

Teavana Holdings, Inc.:

TEA: Access: Long- Term, Sustainable Growth

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

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Rating	BUY
Price	\$20.89
12- Mo. Price Target	\$28.00
Dividend	\$0.00
Yield	0.0%
52- Wk. Range	\$14 - \$29
Trading Volume (000)	258
Market Cap. (mm)	\$814.7
Shares Out. (mm)	39.00
Book Value/Share	\$1.38

EPS (Net) Summary

FY Jan	2011A	2012E	2013E
1Q	\$0.09	\$0.10	--
2Q	\$0.03	\$0.04	--
3Q	\$0.02	\$0.03	--
4Q	\$0.32	\$0.42	--
YEAR	\$0.46	\$0.59	\$0.81
First Call	--	\$0.60E	\$0.80E
P/E	45.4x	35.4x	25.8x

ACTION STATEMENT

We think that Teavana Holdings, Inc.'s (TEA-NYSE) differentiated store experience and unique in-store labor model make it one of the most attractive growth companies in our coverage universe. We recently had the opportunity to meet with CEO Andrew Mack. Growth will come from a number of vehicles: continued store growth, international expansion, and we believe, some kind of CPG entrance over time. The Company's recent acquisition of Teaopia demonstrates that the Company's differentiated labor model and proprietary product offering are the key elements of the store expansion story. Management has publicly guided to 500 stores by 2015; we think significant growth exists after the first 500 stores. The stock remains one of the most differentiated in our coverage universe. Valuation is attractive for long-term growth investors at 35.4x 2012 P/E and 1.1x 2012 PEG, compared to 32.1x P/E and 1.3x PEG for the active and healthy lifestyle peer group. We reiterate our **BUY** rating and our \$28 price target, which implies a 47.1x P/E based on our 2012 EPS estimate.

KEY INVESTMENT POINTS

The Teaopia acquisition can drive meaningful long-term earnings growth. As noted previously, we think Teavana's acquisition of Canadian retailer Teaopia should drive about \$0.16 in earnings (see Exhibit 2) once fully converted to the Teavana store model, product and selling culture. TEA acquired this 46- store retail chain for \$26.9 million in an all cash transaction. The transaction will be neutral to earnings in FY12 and \$0.03- \$0.04 accretive in FY13. Over time, TEA's management expects to raise Teaopia's sales productivity levels (currently at less than half of Teavana's) to Teavana's levels. Management seems happy with the acquired asset base and believes that it can quickly implement the Teavana labor model and product offering.

CPG opportunity. In contrast to the average tea offering in grocery stores today (which are stored in a warehouse for a few years before getting packaged and distributed), Teavana's teas typically turn every month. While management would not commit to a timeline on a CPG offering, it is clear that all options remain on the table. Specifically, management seemed open to a grocery store offering, single serve offering, and bottled drinks.

Innovation. Teavana continues to rollout new product introductions, with a new iced tea campaign launching this summer and 15 new tea flavors this fall. Importantly, the Company also continues to innovate in the tea merchandise category, particularly as it endeavors to make brewing tea more convenient. Finally, look for the Company to focus on a CRM system after it hires a new VP of Marketing.

VALUATION

At 35.4x 2012 P/E, 3.5x 2012 EV/Sales and 1.1x 2012 PEG, we believe valuation is attractive for a high-growth retailer. We think the Company can sustain accelerating earnings growth, particularly given its aggressive new store opening program and strong new store economics. Thus, we think Teavana deserves to trade at a premium to the active and healthy lifestyle peer group average of 32.1x 2012 P/E, 2.2x 2012 EV/Sales and 1.3x 2012 PEG. Additionally, the stock currently trades at a 16.3x 2012 EV/EBITDA compared to 13.4x EV/EBITDA of the peer group. We reiterate our \$28 price target, which implies a 47.1x P/E based on our \$0.59 2012 EPS estimate.

RISKS

The primary risks to our ratings and price targets continue to center around macroeconomic risk. Risks include, but are not limited to: deterioration in the consumer spending environment, slowdown in comparable store sales growth, and the fashion risk associated with being in a seasonal, cyclical, and trend focused sector.

Risks specific to TEA that could impede the stock from reaching our price target include but are not limited to the following: ability to identify suitable locations to open new stores, a change in consumer spending behavior, retention of senior management.

Revenue Summary

	2011A	Prior 2011A	2012E	Prior 2012E	2013E	Prior 2013E
1Q	\$34.9	\$34.9	\$45.2	\$45.1	--	--
2Q	\$31.3	\$31.3	\$43.1	\$43.1	--	--
3Q	\$33.4	\$33.4	\$45.3	\$45.3	--	--
4Q	\$68.4	\$68.4	\$93.0	\$93.0	--	--
YEAR	\$168.1	\$168.1	\$226.6	\$226.5	\$286.6	\$286.6

Source: KeyBanc Capital Markets Inc. estimates

TEAOPIA PRESENTS LONG-TERM GROWTH OPPORTUNITIES

Exhibit 1. Similar Concept; Room for Sales Improvement

	Teaopia	Teavana
Store count	46	200
Avg sales per store (thousands)	~\$435	\$913
Mall sales per sq. ft. avg for existing store locations	~\$500	~\$500
Avg size of store (sq. ft.)	~900	920
Occupancy cost \$ per store	~100% of TEA	N/A
Loose-leaf tea as % of revenue	~50%	55%

Source: Company reports.

Exhibit 2. Accretion Analysis

Teaopia Acquisition	
(in millions, except for store and per share data)	
Current Teaopia store count	46
Teaopia average sales per store	\$435,000
Chain revenue (in \$mm of CAD)	\$17.0
Teavana average sales per store	\$913,000
Teaopia productivity	48%
Potential incremental revenue @ Teavana sales productivity	\$42.0
Teavana 4-wall contribution margin	25%
Incremental EBIT	\$10.5
Incremental net income (ex. financing costs, 40% tax rate)	\$6.3
Accretion to EPS	\$0.16

Source: Company reports and KeyBanc Capital Markets, Inc.

VALUATION SUMMARY

Exhibit 3. Valuation Summary

									EPS		P/E		EV/EBITDA		EV/Sales		PEG	
Company Name	TKR	Rating	Stock Price	52 Week Price Range	Price Target	2012E P/E on PT	Mkt Cap (\$mm)	2011A	2012E	2011A	2012E	2011A	2012E	2011A	2012E	2011A	2012E	
SPECIALTY RETAIL																		
Abercrombie	ANF	BUY	\$50.17	\$40.25 - \$78.25	\$61.00	16.9x	4,251	\$2.30	\$3.60	21.8x	13.9x	6.6x	5.0x	0.9x	0.8x	1.0x	0.7x	
Aeropostale	ARO	BUY	\$22.18	\$9.16 - \$25.74	\$25.00	20.7x	1,796	\$0.92	\$1.21	24.2x	18.3x	8.5x	6.8x	0.7x	0.7x	1.6x	1.2x	
Buckle	BKE	HOLD	\$46.18	\$33.97 - \$50.00	-	-	2,213	\$3.20	\$3.40	14.4x	13.6x	7.5x	7.0x	1.9x	1.8x	1.1x	1.0x	
Chico's	CHS	HOLD	\$15.36	\$9.57 - \$16.50	-	-	2,572	\$0.85	\$0.99	18.1x	15.6x	7.1x	6.3x	1.1x	0.9x	1.1x	0.9x	
Ascena Retail	ASNA	BUY	\$20.48	\$12.00 - \$22.62	\$25.00	16.8x	3,145	\$1.28	\$1.48	16.1x	13.8x	6.4x	5.7x	0.9x	0.8x	1.1x	0.9x	
Gap Inc	GPS	HOLD	\$28.50	\$15.08 - \$29.01	-	-	13,900	\$1.56	\$1.79	18.2x	15.9x	7.0x	6.9x	0.9x	0.9x	1.7x	1.4x	
New York & Company	NWY	HOLD	\$3.95	\$2.25 - \$6.30	-	-	245	(\$0.64)	(\$0.41)	NM	NM	68.3x	13.2x	0.2x	0.2x	NM	NM	
Urban Outfitters	URBN	HOLD	\$28.96	\$21.47 - \$33.90	-	-	4,191	\$1.19	\$1.48	24.4x	19.5x	10.1x	8.7x	1.6x	1.4x	1.3x	1.1x	
Wet Seal	WTSLS	HOLD	\$3.30	\$3.03 - \$5.23	-	-	299	\$0.19	\$0.18	17.6x	18.7x	2.9x	3.0x	0.2x	0.2x	1.0x	1.1x	
Peer Average											19.4x	18.7x	15.1x	8.3x	1.5x	1.3x	1.3x	1.1x
ACTIVE AND HEALTHY LIFESTYLE																		
Lululemon Athletica	LULU	BUY	\$74.14	\$41.18 - \$77.13	\$82.00	51.6x	10,643	\$1.26	\$1.59	58.9x	46.6x	25.0x	19.8x	7.9x	5.9x	1.9x	1.5x	
Pacific Sunwear	PSUN	HOLD	\$1.48	\$1.11 - \$4.06	-	-	100	(\$0.77)	(\$0.50)	NM	NM	NM	NM	0.1x	0.1x	NM	NM	
Skulcandy	SKUL	BUY	\$16.12	\$11.79 - \$23.40	\$21.00	17.9x	441	\$1.00	\$1.17	16.2x	13.8x	9.2x	7.4x	1.8x	1.5x	0.7x	0.6x	
Teavana	TEA	BUY	\$20.89	\$14.28 - \$29.35	\$28.00	47.1x	800	\$0.46	\$0.59	45.2x	35.1x	20.9x	16.3x	4.7x	3.5x	1.4x	1.1x	
Under Armour	UA	UW	\$97.93	\$52.62 - \$102.86	\$61.00	26.3x	5,069	\$1.85	\$2.32	53.1x	42.2x	20.0x	16.1x	2.7x	2.2x	2.3x	1.9x	
Zumiez	ZUMZ	HOLD	\$36.66	\$15.85 - \$38.79	-	-	1,143	\$1.20	\$1.41	30.5x	26.0x	12.2x	10.3x	1.8x	1.5x	1.5x	1.2x	
Peer Average											39.7x	32.1x	16.6x	13.4x	2.9x	2.2x	1.6x	1.3x

Source: Company reports, FactSet and KBCM estimates as of April 2012.
ASNA FY ends in July. EPS estimates represent calendar year estimates.

RISKS

The primary risks to our ratings and price targets continue to center around macroeconomic risk, particularly on the downside. Risks that could impede a stock from reaching our upside price target include but are not limited to deterioration in the consumer spending environment, slowdown in comparable store sales growth, and the fashion risk associated with being in a seasonal, cyclical, and trend focused sector. Risks that could impede a stock from reaching our downside price target include but are not limited to a significant positive improvement in the overall economy, which would subsequently impact consumer buying behavior.

Risks specific to TEA that could impede the stock from reaching our UPSIDE price target include but are not limited to the following: ability to identify suitable locations to open new stores, a change in consumer spending behavior, retention of senior management.

Exhibit 4. Income Statement

(\$ in millions except per share data)

	2008	2009	2010	2011					2012E				2013E	
	Year	Year	Year	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year	Year
Revenues	63.9	90.3	124.7	34.9	31.3	33.4	68.4	168.1	45.2	43.1	45.3	93.0	226.6	286.6
Cost of goods sold	27.2	36.4	46.3	12.5	12.2	12.7	23.5	60.9	16.5	16.9	17.3	32.3	83.0	100.5
Gross profit	36.7	53.8	78.4	22.5	19.1	20.7	44.9	107.2	28.7	26.2	28.0	60.7	143.5	186.2
Selling, general & administrative expense	29.2	38.1	50.6	14.8	15.4	17.5	22.0	69.7	19.8	21.7	23.8	30.2	95.5	120.7
Depreciation and amortization expense	2.7	3.5	4.4	1.3	1.4	1.6	1.7	5.9	1.7	2.0	2.1	2.3	8.1	10.9
Operating income	4.8	12.2	23.5	6.5	2.3	1.6	21.2	31.6	7.2	2.5	2.0	28.1	39.9	54.6
Interest expense, net	2.1	2.4	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.5	0.5
Earnings before income taxes	2.7	9.8	20.9	5.8	1.6	1.5	21.1	29.9	7.1	2.4	1.9	28.0	39.4	54.1
Income tax expense	1.5	4.5	8.9	2.4	0.6	0.6	8.6	12.2	3.0	0.8	0.7	11.4	16.0	21.9
Net earnings	1.2	5.3	12.0	3.3	1.0	0.9	12.5	17.8	4.1	1.6	1.2	16.6	23.4	32.2
Weighted average shares outstanding - diluted	37.1	37.3	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.3	39.5	39.7	39.4	39.7
Earnings per share - diluted	\$0.03	\$0.14	\$0.32	\$0.09	\$0.03	\$0.02	\$0.32	\$0.46	\$0.10	\$0.04	\$0.03	\$0.42	\$0.59	\$0.81
EBITDA	7.4	15.7	27.9	7.7	3.8	3.2	22.9	37.5	8.9	4.5	4.2	30.4	48.0	65.4
Comparable store sales	3.0%	6.9%	8.7%	6.0%	6.9%	6.0%	4.4%	5.5%	4.0%	5.0%	5.0%	6.5%	5.4%	5.4%
Y/Y Inventory Growth			45.7%					51.7%					67.9%	18.2%
Margin analysis														
Cost of goods sold/revenue	42.6%	40.4%	37.1%	35.6%	38.9%	38.1%	34.4%	36.2%	36.5%	39.2%	38.2%	34.8%	36.7%	35.0%
Y/Y change in bps	27	(222)	(326)	(325)	(223)	(323)	202	(88)	85	30	10	40	42	(160)
Gross margin	57.4%	59.6%	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	63.5%	60.8%	61.8%	65.2%	63.3%	65.0%
Y/Y change in bps	(27)	222	326	325	223	323	(202)	88	(85)	(30)	(10)	(40)	(42)	160
Selling, general & administrative expense/sal	45.8%	42.3%	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	43.7%	50.3%	52.6%	32.5%	42.2%	42.1%
Y/Y change in bps	(131)	(353)	(170)	34	204	341	(67)	90	150	125	20	30	71	(3)
Depreciation and amortization expense/sales	4.2%	3.9%	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.7%	4.6%	4.7%	2.5%	3.6%	3.8%
Y/Y change in bps	(11)	(3)	(37)	(13)	(5)	16	6	3	10	5	5	5	6	20
Operating margin	7.5%	13.5%	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.0%	5.8%	4.5%	30.2%	17.6%	19.0%
Y/Y change in bps	115	606	533	304	24	(34)	(141)	(5)	(245)	(160)	(35)	(75)	(119)	144
EBITDA margin	11.6%	17.4%	22.3%	22.1%	12.0%	9.5%	33.4%	22.3%	19.8%	10.5%	9.2%	32.7%	21.2%	22.8%
Y/Y change in bps	575	496	291	19	(18)	(135)	(2)	(235)	(235)	(155)	(30)	(70)	(113)	164
Effective tax rate	55.7%	45.8%	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	42.4%	35.2%	37.2%	40.8%	40.6%	40.5%
Y/Y change in bps	(1,706)	(986)	(320)	(20)	(746)	(548)	(177)	(196)	0	0	0	0	(6)	(4)
Y/Y growth														
Revenues	35.3%	41.3%	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	29.3%	37.7%	35.5%	35.9%	34.8%	26.5%
Cost of goods sold	36.2%	34.0%	27.0%	24.2%	28.9%	24.5%	42.0%	31.6%	32.4%	38.8%	35.9%	37.5%	36.4%	21.0%
Gross profit	34.7%	46.8%	45.7%	42.8%	41.4%	42.5%	29.6%	36.7%	27.6%	37.0%	35.3%	35.1%	33.9%	29.7%
Selling, general & administrative expense	31.5%	30.4%	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	33.9%	41.2%	36.0%	37.2%	37.1%	26.4%
Depreciation and amortization expense	31.8%	30.9%	25.0%	30.9%	34.7%	40.0%	37.2%	35.9%	32.8%	39.2%	37.0%	38.7%	37.1%	33.7%
Operating income	59.9%	156.2%	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	12.2%	8.1%	25.7%	32.6%	26.3%	36.8%
Net earnings	216.7%	342.0%	126.9%	72.4%	78.1%	175.3%	36.2%	48.0%	23.5%	51.0%	27.9%	32.8%	31.9%	37.3%
EPS	213.7%	339.3%	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	19.1%	45.3%	26.2%	30.7%	28.6%	36.3%
EBITDA		111.2%	77.6%	56.1%	38.4%	32.6%	28.4%	34.7%	15.6%	19.9%	31.2%	33.1%	28.0%	36.3%

Source: Company reports, FactSet and KBCM estimates as of April 2012.

KeyBanc Capital Markets Inc. Disclosures and Certifications

Teavana Holdings, Inc. - TEA

We expect to receive or intend to seek compensation for investment banking services from Teavana Holdings, Inc. within the next three months.

Reg A/C Certification

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Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					CONSUMER				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	222	43.44	46	20.72	BUY [BUY]	54	46.15	6	11.11
HOLD [HOLD]	278	54.40	53	19.06	HOLD [HOLD]	61	52.14	2	3.28
SELL [UND]	11	2.15	4	36.36	SELL [UND]	2	1.71	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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