working capital uses	\$0.2	\$0.3	(\$0.7)	(\$6.2)	\$21.2	\$6.7	\$20.3	\$8.3
TOTAL OPERATING USES	\$9.0	\$7.0	\$11.8	\$10.2	\$41.2	\$31.9	\$52.3	\$47.9
INTERNAL CASH GENERATION (FUNDS NEEDED)	(\$3.8)	\$4.4	\$6.8	\$13.3	(\$9.3)	\$11.5	\$6.0	\$28.5
Short-term investments, net	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0
Increase in long-term debt	(0.6)	0.0	(0.3)	1.6	0.0	0.0	0.0	0.0
Net borrowings under credit facility	5.3	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0
Distributions paid to members	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common / preferred stock adjustments	0.0	0.0	0.0	105.2	0.0	0.0	0.0	0.0
Share repurchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment and redemption of dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing costs	(0.4)	(0.0)	0.0	(110.1)	0.0	0.0	0.0	0.0
Net cash used in discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXTERNAL SOURCES	\$4.3	(\$4.3)	(\$0.3)	(\$3.4)	\$5.0	\$5.0	\$5.0	\$5.0
Beginning cash balance	0.8	1.2	1.3	7.9	17.8	13.6	30.0	41.0
Increase (decrease) in cash	0.4	0.1	6.6	9.9	(4.3)	16.5	11.0	33.5
Ending cash balance	1.2	1.3	7.9	17.8	13.6	30.0	41.0	74.5
Total External Sources & Cash	(\$3.8)	\$4.4	\$6.8	\$13.3	(\$9.3)	\$11.5	\$6.0	\$28.5

Source: Company Data, Morgan Stanley Research



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Other Recent Morgan Stanley Research Based on AlphaWise

North America	March 26, 2012	Nigel Coe	Electrical Equipment & Multi-Industry: Survey Says...US Industrial Outlook Even More Positive	Our recent survey indicates that the 2012 outlook is improving. Implying that volume growth has accelerated throughout the quarter in-line with typical seasonal growth
North America	March 22, 2012	Daniel Brennan	Medical Technology: Stable EU Government Life Sciences Funding Better than Feared	Our AlphaWise survey point to a stable funding environment. ILMN and LIFE are the biggest beneficiaries
Europe	March 21, 2012	Gillian Robb	UK Food Retail: Tesco's relative price positioning weaker in March	Our proprietary AlphaWise UK Food Retail price tracker shows the prices of 500-750 branded SKUs over time at Tesco, Sainsbury and Asda. The pricing survey is present over a 4-week period
North America	March 16, 2012	Scott Devitt	Internet: Survey Says: Upside in Priceline's European Bookings Growth	AlphaWise survey of 120 European hotel executives leaves us incrementally positive on the OTA space and on Priceline's ability to gain European market share
North America	March 09, 2012	Ricky Goldwasser,	Healthcare Services & Distribution: Morgan Stanley Semi-Annual CRO Survey	Our 2012 AlphaWise R&D Survey of outsourcing decision makers from pharma and biotech companies confirms preclinical spending has stabilized and points to a potential modest improvement in the outsourcing market through 2012
North America	March 07, 2012	Michelle Clark	Retail: Screening for Beneficiaries of Sales Disruption at JCP	Leveraging our proprietary store database and running customer and store overlaps, we see several beneficiaries of near-term sales disruption at JCP, including DDS, BONT, M, KSS, TJX, ROST, TGT, Gap and Old Navy
North America	March 05, 2012	Daniel Brennan	Agilent Technologies, Inc. (A.N): Growth, returns & leverage = cyclical offsets; Initiate at OW	Agilent's growth story is supported by our AlphaWise survey results that point to resilient industrial end markets
North America	March 05, 2012	Daniel Brennan	Life Technologies Corp. (LIFE.O): US Academic Exposure Bias Forecasts to Downside, Initiate at EW	Our survey of US researchers portrays a concerning weak US spending environment prior to sequestration under the Budget Control Act in 2013, creating outsized pressure on Life Technologies
North America	March 05, 2012	Daniel Brennan	Life Science Tools: Initiating at In-Line: Prefer Exposure to Commercial Markets over Academic	Our AlphaWise surveys highlight downside risks to US academic spending in 2012-13 but suggest more resilient commercial demand than feared

March 29, 2012
Teavana Holdings, Inc.

North America	March 05, 2012	Daniel Brennan	Waters Corp. (WAT.N): Initiate at Overweight: Core holding deserves a premium	Our AlphaWise survey of chromatography and mass spec users implies share gains for Waters Corp.
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Overweight/Buy	1120	38%	461	44%	41%
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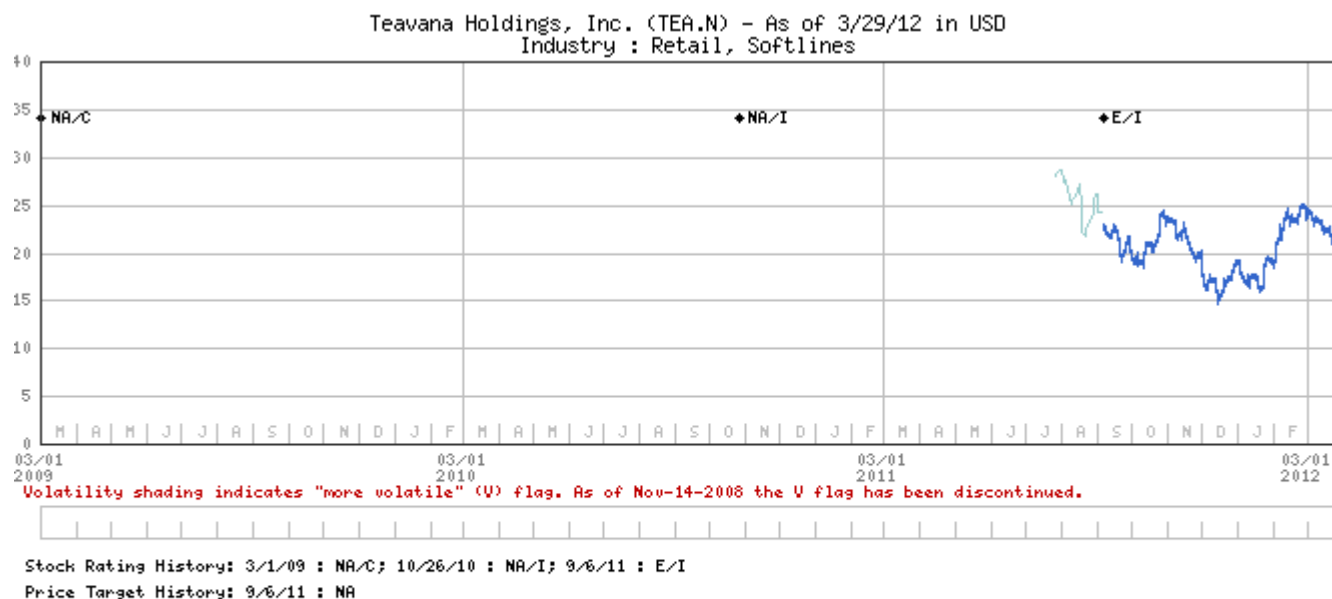
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Stock Price, Price Target and Rating History (See Rating Definitions)

March 29, 2012
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* (03/27/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	\$29.38
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	\$51.12
Aeropostale Inc (ARO.N)	U (10/26/2010)	\$21.55
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	\$17.51
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	\$15.31
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	\$51.8
Coach Inc (COH.N)	E (11/04/2011)	\$78.73
Express, Inc. (EXPR.N)	O (01/31/2011)	\$25.48
Gap Inc (GPS.N)	E (10/26/2010)	\$26.68
Limited Brands Inc (LTD.N)	O (10/26/2010)	\$49.62
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	\$74.68
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	\$46.53
Ross Stores Inc. (ROST.O)	E (10/26/2010)	\$59
Skullcandy Inc (SKUL.O)	O (08/29/2011)	\$15.88
TJX Companies Inc. (TJX.N)	E (10/26/2010)	\$39.53
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	\$20.58
Tiffany & Co. (TIF.N)	E (11/04/2011)	\$71.69
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	\$29.72

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.