

Teavana Holdings, Inc.

Third Quarter Likely to Meet or Modestly Beat Expectations

- We expect Teavana will meet or modestly beat our third-quarter EPS estimate of \$0.02, which is in line with consensus. Teavana will report third-quarter earnings before the markets open on Friday, December 2.
- We believe sales trends remained healthy in the third quarter and see potential upside to our estimate for a 5% same-store sales gain (excluding e-commerce) against a 5.9% year-ago comparison, toward the higher end of management's low- to midsingle-digit guidance. We project total sales growth of 32%, to \$32.6 million, in line with consensus.
- We expect gross margin will increase about 160 basis points to 60.2%, including an approximate 150-basis-point benefit from the company's shift to direct sourcing last year as well as the benefit of an increased penetration of high-margin tea sales. We expect SG&A to increase 150 basis points to 50.5%, primarily reflecting investments associated with the company's new store support center, expansion of the company's distribution center, and the ongoing buildout of systems and marketing functions, yielding overall operating margin contraction of 40 basis points to 4.8%.
- We believe Teavana remains on track to open 50 new company-owned stores this year, representing growth of 34%.
- Looking forward, we believe management will modestly increase 2011 EPS guidance of \$0.42 to \$0.44 (versus \$0.32 last year, our \$0.44 estimate, and consensus of \$0.46), while narrowing comp guidance (excluding e-commerce) to the high end of prior expectations for a low- to midsingle-digit increase.
- We continue to like Teavana's shares at 35 times our 2012 EPS estimate. While we would not call for multiple expansion from current levels, we believe Teavana's premium valuation is justified given its strong growth prospects and historically resilient sales trends, and we expect investors to be rewarded with healthy 30% annual EPS growth with the potential for upside. We reiterate our Outperform rating.

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

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Please consult the last page of this report for all disclosures.

William Blair & Company, L.L.C. receives or seeks to receive compensation for investment banking services from Teavana Holdings, Inc. Investors should consider this report as a single factor in making an investment decision.

November 21, 2011

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

Symbol: TEA (NYSE)
Price: \$21.22 (52-Wk.: \$18-\$29)
Market Value (mil.): \$842
Fiscal Year End: January
Long-Term EPS Growth Rate: 30%
Dividend/Yield: None

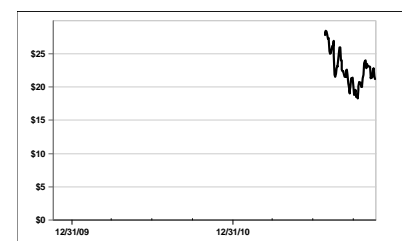
	2010A	2011E	2012E
Estimates*			
EPS Q1	\$0.05	A\$0.09	\$0.13
Q2	\$0.02	A\$0.03	\$0.04
Q3	\$0.01	\$0.02	\$0.03
Q4	\$0.24	\$0.30	\$0.39
FY	\$0.32	\$0.44	\$0.59
CY		\$0.59	
Sales (mil.)	125	165	210
Valuation			
FY P/E	66.3x	48.2x	36.0x
CY P/E		36.0x	NA

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	37
Float (mil.)	NA
Average Daily Volume	246,987

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	799.1
EBITDA (TTM)	25.4
Enterprise Value/EBITDA (TTM)	31.4x
Return on Equity (TTM)	14.2

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

Teavana Holdings, Inc.

November 21, 2011: \$20.57 (\$18-\$29)

Quarterly Earnings Model

(\$ in millions, except per-share items)

Rating: Outperform
Company Profile: Aggressive Growth

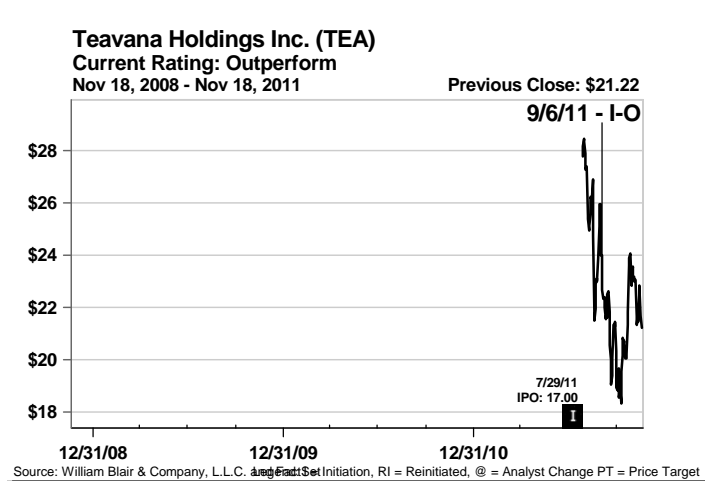
<u>FYE January</u>	2009	Apr-10	Jul-10	Oct-10	Jan-11	2010	Apr-11	Jul-11	Oct-11E	Jan-12E	2011E	Apr-12E	Jul-12E	Oct-12E	Jan-13E	2012E	2013E
Company-owned	108	118	128	141	146	146	161	179	188	196	196	211	221	241	256	256	326
Franchised	15	15	15	15	15	15	19	19	19	19	19	19	20	20	20	20	22
Total stores	123	133	143	156	161	161	180	198	207	215	215	230	241	261	276	276	348
% change	20.6%	24.3%	23.3%	27.9%	30.9%	30.9%	35.3%	38.5%	32.7%	33.5%	33.5%	27.8%	21.7%	26.1%	28.4%	28.4%	26.1%
Same-store sales	6.9%	15.7%	6.9%	5.9%	7.5%	8.7%	6.0%	6.9%	5.0%	4.0%	5.1%	4.0%	3.0%	4.0%	4.0%	3.8%	4.0%
Revenues	\$90.3	\$25.8	\$23.0	\$24.7	\$51.2	\$124.7	\$34.9	\$31.3	\$32.6	\$66.3	\$165.2	\$45.8	\$38.9	\$40.6	\$84.5	\$209.8	\$268.6
Cost of sales (including occupancy)	36.4	10.0	9.5	10.2	16.6	46.3	12.5	12.2	13.0	22.1	59.7	16.0	15.1	15.9	27.6	74.7	92.4
Gross profit	\$53.8	\$15.8	\$13.5	\$14.5	\$34.6	\$78.4	\$22.5	\$19.1	\$19.6	\$44.3	\$105.5	\$29.8	\$23.8	\$24.7	\$56.9	\$135.2	\$176.2
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	16.5	22.5	69.1	19.5	19.5	20.7	29.2	88.8	115.0
Depreciation and amortization	3.5	1.0	1.1	1.1	1.2	4.4	1.3	1.4	1.6	1.7	6.0	1.8	1.9	2.0	2.2	7.9	10.5
Operating income	\$12.2	\$4.0	\$1.7	\$1.3	\$16.6	\$23.5	\$6.5	\$2.3	\$1.6	\$20.1	\$30.4	\$8.5	\$2.4	\$2.0	\$25.5	\$38.5	\$50.7
Interest expense, net	2.4	0.6	0.6	0.7	0.6	2.6	0.7	0.7	0.3	0.1	1.8	0.1	0.1	0.1	0.1	0.4	0.4
Pretax income	\$9.8	\$3.4	\$1.0	\$0.6	\$15.9	\$20.9	\$5.8	\$1.6	\$1.3	\$20.0	\$28.6	\$8.4	\$2.3	\$1.9	\$25.4	\$38.1	\$50.3
Tax rate	45.8%	42.6%	42.6%	42.4%	42.6%	42.6%	42.4%	35.2%	40.8%	40.8%	40.8%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net income	\$5.3	\$1.9	\$0.6	\$0.3	\$9.1	\$12.0	\$3.3	\$1.0	\$0.7	\$11.8	\$16.9	\$5.1	\$1.4	\$1.2	\$15.3	\$22.9	\$30.3
Diluted average shares	37.3	37.5	37.6	37.7	37.7	37.7	37.7	37.8	38.8	38.9	38.3	39.0	39.1	39.2	39.3	39.2	39.4
EPS	\$0.14	\$0.05	\$0.02	\$0.01	\$0.24	\$0.32	\$0.09	\$0.03	\$0.02	\$0.30	\$0.44	\$0.13	\$0.04	\$0.03	\$0.39	\$0.59	\$0.77
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	60.2%	66.7%	63.9%	65.0%	61.1%	60.9%	67.3%	64.4%	65.6%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	50.5%	33.9%	41.8%	42.5%	50.0%	51.0%	34.5%	42.3%	42.8%
Depreciation and amortization	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.9%	2.6%	3.6%	3.9%	4.9%	4.9%	2.6%	3.8%	3.9%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.8%	30.2%	18.4%	18.6%	6.2%	5.0%	30.2%	18.3%	18.9%
Growth rates:																	
Revenues	41.3%	43.3%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	31.7%	29.6%	32.5%	31.2%	24.3%	24.4%	27.4%	27.0%	28.0%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	35.8%	33.6%	36.6%	32.0%	26.6%	25.6%	29.7%	28.5%	29.5%
Depreciation and amortization	30.9%	21.6%	21.8%	22.0%	34.1%	25.0%	30.9%	34.7%	44.1%	39.3%	37.6%	41.3%	33.1%	25.0%	29.4%	31.6%	32.9%
Operating income	156.2%	276.4%	338.4%	100.5%	63.8%	92.6%	62.3%	40.7%	22.1%	21.0%	29.4%	31.9%	3.8%	29.0%	27.3%	26.5%	31.9%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	77.2%	114.0%	25.5%	39.0%	47.4%	31.0%	52.7%	28.0%	32.4%	31.4%

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Additional information is available upon request.



Current Rating Distribution (as of 10/31/2011)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	59	Outperform (Buy)	8
Market Perform (Hold)	33	Market Perform (Hold)	2
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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