

## Teavana Holdings (TEA)

### Q1 Results and Q2 Guidance Disappoint; Maintain NEUTRAL and Lower PT to \$16

- Although we believe consensus expectations could be right-sized post Q1 results, we remain sidelined, given limited visibility due to the pending Teapopia acquisition, as well as our belief that guidance is appropriate.
- **Q1 EPS in line on lower taxes as revenue misses on lower-than-expected eCommerce and SSS growth.** Revenue of \$44.3 million was below consensus and our expectations of \$45.1 million and \$44.8 million, respectively, as eCommerce grew 20% YoY, lower than our 30% expectation, and SSS, including eCommerce, grew 1.7%, below consensus of 3.4%. SSS growth ex. eCommerce was -0.1%. Both cost of sales and SG&A were above expectations, but were offset by a lower-than-expected tax rate, resulting in in-line EPS of \$0.10.
- **2012 guidance maintained, but Q2 guidance below consensus.** Ex. Teapopia, guidance for 2012 of \$208-215 million in revenue on mid-single-digit SSS growth (inc. eCommerce) and \$0.58-0.61 in EPS was maintained. However, Q2 guidance for \$38-40 million on low- to mid-single-digit SSS growth and \$0.02-0.03 in EPS was below consensus expectations of \$41.5 million and \$0.03.
- **We do not believe guidance is conservative.** We believe that given characteristics specific to Teavana's business model, the sole sustainable comp contributor, excluding eCommerce, over time is the company's ability to drive a higher price per unit (see our 4/23/12 Initiation note). Therefore, we do not believe flat to low-single-digit ex-eCommerce comp growth implied by guidance is conservative.
- **Teapopia acquisition continues to add a layer of uncertainty.** While we believe Teapopia's average sales volumes of \$435K (<1/2x Teavana's \$913K avg.) can increase over time, we believe that margins in the near- to medium-term will be pressured. We are not including Teapopia in our model, pending the transaction's close sometime in Q2. If included, the impact would be +\$0.02-0.03 in 2013E (guidance \$0.03-0.04).
- **Lowering our 2012 EPS by \$0.01 to \$0.59 to incorporate our lowered sales expectation.** Also lowering our FY13 ex-Teapopia EPS estimate to \$0.76 from \$0.78.
- **Maintain NEUTRAL, but lowering PT to \$16 from \$21.** This multiple is based on a 21x P/E multiple on our 2013 EPS estimate. Given limited visibility into 2013 earnings power due to the Teapopia acquisition as well as continued risk to expectations, we believe a 10% discount to peers' 23x multiple is warranted.

May 30, 2012

Price  
**\$14.00**

Rating  
**NEUTRAL**

12-Month Price Target  
**\$16** (from \$21)

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#### Company Information

Shares Outst (M)	39.2
Market Cap (M)	\$549.3
52-Wk Range	\$12.80 - \$29.01
Book Value/sh	\$1.88
Cash/sh	\$0.07
Enterprise Value (M)	\$546.6
LT Debt/Cap %	0.00

#### Company Description

Teavana Holdings, based in Atlanta, GA, owns and operates >200 retailers of ~100 varieties of loose-leaf tea, a selection of fresh-brewed teas, and tea-related merchandise.

FYE Jan	2011A	2012E			2013E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	\$34.9A	\$44.3A	\$44.9E	\$45.1E	\$56.5E	\$56.1E	--
Q2 Jul	31.3A	39.3E	40.3E	41.5E	48.7E	50.6E	--
Q3 Oct	33.4A	41.5E	41.8E	44.2E	51.0E	51.5E	--
Q4 Jan	68.4E	86.2E	87.1E	--	107.0E	108.3E	--
Year*	<b>\$168.1A</b>	<b>\$211.3E</b>	<b>\$214.2E</b>	<b>\$215.8E</b>	<b>\$263.2E</b>	<b>\$266.5E</b>	<b>\$272.8E</b>
Change	--	25.7%			24.5%		
	2011A	2012E			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	\$0.09A	\$0.10A		\$0.10A	\$0.13E	\$0.14E	--
Q2 Jul	0.03A	0.03E		0.03E	0.03E	0.05E	--
Q3 Oct	0.02A	0.04E		0.03E	0.06E		--
Q4 Jan	0.32E	0.42E	0.43E	--	0.53E		--
Year*	<b>\$0.46A</b>	<b>\$0.59E</b>	<b>\$0.60</b>	<b>0.58E</b>	<b>\$0.76E</b>	<b>\$0.78E</b>	<b>0.78E</b>
P/E	30.2x	23.8x			18.5x		
Change	--	27.1%			28.9%		

Consensus estimates are from Thomson First Call.

\* Numbers may not add up due to rounding.



Source: Thomson Reuters

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## Risks

Risks to the attainment of our share price target include deterioration in economic conditions, increased competition, and a decreased demand for tea.

# Teavana Revenue Model

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14
	Q1:11A	Q2:11A	Q3:11A	Q4:11A	Q1:12A	Q2:12E	Q3:12E	Q4:12E	Q1:13E	Q2:13E	Q3:13E	Q4:13E
<b>Revenue Analysis</b>												
<b>Revenue</b>												
Net Sales	34,940	31,313	33,426	68,422	44,319	39,338	41,521	86,164	56,465	48,718	50,993	107,000
<b>Total Revenues</b>	<b>34,940</b>	<b>31,313</b>	<b>33,426</b>	<b>68,422</b>	<b>44,319</b>	<b>39,338</b>	<b>41,521</b>	<b>86,164</b>	<b>56,465</b>	<b>48,718</b>	<b>50,993</b>	<b>107,000</b>
<b>YoY % Change</b>												
Restaurant Sales	35.6%	36.3%	35.1%	33.6%	26.8%	25.6%	24.2%	25.9%	27.4%	23.8%	22.8%	24.2%
<b>Total Revenues</b>	<b>35.6%</b>	<b>36.3%</b>	<b>35.1%</b>	<b>33.6%</b>	<b>26.8%</b>	<b>25.6%</b>	<b>24.2%</b>	<b>25.9%</b>	<b>27.4%</b>	<b>23.8%</b>	<b>22.8%</b>	<b>24.2%</b>
<b>Company Units</b>												
<b>BOP Restaurants</b>	<b>146</b>	<b>161</b>	<b>179</b>	<b>196</b>	<b>200</b>	<b>223</b>	<b>237</b>	<b>256</b>	<b>260</b>	<b>286</b>	<b>303</b>	<b>325</b>
Restaurants Opened	15	18	17	4	23	14	19	4	26	17	22	5
Restaurants Closed or Relocated	0	0	0	0	0	0	0	0	0	0	0	0
<b>EOP Restaurants</b>	<b>161</b>	<b>179</b>	<b>196</b>	<b>200</b>	<b>223</b>	<b>237</b>	<b>256</b>	<b>260</b>	<b>286</b>	<b>303</b>	<b>325</b>	<b>330</b>
<b>Same Store Sales</b>												
SSS (inc. e-commerce, % Growth)	9.3%	8.7%	8.5%	8.6%	1.7%	3.9%	5.4%	8.5%	3.9%	4.8%	5.9%	8.8%
SSS (ex. e-commerce, % Growth)	6.0%	6.9%	6.0%	4.4%	-0.1%	0.7%	1.2%	2.7%	1.0%	1.0%	1.0%	2.0%

Source: Company data and Wedbush Securities

# Teavana Quarterly Income Statement

## Teavana Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12A	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
<b>Revenue</b>	<b>34,940</b>	<b>31,313</b>	<b>33,426</b>	<b>68,422</b>	<b>44,319</b>	<b>39,338</b>	<b>41,521</b>	<b>86,164</b>	<b>56,465</b>	<b>48,718</b>	<b>50,993</b>	<b>107,000</b>
Cost of Goods Sold	12,451	12,186	12,749	23,517	15,895	15,112	15,629	29,615	19,969	18,229	18,684	36,241
<b>Gross Profit</b>	<b>22,489</b>	<b>19,127</b>	<b>20,677</b>	<b>44,905</b>	<b>28,424</b>	<b>24,226</b>	<b>25,892</b>	<b>56,549</b>	<b>36,496</b>	<b>30,489</b>	<b>32,309</b>	<b>70,759</b>
Selling, General and Administrative Expenses	14,758	15,367	17,511	22,045	20,491	20,666	21,129	26,297	25,545	26,315	25,708	32,020
Depreciation and Amortization	1,275	1,428	1,554	1,671	1,779	1,823	1,965	2,113	2,128	2,341	2,507	2,678
Non-Recurring (Gain) or Loss	-	-	-	-	295	1,000	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>28,484</b>	<b>28,981</b>	<b>31,814</b>	<b>47,233</b>	<b>38,460</b>	<b>38,601</b>	<b>38,722</b>	<b>58,024</b>	<b>47,642</b>	<b>46,885</b>	<b>46,899</b>	<b>70,940</b>
<b>Operating Income (Loss)</b>	<b>6,456</b>	<b>2,332</b>	<b>1,612</b>	<b>21,189</b>	<b>5,859</b>	<b>737</b>	<b>2,799</b>	<b>28,140</b>	<b>8,823</b>	<b>1,833</b>	<b>4,094</b>	<b>36,060</b>
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	689	742	122	120	72	79	79	79	79	79	79	79
Other (Income) Expense, net	-	-	-	-	-	-	-	-	-	-	-	-
<b>Income Before Taxes</b>	<b>5,767</b>	<b>1,590</b>	<b>1,490</b>	<b>21,069</b>	<b>5,787</b>	<b>658</b>	<b>2,719</b>	<b>28,061</b>	<b>8,744</b>	<b>1,754</b>	<b>4,014</b>	<b>35,981</b>
Provision for Income Taxes	(2,444)	(559)	(554)	(8,600)	(2,286)	(231)	(1,011)	(11,426)	(3,454)	(617)	(1,493)	(14,651)
<b>Net Income</b>	<b>3,323</b>	<b>1,031</b>	<b>936</b>	<b>12,469</b>	<b>3,501</b>	<b>427</b>	<b>1,708</b>	<b>16,635</b>	<b>5,290</b>	<b>1,137</b>	<b>2,522</b>	<b>21,330</b>
Non-Recurring Items	-	-	-	-	215	648	-	-	-	-	-	-
<b>Adjusted Net Income</b>	<b>3,323</b>	<b>1,031</b>	<b>936</b>	<b>12,469</b>	<b>3,716</b>	<b>1,075</b>	<b>1,708</b>	<b>16,635</b>	<b>5,290</b>	<b>1,137</b>	<b>2,522</b>	<b>21,330</b>
<b>Earnings (Loss) Per Share:</b>												
Pro Forma	0.09	0.03	0.02	0.32	0.10	0.03	0.04	0.42	0.13	0.03	0.06	0.53
<b>GAAP</b>	<b>0.09</b>	<b>0.03</b>	<b>0.02</b>	<b>0.32</b>	<b>0.09</b>	<b>0.01</b>	<b>0.04</b>	<b>0.42</b>	<b>0.13</b>	<b>0.03</b>	<b>0.06</b>	<b>0.53</b>
Basic Shares Outstanding	36,749	36,762	38,138	38,251	38,306	38,456	38,606	38,756	38,906	39,056	39,206	39,356
Diluted Shares Outstanding	37,636	37,802	38,965	39,059	39,086	39,236	39,386	39,536	39,686	39,836	39,986	40,136
<b>EBITDA</b>												
Depreciation & Amortization	1,275	1,428	1,554	1,671	1,779	1,823	1,965	2,113	2,128	2,341	2,507	2,678
<b>EBITDA</b>	<b>7,731</b>	<b>3,760</b>	<b>3,166</b>	<b>22,860</b>	<b>7,638</b>	<b>2,560</b>	<b>4,763</b>	<b>30,253</b>	<b>10,951</b>	<b>4,174</b>	<b>6,601</b>	<b>38,739</b>
<b>Margin Analysis</b>												
COGS/Sales	35.6%	38.9%	38.1%	34.4%	35.9%	38.4%	37.6%	34.4%	35.4%	37.4%	36.6%	33.9%
<b>Gross Margin</b>	<b>64.4%</b>	<b>61.1%</b>	<b>61.9%</b>	<b>65.6%</b>	<b>64.1%</b>	<b>61.6%</b>	<b>62.4%</b>	<b>65.6%</b>	<b>64.6%</b>	<b>62.6%</b>	<b>63.4%</b>	<b>66.1%</b>
G&A/Sales	42.2%	49.1%	52.4%	32.2%	46.2%	52.5%	50.9%	30.5%	45.2%	54.0%	50.4%	29.9%
D&A/Sales	3.6%	4.6%	4.6%	2.4%	4.0%	4.6%	4.7%	2.5%	3.8%	4.8%	4.9%	2.5%
<b>Operating Margin</b>	<b>18.5%</b>	<b>7.4%</b>	<b>4.8%</b>	<b>31.0%</b>	<b>13.2%</b>	<b>1.9%</b>	<b>6.7%</b>	<b>32.7%</b>	<b>15.6%</b>	<b>3.8%</b>	<b>8.0%</b>	<b>33.7%</b>
Pre Tax Margin	16.5%	5.1%	4.5%	30.8%	13.1%	1.7%	6.5%	32.6%	15.5%	3.6%	7.9%	33.6%
Tax Rate	42.4%	35.2%	37.2%	40.8%	39.5%	35.2%	37.2%	40.7%	39.5%	35.2%	37.2%	40.7%
Net Income	9.5%	3.3%	2.8%	18.2%	7.9%	1.1%	4.1%	19.3%	9.4%	2.3%	4.9%	19.9%
<b>EBITDA Margin</b>	<b>22.1%</b>	<b>12.0%</b>	<b>9.5%</b>	<b>33.4%</b>	<b>17.2%</b>	<b>6.5%</b>	<b>11.5%</b>	<b>35.1%</b>	<b>19.4%</b>	<b>8.6%</b>	<b>12.9%</b>	<b>36.2%</b>
<b>Year/Year Growth</b>												
Revenues	35.6%	36.3%	35.1%	33.6%	26.8%	25.6%	24.2%	25.9%	27.4%	23.8%	22.8%	24.2%
COGS	24.2%	28.9%	24.5%	42.0%	27.7%	24.0%	22.6%	25.9%	25.6%	20.6%	19.5%	22.4%
<b>Gross Margin</b>	<b>42.8%</b>	<b>41.4%</b>	<b>42.5%</b>	<b>29.6%</b>	<b>26.4%</b>	<b>26.7%</b>	<b>25.2%</b>	<b>25.9%</b>	<b>28.4%</b>	<b>25.9%</b>	<b>24.8%</b>	<b>25.1%</b>
G&A	36.6%	42.2%	44.5%	30.9%	38.8%	34.5%	20.7%	19.3%	24.7%	27.3%	21.7%	21.8%
D&A	31.0%	34.7%	40.0%	37.2%	39.5%	27.6%	26.4%	26.4%	19.6%	28.5%	27.6%	26.8%
Operating Income	62.3%	40.7%	26.1%	27.8%	-9.2%	-68.4%	73.6%	32.8%	50.6%	148.6%	46.3%	28.1%
Pre Tax Profit	71.8%	57.6%	151.3%	32.1%	0.3%	-58.6%	82.5%	33.2%	51.1%	166.5%	47.6%	28.2%
Net Income	72.4%	78.1%	175.3%	36.2%	5.4%	-58.6%	82.5%	33.4%	51.1%	166.5%	47.6%	28.2%
<b>EBITDA</b>	<b>56.1%</b>	<b>38.4%</b>	<b>32.6%</b>	<b>28.4%</b>	<b>-1.2%</b>	<b>-31.9%</b>	<b>50.4%</b>	<b>32.3%</b>	<b>43.4%</b>	<b>63.1%</b>	<b>38.6%</b>	<b>28.1%</b>
<b>Quarter/Quarter Growth</b>												
Revenues	-31.8%	-10.4%	6.7%	104.7%	-35.2%	-11.2%	5.5%	107.5%	-34.5%	-13.7%	4.7%	109.8%
COGS	-24.8%	-2.1%	4.6%	84.5%	-32.4%	-4.9%	3.4%	89.5%	-32.6%	-8.7%	2.5%	94.0%
<b>Gross Margin</b>	<b>-35.1%</b>	<b>-14.9%</b>	<b>8.1%</b>	<b>117.2%</b>	<b>-36.7%</b>	<b>-14.8%</b>	<b>6.9%</b>	<b>118.4%</b>	<b>-35.5%</b>	<b>-16.5%</b>	<b>6.0%</b>	<b>119.0%</b>
G&A	-12.4%	4.1%	14.0%	25.9%	-7.0%	0.9%	2.2%	24.5%	-2.9%	3.0%	-2.3%	24.6%
D&A	4.7%	12.0%	8.8%	7.5%	6.5%	2.5%	7.8%	7.5%	0.7%	10.0%	7.1%	6.8%
Operating Income	-61.1%	-63.9%	-30.9%	1214.5%	-72.3%	-87.4%	279.5%	905.5%	-68.6%	-79.2%	123.3%	780.9%
Pre Tax Profit	-63.8%	-72.4%	-6.3%	1314.0%	-72.5%	-88.6%	313.2%	931.9%	-68.8%	-79.9%	128.9%	796.3%
Net Income	-63.7%	-69.0%	-9.2%	1232.2%	-71.9%	-87.8%	300.3%	873.8%	-68.2%	-78.5%	121.8%	745.8%
<b>EBITDA</b>	<b>-56.6%</b>	<b>-51.4%</b>	<b>-15.8%</b>	<b>622.0%</b>	<b>-66.6%</b>	<b>-66.5%</b>	<b>86.1%</b>	<b>535.1%</b>	<b>-63.8%</b>	<b>-61.9%</b>	<b>58.1%</b>	<b>486.9%</b>

Source: Company reports and Wedbush estimates.

# Teavana Annual Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2008A	2009A	2010A	2011A	2012E	2013E
<b>Total Revenue</b>	<b>63,861</b>	<b>90,262</b>	<b>124,701</b>	<b>168,101</b>	<b>211,343</b>	<b>263,176</b>
Cost of Goods Sold	27,193	36,435	46,275	60,903	76,251	93,123
<b>Gross Profit</b>	<b>36,668</b>	<b>53,827</b>	<b>78,426</b>	<b>107,198</b>	<b>135,091</b>	<b>170,053</b>
Selling, General and Administrative Expense	29,242	38,142	50,571	69,681	88,582	109,588
Depreciation and Amortization	2,666	3,489	4,361	5,928	7,679	9,654
Non-Recurring (Gain) or Loss	-	-	-	-	1,295	-
<b>Total Operating Expenses</b>	<b>107,897</b>	<b>115,553</b>	<b>123,899</b>	<b>136,512</b>	<b>146,488</b>	<b>156,108</b>
<b>Operating Income (Loss)</b>	<b>4,760</b>	<b>12,196</b>	<b>23,494</b>	<b>31,589</b>	<b>37,535</b>	<b>50,811</b>
<b>Adj. Op. Income (Loss)</b>				<b>31,589</b>	<b>38,830</b>	<b>50,811</b>
Interest Income	-	-	-	-	-	-
Interest Expense	2,061	2,435	2,585	1,673	310	317
Other (Income) Expense, net	-	-	-	-	-	-
<b>Income Before Taxes</b>	<b>2,699</b>	<b>9,761</b>	<b>20,909</b>	<b>29,916</b>	<b>37,225</b>	<b>50,494</b>
Provision for Income Taxes	(1,502)	(4,470)	(8,906)	(12,157)	(14,954)	(20,214)
<b>Net Income</b>	<b>1,197</b>	<b>5,291</b>	<b>12,003</b>	<b>17,759</b>	<b>22,271</b>	<b>30,279</b>
Non-Recurring (Gain) or Loss			-	-	863	-
<b>Adj. Net Income</b>			<b>12,003</b>	<b>17,759</b>	<b>23,134</b>	<b>30,279</b>
<b>Earnings (Loss) Per Share:</b>						
<b>GAAP</b>	<b>0.03</b>	<b>0.14</b>	<b>0.32</b>	<b>0.46</b>	<b>0.56</b>	<b>0.76</b>
<b>Adj.</b>			<b>0.32</b>	<b>0.46</b>	<b>0.59</b>	<b>0.76</b>
Basic Shares Outstanding	36,749	36,749	36,749	37,475	38,531	39,131
Diluted Shares Outstanding	37,095	37,322	37,725	38,365	39,311	39,911

## EBITDA

Depreciation & Amortization	2,666	3,489	4,361	5,928	7,679	9,654
EBITDA	7,426	15,685	27,855	37,517	45,214	60,465

## Margin Analysis

COGS/Sales	42.6%	40.4%	37.1%	36.2%	36.1%	35.4%
<b>Gross Margin</b>	<b>57.4%</b>	<b>59.6%</b>	<b>62.9%</b>	<b>63.8%</b>	<b>63.9%</b>	<b>64.6%</b>
G&A/Sales	45.8%	42.3%	40.6%	41.5%	41.9%	41.6%
D&A/Sales	4.2%	3.9%	3.5%	3.5%	3.6%	3.7%
Operating Margin	7.5%	13.5%	18.8%	18.8%	17.8%	19.3%
<b>Adj. Op. Margin</b>				<b>18.8%</b>	<b>18.4%</b>	<b>19.3%</b>
Pre Tax Margin	4.2%	10.8%	16.8%	17.8%	17.6%	19.2%
Tax Rate	55.7%	45.8%	42.6%	40.6%	40.2%	40.0%
Net Income	1.9%	5.9%	9.6%	10.6%	10.5%	11.5%
EBITDA Margin	11.6%	17.4%	22.3%	22.3%	21.4%	23.0%

## Year/Year Growth

Revenues	41.3%	38.2%	34.8%	25.7%	24.5%	
Cost of Goods Sold	34.0%	27.0%	31.6%	25.2%	22.1%	
<b>Gross Profit</b>	<b>46.8%</b>	<b>45.7%</b>	<b>36.7%</b>	<b>26.0%</b>	<b>25.9%</b>	
Selling, General and Administrative Expenses	30.4%	32.6%	37.8%	27.1%	23.7%	
Depreciation and Amortization	30.9%	25.0%	35.9%	29.5%	25.7%	
<b>Operating income</b>	<b>156.2%</b>	<b>92.6%</b>	<b>34.5%</b>	<b>18.8%</b>	<b>35.4%</b>	
Net Income	342.0%	126.9%	48.0%	25.4%	36.0%	
EPS	339.3%	124.4%	45.5%	21.0%	35.5%	

Source: Company reports and Wedbush Securities estimates

# Teavana Annual Balance Sheet

(in 000's, except per share data and ratios, FY ends December 31)

	2009A	2010A	2011A	2012E	2012E
<b>Assets:</b>					
Cash and cash equivalents	1,314	7,901	17,818	18,021	24,529
Accounts Receivable - Other	284	-	-	-	-
Inventory	11,615	16,928	25,676	37,444	45,822
Current Deferred Tax Asset	772	1,629	1,839	659	659
Prepaid expenses and other current assets	1,003	2,333	2,475	4,305	4,305
Other	1,061	1,400	1,856	2,171	2,171
<b>Total Current Assets</b>	<b>16,049</b>	<b>30,191</b>	<b>49,664</b>	<b>62,600</b>	<b>77,487</b>
Property and Equipment, net	22,513	31,028	42,785	57,502	75,597
Goodwill	2,394	2,394	2,394	2,394	2,394
Deferred Tax Asset, non-current	184	-	-	-	-
Other Assets	627	513	775	634	634
<b>Total Assets</b>	<b>41,767</b>	<b>64,126</b>	<b>95,618</b>	<b>123,130</b>	<b>156,112</b>
<b>Liabilities:</b>					
Unearned Franchise Fees	-	-	-	-	-
Accounts payable	2,564	3,631	3,898	4,909	6,007
Income taxes payable	3,994	4,809	1,821	-	-
Deferred revenue	1,083	1,344	1,813	2,283	2,835
Other Current Liabilities	3,395	5,539	5,034	5,950	5,950
Current Maturities of Notes and Debentures	250	12,992	-	-	-
<b>Total Current Liabilities</b>	<b>11,286</b>	<b>28,315</b>	<b>12,566</b>	<b>13,142</b>	<b>14,792</b>
Long-term debt	1,000	1,000	-	-	-
Deferred Lease Credits, net of current	3,851	7,524	12,905	14,192	14,192
Deferred Income Taxes	-	420	2,570	2,602	2,602
Other long-term liabilities	11,448	525	575	616	616
<b>Total Liabilities</b>	<b>27,585</b>	<b>37,784</b>	<b>28,616</b>	<b>30,552</b>	<b>32,202</b>
Common stock, no par value	21,889	81,405	1	1	1
Additional paid-in capital	-	-	276,782	279,272	279,272
Retained Earnings	(7,707)	(55,063)	(209,792)	(187,521)	(157,242)
Accumulated Other Comprehensive Income (Loss)	-	-	11	826	1,878
Treasury stock (at cost)	-	-	-	-	-
<b>Total Shareholders' Equity</b>	<b>14,182</b>	<b>26,342</b>	<b>67,002</b>	<b>92,578</b>	<b>123,909</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>41,767</b>	<b>64,126</b>	<b>95,618</b>	<b>123,130</b>	<b>156,112</b>

## Return Ratios

Return on Sales	5.9%	9.6%	10.6%	10.5%	11.5%
Total Asset Turnover	2.16	1.94	1.76	1.72	1.69
Financial Leverage	0.34	0.41	0.70	0.75	0.79
Return on Equity	4.3%	7.7%	13.0%	13.6%	15.4%
Return on Assets	12.7%	18.7%	18.6%	18.1%	19.4%
Sustainable Growth	4.3%	7.7%	13.0%	13.6%	15.4%

## Liquidity/Leverage

Current Ratio	1.4	1.1	4.0	4.8	5.2
Quick Ratio	0.1	0.3	1.4	1.4	1.7
Debt to Equity	8.8%	53.1%	0.0%	0.0%	0.0%
Debt to Capital	4.7%	34.2%	0.0%	0.0%	0.0%
Net Working Capital	4,763	1,876	37,098	49,458	62,694
Book Value per Share	\$0.38	\$0.70	\$1.75	\$2.35	\$3.10
Tangible Book Value per Share	\$0.32	\$0.63	\$1.68	\$2.29	\$3.04
Cash & Investments per Share, Net	\$0.00	(\$0.16)	\$0.46	\$0.46	\$0.61

Source: Company reports, Wedbush Securities estimates.

# Teavana Annual Cash Flow Statement

(in 000's, except per share data and ratios, FY ends January 31)

	2008A	2009A	2010A	2011A	2012E	2013E
<b>Cash Flow from Operating Activities:</b>						
Net income	1,197	5,291	12,003	17,759	22,271	30,279
Depreciation & Amortization	2,666	3,489	4,361	5,927	7,547	9,654
Non-Cash Interest Expense	1,709	1,925	2,279	1,327	-	-
Deferred income taxes	(610)	532	(253)	1,940	1,180	-
Stock Based Compensation	207	169	157	790	1,052	1,052
Excess Tax Benefit from the Exercise of Stock Options	-	-	-	(2,925)	-	-
(Gain) Loss from Short-Term Investments	-	-	-	-	-	-
Other	-	-	130	160	-	-
Accounts Receivable	167	-	-	-	-	-
Inventory	(1,810)	(3,646)	(5,313)	(8,748)	-	-
Income Taxes Receivable	-	-	-	-	-	-
Prepaid expenses and Other Assets	(713)	46	(1,114)	(117)	-	-
Prepaid rent	(222)	(276)	(338)	(456)	-	-
Accounts Payable	903	(1,558)	669	13	-	-
Income Taxes Payable	(224)	2,772	815	(63)	-	-
Deferred Rent	1,066	1,124	3,673	5,381	-	-
Deferred Revenue	219	326	260	469	-	-
Other Long-Term Liabilities	396	877	2,068	(502)	-	-
Changes in operating assets and liabilities, net	-	-	-	-	(10,555)	(6,728)
<b>Net Cash Provided by Operating Activities</b>	<b>4,951</b>	<b>11,071</b>	<b>19,397</b>	<b>20,955</b>	<b>22,467</b>	<b>34,258</b>
<b>Cash Flow from Investing Activities:</b>						
Purchase of Property and Equipment	(8,798)	(6,640)	(12,560)	(17,566)	(22,264)	(27,750)
Acquisitions, net of cash acquired	-	-	-	-	-	-
<b>Net Cash Used in Investing Activities</b>	<b>(8,798)</b>	<b>(6,640)</b>	<b>(12,560)</b>	<b>(17,566)</b>	<b>(22,264)</b>	<b>(27,750)</b>
<b>Cash Flow from Financing Activities:</b>						
Proceeds from Revolving Credit Facility	50,946	93,980	132,239	181,414	-	-
Long-Term Debt Payments and Debt Transaction Costs	(46,286)	(98,265)	(132,489)	(182,414)	-	-
Proceeds from Exercise of Stock Options	-	-	-	637	-	-
Excess Tax Benefit from Stock Option Exercises	-	-	-	2,925	-	-
Proceeds from issuance of common stock	-	-	-	15,079	-	-
Cash Paid for Financing Costs	(406)	-	-	(433)	-	-
Other	-	-	-	(10,683)	-	-
<b>Net Cash Provided by Financing Activities</b>	<b>4,254</b>	<b>(4,285)</b>	<b>(250)</b>	<b>6,525</b>	<b>-</b>	<b>-</b>
Effect of exchange rate changes on cash	-	-	-	3	-	-
Net increase (decrease) in cash flows from continuing ops.	407	146	6,587	9,917	203	6,508
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>407</b>	<b>146</b>	<b>6,587</b>	<b>9,917</b>	<b>203</b>	<b>6,508</b>
<b>Cash and Equivalents, beginning of period</b>	<b>761</b>	<b>1,168</b>	<b>1,314</b>	<b>7,901</b>	<b>17,818</b>	<b>18,021</b>
<b>Cash and Equivalents, end of period</b>	<b>1,168</b>	<b>1,314</b>	<b>7,901</b>	<b>17,818</b>	<b>18,021</b>	<b>24,529</b>
<b>FCF</b>	<b>(3,847)</b>	<b>4,431</b>	<b>6,837</b>	<b>3,389</b>	<b>203</b>	<b>6,508</b>

Source: Company reports and Wedbush Securities estimates.

### Analyst Certification

I, Nick Setyan, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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Company	Disclosure
Teavana Holdings	1

### Research Disclosure Legend

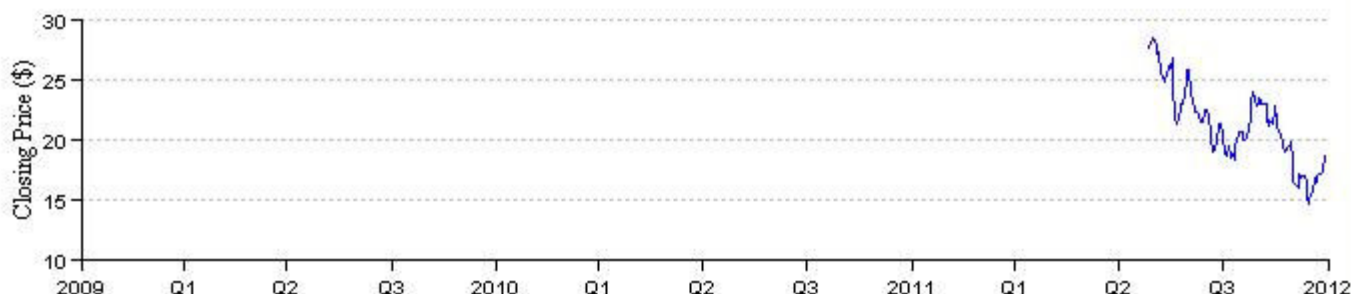
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TEA



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