William Blair

Teavana Holdings, Inc.

Highlights From Meetings With Management

- We recently hosted several days of investor meetings with Teavana's management, during which investors' focus centered on three main concerns: 1) new store productivity, 2) the lack of meaningful transaction growth in same-store sales, and 3) inventory growth headed into the holidays.

- Management reiterated that the class of 2011 stores is meeting plan, and we believe that new store productivity is at or above the higher end of the company's target of $600,000 to $700,000 in annual store sales. Moreover, we believe that the analysis that several other analysts have done imputing below-plan new store productivity is fundamentally flawed in several ways, including failing to account for a 15-month rather than 12-month comp base and failing to adjust for $600,000 in year-ago sales from the now-discontinued SpecialTeas business (a wholesale and Internet business discontinued as of the end of 2010). Simply making the adjustment for SpecialTeas alone increases calculated new store productivity in the third quarter to 84% from 75%, which would imply new store productivity of $715,000 to $720,000—modestly above management's target (versus less than $650,000 without accounting for the adjustment). In addition, nearly 10% of the new store base was opened near the very end of the third quarter as Teavana accelerated its store development plans for the year, which weighs on the calculation of new store productivity.

- Looking forward, however, investors should be cognizant that new store productivity over the next several years will likely trend downward (particularly in 2013 and beyond), as Teavana further develops locations in B malls while growing the store base to 500 locations by 2015 (versus 200 company-operated locations today). Of Teavana's current store base, management estimates roughly 70% are in A malls, versus the expectation of roughly 50% when the company reaches 500 locations (250 A and 250 B malls). However, as the sales productivity per store migrates closer to $600,000 in first-year sales, occupancy costs will also decline, keeping the payback period for new stores at roughly 18 months.

- While comps have remained healthy (up 8.5% including e-commerce in the third quarter), investors have worried that the dearth of meaningful transaction growth (up 0.5% in the third quarter excluding beverage-only transactions versus a 0.1% increase in the second quarter) bodes ill for Teavana's longer-term growth prospects. Importantly, the 8% ticket increase reflects both increases in average unit retail (from mix shift rather than like-for-like price increases) and increased units (or volume) per transaction. As a result, we believe Teavana's increase in average ticket reflects: 1) trading up of existing customers to more-expensive teas over time, 2) an overall increase in the average price of tea on the Wall of Tea, given 10% to 15% product changeover annually, and 3) an increased volume of tea sold per transaction reflective of both staff training and the long shelf life of the product (over 12 months).

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

December 19, 2011

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

Symbol:	TEA (NYSE)
Price:	$15.11 (52-Wk.: $14-$29)
Market Value (mil.):	$578
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

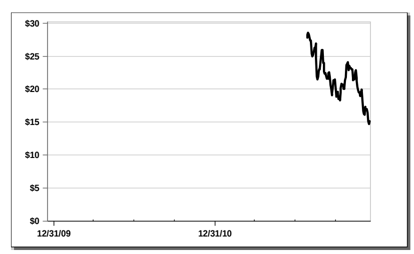
		2010A	2011E	2012E
Estimates*				
EPS	Q1	$0.05	A$0.09	$0.13
	Q2	$0.02	A$0.03	$0.04
	Q3	$0.01	A$0.02	$0.04
	Q4	$0.24	$0.31	$0.41
	FY	$0.32	$0.45	$0.62
	CY		$0.45	$0.62
Sales (mil.)		125	168	213
Valuation				
FY P/E		47.2x	33.6x	24.4x
CY P/E			33.6x	24.4x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	37
Float (mil.)	NA
Average Daily Volume	257,541

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	573.8
EBITDA (TTM)	25.4
Enterprise Value/EBITDA (TTM)	22.6x
Return on Equity (TTM)	14.2

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

- Importantly, since tea is a consumable item with a long shelf life, increased volumes of tea purchased per transaction can weigh materially on overall growth in transactions. For example, if a portion of customers extend their purchase cycle to six weeks from four, the number of transactions from those customers would decline more than 30%, while the average ticket would increase proportionally. As a result, the lengthening purchase cycles of some customers could mask increased transactions from new customers on a consolidated reported basis.

- Admittedly, without knowing the average volume of tea sold per transaction, it is difficult to ascertain just how much the increase in UPT is weighing on transaction growth as a result of lengthening purchase cycles. However, field checks of stores indicate that new customer growth remains healthy. In addition, Teavana's oldest class of stores (2004 or older) continues to comp roughly in line with the overall bricks-and-mortar average of roughly 6%, which intuitively would be very difficult to achieve without the addition of new customers to the base.

- Inventory increased 79% year-over-year, to $32.5 million, at the end of the third quarter, reflecting: 1) new store openings, 2) the move to direct sourcing (which occurred in the fourth quarter of last year and resulted in more in-transit inventory relative to the year-ago quarter), 3) early receipts to take advantage of product and freight discounts, and 4) a greater depth of inventory to support holiday sales (particularly big-selling items). While we understand the propensity to worry over the markdown risk associated with large increases in inventory, much of Teavana's inventory increase is structural, given the move to direct sourcing (inventory was up 82% at the end of the second quarter). In addition, none of the increase is for seasonally specific product and instead reflects product that Teavana sells year round, thereby virtually eliminating the markdown risk.

- Other key points include:

  – Teavana is planning on its normal post-holiday "Heavenly Sale" beginning December 26, which is utilized every year to clear out discontinued merchandise and tea.

  – Management still expects a 300-basis-point improvement in operating margin by 2015, driven equally by gross margin (as the merchandise mix increasingly shifts to tea) and leverage on SG&A. However, with a material benefit to gross margin from direct sourcing having already occurred, gross margin gains in the next few years will likely be much more muted.

  – Beverages, which have been deemphasized since 2006, are expected to stabilize at 3% to 4% of sales, representing about 20% to 25% of transactions (down from a peak of 8% to 10% of sales and roughly 40% of transactions).

  – Management continues to expect a vice president of marketing to be selected this quarter, with the new hire expected to develop the marketing department as well as new initiatives such as a CRM system and a loyalty program (both of which could potentially help drive traffic in the second half of 2012).

  – While management's main objective continues to be achieving 500 stores in the U.S. by 2015, we expect international to also be further explored on both a company-operated and licensed basis (with Western Europe the most likely next market for company-operated stores after the first Canadian store recently opened). In addition, we suspect Teavana will likely explore its potential in CPG, however likely not until 2013 or 2014 at the earliest.

- The 10 days before Christmas are Teavana's biggest selling days of the year, with those 10 days accounting for 10% of annual sales (versus roughly 20% for the four weeks prior to Christmas and 40% for the entire fourth quarter). Encouragingly, our channel checks so far in the holiday season have been robust, and we believe Teavana is well positioned to potentially beat its midsingle-digit comp guidance for the quarter, which could lead to earnings upside versus guidance of $0.29 to $0.31 and our and the consensus estimates of $0.31.

- At 24 times our 2012 estimates, Teavana's stock is now trading at a discount to its 30% long-term growth rate. We would be buyers of Teavana at current levels, as we believe the story is clean with a long growth path ahead, as evidenced by extraordinary sales productivity of $994 per square foot in 2010 (among the highest of all mall-based retailers) and consistent sales performance across all geographies. Moreover, Teavana is one of the fastest-growing retailers in the United States, and we expect 25%-plus unit expansion and same-store sales gains of 3% to 4% to yield annual revenue growth in the high-20% range over the next three to five years and EPS growth of 30%-plus. We reiterate our Outperform rating.

Teavana Holdings, Inc.

December 18, 2011: $15.11 ($15-$29) — **Rating: Outperform**

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

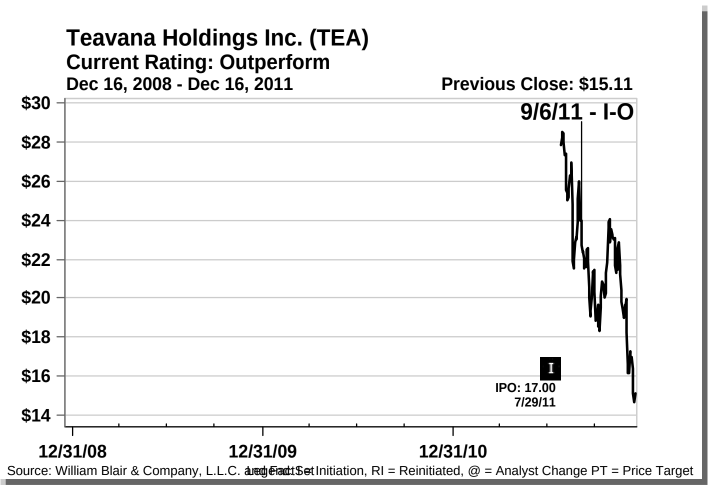
($ in millions, except per-share items)

FYE January	2009	Apr-10	Jul-10	Oct-10	Jan-11	2010	Apr-11	Jul-11	Oct-11	Jan-12E	2011E	Apr-12E	Jul-12E	Oct-12E	Jan-13E	2012E	2013E
Company-owned	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
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	215	219	219	234	245	265	280	280	352
% change	20.6%	24.3%	23.3%	27.9%	30.9%	30.9%	35.3%	38.5%	37.8%	36.0%	36.0%	30.0%	23.7%	23.3%	27.9%	27.9%	25.7%
Same-store sales (excluding e-commerce)	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.9%**	**6.0%**	**4.0%**	**5.3%**	**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	$33.4	$68.0	$167.6	$46.6	$39.5	$41.4	$85.7	$213.2	$272.1
Cost of sales (including occupancy)	36.4	10.0	9.5	10.2	16.6	46.3	12.5	12.2	12.7	22.2	59.5	16.6	15.2	15.8	27.7	75.3	95.2
Gross profit	$53.8	$15.8	$13.5	$14.5	$34.6	$78.4	$22.5	$19.1	$20.7	$45.8	$108.1	$30.0	$24.3	$25.6	$58.0	$137.9	$176.8
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	17.5	23.4	71.1	20.0	19.5	20.8	29.1	89.5	114.3
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	1.7	1.8	1.9	2.2	7.6	9.5
Operating income	$12.2	$4.0	$1.7	$1.3	$16.6	$23.5	$6.5	$2.3	$1.6	$20.7	$31.1	$8.3	$2.9	$2.9	$26.7	$40.8	$53.1
Interest expense, net	2.4	0.6	0.6	0.7	0.6	2.6	0.7	0.7	0.1	0.1	1.6	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	$1.5	$20.6	$29.4	$8.2	$2.8	$2.8	$26.6	$40.4	$52.7
Tax rate	45.8%	42.6%	42.6%	42.7%	42.6%	42.6%	42.4%	35.2%	37.2%	41.0%	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	$0.9	$12.2	$17.4	$4.9	$1.7	$1.7	$16.0	$24.3	$31.7
Diluted average shares	37.3	37.5	37.6	37.6	37.7	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	**$0.14**	**$0.05**	**$0.02**	**$0.01**	**$0.24**	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.31**	**$0.45**	**$0.13**	**$0.04**	**$0.04**	**$0.41**	**$0.62**	**$0.80**
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	61.9%	67.4%	64.5%	64.4%	61.4%	61.9%	67.7%	64.7%	65.0%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	52.4%	34.5%	42.4%	42.9%	49.4%	50.3%	34.0%	42.0%	42.0%
Depreciation and amortization	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.6%	2.5%	3.6%	3.6%	4.6%	4.6%	2.6%	3.6%	3.5%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.8%	30.4%	18.5%	17.9%	7.4%	7.0%	31.1%	19.2%	19.5%
Growth rates:																	
Revenues	41.3%	43.3%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	35.1%	32.7%	34.4%	33.4%	26.2%	23.9%	26.1%	27.2%	27.6%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	44.5%	39.2%	40.6%	35.5%	27.0%	19.0%	24.2%	25.9%	27.7%
Depreciation and amortization	30.9%	21.6%	21.8%	22.0%	34.1%	25.0%	30.9%	34.7%	40.0%	39.3%	36.6%	33.4%	26.1%	22.3%	29.4%	27.6%	25.0%
Operating income	156.2%	276.4%	338.4%	100.3%	63.8%	92.6%	62.3%	40.7%	26.1%	24.6%	32.2%	28.8%	26.1%	80.1%	29.1%	31.5%	30.0%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	77.2%	165.9%	28.3%	42.8%	43.4%	59.7%	78.5%	30.3%	36.3%	29.5%

William Blair & Company, L.L.C. was a manager or co-manager of a public offering of equity securities for Teavana Holdings, Inc. within the prior 12 months.

William Blair & Company, L.L.C. is a market maker in the security of Teavana Holdings, Inc. and may have a long or short position.

Additional information is available upon request.



Current Rating Distribution (as of 11/30/11)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	58	Outperform (Buy)	7
Market Perform (Hold)	34	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.

Sharon Zackfia attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate, but various regulations may prohibit us from doing so. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the analyst.

Stock ratings, price targets, and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings and price targets (where used) reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

Company Profile: The William Blair research philosophy is focused on quality growth companies. Growth companies by their nature tend to be more volatile than the overall stock market. Company profile is a fundamental assessment, over a longer-term horizon, of the business risk of the company relative to the broader William Blair universe. Factors assessed include: 1) durability and strength of franchise (management strength and track record, market leadership, distinctive capabilities); 2) financial profile (earnings growth rate/consistency, cash flow generation, return on investment, balance sheet, accounting); 3) other factors such as sector or industry conditions, economic environment, confidence in long-term growth prospects, etc. Established Growth (E) – Fundamental risk is lower relative to the broader William Blair universe; Core Growth (C) – 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.

The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies—to our clients and our trading desks—that are contrary to opinions expressed in this research. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Electronic research is simultaneously available to all clients. This research is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

THIS IS NOT IN ANY SENSE A SOLICITATION OR OFFER OF THE PURCHASE OR SALE OF SECURITIES. THE FACTUAL STATEMENTS HEREIN HAVE BEEN TAKEN FROM SOURCES WE BELIEVE TO BE RELIABLE, BUT SUCH STATEMENTS ARE MADE WITHOUT ANY REPRESENTATION AS TO ACCURACY OR COMPLETENESS OR OTHERWISE. OPINIONS EXPRESSED ARE OUR OWN UNLESS OTHERWISE STATED. PRICES SHOWN ARE APPROXIMATE.

THIS MATERIAL HAS BEEN APPROVED FOR DISTRIBUTION IN THE UNITED KINGDOM BY WILLIAM BLAIR INTERNATIONAL, LIMITED, REGULATED BY THE FINANCIAL SERVICES AUTHORITY (FSA), AND IS DIRECTED ONLY AT, AND IS ONLY MADE AVAILABLE TO, PERSONS FALLING WITHIN COB 3.5 AND 3.6 OF THE FSA HANDBOOK (BEING "ELIGIBLE COUNTERPARTIES" AND "PROFESSIONAL CLIENTS"). THIS DOCUMENT IS NOT TO BE DISTRIBUTED OR PASSED ON TO ANY "RETAIL CLIENTS." NO PERSONS OTHER THAN PERSONS TO WHOM THIS DOCUMENT IS DIRECTED SHOULD RELY ON IT OR ITS CONTENTS OR USE IT AS THE BASIS TO MAKE AN INVESTMENT DECISION.