Teavana Holdings, Inc.

Fourth Quarter Beats Expectations; Warm Weather a Modest Negative in First Quarter

- Teavana's fourth-quarter EPS rose 32%, to $0.32, beating our and consensus expectations for $0.31 and guidance of $0.29 to $0.31. Total revenues rose 34%, to $68.4 million, ahead of our $68.0 million projection, consensus of $67.6 million, and guidance of $62 million to $66 million, including a healthy 55% increase in e-commerce sales.

- Comps, including e-commerce, rose 8.6% against a 10.6% year-ago comparison, in keeping with comps of 8.5% to 8.9% during the first three quarters of the year and ahead of guidance for a midsingle-digit increase. Importantly, transaction growth turned solidly positive in the fourth quarter, up 6.5%, marking a reversal from slightly negative transaction growth in the second and third quarters and driven by strong customer response to merchandise during the holidays.

- Operating margin declined 140 basis points, to 31.0%, better than our projection of 30.4%, as gross margin degradation of 210 basis points on mix shift toward lower-margin merchandise was partly offset by 70 basis points of leverage on SG&A.

- Teavana opened four new company-owned stores in the fourth quarter (including its first store in Canada), bringing the year-end store count to 200, up 37%. Encouragingly, new stores continue to perform well, with sales and profitability of the 2011 class above the high end of Teavana's new store model. Management continues to expect 60 new company-owned store openings this year, representing store growth of 30%.

- Management's first look at 2012 called for revenues of $208 million to $215 million (encompassing our and consensus expectations of $213 million), including a midsingle-digit comp increase (including e-commerce), versus our 5% to 6% projection. EPS guidance was set at $0.58 to $0.61, versus consensus of $0.61 and our estimate of $0.62.

- First-quarter guidance was a bit lighter than expected, with revenue guidance set at $44 million to $45 million (versus our and consensus expectations of $46.0 million to $46.5 million) on comps in the low- to midsingle-digit range (below full-year guidance for midsingle-digit comps). While the West Coast has been very strong, the East and Midwest have slowed somewhat given unusually warm weather—a trend we expect to reverse when weather comparisons normalize in the spring. EPS guidance was set at $0.09 to $0.10, below consensus of $0.12 and our estimate of $0.13.

- We are lowering our 2012 EPS estimate by $0.01, to $0.61 (up 32%), bringing it to the high end of guidance on a 6% comp gain (including e-commerce). For the first

Teavana is a rapidly growing mall-based specialty tea retailer, specializing in premium loose-leaf teas, tea-related merchandise, and prepared beverages.

March 28, 2012

Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**

Symbol:	TEA (NYSE)
Price:	$20.09 (52-Wk.: $14-$29)
Market Value (mil.):	$802
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

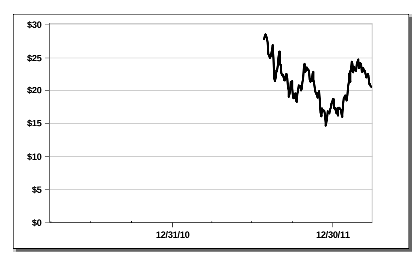
		2011A	2012E	2013E
Estimates*				
EPS	Q1	$0.09	$0.11	NA
	Q2	$0.03	$0.04	NA
	Q3	$0.02	$0.05	NA
	Q4	$0.32	$0.41	NA
	FY	$0.46	$0.61	$0.79
	CY		$0.61	$0.79
Sales (mil.)		168	215	263
Valuation				
FY P/E		43.7x	32.9x	25.4x
CY P/E			32.9x	25.4x

* Estimates do not reflect the adoption of FAS 123R.

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	236,242

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	791.2
EBITDA (TTM)	17.0
Enterprise Value/EBITDA (TTM)	46.4x
Return on Equity (TTM)	9.8

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

Sharon Zackfia, CFA
+1 312 364 5386
szackfia@williamblair.com

Tania Anderson, CFA
+1 312 364 8942
tanderson@williamblair.com

Matthew Curtis, CFA
+1 312 364 8384
mcurtis@williamblair.com

Lisa Hong
+1 312 364 8202
lhong@williamblair.com

quarter, we are lowering our estimate by $0.02, to $0.11, on a midsingle-digit comp increase, keeping it ahead of guidance. For 2013, we are lowering our estimate by $0.01, to $0.79, up 30% and in line with consensus.

- Despite a healthy quarter, Teavana's stock traded down about 3% on the softer-than-expected outlook for the first quarter. At 33 times our new 2012 EPS estimate, we would be buyers of Teavana's shares given the company's strong growth prospects, and we expect investors to be rewarded with 30%-plus EPS growth with the potential for upside. We reiterate our Outperform rating.

Fourth Quarter Beats Expectations

Teavana's fourth-quarter EPS rose 32%, to $0.32, beating our and consensus expectations for $0.31 and guidance of $0.29 to $0.31. Sales were better than expected, with comps, including e-commerce, rising 8.6% against a 10.6% year-ago comparison, in keeping with comps of 8.5% to 8.9% during the first three quarters of the year and ahead of guidance for a midsingle-digit increase. Transaction growth turned solidly positive in the fourth quarter, up 6.5%, marking a reversal from slightly negative transaction growth in the second and third quarters, and driven by strong customer response to merchandise, while average ticket increased 2.1%. Excluding beverage-only transactions, transactions increased 6.2%, while average ticket increased 2.3%.

Store-only comps increased 4.4% against a 7.5% year-ago comparison, ahead of our 4% projection and consensus of 3%, with two-year stacked comp growth of 12%, similar to the third quarter. Store-only comps were composed of a 2.7% increase in transactions (1.6%, excluding beverage-only transactions) and a 1.7% increase in average ticket (2.6%, excluding beverage-only transactions).

Total revenues rose 34%, to $68.4 million, ahead of our $68.0 million projection, consensus of $67.6 million, and guidance of $62 million to $66 million, including a healthy 55% increase in e-commerce sales. Encouragingly, new stores continue to perform well, with sales and profitability of the 2011 class above the high end of management's new store economic model. Tea represented 50% of sales (down from 52% in the year-ago period), while merchandise increased to 48% of sales (up from 46% in the year-ago period), reflecting improved inventory and products relative to last year's underperformance. Prepared beverages remained flat at 2% of sales.

Gross margin declined 210 basis points, to 65.6%, primarily reflecting mix shift toward lower-margin merchandise, while SG&A declined 70 basis points, to 32.3%, on strong sales. D&A remained flat at 2.4% of sales, yielding overall operating margin contraction of 140 basis points, to 31.0% (better than our projection of 30.4%).

Teavana ended the fourth quarter with nearly $18 million in cash and no outstanding borrowings on the company's $40 million revolver facility.

New Store Development and Initiatives on Track

Teavana opened four new company-owned stores in the fourth quarter (including its first store in Canada), bringing the year-end store count to 200, up 37%. Management continues to expect 60 new company-owned store openings this year (representing store growth of 30%), including several in Canada. The company expects to open 18 to 20 new stores in the first quarter (toward the end of the quarter), and similar to last year, management expects new store openings to be essentially complete before the fourth quarter. In addition, plans remain on track for the company's first franchised store in the Middle East in 2012 through its 10-year franchise development agreement with Alshaya.

Teavana is still building a marketing department (it is virtually nonexistent now), and it continues to work with a national executive search firm in its search for a vice president of marketing, which was a bit delayed by the holidays. Key responsibilities for the new marketing head will be putting together an overall marketing strategy for the company's store and e-commerce businesses, implementing a loyalty program, and selecting and implementing a CRM system.

During the fourth quarter, Teavana successfully rolled out a new gift card platform with cross-channel functionality. The company is rolling out a new warehouse management system and a new business intelligence system, both of which are going well. Management will also research ERP platforms this year, with expectations for a rollout in late 2013 or early 2014.

Outlook and Stock Perspective

Management's first look at 2012 called for revenues of $208 million to $215 million (encompassing our and consensus expectations of $213 million), including a midsingle-digit comp increase (including e-commerce), versus our 5% to 6% projection. EPS guidance was set at $0.58 to $0.61, versus consensus of $0.61 and our prior estimate of $0.62. Management expects about 200 to 300 basis points of SG&A deleverage on higher public company expenses in the first half of the year to be essentially offset by leverage in the second half of the year (particularly the fourth quarter).

First-quarter guidance was a bit lighter than expected, with revenue guidance set at $44 million to $45 million (versus our and consensus expectations of $46.0 million to $46.5 million), including comps in the low- to midsingle-digit range. Management said that the West Coast has been very strong, while the East and Midwest have slowed somewhat given unusually warm weather. EPS guidance was set at $0.09 to $0.10, below consensus of $0.12 and our prior estimate of $0.13, including about $1 million in incremental costs ($600,000 more in stock compensation and $400,000 more in public company expenses).

We are lowering our 2012 EPS estimate by $0.01, to $0.61 (up 32%), bringing it to the high end of guidance on a 6% comp gain (including e-commerce). For the first quarter, we are lowering our estimate by $0.02, to $0.11, on a midsingle-digit comp increase, keeping it ahead of guidance, as we expect sales trends to normalize as weather comparisons become more normal in the spring. For 2013, we are lowering our estimate by $0.01, to $0.79, up 30% and in line with consensus.

Despite a healthy quarter, Teavana's stock traded down about 3% on the softer-than-expected outlook for the first quarter. At 33 times our new 2012 EPS estimate, we would be buyers of Teavana's shares given the company's strong growth prospects, and we expect investors to be rewarded with 30%-plus EPS growth with the potential for upside. We reiterate our Outperform rating.

Teavana Holdings, Inc.

March 28, 2012: $22.05 ($14-$29) — **Rating: Outperform**

Quarterly Earnings Model — **Company Profile: Aggressive Growth**

($ in millions, except per-share items)

FYE January	2010	Apr-11	Jul-11	Oct-11	Jan-12	2011	Apr-12E	Jul-12E	Oct-12E	Jan-13E	2012E	2013E
Company-owned	146	161	179	196	200	200	219	235	255	260	260	330
Franchised	15	19	19	19	19	19	19	20	20	20	20	22
Total stores	161	180	198	215	219	219	238	255	275	280	280	352
% change	30.9%	35.3%	38.5%	37.8%	36.0%	36.0%	32.2%	28.8%	27.9%	27.9%	27.9%	25.7%
Same-store sales (including e-commerce)	**11.4%**	**8.9%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**5.0%**	**6.0%**	**6.5%**	**8.0%**	**6.4%**	**6.0%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$45.2	$40.0	$42.5	$87.3	$215.0	$262.7
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.4	16.0	29.5	76.7	93.0
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$29.3	$24.6	$26.5	$57.8	$138.2	$169.7
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.0	20.4	21.3	28.8	90.6	108.2
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.7	1.8	1.9	2.1	7.5	9.2
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$7.6	$2.4	$3.3	$26.9	$40.2	$52.3
Interest expense, net	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.4	0.4
Pretax income	$20.9	$5.8	$1.6	$1.5	$21.1	$29.9	$7.5	$2.3	$3.2	$26.8	$39.8	$51.9
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net income	$12.0	$3.3	$1.0	$0.9	$12.5	$17.8	$4.5	$1.4	$1.9	$16.1	$23.9	$31.2
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.2	39.3	39.4	39.5	39.3	39.6
EPS	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.11**	**$0.04**	**$0.05**	**$0.41**	**$0.61**	**$0.79**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.8%	61.6%	62.4%	66.2%	64.3%	64.6%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	44.3%	51.1%	50.1%	33.0%	42.1%	41.2%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.8%	4.5%	4.5%	2.4%	3.5%	3.5%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.7%	6.0%	7.8%	30.8%	18.7%	19.9%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	29.2%	27.7%	27.2%	27.6%	27.9%	22.2%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	35.6%	32.9%	21.7%	30.7%	30.0%	19.5%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	33.4%	26.1%	22.3%	25.7%	26.5%	22.7%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	17.1%	2.8%	106.6%	26.9%	27.2%	30.1%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	30.2%	29.2%	105.7%	28.0%	31.8%	29.6%

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Additional information is available upon request.

Current Rating Distribution (as of 02/29/12)			
Coverage Universe	**Percent**	**Inv. Banking Relationships***	**Percent**
Outperform (Buy)	60	Outperform (Buy)	7
Market Perform (Hold)	32	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

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