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#### Reason for Report:

Company Update

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	\$27.00
FY13E Rev (mil)	\$208.5	\$214.3
FY14E Rev (mil)	--	\$267.4
FY13E EPS	\$0.60	\$0.61
FY14E EPS	--	\$0.79
Price		\$20.58
52 Week High		\$29.35
52 Week Low		\$14.28
12-Month Price Target		\$27.00
35x FY14E EPS		
Shares Out (mil)		39.1
Market Cap. (mil)		\$804.7
Avg Daily Vol (000)		234
Book Value/Share		\$1.72
Net Cash Per Share		\$0.46
Debt to Total Capital		0%
Div (ann)		\$0.00
Est LT EPS Growth		35%
P/E to Est LT EPS Growth		1.3x
Fiscal Year End:		Jan

Rev (mil)	2012A	2013E	2014E
Apr	\$34.9A	\$44.8E	--
Jul	\$31.3A	\$40.2E	--
Oct	\$33.4A	\$42.3E	--
Jan	\$68.4A	\$86.9E	--
FY	\$168.1A	\$214.3E	\$267.4E
CY	\$214.3E	\$267.4E	--
FY RM	4.8x	3.8x	3.0x
CY RM	3.8x	3.0x	--
EPS	2012A	2013E	2014E
Apr	\$0.09A	\$0.10E	--
Jul	\$0.03A	\$0.03E	--
Oct	\$0.02A	\$0.04E	--
Jan	\$0.32A	\$0.43E	--
FY	\$0.46A	\$0.61E	\$0.79E
CY	\$0.61E	\$0.79E	--
FY P/E	44.7x	33.7x	26.1x
CY P/E	33.7x	26.1x	--

## Teavana Holdings, Inc. Overweight

(TEA – \$20.58)

### Reiterating Overweight Rating On Teavana Following FQ4 Results

#### CONCLUSION:

We are reiterating our Overweight rating and \$27 price target on TEA shares following Teavana's FQ4 earnings report in which EPS and same-store sales exceeded our estimate. It appears that a strong assortment of gift sets helped to drive comparable sales in FQ4, and we are encouraged by the recent entry into the Canadian market. 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 recent market entry into Canada.

- Same-Store Sales Up 4.4% In FQ4; Up 8.6% Including E-Commerce.** For FQ4, same-store sales were up 4.4% y/y, ahead of our estimate of +3%. Including e-commerce, comparable sales were up 8.6%. Excluding prepared beverages, average ticket was up 2.3% and transactions were up 6.2%. Teavana's e-commerce channel continues to outpace overall sales results, with e-commerce sales growing 55% 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 7.6% in FY12 and 7.0% in FY11. EPS was \$0.32 for FQ4, ahead of our estimate of \$0.31.
- Holiday Results Benefited From An Increased Assortment Of Gift Sets.** It appears that the better-than-expected top-line results were due in part to a strong customer response to an upgraded assortment of gift sets, which helped to drive comparable sales during peak traffic events during the quarter. As a result, Teavana's penetration of hard goods increased to 48% in FQ4 from 46% in the prior-year quarter. This negatively impacted gross margin, given that hard goods have a lower merchandise margin than loose tea. Looking into FY13, management indicated that it is evaluating additional opportunities to drive incremental sales around key holidays by fine tuning its merchandise offering.
- International Expansion Is Underway.** Teavana opened its first stores in Canada in FQ4 this year, and management indicated that it will open several new stores in Canada as part of its 60 planned openings for FY13. Furthermore, management indicated that it remains on track to open its first store under its partnership with Alshaya later this year. 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 \$0.12 to \$0.10 in FQ1; from \$0.60 to \$0.61 in FY13; and unchanged at \$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 200 stores.

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

3/28/2012

	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	Q4 Jan-12	FY 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	68.422	168.100	44.791	40.229	42.342	86.896	214.259	267.390
% Change		39.8%	35.3%	41.3%	43.2%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	28.2%	28.5%	26.7%	27.0%	27.5%	24.8%
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	23.517	60.903	15.968	15.569	16.005	29.545	77.087	95.227
% 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%	34.4%	36.2%	35.7%	38.7%	37.8%	34.0%	36.0%	35.6%
<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	44.905	107.197	28.823	24.661	26.337	57.351	137.172	172.162
% 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%	65.6%	63.8%	64.4%	61.3%	62.2%	66.0%	64.0%	64.4%
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	22.045	69.681	20.268	20.718	21.552	26.764	89.302	109.930
% 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%	32.2%	41.5%	45.2%	51.5%	50.9%	30.8%	41.7%	41.1%
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	22.860	37.516	8.556	3.942	4.785	30.587	47.870	62.233
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%	33.4%	22.3%	19.1%	9.8%	11.3%	35.2%	22.3%	23.3%
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	1.671	5.927	1.820	1.920	2.060	2.180	7.980	10.050
% 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%	2.4%	3.5%	4.1%	4.8%	4.9%	2.5%	3.7%	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	21.189	31.589	6.736	2.022	2.725	28.407	39.890	52.183
% 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%	31.0%	18.8%	15.0%	5.0%	6.4%	32.7%	18.6%	19.5%
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	-0.120	-1.673	-0.065	-0.060	-0.060	-0.060	-0.245	-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	21.069	29.916	6.671	1.962	2.665	28.347	39.645	51.943
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	8.600	12.157	2.655	0.781	1.061	11.282	15.779	20.673
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%	40.8%	40.6%	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	12.469	17.759	4.016	1.181	1.604	17.065	23.866	31.270
% 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%	18.2%	10.6%	9.0%	2.9%	3.8%	19.6%	11.1%	11.7%
<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	\$ 0.33	\$ 0.47	\$ 0.10	\$ 0.03	\$ 0.04	\$ 0.44	\$ 0.62	\$ 0.80
EPS Growth Rate		NM	NM	NM	NM	NM	NM	77%	127%	72%	81%	165%	31%	45%	16%	9%	69%	35%	31%	30%
<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	\$ 0.32	\$ 0.46	\$ 0.10	\$ 0.03	\$ 0.04	\$ 0.43	\$ 0.61	\$ 0.79
EPS Growth Rate		NM	NM	NM	NM	NM	NM	75%	124%	71%	81%	167%	32%	45%	17%	10%	69%	35%	31%	30%
<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	38.251	37.481	38.301	38.491	38.681	38.871	38.586	38.871
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	39.059	38.419	39.109	39.299	39.489	39.679	39.394	39.679
<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%	4.4%	5.5%	2.0%	3.0%	3.0%	3.0%	2.8%	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	Q4 Jan-12	FY 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					\$ 155,324						
% Change, year-over-year									36.2%					34.1%						
E-Commerce				\$ 5,235					\$ 8,900					\$ 12,776						
% Change, year-over-year									70.0%					43.5%						
% of total sales				5.8%					7.0%					7.6%						
<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>\$ 68,422</b>	<b>\$ 168,100</b>	<b>\$ 44,791</b>	<b>\$ 40,229</b>	<b>\$ 42,342</b>	<b>\$ 86,896</b>	<b>\$ 214,259</b>	<b>\$ 267,390</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%	33.6%	34.8%	28.2%	28.5%	26.7%	27.0%	27.5%	24.8%
<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>4.4%</b>	<b>5.5%</b>	<b>2.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>3.0%</b>
<b>NUMBER OF STORES</b>																				
% Change, year-over-year	47	59	87	108	118	128	141	146	146	161	179	196	200	200	218	236	254	260	260	330
Average number of stores (T4Q)		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%	35.4%	31.8%	29.6%	30.0%	30.0%	26.9%
<b>GROSS SQUARE FEET (Mil.)</b>																				
% Change, year-over-year	43	54	77	95					130					178					232	294
Average Square Footage (T4Q)		25.6%	42.6%	23.4%					36.8%					37.0%					30.0%	26.9%

## Consolidated Balance Sheet

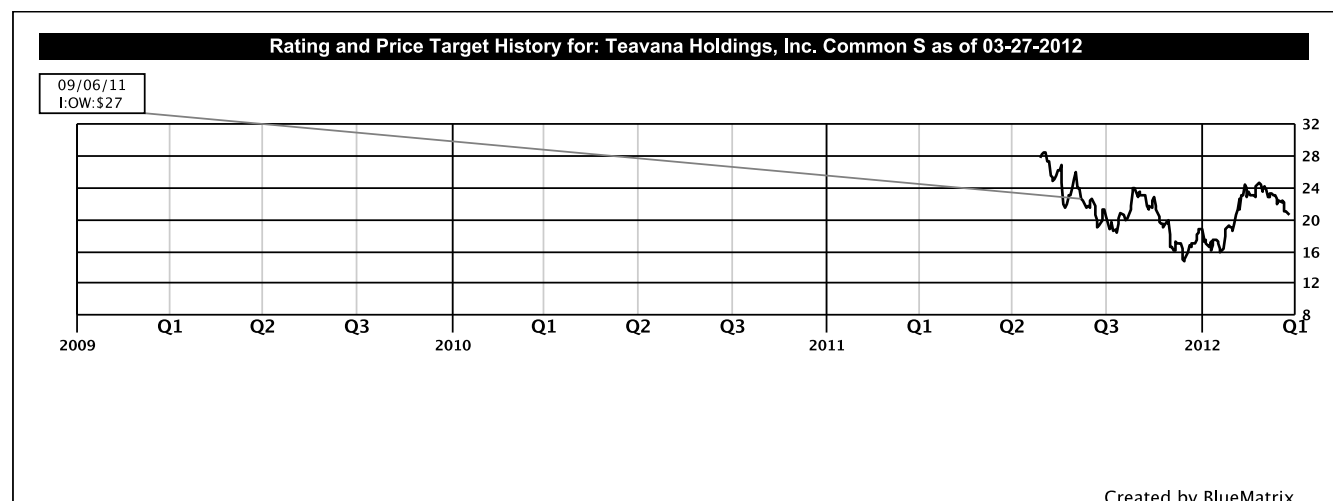
(Millions of Dollars)

	FY 2010	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4 Jan-12	FY 2012
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$1.314	\$7.901	\$3.740	\$1.623	\$0.036	\$17.818	\$17.818
Accounts receivable	0.284	0.292					
Prepaid expenses and other assets	1.003	2.041			4.082	2.475	2.475
Prepaid rent	1.061	1.400				1.856	1.856
Inventory	11.615	16.928	18.286	22.720	32.512	25.676	25.676
Deferred tax asset and other	0.772	1.629	5.827	11.647	8.106	1.839	1.839
<b>Total current assets</b>	<b>16.049</b>	<b>30.191</b>	<b>27.853</b>	<b>35.990</b>	<b>44.736</b>	<b>49.664</b>	<b>49.664</b>
Property & equipment, net	22.513	31.028	34.795	38.000	40.669	42.785	42.785
Goodwill	2.394	2.394	2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-current	0.184	-					
Other non-current assets	0.627	0.513	0.760	0.693	0.673	0.775	0.775
<b>Total assets</b>	<b>\$41.767</b>	<b>\$64.126</b>	<b>\$65.802</b>	<b>\$77.077</b>	<b>\$88.472</b>	<b>\$95.618</b>	<b>\$95.618</b>
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$2.564	\$3.631	\$2.112	\$5.751	\$6.770	\$3.898	\$3.898
Income taxes payable	\$3.994	\$4.809				1.821	1.821
Deferred revenue	\$1.083	\$1.344				1.813	1.813
Note payable	\$0.250	\$0.000					
Series A redeemable preferred stock	\$0.000	\$12.992	13.591	14.217			
Other current liabilities	\$3.395	\$5.539	9.659	6.865	8.116	5.034	5.034
<b>Total current liabilities</b>	<b>11.286</b>	<b>28.315</b>	<b>\$25.362</b>	<b>\$26.833</b>	<b>\$14.886</b>	<b>\$12.566</b>	<b>12.566</b>
Deferred franchise income	0.600	0.525					
Deferred tax liability, non-current	-	0.420			2.547	2.570	2.570
Deferred rent	3.851	7.524	8.943	11.139	12.134	12.905	12.905
Long-term debt	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	0.575	0.575
<b>Total liabilities</b>	<b>27.585</b>	<b>37.784</b>	<b>36.175</b>	<b>46.328</b>	<b>34.643</b>	<b>28.616</b>	<b>28.616</b>
<b>Stockholders' equity (deficit)</b>							
<b>Total stockholders' equity (deficit)</b>	<b>14.182</b>	<b>26.342</b>	<b>29.627</b>	<b>30.749</b>	<b>53.829</b>	<b>67.002</b>	<b>67.002</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$41.767</b>	<b>\$64.126</b>	<b>\$65.802</b>	<b>\$77.077</b>	<b>\$88.472</b>	<b>\$95.618</b>	<b>\$95.618</b>

Condensed Statement of Cash Flows  
(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>Operating activities:</b>									
<b>Net Income</b>	<b>\$5.291</b>	<b>\$1.927</b>	<b>\$2.506</b>	<b>\$2.846</b>	<b>\$12.003</b>	<b>\$12.003</b>	<b>\$3.323</b>	<b>\$4.354</b>	<b>\$5.291</b>
Adjustments to reconcile net income to net cash:	0.000								
Depreciation and amortization	3.489	0.973	2.033	3.143	4.361	4.361	1.274	2.703	4.257
Non-cash interest expense	1.925	0.570	1.140	1.710	2.279	2.279	0.633	1.282	1.304
Deferred income taxes	0.532				(0.253)	(0.253)			
Stock based compensation	0.169	0.034	0.068	0.102	0.157	0.157	0.037	0.063	0.527
Excess tax benefit from stock options									(2.577)
Other	-				0.130	0.130	0.140	0.099	0.150
Change in assets and liabilities:									
Inventory	(3.646)	(0.571)	(0.875)	(6.582)	(5.313)	(5.313)	(1.359)	(5.792)	(15.584)
Income tax receivable	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)	(6.004)
Income taxes payable	2.772	(4.205)	(5.973)	(3.995)	0.815	0.815	(2.696)	(4.809)	(2.232)
Deferred rent	1.124	0.457	0.996	1.832	3.673	3.673	1.419	3.615	4.610
Accounts payable			(0.524)	(0.564)				1.164	2.896
Other current assets			0.130	(2.340)				1.866	(0.417)
Deferred income taxes									1.892
Other accrued liabilities	(0.355)	0.305	(0.209)	1.662	2.997	2.997	(1.548)	1.018	0.970
<b>Net cash (used in) provided by operating activities</b>	<b>11.071</b>	<b>(0.329)</b>	<b>(0.687)</b>	<b>(2.186)</b>	<b>19.397</b>	<b>19.397</b>	<b>1.142</b>	<b>(0.311)</b>	<b>(4.917)</b>
<b>Investing activities:</b>									
Capital Expenditures	(6.640)	(2.346)	(5.038)	(8.980)	(12.560)	(12.560)	(5.056)	(8.848)	(13.785)
<b>Net cash used in investing activities</b>	<b>(6.640)</b>	<b>(2.346)</b>	<b>(5.038)</b>	<b>(8.980)</b>	<b>(12.560)</b>	<b>(12.560)</b>	<b>(5.056)</b>	<b>(8.848)</b>	<b>(13.785)</b>
<b>Financing activities:</b>									
Proceeds from revolving credit facility	93.980	29.815	56.489	88.495	132.239	132.239	35.510	74.338	113.152
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)	(77.708)	(132.239)	(132.239)	(35.510)	(69.979)	(109.652)
Proceeds from IPO, net									15.322
Proceeds from stock option exercises									0.552
Payment on note payable					(0.250)	(0.250)			
Payment to redeem preferred stock									(10.683)
Payments on term loan									
Cash paid for financing costs								(0.433)	(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)	
Other								0.065	2.577
<b>Net cash used in financing activities</b>	<b>(4.285)</b>	<b>2.512</b>	<b>4.411</b>	<b>10.787</b>	<b>(0.250)</b>	<b>(0.250)</b>	<b>(0.247)</b>	<b>2.881</b>	<b>10.835</b>
Effect of exchange rate									0.002
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)	(0.379)	6.587	6.587	(4.161)	(6.278)	(7.865)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314	1.314	1.314	1.314	7.901	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>\$0.935</b>	<b>\$7.901</b>	<b>\$7.901</b>	<b>\$3.740</b>	<b>\$1.623</b>	<b>\$0.036</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
BUY [OW]	350	55.38	63	18.00
HOLD [N]	248	39.24	22	8.87
SELL [UW]	34	5.38	0	0.00

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.

**Important Research Disclosures****Analyst Certification — Neely J.N. Tamminga, Sr Research Analyst  
— Alex J. Fuhrman, Research Analyst**

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