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William Blair

Teavana Holdings, Inc.

Thoughts on Starbucks Upcoming Test of Tazo Tea Store

- News came out today that Starbucks (SBUX $55.64; Outperform) plans to open its first stand-alone Tazo Tea store in Seattle as early as this fall, following successful testing of loose-leaf tea in Starbucks's Roy Street Coffee & Tea store. The Tazo Tea store is expected to offer more than 80 varieties of loose-leaf tea and feature a tea bar that will offer hot- and iced-tea drinks and tea lattes as well as brewing equipment, pastries, packaged chocolates, and infused sugars and honeys.

- We are not surprised by this news, particularly as Starbucks has made no secret of its desire to expand its Tazo Tea brand. Tea has been one of Starbucks's fastest-growing beverage categories, and the Tazo Tea brand has grown to $1.4 billion in revenues.

- However, we see distinct differences between the upcoming launch of the Tazo Tea store and Teavana, including what we suspect will be a more-hybrid beverage/merchandise mix at Tazo Tea versus Teavana, generating less than 5% of revenues from beverages. In addition, we suspect the real estate strategies will differ, with Tazo Tea likely to focus more on street/neighborhood locations versus Teavana's goal of growing from roughly 220 mall-based domestic locations to 500. It also remains a question as to how effective Tazo's selling and educational techniques will be for a U.S. customer base that remains largely untutored in the art of tea, whereas Teavana's intensive training processes are well proven, given incredibly high sales productivity of nearly $1,000 per square foot. As a result, we do not view today's news as an immediate negative for Teavana, although in a fast-growing and highly profitable category such as tea, we are not surprised to see more competitive entrants.

- The bigger long-term question will be whether Starbucks learns anything from the Tazo Tea test that can be incorporated in the company's approximate 7,000 domestic company-owned Starbucks locations. However, with Starbucks focused primarily on beverages and food, we suspect that any learnings from the Tazo Tea test are more likely to translate into enhancing Starbucks' high-margin, prepared-tea beverage platform, with merchandising inherently somewhat constrained by Starbucks' small footprint and already-intensive labor paradigm (Teavana's success to date would suggest that selling loose-leaf tea remains a selling-intensive process in the U.S.).

- We also note that Teavana already competes successfully with Argo Tea in the Chicago market, which caters to tea drinkers through roughly 15 stores (primarily in street/neighborhood locations) with a prepared-beverage focus, although it also offers premium loose-leaf tea as well as tea-related merchandise.

- We continue to believe the Teavana concept remains a solid growth vehicle, with new units performing at the high end of plan and the opportunity to nearly double the store base in the next three years. We reiterate our Outperform rating.

June 21, 2012

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

Symbol:	TEA (NYSE)
Price:	$12.96 (52-Wk.: $12-$29)
Market Value (mil.):	$501
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

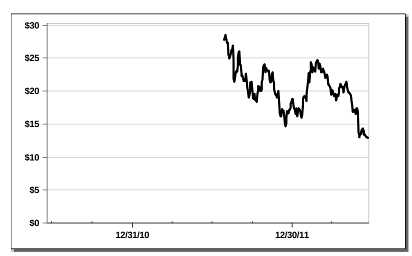
		2011A	**2012E**	**2013E**
Estimates*				
EPS	Q1	$0.09	A$0.10	NA
	Q2	$0.03	$0.03	NA
	Q3	$0.02	$0.02	NA
	Q4	$0.32	$0.44	NA
	FY	$0.46	$0.59	$0.78
	CY		$0.59	$0.78
Sales (mil.)		168	223	282
Valuation				
FY P/E		28.2x	22.0x	16.6x
CY P/E			22.0x	16.6x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	301,444

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	480.7
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	12.8x
Return on Equity (TTM)	26.5

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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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Teavana Holdings, Inc.

June 20, 2012: $12.96 ($12-$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-12[(a)]	Jul-12E[(b)]	Oct-12E	Jan-13E	2012E[(c)]	2013E
Company-owned	146	161	179	196	200	200	223	283	303	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	241	302	322	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	33.9%	53.3%	50.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	**11.4%**	**9.1%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**1.7%**	**3.0%**	**4.0%**	**5.5%**	**3.6%**	**6.0%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$44.3	$39.3	$43.7	$95.2	$222.6	$282.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.2	16.6	32.5	80.2	100.5
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$28.4	$24.1	$27.2	$62.7	$142.4	$181.8
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.5	20.1	23.6	31.5	95.8	120.0
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.8	1.8	2.2	2.3	8.1	10.0
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$6.2	$2.2	$1.3	$28.9	$38.6	$51.8
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	$6.1	$2.1	$1.2	$28.8	$38.2	$51.4
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	38.9%	39.8%	39.8%	39.8%	39.7%	39.8%
Net income	$12.0	$3.3	$1.0	$0.9	$12.5	$17.8	$3.7	$1.2	$0.7	$17.4	$23.1	$30.9
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.2	39.3	39.4	39.2	39.5
EPS	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.03**	**$0.02**	**$0.44**	**$0.59**	**$0.78**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.1%	61.3%	62.1%	65.9%	64.0%	64.4%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	46.2%	51.2%	54.0%	33.1%	43.0%	42.5%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	4.0%	4.6%	5.0%	2.4%	3.6%	3.5%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	13.9%	5.5%	3.1%	30.4%	17.3%	18.4%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	26.8%	25.6%	30.8%	39.1%	32.4%	26.8%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	38.8%	31.0%	34.9%	42.9%	37.4%	25.3%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	39.6%	26.1%	41.6%	37.6%	36.3%	23.8%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	-4.7%	-6.8%	-16.7%	36.5%	22.2%	34.3%
Net income	126.9%	72.4%	78.1%	175.3%	36.3%	48.0%	11.8%	21.0%	-20.1%	39.2%	29.9%	34.2%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	7.9%	16.7%	-20.8%	38.0%	27.2%	33.3%

[(a)] Excludes $0.01 in transition and integration expenses related to Teaopia acquisition
[(b)] Excludes anticipated $0.03 in transition and integration expenses related to Teaopia acquisition
[(c)] Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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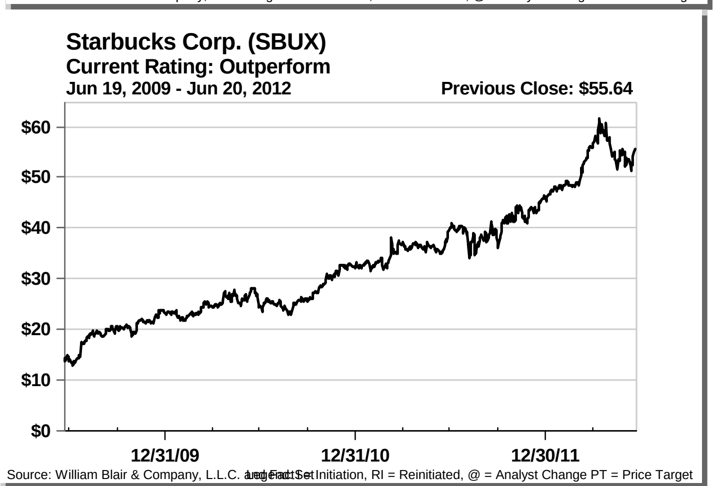
Sharon Zackfia or members of her immediate family own shares of Starbucks Corporation.

Additional information is available upon request.



Current Rating Distribution (as of 05/31/12)

Coverage Universe	**Percent**	**Inv. Banking Relationships***	**Percent**
Outperform (Buy)	60	Outperform (Buy)	9
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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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.

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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.

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William Blair

Teavana Holdings, Inc.

Highlights From William Blair's 32nd Annual Growth Stock Conference

- At William Blair's 32nd Annual Growth Stock Conference, Teavana's senior management, including CEO Andrew Mack and CFO Daniel Glennon, expressed continued conviction in the company's near- and long-term growth prospects. The company remains on track to reach its goal of 500 domestic company-owned stores by 2015, versus a base of 218 today, including the opening of 60 new stores this year, representing organic store growth of 30%.

- New stores continue to perform well, with sales and profitability at the high end of Teavana's new store model, including new store productivity of 77.1% of non-comp stores in the first quarter, implying an average annual run-rate of $704,000. Teavana's new-store volumes are targeted at $600,000 to $700,000 on a cash investment of $200,000 to $250,000, yielding cash-on-cash returns of about 75% and a payback period of about 18 months. 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. Of Teavana's current store base, management estimates roughly 75% are in 'A' malls, versus expectations of roughly 50% when the company reaches 500 locations (250 'A' malls 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.

- Teavana's first street location in New York City is under construction at 86th Street and Lexington Avenue. We suspect street locations may generate a larger percentage of sales from beverages (management already designed the New York location with a larger service area), we believe strategically placed street locations hold the potential to augment Teavana's domestic growth prospects behind the 500 mall-based stores management is targeting.

- Teavana completed its acquisition of Teaopia's 46 stores in Canada yesterday, and management continues to expect the acquisition to be neutral to earnings this year, excluding anticipated transaction and integration expenses of $0.04 to $0.05, including $0.03 in the second quarter. Teaopia stores are very similar to Teavana's, with similar sizes and layouts and the same POS system, and management expects to transition all Teaopia stores to the Teavana brand during fiscal 2012, with most of the rebranding completed before the fourth quarter. The five stores Teavana has opened in Canada are performing above expectations and similar to the company's U.S. stores. This bodes well for the future of the Teaopia stores, which currently underperform Teavana stores and generate average sales productivity of $435,000, versus Teavana's $913,000.

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

June 12, 2012

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

Symbol:	TEA (NYSE)
Price:	$13.88 (52-Wk.: $12-$29)
Market Value (mil.):	$540
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

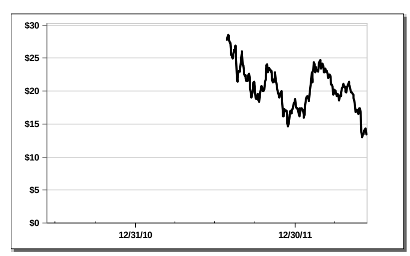
		2011A	2012E	2013E
Estimates*				
EPS	Q1	$0.09	A$0.10	NA
	Q2	$0.03	$0.03	NA
	Q3	$0.02	$0.02	NA
	Q4	$0.32	$0.44	NA
	FY	$0.46	$0.59	$0.78
	CY		$0.59	$0.78
Sales (mil.)		168	223	282
Valuation				
FY P/E		30.2x	23.5x	17.8x
CY P/E			23.5x	17.8x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	294,085

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	535.4
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	14.3x
Return on Equity (TTM)	26.5

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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- Internationally, plans remain on track for the company to open its first franchised store in the Middle East in the second half of this year through its 10-year franchise development agreement with Alshaya. In addition, we expect the company to explore development opportunities in Eastern Europe (likely Alshaya) and Western Europe (including some company-owned markets) in the not-too-distant future.

- Management says that it has narrowed the pool of vice president of marketing candidates to two, and final interviews are occurring this week. 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.

- Given investor concern that the lack of meaningful transaction growth at Teavana bodes ill for the company's long-term growth prospects, management provided more detail surrounding the composition of historical comps. Increased volume per transaction was the primary driver of average ticket gains last year, with increased tea volume a positive driver to comps and average ticket for each year since 2007. 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, as customers extend purchasing cycles.

- Following first-quarter comps of 1.7%, we continue to believe trends have normalized and improved given more typical seasonal weather patterns since mid-May, and we are comfortable that Teavana is poised to at least meet our second-quarter comp estimate of 3% (versus guidance of low- to midsingle-digit comps).

- While Teavana's stock has declined about 18% since the company reported its first-quarter results, we still believe the Teavana concept remains a solid growth vehicle, with new units performing at the high end of plan and the opportunity to nearly double the store base in the next three years. We reiterate our Outperform rating.

Teavana Holdings, Inc.

June 12, 2012: $13.84 ($12-$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-12[(a)]	Jul-12E[(b)]	Oct-12E	Jan-13E	2012E[(c)]	2013E
Company-owned	146	161	179	196	200	200	223	283	303	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	241	302	322	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	33.9%	53.3%	50.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	**11.4%**	**8.9%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**1.7%**	**3.0%**	**4.0%**	**5.5%**	**3.6%**	**6.0%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$44.3	$39.3	$43.7	$95.2	$222.6	$282.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.2	16.6	32.5	80.2	100.5
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$28.4	$24.1	$27.2	$62.7	$142.4	$181.8
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.5	20.1	23.6	31.5	95.8	120.0
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.8	1.8	2.2	2.3	8.1	10.0
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$6.2	$2.2	$1.3	$28.9	$38.6	$51.8
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	$6.1	$2.1	$1.2	$28.8	$38.2	$51.4
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	38.9%	39.8%	39.8%	39.8%	39.7%	39.8%
Net income	$12.0	$3.3	$1.0	$0.9	$12.5	$17.8	$3.7	$1.2	$0.7	$17.4	$23.1	$30.9
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.2	39.3	39.4	39.2	39.5
EPS	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.03**	**$0.02**	**$0.44**	**$0.59**	**$0.78**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.1%	61.3%	62.1%	65.9%	64.0%	64.4%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	46.2%	51.2%	54.0%	33.1%	43.0%	42.5%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	4.0%	4.6%	5.0%	2.4%	3.6%	3.5%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	13.9%	5.5%	3.1%	30.4%	17.3%	18.4%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	26.8%	25.6%	30.8%	39.1%	32.4%	26.8%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	38.8%	31.0%	34.9%	42.9%	37.4%	25.3%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	39.6%	26.1%	41.6%	37.6%	36.3%	23.8%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	-4.7%	-6.8%	-16.7%	36.5%	22.2%	34.3%
Net income	126.9%	72.4%	78.1%	175.3%	36.3%	48.0%	11.8%	21.0%	-20.1%	39.2%	29.9%	34.2%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	7.9%	16.7%	-20.8%	38.0%	27.2%	33.3%

[(a)] Excludes $0.01 in transition and integration expenses related to Teaopia acquisition

[(b)] Excludes anticipated $0.03 in transition and integration expenses related to Teaopia acquisition

[(c)] Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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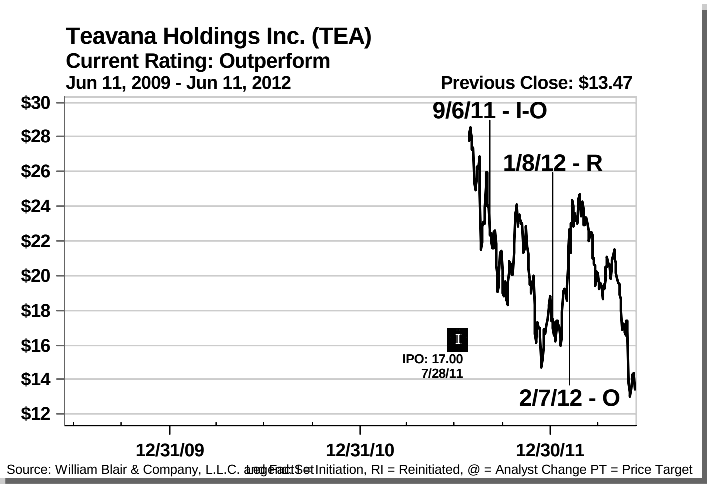

Current Rating Distribution (as of 05/31/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	9
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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PiperJaffray

HOT COMMENT
June 5, 2012

Teavana Holdings, Inc. (TEA) — Overweight

Highlights from the 32nd Annual Piper Jaffray Consumer Conference

PRICE: US$13.42
TARGET: US$25.00
30x FY14E EPS

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Related Companies:	Share Price:
TEA	13.42

CONCLUSION

We are reiterating our Overweight rating and $25 price target on TEA shares following management's presentation at the Piper Jaffray Consumer Conference. We believe that Teavana's underlying business remains strong despite recent weakness in the stock, and we are encouraged that management believes it can achieve a low-twenties operating margin as the business scales and loose tea grows as a percentage of total company revenue.

- Presenting at the conference were CEO Andrew Mack and CFO Dan Glennon.

- Management discussed its pending acquisition of Teaopia, which was announced on 4/16/12. Teaopia is a 46-store chain that began operations in 2005 and looks, acts, smells, and feels a lot like Teavana. During its presentation, management characterized Teaopia as a business occupying a profitable niche in Canada, but with meaningful opportunity to improve profitability by converting its stores into Teavana locations and improving store-level execution. We believe sales and margin expansion tied to this integration are on deck in the years to come. Our FY13 EPS estimate includes about $0.05 in integration costs associated with the acquisition. Excluding these integration costs, management expects the acquisition to be accretive by $0.03-$0.04 to EPS in FY13.

- Management elaborated on its real estate strategy. It appears that Teavana is having success in expanding to new markets and is exploring new real estate formats, such as a broader street location strategy. Management indicated that it plans to open a store in New York City this July near the corner of 86th Street and Lexington Avenue.

- Regarding cost control, management sees opportunity to increase operating margins by containing product costs as well as by leveraging SG&A as the business grows. Longer-term, management indicated that it believes it can achieve a low-twenties operating margin as the business scales and loose tea represents an increasingly large share of total company revenue.

- Management also discussed the potential of launching a consumer packaged goods line for sale through other channels. Although the time line for the development of a CPG line was not discussed, management indicated it believes the high-end tea category is under penetrated in the grocery channel, and cited several examples of coffee brands which have thoughtfully executed a brand-sensitive channel expansion. We believe the launch of a CPG line could be meaningfully accretive within the first year or two of operations, although management has not yet discussed firm plans to make such a move.

- We rate TEA shares Overweight with a $25 price target based on 30x FY14E EPS.

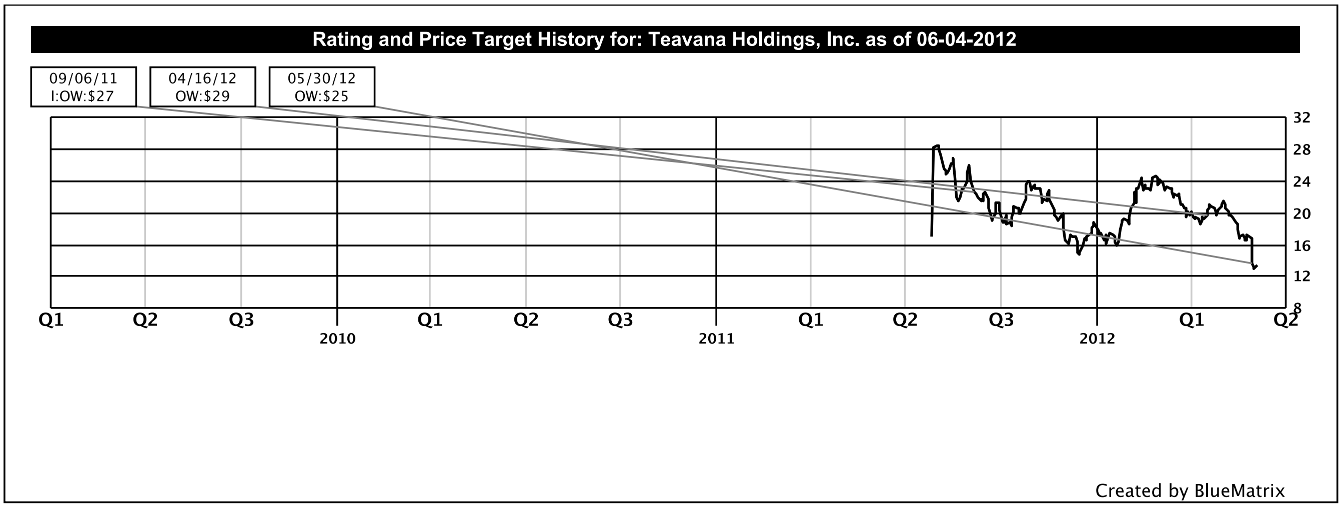
RISKS TO ACHIEVEMENT OF PRICE TARGET

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 223 stores.

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

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**368**	**55.67**	**65**	**17.66**
HOLD [N]	**264**	**39.94**	**19**	**7.20**
SELL [UW]	**29**	**4.39**	**1**	**3.45**

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.

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

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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May 30, 2012

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Store Openings Ramp, But Comps Stain TEA's Growth

TEA reports $0.10 1Q EPS in-line with consensus and beats MSe $0.09. However, negative store-only comps (-0.1%) and negative transactions (-3.0%) worry investors who drove the stock down 18% to $13.78 from $16.81.

We adjust our 2Q12 EPS from $0.02 to $0.03 and FY12 EPS from $0.58 to $0.59. We forecast operating margins to decline 150bps on a full year basis. We expect 2Q GM to remain relatively flat while SG&A deleverages 340bps on public company costs, store pre-opening expenses and added compensation expense.

Investors drove the stock down 18% on negative store comps and transactions. TEA reported -0.1% store-only comps and -3.0% transactions for 1Q. We were disappointed by negative store transaction trends re-emerging and were surprised by negative store comps. Typically, TEA has generated respectable +M-HSD comp growth. Given TEA's new store base, we would expect a large number of new stores in its comp base would provide a consistent and reliable comp lift.

Long-term outlook appears less rosy. Given significant comp deceleration, we revisited our bull/base/bear case scenarios and lowered our base case valuation to $16. While store openings are likely to continue to generate top line growth, we are concerned about EPS expansion after TEA reaches saturation (which we estimate is about 300-500 stores). We revise our base case price with our updated 2015 EPS estimate of $1.20. We believe TEA's multiple may continue to contract unless the company is able to show stable positive transaction trends and strong consistent comp growth.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Price target	**NA**
Shr price, close (May 30, 2012)	$13.78
Mkt cap, curr (mm)	$543
52-Week Range	$29.35-13.78

Fiscal Year ending	01/12	01/13e	01/14e	01/15e
EPS ($)**	0.46	0.59	0.75	0.95
Consensus EPS ($)§	0.47	0.60	0.80	1.03
Div yld (%)	0.0	0.0	0.0	0.0
ModelWare EPS ($)	0.39	0.50	0.65	0.83

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates

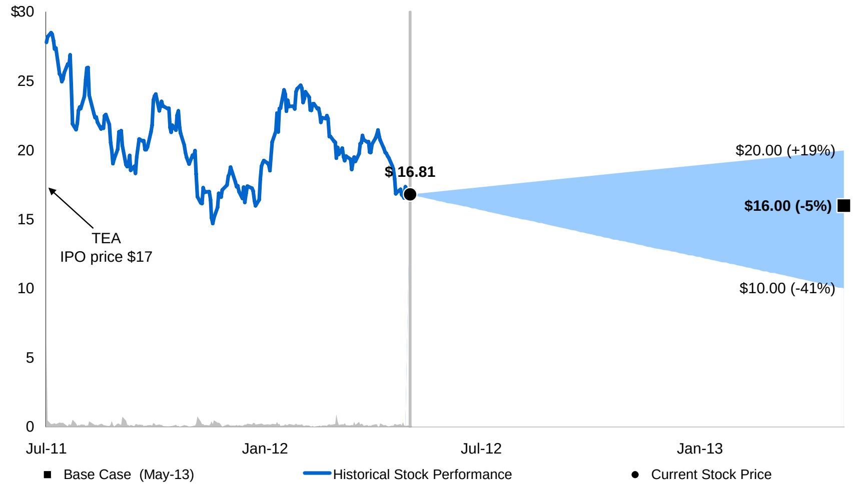
Quarterly ModelWare EPS

Quarter	2011	2012e Prior	2012e Current	2013e Prior	2013e Current
Q1	0.09	0.09	0.10	-	-
Q2	0.03	0.02	0.03	-	-
Q3	0.02	0.02	0.01	-	-
Q4	0.32	0.45	0.45	-	-

e = Morgan Stanley Research estimates

Risk-Reward Snapshot: Teavana (TEA, $13.78, EW)

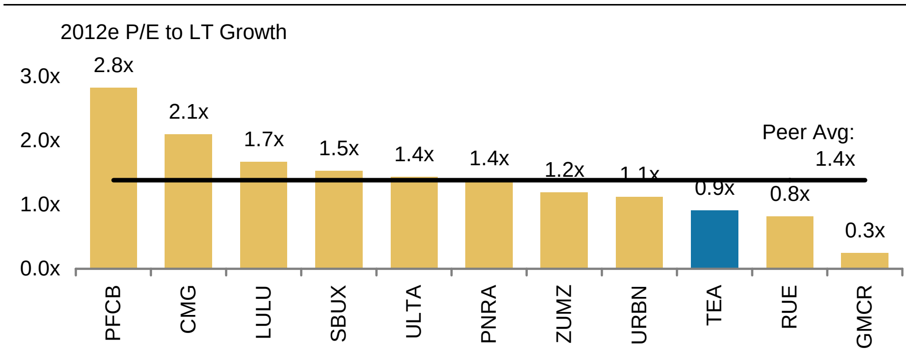
Risk-Reward View: TEA Is Currently Fully Valued



Source: Company Data, Morgan Stanley Research

Valuation Methodology – We derive our scenarios based on 2015 earnings potential and apply a P/E multiple reflecting maturity. The price is discounted back 2 years.		
Bull Case $20	15x Bull Case 2015e EPS of $1.50	**Teavana achieves retail nirvana.** Positive traffic and store transactions push comps to +HSD. Gross margins rise on sales leverage on new store occupancy costs to achieve a 25% op marg. We apply a 15x multiple in 2015 and discount back at 7%.
Base Case $16	14x Base Case 2015e EPS of $1.20	**Steady as TEA goes.** Teavana continues on its current trajectory with +MSD comps, 30% store growth and op marg expansion to 21%. We apply a 14x multiple in 2015 and discount back at 7%.
Bear Case $10	13x Bear Case 2015e EPS of $0.90	**TEA taps out.** Store transactions continue negative trend, slowing comp growth to flat to +LSD. Merchandise mix lowers GM and lower sales results in less than expected SGA leverage leading to flat operating margins. We apply a 13x multiple in 2015 and discount back at 10% on greater execution risk.

As Comps Decelerate, TEA's PEG Ratio Is Below Peer Average



Source: Morgan Stanley, Thomson Reuters.

Investment Thesis

- **Following the Whole Foods/lululemon model.** TEA follows Whole Foods and lululemon in the healthy lifestyle focus, a growing market with high margins.
- **TEA has room to grow.** In our universe, TEA has the lowest saturation rate in our coverage (2011 stores vs. LT plan) at 40% vs. the 74% sector average. Our analysis supports 300-500 total potential stores.
- **Slowing comp trends.** Given recent momentum slowdown, we think Teavana may have difficulty sustaining +MSD comps.

Risks

- Declining store transaction trends signal the concept may have difficulty growing at maturity
- Weakening / strengthening economy and mall traffic
- Increased competition (stores, online)
- Positive margin mix shift fails to materialize
- Smaller than anticipated addressable market

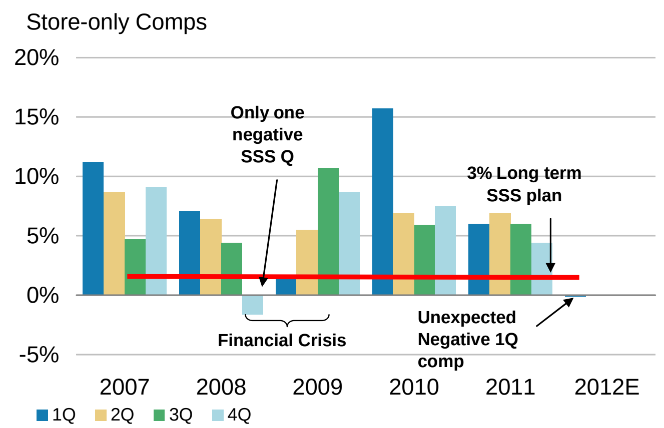
Valuation

- Current valuation reflects growth: At 28x our $0.59 2012e EPS (and 0.9x our 31% long-term growth rate), we think Teavana's shares largely reflect its current sales and earnings potential.
- We look for 1) a more attractive entry point or 2) sustained >MSD% same store sales growth in addition to improved store transaction trends.

TEA reports negative SSS growth for the first time since 4Q 2008. TEA's 1Q report revealed a -0.1% store-only comp causing concern over the company's sustainable growth profile. The previous -1.6% SSS decline in 4Q 2008 can be explained by consumers cutting back during the financial crisis. We have more difficulty understanding 1Q12's negative trend. While topline growth remained strong at 27% driven by 39% y/y door growth, visibility into sustained growth after stores reach saturation appears more challenging than previously thought. While average ticket increased +2.7%, number of transactions in the quarter declined -3.0%, signaling that fewer customers are purchasing at the store.

Exhibit 1

1Q Delivered An Unexpected Negative Store Comp

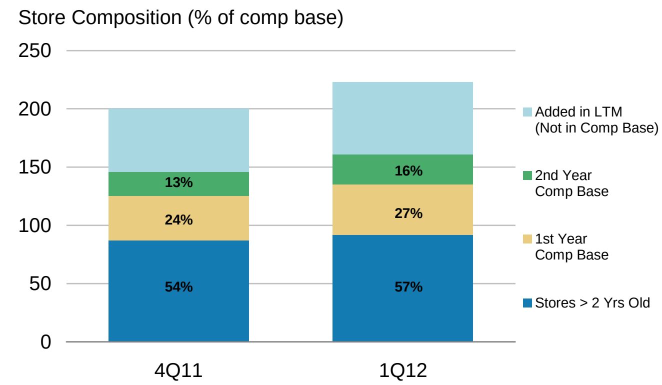


Source: Company Data, Morgan Stanley Research

We are puzzled most about comp deceleration in light of the large number of new stores. Rolling a large number of new stores into the comp base should provide a consistent and reliable comp lift. Given that TEA's new stores open at approximately 75% productivity, they should comp 10% annually for 3 years to achieve mature store volumes 4 years after opening. Stores in their first year are not in the comp base and generate approximately 75% productivity (TEA reported 77% new store productivity in 1Q). In the second year, stores should enter the comp base and achieve 82.5% productivity with a 10% comp, then 91% the following year, assuming another 10% comp. Finally, stores should reach 100% productivity after another 10% in the fourth year. Our analysis of TEA's store base shows 43% of stores in 1Q12 were in their first two years in the comp base. Given the large percentage of stores below full productivity, this implies that the company should generate much stronger comps than the current trend.

Exhibit 2

Slightly Less Than Half TEA's Stores Are In The First Two Years In the Comp Base



Source: Company Data, Morgan Stanley Research

Inventory Per Square Foot Declines As New Store Openings Ramp

TEA ended 1Q12 with 25.9% total inventory growth year over year. This compares to 1Q's +26.8% sales increase and our forecast for +28.1% sales growth in 2Q12. We calculate inventory per square foot declined -7.7% primarily due to a 39% increase in TEA's store base (from 161 to 223 stores). Inventory turns for the quarter decreased to 0.65x vs. 0.71x last year. Looking ahead, we forecast a +2% y/y increase in 2Q inventory per square foot with total inventory dollars rising +58.2% vs. LY.

Valuation

We revise our Base Case price target from $17 to $16 based on our updated 2015 estimate of $1.20. We apply a 15x multiple to 2015 earnings and discount back 2 years at a 7% to arrive at our 12-month price target.

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Exhibit 3

Summary Operating Results & Management Guidance *($ millions)*

Metric	1Q12	1Q11	% / Bps change	EPS Variance vs. MS	1Q Comments	Guidance
Sales	$44.3mm	$34.9mm	+26.8%	+1c	Total sales increased +27%, to $44.3mm vs. $34.9mm LY. Comparable store sales increased +1.7% (including eCommerce), driven by a +0.2% increase in average ticket and a +1.5% growth in the number of transactions. Excluding beverage sales, the average ticket increased +2.0% and transactions decreased -0.5%.	*2Q12: We estimate +28.1% total sales growth on flat to +LSD comp growth.* 2Q12: Expect total net sales to be $38mm to $40mm on +L-MSD comp growth. FY12: Expect total net sales to be $208mm to $215mm on +MSD comp growth.
Gross Margin	64.1%	64.4%	-30 bps	+1c	Gross margin for the quarter was 64.1% vs. 64.4% LY. The -30bps decline was due to a lower tea mix and less leveraged store occupancy costs. Sales mix in 1Q12 was tea 59%, merchandise 37%, and beverage 4% (vs. 60%, 36% and 4%, respectively LY).	*2Q12: We estimate gross margin to be 61.4% vs. 61.1% LY.*
SG&A Rate	46.2%	42.2%	+400 bps	-1c	SG&A dollars increased 39% to $20.5mm vs. $14.8mm. SG&A rate increased +400bps due to store openings, stock compensation and higher costs for being a public company vs. being a private company LY.	*2Q12: We estimate SG&A as a % of sales to be 52.5% vs. 49.1% LY.*
Operating Margin	13.9%	18.5%	-460 bps			
Net Interest Expense (Income)	$0.1mm	$0.7mm	-89.6%			
Tax Rate	38.9%	42.4%	-350 bps			
Net Income	$3.7mm	$3.3mm	+11.8%			2Q12: Expect net income to be $0.6mm to $1.0mm. FY12: Expect net income to be $23mm to $24mm.
Shares Outstanding	39.1mm	36.7mm	+6.4%			
EPS	$0.10	$0.09	+5.1%			*2Q12: We estimate EPS $0.03 vs. same LY.* 2Q12: Expect EPS $0.02-$0.03 vs. $0.03 LY. FY12: Expect EPS $0.58-$0.61 vs. $0.46 LY.
Cash& Equivalent	$20.0mm	$3.7mm	+435.8%			FY12: Expect capex of ~$20mm.
Inventory	$23.0mm	$18.3mm	+25.9%		Inventory at the close of the quarter increased +26% to $23.0mm from $18.3mm LY. We calculate inventory psf decreased -8% vs. LY.	
Inventory Turn	0.65x	0.71x	-8% slower			
Net Store Openings	+62	+43	+36.5% square footage		During the quarter the company opened 23 stores, ending the quarter with 223 Company-owned stores.	2Q12: Expect to open 13-14 new stores. FY12: Expect to open 60 new stores.

Source: Company Data, Morgan Stanley Research

Exhibit 4

Teavana Income Statement (adjusted for Teaopia Transaction)

	2010				2011				2012E			
Income Statement	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan
Total Sales	$26	$23	$25	$51	$35	$31	$33	$68	$44	$40	$43	$97
Cost of Goods Sold	10	9	10	17	12	12	13	24	16	16	17	34
Gross Profit	16	14	15	35	22	19	21	45	28	25	26	63
SG&A Expense	11	11	12	17	15	15	18	22	20	21	24	31
Depr. & Amort.	1	1	1	1	1	1	2	2	2	2	2	2
Operating Income	4	2	1	17	6	2	2	21	6	2	1	30
Interest Income/(Expense)	(0.6)	(0.7)	(0.7)	(0.6)	(0.7)	(0.7)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Pretax Income	3.4	1.0	0.6	16.0	5.8	1.6	1.5	21.1	6.1	1.7	0.7	30.1
Taxes	1	0	0	7	2	1	1	9	2	1	0	12
Net Income from Operatioı	1.9	0.6	0.3	9.2	3.3	1.0	0.9	12.5	3.7	1.0	0.4	17.9
Earnings Per Share	$0.05	$0.02	$0.01	$0.24	$0.09	$0.03	$0.02	$0.32	$0.10	$0.03	$0.01	$0.45
Average Shares	37.5	37.6	38.0	37.7	36.7	37.8	39.0	39.1	39.1	39.2	39.4	39.5
EBITDA	$5	$3	$2	$18	$8	$4	$3	$23	$8	$4	$3	$32
Margin Analysis												
Gross Margin	61.1%	58.9%	58.6%	67.7%	64.4%	61.1%	61.9%	65.6%	64.1%	61.4%	61.3%	65.0%
Expense Ratio	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%	46.2%	52.5%	55.1%	31.8%
Operating Margin	15.5%	7.2%	5.2%	32.4%	18.5%	7.4%	4.8%	31.0%	13.9%	4.4%	1.7%	31.1%
Pretax Margin	13.0%	4.4%	2.4%	31.2%	16.5%	5.1%	4.5%	30.8%	13.7%	4.2%	1.5%	31.1%
Tax Rate	42.6%	42.6%	42.4%	42.6%	42.4%	35.2%	37.2%	40.8%	38.9%	39.0%	40.0%	40.5%
Net Margin	7.5%	2.5%	1.4%	17.9%	9.5%	3.3%	2.8%	18.2%	8.4%	2.5%	0.9%	18.5%
EBITDA Margin	19.2%	11.8%	9.7%	34.8%	22.1%	12.0%	9.5%	33.4%	17.9%	8.9%	6.2%	33.2%
Year-Over-Year Growth												
Sales	43.3%	33.1%	32.4%	41.0%	35.6%	36.3%	35.1%	33.6%	26.8%	28.1%	28.3%	41.7%
Comp. Store Sales	15.7%	6.9%	5.9%	7.5%	6.0%	6.9%	6.0%	4.4%	6.0%	6.9%	6.0%	4.4%
SG&A Expense	26.2%	26.1%	33.2%	41.4%	36.6%	42.2%	44.5%	30.9%	38.8%	37.1%	35.0%	39.8%
Operating Income	276.7%	338.1%	100.5%	63.8%	62.1%	40.8%	26.0%	27.8%	-4.7%	-24.9%	-54.2%	42.4%
Earnings Per Share	674.2%	-567.6%	NM	75.0%	75.5%	77.5%	169.2%	31.6%	5.1%	-4.4%	-57.9%	41.9%
EBITDA	166.7%	117.6%	54.3%	61.3%	56.1%	38.4%	32.5%	28.4%	2.6%	-5.5%	-16.7%	40.8%

Income Statement	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Total Sales	$34	$47	$64	$90	$125	$168	$224	$271	$327	$385
Cost of Goods Sold	$16	$20	$27	$36	$46	$61	$82	$98	$116	$134
Gross Profit	$18	$27	$37	$54	$78	$107	$142	$173	$211	$251
SG&A Expense	16	22	29	38	51	70	96	113	135	156
Depr. & Amort.	2	2	3	3	4	6	7	9	12	14
Operating Income	($0)	$3	$5	$12	$23	$32	$39	$51	$64	$81
Interest Income/(Expense)	(1)	(2)	(2)	(2)	(3)	(2)	(0)	(1)	(1)	(1)
Pretax Income	($1)	$1	$3	$10	$21	$30	$39	$50	$63	$80
Taxes	(0)	1	2	4	9	12	15	20	26	32
Net Income from Operatioı	($1.3)	$0.4	$1.2	$5.3	$12.0	$17.8	$23.0	$29.8	$37.7	$47.6
Earnings Per Share	($0.04)	$0.01	$0.03	$0.14	$0.32	$0.46	$0.59	$0.75	$0.95	$1.20
Average Shares	36.7	36.8	37.1	37.3	37.7	38.4	39.3	39.7	39.7	39.7
EBITDA	$1.3	$5.0	$7.4	$15.7	$27.9	$37.5	$46.3	$60.1	$75.6	$94.8
Margin Analysis										
Gross Margin	52.8%	57.7%	57.4%	59.6%	62.9%	63.8%	63.5%	64.0%	64.5%	65.2%
Expense Ratio	48.9%	47.1%	45.8%	42.3%	40.6%	41.5%	42.8%	41.8%	41.4%	40.6%
Operating Margin	-0.5%	6.3%	7.5%	13.5%	18.8%	18.8%	17.3%	18.7%	19.5%	20.9%
Pretax Margin	-4.3%	2.9%	4.2%	10.8%	16.8%	17.8%	17.2%	18.5%	19.3%	20.8%
Tax Rate	7.1%	72.7%	55.7%	45.8%	42.6%	40.6%	40.2%	40.5%	40.5%	40.5%
Net Margin	-4.0%	0.8%	1.9%	5.9%	9.6%	10.6%	10.3%	11.0%	11.5%	12.3%
EBITDA Margin	4.0%	10.6%	11.6%	17.4%	22.3%	22.3%	20.6%	22.2%	23.1%	24.6%
Year-Over-Year Growth										
Sales		39.8%	35.3%	41.3%	38.2%	34.8%	33.4%	20.8%	20.7%	17.7%
Comp. Store Sales		8.4%	3.0%	6.9%	8.7%	5.5%	0.4%	4.0%	4.0%	4.0%
SG&A Expense		34.8%	31.5%	30.4%	32.6%	37.8%	37.8%	17.9%	19.6%	15.5%
Operating Income		NM	59.9%	156.2%	92.6%	34.4%	22.9%	30.5%	25.9%	26.2%
Earnings Per Share		NM	213.7%	339.0%	124.6%	45.3%	26.8%	28.2%	26.2%	26.3%
EBITDA		273.9%	48.5%	111.2%	77.6%	34.7%	23.4%	29.9%	25.6%	25.4%

Source: Company Data, Morgan Stanley Research

Exhibit 5

Teavana Balance Sheet

	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Assets										
Cash and cash equivalents	$1.1	$0.8	$1.2	$1.3	$7.9	$17.8	$12.1	$27.2	$35.7	$63.1
ST investments	0.0	0.0	0.0	0.0	0.0	0.0	5.0	10.0	15.0	20.0
Accounts receivable	0.0	0.0	0.0	0.3	0.3	0.4	0.5	0.6	0.8	0.9
Merchandise inventories	4.9	6.2	8.0	11.6	16.9	25.7	33.6	32.5	39.3	46.2
Prepaid minimum rent	0.0	0.0	0.0	1.1	1.4	1.9	2.5	3.0	3.6	4.3
Other	0.0	0.0	0.0	1.8	3.7	3.9	4.9	5.9	6.9	7.9
Total Current Assets	$5.9	$6.9	$9.1	$16.0	$30.2	$49.7	$58.7	$79.2	$101.3	$142.4
							12.9			
Net property and equipment	11.0	13.2	19.4	22.5	31.0	42.8	55.3	70.2	87.9	108.3
Goodwill, net	0.0	0.0	0.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Deferred income Taxes	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.3	5.4	6.8	0.6	0.5	0.8	0.8	0.8	0.8	0.8
TOTAL ASSETS	$22.2	$25.5	$35.4	$41.8	$64.1	$95.6	$117.2	$152.6	$192.3	$253.9
Liabilities and Shareholders' Equity										
Accounts payable	$0.0	$0.0	$0.0	$2.6	$3.6	$3.9	$5.1	$4.9	$6.0	$7.0
Line of credit	1.4	0.9	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	1.1	1.3	1.8	1.8	1.8	1.8	1.8
Other liabilities	7.7	9.8	12.0	7.6	23.3	1.8	11.2	13.5	16.4	19.3
Accrued expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable & accrued exp - related parties	0.0	0.0	0.0	0.0	0.0	5.0	6.9	8.2	11.3	2.3
Total Current Liabilities	$9.1	$10.7	$17.6	$11.3	$28.3	$12.6	$25.1	$28.5	$35.4	$30.4
Deferred Rent & Tenant Allowances	$0.0	$0.0	$0.0	$0.0	$0.0	$12.9	$20.0	$25.3	$29.7	$29.7
Long-term debt	0.0	0.0	0.0	1.0	1.0	2.6	2.6	2.6	2.6	2.6
Preferred Stock	6.3	7.6	9.1	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Retirement Benefit Plan Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	0.0	4.5	8.0	0.6	10.0	10.0	10.0	10.0
Deferred taxes	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Total Long-Term Liabilities	$6.3	$7.6	$9.1	$16.3	$9.5	$16.1	$32.5	$37.9	$42.3	$42.3
Shareholders' Equity:										
Common stock	$10.1	$12.2	$15.8	$21.9	$81.4	$0.0	$0.0	$0.0	$0.0	$0.0
Additional paid-in capital	0.0	0.0	0.0	0.0	0.0	276.8	276.8	276.8	276.8	276.8
Retained earnings	(3.3)	(4.8)	(7.1)	(7.7)	(55.1)	(209.8)	(217.2)	(190.5)	(162.2)	(95.6)
Notes receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	$6.8	$7.3	$8.7	$14.2	$26.3	$67.0	$59.6	$86.3	$114.6	$181.2
TOTAL LIABILITIES AND S/H EQUITY	$22.2	$25.5	$35.4	$41.8	$64.1	$95.6	$117.2	$152.6	$192.3	$253.9

Source: Company Data, Morgan Stanley Research

Exhibit 6

Teavana Cash Flow Statement

	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Net income	$1.2	$5.3	$12.0	$17.8	$23.0	$29.8	$37.7	$47.6
Depreciation and amortization	2.7	3.5	4.4	5.9	7.5	9.5	11.8	14.3
Deferred income taxes	(0.6)	0.5	(0.3)	1.9	0.0	0.0	0.0	0.0
Other	1.9	2.1	2.6	(0.6)	1.0	(1.0)	(1.0)	(1.0)
TOTAL OPERATING SOURCES	$5.2	$11.4	$18.7	$25.0	$31.5	$38.3	$48.4	$60.8
Capital expenditures	8.8	6.6	12.6	17.6	20.0	24.4	29.4	34.7
Increase (decrease) in								
Inventories	$1.8	$3.6	$5.3	$8.7	$8.0	($1.1)	$6.7	$7.0
Receivables	(0.2)	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Prepaid expenses	0.7	(0.2)	1.1	0.1	0.6	0.5	0.6	0.6
Other assets	0.2	0.3	0.3	0.5	1.0	1.0	1.0	1.0
(Increase) decrease in								
Accounts payable, deferred revenue, accrued expenses, and ot	2.0	2.7	5.4	0.5	(10.6)	(2.2)	(3.8)	(4.0)
Income taxes paid, and deferred rent	0.0	0.0	0.0	5.3	(1.9)	(1.2)	(3.1)	9.0
Other assets and liabilities	0.4	0.9	2.1	(0.5)	0.0	0.0	0.0	0.0
Total working capital uses	$0.2	$0.3	($0.7)	$4.0	$22.2	$3.9	$15.4	$3.7
TOTAL OPERATING USES	$9.0	$7.0	$11.8	$21.6	$42.2	$28.3	$44.9	$38.4
INTERNAL CASH GENERATION (FUNDS NEEDED)	($3.8)	$4.4	$6.8	$3.4	($10.7)	$10.0	$3.5	$22.4
Short-term investments, net	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0
Increase in long-term debt	(0.6)	0.0	(0.3)	0.0	0.0	0.0	0.0	0.0
Net borrowings under credit facility	5.3	(4.3)	0.0	(1.0)	0.0	0.0	0.0	0.0
Distributions paid to members	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.0	0.0	3.6	0.0	0.0	0.0	0.0
Common / preferred stock adjustments	0.0	0.0	0.0	4.4	0.0	0.0	0.0	0.0
Share repurchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment and redemption of dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing costs	(0.4)	(0.0)	0.0	(0.4)	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXTERNAL SOURCES	$4.3	($4.3)	($0.3)	$6.5	$5.0	$5.0	$5.0	$5.0
Effect of exchange rates on cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beginning cash balance	0.8	1.2	1.3	7.9	17.8	12.1	27.2	35.7
Increase (decrease) in cash	0.4	0.1	6.6	9.9	(5.7)	15.0	8.5	27.4
Ending cash balance	1.2	1.3	7.9	17.8	12.1	27.2	35.7	63.1
Total External Sources & Cash	($3.8)	$4.4	$6.8	$3.4	($10.7)	$10.0	$3.5	$22.4

Source: Company Data, Morgan Stanley Research

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(as of April 30, 2012)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1115**	**38%**	**459**	**42%**	**41%**
Equal-weight/Hold	**1254**	**43%**	**474**	**44%**	**38%**
Not-Rated/Hold	**100**	**3%**	**25**	**2%**	**25%**
Underweight/Sell	**471**	**16%**	**124**	**11%**	**26%**
Total	**2,940**		**1082**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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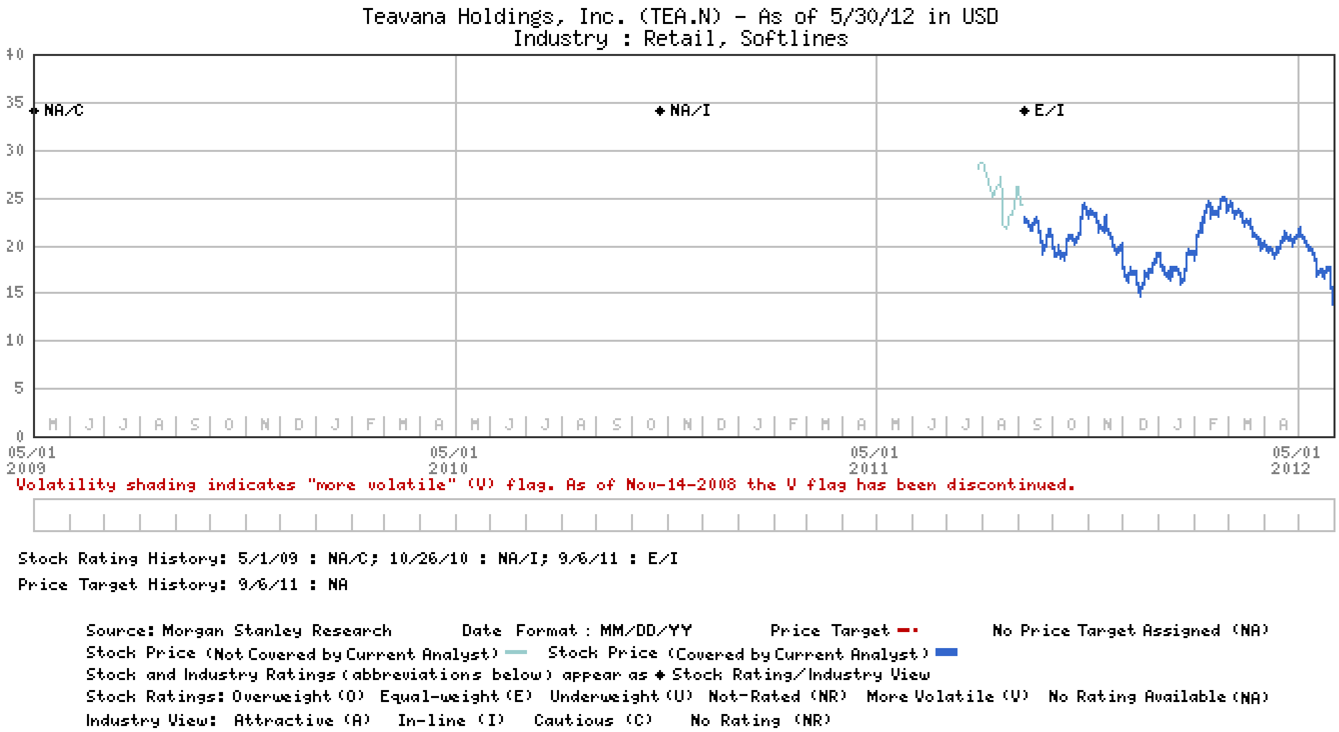
Stock Price, Price Target and Rating History (See Rating Definitions)



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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (05/30/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	$27.74
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$33.89
Aeropostale Inc (ARO.N)	U (10/26/2010)	$18.6
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	$19.62
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$14.95
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$46.41
Coach Inc (COH.N)	E (11/04/2011)	$68.6
Express, Inc. (EXPR.N)	O (01/31/2011)	$18.95
Gap Inc (GPS.N)	E (10/26/2010)	$26.67
Limited Brands Inc (LTD.N)	O (10/26/2010)	$45.84
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$72.98
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	$40
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$62.55
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$13.15
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$41.33
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$13.78
Tiffany & Co. (TIF.N)	E (11/04/2011)	$56.59
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$28.19

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Teavana Holdings, Inc.:

TEA: 1Q Dissecting the Components of Growth

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Rating	BUY
Price	$13.78
12- Mo. Price Target	$26.00
Dividend	$0.00
Yield	0.0%
52- Wk. Range	$13 - $29
Trading Volume (000)	249
Market Cap. (mm)	$537.4
Shares Out. (mm)	39.00
Book Value/Share	$1.38

EPS (Net) Summary

FY Jan	2011A	2012E	2013E
1Q	$0.09	$0.10A	- -
2Q	$0.03	$0.02	- -
Prior	*$0.03*	*$0.04*	- -
3Q	$0.02	$0.03	- -
4Q	$0.32	$0.42	- -
YEAR	$0.46	$0.57	$0.78
Prior	*$0.46*	*$0.59*	*$0.81*
First Call	- -	$0.60E	$0.80E
P/E	30.0x	24.2x	17.7x

ACTION STATEMENT

While we do not use comps as the sole arbiter of retail health, Teavana Holdings, Inc.'s (TEA-NYSE) -0.1% store comp does deserve attention given its 24.2x 2012 P/E. Teavana reported adjusted 1Q12 EPS of $0.10, in line with KBCM and consensus estimates. Our long-term thesis on Teavana remains largely unchanged; we believe the Company is moving quickly to address a growing market with a unique store concept and culture. However, the business has a number of moving parts (30% square footage growth, Teaopia acquisition) that has made this more of door growth vs. comp growth story. We believe that in order to achieve a premium valuation, the Company needs to have some element of both. We think that the door growth, operational improvements (new VP of Marketing), and Teaopia acquisition could drive better comp performance over time. We are lowering our price target from $28 to $26 on our more circumspect near-term view, which implies a 45.5x 2012 P/E compared to 30.8x P/E for the active and healthy lifestyle peer group.

- **Price Target: $26.00 from $28.00**
- **2012E: $0.57 from $0.59**
- **2013E: $0.78 from $0.81**

KEY INVESTMENT POINTS

Many reasons, but few answers. Investor angst concerning tepid comps is warranted, in our opinion. Management noted that comps had decelerated in the East and Midwest and that there was a meaningful delta in performance vs. the West region. While we believe weather may have had an impact, we also believe that more cautious regional commentary (Tiffany & Co. [TIF- NYSE], Nordstrom, Inc. [JWN- NYSE], among others) may portend to a high- end consumer pullback in the region. The Company noted that the regional disparity had compressed in recent weeks, but 2Q sales guidance of $38 million- $40 million points to weakness earlier in the quarter.

Could near- term store growth be masking long- term earnings growth? Perhaps. First, new stores seem to be opening strongly, with $700,000 first year revenue achieving the high- end of TEA's new store model. Teaopia stores achieve half of the productivity of the TEA stores ($435 per door vs. $913 at a TEA store), which presents a meaningful opportunity. Both, over time, should drive a higher penetration of loose tea. We believe this could drive 25%+ earnings growth in 2H12 and 2013, even without high single- digit comps.

1Q wrap. TEA reported adjusted 1Q EPS of $0.10 (ex. transaction and integration planning expenses), in line with KBCM and consensus estimates. Sales increased 26.8% year- over- year to $44.3 million and comps (including e- commerce) were up 1.7%, while inventory increased 26.0% year- over- year. Gross margin declined 23 bps year- over- year to 64.1%. SG&A rate deleveraged 400 bps to 46.2% and SG&A dollars increased 38.8% to $20.5 million, excluding Teaopia transaction expenses. The Company opened 23 new stores in 1Q12 and ended the quarter with 223 stores. The Company guided 2Q12 EPS to $0.02- $0.03 and FY12 EPS to $0.58- $0.61 excluding the impact from Teaopia.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 9 - 10 OF THIS NOTE.

VALUATION

At 24.2x 2012 P/E, 11.2x 2012 EV/EBITDA and 0.8x 2012 PEG, we believe valuation is opportunistic for a high- growth retailer. We think the Company can accelerate earnings growth, particularly given its aggressive new store opening program and strong new store economics. Thus, we think Teavana should trade at a premium based on our $26 price target, which implies a 45.5x P/E on our $0.57 2012 EPS estimate. Currently, the active and healthy lifestyle peer group trades at 30.8x 2012 P/E, 12.8x 2012 EV/EBITDA and 1.4x 2012 PEG. Additionally, TEA currently trades at a 2.4x 2012 EV/Sales compared to 2.2x EV/Sales for the peer group.

RISKS

Risks 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 and retention of senior management.

Revenue Summary

	2011A	Prior 2011A	2012E	Prior 2012E	2013E	Prior 2013E
1Q	$34.9	$34.9	$44.3A	$45.2	- -	- -
2Q	$31.3	$31.3	$39.5	$43.1	- -	- -
3Q	$33.4	$33.4	$42.6	$45.3	- -	- -
4Q	$68.4	$68.4	$87.6	$93.0	- -	- -
YEAR	$168.1	$168.1	$214.0	$226.6	$270.2	$286.6

Source: KeyBanc Capital Markets Inc. estimates

LOOKING FORWARD

Long-term earnings growth. While comp growth lost momentum, sales increased 26.8% year-over-year and store expansion plans are ahead of plan (23 openings vs. 18-20 guided for 1Q12). Looking forward, the Company plans to continue its store growth plans and we believe Teavana will be able to achieve +25% earnings growth in the long term.

- **Store penetration of high-traffic, domestic malls.** There seems to be some runway in store penetration given that approximately 50 A-mall locations will remain untouched at the end of 2012. Additionally, roughly half of the 60 planned openings in FY12 will be located in A-malls. With 23 stores opened in 1Q12, the Company expects to open 13-14 stores in 2Q12.
- **Integrating Teaopia.** The Company expects the acquisition to close in 2Q12 and subsequently plans to rebrand all Teaopia stores as Teavana. In the following months, the Company will be sending Teaopia's management teams to Atlanta, Ga. for training and hopes that this, combined with Teavana's exclusive products and merchandising strategy, will drive Teaopia's sales productivity closer to Teavana's.

THE KBCM LAUNDRY LIST

1Q12 EPS of $0.10, in line with KBCM and consensus estimates of $0.10.

Gross margin declined 23 bps to 64.1% and operating margin declined 459 bps to 13.9%.

Sales increased 26.8% year-over-year, outpacing inventory growth of 26.0% year-over-year.

CAUTIOUS SHORT TERM; REMAIN OPTIMISTIC LONG TERM

Exhibit 1. Sales Growth Aligned Closely with Inventory Growth

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Sales ($mm)	25.8	23.0	24.7	51.2	34.9	31.3	33.4	68.4	44.3
Y/Y change (%)	43%	33%	32%	41%	36%	36%	35%	34%	27%
Inventory				16.9	18.3	22.7	32.5	25.7	23.0
Y/Y change (%)				46%				52%	26%
Delta				**-477**				**-1,804**	**88**

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

Exhibit 2. Gross Margin Declined in 1Q12

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Sales ($mm)	25.8	23.0	24.7	51.2	34.9	31.3	33.4	68.4	44.3
Gross Margin (%)	61%	59%	59%	68%	64%	61%	62%	66%	64%
Y/Y change (bps)	**321**	**198**	**167**	**448**	**325**	**223**	**323**	**-202**	**-23**

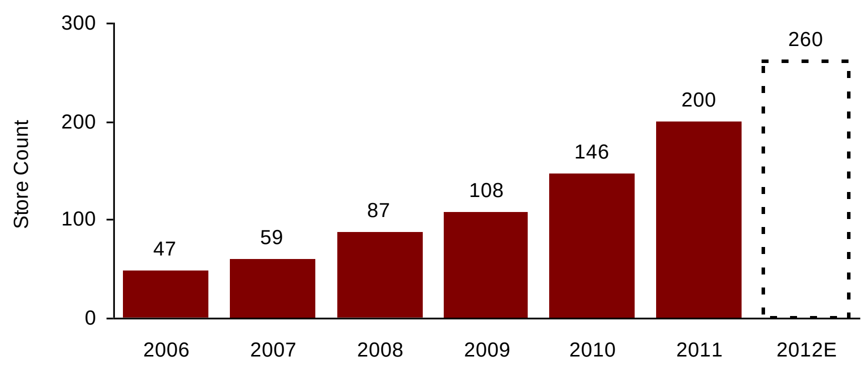
Source: KBCM estimates and Company reports.

Exhibit 3. SG&A Expense Deleverage Driven by Store Opening Costs in 1Q12

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Comp Growth (%)	**16%**	**7%**	**6%**	**8%**	**6%**	**7%**	**6%**	**4%**	**(0%)**
SG&A	10.8	10.8	12.1	16.8	14.8	15.4	17.5	22.0	20.5
Y/Y change (%)					**36.6%**	**42.2%**	**44.5%**	**30.9%**	**38.8%**
SG&A/sales	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%	46.2%
Y/Y change (bps)					**34**	**204**	**341**	**-67**	**400**

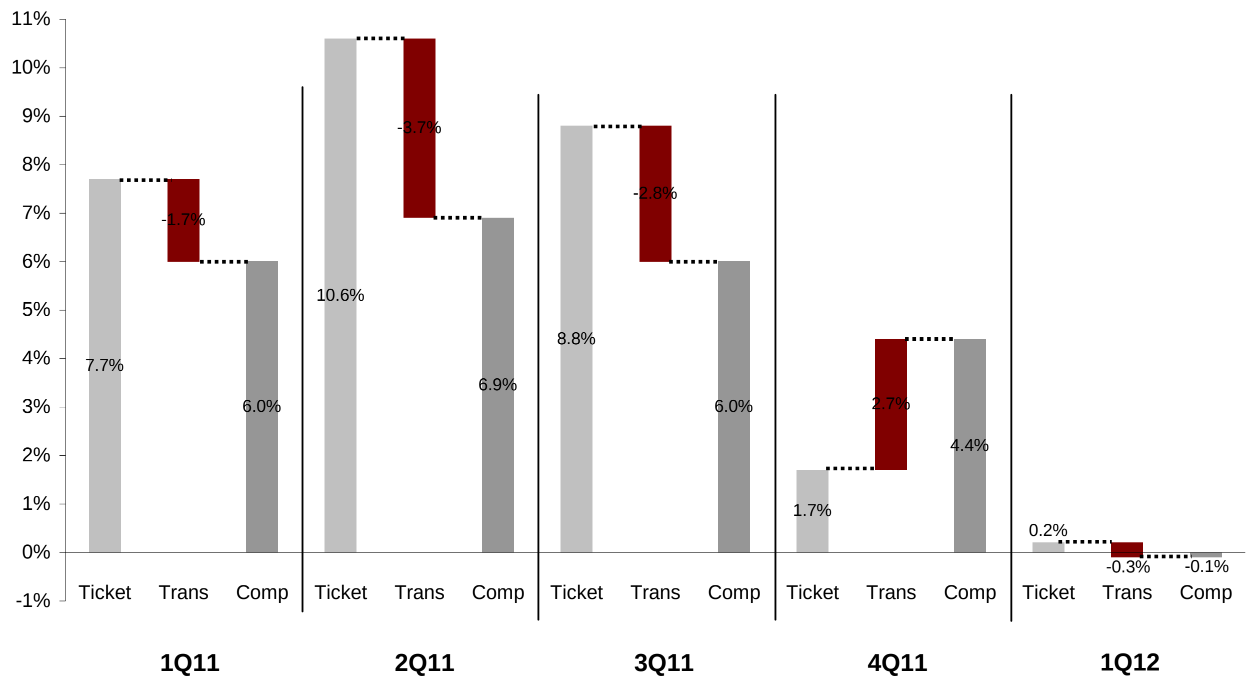
Source: Company reports.

Exhibit 4. 23 Store Openings in 1Q12; Expect 60 Store Openings in 2012



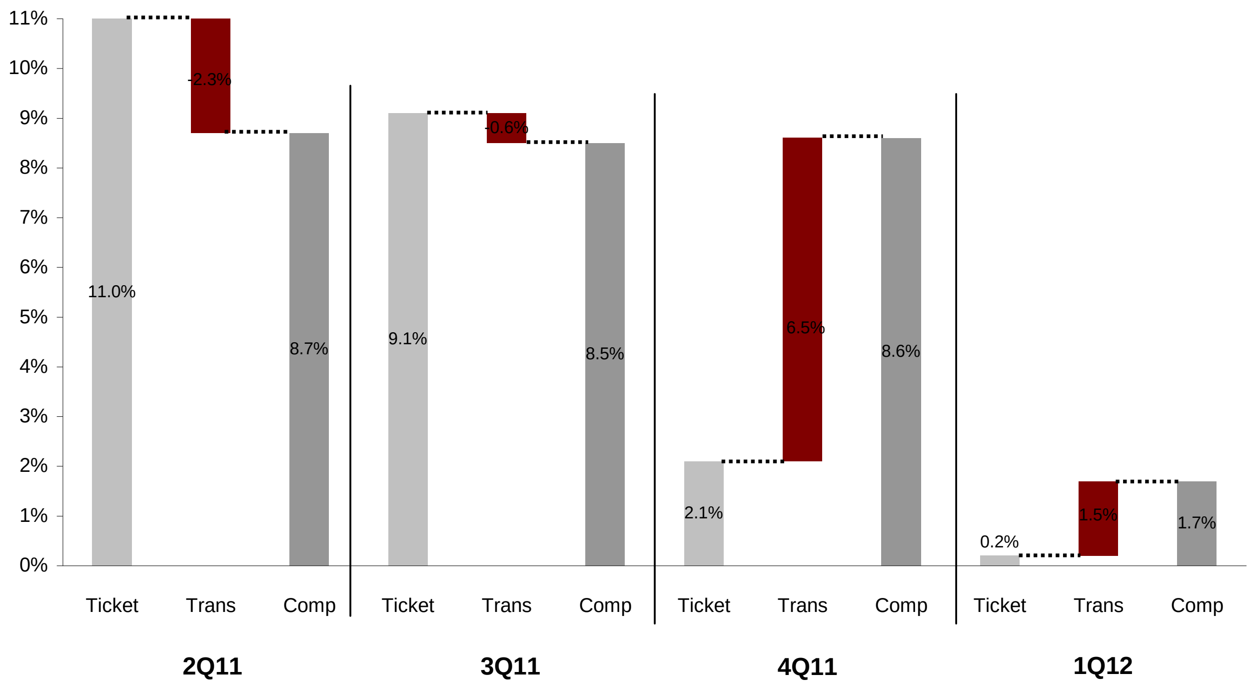
Source: Company reports.

Exhibit 5. Comp Drivers ex. E-Commerce



Source: KBCM estimates and Company reports.

Exhibit 6. Comp Drivers Incl. E-commerce



Source: KBCM estimates and Company reports.

EARNINGS REVISIONS

We are adjusting our estimates. We are adjusting our 2Q12 EPS estimate from $0.04 to $0.02, our FY12 EPS estimate from $0.59 to $0.57 and our FY13 EPS estimate from $0.81 to $0.78.

Exhibit 7. EPS Estimate Changes

	2Q12E	3Q12E	4Q12E	FY12E	FY13E
New EPS	**$0.02**	**$0.03**	**$0.42**	**$0.57**	**$0.78**
Old EPS	$0.04	$0.03	$0.42	$0.59	$0.81
Change	*($0.02)*	-	-	*($0.02)*	*($0.03)*

Source: Company, FactSet, & KBCM estimates.

Exhibit 8. EPS Beats Summary

	Consensus EPS	Reported EPS	Delta	Stock Price	Stock Reaction
1Q12	**$0.10**	**$0.10**	**$0.00**	**$13.78**	**-18.0%**
4Q11	$0.31	$0.32	$0.01	$19.43	-5.6%
3Q11	$0.02	$0.02	$0.00	$18.28	9.8%
2Q11	$0.03	$0.03	$0.00	$25.98	8.3%

Source: Company reports and FactSet as of May 2012.
Note: Stock price reaction compares stock price close on day prior to earnings release with close on day of earnings release and may or may not reflect an impact from overall market conditions. ***Results presented cannot and should not be viewed as an indicator of future performance***

Exhibit 9. KBCM Estimates vs. Actual

($ in millions)	1Q11 Actual	1Q12 Forecast	1Q12 Actual	+/- Actual vs. Forecast
Revenues	34.9	45.2	44.3	-2%
Cost of goods sold	12.5	16.5	15.9	-4%
Gross profit	22.5	28.7	28.4	-1%
Selling, general & administrative expense	14.8	19.8	20.5	4%
Depreciation and amortization expense	1.3	1.7	1.8	5%
Operating income	6.5	7.2	6.2	-15%
Earnings before income taxes	5.8	7.1	6.1	-15%
Income tax expense	2.4	3.0	2.4	-22%
Net earnings	3.3	4.1	3.7	-9%
Weighted average shares outstanding - diluted	37.7	39.1	39.1	0%
Earnings per share - diluted	**$0.09**	**$0.10**	**$0.10**	-9%
Margins				
Gross margin	64.4%	63.5%	64.1%	
SG&A/Sales	42.2%	43.7%	46.2%	
Operating margin	18.5%	16.0%	13.9%	

Source: KBCM estimates and Company reports.

Exhibit 10. Updated Guidance Summary

	Guidance	Commentary
2Q12		
Sales	$38mm-$40mm	excluding impact of planned Teaopia acquisition e-commerce expected to increase from 1Q12 rate and migrate closer to historical annual growth rate
Comp store sales	+LSD-MSD	including e-commerce
Net income	$0.6mm-$1.0mm	
EPS	$0.02-$0.03	
Teaopia EPS impact	$0.02 dilutive	Expected to be dilutive to EPS by $0.02 (ex. transaction expenses of $0.03). Acquisition expected to close in 2Q12.
S/o	39.4mm	
Store openings	13-14	
2012		
Sales	$208mm-$215mm	excluding impact of planned Teaopia acquisition
Comp store sales	+MSD	including e-commerce
Net income	$23.0mm-$24.0mm	reflecting a 30%-35% increase vs LY; ex. Teaopia
EPS	$0.58-$0.61	
Teaopia EPS impact	neutral	(ex. transaction expenses of $0.04-$0.05).
S/o	39.4mm	
Store openings	60	Majority to be completed before holiday
2013		
Teaopia EPS impact	$0.03-$0.04 accretive	

Source: KBCM estimates and Company reports.

VALUATION SUMMARY

Exhibit 11. 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	$33.89	$34.45 - $78.25	$55.00	15.8x	2,797	$2.30	$3.48	14.7x	9.7x	4.7x	3.7x	0.6x	0.6x	0.8x	0.5x
Aeropostale	ARO	BUY	$18.60	$9.16 - $23.05	$25.00	19.4x	1,506	$0.92	$1.29	20.3x	14.5x	7.0x	5.4x	0.6x	0.5x	1.5x	1.0x
Buckle	BKE	HOLD	$42.59	$33.97 - $50.00	-	-	2,041	$3.20	$3.46	13.3x	12.3x	6.8x	6.2x	1.7x	1.6x	1.2x	1.1x
Chico's	CHS	HOLD	$14.95	$9.57 - $16.50	-	-	2,507	$0.85	$1.00	17.6x	15.0x	6.6x	5.8x	1.0x	0.8x	1.1x	0.9x
Ascena Retail	ASNA	BUY	$19.52	$12.00 - $22.62	$25.00	16.8x	2,998	$1.28	$1.49	15.3x	13.1x	6.1x	5.4x	0.8x	0.8x	1.0x	0.9x
Francesca's Collections	FRAN	BUY	$22.54	$15.22 - $33.93	$34.00	42.4x	981	$0.58	$0.80	38.6x	28.1x	19.3x	14.7x	4.9x	3.7x	1.3x	0.9x
Gap Inc	GPS	HOLD	$26.67	$15.08 - $29.23	-	-	13,095	$1.56	$1.86	17.1x	14.3x	6.5x	6.2x	0.9x	0.8x	1.3x	1.1x
New York & Company	NWY	HOLD	$3.53	$2.25 - $5.85	-	-	219	($0.64)	($0.18)	NM	NM	67.0x	7.4x	0.2x	0.2x	NM	NM
Urban Outfitters	URBN	HOLD	$28.19	$21.47 - $33.90	-	-	4,082	$1.19	$1.47	23.8x	19.1x	9.8x	8.6x	1.6x	1.4x	1.3x	1.0x
Wet Seal	WTSLA	HOLD	$2.84	$2.60 - $5.23	-	-	257	$0.19	$0.08	15.2x	36.7x	2.1x	3.0x	0.2x	0.2x	0.9x	2.2x
Peer Average										**17.2x**	**18.1x**	**13.6x**	**6.6x**	**1.2x**	**1.1x**	**1.1x**	**1.1x**
ACTIVE AND HEALTHY LIFESTYLE																	
Lululemon Athletica	LULU	HOLD	$72.98	$41.18 - $81.09	-	-	10,477	$1.26	$1.59	58.0x	45.9x	24.6x	19.5x	7.7x	5.8x	1.9x	1.5x
Pacific Sunwear	PSUN	HOLD	$1.40	$1.11 - $3.31	-	-	95	($0.77)	($0.46)	NM	NM	NM	NM	0.1x	0.1x	NM	NM
Skullcandy	SKUL	BUY	$13.15	$11.79 - $23.40	$21.00	17.9x	359	$1.00	$1.17	13.2x	11.2x	7.3x	5.9x	1.4x	1.1x	1.2x	1.0x
Teavana	TEA	BUY	$13.78	$14.28 - $29.35	$26.00	45.5x	530	$0.46	$0.57	29.8x	24.1x	13.6x	11.2x	3.0x	2.4x	0.8x	0.7x
Under Armour	UA	UW	$100.70	$52.62 - $102.86	$61.00	26.3x	5,250	$1.85	$2.32	54.6x	43.4x	20.6x	16.6x	2.8x	2.3x	2.4x	1.9x
Zumiez	ZUMZ	HOLD	$34.77	$15.85 - $38.99	-	-	1,089	$1.20	$1.54	29.0x	22.6x	11.5x	9.0x	1.6x	1.4x	1.3x	1.0x
Peer Average										**38.7x**	**30.8x**	**16.0x**	**12.8x**	**2.7x**	**2.2x**	**1.7x**	**1.4x**

Source: Company reports, FactSet and KBCM estimates as of May 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 and retention of senior management.

Exhibit 12. Income Statement

($ in millions except per share data)

	2009	2010	2011					2012A/E					2013E
	Year	Year	1Q	2Q	3Q	4Q	Year	1QA	2QE	3QE	4QE	Year	Year
Revenues	**90.3**	**124.7**	**34.9**	**31.3**	**33.4**	**68.4**	**168.1**	**44.3**	**39.5**	**42.6**	**87.6**	**214.0**	**270.2**
Cost of goods sold	36.4	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.5	16.4	30.1	77.9	94.0
Gross profit	53.8	78.4	22.5	19.1	20.7	44.9	107.2	28.4	24.0	26.2	57.5	136.1	176.3
Selling, general & administrative expense	38.1	50.6	14.8	15.4	17.5	22.0	69.7	20.5	20.8	22.3	26.9	90.5	114.2
Depreciation and amortization expense	3.5	4.4	1.3	1.4	1.6	1.7	5.9	1.8	1.8	2.0	2.2	7.8	10.4
Operating income	12.2	23.5	6.5	2.3	1.6	21.2	31.6	6.2	1.4	1.9	28.4	37.9	51.6
Interest expense, net	2.4	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.3	0.3
Earnings before income taxes	9.8	20.9	5.8	1.6	1.5	21.1	29.9	6.1	1.3	1.8	28.3	37.6	51.4
Income tax expense	4.5	8.9	2.4	0.6	0.6	8.6	12.2	2.4	0.5	0.7	11.6	15.1	20.6
Net earnings	5.3	12.0	3.3	1.0	0.9	12.5	17.8	3.7	0.9	1.2	16.8	22.5	30.8
Weighted average shares outstanding - dilute	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	**$0.14**	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.02**	**$0.03**	**$0.42**	**$0.57**	**$0.78**
EBITDA	**15.7**	**27.9**	**7.7**	**3.8**	**3.2**	**22.9**	**37.5**	**7.9**	**3.2**	**3.9**	**30.6**	**45.7**	**62.0**
Comparable store sales	**6.9%**	**8.7%**	**6.0%**	**6.9%**	**6.0%**	**4.4%**	**5.5%**	**-0.1%**	**0.0%**	**3.0%**	**4.0%**	**2.2%**	**5.4%**
Y/Y Inventory Growth		45.7%					51.7%					56.3%	18.0%
Margin analysis													
Cost of goods sold/revenue	40.4%	37.1%	35.6%	38.9%	38.1%	34.4%	36.2%	35.9%	39.2%	38.4%	34.4%	36.4%	34.8%
Y/Y change in bps	(222)	(326)	(325)	(223)	(323)	202	(88)	23	30	30	0	15	(161)
Gross margin	**59.6%**	**62.9%**	**64.4%**	**61.1%**	**61.9%**	**65.6%**	**63.8%**	**64.1%**	**60.8%**	**61.6%**	**65.6%**	**63.6%**	**65.2%**
Y/Y change in bps	222	326	325	223	323	(202)	88	(23)	(30)	(30)	(0)	(15)	161
Selling, general & administrative expense/sal	42.3%	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	46.2%	52.6%	52.4%	30.7%	42.3%	42.3%
Y/Y change in bps	(353)	(170)	34	204	341	(67)	90	400	350	0	(150)	83	(1)
Depreciation and amortization expense/sales	3.9%	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	4.0%	4.6%	4.7%	2.5%	3.6%	3.8%
Y/Y change in bps	(3)	(37)	(13)	(5)	16	6	3	37	5	5	5	11	21
Operating margin	**13.5%**	**18.8%**	**18.5%**	**7.4%**	**4.8%**	**31.0%**	**18.8%**	**13.9%**	**3.6%**	**4.5%**	**32.4%**	**17.7%**	**19.1%**
Y/Y change in bps	606	533	304	24	(34)	(141)	(5)	(459)	(385)	(35)	145	(109)	141
EBITDA margin	17.4%	22.3%	22.1%	12.0%	9.5%	33.4%	22.3%	17.9%	8.2%	9.2%	34.9%	21.3%	23.0%
Y/Y change in bps	575	496	291	19	(18)	(135)	(2)	(422)	(380)	(30)	150	(98)	162
Effective tax rate	45.8%	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	38.9%	35.2%	37.2%	40.8%	40.1%	40.0%
Y/Y change in bps	(986)	(320)	(20)	(746)	(548)	(177)	(196)	(348)	0	0	0	(51)	(8)
Y/Y growth													
Revenues	41.3%	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	26.8%	26.1%	27.5%	28.0%	27.3%	26.3%
Cost of goods sold	34.0%	27.0%	24.2%	28.9%	24.5%	42.0%	31.6%	27.7%	27.1%	28.5%	28.0%	27.9%	20.7%
Gross profit	46.8%	45.7%	42.8%	41.4%	42.5%	29.6%	36.7%	26.4%	25.5%	26.9%	28.0%	27.0%	29.5%
Selling, general & administrative expense	30.4%	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	38.8%	35.1%	27.5%	22.1%	29.9%	26.2%
Depreciation and amortization expense	30.9%	25.0%	30.9%	34.7%	40.0%	37.2%	35.9%	39.6%	27.5%	28.9%	30.6%	31.4%	33.4%
Operating income	156.2%	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	-4.7%	-39.1%	18.3%	34.0%	19.9%	36.4%
Net earnings	342.0%	126.9%	72.4%	78.1%	175.3%	36.2%	48.0%	11.8%	-15.2%	23.1%	34.4%	26.7%	36.8%
EPS	339.3%	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	7.9%	-18.4%	21.5%	32.3%	23.6%	35.8%
EBITDA	111.2%	77.6%	56.1%	38.4%	32.6%	28.4%	34.7%	2.6%	-13.8%	23.5%	33.8%	21.7%	35.9%

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

KeyBanc Capital Markets Inc. Disclosures and Certifications

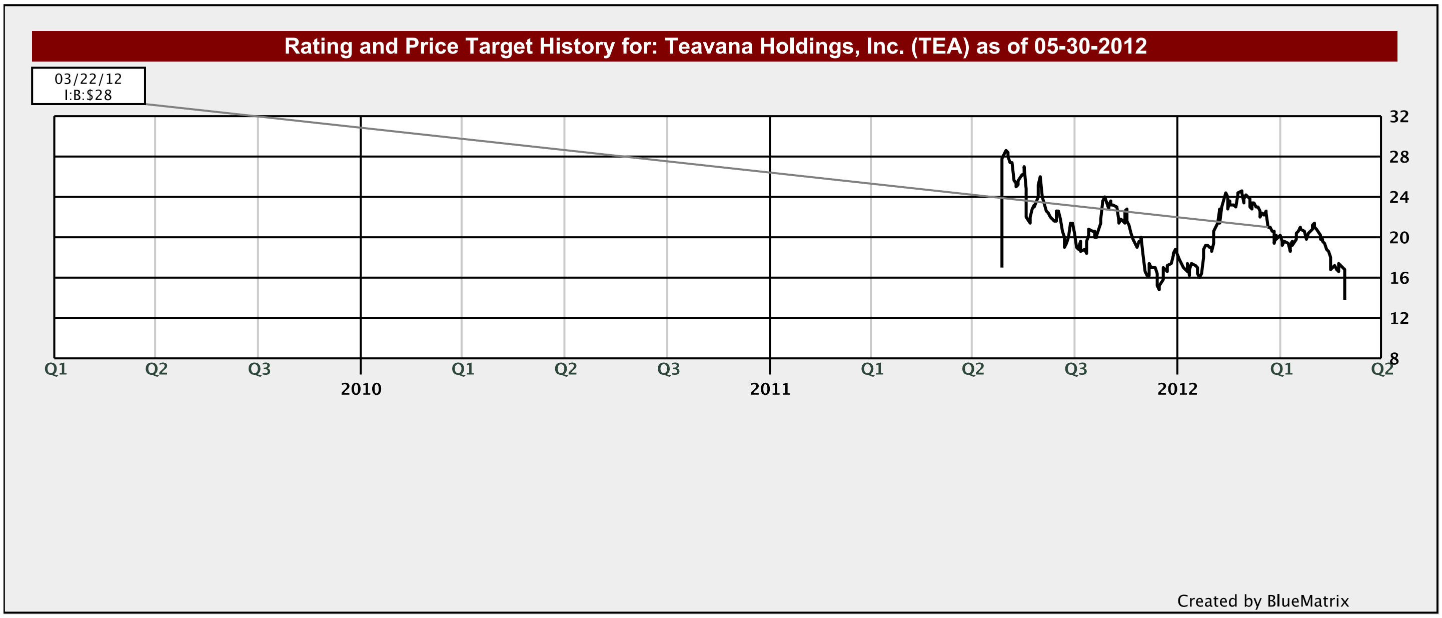
Teavana Holdings, Inc. - TEA

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

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

	KeyBanc Capital Markets		IB Serv/Past 12 Mos.			CONSUMER		IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
BUY [BUY]	226	44.23	45	19.91	**BUY [BUY]**	52	44.83	6	11.54
HOLD [HOLD]	274	53.62	53	19.34	**HOLD [HOLD]**	62	53.45	2	3.23
SELL [UND]	11	2.15	4	36.36	**SELL [UND]**	2	1.72	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.

Teavana Holdings, Inc. (TEA) — Overweight

Same-Store Sales Tripping Shares; Taking A Longer View; Reiterate OW Rating

PRICE: US$16.81
TARGET: US$25.00
30x FY14E EPS

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US$29.00	US$25.00
FY13E Rev (mil)	US$230.4	US$228.3
FY14E Rev (mil)	US$297.3	US$293.9
FY13E EPS	—	US$0.56
FY14E EPS	—	US$0.83

52-Week High / Low	US$29.35 / US$14.28
Shares Out (mil)	39.1
Market Cap. (mil)	US$657.3
Avg Daily Vol (000)	237
Book Value/Share	US$1.85
Net Cash Per Share	US$0.51
Debt to Total Capital	0%
Div (ann)	US$0.00
Fiscal Year End	Jan

Price Performance - 1 Year

Source: Bloomberg

CONCLUSION

Consistent with market reactions of late, TEA shares are underperforming significantly, owing in large part to FQ1 comparable sales of +1.7% missing consensus of +3.4%. Though management has guided for a re-accleration in sales trends for FQ2 (+LSD% to +MSD%) tied to recent weeks of improvement, the results of FQ1 settle neither side of the investment case. The bear case focuses on the continued string of negative trends in "traffic"--too early in their minds for a young 200+ unit chain. As part of the bull camp, we contend that the tea trend is early in the U.S., and TEA is the leading purveyor nationally of all-things-tea; as the category grows, so too will the traffic metrics. As well, we believe early adopters into the brand typically "pantry load" which can cause delayed visits back to TEA stores upon initiation into the habit.

- **Same-store sales down 0.1% in FQ1; up 1.7% including e-commerce.** For FQ1, same-store sales were down 0.1% y/y, which was below our estimate of +2%. Including ecommerce, comparable sales were up 1.7%. Excluding prepared beverages, average ticket was up 2.0% and transactions were down 0.5%. Teavana's e-commerce channel continues to outpace overall sales results, with e-commerce sales growing 20% 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 $0.09 for FQ1, in line with our estimate of $0.09. Excluding transaction and integration costs associated with the acquisition of Teaopia, EPS would have been $0.10 (our $0.09 estimate included these costs).

- **Teaopia acquisition remains on track for FQ2.** Teavana remains on track to acquire Teaopia--a 46-store chain that began operations in 2005 and looks, acts, smells, and feels a lot like Teavana. We believe sales and margin expansion tied to this integration are on deck in the years to come. Our FY13 EPS estimate includes about $0.05 in integration costs associated with the acquisition. Excluding these integration costs, management expects the acquisition to be accretive by $0.03-$0.04 to EPS in FY13.

- **Maintaining EPS outlook; lowering price target from $29 To $25.** We are keeping our FQ2, FY13, and FY14 EPS estimates intact at $0.02, $0.56, and $0.83, respectively. We are lowering our price target from $29 to $25, which reflects 30x FY14E EPS versus our prior target multiple of 35x. We believe a lower multiple is prudent given heightened investor concerns about TEA's growth potential as well as increased volatility in the shares.

RISKS TO ACHIEVEMENT OF PRICE TARGET

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 223 stores.

YEAR	REVENUE (US$ m)								EARNINGS PER SHARE (US$)							
	Apr	Jul	Oct	Jan	FY	CY	FY RM	CY RM	Apr	Jul	Oct	Jan	FY	CY	FY P/E	CY P/E
2012A	34.9A	31.3A	33.4A	68.4A	168.1A	228.3E	3.9x	2.9x	0.09A	0.03A	0.02A	0.32A	0.46A	0.56E	36.5x	30.0x
2013E	44.3A	43.9	46.6	93.5	228.3	293.9	2.9x	2.2x	0.09A	0.02	0.02	0.43	0.56	0.83	30.0x	20.3x
2014E	—	—	—	—	293.9	—	2.2x	—	—	—	—	—	0.83	—	20.3x	—

Teavana Piper Jaffray & Co. - Neely Tamminga, Senior Research Analyst (612) 303-1537

Income Statement 5/30/2012

(Millions of Dollars, Except Per-Share Data)

	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	Q1 Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	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	44.319	43.890	46.638	93.454	228.301	293.868
% 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%*	*26.8%*	*40.2%*	*39.5%*	*36.6%*	*35.8%*	*28.7%*
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	15.895	17.117	17.723	32.242	82.976	106.893
% 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%*	*35.9%*	*39.0%*	*38.0%*	*34.5%*	*36.3%*	*36.4%*
Gross profit	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	28.424	26.773	28.916	61.212	145.325	186.975
% 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%*	*64.1%*	*61.0%*	*62.0%*	*65.5%*	*63.7%*	*63.6%*
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	20.786	23.191	24.951	30.092	99.021	120.668
% 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%*	*46.9%*	*52.8%*	*53.5%*	*32.2%*	*43.4%*	*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	7.638	3.581	3.964	31.120	46.304	66.307
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%*	*17.2%*	*8.2%*	*8.5%*	*33.3%*	*20.3%*	*22.6%*
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	1.779	2.300	2.440	2.560	9.079	11.570
% 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%*	*4.0%*	*5.2%*	*5.2%*	*2.7%*	*4.0%*	*3.9%*
Operating income	(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	5.859	1.281	1.524	28.560	37.225	54.737
% 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%*	*13.2%*	*2.9%*	*3.3%*	*30.6%*	*16.3%*	*18.6%*
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)	(0.072)	(0.100)	(0.100)	(0.100)	(0.372)	(0.400)
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	5.787	1.181	1.424	28.460	36.853	54.337
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	2.286	0.470	0.567	11.327	14.650	21.626
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%*	*39.5%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income (GAAP)	-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	3.501	0.711	0.857	17.133	22.203	32.711
% 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%*	*7.9%*	*1.6%*	*1.8%*	*18.3%*	*9.7%*	*11.1%*
Net income per share (Basic)	$ (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	$ 0.09	$ 0.02	$ 0.02	$ 0.44	$ 0.58	$ 0.84
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*31%*	*45%*	*1%*	*-34%*	*-10%*	*35%*	*21%*	*46%*
Net income per share (Diluted)	$ (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	$ 0.09	$ 0.02	$ 0.02	$ 0.43	$ 0.56	$ 0.83
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*32%*	*45%*	*2%*	*-34%*	*-10%*	*36%*	*22%*	*47%*
Shares outstanding (Millions)																				
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	38.306	38.496	38.686	38.876	38.591	38.876
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	39.086	39.406	39.506	39.606	39.401	39.606
Same-Store Sales (% Change)	**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%**	**-0.1%**	**0.0%**	**2.5%**	**2.5%**	**1.2%**	**3.0%**

Notes:
Estimates assume Teaopia's revenues and expenses including $0.05 of transaction/integration expenses in FY13 (2012)
Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

Teavana

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	Q1 Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Teavana Stores (ex- Teopia acquisition)				$ 85.025					$ 115.800					$ 155.324						
% Change, year-over-year									*36.2%*					*34.1%*						
Stores Acquired From Teaopia																$ 4.600	$ 4.600	$ 6.900	$ 16.100	$ 29.900
Sales per store																*0.100*	*0.100*	*0.150*	*NM*	*0.650*
Teavana 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%*						
Total net sales (ex-Teaopia acquition)	$ 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	$ 44.319	$ 39.290	$ 42.038	$ 86.554	$ 212.201	$ 263.968
% 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%*	*26.8%*	*25.5%*	*25.8%*	*26.5%*	*26.2%*	*24.4%*
Total net sales	**$ 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**	**$ 44.319**	**$ 43.890**	**$ 46.638**	**$ 93.454**	**$ 228.301**	**$ 293.868**
% 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%*	*26.8%*	*40.2%*	*39.5%*	*36.6%*	*35.8%*	*28.7%*
% CHANGE SAME-STORE SALES	***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%***	***-0.1%***	***0.0%***	***2.5%***	***2.5%***	***1.2%***	***3.0%***
NUMBER OF TEAVANA STORES (ex-Teaopia acquisit	47	59	87	108	118	128	141	146	146	161	179	196	200	200	223	236	253	260	260	330
% Change, year-over-year		*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%*	*38.5%*	*31.8%*	*29.1%*	*30.0%*	*30.0%*	*26.9%*
Average number of stores (T4Q)				*101*	*105*	*112*	*120*	*129*	*129*	*139*	*150*	*164*	*177*	*177*	*192*	*207*	*221*	*236*	*236*	*299*
NUMBER OF STORES ACQUIRED FROM TEAOPIA																46	46	46	46	46
Gross Sq. Feet (Mil.) (ex-Teaopia acquisition)	43	54	77	95					130					178					232	294
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*					*37.0%*					*30.0%*	*26.9%*
Gross Sq. Feet Acquired From Teaopia (Mil.)																			41	41
TOTAL Gross Square Feet (Mil.)	43	54	77	95					130					178					273	335
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*					*37.0%*					*53.2%*	*22.8%*

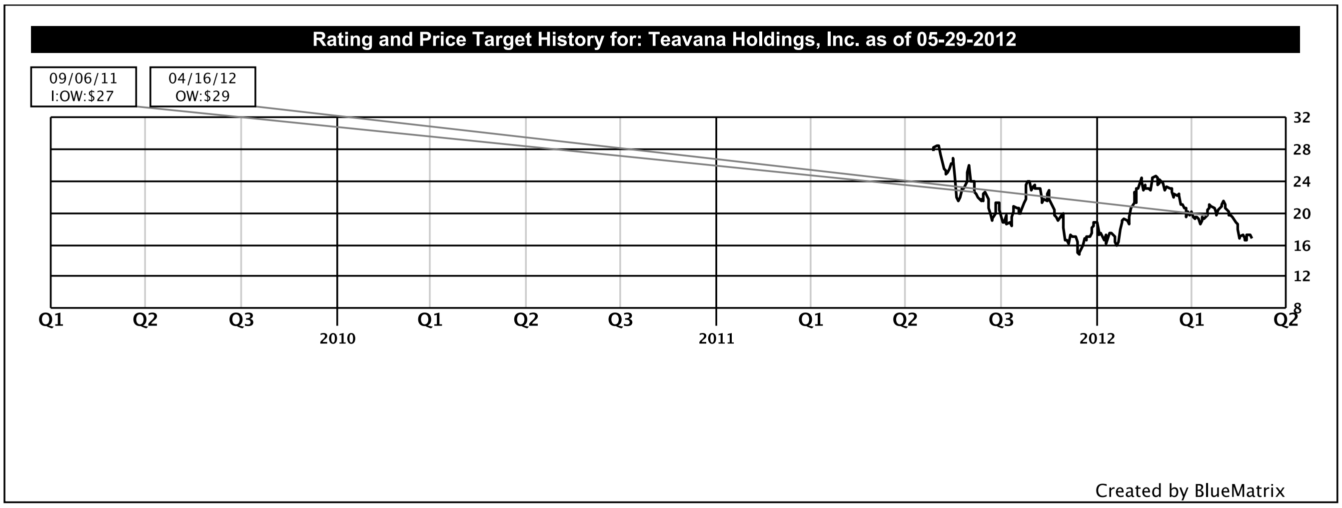
Consolidated Balance Sheet
(Millions of Dollars)

	FY 2010	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4 Jan-12	FY 2012	Q1 Apr-12
CURRENT ASSETS:								
Cash and cash equivalents	$1.314	$7.901	$3.740	$1.623	$0.036	$17.818	$17.818	$20.040
Accounts reveivable	0.284	0.292						
Prepaid expenses and other assets	1.003	2.041			4.082	2.475	2.475	4.305
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	23.035
Deferred tax asset and other	0.772	1.629	5.827	11.647	8.106	1.839	1.839	2.830
Total current assets	**16.049**	**30.191**	**27.853**	**35.990**	**44.736**	**49.664**	**49.664**	**50.210**
Property & equipment, net	22.513	31.028	34.795	38.000	40.669	42.785	42.785	47.630
Goodwill	2.394	2.394	2.394	2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184	-						
Other non-current assets	0.627	0.513	0.760	0.693	0.673	0.775	0.775	0.634
Total assets	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**	**$100.868**
CURRENT LIABILITIES								
Accounts payable	$2.564	$3.631	$2.112	$5.751	$6.770	$3.898	$3.898	$5.136
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	5.950
Total current liabilities	**11.286**	**28.315**	**$25.362**	**$26.833**	**$14.886**	**$12.566**	**12.566**	**$11.086**
Deferred franchise income	0.600	0.525						
Deferred tax liability, non-current	-	0.420			2.547	2.570	2.570	2.602
Deferred rent	3.851	7.524	8.943	11.139	12.134	12.905	12.905	14.192
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	0.616
Total liabilities	**27.585**	**37.784**	**36.175**	**46.328**	**34.643**	**28.616**	**28.616**	**28.496**
Stockholders' equity (deficit)								
Total stockholders' equity (deficit)	**14.182**	**26.342**	**29.627**	**30.749**	**53.829**	**67.002**	**67.002**	**72.372**
Total liabilities and stockholders' equity	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**	**$100.868**

Condensed Statement of Cash Flows
(Millions of Dollars)

	FY 2010	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4 Jan-12	FY 2012
Operating activities:							
Net Income	**$5.291**	**$12.003**	**$3.323**	**$4.354**	**$5.291**	**$17.759**	**$17.759**
Adjustments to reconcile net income to net cash:	0.000						
Depreciation and amortization	3.489	4.361	1.274	2.703	4.257	5.927	5.927
Non-cash interest expense	1.925	2.279	0.633	1.282	1.304	1.327	1.327
Deferred income taxes	0.532	(0.253)					
Stock based compensation	0.169	0.157	0.037	0.063	0.527	0.790	0.790
Excess tax benefit from stock options					(2.577)	(2.925)	(2.925)
Other		0.130	0.140	0.099	0.150	0.160	0.160
Change in assets and liabilities:							
Inventory	(3.646)	(5.313)	(1.359)	(5.792)	(15.584)	(8.748)	(8.748)
Income tax receivable	(0.230)	(1.452)	(0.081)	(5.874)	(6.004)		
Income taxes payable	2.772	0.815	(2.696)	(4.809)	(2.232)	(0.063)	(0.063)
Deferred rent	1.124	3.673	1.419	3.615	4.610	4.925	4.925
Accounts payable				1.164	2.896	0.013	0.013
Other current assets				1.866	(0.417)	(0.117)	(0.117)
Deferred income taxes					1.892	1.940	1.940
Other accrued liabilities	(0.355)	2.997	(1.548)	1.018	0.970	(0.033)	(0.033)
Net cash (used in) provided by operating activities	**11.071**	**19.397**	**1.142**	**(0.311)**	**(4.917)**	**20.955**	**20.955**
Investing activities:							
Capital Expenditures	(6.640)	(12.560)	(5.056)	(8.848)	(13.785)	(17.566)	(17.566)
Net cash used in investing activities	**(6.640)**	**(12.560)**	**(5.056)**	**(8.848)**	**(13.785)**	**(17.566)**	**(17.566)**
Financing activities:							
Proceeds from revolving credit facility	93.980	132.239	35.510	74.338	113.152	181.414	181.414
Payments on revolving credit facility	(98.265)	(132.239)	(35.510)	(69.979)	(109.652)	(182.414)	(182.414)
Proceeds from IPO, net					15.322	15.079	15.079
Proceeds from stock option exercises					0.552	0.637	0.637
Payment on note payable		(0.250)					
Payment to redeen preferred stock					(10.683)	(10.683)	(10.683)
Payments on term loan							
Cash paid for financing costs				(0.433)	(0.433)	(0.433)	(0.433)
Payment of initial public offering costs			(0.247)	(1.110)			
Other				0.065	2.577	2.925	2.925
Net cash used in financing activities	**(4.285)**	**(0.250)**	**(0.247)**	**2.881**	**10.835**	**6.525**	**6.525**
Effect of exchange rate					0.002	0.003	0.003
Net increase (decrease) in cash and cash equivalent	0.146	6.587	(4.161)	(6.278)	(7.865)	9.917	9.917
Cash and cash equivalents, beginning of period	1.168	1.314	7.901	7.901	7.901	7.901	7.901
Cash and cash equivalents, end of period	**$1.314**	**$7.901**	**$3.740**	**$1.623**	**$0.036**	**$17.818**	**$17.818**

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.

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S: Suspending Coverage
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N: Neutral
UW: Underweight
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			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	364	55.32	65	17.86
HOLD [N]	265	40.27	19	7.17
SELL [UW]	29	4.41	1	3.45

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May 30, 2012

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

In-Line 1Q EPS; Negative Store Trends Continue

What's New: TEA reported $0.10 EPS, slightly higher than MSe $0.09 and in line with cons $0.10. 1Q sales grew 26.8% to $44.3M vs. MSe $43.9M (+1c) and cons $45.1M. Comps (incl. e-com) increased +1.7%. Gross margins were higher than expected at 64.1% vs. MSe 63.0% (+1c), offset by higher SG&A of 46.2% vs. our 44.5% estimate (-1c) resulting in operating margin 50bps lower than MSe 14.4%.

Store only transaction trends still concerning. 1Q same store transactions (excluding e-commerce and beverage only) of -3.0% resumed negative trends (-1.8% in 2Q11, -2.5% in 3Q11) after reversing in 4Q11 (+1.6%). Including beverage sales, store only comps were -0.1% (vs. MSe +2.0%) driven by -0.3% transactions and +0.2% average ticket. We are concerned about the company's future ability to drive traffic and maintain positive comps.

Store openings drive growth. TEA opened more new doors than expected (23 vs. 18-20 guidance) in the quarter, ending with 223 stores. FY store opening plan remains on track for 60 new stores.

Inventory/sqft growth decreases -7.7%. The direct sourcing initiative continues to lower inventory levels after seeing large increases last year. Total inventory growth slows to 25.9% vs. a 51.7% 4Q increase and compared to 26.8% sales growth in the quarter.

Teaopia transaction 2c dilutive in 2Q but neutral to 2012 guidance. Q2 guidance calls for 13-14 new stores and sales between $38 to $40M on +L-MSD comps and EPS range of $0.02 to $0.03 (vs. MSe 2c). Transaction and integration expenses from the Teaopia transaction are expected to be 3c in addition to a 2c tax benefit. FY2012 EPS guidance remains at $0.58–$0.61 based on +MSD comps. The Teaopia transaction should have a neutral impact excluding a 4c–5c impact from transaction and integration expenses.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Shr price, close (May 29, 2012)	$16.81
Mkt cap, curr (mm)	$663
52-Week Range	$29.35-14.28

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of April 30, 2012)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
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Equal-weight/Hold	**1254**	**43%**	**474**	**44%**	**38%**
Not-Rated/Hold	**100**	**3%**	**25**	**2%**	**25%**
Underweight/Sell	**471**	**16%**	**124**	**11%**	**26%**
Total	**2,940**		**1082**		

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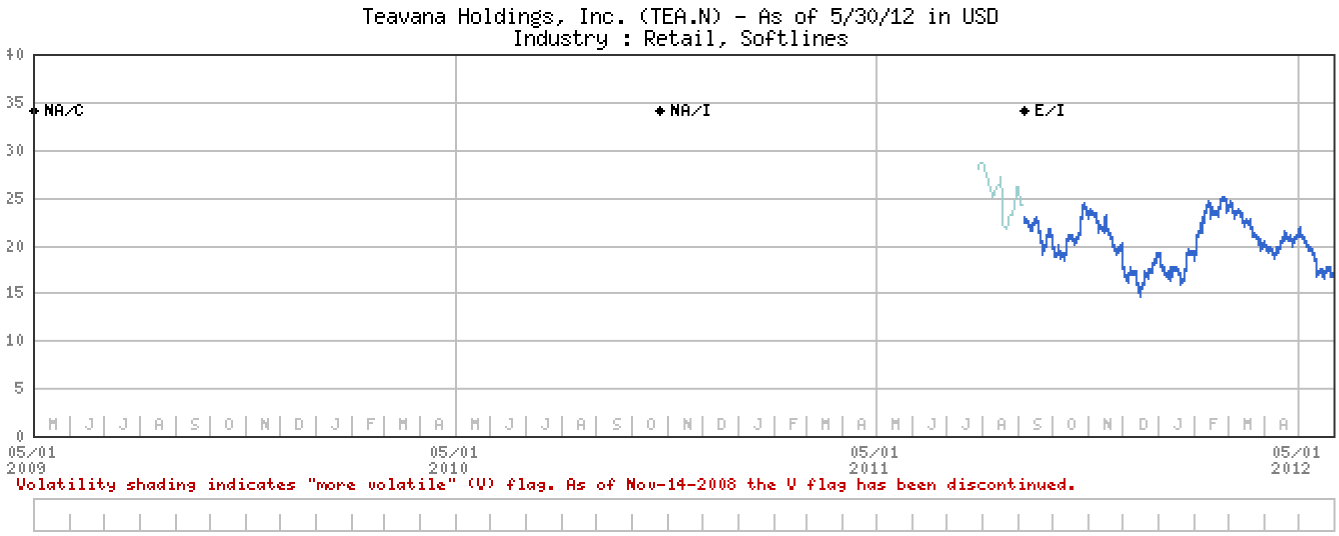
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 5/1/09 : NA/C; 10/26/10 : NA/I; 9/6/11 : E/I

Price Target History: 9/6/11 : NA

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (05/29/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	$28.56
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$35.87
Aeropostale Inc (ARO.N)	U (10/26/2010)	$19.47
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	$20.15
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$15.4
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$47.59
Coach Inc (COH.N)	E (11/04/2011)	$70.11
Express, Inc. (EXPR.N)	O (01/31/2011)	$19.07
Gap Inc (GPS.N)	E (10/26/2010)	$27.7
Limited Brands Inc (LTD.N)	O (10/26/2010)	$47.28
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$74.57
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	$41.95
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$62.96
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$13.47
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$41.6
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$16.81
Tiffany & Co. (TIF.N)	E (11/04/2011)	$57.37
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$28.72

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* Historical prices are not split adjusted.

Teavana Holdings, Inc.

In-Line Quarter Despite Comp Miss; Trends Improving in May

- Teavana's first-quarter EPS rose 8%, to $0.10, on net income growth of 12%, meeting consensus expectations and the high end of guidance of $0.09 to $0.10. However, comps of 1.7% (+1.5% transaction and +0.2% ticket), while within guidance for a low- to midsingle-digit comp, fell shy of consensus of 3% to 4% and marked a deceleration from mid- to high-single-digit comps throughout 2011.

- The geographic variability in Teavana's comps was the greatest in the company's history, with comps in the West up midsingle digits and comps in the Central and Eastern parts of the country down low single digits, almost an exact overlay of the unusual weather patterns that created the warmest winter on record for most of the country (with the West Coast the major exception). In addition, the variability began in the second half of the fourth quarter (in keeping with the advent of the unusually warm winter).

- While trends were weaker in the second half of the first quarter than the first half (in keeping with weaker mall traffic in April), management indicated that trends have improved in May, particularly in the past few weeks as the geographic dispersion has begun to compress again, with trends firming in the East and Central United States.

- As a result, management guided to low- to midsingle-digit comp trends for the second quarter and maintained midsingle-digit comp guidance for the full year, with full-year EPS guidance maintained at $0.58 to $0.61 and second-quarter guidance issued at $0.02 to $0.03 (encompassing consensus of $0.03).

- Teavana opened 23 new company-owned stores in the first quarter, ahead of plan of 18 to 20 new stores and bringing the company-owned store count to 223, up 39%. Encouragingly, new stores continue to perform well, with sales and profitability at the high end of Teavana's new store model. Looking forward, management continues to anticipate 60 new company-owned store openings this year, representing store growth of 30%, as well as the consummation of the Teaopia acquisition in the second quarter (46 Canadian locations).

- We are tweaking our 2012 EPS estimate down by $0.02, to $0.59 (up 27% and roughly in line with consensus of $0.60), on a 3% to 4% comp gain and, for 2012, we anticipate EPS of $0.78, up 33% and versus consensus of $0.80.

- Teavana's stock is down about 18% on the first-quarter sales miss and is now trading at 23 times our new 2012 EPS estimate. While we understand investors' concern on the sales miss, we see little that appears to be Teavana-specific in the sales slowdown, as weather has affected nearly all of our consumer names over the past five months in the Central and Eastern United States, either to the positive or the negative. As a result, despite the slower start to the year, we still believe the Teavana concept remains a solid growth vehicle, with new units performing at the high end of plan and the opportunity to double the store base in the next three years. We would be buyers on weakness and 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.

May 30, 2012

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

Symbol:	TEA (NYSE)
Price:	$14.03 (52-Wk.: $14-$29)
Market Value (mil.):	$634
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

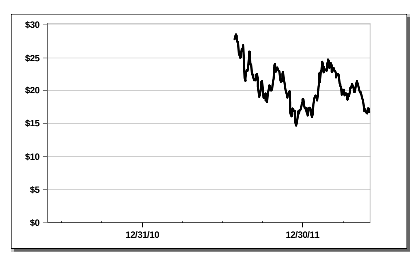
		2011A	2012E	2013E
Estimates*				
EPS	Q1	$0.09	A$0.10	NA
	Q2	$0.03	$0.03	NA
	Q3	$0.02	$0.02	NA
	Q4	$0.32	$0.44	NA
	FY	$0.46	$0.59	$0.78
	CY		$0.59	$0.78
Sales (mil.)		168	223	282
Valuation				
FY P/E		30.5x	23.8x	18.0x
CY P/E			23.8x	18.0x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	233,191

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	626.1
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	16.7x
Return on Equity (TTM)	26.5

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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Quarterly Detail
Teavana's first-quarter EPS rose 8%, to $0.10, on net income growth of 12%, meeting consensus expectations and the high end of guidance of $0.09 to $0.10, excluding a penny in anticipated transition and integration expenses related to the Teaopia acquisition.

Comps, including e-commerce, increased 1.7%, in line with management's guidance for a low- to midsingle-digit gain, but shy of consensus of 3% to 4% and marking a deceleration from the mid- to high-single-digit comps experienced in 2011. Overall, traffic was positive for the second straight quarter, increasing 1.5%, while average ticket increased 0.2%. Excluding beverage-only transactions, transactions declined 0.5%, while ticket increased 2.0%.

Store-only comps declined 0.1% against a 6.0% year-ago comparison, below our projection for a low-single-digit increase, with two-year stacked comp growth falling to 6% from 12% in the fourth quarter. Store-only comps comprised a 0.2% increase in average ticket (2.7% excluding beverage-only transactions), more than offset by a 0.3% decrease in transactions (down 3.0% excluding beverage-only transactions).

Total revenues increased 27%, to $44.3 million, in line with guidance of $44 million to $45 million, but shy of our and consensus expectations for $45 million, including a 20% increase in e-commerce sales. Tea represented 59% of sales (down from 60% in the year-ago period), merchandise increased to 37% of sales (up from 36% in the year-ago period), and prepared beverages remained flat at 4% of sales. Encouragingly, new stores continue to perform well, with new store productivity at 77.1% of non-comp stores in the first quarter, implying an average annual run-rate of $704,000, above the high end of management's new-store unit economic model calling for first-year sales of $600,000 to $700,000.

Gross margin declined 30 basis points to 64.1%, reflecting mix shift toward lower-margin merchandise as well as less leverage on store occupancy given the low-single-digit comp gain. SG&A increased 400 basis points to 46.2% (excluding 70 basis points in transition and integration expenses related to the Teaopia acquisition), reflecting increased costs associated with being a public company, higher preopening and training costs because of more new store openings than originally anticipated (23 versus guidance of 18 to 20), and higher stock compensation expenses. D&A increased 40 basis points to 4.0% of sales, yielding overall operating margin contraction of 460 basis points to 13.9%.

Teavana ended the first quarter with about $20 million in cash and no outstanding borrowings on the company's $40 million revolver facility. Inventory was well-controlled, up 26% year-over-year versus a 27% increase in sales.

New Store Development and Teaopia Acquisition on Track
Teavana opened 23 new company-owned stores in the first quarter, ahead of plan of 18 to 20 new stores and bringing the quarter-end store count to 223, up 39%. Looking forward, management continues to anticipate 60 new company-owned store openings this year (excluding the acquisition of 46 Teaopia stores), representing organic store growth of 30%. The company expects to open 13 to 14 stores in the second quarter, and similar to last year, management continues to expect new store openings to be essentially completed before the fourth quarter. In addition, plans remain on track for the company's first franchised store in the Middle East in the second half of this year through its 10-year franchise development agreement with Alshaya.

Teavana's acquisition of Teaopia remains on track to close in the second quarter, and management continues to expect the acquisition to be neutral to earnings this year, excluding anticipated transaction and integration expenses of $0.04 to $0.05, including $0.03 in the second quarter. Teaopia stores are very similar to Teavana's, with similar sizes and layouts and even the same POS system, and management continues to expect to transition all Teaopia stores to the Teavana brand during fiscal 2012, with most of the rebranding completed before the fourth quarter.

Finally, Teavana continues to work with a national executive search firm in its search for a vice president of marketing, with several candidates in various stages of the interview process. 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.

Teavana Holdings, Inc.

May 30, 2012: $13.80 ($13-$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-12[a]	Jul-12E[b]	Oct-12E	Jan-13E	2012E[c]	2013E
Company-owned	146	161	179	196	200	200	223	283	303	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	241	302	322	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	33.9%	53.3%	50.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	**11.4%**	**8.9%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**1.7%**	**3.0%**	**4.0%**	**5.5%**	**3.6%**	**6.0%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$44.3	$39.3	$43.7	$95.2	$222.6	$282.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.2	16.6	32.5	80.2	100.5
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$28.4	$24.1	$27.2	$62.7	$142.4	$181.8
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.5	20.1	23.6	31.5	95.8	120.0
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.8	1.8	2.2	2.3	8.1	10.0
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$6.2	$2.2	$1.3	$28.9	$38.6	$51.8
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	$6.1	$2.1	$1.2	$28.8	$38.2	$51.4
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	38.9%	39.8%	39.8%	39.8%	39.7%	39.8%
Net income	$12.0	$3.3	$1.0	$0.9	$12.5	$17.8	$3.7	$1.2	$0.7	$17.4	$23.1	$30.9
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.2	39.3	39.4	39.2	39.5
EPS	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.03**	**$0.02**	**$0.44**	**$0.59**	**$0.78**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.1%	61.3%	62.1%	65.9%	64.0%	64.4%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	46.2%	51.2%	54.0%	33.1%	43.0%	42.5%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	4.0%	4.6%	5.0%	2.4%	3.6%	3.5%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	13.9%	5.5%	3.1%	30.4%	17.3%	18.4%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	26.8%	25.6%	30.8%	39.1%	32.4%	26.8%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	38.8%	31.0%	34.9%	42.9%	37.4%	25.3%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	39.6%	26.1%	41.6%	37.6%	36.3%	23.8%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	-4.7%	-6.8%	-16.7%	36.5%	22.2%	34.3%
Net income	126.9%	72.4%	78.1%	175.3%	36.3%	48.0%	11.8%	21.0%	-20.1%	39.2%	29.9%	34.2%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	7.9%	16.7%	-20.8%	38.0%	27.2%	33.3%

[a] Excludes $0.01 in transition and integration expenses related to Teaopia acquisition
[b] Excludes anticipated $0.03 in transition and integration expenses related to Teaopia acquisition
[c] Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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Additional information is available upon request.

Current Rating Distribution (as of 04/30/12)

Coverage Universe	**Percent**	**Inv. Banking Relationships***	**Percent**
Outperform (Buy)	60	Outperform (Buy)	8
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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Teavana Holdings (TEA)

May 30, 2012

Q1 Results and Q2 Guidance Disappoint; Maintain NEUTRAL and Lower PT to $16

- **Although we believe consensus expectations could be right-sized post Q1 results, we remain sidelined, given limited visibility due to the pending Teaopia acquisition, as well as our belief that guidance is appropriate.**
- **Q1 EPS in line on lower taxes as revenue misses on lower-than-expected eCommerce and SSS growth.** Revenue of $44.3 million was below consensus and our expectations of $45.1 million and $44.8 million, respectively, as eCommerce grew 20% YoY, lower than our 30% expectation, and SSS, including eCommerce, grew 1.7%, below consensus of 3.4%. SSS growth ex. eCommerce was -0.1%. Both cost of sales and SG&A were above expectations, but were offset by a lower-than-expected tax rate, resulting in in-line EPS of $0.10.
- **2012 guidance maintained, but Q2 guidance below consensus.** Ex. Teaopia, guidance for 2012 of $208-215 million in revenue on mid-single-digit SSS growth (inc. eCommerce) and $0.58-0.61 in EPS was maintained. However, Q2 guidance for $38-40 million on low- to mid-single-digit SSS growth and $0.02-0.03 in EPS was below consensus expectations of $41.5 million and $0.03.
- **We do not believe guidance is conservative.** We believe that given characteristics specific to Teavana's business model, the sole sustainable comp contributor, excluding eCommerce, over time is the company's ability to drive a higher price per unit *(see our 4/23/12 Initiation note)*. Therefore, we do not believe flat to low-single-digit ex-eCommerce comp growth implied by guidance is conservative.
- **Teaopia acquisition continues to add a layer of uncertainty.** While we believe Teaopia's average sales volumes of $435K (<1/2x Teavana's $913K avg.) can increase over time, we believe that margins in the near- to medium-term will be pressured. We are not including Teaopia in our model, pending the transaction's close sometime in Q2. If included, the impact would be +$0.02-0.03 in 2013E (guidance $0.03-0.04).
- **Lowering our 2012 EPS by $0.01 to $0.59 to incorporate our lowered sales expectation.** Also lowering our FY13 ex-Teaopia EPS estimate to $0.76 from $0.78.
- **Maintain NEUTRAL, but lowering PT to $16 from $21**. This multiple is based on a 21x P/E multiple on our 2013 EPS estimate. Given limited visibility into 2013 earnings power due to the Teaopia acquisition as well as continued risk to expectations, we believe a 10% discount to peers' 23x multiple is warranted.

FYE Jan	2011A	2012E			2013E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	$34.9A	$44.3A	$44.9E	$45.1E	$56.5E	$56.1E	--
Q2 Jul	31.3A	39.3E	40.3E	41.5E	48.7E	50.6E	--
Q3 Oct	33.4A	41.5E	41.8E	44.2E	51.0E	51.5E	--
Q4 Jan	68.4E	86.2E	87.1E	--	107.0E	108.3E	--
Year*	**$168.1A**	**$211.3E**	**$214.2E**	**$215.8E**	**$263.2E**	**$266.5E**	**$272.8E**
Change	--	25.7%			24.5%		
	2011A	2012E			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	$0.09A	$0.10A		$0.10A	$0.13E	$0.14E	--
Q2 Jul	0.03A	0.03E		0.03E	0.03E	0.05E	--
Q3 Oct	0.02A	0.04E		0.03E	0.06E		--
Q4 Jan	0.32E	0.42E	0.43E	--	0.53E		--
Year*	**$0.46A**	**$0.59E**	**$0.60**	**0.58E**	**$0.76E**	**$0.78E**	**0.78E**
P/E	30.2x	23.8x			18.5x		
Change	--	27.1%			28.9%		

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

Price
$14.00

Rating
NEUTRAL

12-Month Price Target
$16 **(from $21)**

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Company Information

Shares Outst (M)	39.2
Market Cap (M)	$549.3
52-Wk Range	$12.80 - $29.01
Book Value/sh	$1.88
Cash/sh	$0.07
Enterprise Value (M)	$546.6
LT Debt/Cap %	0.00

Company Description

Teavana Holdings, based in Atlanta, GA, owns and operates >200 retailers of ~100 varieties of loose-leaf tea, a selection of fresh-brewed teas, and tea-related merchandise.

Source: Thomson Reuters

Restaurants

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Risks

Risks to the attainment of our share price target include deterioration in economic conditions, increased competition, and a decreased demand for tea.

Teavana Revenue Model

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12A	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue Analysis												
Revenue												
Net Sales	34,940	31,313	33,426	68,422	44,319	39,338	41,521	86,164	56,465	48,718	50,993	107,000
Total Revenues	**34,940**	**31,313**	**33,426**	**68,422**	**44,319**	**39,338**	**41,521**	**86,164**	**56,465**	**48,718**	**50,993**	**107,000**
YoY % Change												
Restaurant Sales	35.6%	36.3%	35.1%	33.6%	26.8%	25.6%	24.2%	25.9%	27.4%	23.8%	22.8%	24.2%
Total Revenues	**35.6%**	**36.3%**	**35.1%**	**33.6%**	**26.8%**	**25.6%**	**24.2%**	**25.9%**	**27.4%**	**23.8%**	**22.8%**	**24.2%**
Company Units												
BOP Restaurants	**146**	**161**	**179**	**196**	**200**	**223**	**237**	**256**	**260**	**286**	**303**	**325**
Restaurants Opened	15	18	17	4	23	14	19	4	26	17	22	5
Restaurants Closed or Relocated	0	0	0	0	0	0	0	0	0	0	0	0
EOP Restaurants	**161**	**179**	**196**	**200**	**223**	**237**	**256**	**260**	**286**	**303**	**325**	**330**
Same Store Sales												
SSS (inc. e-commerce, % Growth)	9.3%	8.7%	8.5%	8.6%	1.7%	3.9%	5.4%	8.5%	3.9%	4.8%	5.9%	8.8%
SSS (ex. e-commerce, % Growth)	6.0%	6.9%	6.0%	4.4%	-0.1%	0.7%	1.2%	2.7%	1.0%	1.0%	1.0%	2.0%

Source: Company data and Wedbush Securities

Teavana Quarterly Income Statement

Teavana Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

		2011A				2012E				2013E		
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12A	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue	**34,940**	**31,313**	**33,426**	**68,422**	**44,319**	**39,338**	**41,521**	**86,164**	**56,465**	**48,718**	**50,993**	**107,000**
Cost of Goods Sold	12,451	12,186	12,749	23,517	15,895	15,112	15,629	29,615	19,969	18,229	18,684	36,241
Gross Profit	**22,489**	**19,127**	**20,677**	**44,905**	**28,424**	**24,226**	**25,892**	**56,549**	**36,496**	**30,489**	**32,309**	**70,759**
Selling, General and Administrative Expenses	14,758	15,367	17,511	22,045	20,491	20,666	21,129	26,297	25,545	26,315	25,708	32,020
Depreciation and Amortization	1,275	1,428	1,554	1,671	1,779	1,823	1,965	2,113	2,128	2,341	2,507	2,678
Non-Recurring (Gain) or Loss	-	-	-	-	295	1,000	-	-	-	-	-	-
Total Operating Expenses	**28,484**	**28,981**	**31,814**	**47,233**	**38,460**	**38,601**	**38,722**	**58,024**	**47,642**	**46,885**	**46,899**	**70,940**
Operating Income (Loss)	**6,456**	**2,332**	**1,612**	**21,189**	**5,859**	**737**	**2,799**	**28,140**	**8,823**	**1,833**	**4,094**	**36,060**
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	689	742	122	120	72	79	79	79	79	79	79	79
Other (Income) Expense, net	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	**5,767**	**1,590**	**1,490**	**21,069**	**5,787**	**658**	**2,719**	**28,061**	**8,744**	**1,754**	**4,014**	**35,981**
Provision for Income Taxes	(2,444)	(559)	(554)	(8,600)	(2,286)	(231)	(1,011)	(11,426)	(3,454)	(617)	(1,493)	(14,651)
Net Income	**3,323**	**1,031**	**936**	**12,469**	**3,501**	**427**	**1,708**	**16,635**	**5,290**	**1,137**	**2,522**	**21,330**
Non-Recurring Items	-	-	-	-	215	648	-	-	-	-	-	-
Adjusted Net Income	**3,323**	**1,031**	**936**	**12,469**	**3,716**	**1,075**	**1,708**	**16,635**	**5,290**	**1,137**	**2,522**	**21,330**
Earnings (Loss) Per Share:												
Pro Forma	0.09	0.03	0.02	0.32	0.10	0.03	0.04	0.42	0.13	0.03	0.06	0.53
GAAP	**0.09**	**0.03**	**0.02**	**0.32**	**0.09**	**0.01**	**0.04**	**0.42**	**0.13**	**0.03**	**0.06**	**0.53**
Basic Shares Outstanding	36,749	36,762	38,138	38,251	38,306	38,456	38,606	38,756	38,906	39,056	39,206	39,356
Diluted Shares Outstanding	37,636	37,802	38,965	39,059	39,086	39,236	39,386	39,536	39,686	39,836	39,986	40,136
EBITDA												
Depreciation & Amortization	1,275	1,428	1,554	1,671	1,779	1,823	1,965	2,113	2,128	2,341	2,507	2,678
EBITDA	7,731	3,760	3,166	22,860	7,638	2,560	4,763	30,253	10,951	4,174	6,601	38,739
Margin Analysis												
COGS/Sales	35.6%	38.9%	38.1%	34.4%	35.9%	38.4%	37.6%	34.4%	35.4%	37.4%	36.6%	33.9%
Gross Margin	**64.4%**	**61.1%**	**61.9%**	**65.6%**	**64.1%**	**61.6%**	**62.4%**	**65.6%**	**64.6%**	**62.6%**	**63.4%**	**66.1%**
G&A/Sales	42.2%	49.1%	52.4%	32.2%	46.2%	52.5%	50.9%	30.5%	45.2%	54.0%	50.4%	29.9%
D&A/Sales	3.6%	4.6%	4.6%	2.4%	4.0%	4.6%	4.7%	2.5%	3.8%	4.8%	4.9%	2.5%
Operating Margin	**18.5%**	**7.4%**	**4.8%**	**31.0%**	**13.2%**	**1.9%**	**6.7%**	**32.7%**	**15.6%**	**3.8%**	**8.0%**	**33.7%**
Pre Tax Margin	16.5%	5.1%	4.5%	30.8%	13.1%	1.7%	6.5%	32.6%	15.5%	3.6%	7.9%	33.6%
Tax Rate	42.4%	35.2%	37.2%	40.8%	39.5%	35.2%	37.2%	40.7%	39.5%	35.2%	37.2%	40.7%
Net Income	9.5%	3.3%	2.8%	18.2%	7.9%	1.1%	4.1%	19.3%	9.4%	2.3%	4.9%	19.9%
EBITDA Margin	22.1%	12.0%	9.5%	33.4%	17.2%	6.5%	11.5%	35.1%	19.4%	8.6%	12.9%	36.2%
Year/Year Growth												
Revenues	35.6%	36.3%	35.1%	33.6%	26.8%	25.6%	24.2%	25.9%	27.4%	23.8%	22.8%	24.2%
COGS	24.2%	28.9%	24.5%	42.0%	27.7%	24.0%	22.6%	25.9%	25.6%	20.6%	19.5%	22.4%
Gross Margin	42.8%	41.4%	42.5%	29.6%	26.4%	26.7%	25.2%	25.9%	28.4%	25.9%	24.8%	25.1%
G&A	36.6%	42.2%	44.5%	30.9%	38.8%	34.5%	20.7%	19.3%	24.7%	27.3%	21.7%	21.8%
D&A	31.0%	34.7%	40.0%	37.2%	39.5%	27.6%	26.4%	26.4%	19.6%	28.5%	27.6%	26.8%
Operating Income	62.3%	40.7%	26.1%	27.8%	-9.2%	-68.4%	73.6%	32.8%	50.6%	148.6%	46.3%	28.1%
Pre Tax Profit	71.8%	57.6%	151.3%	32.1%	0.3%	-58.6%	82.5%	33.2%	51.1%	166.5%	47.6%	28.2%
Net Income	72.4%	78.1%	175.3%	36.2%	5.4%	-58.6%	82.5%	33.4%	51.1%	166.5%	47.6%	28.2%
EBITDA	56.1%	38.4%	32.6%	28.4%	-1.2%	-31.9%	50.4%	32.3%	43.4%	63.1%	38.6%	28.1%
Quarter/Quarter Growth												
Revenues	-31.8%	-10.4%	6.7%	104.7%	-35.2%	-11.2%	5.5%	107.5%	-34.5%	-13.7%	4.7%	109.8%
COGS	-24.8%	-2.1%	4.6%	84.5%	-32.4%	-4.9%	3.4%	89.5%	-32.6%	-8.7%	2.5%	94.0%
Gross Margin	-35.1%	-14.9%	8.1%	117.2%	-36.7%	-14.8%	6.9%	118.4%	-35.5%	-16.5%	6.0%	119.0%
G&A	-12.4%	4.1%	14.0%	25.9%	-7.0%	0.9%	2.2%	24.5%	-2.9%	3.0%	-2.3%	24.6%
D&A	4.7%	12.0%	8.8%	7.5%	6.5%	2.5%	7.8%	7.5%	0.7%	10.0%	7.1%	6.8%
Operating Income	-61.1%	-63.9%	-30.9%	1214.5%	-72.3%	-87.4%	279.5%	905.5%	-68.6%	-79.2%	123.3%	780.9%
Pre Tax Profit	-63.8%	-72.4%	-6.3%	1314.0%	-72.5%	-88.6%	313.2%	931.9%	-68.8%	-79.9%	128.9%	796.3%
Net Income	-63.7%	-69.0%	-9.2%	1232.2%	-71.9%	-87.8%	300.3%	873.8%	-68.2%	-78.5%	121.8%	745.8%
EBITDA	-56.6%	-51.4%	-15.8%	622.0%	-66.6%	-66.5%	86.1%	535.1%	-63.8%	-61.9%	58.1%	486.9%

Source: Company reports and Wedbush estimates.

Teavana Annual Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Total Revenue	**63,861**	**90,262**	**124,701**	**168,101**	**211,343**	**263,176**
Cost of Goods Sold	27,193	36,435	46,275	60,903	76,251	93,123
Gross Profit	**36,668**	**53,827**	**78,426**	**107,198**	**135,091**	**170,053**
Selling, General and Administrative Expense	29,242	38,142	50,571	69,681	88,582	109,588
Depreciation and Amortization	2,666	3,489	4,361	5,928	7,679	9,654
Non-Recurring (Gain) or Loss	-	-	-	-	1,295	-
Total Operating Expenses	**107,897**	**115,553**	**123,899**	**136,512**	**146,488**	**156,108**
Operating Income (Loss)	**4,760**	**12,196**	**23,494**	**31,589**	**37,535**	**50,811**
Adj. Op. Income (Loss)				**31,589**	**38,830**	**50,811**
Interest Income	-	-	-	-	-	-
Interest Expense	2,061	2,435	2,585	1,673	310	317
Other (Income) Expense, net	-	-	-	-	-	-
Income Before Taxes	**2,699**	**9,761**	**20,909**	**29,916**	**37,225**	**50,494**
Provision for Income Taxes	(1,502)	(4,470)	(8,906)	(12,157)	(14,954)	(20,214)
Net Income	**1,197**	**5,291**	**12,003**	**17,759**	**22,271**	**30,279**
Non-Recurring (Gain) or Loss			-	-	863	-
Adj. Net Income			**12,003**	**17,759**	**23,134**	**30,279**
Earnings (Loss) Per Share:						
GAAP	**0.03**	**0.14**	**0.32**	**0.46**	**0.56**	**0.76**
Adj.			**0.32**	**0.46**	**0.59**	**0.76**
Basic Shares Outstanding	36,749	36,749	36,749	37,475	38,531	39,131
Diluted Shares Outstanding	37,095	37,322	37,725	38,365	39,311	39,911
EBITDA						
Depreciation & Amortization	2,666	3,489	4,361	5,928	7,679	9,654
EBITDA	7,426	15,685	27,855	37,517	45,214	60,465
Margin Analysis						
COGS/Sales	42.6%	40.4%	37.1%	36.2%	36.1%	35.4%
Gross Margin	**57.4%**	**59.6%**	**62.9%**	**63.8%**	**63.9%**	**64.6%**
G&A/Sales	45.8%	42.3%	40.6%	41.5%	41.9%	41.6%
D&A/Sales	4.2%	3.9%	3.5%	3.5%	3.6%	3.7%
Operating Margin	7.5%	13.5%	18.8%	18.8%	17.8%	19.3%
Adj. Op. Margin				**18.8%**	**18.4%**	**19.3%**
Pre Tax Margin	4.2%	10.8%	16.8%	17.8%	17.6%	19.2%
Tax Rate	55.7%	45.8%	42.6%	40.6%	40.2%	40.0%
Net Income	1.9%	5.9%	9.6%	10.6%	10.5%	11.5%
EBITDA Margin	11.6%	17.4%	22.3%	22.3%	21.4%	23.0%
Year/Year Growth						
Revenues		41.3%	38.2%	34.8%	25.7%	24.5%
Cost of Goods Sold		34.0%	27.0%	31.6%	25.2%	22.1%
Gross Profit		**46.8%**	**45.7%**	**36.7%**	**26.0%**	**25.9%**
Selling, General and Administrative Expenses		30.4%	32.6%	37.8%	27.1%	23.7%
Depreciation and Amortization		30.9%	25.0%	35.9%	29.5%	25.7%
Operating income		**156.2%**	**92.6%**	**34.5%**	**18.8%**	**35.4%**
Net Income		342.0%	126.9%	48.0%	25.4%	36.0%
EPS		339.3%	124.4%	45.5%	21.0%	35.5%

Source: Company reports and Wedbush Securities estimates

Teavana Annual Balance Sheet

(in 000's, except per share data and ratios, FY ends December 31)

	2009A	2010A	2011A	2012E	2012E
Assets:					
Cash and cash equivalents	1,314	7,901	17,818	18,021	24,529
Accounts Receivable - Other	284	-	-	-	-
Inventory	11,615	16,928	25,676	37,444	45,822
Current Deferred Tax Asset	772	1,629	1,839	659	659
Prepaid expenses and other current assets	1,003	2,333	2,475	4,305	4,305
Other	1,061	1,400	1,856	2,171	2,171
Total Current Assets	**16,049**	**30,191**	**49,664**	**62,600**	**77,487**
Property and Equipment, net	22,513	31,028	42,785	57,502	75,597
Goodwill	2,394	2,394	2,394	2,394	2,394
Deferred Tax Asset, non-current	184	-	-	-	-
Other Assets	627	513	775	634	634
Total Assets	**41,767**	**64,126**	**95,618**	**123,130**	**156,112**
Liabilities:					
Unearned Franchise Fees	-	-	-	-	-
Accounts payable	2,564	3,631	3,898	4,909	6,007
Income taxes payable	3,994	4,809	1,821	-	-
Deferred revenue	1,083	1,344	1,813	2,283	2,835
Other Current Liabilities	3,395	5,539	5,034	5,950	5,950
Current Maturities of Notes and Debentures	250	12,992	-	-	-
Total Current Liabilities	**11,286**	**28,315**	**12,566**	**13,142**	**14,792**
Long-term debt	1,000	1,000	-	-	-
Deferred Lease Credits, net of current	3,851	7,524	12,905	14,192	14,192
Deferred Income Taxes	-	420	2,570	2,602	2,602
Other long-term liabilities	11,448	525	575	616	616
Total Liabilities	**27,585**	**37,784**	**28,616**	**30,552**	**32,202**
Common stock, no par value	21,889	81,405	1	1	1
Additional paid-in capital	-	-	276,782	279,272	279,272
Retained Earnings	(7,707)	(55,063)	(209,792)	(187,521)	(157,242)
Accumulated Other Comprehensive Income (Loss)	-	-	11	826	1,878
Treasury stock (at cost)	-	-	-	-	-
Total Shareholders' Equity	**14,182**	**26,342**	**67,002**	**92,578**	**123,909**
Total Liabilities and Shareholders' Equity	**41,767**	**64,126**	**95,618**	**123,130**	**156,112**
Return Ratios					
Return on Sales	5.9%	9.6%	10.6%	10.5%	11.5%
Total Asset Turnover	2.16	1.94	1.76	1.72	1.69
Financial Leverage	0.34	0.41	0.70	0.75	0.79
Return on Equity	4.3%	7.7%	13.0%	13.6%	15.4%
Return on Assets	12.7%	18.7%	18.6%	18.1%	19.4%
Sustainable Growth	4.3%	7.7%	13.0%	13.6%	15.4%
Liquidity/Leverage					
Current Ratio	1.4	1.1	4.0	4.8	5.2
Quick Ratio	0.1	0.3	1.4	1.4	1.7
Debt to Equity	8.8%	53.1%	0.0%	0.0%	0.0%
Debt to Capital	4.7%	34.2%	0.0%	0.0%	0.0%
Net Working Capital	4,763	1,876	37,098	49,458	62,694
Book Value per Share	$0.38	$0.70	$1.75	$2.35	$3.10
Tangible Book Value per Share	$0.32	$0.63	$1.68	$2.29	$3.04
Cash & Investments per Share, Net	$0.00	($0.16)	$0.46	$0.46	$0.61

Source: Company reports, Wedbush Securities estimates.

Teavana Annual Cash Flow Statement

(in 000's, except per share data and ratios, FY ends January 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Cash Flow from Operating Acitivities:						
Net income	1,197	5,291	12,003	17,759	22,271	30,279
Depreciation & Amortization	2,666	3,489	4,361	5,927	7,547	9,654
Non-Cash Interest Expense	1,709	1,925	2,279	1,327	-	-
Deferred income taxes	(610)	532	(253)	1,940	1,180	-
Stock Based Compensation	207	169	157	790	1,052	1,052
Excess Tax Benefit from the Exercise of Stock Options	-	-	-	(2,925)	-	-
(Gain) Loss from Short-Term Investments	-	-	-	-	-	-
Other	-	-	130	160	-	-
Accounts Receivable	167	-	-	-	-	-
Inventory	(1,810)	(3,646)	(5,313)	(8,748)	-	-
Income Taxes Receivable	-	-	-	-	-	-
Prepaid expenses and Other Assets	(713)	46	(1,114)	(117)	-	-
Prepaid rent	(222)	(276)	(338)	(456)	-	-
Accounts Payable	903	(1,558)	669	13	-	-
Income Taxes Payable	(224)	2,772	815	(63)	-	-
Deferred Rent	1,066	1,124	3,673	5,381	-	-
Deferred Revenue	219	326	260	469	-	-
Other Long-Term Liabilities	396	877	2,068	(502)	-	-
Changes in operating assets and liabilities, net	-	-	-	-	(10,555)	(6,728)
Net Cash Provided by Operating Activities	**4,951**	**11,071**	**19,397**	**20,955**	**22,467**	**34,258**
Cash Flow from Investing Activities:						
Purchase of Property and Equipment	(8,798)	(6,640)	(12,560)	(17,566)	(22,264)	(27,750)
Acquisitions, net of cash acquired	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(8,798)**	**(6,640)**	**(12,560)**	**(17,566)**	**(22,264)**	**(27,750)**
Cash Flow from Financing Activities:						
Proceeds from Revolving Credit Facility	50,946	93,980	132,239	181,414	-	-
Long-Term Debt Payments and Debt Transaction Costs	(46,286)	(98,265)	(132,489)	(182,414)	-	-
Proceeds from Exercise of Stock Options	-	-	-	637	-	-
Excess Tax Benefit from Stock Option Exercises	-	-	-	2,925	-	-
Proceeds from issuance of common stock	-	-	-	15,079	-	-
Cash Paid for Financing Costs	(406)	-	-	(433)	-	-
Other	-	-	-	(10,683)	-	-
Net Cash Provided by Financing Activities	**4,254**	**(4,285)**	**(250)**	**6,525**	**-**	**-**
Effect of exchange rate changes on cash	-	-	-	3	-	-
Net increase (decrease) in cash flows from continuing ops.	407	146	6,587	9,917	203	6,508
Net Increase (Decrease) in Cash an Cash Equivalents	**407**	**146**	**6,587**	**9,917**	**203**	**6,508**
Cash and Equivalents, beginning of period	**761**	**1,168**	**1,314**	**7,901**	**17,818**	**18,021**
Cash and Equivalents, end of period	**1,168**	**1,314**	**7,901**	**17,818**	**18,021**	**24,529**
FCF	(3,847)	4,431	6,837	3,389	203	6,508

Source: Company reports and Wedbush Securities estimates.

Analyst Certification
I, Nick Setyan, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ112.pdf

Investment Rating System:
Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of March 31, 2012)	**Investment Banking Relationships (as of March 31, 2012)**
Outperform:59% Neutral: 35% Underperform: 6%	Outperform:13% Neutral: 2% Underperform: 6%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

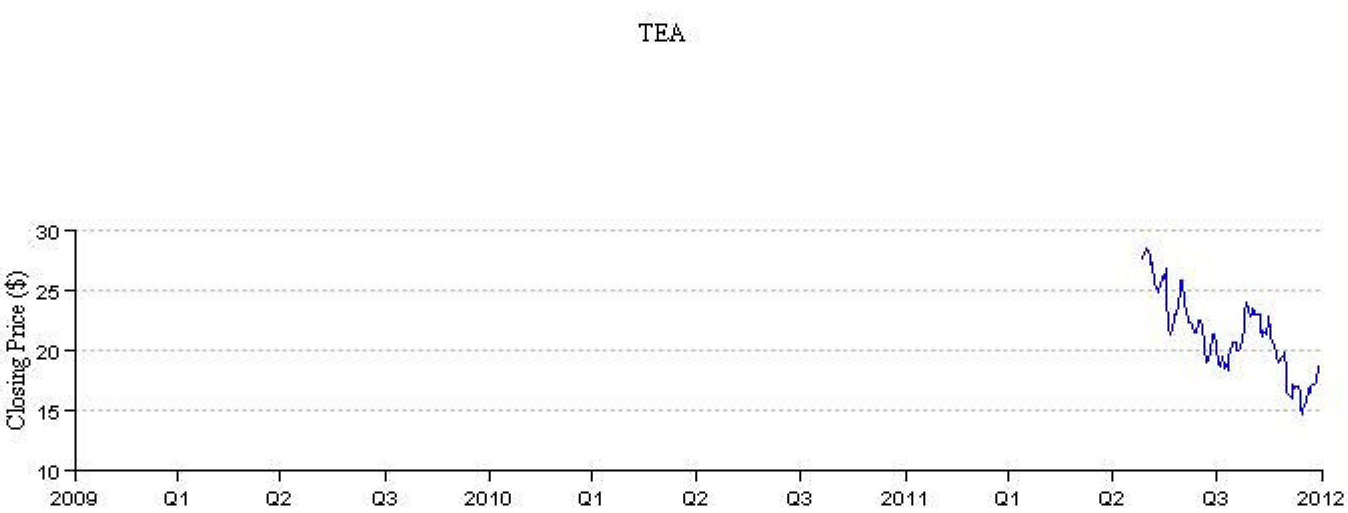
The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of May 30, 2012

Company	Disclosure
Teavana Holdings	1

Research Disclosure Legend
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts
Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/services/cmg/equities-division/research/equity-research Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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William Blair

Teavana Holdings, Inc.

Expect First Quarter to Modestly Beat Consensus Expectations

- We expect Teavana will meet our first-quarter EPS estimate of $0.11 (excluding a penny in anticipated transition and integration expenses related to the pending Teaopia acquisition), above the high end of guidance of $0.09 to $0.10 as well as consensus of $0.10. Teavana will report first-quarter earnings before the markets open on Wednesday, May 30.

- We believe sales trends remained relatively healthy despite some softness during the quarter in the East and Midwest during periods of unusually warm weather and project a midsingle-digit same-store sales increase (including e-commerce), at the high end of management's guidance for a low- to-midsingle-digit increase. Excluding direct-to-consumer, we are projecting a low-single-digit comp increase against a 6% year-ago comparison. We expect comps will be driven primarily by average ticket, as customers increasingly buy more tea per transaction (a unique but healthy dynamic given Teavana's long-shelf-life consumable product), and project total sales growth of 28% to $45 million, at the high end of management's $44 million to $45 million guidance and in line with consensus.

- We expect gross margin expansion of about 30 basis points to 64.7%, primarily reflecting favorable mix shift toward higher-margin loose-leaf tea. We expect SG&A to increase 210 basis points to 44.3% on higher public company costs and expect D&A to increase 20 basis points to 3.8%, yielding overall operating margin contraction of 190 basis points to 16.6%.

- Teavana planned to open 18 to 20 new stores in the first quarter, bringing the quarter-end store count to about 220 company-owned stores, up 36%. We believe the company remains on track to open 60 new company-owned stores this year, representing organic growth of 30%, and its first franchised store in the Middle East through its 10-year franchise development agreement with Alshaya. In addition, the company's acquisition of Teaopia, with 46 company-owned stores in Canada, is expected to close in the second quarter.

- We expect management's first look at the second quarter will encompass our and consensus expectations of $0.04 and $0.03, respectively (versus $0.03 last year), excluding any Teaopia-related expenses. We expect management to guide to comps in the low- to midsingle-digit range against an 8.7% year-ago comparison (including e-commerce), encompassing our estimate for a midsingle-digit comp gain.

May 21, 2012

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

Symbol:	TEA (NYSE)
Price:	$16.62 (52-Wk.: $14-$29)
Market Value (mil.):	$645
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	$0.03	NA
Q4	$0.32	$0.43	NA
FY	$0.46	$0.61	$0.81
CY		$0.61	$0.81
Sales (mil.)	168	227	290
Valuation			
FY P/E	36.1x	27.2x	20.5x
CY P/E		27.2x	20.5x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	236,248

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	632.3
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	16.9x
Return on Equity (TTM)	26.5

Two-Year Price Performance Chart

Sources: Thomson Financial, William Blair & Company estimates

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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- For 2012, management may formally raise revenue expectations to account for the Teaopia acquisition, and we project revenue of $227 million (including roughly $11 million from Teaopia), versus prior guidance of $208 million to $215 million and consensus of $220 million. We expect EPS guidance to remain unchanged at $0.58 to $0.61 (excluding $0.04 to $0.05 in anticipated Teaopia transaction and integration expenses), versus our estimate of $0.61 and consensus of $0.60, as the Teaopia acquisition is expected to be neutral to earnings this year. For 2013, our estimate is $0.81, up 33% and roughly in line with consensus of $0.80.

- Teavana's shares have pulled back to 28 times our 2012 EPS estimate, and we continue to like shares given Teavana's 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.

Teavana Holdings, Inc.

May 21, 2012: $16.70 ($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[a]	Jul-12E	Oct-12E	Jan-13E	2012E[b]	2013E
Company-owned	146	161	179	196	200	200	219	281	301	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	237	300	320	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	31.7%	52.3%	49.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	**11.4%**	**8.9%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**4.0%**	**6.0%**	**8.0%**	**8.0%**	**6.5%**	**6.5%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$44.8	$40.0	$47.0	$95.6	$227.4	$290.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.8	15.4	17.6	32.3	81.1	102.2
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$29.0	$24.6	$29.4	$63.3	$146.3	$188.1
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	19.9	20.4	25.4	32.5	98.1	124.5
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.7	1.8	2.2	2.3	8.0	10.0
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$7.4	$2.4	$1.8	$28.5	$40.2	$53.6
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	$7.3	$2.3	$1.7	$28.4	$39.8	$53.2
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	$4.4	$1.4	$1.0	$17.1	$23.9	$32.0
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**	**$0.03**	**$0.43**	**$0.61**	**$0.81**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.7%	61.6%	62.5%	66.2%	64.3%	64.8%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	44.3%	51.0%	54.0%	34.0%	43.2%	42.9%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.8%	4.5%	4.7%	2.4%	3.5%	3.4%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.6%	6.1%	3.8%	29.8%	17.7%	18.5%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	28.2%	27.7%	40.7%	39.8%	35.3%	27.6%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	34.5%	32.7%	45.0%	47.5%	40.8%	26.9%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	33.4%	26.1%	41.6%	37.6%	35.0%	25.0%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	15.3%	4.5%	11.5%	34.5%	27.2%	33.3%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	28.1%	31.4%	8.1%	35.7%	31.8%	32.8%

[a]Excludes anticipated $0.01 in transition and integration expenses related to Teaopia acquisition

[b]Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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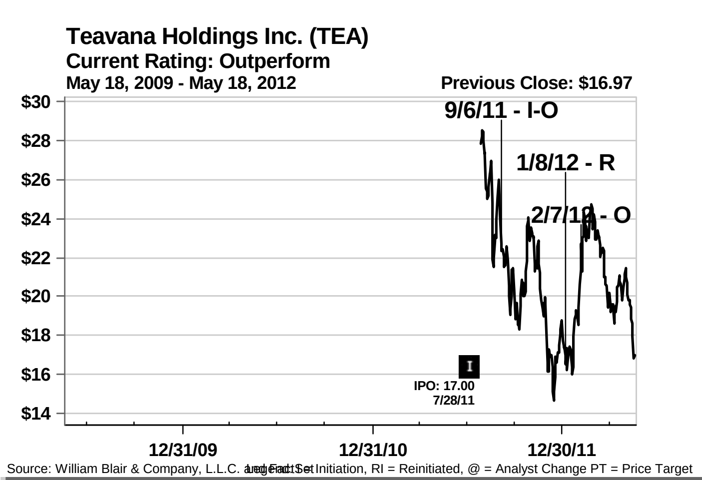

Current Rating Distribution (as of 04/30/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	8
Market Perform (Hold)	32	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

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Teavana Holdings, Inc.:

TEA: Access: Long- Term, Sustainable Growth

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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.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 6 - 7 OF THIS NOTE.

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

Company Name	TKR	Rating	Stock Price	52 Week Price Range	Price Target	2012E P/E on PT	Mkt Cap ($mm)	EPS 2011A	EPS 2012E	P/E 2011A	P/E 2012E	EV/EBITDA 2011A	EV/EBITDA 2012E	EV/Sales 2011A	EV/Sales 2012E	PEG 2011A	PEG 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	WTSLA	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
Skullcandy	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 - dilute	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)	(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

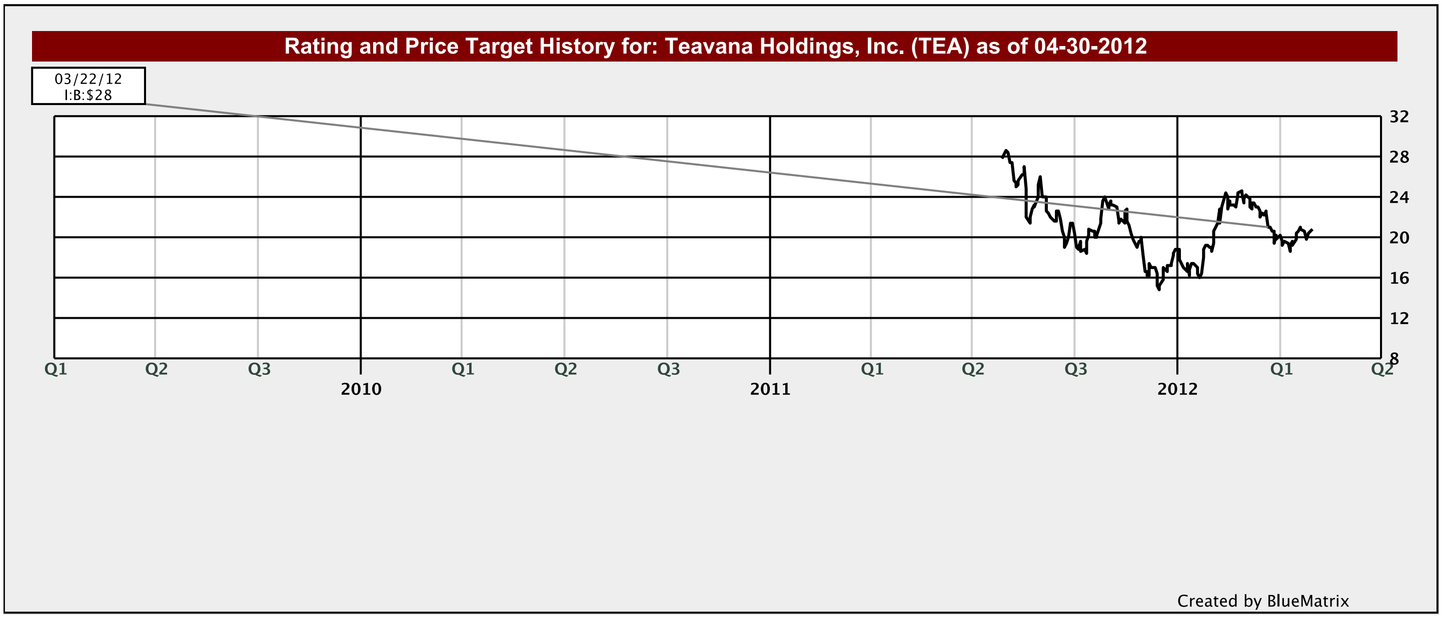
Teavana Holdings, Inc. - TEA

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

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		CONSUMER			IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**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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Teavana Holdings (TEA)

Initiating with NEUTRAL and $21 PT; Believe Street's ongoing Focus on Store-Only Comps Limits Upside in 2012

- **We believe lower-than-expected SSS growth, excluding eCommerce, may result in lower consensus estimates, limiting expansion in valuation. Therefore, we initiate with a NEUTRAL rating and $21 price target.**
- **Best-in-class ROI justifies industry-leading unit growth.** We believe Teavana can sustain a 30% unit growth rate, given its 75% year-1 cash-on-cash return, which is the highest in our restaurants universe, including beverage peers. (Page 3)
- **Believe focus on comparable-store-sales growth, excluding eCommerce, as a measure for concept's traction is misplaced, but likely to continue.** We believe that, given characteristics specific to Teavana's business model, the sole sustainable comp contributor, excluding eCommerce, over time is the company's ability to drive a higher price per unit. (Page 5-7)
- **Believe estimates (ex. Teaopia acquisition) lofty due to aggressive consensus SSS, ex. eCommerce expectations.** We believe risk to 2012 Street revenue expectations of $215.2 million prior to the announcement of the Teaopia acquisition last week exists. Management guidance is $208-215 million. We attribute the higher consensus expectation to more aggressive store-only SSS growth expectations. (Page 8)
- **Ex. Teaopia impact, we expect resumption in gross and operating margin leverage in 2013, but 2012 margins capped.** With the company's direct sourcing move fully anniversaried in 2011, with 200-300 bp pressure on SG&A 1H:12 due to public company costs, and with a decline in the mix of mature units in 2012, we expect 10 bps of operating margin contraction in 2012. Our 2012 EPS estimate is $0.60 (ex. Teaopia) vs. consensus of $0.62 (ex. Teaopia). (Pages 9-10)
- **We believe Teaopia acquisition adds a layer of uncertainty.** While we believe Teaopia's average sales volumes of $435K (<1/2x Teavana's $913K avg.) can increase over time, we believe that margins in the near- to medium-term will be pressured. We are not including Teaopia in our model, pending the transaction's close in Q2 (exception of $0.01 impact in Q1:12). If included, the impact would be a further -$0.03-0.04 in 2012E and +$0.02-0.03 in 2013E. (Page 10)
- **Our $21 price target is based on a 26x multiple on our 2013 EPS estimate.** This multiple is in line with TEA's peer group. Based on our expectation of risk to consensus expectations and the execution risks accompanying the Teaopia acquisition, we do not believe a premium is appropriate, despite TEA's higher 2013 EPS growth rate relative to peers. (Page 11)

FYE Jan	2011A	2012E			2013E		
REV (M)	**ACTUAL**	**CURR.**	**PREV.**	**CONS.**	**CURR.**	**PREV.**	**CONS.**
Q1 Apr	$34.9A	$44.9E		$45.2E	$56.1E		--
Q2 Jul	31.3A	40.3E		41.7E	50.6E		--
Q3 Oct	33.4A	41.8E		--	51.5E		--
Q4 Jan	68.4E	87.1E		--	108.3E		--
Year*	**$168.1A**	**$214.2E**		**$216.5E**	**$266.5E**		**$274.1E**
Change	--	27.4%			24.4%		
	2011A	**2012E**			**2013E**		
EPS	**ACTUAL**	**CURR.**	**PREV.**	**CONS.**	**CURR.**	**PREV.**	**CONS.**
Q1 Apr	$0.09A	$0.09E		$0.10E	$0.14E		--
Q2 Jul	0.03A	0.03E		0.03E	0.05E		--
Q3 Oct	0.02A	0.04E		--	0.06E		--
Q4 Jan	0.32E	0.42E		--	0.53E		--
Year*	**$0.46A**	**$0.59E**		**0.58E**	**$0.78E**		**0.78E**
P/E	44.1x	34.7x			26.3x		
Change	--	27.0%			31.9%		

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

April 23, 2012

Price
$20.60

Rating
NEUTRAL

12-Month Price Target
$21

Nick Setyan
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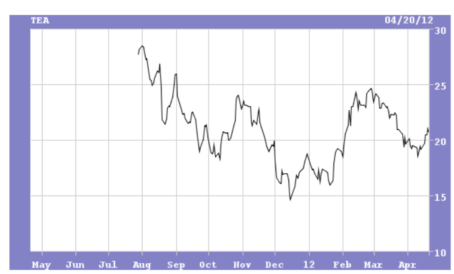
Company Information

Shares Outst (M)	39.2
Market Cap (M)	$799.9
52-Wk Range	$14.28 - $29.01
Book Value/sh	$1.81
Cash/sh	$0.91
Enterprise Value (M)	$764.1
LT Debt/Cap %	0.00

Company Description

Teavana Holdings, based in Atlanta, GA, owns and operates >200 retailers of ~100 varieties of loose-leaf tea, a selection of fresh-brewed teas, and tea-related merchandise.



Source: Thomson Reuters

Restaurants

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 20 of this report for analyst certification and important disclosure information.

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Investment Thesis

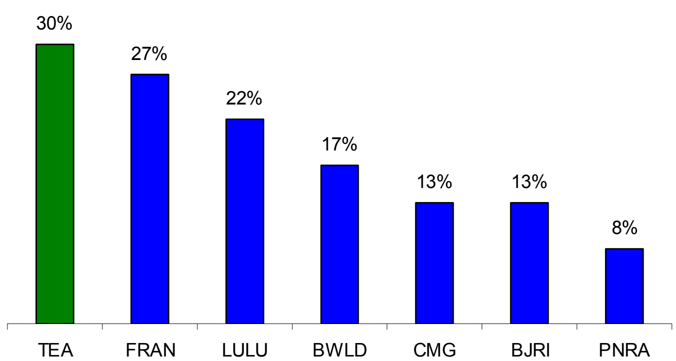
We believe Best-in-Class ROI Justifies Industry-Leading Unit Growth

We believe Teavana can sustain its industry-leading unit growth rate, given its 75% year-1 cash-on-cash return, which is the highest within our restaurants universe, including beverage peers (Figures 1-2), through 2015. Importantly, management has been able to sustain this level of cash-on-cash returns even as a greater mix of newer units open in Tier-2 malls, and achieve lower expected sales levels of $600-700K than the current system average of ~$900K.

Much of the debate has centered on what Teavana's opportunity is, beyond 500 stores in 2015 (from 200 currently), and an examination of the many hypothetical opportunities, both unit growth and other (CPG, licensing, international, etc.) have been exhausted. While we believe Canada adds upside to the 500 unit target, particularly given the pending Teaopia acquisition, we believe a footprint beyond 500 units in the U.S. would not support current economics given the ceiling on locations that can support the company's sales productivity (Figure 3).

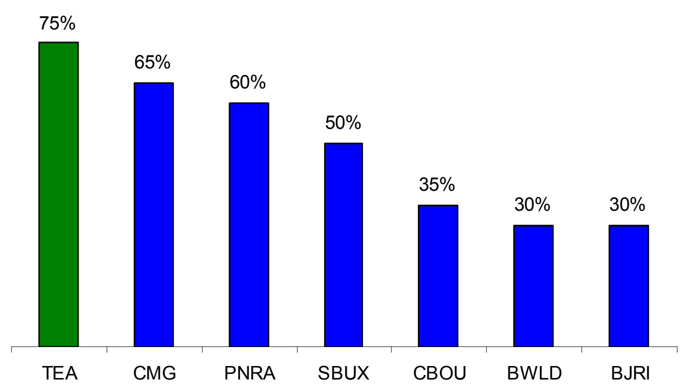
Nevertheless, we would note that even if there were no unit growth or other opportunities beyond 500 units in 2015, we believe the company's mature-level cash flow would be enough to repurchase ~11-13% of shares outstanding per year at the current share price, resulting in double-digit EPS growth in 2016, even with relatively conservative assumptions regarding revenue and margins (Figure 4).

Figure 1: 2012E Unit Growth Rate



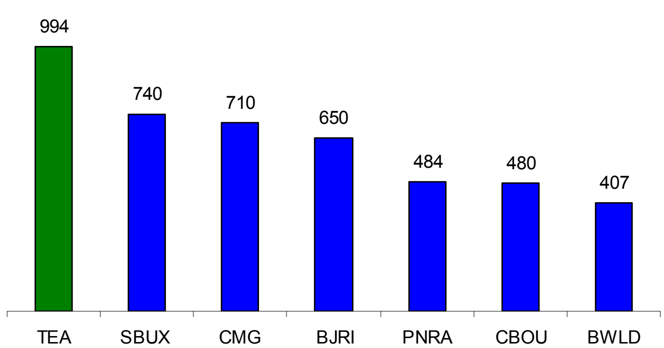
Source: Company data, Wedbush Securities, Inc.

Figure 2: Cash-on-Cash Returns



Source: Company data, Wedbush Securities, Inc.

Figure 3: Sales per Square Foot ($)



Source: Company data, Wedbush Securities, Inc.

Figure 4: Mature-Level Free Cash Flow and EPS Growth Through Share Repurchases

Retail Sales ($ '000s, 500 Units @$800K per Unit)	400,000		
eCommerce Sales ($ '000s)	40,030		
Total Revenue ($ '000s)	440,030		
Cost of Sales (@32%, $000s)	(140,810)		
SG&A (@37%, $000s)	(162,811)		
EBITDA	136,409		
Maint CapEx (% of Retail Sales)	10%	7.5%	5%
Main. CapEx ($ '000s)	40,000	30,000	20,000
FCF ($ '000s)	96,409	106,409	116,409
Est. Shares Outstanding (FYE '15)	41,835		
Share Price ($)	21		
Shares Repurchases (# '000s)	**4,591**	**5,067**	**5,543**
% of Outstanding	**11%**	**12%**	**13%**

Source: Company data, Wedbush Securities, Inc.

Believe Focus on Comps ex. eCommerce to be Misplaced, but Likely to Continue

We believe that as a Teavana unit matures, characteristics specific to the concept could result in muted average check and transaction growth within the store. Therefore, unlike a typical growth concept, we believe that SSS growth, excluding e-Commerce, is inappropriate as a measure of the concept's ongoing success, and look to SSS growth, including eCommerce, as the appropriate measure. Nevertheless, we believe that continued focus on in-store SSS metrics is likely in the near- term.

We illustrate what we believe is the risk to in-store comparable sales metrics as a unit matures (Figure 5). We believe that average check pressure occurs as a returning visitor no longer needs to purchase accompanying merchandise, and traffic pressure results from migrations to online purchases over time.

Figure 5: High Probability of Smaller Avg. Check and Migration to Online Ordering Over Time

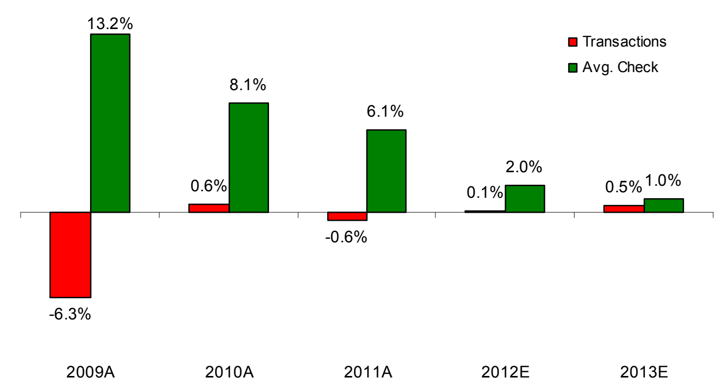
1st Transaction – Large in-Store Avg. Ticket: 3 2oz. tea samples ($4.40-25.00 per 4oz.) + tea kettle for loose leaf tea ($19.99)
2nd Transaction – Smaller In-Store Average Ticket: Larger size of the preferred tea through either a return visit to the store or purchase online.
3rd Transaction – Similar Average Ticket, but Migration to Online: Increased probability of purchase online without a return visit to the store.

Source: Wedbush Securities, Inc.

Transactions and Average Check

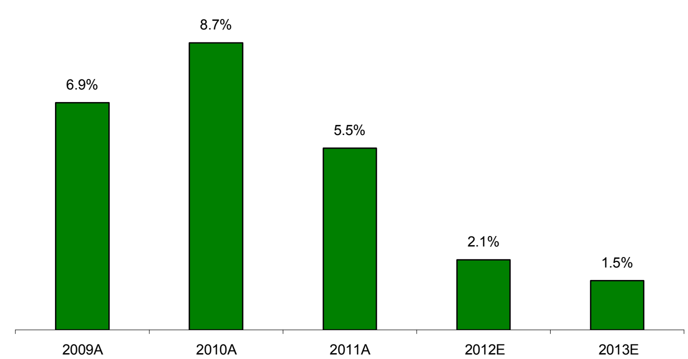
Historically, transactions have remained flat to down, with average check growth being the main driver of SSS growth, ex. eCommerce, (Figures 6-7). While declining beverage sales as a mix of total sales has contributed to the decline in transactions and the growth in average size, in recent years, the beverage mix has stabilized at 4% of sales (Figure 8). We also estimate this impact as no more than 9 bps of improvement in average check per 10 bp decline in the mix of beverage sales (Figure 9).

Figure 6: Transactions VS Avg. Tx Size



Source: Company data, Wedbush Securities, Inc.

Figure 7: SSS Growth (ex. eCommerce)



Source: Company data, Wedbush Securities, Inc.

Figure 8: Product Categories (% of Net Sales)

	2007	2008	2009	2010	2011
Tea		51%	54%	56%	55%
Merchandise		44%	42%	40%	41%
Beverage	8%	5%	4%	4%	4%

Source: Company data

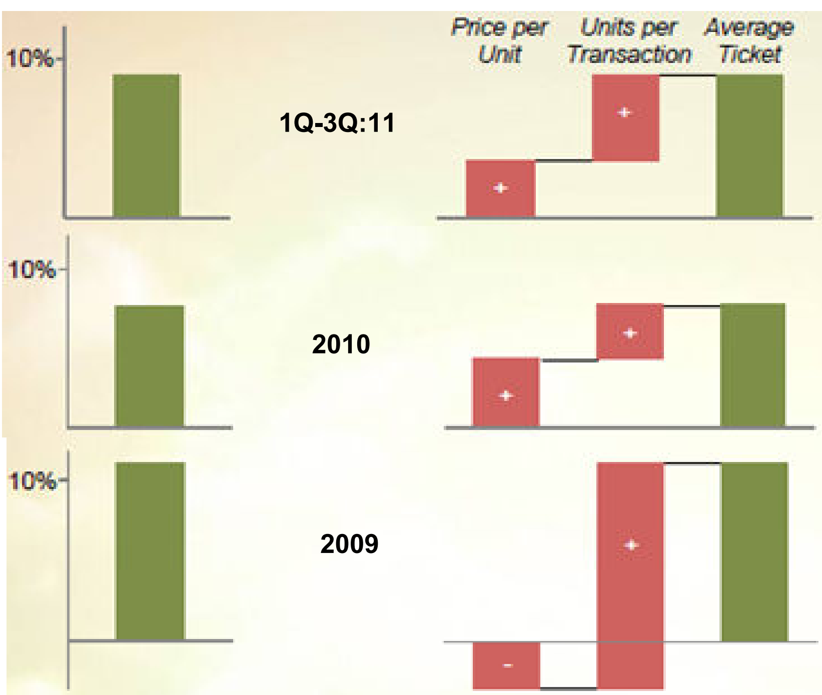
Figure 9: Estimated Impact on Average Check from a 10 bp Decline in Beverage Sales Mix

	Q1:11A	Q2:11A	Q3:11A	Q4:11A		Q1:12E	Q2:12E	Q3:12E	Q4:12E
Beverage (% of Sales)	4.0%	4.0%	4.0%	2.0%		3.9%	3.9%	3.9%	1.9%
Non-Beverage (% of Sales)	96.0%	96.0%	96.0%	98.0%		96.1%	96.1%	96.1%	98.1%
Beverage Avg. Check ($)	$5.00	$5.00	$5.00	$5.00	➡	$5.00	$5.00	$5.00	$5.00
Non-Beverage Avg. Check ($)	$38.33	$38.33	$40.42	$42.76		$38.33	$38.33	$40.42	$42.76
All-in Avg. Check	$37.00	$37.00	$39.00	$42.00		$37.03	$37.03	$39.04	$42.04
Change in Avg. Check Given a 10 bp decline in beverage sales						**0.09%**	**0.09%**	**0.09%**	**0.09%**

Source: Company data, Wedbush Securities, Inc.

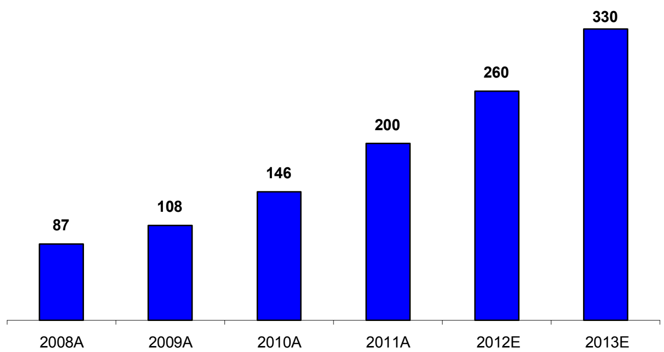
The most significant contributor to increased average ticket has been a higher price paid per unit and a higher number of units per transaction (Figure 10). The company does not typically increase menu prices, and we believe the impact of a higher number of units per transaction is offset by a decline in the number of transactions over time. Therefore, we believe the sole sustainable comp contributor is the company's ability to drive a higher price per unit by consistently driving customers to trade up to higher-priced teas. We believe the marginal impact of this driver diminishes as a unit matures, with an increasing mix of units in their second year or older starting in 2012 (Figures 11-12). Combined with the impact of a higher proportion of sales that we believe migrate online as a store matures and enters the comp base (Figure 13), we are not surprised that management's 2012 guidance of "mid-single-digit" SSS growth, including eCommerce, implies a deceleration in ex-eCommerce SSS growth to the low-single-digits from 5.5% in 2011 and 8.7% in 2010.

Figure 10: Components of Average Ticket Growth



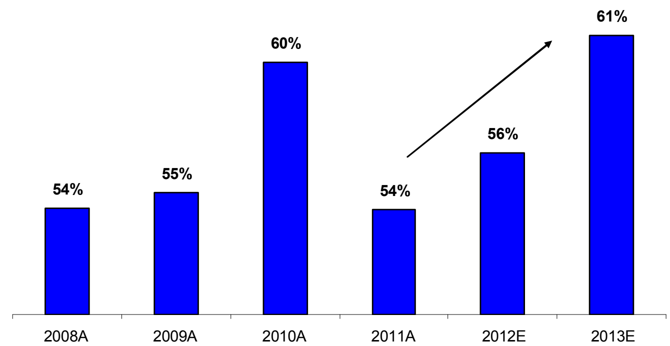
Source: Company data

Figure 11: FYE Units



Source: Company data, Wedbush Securities, Inc.

Figure 12: Mix of Units In Second Year or Older



Source: Company data, Wedbush Securities, Inc.

Figure 13: New Entrants Into Comparable Store Base (*Est.*, 2009-2012)

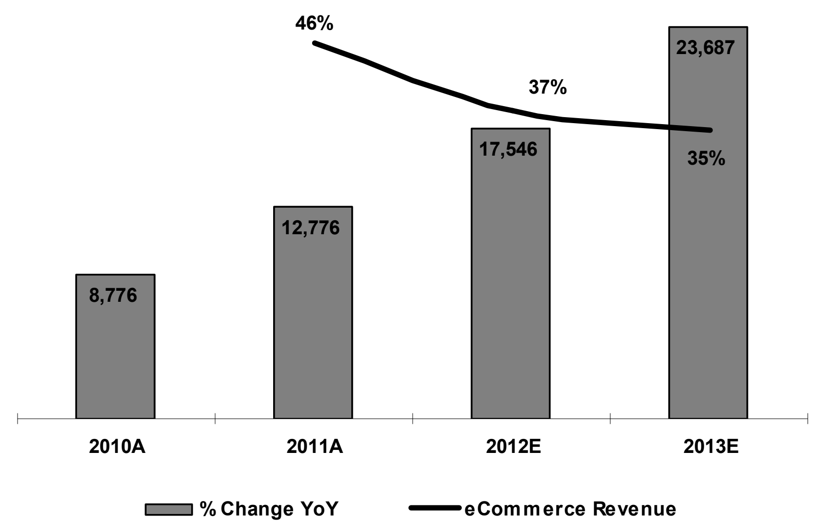
	2009	2010	2011	2012E
Stores in Comp Base	87	105	138	188
Total Stores	108	146	200	260
New Entrants Into Comp Base		18	33	50
New Entrants (% of prev. FY's comp base)		21%	31%	36%

Source: Company data, Wedbush Securities, Inc.

Believe Estimates, Excluding Teaopia, Acquisition, are Lofty due to Aggressive Consensus Comps ex. eCommerce Expectations

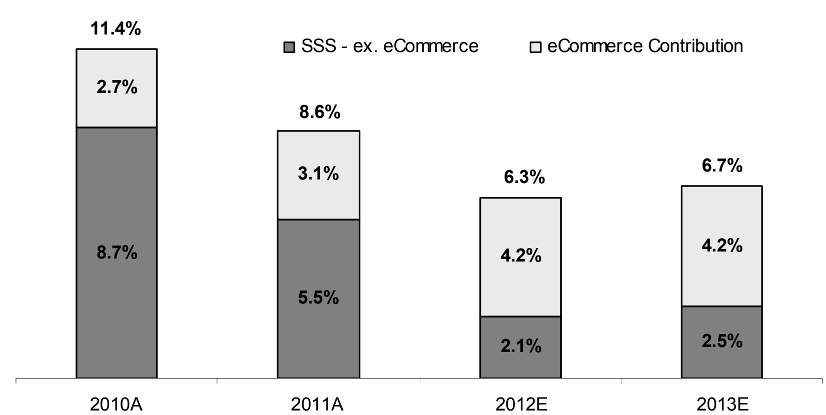
Given 2012 revenue guidance of $208-215 million, on SSS growth including eCommerce of “mid-single digits”, we believe downside to Street revenue expectations (prior to the Teaopia acquisition announcement last week) of $215.2 million exists. We estimate eCommerce revenue in 2011 was $12.8 million, and expect 37% growth in 2012 to $17.6 million (Figure 14). Our analysis indicates that eCommerce growth will contribute 4.2% to 2012 SSS growth, with a 2.1% contribution from in-store SSS growth (Figure 15). We believe the higher Street expectations relative to management guidance and our expectation is the result of more aggressive in-store (ex. eCommerce) SSS growth expectations.

Figure 14: eCommerce Revenue ($ ‘000s, 2010-2013E)



Source: Company data, Wedbush Securities, Inc.

Figure 15: SSS Growth (inc. eCommerce, 2010-2013)

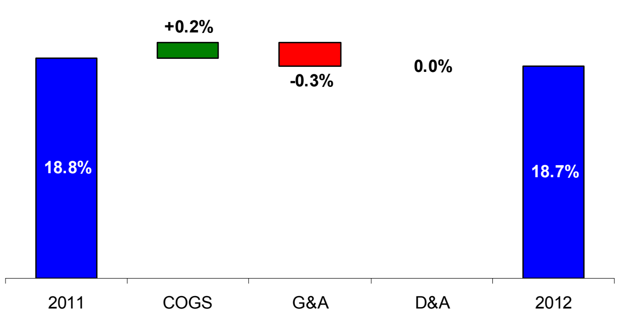


Source: Company data, Wedbush Securities, Inc.

Excluding Teaopia Impact, Expect Resumption in Gross and Operating Margin Leverage in 2013, but 2012 Margins Capped

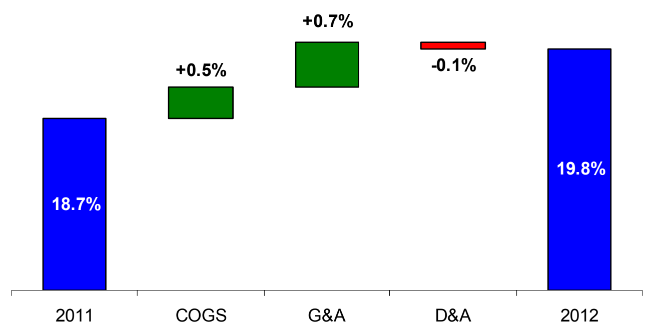
Excluding the pending Teaopia acquisition, we expect 2012 operating margin of 18.7% vs. 2011 operating margin of 18.8%. We expect operating margin expansion in 2013 to 19.8% (Figures 16-17). With the company's direct sourcing move fully anniversaried in 2011, we expect any gross margin benefit to come from the natural maturation process of stores, as higher-margin tea sales increase relative to merchandise sales. Nevertheless, we believe the benefit from this maturation process over time may currently be overblown. With a new store's tea sales mix growing to 60% of sales from 50% at opening, and tea gross margins ~10% above non-tea gross margins, a store's gross margins expand no more than 1% (Figure 18). In 2012, we believe this impact will be somewhat diminished by the reacceleration in new unit growth that took place in 2010, as the mix of mature units dips slightly (Figure 19). Combined with higher growth of lower-gross-margin eCommerce sales, we are modeling only a 20 bp increase in gross margins in 2012, accelerating to 50 bps in 2013 as the impact of immature units begins to decrease (Figure 20). We expect SG&A costs to pressure operating margins by 30 bps in 2012 as the first half of 2012 is impacted 200-300 bps from public company costs not present in 1H:11, deleverage that is mostly recouped in 2H:12 (Figures 21-22). Our 2012 EPS expectation, excluding the impact of Teaopia, is $0.60, below the pre-acquisition consensus of $0.62. Management guidance is $0.58-0.61.

Figure 16: Drivers of 2012 Operating Margin



Source: Company data, Wedbush Securities, Inc.

Figure 17: Drivers of 2013 Operating Margin



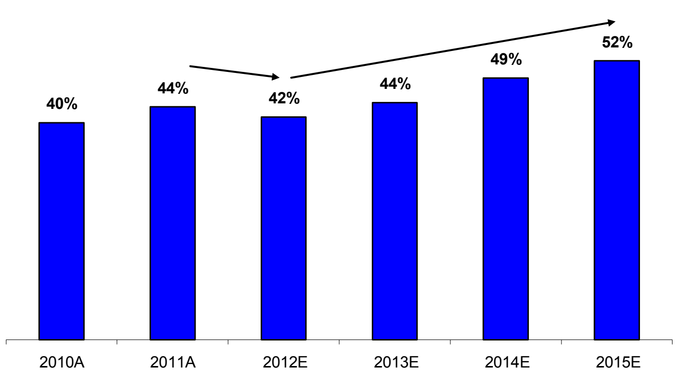
Source: Company data, Wedbush Securities, Inc.

Figure 18: Gross Margin Benefit from Higher Tea Sales Mix as a Unit Matures

	Opening Day	Year 1	Year 2	Year 3	Notes
Tea (% of Sales)	50%	53%	57%	60%	
Gross Margin Impact		+0.3%	+0.4%	+0.3%	Tea GM 10% higher than merchandise sales

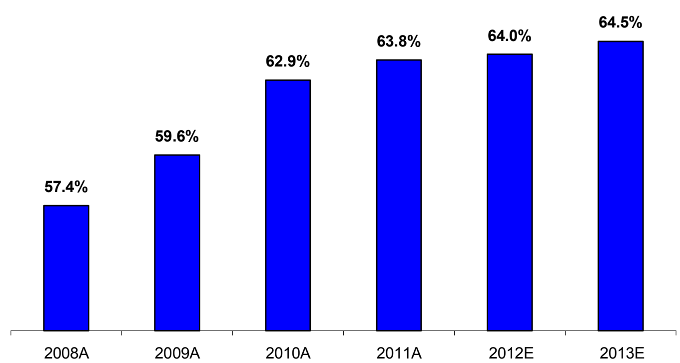
Source: Company data, Wedbush Securities, Inc.

Figure 19: Mix of Units In Third Year or Older



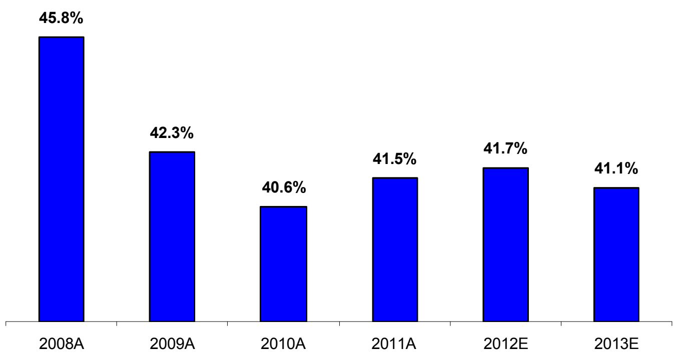
Source: Company data, Wedbush Securities, Inc.

Figure 20: Gross Margin (2008-2013E)



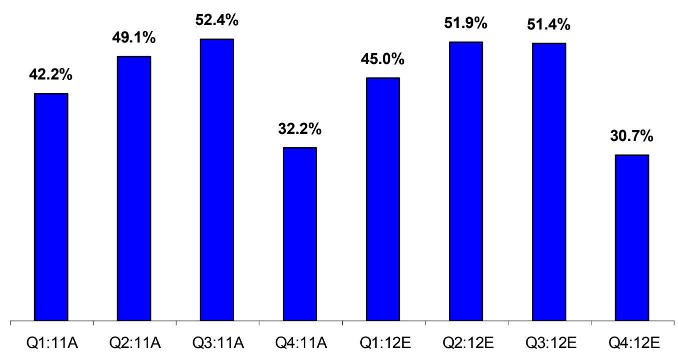
Source: Company data, Wedbush Securities, Inc.

Figure 21: SG&A (% of Sales, 2010-2013E)



Source: Company data, Wedbush Securities, Inc.

Figure 22: SG&A (% of Sales, 1Q11-4Q12E)



Source: Company data, Wedbush Securities, Inc.

Believe Pending Teaopia Acquisition Adds New Layer of Uncertainty, Given Expected Adverse Impact on Margins in Near-to-Medium Term

While the pending Teaopia acquisition answers some strategic questions and we believe Teavana can benefit from lifting Teaopia's average unit volumes over time, the only certainty accompanying the acquisition is that near- to mid-term margins will be pressured. Although management provided no details on the acquisition call regarding Teaopia's margins, given that average Teaopia sales per store of $435K are less than half of Teavana's average of $913K, that loose-leaf tea as a % of revenue of ~50% is less than Teavana's 55%, and that absolute dollar occupancy costs are at 100% of Teavana occupancy costs, we believe both gross and operating margins are meaningfully lower.

Additionally, while we believe management's ability in lifting Teaopia's sales levels is aided by the fact that Teaopia is essentially a copycat operation, down to the POS system used (Figures 23-24), management did state that it plans to increase labor expense ahead of sales growth, which we believe could impact 2013's expected $0.03-0.04 of accretion should the expected sales lift come in below expectations. Excluding transaction costs of $0.04-0.05, mostly in Q1-Q3, management expects the acquisition to have no impact on 2012 EPS. We are not including the ~$16 million in annual revenues, or any EPS impact, in our model pending the acquisition's close in Q2. We are, however, including a penny of transaction costs in 1Q:12, which lowers our 2012 EPS expectation to $0.59 from $0.60. Should we include the entire impact in our model, our 2012 EPS expectation would decrease to $0.55-0.56 and our 2013 EPS estimate would increase by $0.02-0.03.

Figure 23: Teavana

Source: Company data

Figure 24: Teaopia

Source: Company data

Valuation

Based on both consensus and our 2013 EPS expectations, Teavana is currently trading in line with its closest comparables. Given the company's brief trading history since its late July IPO, we do not believe a historical valuation analysis is appropriate. Based on Teavana's 36% expected EPS growth rate in 2013 relative to the peer average of 27%, a premium to peers would be appropriate. However, within the context of our expectation that there is risk to consensus expectations, combined with the execution risk of integrating this relatively large-sized acquisition, we believe a valuation in line with the 26x peer multiple is appropriate. Therefore, we initiate on shares of Teavana with a NEUTRAL rating and $21 price target, which represents a 26x multiple on our 2013 EPS estimate of $0.79 (Figure 25).

Figure 25: Valuation Comparables

Company	Ticker	Price 04/21/12	Market Cap ($ Mil.)	Ent Value ($ Mil.)	P/E 2012	P/E 2013	EV/Sales 2012	EV/Sales 2013	EV/EBITDA 2012	EV/EBITDA 2013	Revenue Growth 2013/12	PF EPS Growth 2013/12
PEERS												
Starbucks Corporation	SBUX	$59.16	$45,464	$43,741	31.8x	25.5x	3.3x	2.9x	16.6x	14.0x	11%	25%
Green Mountain Coffee Roasters, Inc.	GMCR	$44.26	$7,054	$7,440	16.6x	12.0x	1.7x	1.3x	8.8x	6.5x	30%	38%
Dunkin' Brands Group, Inc.	DNKN	$31.05	$3,738	$4,965	25.3x	21.6x	7.5x	7.0x	15.2x	13.6x	7%	17%
Peet's Coffee & Tea, Inc. - Cons.	PEET	$72.93	$974	$939	40.9x	32.2x	2.3x	2.1x	17.3x	15.0x	9%	27%
Caribou Coffee Company, Inc.	CBOU	$16.45	$345	$301	32.6x	25.4x	0.8x	0.8x	8.9x	7.3x	11%	28%
Unweighted Average (ex. Outlier)					**32.7x**	**26.2x**	**3.5x**	**3.2x**	**14.5x**	**12.5x**	**14%**	**27%**
Unweighted Average					29.5x	23.3x	3.1x	2.8x	13.4x	11.3x	14%	27%
Teavana Holdings, Inc.	**TEA**	**$20.77**	**$811**	**$793**	**35.1x**	**26.0x**	**3.6x**	**2.8x**	**16.7x**	**12.3x**	**26%**	**35%**
Premium/(Dicount)					*8%*	*-1%*	*3%*	*-11%*	*15%*	*-1%*		
Teavana Holdings, Inc. - Wedbush	**TEA**	**$20.77**	**$811**	**$793**	**35.6x**	**26.2x**	**3.7x**	**3.0x**	**16.9x**	**12.6x**	**24%**	**36%**
Premium/(Dicount)					*9%*	*0%*	*6%*	*-7%*	*16%*	*1%*		
OTHER GROWTH PEERS												
Buffalo Wild Wings, Inc.	BWLD	$84.09	$1,567	$1,464	25.6x	21.4x	1.4x	1.2x	9.1x	7.7x	17%	20%
Bj's Restaurants, Inc. (Cons.)	BJRI	$46.80	$1,370	$1,325	35.3x	28.5x	1.9x	1.6x	14.2x	11.5x	17%	24%
Panera Bread Company	PNRA	$150.27	$4,418	$4,196	26.8x	22.5x	2.0x	1.8x	11.9x	10.1x	13%	19%
Chipotle Mexican Grill, Inc.	CMG	$419.26	$13,352	$12,899	47.3x	37.9x	4.7x	4.0x	23.7x	19.3x	18%	25%
Unweighted Average			**$5,177**	**$4,971**	**33.8x**	**27.6x**	**2.5x**	**2.1x**	**14.7x**	**12.2x**	**0.2x**	**0.2x**

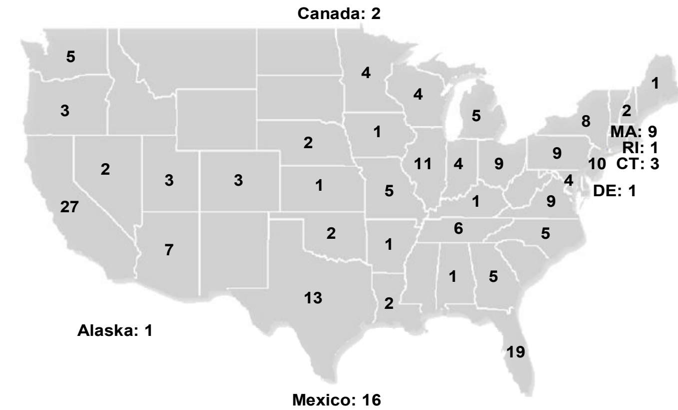
Source: Company data, Wedbush Securities, Inc.

Company Snapshot

Figure 26: Company Snapshot

Segment	Snacks
Subsegment	Tea
Peers	Teaopia, David's Tea, Peet's
System Units (US)*	209
Avg. Check (Est.)	$40.00
Sales Breakdown	
Loose Leaf Teas	56%
Tea-Related Merchandise	40%
	2011
Gross Margin	63.8%
Operating Margin	18.8%
Net Margin	10.6%
Unit Level Data	**FY'11**
Avg. Unit Volume (AUV)	$913,000
Avg. Weekly Sales	$17,558
Avg. Square Feet	920
Sales / Sq. ft.	$992
Four-Wall Economics	**New Units**
Avg. Unit Volume	$650,000
4 Wall Contribution Margin	25%
Avg. Total Investment	$225,000
Cash-on-Cash ROI	**72%**

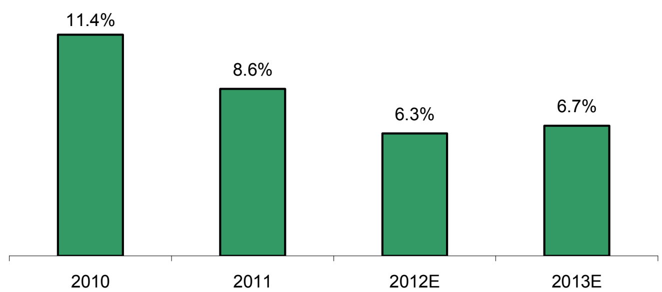
Company Locations



Net Company Development

2008 (+28); 2009 (+21); 2010 (+38); 2011 (+54); 2012E (+60); 2013E (+75)

SSS Growth (YoY % Change, inc. eCommerce)



**Note: April 12, 2012*

Source: Company data, Wedbush Securities, Inc.

Management

Andrew T. Mack – Chairman of the Board, Chief Executive Officer

Andrew Mack founded Teavana in 1997 and has served as the Chief Executive Officer since that time. Prior to founding Teavana, Mr. Mack held various management positions within the restaurant industry. Mr. Mack received his marketing degree from East Tennessee State University.

Daniel P. Glennon – Executive Vice President, Chief Financial Officer

Daniel Glennon has served as Executive Vice President, Chief Financial Officer since 2010. Prior to joining Teavana, Mr. Glennon was a manager at Marakon Associates. His other roles have included auditor at Arthur Anderson, chief financial officer or vice president of finance of three early stage corporations. Mr. Glennon received his accounting degree from the University of Georgia, MBA from Harvard, and is a certified public accountant.

Peter M. Luckhurst – Executive Vice President, Operations

Peter Luckhurst has served as Executive Vice President, Operations since 2010. Prior to joining Teavana, Mr. Luckhurst was president at HMV North America. Mr. Luckhurst received his behavioral science degree from the University of Aston in Birmingham.

Juergen W. Link - Vice President, Distribution

Juergen Link has served as Vice President, Distribution since 2005. Prior to joining Teavana, Mr. Link was the founder and president of SpecialTeas Inc. Mr. Link received his business management degree from the University of Munich.

Investment Risks

Decrease in Demand for Teas

Teavana is heavily reliant on the sale of premium loose leaf teas and tea-related products, therefore any decrease in the demand of teas from changing consumer tastes away from teas to substitute products could adversely impact sales.

Increasing Competition in the Beverage Industry

The beverage industry is highly competitive with an abundance of substitutes for premium loose leaf teas. We believe that increased competition from other tea and beverage retailers could adversely impact sales.

Sourcing of Teas

Teavana is reliant on its ability to source a wide variety of premium loose leaf teas at reasonable prices. We believe that any failure to innovate, develop, source, or market new varieties of teas could negatively impact sales. Additionally, any rise in the prices of loose leaf teas could negatively impact Teavana's margins.

Expansion into New Markets

As Teavana expands into new markets, there is a risk that the new unit openings may not achieve sales levels appropriate to meet the company's return on investment hurdles. We believe that new store openings may place increased demands on management and distribution. Additionally, management does not have the experience of opening the number of new stores that are planned annually.

Deterioration in Economic Conditions

The company is dependent on consumer confidence and spending and any deterioration in economic conditions could adversely impact sales. We believe that sales could be negatively impacted by rising unemployment rates and increases in fuel and other energy costs.

Teavana Revenue Model

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12E	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue Analysis												
Revenue												
Net Sales	34,940	31,313	33,426	68,422	44,887	40,313	41,813	87,139	56,114	50,610	51,497	108,289
Total Revenues	**34,940**	**31,313**	**33,426**	**68,422**	**44,887**	**40,313**	**41,813**	**87,139**	**56,114**	**50,610**	**51,497**	**108,289**
YoY % Change												
Restaurant Sales	35.6%	36.3%	35.1%	33.6%	28.5%	28.7%	25.1%	27.4%	25.0%	25.5%	23.2%	24.3%
Total Revenues	**35.6%**	**36.3%**	**35.1%**	**33.6%**	**28.5%**	**28.7%**	**25.1%**	**27.4%**	**25.0%**	**25.5%**	**23.2%**	**24.3%**
Company Units												
BOP Restaurants	**146**	**161**	**179**	**196**	**200**	**219**	**238**	**256**	**260**	**282**	**304**	**325**
Restaurants Opened	15	18	17	4	19	19	18	4	22	22	21	5
Restaurants Closed or Relocated	0	0	0	0	0	0	0	0	0	0	0	0
Restaurants Acquired from Franchisees	0	0	0	0	0	0	0	0	0	0	0	0
Restaurants Sold to Franchisees	0	0	0	0	0	0	0	0	0	0	0	0
EOP Restaurants	**161**	**179**	**196**	**200**	**219**	**238**	**256**	**260**	**282**	**304**	**325**	**330**
Same Store Sales												
SSS (inc. e-commerce, % Growth)	9.3%	8.7%	8.5%	8.6%	3.6%	6.2%	6.1%	9.2%	6.6%	6.5%	5.9%	7.6%
SSS (ex. e-commerce, % Growth)	6.0%	6.9%	6.0%	4.4%	-0.5%	3.0%	2.0%	4.0%	2.0%	3.0%	2.0%	3.0%

Source: Company data and Wedbush Securities

Teavana Quarterly Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12E	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue	**34,940**	**31,313**	**33,426**	**68,422**	**44,887**	**40,313**	**41,813**	**87,139**	**56,114**	**50,610**	**51,497**	**108,289**
Cost of Goods Sold	12,451	12,186	12,749	23,517	15,906	15,487	15,739	29,950	19,604	19,038	18,972	36,895
Gross Profit	**22,489**	**19,127**	**20,677**	**44,905**	**28,981**	**24,826**	**26,074**	**57,189**	**36,510**	**31,572**	**32,525**	**71,394**
Selling, General and Administrative Expenses	14,758	15,367	17,511	22,045	20,216	20,913	21,487	26,768	24,767	25,987	26,214	32,616
Depreciation and Amortization	1,275	1,428	1,554	1,671	1,647	1,826	1,973	2,122	2,138	2,350	2,525	2,698
Non-Recurring (Gain) or Loss	-	-	-	-	600	-	-	-	-	-	-	-
Total Operating Expenses	**28,484**	**28,981**	**31,814**	**47,233**	**38,370**	**38,226**	**39,198**	**58,841**	**46,509**	**47,375**	**47,712**	**72,209**
Operating Income (Loss)	**6,456**	**2,332**	**1,612**	**21,189**	**6,518**	**2,088**	**2,615**	**28,298**	**9,605**	**3,235**	**3,786**	**36,080**
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	689	742	122	120	128	128	128	128	128	128	128	128
Other (Income) Expense, net	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	**5,767**	**1,590**	**1,490**	**21,069**	**6,390**	**1,960**	**2,487**	**28,171**	**9,477**	**3,108**	**3,658**	**35,952**
Provision for Income Taxes	(2,444)	(559)	(554)	(8,600)	(2,708)	(689)	(925)	(11,499)	(4,016)	(1,093)	(1,360)	(14,675)
Net Income	**3,323**	**1,031**	**936**	**12,469**	**3,682**	**1,271**	**1,562**	**16,672**	**5,461**	**2,015**	**2,298**	**21,277**
Non-Recurring Items	-	-	-	-	346	-	-	-	-	-	-	-
Adjusted Net Income	**3,323**	**1,031**	**936**	**12,469**	**4,028**	**1,271**	**1,562**	**16,672**	**5,461**	**2,015**	**2,298**	**21,277**
Earnings (Loss) Per Share:												
Pro Forma	0.09	0.03	0.02	0.32	0.10	0.03	0.04	0.42	0.14	0.05	0.06	0.53
GAAP	**0.09**	**0.03**	**0.02**	**0.32**	**0.09**	**0.03**	**0.04**	**0.42**	**0.14**	**0.05**	**0.06**	**0.53**
Basic Shares Outstanding	36,749	36,762	38,138	38,251	38,401	38,551	38,701	38,851	39,001	39,151	39,301	39,451
Diluted Shares Outstanding	37,636	37,802	38,965	39,059	39,209	39,359	39,509	39,659	39,809	39,959	40,109	40,259
EBITDA												
Depreciation & Amortization	1,275	1,428	1,554	1,671	1,647	1,826	1,973	2,122	2,138	2,350	2,525	2,698
EBITDA	7,731	3,760	3,166	22,860	8,165	3,914	4,588	30,421	11,743	5,585	6,311	38,778
Margin Analysis												
COGS/Sales	35.6%	38.9%	38.1%	34.4%	35.4%	38.4%	37.6%	34.4%	34.9%	37.6%	36.8%	34.1%
Gross Margin	**64.4%**	**61.1%**	**61.9%**	**65.6%**	**64.6%**	**61.6%**	**62.4%**	**65.6%**	**65.1%**	**62.4%**	**63.2%**	**65.9%**
G&A/Sales	42.2%	49.1%	52.4%	32.2%	45.0%	51.9%	51.4%	30.7%	44.1%	51.3%	50.9%	30.1%
D&A/Sales	3.6%	4.6%	4.6%	2.4%	3.7%	4.5%	4.7%	2.4%	3.8%	4.6%	4.9%	2.5%
Operating Margin	**18.5%**	**7.4%**	**4.8%**	**31.0%**	**14.5%**	**5.2%**	**6.3%**	**32.5%**	**17.1%**	**6.4%**	**7.4%**	**33.3%**
Pre Tax Margin	16.5%	5.1%	4.5%	30.8%	14.2%	4.9%	5.9%	32.3%	16.9%	6.1%	7.1%	33.2%
Tax Rate	42.4%	35.2%	37.2%	40.8%	42.4%	35.2%	37.2%	40.8%	42.4%	35.2%	37.2%	40.8%
Net Income	9.5%	3.3%	2.8%	18.2%	8.2%	3.2%	3.7%	19.1%	9.7%	4.0%	4.5%	19.6%
EBITDA Margin	22.1%	12.0%	9.5%	33.4%	18.2%	9.7%	11.0%	34.9%	20.9%	11.0%	12.3%	35.8%
Year/Year Growth												
Revenues	35.6%	36.3%	35.1%	33.6%	28.5%	28.7%	25.1%	27.4%	25.0%	25.5%	23.2%	24.3%
COGS	24.2%	28.9%	24.5%	42.0%	27.7%	27.1%	23.5%	27.4%	23.2%	22.9%	20.5%	23.2%
Gross Margin	42.8%	41.4%	42.5%	29.6%	28.9%	29.8%	26.1%	27.4%	26.0%	27.2%	24.7%	24.8%
G&A	36.6%	42.2%	44.5%	30.9%	37.0%	36.1%	22.7%	21.4%	22.5%	24.3%	22.0%	21.8%
D&A	31.0%	34.7%	40.0%	37.2%	29.2%	27.9%	26.9%	27.0%	29.8%	28.7%	28.0%	27.2%
Operating Income	62.3%	40.7%	26.1%	27.8%	1.0%	-10.5%	62.2%	33.6%	47.4%	55.0%	44.8%	27.5%
Pre Tax Profit	71.8%	57.6%	151.3%	32.1%	10.8%	23.3%	66.9%	33.7%	48.3%	58.5%	47.1%	27.6%
Net Income	72.4%	78.1%	175.3%	36.2%	10.8%	23.3%	66.9%	33.7%	48.3%	58.5%	47.1%	27.6%
EBITDA	56.1%	38.4%	32.6%	28.4%	5.6%	4.1%	44.9%	33.1%	43.8%	42.7%	37.6%	27.5%
Quarter/Quarter Growth												
Revenues	-31.8%	-10.4%	6.7%	104.7%	-34.4%	-10.2%	3.7%	108.4%	-35.6%	-9.8%	1.8%	110.3%
COGS	-24.8%	-2.1%	4.6%	84.5%	-32.4%	-2.6%	1.6%	90.3%	-34.5%	-2.9%	-0.3%	94.5%
Gross Margin	-35.1%	-14.9%	8.1%	117.2%	-35.5%	-14.3%	5.0%	119.3%	-36.2%	-13.5%	3.0%	119.5%
G&A	-12.4%	4.1%	14.0%	25.9%	-8.3%	3.4%	2.7%	24.6%	-7.5%	4.9%	0.9%	24.4%
D&A	4.7%	12.0%	8.8%	7.5%	-1.4%	10.8%	8.1%	7.6%	0.8%	9.9%	7.5%	6.9%
Operating Income	-61.1%	-63.9%	-30.9%	1214.5%	-69.2%	-68.0%	25.2%	982.2%	-66.1%	-66.3%	17.0%	853.0%
Pre Tax Profit	-63.8%	-72.4%	-6.3%	1314.0%	-69.7%	-69.3%	26.9%	1032.6%	-66.4%	-67.2%	17.7%	882.8%
Net Income	-63.7%	-69.0%	-9.2%	1232.2%	-70.5%	-65.5%	22.9%	967.1%	-67.2%	-63.1%	14.0%	825.9%
EBITDA	-56.6%	-51.4%	-15.8%	622.0%	-64.3%	-52.1%	17.2%	563.1%	-61.4%	-52.4%	13.0%	514.5%

Source: Company reports and Wedbush estimates.

Teavana Annual Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Total Revenue	**63,861**	**90,262**	**124,701**	**168,101**	**214,153**	**266,510**
Cost of Goods Sold	27,193	36,435	46,275	60,903	77,082	94,508
Gross Profit	**36,668**	**53,827**	**78,426**	**107,198**	**137,071**	**172,002**
Selling, General and Administrative Expense	29,242	38,142	50,571	69,681	89,384	109,584
Depreciation and Amortization	2,666	3,489	4,361	5,928	7,568	9,712
Non-Recurring (Gain) or Loss	-	-	-	-	600	-
Total Operating Expenses	**107,897**	**115,553**	**123,899**	**136,512**	**146,398**	**155,642**
Operating Income (Loss)	**4,760**	**12,196**	**23,494**	**31,589**	**39,519**	**52,706**
Interest Income	-	-	-	-	-	-
Interest Expense	2,061	2,435	2,585	1,673	510	510
Other (Income) Expense, net	-	-	-	-	-	-
Income Before Taxes	**2,699**	**9,761**	**20,909**	**29,916**	**39,008**	**52,196**
Provision for Income Taxes	(1,502)	(4,470)	(8,906)	(12,157)	(15,821)	(21,144)
Net Income	**1,197**	**5,291**	**12,003**	**17,759**	**23,187**	**31,051**
Non-Recurring (Gain) or Loss			-	-	357	-
Adj. Net Income			**12,003**	**17,759**	**23,544**	**31,051**
Earnings (Loss) Per Share:						
GAAP	**0.03**	**0.14**	**0.32**	**0.46**	**0.59**	**0.78**
Adj.			**0.32**	**0.46**	**0.60**	**0.78**
Basic Shares Outstanding	36,749	36,749	36,749	37,475	38,626	39,226
Diluted Shares Outstanding	37,095	37,322	37,725	38,365	39,434	40,034
EBITDA						
Depreciation & Amortization	2,666	3,489	4,361	5,928	7,568	9,712
EBITDA	7,426	15,685	27,855	37,517	47,087	62,418
Margin Analysis						
COGS/Sales	42.6%	40.4%	37.1%	36.2%	36.0%	35.5%
Gross Margin	**57.4%**	**59.6%**	**62.9%**	**63.8%**	**64.0%**	**64.5%**
G&A/Sales	45.8%	42.3%	40.6%	41.5%	41.7%	41.1%
D&A/Sales	4.2%	3.9%	3.5%	3.5%	3.5%	3.6%
Operating Margin	**7.5%**	**13.5%**	**18.8%**	**18.8%**	**18.5%**	**19.8%**
Pre Tax Margin	4.2%	10.8%	16.8%	17.8%	18.2%	19.6%
Tax Rate	55.7%	45.8%	42.6%	40.6%	40.6%	40.5%
Net Income	1.9%	5.9%	9.6%	10.6%	10.8%	11.7%
EBITDA Margin	11.6%	17.4%	22.3%	22.3%	22.0%	23.4%
Year/Year Growth						
Revenues		41.3%	38.2%	34.8%	27.4%	24.4%
Cost of Goods Sold		34.0%	27.0%	31.6%	26.6%	22.6%
Gross Profit		**46.8%**	**45.7%**	**36.7%**	**27.9%**	**25.5%**
Selling, General and Administrative Expenses		30.4%	32.6%	37.8%	28.3%	22.6%
Depreciation and Amortization		30.9%	25.0%	35.9%	27.7%	28.3%
Operating income		**156.2%**	**92.6%**	**34.5%**	**25.1%**	**33.4%**
Net Income		342.0%	126.9%	48.0%	30.6%	33.9%
EPS		339.3%	124.4%	45.5%	27.0%	31.9%

Source: Company reports and Wedbush Securities estimates

Teavana Annual Balance Sheet

(in 000's, except per share data and ratios, FY ends December 31)

	2009A	2010A	2011A	2012E	2012E
Assets:					
Cash and cash equivalents	1,314	7,901	17,818	16,421	23,061
Accounts Receivable - Other	284	-	-	-	-
Inventory	11,615	16,928	25,676	37,868	46,648
Current Deferred Tax Asset	772	1,629	1,839	1,839	1,839
Prepaid expenses and other current assets	1,003	2,333	2,475	2,475	2,475
Other	1,061	1,400	1,856	1,856	1,856
Total Current Assets	**16,049**	**30,191**	**49,664**	**60,459**	**75,879**
Property and Equipment, net	22,513	31,028	42,785	57,792	76,187
Goodwill	2,394	2,394	2,394	2,394	2,394
Deferred Tax Asset, non-current	184	-	-	-	-
Other Assets	627	513	775	775	775
Total Assets	**41,767**	**64,126**	**95,618**	**121,420**	**155,234**
Liabilities:					
Unearned Franchise Fees	-	-	-	-	-
Accounts payable	2,564	3,631	3,898	4,964	6,115
Income taxes payable	3,994	4,809	1,821	1,821	1,821
Deferred revenue	1,083	1,344	1,813	2,309	2,869
Other Current Liabilities	3,395	5,539	5,034	5,034	5,034
Current Maturities of Notes and Debentures	250	12,992	-	-	-
Total Current Liabilities	**11,286**	**28,315**	**12,566**	**14,128**	**15,840**
Long-term debt	1,000	1,000	-	-	-
Deferred Lease Credits, net of current	3,851	7,524	12,905	12,905	12,905
Deferred Income Taxes	-	420	2,570	2,570	2,570
Other long-term liabilities	11,448	525	575	575	575
Total Liabilities	**27,585**	**37,784**	**28,616**	**30,178**	**31,890**
Common stock, no par value	21,889	81,405	1	1	1
Additional paid-in capital	-	-	276,782	276,782	276,782
Retained Earnings	(7,707)	(55,060)	(209,792)	(186,605)	(155,553)
Accumulated Other Comprehensive Income (Loss)	-	-	11	1,063	2,115
Treasury stock (at cost)	-	-	-	-	-
Total Shareholders' Equity	**14,182**	**26,345**	**67,002**	**91,241**	**123,345**
Total Liabilities and Shareholders' Equity	**41,767**	**64,129**	**95,618**	**121,420**	**155,234**

Return Ratios					
Return on Sales	5.9%	9.6%	10.6%	10.8%	11.7%
Total Asset Turnover	2.16	1.94	1.76	1.76	1.72
Financial Leverage	0.34	0.41	0.70	0.75	0.79
Return on Equity	4.3%	7.7%	13.0%	14.4%	15.9%
Return on Assets	12.7%	18.7%	18.6%	19.1%	20.0%
Sustainable Growth	4.3%	7.7%	13.0%	14.4%	15.9%

Liquidity/Leverage					
Current Ratio	1.4	1.1	4.0	4.3	4.8
Quick Ratio	0.1	0.3	1.4	1.2	1.5
Debt to Equity	8.8%	53.1%	0.0%	0.0%	0.0%
Debt to Capital	4.7%	34.2%	0.0%	0.0%	0.0%
Net Working Capital	4,763	1,876	37,098	46,331	60,039
Book Value per Share	$0.38	$0.70	$1.75	$2.31	$3.08
Tangible Book Value per Share	$0.32	$0.63	$1.68	$2.25	$3.02
Cash & Investments per Share, Net	$0.00	($0.16)	$0.46	$0.42	$0.58

Source: Company reports, Wedbush Securities estimates.

Teavana Annual Cash Flow Statement

(in 000's, except per share data and ratios, FY ends January 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Cash Flow from Operating Acitivities:						
Net income	1,197	5,291	12,003	17,759	23,187	31,051
Depreciation & Amortization	2,666	3,489	4,361	5,927	7,568	9,712
Non-Cash Interest Expense	1,709	1,925	2,279	1,327	-	-
Deferred income taxes	(610)	532	(253)	1,940	-	-
Stock Based Compensation	207	169	157	790	1,052	1,052
Excess Tax Benefit from the Exercise of Stock Options	-	-	-	(2,925)	-	-
(Gain) Loss from Short-Term Investments	-	-	-	-	-	-
Other	-	-	130	160	-	-
Accounts Receivable	167	-	-	-	-	-
Inventory	(1,810)	(3,646)	(5,313)	(8,748)	-	-
Income Taxes Receivable	-	-	-	-	-	-
Prepaid expenses and Other Assets	(713)	46	(1,114)	(117)	-	-
Prepaid rent	(222)	(276)	(338)	(456)	-	-
Accounts Payable	903	(1,558)	669	13	-	-
Income Taxes Payable	(224)	2,772	815	(63)	-	-
Deferred Rent	1,066	1,124	3,673	5,381	-	-
Deferred Revenue	219	326	260	469	-	-
Other Long-Term Liabilities	396	877	2,068	(502)	-	-
Changes in operating assets and liabilities, net	-	-	-	-	(10,630)	(7,069)
Net Cash Provided by Operating Activities	**4,951**	**11,071**	**19,397**	**20,955**	**21,178**	**34,746**
Cash Flow from Investing Activities:						
Purchase of Property and Equipment	(8,798)	(6,640)	(12,560)	(17,566)	(22,575)	(28,107)
Acquisitions, net of cash acquired	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(8,798)**	**(6,640)**	**(12,560)**	**(17,566)**	**(22,575)**	**(28,107)**
Cash Flow from Financing Activities:						
Proceeds from Revolving Credit Facility	50,946	93,980	132,239	181,414	-	-
Long-Term Debt Payments and Debt Transaction Costs	(46,286)	(98,265)	(132,489)	(182,414)	-	-
Proceeds from Exercise of Stock Options	-	-	-	637	-	-
Excess Tax Benefit from Stock Option Exercises	-	-	-	2,925	-	-
Proceeds from issuance of common stock	-	-	-	15,079	-	-
Cash Paid for Financing Costs	(406)	-	-	(433)	-	-
Other	-	-	-	(10,683)	-	-
Net Cash Provided by Financing Activities	**4,254**	**(4,285)**	**(250)**	**6,525**	**-**	**-**
Effect of exchange rate changes on cash	-	-	-	3	-	-
Net increase (decrease) in cash flows from continuing ops.	407	146	6,587	9,917	(1,397)	6,639
Net Increase (Decrease) in Cash an Cash Equivalents	**407**	**146**	**6,587**	**9,917**	**(1,397)**	**6,639**
Cash and Equivalents, beginning of period	**761**	**1,168**	**1,314**	**7,901**	**17,818**	**16,421**
Cash and Equivalents, end of period	**1,168**	**1,314**	**7,901**	**17,818**	**16,421**	**23,061**
FCF	(3,847)	4,431	6,837	3,389	(1,397)	6,639

Source: Company reports and Wedbush Securities estimates.

Analyst Certification
I, Nick Setyan, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Investment Rating System:
Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of March 31, 2012)	**Investment Banking Relationships (as of March 31, 2012)**
Outperform:59% Neutral: 35% Underperform: 6%	Outperform:13% Neutral: 2% Underperform: 6%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

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Company	Disclosure
Teavana Holdings	1

Research Disclosure Legend
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
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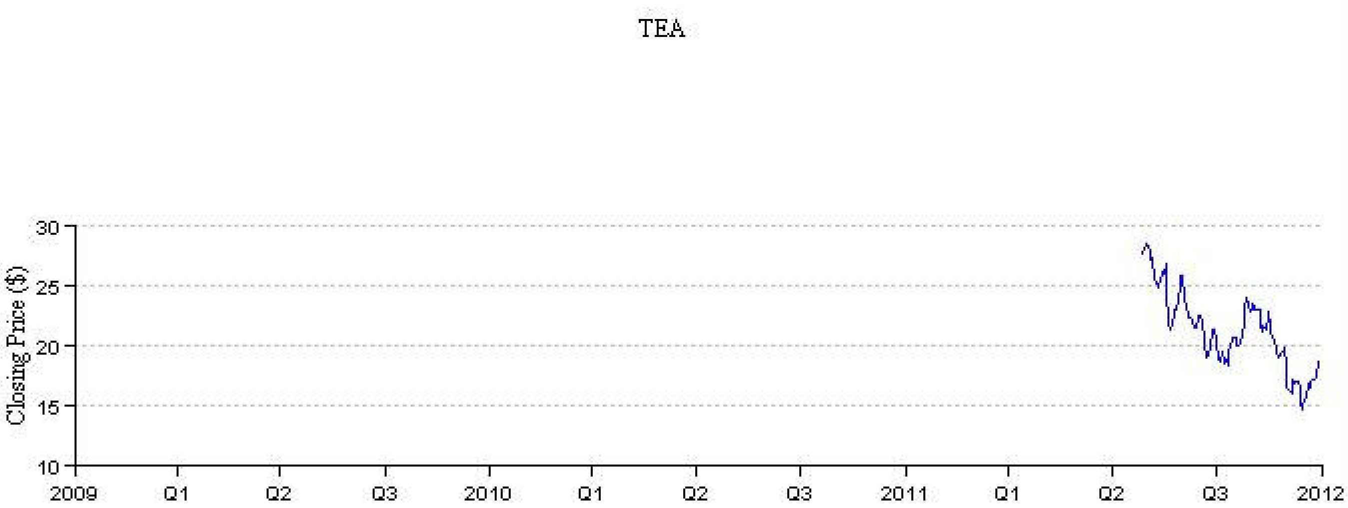

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
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Teavana Holdings, Inc.:

TEA: Acquisition Validates Unique Operating Model

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Rating	BUY
Price	$19.76
12- Mo. Price Target	$28.00
Dividend	$0.00
Yield	0.0%
52- Wk. Range	$14 - $29
Trading Volume (000)	276
Market Cap. (mm)	$770.6
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
Prior	*$0.46*	*$0.59*	*$0.78*
First Call	- -	$0.62E	$0.79E
P/E	43.0x	33.5x	24.4x

ACTION STATEMENT

While we think Teavana's (TEA-NYSE) acquisition of the Canadian business Teaopia is notable, we believe the most important element of the acquisition is validation of Teavana's business model. The acquisition gives Teavana an important beachhead into the attractive Canadian market (2x the per capita tea consumption as the United States, per company) in 46 high-quality locations. The acquisition will be nominally accretive in FY13, but we think the more important element of the acquisition is the validation of Teavana's unique operating model and culture. The stock remains one of the most differentiated in our coverage universe. Valuation is attractive for long-term growth investors at 33.5x 2012 P/E and 1.1x 2012 PEG, compared to 31.6x P/E and 1.3x PEG for the active and healthy lifestyle peer groups, respectively. We reiterate **BUY** rating and our $28 price target, which implies a 47.4x P/E based on our 2012 EPS estimate.

- **2013E: $0.81 from $0.78**

KEY INVESTMENT POINTS

The details. Teavana announced its acquisition of Teaopia, a leading Canadian specialty tea retailer, for $26.9 million in an all- cash transaction. Teavana will use cash on hand as well as its revolving credit facility to fund the transaction. There will be approximately $25,000 per store in rebranding costs when stores are moved to Teavana branding. Management notes that the transaction will be neutral to earnings in FY12 and $0.03- $0.04 accretive in FY13, excluding transaction costs.

The acquisition should drive long- term earnings growth. Teaopia had approximately CAD $17 million in sales for its 46 company- owned stores in high-quality mall locations across Canada. Despite a similar product mix, overall mall productivity and loose- leaf tea contribution, Teaopia had sales productivity less than half Teavana ($435,000 at Teaopia vs. $913,000 at Teavana). We believe that, over time, Teavana's management team can raise sales productivity levels to Teavana's levels. Should management be successful in achieving this and driving a 25% four- wall contribution margin (similar to Teavana in the United States), the transaction could be (excluding transaction costs and interest expense) up to $0.16 accretive – see Exhibit 2.

The important takeaway: Teavana has a truly unique store operating model. We find it interesting that a similar – okay, basically a copycat – concept (similar look, store size, mall productivity, loose leaf tea contribution, and even POS) can have a sales productivity less than half of Teavana's. What does this mean to us? We think it shows that Teavana's "specialness" arises not from its store format or product mix. Rather, it stems from its unique, highly consultative store model as well as its unique products. The aforementioned are what give rise to Teavana's $1,000 per square foot sales productivity, and frankly, despite the best efforts of competitors, are not easily duplicated.

VALUATION

At 33.5x 2012 P/E, 3.5x 2012 EV/Sales and 1.1x 2012 PEG, valuation is reasonable 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 31.6x 2012 P/E, 2.2x 2012 EV/Sales and 1.3x 2012 PEG. Additionally, the stock currently trades at a 15.6x 2012 EV/EBITDA compared to 13.1x EV/EBITDA of the peer group. We reiterate our $28 price target, which implies a 47.4x P/E based on our $0.59 2012 EPS estimate.

RISKS

Risks that could impede TEA 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	$45.1	$45.1	- -	- -
2Q	$31.3	$31.3	$43.1	$39.9	- -	- -
3Q	$33.4	$33.4	$45.3	$41.9	- -	- -
4Q	$68.4	$68.4	$93.0	$86.1	- -	- -
YEAR	$168.1	$168.1	$226.5	$213.1	$286.6	$269.4

Source: KeyBanc Capital Markets Inc. estimates

MINIMAL COSTS FOR TRANSACTION AND INTEGRATION OF TEAOPIA

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

Company Name	TKR	Rating	Stock Price	52 Week Price Range	Price Target	2012E P/E on PT	Mkt Cap ($mm)	EPS 2011A	EPS 2012E	P/E 2011A	P/E 2012E	EV/EBITDA 2011A	EV/EBITDA 2012E	EV/Sales 2011A	EV/Sales 2012E	PEG 2011A	PEG 2012E
SPECIALTY RETAIL																	
Abercrombie	ANF	BUY	$46.78	$40.25 - $78.25	$61.00	16.9x	3,963	$2.30	$3.60	20.3x	13.0x	6.1x	4.6x	0.8x	0.7x	0.9x	0.6x
Aeropostale	ARO	BUY	$21.09	$9.16 - $26.30	$25.00	20.7x	1,708	$0.92	$1.21	23.0x	17.5x	8.0x	6.4x	0.6x	0.6x	1.5x	1.1x
Buckle	BKE	HOLD	$45.34	$33.97 - $50.00	-	-	2,173	$3.20	$3.40	14.2x	13.3x	7.3x	6.9x	1.9x	1.7x	1.1x	1.0x
Chico's	CHS	HOLD	$15.07	$9.57 - $16.50	-	-	2,523	$0.85	$0.99	17.8x	15.3x	7.0x	6.2x	1.0x	0.9x	1.1x	0.9x
Ascena Retail	ASNA	BUY	$21.14	$12.00 - $22.62	$25.00	16.8x	3,247	$1.28	$1.48	16.6x	14.2x	6.7x	5.9x	0.9x	0.9x	1.1x	0.9x
Gap Inc	GPS	HOLD	$26.43	$15.08 - $27.00	-	-	12,891	$1.56	$1.79	16.9x	14.8x	6.5x	6.4x	0.9x	0.8x	1.7x	1.4x
New York & Company	NWY	HOLD	$3.65	$2.25 - $7.00	-	-	227	($0.64)	($0.41)	NM	NM	61.8x	11.8x	0.2x	0.2x	NM	NM
Urban Outfitters	URBN	HOLD	$28.48	$21.47 - $33.90	-	-	4,121	$1.19	$1.48	24.0x	19.2x	9.8x	8.5x	1.6x	1.4x	1.3x	1.0x
Wet Seal	WTSLA	HOLD	$3.34	$3.03 - $5.23	-	-	303	$0.19	$0.18	17.8x	19.0x	3.0x	3.0x	0.2x	0.2x	1.0x	1.1x
Peer Average										**18.8x**	**18.0x**	**14.0x**	**7.8x**	**1.4x**	**1.2x**	**1.3x**	**1.0x**
ACTIVE AND HEALTHY LIFESTYLE																	
Lululemon Athletica	LULU	BUY	$73.40	$41.18 - $77.13	$82.00	51.6x	10,537	$1.26	$1.59	58.4x	46.2x	24.6x	19.5x	7.7x	5.8x	1.9x	1.5x
Pacific Sunwear	PSUN	HOLD	$1.49	$1.11 - $4.06	-	-	101	($0.77)	($0.50)	NM	NM	NM	NM	0.1x	0.1x	NM	NM
Skullcandy	SKUL	BUY	$17.29	$11.79 - $23.40	$21.00	17.9x	473	$1.00	$1.17	17.4x	14.8x	9.9x	7.9x	2.0x	1.6x	0.8x	0.7x
Teavana	TEA	BUY	$19.76	$14.28 - $29.35	$28.00	47.4x	757	$0.46	$0.59	42.7x	33.4x	19.7x	15.6x	4.4x	3.5x	1.3x	1.1x
Under Armour	UA	UW	$95.08	$52.62 - $99.35	$56.00	24.2x	4,922	$1.85	$2.31	51.5x	41.2x	19.1x	15.5x	2.6x	2.1x	2.2x	1.8x
Zumiez	ZUMZ	HOLD	$34.41	$15.85 - $38.79	-	-	1,073	$1.20	$1.41	28.7x	24.4x	11.3x	9.6x	1.6x	1.4x	1.4x	1.2x
Peer Average										**39.0x**	**31.6x**	**16.2x**	**13.1x**	**2.8x**	**2.2x**	**1.6x**	**1.3x**

Source: Company reports, FactSet and KeyBanc Capital Markets Inc. 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, a 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**	**45.1**	**43.1**	**45.3**	**93.0**	**226.5**	**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	100.4
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	186.1
Selling, general & administrative expense	29.2	38.1	50.6	14.8	15.4	17.5	22.0	69.7	19.7	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 - dilute	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	70	(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)	(118)	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)	(155)	(30)	(70)	(112)	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%	29.2%	37.6%	35.4%	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%	32.3%	38.7%	35.8%	37.5%	36.3%	21.0%
Gross profit	34.7%	46.8%	45.7%	42.8%	41.4%	42.5%	29.6%	36.7%	27.5%	37.0%	35.2%	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%	33.8%	41.1%	36.0%	37.2%	37.0%	26.4%
Depreciation and amortization expense	31.8%	30.9%	25.0%	30.9%	34.7%	40.0%	37.2%	35.9%	32.8%	39.1%	36.9%	38.7%	37.1%	33.7%
Operating income	59.9%	156.2%	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	12.1%	8.1%	25.6%	32.6%	26.3%	36.8%
Net earnings	216.7%	342.0%	126.9%	72.4%	78.1%	175.3%	36.2%	48.0%	23.4%	51.0%	27.8%	32.8%	31.8%	37.4%
EPS	213.7%	339.3%	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	19.1%	45.2%	26.1%	30.7%	28.6%	36.3%
EBITDA		111.2%	77.6%	56.1%	38.4%	32.6%	28.4%	34.7%	15.5%	19.8%	31.2%	33.1%	28.0%	36.3%

Source: Company reports, FactSet and KeyBanc Capital Markets Inc. 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.

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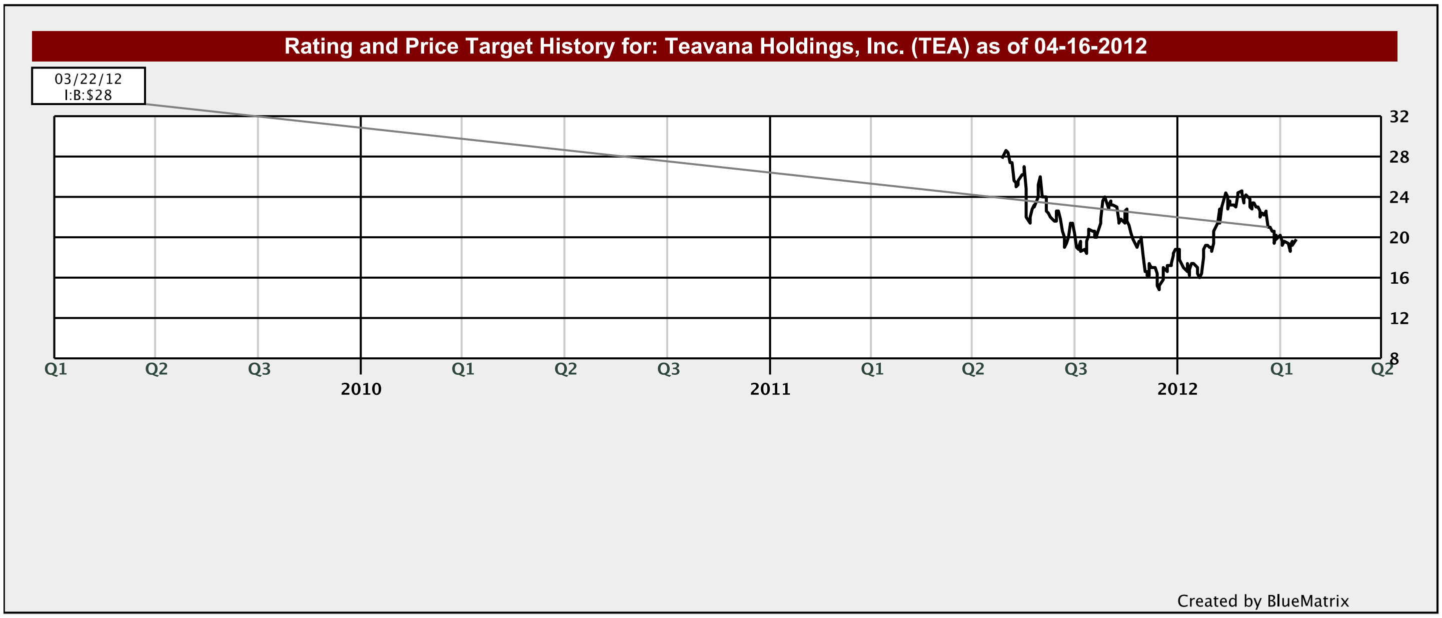
Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		CONSUMER			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	225	44.38	47	20.89	BUY [BUY]	55	47.01	6	10.91
HOLD [HOLD]	270	53.25	49	18.15	HOLD [HOLD]	60	51.28	2	3.33
SELL [UND]	12	2.37	4	33.33	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.

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Equity Research
Consumer | Specialty Coffee and Tea

William Blair

Teavana Holdings, Inc.

Plug-and-Play Acquisition of Teaopia Creates Strong Foothold in Canada

- Monday morning, Teavana announced the pending purchase of Teaopia, a similar concept to Teavana with 46 company-owned locations in Canada that generated $17 million (Canadian dollars) in 2011 revenue. The acquisition, expected to close in the second quarter, will expand Teavana's company-owned base by more than 20% and establish a firm foothold in Canada, where Teavana recently opened its first store in Vancouver.

- Teavana will pay $26.9 million in cash in the deal, using case on hand (roughly $18 million at the end of the fourth quarter) and an existing untapped credit facility ($40 million expanded to $50 million for 2012). The price represents roughly 1.6 times 2011 sales (versus Teavana's valuation of approximately 4.5 times) and the acquisition is expected to be neutral this year (excluding $0.04 to $0.05 of transaction and integration expenses) and accretive by $0.03 to $0.04 in 2013. The transaction and integration expenses include a transition services agreement with Teaopia whereby Teavana will utilize Teaopia's existing distribution center and some store support staff for a short period (likely up to a few months) until a successful transition to Teavana's distribution center in Connecticut and store support center in Atlanta.

- Teaopia was founded in 2005 and its stores are very similar to Teavana's, with similar sizes and layouts and even the same POS system. Teaopia's real estate selection has also been quite similar and is completely complementary to Teavana, with mall-based stores in high-productivity malls (average of $500 per square foot) providing Teavana with immediate access to highly desirable locations in Canada.

Exhibit 1
Comparison of Teaopia and Teavana

	Teaopia	Teavana*
Number of stores	46	200
Average sales per store	$435,000	$913,000
Average mall sales productivity	$500	$500
Average size of store (square feet)	900	920
Occupancy cost $ per store	100% of Teavana	NA
Loose-leaf tea as % of revenue	50%	55%

*Represents 2011 data

Source: Company documents

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

April 16, 2012

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

Symbol:	TEA (NYSE)
Price:	$19.76 (52-Wk.: $14-$29)
Market Value (mil.):	$732
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

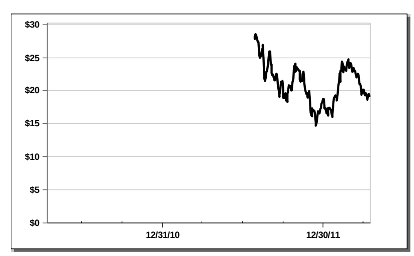
		2011A	2012E	2013E
Estimates*				
EPS	Q1	$0.09	$0.11	NA
	Q2	$0.03	$0.04	NA
	Q3	$0.02	$0.05	NA
	Q4	$0.32	$0.41	NA
	FY	$0.46	$0.61	$0.82
	CY		$0.61	$0.82
Sales (mil.)		168	226	289
Valuation				
FY P/E		43.0x	32.4x	24.1x
CY P/E			32.4x	24.1x

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

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	270,239

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	739.5
EBITDA (TTM)	17.0
Enterprise Value/EBITDA (TTM)	43.4x
Return on Equity (TTM)	9.8

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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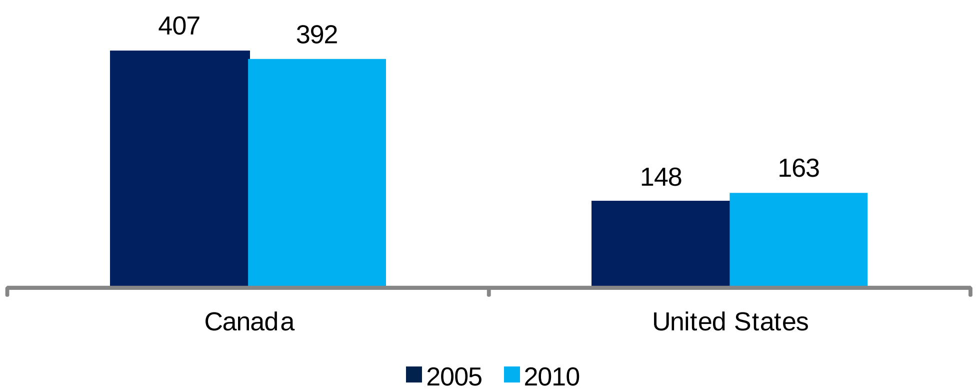
- Despite similar underlying characteristics, Teaopia's stores underperform Teavana's, generating average sales productivity per store of $435,000, versus Teavana's $913,000. Given both lower average volumes and a modestly lower percentage of high-margin loose leaf tea (50% versus Teavana's 55%), we estimate Teaopia's unit-level cash contribution margin at roughly 20%, versus Teavana's 30%-plus.

- Teavana plans to transition all Teaopia stores to the Teavana brand during fiscal 2012, with most of the rebranding completed before the fourth quarter. Given the similarity to Teavana, management anticipates modest capital investments of about $25,000 per store for rebranding. Teaopia generated less than 5% of sales from e-commerce last year (versus 7.6% for Teavana), and the company expects to transition Teaopia's customers to Teavana's website.

- With Teavana's new stores in Canada already achieving similar sales productivity as its U.S. stores, we see the opportunity for improvements in Teaopia's top- and bottom-line performance as Teavana introduces its products (85% of Teavana's tea blends are proprietary) and merchandising strategies and invests in training store-level employees in Teavana's sales processes (where we believe Teaopia significantly lagged Teavana). Canada is a strong market for tea, with tea consumption more than twice that of the United States in 2010 (392 cups annually versus 163 in the United States), according to Euromonitor International.

Exhibit 2
Per Capita Tea Consumption in Canada More Than Double the U.S.
(number of cups)



Source: Euromonitor International

- Competitively, Teavana's acquisition of Teaopia serves as a strong countermove to DavidsTea, which operates more than 75 stores in Canada with very little store overlap with Teaopia (just one mall). DavidsTea recently entered the United States with two store openings in New York City, and earlier this month announced a $14 million (CAD) minority investment by Highland Consumer Fund and lululemon (LULU $73.15; Outperform) founder Chip Wilson.

- We are maintaining our 2012 EPS estimate of $0.61 (excluding $0.04 to $0.05 in anticipated transaction and integration expenses), a penny ahead of consensus and at the high end of management's $0.58 to $0.61 guidance. For 2013, we are increasing our estimate by $0.03, to $0.82, up 34% and versus consensus of $0.79. Our 2013 estimate assumes an improvement in Teaopia's store productivity to $550,000 per location, still well below Teavana's existing average.

- The stock reacted well to news of the acquisition, with the stock now trading at about 32 times our 2012 EPS estimate. We view the acquisition as a good strategic move for Teavana and expect a smooth transition given existing similarities between the concepts. Moreover, we continue to believe that 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 Holdings, Inc.

April 16, 2012: $19.73 ($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[a]	Jul-12E	Oct-12E	Jan-13E	2012E[b]	2013E
Company-owned	146	161	179	196	200	200	219	281	301	306	306	376
Franchised	15	19	19	19	19	19	19	20	20	20	20	22
Total stores	161	180	198	215	219	219	238	301	321	326	326	398
% change	30.9%	35.3%	38.5%	37.8%	36.0%	36.0%	32.2%	52.0%	49.3%	48.9%	48.9%	22.1%
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	$46.4	$94.9	$226.4	$289.1
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.4	18.1	33.3	82.7	104.7
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$29.3	$24.6	$28.3	$61.6	$143.8	$184.4
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.0	20.4	23.2	32.3	95.9	120.8
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	$3.2	$27.2	$40.3	$54.4
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	$3.1	$27.1	$39.9	$54.0
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	$1.8	$16.3	$24.0	$32.5
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**	**$0.82**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.8%	61.6%	61.0%	64.9%	63.5%	63.8%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	44.3%	51.1%	50.1%	34.0%	42.4%	41.8%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	3.8%	4.5%	4.1%	2.2%	3.3%	3.2%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	16.7%	6.0%	6.8%	28.7%	17.8%	18.8%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	29.2%	27.7%	38.7%	38.8%	34.7%	27.7%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	35.6%	32.9%	32.6%	46.4%	37.7%	26.0%
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%	95.6%	28.6%	27.7%	34.8%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	30.2%	29.2%	94.4%	29.7%	32.3%	34.3%

[a] Excludes anticipated $0.01 in transition and integration expenses related to Teaopia acquisition

[b] Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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Current Rating Distribution (as of 03/31/12)

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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Reason for Report:
Change in Price Target

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	$27.00	$29.00
FY13E Rev (mil)	$214.3	$230.4
FY14E Rev (mil)	$267.4	$297.3
FY13E EPS	$0.61	$0.56
FY14E EPS	$0.79	$0.83

Price	$19.20
52 Week High	$29.35
52 Week Low	$14.28
12-Month Price Target	$29.00
35x FY14E EPS	
Shares Out (mil)	39.1
Market Cap. (mil)	$750.7
Avg Daily Vol (000)	272
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	1.2x
Fiscal Year End:	Jan

Rev (mil)	2012A	2013E	2014E
Apr	$34.9A	$44.8E	--
Jul	$31.3A	$44.8E	--
Oct	$33.4A	$46.9E	--
Jan	$68.4A	$93.8E	--
FY	$168.1A	$230.4E	$297.3E
CY	$230.4E	$297.3E	--
FY RM	4.5x	3.3x	2.5x
CY RM	3.3x	2.5x	--

EPS	2012A	2013E	2014E
Apr	$0.09A	$0.09E	--
Jul	$0.03A	$0.02E	--
Oct	$0.02A	$0.02E	--
Jan	$0.32A	$0.43E	--
FY	$0.46A	$0.56E	$0.83E
CY	$0.56E	$0.83E	--
FY P/E	41.7x	34.3x	23.1x
CY P/E	34.3x	23.1x	--

Teavana Holdings, Inc. (TEA – $19.20) Overweight

A "Matcha" Made In Heaven: Teavana Acquiring Teaopia; Reiterating OW

CONCLUSION:

We are reiterating our Overweight rating and raising our price target from $27 to $29 on the heels of Teavana's announcement that it intends to acquire Teaopia--a Canadian specialty retailer of tea--for $26.9 million. 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 and now what we believe to be a period of harvesting both sales and margins in Canada with the just-announced acquisition.

- **So Much For Tip Toeing Into Canada: TEA Acquires Its' Inspired Sister Up In Canada.** Following what appears to be at least months of conversations, Teavana is acquiring Teaopia--a 46-store chain that began operations in 2005 and looks, acts, smells, and feels a lot like Teavana. We believe sales and margin expansion tied to this integration are on deck in the years to come.

- **Acquisition Expected To Contribute $0.03-$0.04 To FY14 EPS; No Impact To FY13 Ex-Transaction/Integration Costs.** For FY13, management expects that the acquisition of Teaopia will be neutral to EPS, excluding $0.04-$0.05 of transaction and integration expenses. We are including these expenses in our revised estimates, and thus we are lowering our FY13 EPS estimate from $0.61 to $0.56. For FY14, management expects the acquired stores to contribute $0.03-$0.04 to EPS.

- **Teaopia's Strong Real Estate Profile Suggests Substantial Opportunity To "Catch Up" To Teavana Stores.** Although Teaopia incurs similar occupancy costs as Teavana and operates in top-tier malls in which the overall center has a similar sales per square foot as Teavana's locations, Teaopia's sales per store are approximately $435,000 per year, well below Teavana's $913,000 in FY12. Over the course of FY13, the newly acquired Teaopia stores will all be re-branded as Teavana stores; we believe there is substantial opportunity for the productivity of the acquired stores to approach the Teavana chain average as Teavana rolls out its merchandise assortment and sales and training methodologies to the Teaopia organization (refer to exhibits in this note).

- **Adjusting Our EPS Outlook; Raising Price Target From $27 To $29.** We are adjusting our EPS estimates as follows: from $0.10 to $0.09 in FQ1; from $0.61 to $0.56 in FY13; and from $0.79 to $0.83 in FY14. Our reduced estimate for FY13 reflects $0.05 in incremental costs related to transaction and integration expenses. We are raising our price target from $27 to $29, which is based on 35x our FY14 EPS estimate, consistent with our prior multiple.

INVESTMENT RECOMMENDATION:

We rate TEA shares Overweight with a $29 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.

Exhibit 1

LOOK FAMILIAR? TEAOPIA FOLLOWING TEAVANA'S FOOTSTEPS

Teaopia Today... (FY12)		Teavana Five Years Ago… (FY07)	
Stores	**46**	**Stores**	**47**
Sales CAD (M)	$17	Sales USD (M)	$34
Sales/Avg Store (K)	$435	Sales/Avg Store (K)	$844
EBITDA %	5.9%	EBITDA %	3.9%
Loose Tea	50%	Loose Tea	43%

Source: Company website; filings; Piper Jaffray & Co. research

Exhibit 2

CLOSING THE REVENUE GAP: TEAOPIA VS. TEAVANA

Teaopia Today... (FY12)		Teavana Today… (FY12)	
Stores	46	Stores	200
Sales CAD (M)	$17	Sales USD (M)	$168
Sales/Avg Store (K)	**$435**	**Sales/Avg Store (K)**	**$913**
EBITDA %	5.9%	EBITDA %	22.3%
Loose Tea	50%	Loose Tea	55%

Source: Company website; filings; Piper Jaffray & Co. research

Exhibit 3

CLOSING THE MARGIN GAP: TEAOPIA VS. TEAVANA

Teaopia Today... (FY12)		Teavana @ 50% Loose Tea (FY09)	
Stores	46	Stores	87
Sales CAD (M)	$17	Sales USD (M)	$64
Sales/Avg Store (K)	$435	Sales/Avg Store (K)	$875
EBITDA %	**5.9%**	**EBITDA %**	**11.6%**
Loose Tea	50%	Loose Tea	50%

Source: Company website; filings; Piper Jaffray & Co. research

	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
Net sales	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	44.829	46.942	93.796	230.359	297.290
% 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%*	*43.2%*	*40.4%*	*37.1%*	*37.0%*	*29.1%*
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	17.483	17.838	32.360	83.649	108.163
% 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%*	*39.0%*	*38.0%*	*34.5%*	*36.3%*	*36.4%*
Gross profit	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	27.346	29.104	61.436	146.709	189.127
% 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%*	*61.0%*	*62.0%*	*65.5%*	*63.7%*	*63.6%*
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	21.276	23.688	25.114	30.202	100.280	122.666
% 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%*	*47.5%*	*52.8%*	*53.5%*	*32.2%*	*43.5%*	*41.3%*
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	7.547	3.658	3.990	31.234	46.430	66.461
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%*	*16.9%*	*8.2%*	*8.5%*	*33.3%*	*20.2%*	*22.4%*
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	2.300	2.440	2.560	9.120	11.570
% 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%*	*5.1%*	*5.2%*	*2.7%*	*4.0%*	*3.9%*
Operating income	(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	5.727	1.358	1.550	28.674	37.310	54.891
% 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%*	*12.8%*	*3.0%*	*3.3%*	*30.6%*	*16.2%*	*18.5%*
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)	(0.100)	(0.100)	(0.100)	(0.365)	(0.400)
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	5.662	1.258	1.450	28.574	36.945	54.491
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	2.254	0.501	0.577	11.372	14.704	21.688
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%*
Net income (GAAP)	-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	3.409	0.757	0.873	17.202	22.241	32.804
% 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%*	*7.6%*	*1.7%*	*1.9%*	*18.3%*	*9.7%*	*11.0%*
Net income per share (Basic)	$ (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	$ 0.09	$ 0.02	$ 0.02	$ 0.44	$ 0.58	$ 0.84
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*31%*	*45%*	*-2%*	*-30%*	*-8%*	*36%*	*22%*	*46%*
Net income per share (Diluted)	$ (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	$ 0.09	$ 0.02	$ 0.02	$ 0.43	$ 0.56	$ 0.83
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*32%*	*45%*	*-1%*	*-29%*	*-8%*	*36%*	*22%*	*46%*
Shares outstanding (Millions)																				
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
Same-Store Sales (% Change)	**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:
Estimates assume Teaopia's revenues and expenses including $0.05 of transaction/integration expenses in FY13 (2012)
Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

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
NET SALES																				
Teavana Stores (ex- Teaopia acquisition)				$ 85.025					$ 115.800					$ 155.324						
% Change, year-over-year									*36.2%*					*34.1%*						
Stores Acquired From Teaopia																$ 4.600	$ 4.600	$ 6.900	$ 16.100	$ 29.900
Sales per store																*0.100*	*0.100*	*0.150*	*NM*	*0.650*
Teavana 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%*						
Total net sales (ex-Teaopia acquition)	$ 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, 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%*
Total net sales	**$ 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**	**$ 44.829**	**$ 46.942**	**$ 93.796**	**$ 230.359**	**$ 297.290**
% 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%*	*43.2%*	*40.4%*	*37.1%*	*37.0%*	*29.1%*
% CHANGE SAME-STORE SALES	***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%***
NUMBER OF TEAVANA STORES (ex-Teaopia acquisit	47	59	87	108	118	128	141	146	146	161	179	196	200	200	218	236	254	260	260	330
% Change, year-over-year		*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%*
Average number of stores (T4Q)				*101*	*105*	*112*	*120*	*129*	*129*	*139*	*150*	*164*	*177*	*177*	*191*	*205*	*220*	*235*	*235*	*299*
NUMBER OF STORES ACQUIRED FROM TEAOPIA																46	46	46	46	46
Gross Sq. Feet (Mil.) (ex-Teaopia acquisition)	43	54	77	95					130					178					232	294
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*					*37.0%*					*30.0%*	*26.9%*
Gross Sq. Feet Acquired From Teaopia (Mil.)																			41	41
TOTAL Gross Square Feet (Mil.)	43	54	77	95					130					178					273	335
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*					*37.0%*					*53.2%*	*22.8%*

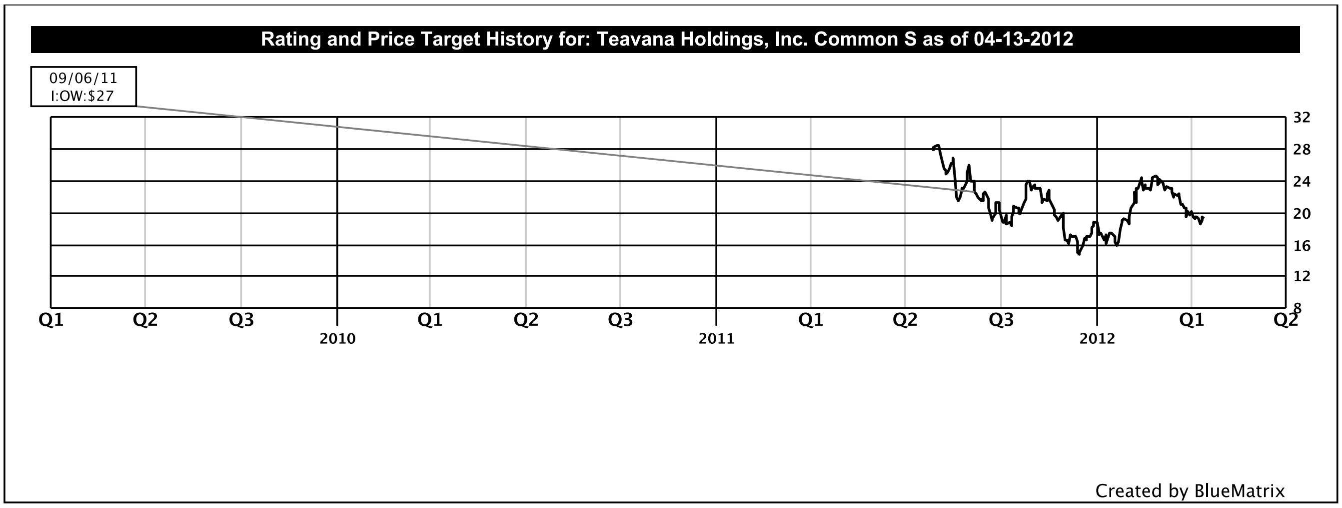
Consolidated Balance Sheet
(Millions of Dollars)

	FY 2010	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4 Jan-12	FY 2012
CURRENT ASSETS:							
Cash and cash equivalents	$1.314	$7.901	$3.740	$1.623	$0.036	$17.818	$17.818
Accounts reveivable	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
Total current assets	**16.049**	**30.191**	**27.853**	**35.990**	**44.736**	**49.664**	**49.664**
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-curret	0.184	-					
Other non-current assets	0.627	0.513	0.760	0.693	0.673	0.775	0.775
Total assets	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**
CURRENT LIABILITIES							
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
Total current liabilities	**11.286**	**28.315**	**$25.362**	**$26.833**	**$14.886**	**$12.566**	**12.566**
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
Total liabilities	**27.585**	**37.784**	**36.175**	**46.328**	**34.643**	**28.616**	**28.616**
Stockholders' equity (deficit)							
Total stockholders' equity (deficit)	**14.182**	**26.342**	**29.627**	**30.749**	**53.829**	**67.002**	**67.002**
Total liabilities and stockholders' equity	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**

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
Operating activities:									
Net Income	**$5.291**	**$1.927**	**$2.506**	**$2.846**	**$12.003**	**$12.003**	**$3.323**	**$4.354**	**$5.291**
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
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**(2.186)**	**19.397**	**19.397**	**1.142**	**(0.311)**	**(4.917)**
Investing activities:									
Capital Expenditures	(6.640)	(2.346)	(5.038)	(8.980)	(12.560)	(12.560)	(5.056)	(8.848)	(13.785)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**(8.980)**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**	**(13.785)**
Financing activities:									
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 redeen 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
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**	**10.787**	**(0.250)**	**(0.250)**	**(0.247)**	**2.881**	**10.835**
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
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**	**$0.935**	**$7.901**	**$7.901**	**$3.740**	**$1.623**	**$0.036**

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.

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R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

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			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**349**	**54.45**	**59**	**16.91**
HOLD [N]	**258**	**40.25**	**18**	**6.98**
SELL [UW]	**34**	**5.30**	**0**	**0.00**

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Analyst Certification — Neely J.N. Tamminga, Sr Research Analyst

— Alex J. Fuhrman, Research Analyst

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April 16, 2012

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Quick Comment: TEA Spills Into Canada

We are positive on Teavana's recently announced $26.9M acquisition of Teaopia. We believe Teaopia offers a low risk path to expand Teavana's Canadian store footprint given its international aspirations. Teaopia's 46 stores generate CAD $17M in revenue and management expects the acquisition to be EPS neutral (or $0.04–$0.05 dilutive from transaction expenses) in 2012 and accretive by $0.03–$0.04 in 2013.

Teaopia's lower store productivity offers opportunity for revenue and EPS upside. Teaopia currently generates $435K in revenue per store vs. Teavana's average $913K per store. Teavana expects to close this revenue productivity gap over time.

Teaopia's similarities to Teavana should make the transition easy. Teaopia offers a similar product mix in a similar footprint (~900 sqft) and store layout (including a wall of tea). TEA expects minimal capital requirements and estimates spending ~$25K per store to rebrand them under the Teavana moniker compared to Teavana's typical $200–$250K new store investment.

Our analysis demonstrates the Teaopia acquisition has more EPS upside than if the company had bought back shares. We conducted an alternative use-of-cash analysis (share buyback) to benchmark the Teaopia acquisition. We found that the acquisition compares favorably with 3c–4c of 2013 accretion vs. 3c for $26.9M in share buybacks. Increasing the store base by ~30% should also give Teavana additional leverage on infrastructure costs and allow the company to benefit from further scale as it makes additional system investments like CRM.

We believe shares are currently appropriately priced and maintain our Equal-weight. 3c-4c 2013 accretion from the acquisition at the current 22.7x P/E on our 2013 numbers suggests $0.68-$0.91 of share appreciation over Friday's $19.20 close.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Shr price, close (Apr 16, 2012)	$19.76
Mkt cap, curr (mm)	$779
52-Week Range	$29.35-14.28

Teaopia stores are largely similar to Teavana both in concept, product and characteristics. In terms of appearance, store size, and product mix, Teaopia stores have a similar positioning to Teavana. Primary differences are in Teaopia's in-store experience and resulting store productivity. Management commented that Teaopia does not invest as much in service and experience as Teavana does, leading to sales per store roughly half of Teavana's average. Teavana hopes to improve Teaopia's store productivity by putting Teaopia employees through Teavana's training program and introducing Teavana's exclusive product into Teaopia stores to improve performance.

Exhibit 1

Store Layouts Are Virtually Identical

Teavana Wall of Tea

Teaopia Store Layout

Source: Company Data, Morgan Stanley Research

Exhibit 2

Teaopia and Teavana Have Similar Store Profiles

	Teaopia	Teavana
Number of stores	46	200
Average sales per store	~$435,000	$913,000
Avg store size (sqft)	~900	920
Occupancy cost per store ($)	~100% of TEA	N/A
Loose-leaf tea as % of revenue	~50%	55%
Mall avg SSF (existing locations)*	~$500	~$500

*Indicates average SSF of the malls where Teavana and Teaopia stores are located. Source: Company Data, Morgan Stanley Research

Similarities should facilitate transition and reduce up-front integration costs. TEA estimates spending ~$25K per store to rebrand them under the Teavana moniker compared to the typical $200–$250K (net of tenant allowances, inventory and cash pre-openings costs) for a new store.

Alternative use-of-cash analysis suggests that the Teaopia transaction has more upside than a $26.9M share repurchase. We estimate that if Teavana used the purchase proceeds to buyback stock, the transaction would be 3c accretive to 2013 EPS, which is the low end of the guided range of 3-4c of accretion from the Teaopia transaction.

Exhibit 3

A Theoretical $26.9M Share Repurchase Would Yield +3c in 2013 vs. +3-4c from the Teaopia Acquisition

Alternative Use of Cash		
Acquisition Cost	$26.9	M
Share price (4/13/2012)	$19.20	
Potential Shares Repurchased	1.4	M
	2013E	
Current Net Income	$33.7	
FD Shares Outstanding	39.8	
Pro Forma FD Shares Outstanding	38.4	
Current EPS estimate	$0.85	
Pro Forma EPS estimate	$0.88	
Accretion/Dilution	**+$0.03**	

Source: Company Data, Morgan Stanley Research

Teaopia gives Teavana a fully built out store network in Canada. Assuming that Teavana is able to optimize the Teaopia store network, we believe that a fully integrated Teaopia could contribute up to 15c in EPS. We assume TEA's average $913K revenue per store and a 19% segment operating margin (vs. 18.3% TEA operating margin in 2012e and 20.3% in 2013e). We believe Teaopia could take some time to transition and is not likely to reach parity with Teavana stores until 2015 or beyond.

Exhibit 4

Teaopia Store Network Could Add Up to 15c to EPS

($ in 000s)	2011 Estimated	Potential
Total sales	**$17,000**	**$47,377**
Online sales	765	3,553
Online % of total sales [(1)]	*4.5%*	*7.5%*
Store-only sales	$16,235	$43,824
Existing Stores		
Number of stores [(2)]	34	48
Sales/store [(3)]	$435	$913
Total Existing Store Revenue	$14,790	$43,824
New Stores		
Number of new stores	12	-
Sales/new store	$120	-
Sales Productivity	28%	NA
Total New Store Revenue	$1,445	$0
(in $M)		
Operating Profit	$0.9	$9.0
Assumed Operating Margin [(4)]	5.0%	19.0%
Taxes	0.3	3.2
Assumed Tax Rate [(5)]	35%	35%
Net Income Contribution	0.6	5.9
EPS Contribution		**$0.15**
Shares Outstanding		39.8

(1) Based on management commentary of "less than 5%" for Teaopia online sales. Potential online sales are based on Teavana's current percentage of online sales.
(2) 34 Teaopia stores in 2011 based on 46 stores at time of acquisition minus 12 stores opened in the last twelve months as per press release. 48 potential stores include 2 additional stores expected to open in 2012.
(3) Teaopia's $435K in sales/store is based on Teavana presentation on 4/16/12. We assume Teavana's $913K sales/store average as the potential for Teaopia store productivity.
(4) We assume 5% 2011 operating margin based on company guidance for neutral 2012 EPS impact excluding transaction costs. We assume Teaopia profitability is offset by interest expense and increased costs. We assume potential 19% operating margins in-line with 2011 operating margins.
(5) We assume a lower 35% tax rate for international operations compared to Teavana's current 40% tax rate.
Source: Company Data, Morgan Stanley Research

The per store economics of the acquisition are not as favorable as new stores, but still generate robust 34% cash on cash returns. The $26.9M transaction cost translates to an $585K acquisition cost per store. Adding $25K per store in rebranding costs brings the total cost per store to $610K, which does not compare favorably with $200–$250K net cash investments for the typical Teavana store. We assume that Teaopia stores could perform at the high end of the new store opening range of $700K in sales per store and a 30% contribution margin. We calculate a 3-year payback period on investment. In order to achieve the 18 month payback for TEA's traditional new stores, we estimate a 50% average 4-wall contribution would be necessary given the acquisition cost per store.

Exhibit 5

We Estimate 34% Cash on Cash Return on Teaopia Stores

Teaopia Store Economics		
Acquisition Price	$26.9	M
Teaopia Stores Acquired	46	
Transaction cost/store ($000)	$585	
Capex Improvements	25	
Total cost per store	$610	
Annual Sales	$700	
4-Wall contribution (%)	30%	
4-Wall contribution ($000)	$210	
Cash on cash return	34%	
Payback Period	2.9	yrs

We assume sales per store of $700K and 30% 4-Wall contribution margin, both at the top of the range for new Teavana stores. Source: Company Data, Morgan Stanley Research

Purchase price of 1.6x 2011 sales is in line with Specialty Retail average of 1.6x. Our comparison of the Teaopia transaction against prior specialty retail M&A transactions since 2010, shows that TEA purchased Teaopia at a valuation in-line with the industry average. Over the past year, private equity firms acquired other mall-based specialty retailers like J. Crew and Gymboree at 1.6x revenue.

We estimate $550-$680K interest expense could weigh on acquisition benefits. With $16 to $18M cash on hand financing the transaction, we estimate interest expense on the remainder of the acquisition cost would be roughly $550-$680K per year based on a 6.25% interest rate on TEA's existing credit facility as of January 2012.

Acquisition Risks

- **Financial risk** – Teavana's use of cash balance to fund the acquisition could reduce its future financial flexibility should anything unexpected happen during the company's normal course of operations.

- **Teaopia may be overstored** - Additionally, Teaopia may be oversaturated in Canada with 46 stores. The US currently has a population of ~315M which supports approximately 200-250 Class-A malls. Canada's population of 34M (or 11% of the US) would imply the county could only support less than 30 Class-A locations.

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(as of March 31, 2012)

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Not-Rated/Hold	**101**	**3%**	**26**	**2%**	**26%**
Underweight/Sell	**478**	**16%**	**126**	**12%**	**26%**
Total	**2,926**		**1088**		

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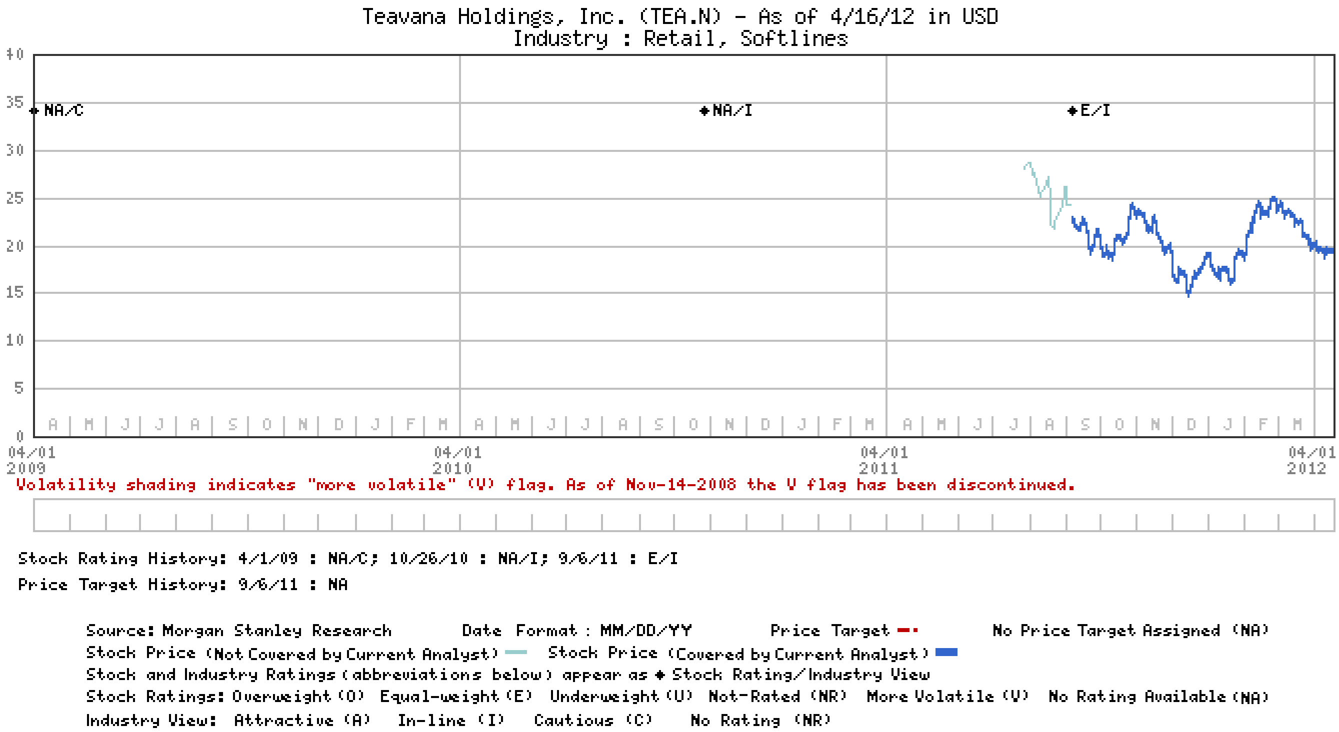

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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (04/16/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	$28.85
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$46.78
Aeropostale Inc (ARO.N)	U (10/26/2010)	$21.09
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	$17.22
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$15.07
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$48.12
Coach Inc (COH.N)	E (11/04/2011)	$73.84
Express, Inc. (EXPR.N)	O (01/31/2011)	$23.91
Gap Inc (GPS.N)	E (10/26/2010)	$26.43
Limited Brands Inc (LTD.N)	O (10/26/2010)	$47.91
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$73.4
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	$42.1
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$59.22
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$17.29
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$40.19
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$19.76
Tiffany & Co. (TIF.N)	E (11/04/2011)	$66.66
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$28.48

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Teavana Holdings, Inc.:

TEA: 4Q - Growth Thesis Intact, Differentiated Concept

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Edward Yruma: (917) 368- 2394 — eyruma@keybanccm.com
Jane Thorn Leeson: (917) 368- 2220 — jthornleeson@keybanccm.com

Rating	BUY
Price	$19.43
12- Mo. Price Target	$28.00
Dividend	$0.00
Yield	NM
52- Wk. Range	$14 - $29
Trading Volume (000)	253
Market Cap. (mm)	$757.8
Shares Out. (mm)	39.00
Book Value/Share	$1.38

EPS (Net) Summary

FY Jan	2011A	2012E	2013E
1Q	$0.09	$0.10	- -
Prior	*$0.09*	*$0.12*	- -
2Q	$0.03	$0.04	- -
3Q	$0.02	$0.03	- -
4Q	$0.32	$0.42	- -
Prior	*$0.31*	*$0.40*	- -
YEAR	$0.46	$0.59	$0.78
Prior	*$0.45*	*$0.59*	*$0.79*
First Call	- -	$0.64E	$0.78E
P/E	42.2x	32.9x	24.9x

ACTION STATEMENT

Teavana Holdings, Inc.'s (TEA-NYSE) 4Q results were strong, but had a few items worth closer consideration. The Company posted a 4Q EPS of $0.32, above KBCM and consensus estimates of $0.31. Transaction growth of 2.7% demonstrated that the concept continues to drive new customers. The Company also showed solid SG&A leverage of 67 bps, which helped offset some of the margin drag from non-tea merchandise. Worth noting is the 1Q12 comp outlook of low to mid single digits. Some of this may be attributed to store opening timing; management also called out the impact of warm weather. However, with e-commerce providing a 420 bps lift to 4Q comps, 1Q12 store comps may be hovering near flat. Comp volatility has occurred to others in our high-growth coverage, but is clearly an area to closely monitor going forward. Our long-term thesis articulated in our initiation dated March 22, 2012 remains unchanged; we think that Teavana is one of the most differentiated concepts in our coverage and has some of the strongest square footage growth opportunities. We reiterate our **BUY** rating and $28 price target, which implies a 47.4x 2012 P/E compared to a 31.9x P/E for the active and healthy lifestyle peer group.

- **2013E: $0.78 from $0.79**

KEY INVESTMENT POINTS

A closer look at comps. Much angst centers around Teavana's comps (8.6% in the 4Q, 4.4% ex. e- comm). This concern is twofold. First, slower comps historically point to a concept nearing saturation. Second, high comps have historically correlated with premium multiples. On the former, we think that Teavana's comps are less indicative of a saturation point; geographic proximity of new stores to existing stores has not materially changed. Moreover, the recent acceleration of store openings (54 in 2011 alone) places some pressure on comp as stores entering the comp base lap the grand opening periods. A higher multiple may necessitate accelerating store comps. We also take a quick look at valuation within the framework of operating metrics – see Exhibit 1.

Growth remains strong. We look at two other drivers of top- line growth: e- commerce and new stores. E- commerce growth was a healthy 55% in the 4Q, and drove 420 bps of total comp. There is incremental opportunity here as online still only represents 7.6% of total FY11 sales (goal of 10% by 2015). The Company also opened 50 stores in 2011, which makes it one of the fastest growing retailers in our coverage. We see few reasons why both of the aforementioned should slow in the near to medium term.

Timing considerations. Store openings will be focused toward the end of 1- 3Q, which drives higher pre- opening absorption without corresponding revenue. This helps capitalize on the 4Q opportunity, but will make it more difficult to externally calculate new store productivity.

4Q wrap. TEA posted a 4Q EPS of $0.32, above KBCM and consensus estimates of $0.31. Sales increased 33.6% year- over- year to $68.4 million and comps were up 8.6% (ex. e- commerce up 4.4%). Inventories increased 51.7% year- over- year. Gross margin declined - 202 bps year- over- year to 65.6%, driven by increased sales of lower- margin, non- tea merchandise. SG&A as a percentage of sales levered 67 bps to 32.2% and SG&A dollars rose 30.9% to $22.0 million. The Company opened four new stores in 4Q11 and ended the quarter with 200 stores. Management guided 1Q12 EPS of $0.09- $0.10 and FY12 EPS of $0.58- $0.61.

VALUATION

At 32.9x 2012 P/E, 3.5x 2012 EV/Sales and 1.0x 2012 PEG, valuation is reasonable 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 31.9x 2012 P/E, 2.2x 2012 EV/Sales and 1.3x 2012 PEG. Additionally, the stock currently trades at a 15.8x 2012 EV/EBITDA compared to 13.2x EV/EBITDA of the peer group. We maintain our $28 price target, which implies a 47.4x P/E based on our $0.59 2012 EPS estimate.

RISKS

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, and retention of senior management.

Revenue Summary

	2011A	Prior 2011A	2012E	Prior 2012E	2013E	Prior 2013E
1Q	$34.9	$34.9	$45.1	$47.1	- -	- -
2Q	$31.3	$31.3	$39.9	$40.9	- -	- -
3Q	$33.4	$33.4	$41.9	$42.9	- -	- -
4Q	$68.4	$66.6	$86.1	$85.7	- -	- -
YEAR	$168.1	$166.2	$213.1	$216.6	$269.4	$274.4

Source: KeyBanc Capital Markets Inc. estimates

LOOKING FORWARD

Long-term operating margin opportunity. Looking forward, we expect SG&A rate to de-leverage in 1H12, which will be offset on an annual basis by leverage in 2H12. Additionally, gross margin is expected to remain flat in FY12, resulting in a flat operating margin. Looking beyond 2012, we believe gross margin will expand as stores reach maturity and, in the long term, operating margin to expand.

- **Expect 200-300 bps of SG&A de-leverage in 1H12.** SG&A de-leverage in 1H12 will be the result of comparing the current company infrastructure to pre-IPO operations. The Company expects to leverage SG&A in 2H12 (mostly in 4Q12) to offset most of the de-leverage from 1H12.
- **Relatively flat gross margin and operating margin.** Gross margin is expected to be relatively flat year-over-year in FY12 due to the anniversary of direct sourcing benefits. Additionally, a significant portion of stores have recently opened within the past two years and are operating at lower gross margins. Coupled with a flat SG&A rate for FY12, operating margins should remain flat year-over-year.
- **Store penetration of high-traffic, domestic malls.** There seems to be some runway in store penetration given that approximately 50 A-mall locations will remain untouched at the end of 2012. With 60 planned store openings including the first stores outside of the United States, store count should grow to 260 by the end of the year.

THE KBCM LAUNDRY LIST

4Q11 EPS of $0.32 was above KBCM and consensus estimate of $0.31.

Gross margin declined 202 bps to 65.6% and operating margin declined 141 bps to 31.0%.

Inventory levels up 51.7% year-over-year, well above sales growth of 33.6% year-over-year.

CAUTIOUS SHORT-TERM; REMAIN OPTIMISTIC LONG-TERM

Exhibit 1. Above and Beyond: Operating Metrics and Valuation

	VRA	LULU	KORS	TEA
4Q11 Y/Y Revenue Growth	23.0%	51.4%	67.9%	33.6%
4Q11 Y/Y Net Income Growth	41.2%	61.1%	40.4%	36.2%
2012E P/E	17.8x	46.1x	50.6x	32.9x
2012E EV/EBITDA	10.0x	19.5x	26.4x	15.8x

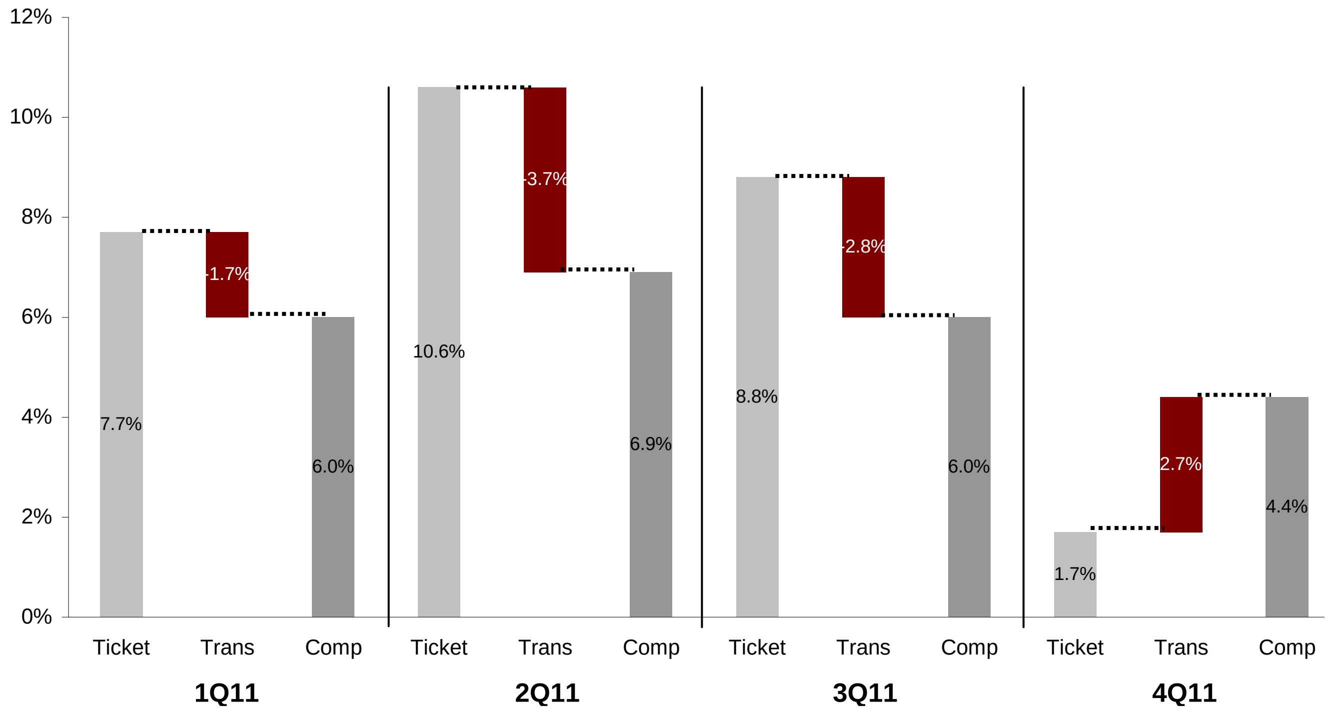
Source: Company reports, FactSet and KBCM estimates as of March 2012.

Exhibit 2. Gross Margin Declined in 4Q11; Expect Flat Gross Margin Change in FY12

	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Sales ($mm)	36.3	25.8	23.0	24.7	51.2	34.9	31.3	33.4	68.4
Gross Margin (%)	63%	61%	59%	59%	68%	64%	61%	62%	66%
Y/Y change (bps)		**321**	**198**	**167**	**448**	**325**	**223**	**323**	**-202**

Source: KBCM estimates and Company reports.

Exhibit 3. Comp Drivers in FY11; Expect +MSD 1Q12 Comp



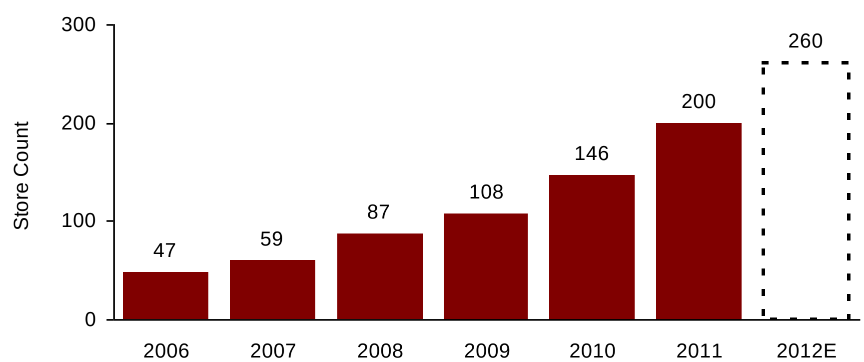
Note: Comparable store sales exclude e-commerce sales.
Source: Company reports

Exhibit 4. Expect SG&A Expense De-leverage in 1Q12

	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Comp Growth (%)	**9%**	**16%**	**7%**	**6%**	**8%**	**6%**	**7%**	**6%**	**4%**
SG&A		10.8	10.8	12.1	16.8	14.8	15.4	17.5	22.0
Y/Y change (%)						**36.6%**	**42.2%**	**44.5%**	**30.9%**
SG&A/sales		41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%
Y/Y change (bps)						**34**	**204**	**341**	**-67**

Source: Company reports.

Exhibit 5. Expect 60 Store Openings in 2012; First International Stores to Open in Canada



Source: Company reports.

EARNINGS REVISIONS

We are adjusting our estimates. We are adjusting our 1Q12 EPS estimate from $0.12 to $0.10, our 4Q12 EPS estimate from $0.40 to $0.42 and our FY13 EPS estimate from $0.79 to $0.78.

Exhibit 6. EPS Estimate Changes

	1Q12E	2Q12E	3Q12E	4Q12E	FY12E	FY13E
New EPS	**$0.10**	**$0.04**	**$0.03**	**$0.42**	**$0.59**	**$0.78**
Old EPS	$0.12	$0.04	$0.03	$0.40	$0.59	$0.79
Change	*($0.02)*	-	-	*$0.02*	-	*($0.01)*

Source: Company, FactSet, & KBCM estimates.

Exhibit 7. EPS Beats Summary

	Consensus EPS	Reported EPS	Delta	Stock Price	Stock Reaction
4Q11	**$0.31**	**$0.32**	**$0.01**	**$19.43**	-5.6%
3Q11	$0.02	$0.02	$0.00	$18.28	9.8%
2Q11	$0.03	$0.03	$0.00	$25.98	8.3%

Source: Company reports and FactSet as of March 2012.
Note: Stock price reaction compares stock price close on day prior to earnings release with close on day of earnings release and may or may not reflect an impact from overall market conditions. ***Results presented cannot and should not be viewed as an indicator of future performance***

Exhibit 8. KBCM Estimates vs. Actual

($ in millions)	4Q10 Actual	4Q11 Forecast	4Q11 Actual	+/- Actual vs. Forecast
Revenues	51.2	66.6	68.4	**3%**
Cost of goods sold	16.6	21.6	23.5	**9%**
Gross profit	34.6	45.0	44.9	**0%**
Selling, general & administrative expense	16.8	22.9	22.0	**-4%**
Depreciation and amortization expense	1.2	1.7	1.7	**-3%**
Operating profit	16.6	20.4	21.2	**4%**
Earnings before income taxes	16.0	20.3	21.1	**4%**
Income tax expense	6.8	8.3	8.6	**4%**
Net earnings(continued operations)	9.2	12.0	12.5	**4%**
Weighted average shares outstanding - diluted	37.8	39.1	39.1	**0%**
Net earnings per share - diluted	**$0.24**	**$0.31**	**$0.32**	**4%**
Margins				
Gross margin	67.7%	67.6%	65.6%	
SG&A/Sales	32.9%	34.4%	32.2%	
Operating margin	32.4%	30.6%	31.0%	

Source: KBCM estimates and Company reports.

Exhibit 9. Updated Guidance Summary

	Guidance
1Q12	
Sales	$44-$45mm
Comp store sales	+LSD to +MSD
Net income	$3.6-$4.0mm
EPS	$0.09-$0.10
S/o	39.1mm
Store openings	18-20
SG&A	200-300 bps of deleverage
2012	
Sales	$208-$215mm
Comp store sales	+MSD
Net income	$23.0-$24.0mm
EPS	$0.58-$0.61
S/o	39.4mm
Store openings	60
Gross margin	relatively flat y/y
SG&A	slight deleverage
Operating margin	fairly flat y/y
CapEx	$20mm

Source: KBCM estimates and Company reports.

VALUATION SUMMARY

Exhibit 10. 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)	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
SPECIALTY RETAIL																	
Abercrombie	ANF	BUY	$49.54	$40.25 - $78.25	$61.00	16.9x	4,243	$2.30	$3.60	21.5x	13.7x	6.5x	5.0x	0.9x	0.8x	1.0x	0.6x
Buckle	BKE	HOLD	$48.48	$33.97 - $50.00	-	-	2,300	$3.20	$3.38	15.2x	14.3x	7.8x	7.3x	2.0x	1.9x	1.3x	1.2x
Chico's	CHS	HOLD	$15.35	$9.57 - $16.50	-	-	2,570	$0.85	$0.99	18.1x	15.5x	7.1x	6.3x	1.1x	0.9x	1.1x	1.0x
Ascena Retail	ASNA	BUY	$44.31	$24.00 - $45.24	$46.00	15.5x	3,403	$2.55	$2.97	17.4x	14.9x	7.0x	6.3x	1.0x	0.9x	1.2x	1.0x
Gap Inc	GPS	HOLD	$26.26	$15.08 - $26.89	-	-	12,823	$1.56	$1.77	16.8x	14.8x	6.5x	6.4x	0.9x	0.8x	1.7x	1.5x
New York & Company	NWY	HOLD	$3.63	$2.25 - $7.50	-	-	225	($0.64)	($0.41)	NM	NM	61.1x	11.7x	0.2x	0.2x	NM	NM
Urban Outfitters	URBN	HOLD	$29.23	$21.47 - $33.90	-	-	4,228	$1.19	$1.48	24.6x	19.7x	10.1x	8.7x	1.6x	1.4x	1.4x	1.1x
Wet Seal	WTSLA	HOLD	$3.30	$3.03 - $5.23	-	-	299	$0.19	$0.19	17.6x	17.7x	2.9x	2.9x	0.2x	0.2x	1.0x	1.0x
Peer Average										**19.4x**	**18.7x**	**14.3x**	**8.1x**	**1.5x**	**1.3x**	**1.4x**	**1.1x**
ACTIVE AND HEALTHY LIFESTYLE																	
Lululemon Athletica	LULU	BUY	$73.32	$39.74 - $76.66	$82.00	51.6x	10,520	$1.26	$1.59	58.3x	46.1x	24.6x	19.5x	7.7x	5.8x	1.9x	1.5x
Pacific Sunwear	PSUN	HOLD	$1.77	$1.11 - $4.06	-	-	119	($0.77)	($0.50)	NM	NM	NM	NM	0.2x	0.2x	NM	NM
Skullcandy	SKUL	BUY	$15.91	$11.79 - $23.40	$21.00	18.0x	435	$1.00	$1.17	16.0x	13.6x	9.1x	7.3x	1.8x	1.5x	0.7x	0.6x
Teavana	TEA	BUY	$19.43	$14.28 - $29.35	$28.00	47.4x	744	$0.46	$0.59	42.0x	32.9x	19.9x	15.8x	4.4x	3.5x	1.3x	1.0x
Under Armour	UA	UW	$95.88	$52.62 - $99.35	$56.00	24.2x	4,963	$1.85	$2.31	52.0x	41.5x	19.2x	15.6x	2.6x	2.1x	2.3x	1.9x
Zumiez	ZUMZ	HOLD	$37.04	$15.85 - $37.34	-	-	1,155	$1.20	$1.39	30.9x	26.6x	12.3x	10.5x	1.8x	1.5x	1.4x	1.2x
Peer Average										**39.3x**	**31.9x**	**16.3x**	**13.2x**	**2.8x**	**2.2x**	**1.6x**	**1.3x**

Source: Company reports, FactSet and KBCM estimates as of March 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 11. Income Statement

($ in millions except per share data)

	2009	2010	2011					2012E					2013E
	Year	Year	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year	Year
Revenues	**90.3**	**124.7**	**34.9**	**31.3**	**33.4**	**68.4**	**168.1**	**45.1**	**39.9**	**41.9**	**86.1**	**213.1**	**269.4**
Cost of goods sold	36.4	46.3	12.5	12.2	12.7	23.5	60.9	16.5	15.7	16.0	28.9	77.1	94.7
Gross profit	53.8	78.4	22.5	19.1	20.7	44.9	107.2	28.7	24.3	25.9	57.1	136.0	174.7
Selling, general & administrative expense	38.1	50.6	14.8	15.4	17.5	22.0	69.7	19.7	20.1	21.9	26.9	88.6	112.0
Depreciation and amortization expense	3.5	4.4	1.3	1.4	1.6	1.7	5.9	1.7	1.8	2.0	2.1	7.6	10.2
Operating income	12.2	23.5	6.5	2.3	1.6	21.2	31.6	7.2	2.3	2.0	28.1	39.7	52.5
Interest expense, net	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	9.8	20.9	5.8	1.6	1.5	21.1	29.9	7.1	2.2	1.9	28.0	39.2	52.0
Income tax expense	4.5	8.9	2.4	0.6	0.6	8.6	12.2	3.0	0.8	0.7	11.4	15.9	21.1
Net earnings	5.3	12.0	3.3	1.0	0.9	12.5	17.8	4.1	1.4	1.2	16.6	23.3	30.9
Weighted average shares outstanding - dilute	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	**$0.14**	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.04**	**$0.03**	**$0.42**	**$0.59**	**$0.78**
EBITDA	**15.7**	**27.9**	**7.7**	**3.8**	**3.2**	**22.9**	**37.5**	**8.9**	**4.2**	**3.9**	**30.3**	**47.3**	**62.7**
Comparable store sales	**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%					50.3%	21.2%
Margin analysis													
Cost of goods sold/revenue	40.4%	37.1%	35.6%	38.9%	38.1%	34.4%	36.2%	36.5%	39.2%	38.2%	33.6%	36.2%	35.2%
Y/Y change in bps	(222)	(326)	(325)	(223)	(323)	202	(88)	85	30	10	(75)	(4)	(103)
Gross margin	**59.6%**	**62.9%**	**64.4%**	**61.1%**	**61.9%**	**65.6%**	**63.8%**	**63.5%**	**60.8%**	**61.8%**	**66.4%**	**63.8%**	**64.8%**
Y/Y change in bps	222	326	325	223	323	(202)	88	(85)	(30)	(10)	75	4	103
Selling, general & administrative expense/sal	42.3%	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	43.7%	50.3%	52.3%	31.2%	41.6%	41.6%
Y/Y change in bps	(353)	(170)	34	204	341	(67)	90	150	125	(5)	(100)	15	(3)
Depreciation and amortization expense/sales	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	(3)	(37)	(13)	(5)	16	6	3	10	5	5	5	6	20
Operating margin	**13.5%**	**18.8%**	**18.5%**	**7.4%**	**4.8%**	**31.0%**	**18.8%**	**16.0%**	**5.8%**	**4.7%**	**32.7%**	**18.6%**	**19.5%**
Y/Y change in bps	606	533	304	24	(34)	(141)	(5)	(245)	(160)	(10)	170	(17)	85
EBITDA margin	17.4%	22.3%	22.1%	12.0%	9.5%	33.4%	22.3%	19.8%	10.5%	9.4%	35.2%	22.2%	23.3%
Y/Y change in bps	575	496	291	19	(18)	(135)	(2)	(235)	(155)	(5)	175	(11)	106
Effective tax rate	45.8%	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	42.4%	35.2%	37.2%	40.8%	40.6%	40.6%
Y/Y change in bps	(986)	(320)	(20)	(746)	(548)	(177)	(196)	0	0	0	0	(3)	(6)
Y/Y growth													
Revenues	41.3%	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	29.2%	27.5%	25.3%	25.8%	26.7%	26.5%
Cost of goods sold	34.0%	27.0%	24.2%	28.9%	24.5%	42.0%	31.6%	32.3%	28.5%	25.7%	23.1%	26.6%	22.9%
Gross profit	46.8%	45.7%	42.8%	41.4%	42.5%	29.6%	36.7%	27.5%	26.9%	25.1%	27.2%	26.8%	28.5%
Selling, general & administrative expense	30.4%	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	33.8%	30.8%	25.2%	21.9%	27.2%	26.4%
Depreciation and amortization expense	30.9%	25.0%	30.9%	34.7%	40.0%	37.2%	35.9%	32.8%	28.9%	26.7%	28.4%	29.0%	33.7%
Operating income	156.2%	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	12.1%	0.1%	22.7%	32.7%	25.6%	32.3%
Net earnings	342.0%	126.9%	72.4%	78.1%	175.3%	36.2%	48.0%	23.4%	39.3%	24.7%	32.9%	31.1%	32.8%
EPS	339.3%	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	19.1%	34.0%	23.0%	30.8%	27.8%	31.8%
EBITDA	111.2%	77.6%	56.1%	38.4%	32.6%	28.4%	34.7%	15.5%	11.0%	24.7%	32.4%	26.1%	32.5%

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

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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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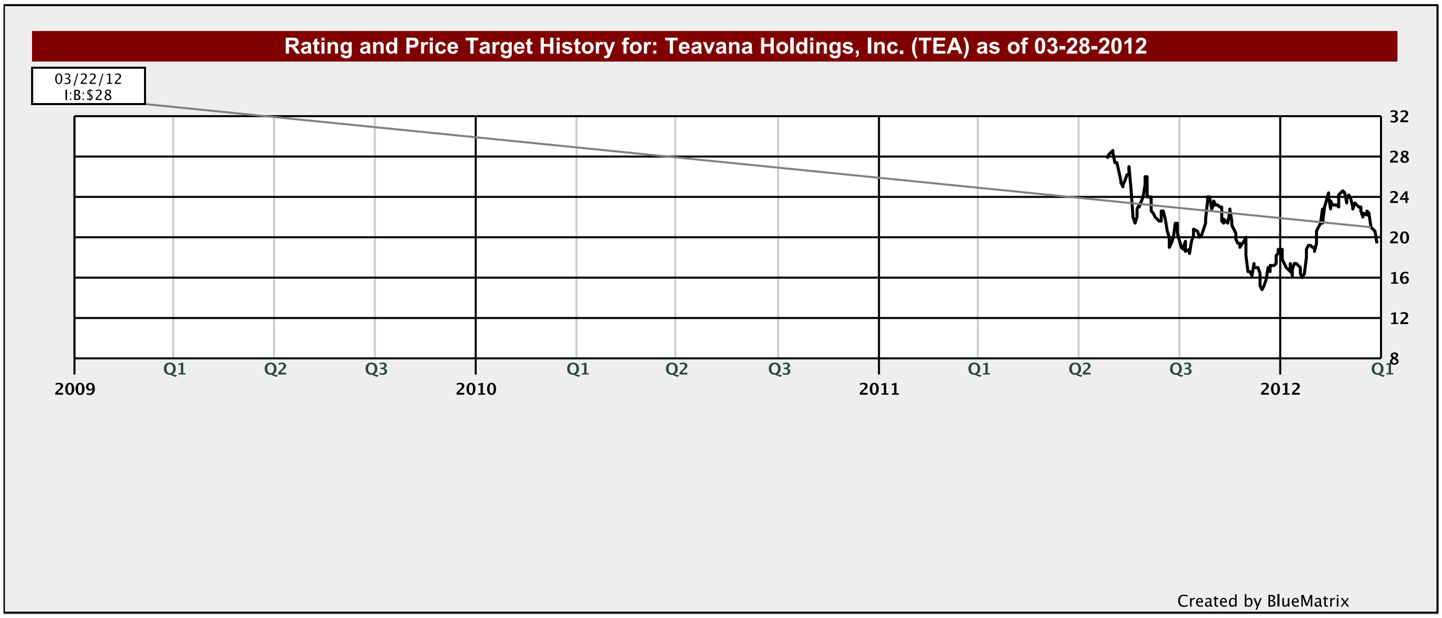
Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

	KeyBanc Capital Markets		IB Serv/Past 12 Mos.			CONSUMER		IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**	**Rating**	**Count**	**Percent**	**Count**	**Percent**
BUY [BUY]	228	44.53	47	20.61	**BUY [BUY]**	60	45.45	7	11.67
HOLD [HOLD]	272	53.12	49	18.01	**HOLD [HOLD]**	70	53.03	2	2.86
SELL [UND]	12	2.34	4	33.33	**SELL [UND]**	2	1.52	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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Morgan Stanley alphawise evidence-based research

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March 29, 2012

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Adjusting EPS; Examining Growth Beyond 500 Stores

We revise our 2012 estimates down after TEA reported 4Q EPS. Our various AlphaWise analyses suggest 300-500 store potential. Assuming full 500 store penetration, we estimate $1.50 EPS power in 2015 and conclude TEA trades at an appropriate valuation discount to growth peers. Remain EW.

We adjust our 1Q12 EPS from $0.12 to $0.09 and FY12 EPS from $0.62 to $0.58. We forecast operating margins to remain flat on a full year basis, although GM may deleverage in the first 3 quarters of the year due to store pre-opening costs of $40K/store. Public company costs should deleverage SG&A 200-300bps in 1H12 but could be offset by significant leverage in 4Q12 due to higher revenues from new stores added in the year.

Our varied AlphaWise analyses support 300-500 store potential. TEA's growth depends heavily on store openings rather than increased productivity given moderate +MSD historical comp average and go forward guidance. As such, we examine store saturation and income demographics to support a range of 300-500 Teavana stores domestically (see analysis on pages 3-4). TEA plans to open 60 stores in 2012 and reach 500 stores by 2015.

We monitor essential store productivity metrics for signs of deterioration. Positive 4Q store transactions (ex e-com and ex-bev) reversed prior negative trends. However, we do not assume this trend will continue into 2012. Given TEA's early stage growth, we should expect strong customer acquisition evidenced by transaction growth and robust comps.

Long-term outlook shows TEA is fully valued at current levels. We estimate 2015 earnings power of $1.50 which leads us to a $17 stock price today vs. our prior base case of $26. Until growth drivers other than stores expansion are apparent, we expect TEA's multiple could be held back until we see stable positive transaction trends and strong consistent comp growth.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Price target	**NA**
Shr price, close (Mar 28, 2012)	$19.43
Mkt cap, curr (mm)	$746
52-Week Range	$29.35-14.28

Fiscal Year ending	**01/11**	**01/12e**	**01/13e**	**01/14e**
EPS ($)**	0.32	0.46	0.58	0.85
Consensus EPS ($)§	-	0.47	0.64	0.78
Div yld (%)	0.0	0.0	0.0	0.0
ModelWare EPS ($)	0.41	0.38	0.49	0.75

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by Thomson Reuters Estimates.
** = Based on consensus methodology
e = Morgan Stanley Research estimates

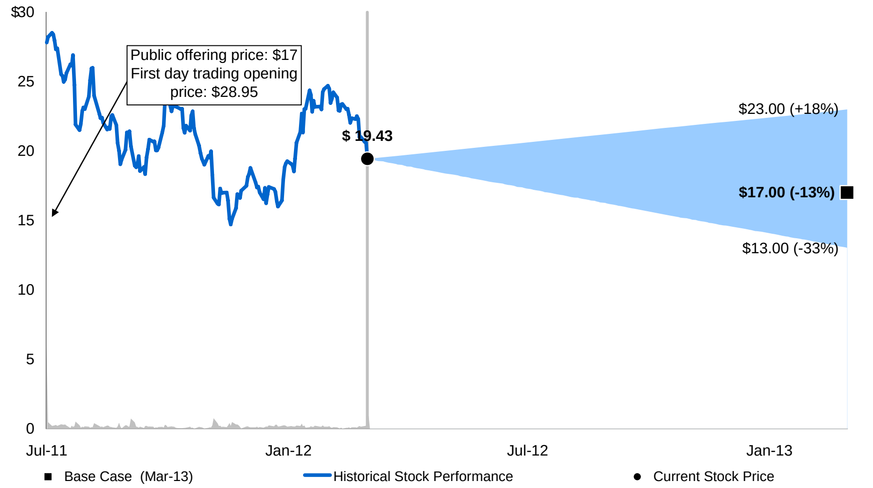
Quarterly ModelWare EPS

Quarter	**2010**	**2011e Prior**	**2011e Current**	**2012e Prior**	**2012e Current**
Q1	0.05	-	0.09a	0.12	0.09
Q2	0.02	-	0.03a	0.04	0.02
Q3	0.01	-	0.02a	0.03	0.02
Q4	0.24	0.30	0.32	0.43	0.45

e = Morgan Stanley Research estimates, **a** = Actual company reported data

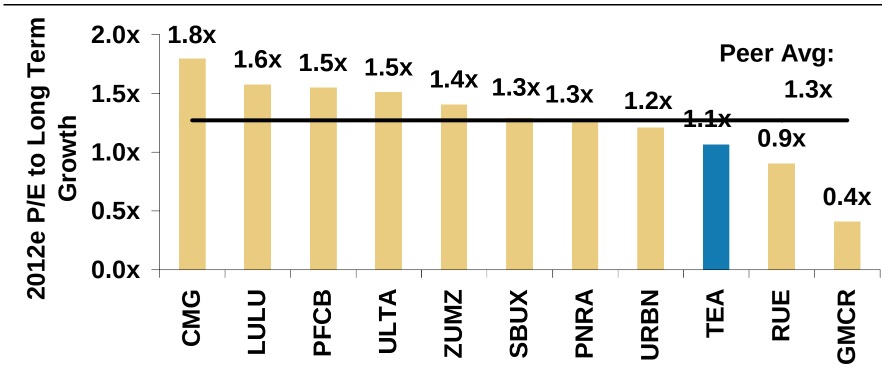
Risk-Reward Snapshot: Teavana (TEA, $19.43, Equal-weight)

Risk-Reward View: TEA is currently fully valued



Price Target NA		Valuation Methodology – We derive our scenarios based on 2015 earnings potential and apply a 2015 P/E multiple to reflect maturity. The price is discounted back 3 years at 7%.
Bull Case $23	16x Bull Case 2015e EPS of $1.75	**Teavana achieves retail nirvana.** Positive traffic and store transactions push comps to +HSD. Gross margins rise on sales leverage on new store occupancy costs to achieve a 25% op marg. We apply a 16x multiple in 2015 and discount back at 7%.
Base Case $17	14x Base Case 2015e EPS of $1.50	**Steady as TEA goes.** Teavana continues on its current trajectory with +MSD comps, 30% store growth and op marg expansion to 23%. We apply a 14x multiple in 2015 and discount back at 7%.
Bear Case $13	14x Bear Case 2015e EPS of $1.15	**TEA taps out.** Store transactions turn negative again, slowing comp growth to +LSD. Merchandise mix lowers GM and lower sales results in less than expected SGA leverage. We apply a 14x multiple in 2015 and discount back at 7%.

As comps decelerate, TEA's PEG ratio is slightly below peer average



Source: Morgan Stanley, Thomson Reuters.

Investment Thesis

- **Following the Whole Foods/lululemon model.** TEA follows Whole Foods and lululemon in the healthy lifestyle focus, a growing market with high margins.
- **TEA has room to grow.** In our universe, TEA has the lowest saturation rate in our coverage (2011 stores vs. LT plan) at 40% vs. the 74% sector average. Our analysis supports 300-500 total potential stores.
- **Steady comp performance.** We think Teavana's moderate +MSD comp plan is achievable given past performance.

Risks

Positive:
- Potential growth from consumer packaged good products
- International store expansion outside North America

Negative:
- Declining store transaction trends
- Weakening / strengthening economy and mall traffic
- Increased competition (stores, online)
- Positive margin mix shift fails to materialize
- Smaller than anticipated addressable market

Valuation

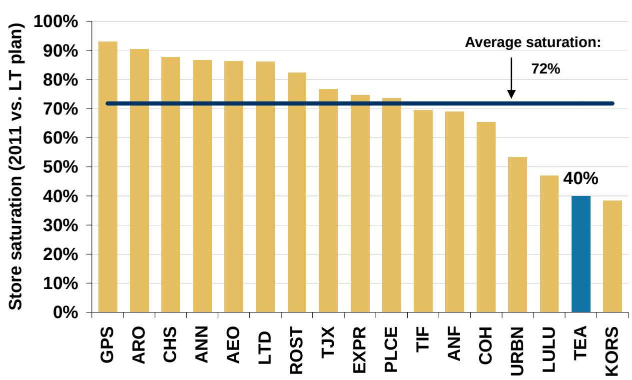
- Current valuation reflects growth: At 33x our $0.58 2012e EPS (and 1.1x our 31% long-term growth rate), we think Teavana's shares largely reflect its sales and earnings potential. We look for 1) a more attractive entry point or 2) sustained >MSD% same store sales growth in addition to improved store transaction trends.

Our Varied AlphaWise Analyses Support 300-500 Store Potential vs. Management Goal of 500 Stores

A 30% annual store base increase should drive top-line growth until 2015, but longer term growth remains a question. With comp expectations in the +MSD range, we do not expect significant growth from productivity improvements. Instead, adding 60 new stores on top of the existing 200 will drive the majority of TEA's expected 30%+ growth. As such, we revisit our store potential and saturation analysis from our initiation. Evaluating the company relative to our coverage universe, TEA currently has one of the lowest store penetration rates at 40% of management's long-term plan compared to the 72% sector average. However, we have little visibility into growth drivers after the company achieves store saturation.

Exhibit 1

TEA currently has the lowest store saturation rate in our universe but expected to be at 100% by 2015

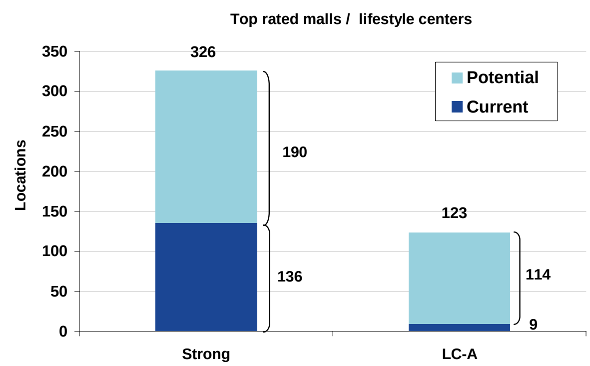


Source: Company data, Morgan Stanley Research. Reflects saturation of profitable divisions only.

Our mall / lifestyle center analysis supports the viability of management's 500 store plan by 2015. We analyzed Teavana locations (185 identified stores as of March 2012) and cross-checked our list against MS REIT Research Team's mall ratings (Paul Morgan and team). Of Morgan Stanley's top-rated 449 malls and lifestyle centers, only 145 include a Teavana location (32% penetration), leaving the potential for stores in an additional 304 top rated malls and lifestyle centers.

Exhibit 2

TEA is only 32% penetrated in top rated malls and lifestyle centers



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of March 2012 (185 surveyed locations).

Our store density study yields 300 TEA location potential. Working with AlphaWise, we examined income and population levels surrounding existing Teavana stores. With 185 store locations surveyed, we estimate the median number of households per store at ~313,000 with median income of $62K. Assuming a similar population density per store, we estimate a maximum 300 potential stores. In order to support management's 500 store goal, TEA would need to increase store density to serve only 184,000 households per store.

Exhibit 3

Our proprietary store saturation analysis suggests 300 Teavana stores

Store Saturation Summary (all applicable markets)

Current HHs / store (median)	Current stores	HH income distribution $40-60K	$60-80K	$80-100K	$100K+	Total
312,809	**185**	93	78	12	2	185

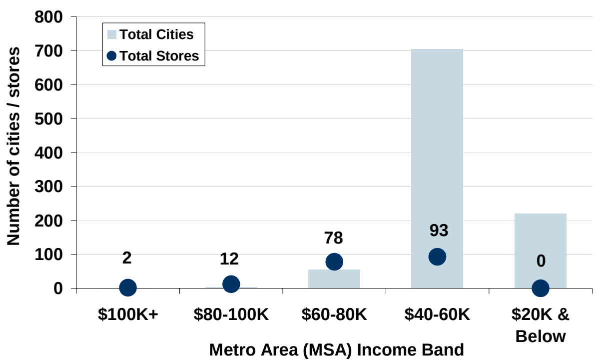
Store saturation analysis

Households per store	Potential stores	$40-60K	$60-80K	$80-100K	$100K+	Total
350,000	**263**	151	96	14	2	263
312,809	**292**	173	103	14	2	292
300,000	**305**	182	106	15	2	305
250,000	**365**	220	126	17	2	365
200,000	**454**	272	159	21	2	454
184,000	**500**	302	173	23	2	500

Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

Our AlphaWise survey results provide evidence that TEA is saturated in upper income (>$60K) MSAs. TEA has currently penetrated upper income demographic MSAs with multiple stores in wealthier cities. In order to expand its store base, TEA must open more stores in $40-60K income band cities. Only a portion of these locations would fall in management's criteria for areas with household income of over $50K. With only 93 stores out of 705 cities in this income band, Teavana could see significant growth potential if it is able to make these locations work. If TEA can successfully operate stores in half of these markets, we estimate store potential to be ~450 stores.

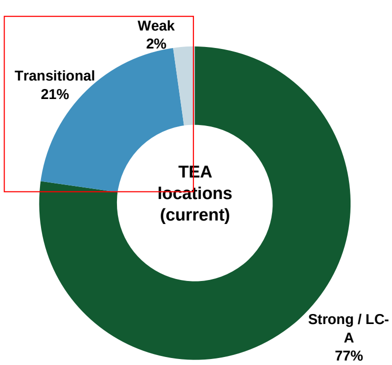
Exhibit 4
TEA's expansion opportunity lies in $40-60K cities



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

Teavana's store mix is already shifting away from strong malls and Lifestyle Centers. Our updated store penetration analysis shows that TEA has slightly increased its mix of weak and transitional malls, which has gone from 20% to 23% of the total store base. We expect this trend to continue as the concept expands. Investors should continue to monitor new store productivity for any sign of deterioration.

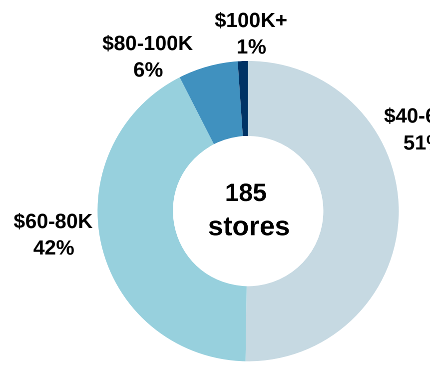
Exhibit 5
23% of Teavana stores are in lower-rated locations



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of March 2012 (188 mall and lifestyle center based locations).

According to Morgan Stanley AlphaWise, the average household income surrounding Teavana's current store base is $62,000. Forty-nine percent of current TEA locations are in areas with at least $60,000 in annual household income. Fifty-one percent of TEA locations have surrounding annual household income of $40,000-$60,000.

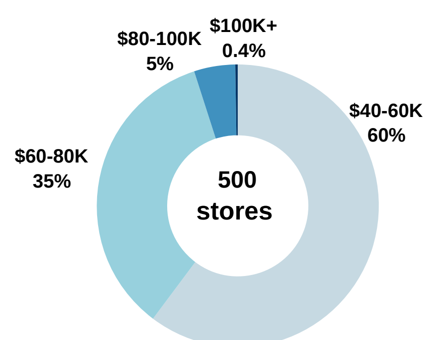
Exhibit 6
Current Teavana Store Base / $62,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA. Store data in our analysis as of March 2012 (185 surveyed locations).

If TEA expands its store footprint to 500, we estimate the locations would have an average surrounding household income of $59,000 (5% below current levels). About 60% of stores would have a surrounding annual household income of $40,000-$60,000 while ~40% would have surrounding income of at least $60,000.

Exhibit 7
Projected Teavana Store Base / $59,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA.

2012 Outlook Reflects Changes in TEA's Business

Store transaction metrics improved in 4Q but do not indicate a trend. 4Q same store transactions (excluding e-commerce and beverage only) of +1.6% reversed recent negative trends (-1.8% in 2Q11 and -2.5% in 3Q11). While we are hopeful the positive momentum might continue, management warned investors not to "extrapolate the holiday performance into quarters 1 through 3," as "the holiday selling season can be its own animal and have its own dynamic." Given that TEA is still in early stages of growth, it should be rapidly acquiring new customers evidenced by increased transaction volume and robust comps.

Elimination of $3M special tea business has skewed new store productivity metrics in 2011. In late 2010, TEA discontinued its $3M special tea business, which comprised roughly 2.5% of revenues and resulted in 2011 sales growth headwinds. Beginning in 1Q12, we expect apples-to-apples comparisons on 2011 revenues excluding the special teas business to give us a better idea of core business performance and specifically new store productivity.

Inventory Growth Slows in 4Q and Is Expected to Be Roughly Flat Next Year

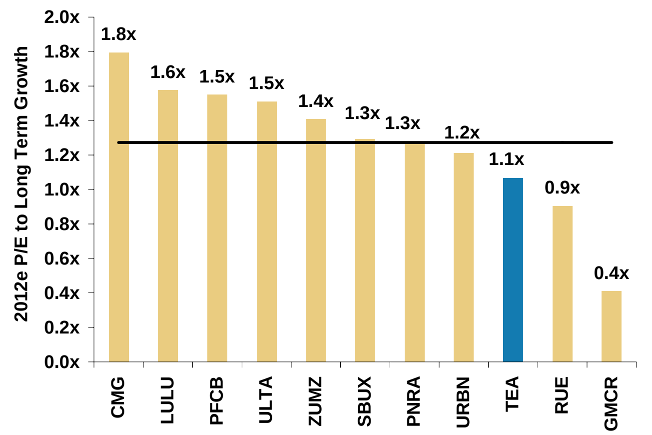
TEA ended 4Q11 with 51.7% total inventory growth year over year. This compares to 4Q's +33.6% sales increase and our forecast for +25.7% sales growth in 1Q12. We calculate balance sheet inventory per square foot increased +9.4% (vs. +24.7% in 3Q11 and +26.8% in 2Q11) due to direct sourcing initiatives that resulted in increased inventory in addition to early product deliveries to take advantage of favorable rates. Inventory turns for the year decreased to 2.57x vs. 3.24x last year. Looking ahead, we forecast a +4% y/y increase in 1Q inventory per square foot with total inventory dollars rising +41.9% vs. LY.

Valuation

While door expansion drives growth, lack of additional drivers restrains TEA's valuation relative to growth peers. Teavana currently trades at 33x our $0.58 2012e EPS, which represents 1.1x our 31% long term growth rate. TEA's P/E to long-term growth trades at a slight discount to the high-growth peer average of 1.3x. However, compared to other growth companies which have shown an ability to consistently beat and raise EPS expectations, TEA's lower valuation reflects the company's history of moderate growth expectations, reflected in +MSD comp guidance and limited ability to drive store productivity improvements or margin expansion. Until growth drivers other than stores expansion are apparent, we expect TEA's multiple could be held back. We believe TEA shares are fully valued given its current earnings potential.

Exhibit 8

TEA trades at a discount to growth peers' PEG ratio



Source: Thomson One and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Tuesday, March 28, 2012.

We forecast a base case 2015 scenario with TEA earning $1.50/share. In order to gain a better understanding of TEA's current valuation, we examine its full business potential. We assume Teavana achieves maximum 2015 store penetration of 500 doors and generates a 6% comp based on its historical comp range of 3-9%. We forecast 23% operating margins (vs. 21% LT goal) and 90% new store productivity. Given these assumptions, we estimate TEA could earn $1.50 EPS in 2015. Our analysis excludes any future earnings from international store expansion outside US/Canada and potential expansion into consumer packaged goods.

Exhibit 9

Mature Retailers Trade between 14-15x P/E

	Price	EPS		P/E	
Ticker	**3/28/12**	**2012E**	**2013E**	**2012E**	**2013E**
AEO	$17.19	$1.07	1.25	16.0x	13.8x
ANF	49.54	3.54	4.60	14.0	10.8
ANN	28.97	2.02	2.45	14.3	11.8
CHS	15.35	1.03	1.16	14.9	13.3
EXPR	25.09	1.90	2.05	13.2	12.2
GPS	26.26	1.83	1.87	14.4	14.0
LTD	48.54	2.96	3.30	16.4	14.7
Peer Group Average				**14.7x**	**13.0x**
Peer Group Median				**14.4**	**13.3**

Source: Morgan Stanley estimates, Thomson One.

Source: Company Data, Morgan Stanley Research

With $1.50 in 2015 earnings power, we estimate a $17 share price. Applying a 14x P/E multiple to reflect a mature company with moderate growth expectations, we use a 7.0%

discount rate to derive a current share price of $17 today, a 13% discount to the current price of $19.43. We believe the stock multiple could rerate if Teavana is able to capitalize on additional growth drivers from 1) sustained positive store transaction metrics and robust comp growth 2) evidence of successful international expansion beyond North America 3) opportunity to introduce a consumer packaged goods product to market.

Exhibit 10

With $1.50 in 2015 earnings power, TEA should trade around $17 today

Discount	2015 P/E Multiple				
Rate	12.0x	13.0x	14.0x	15.0x	16.0x
5.0%	$15.55	$16.84	$18.14	$19.44	$20.73
6.0%	$15.11	$16.37	$17.63	$18.89	$20.15
7.0%	$14.69	$15.92	$17.14	$18.37	$19.59
8.0%	$14.29	$15.48	$16.67	$17.86	$19.05
9.0%	$13.90	$15.06	$16.22	$17.37	$18.53

Source: Company Data, Morgan Stanley Research

Exhibit 11

Summary Operating Results & Management Guidance (*$ millions*)

Metric	4Q11	4Q10	% / Bps change	EPS Variance vs. MS	4Q Comments	Guidance
Sales	$68.4mm	$51.2mm	+33.6%	+1c	Total sales increased +34%, to $68.4mm vs. $51.2mm LY. Comparable store sales increased +8.6% (+4.4% excluding eCommerce), driven by a +2.1% increase in average ticket and a +6.5% growth in the number of transactions. Excluding beverage sales, the average ticket increased +2.3% and transactions +6.2%.	*1Q12: We estimate +25.7% total sales growth.* 1Q12: Expect total net sales to be $44mm to $45mm on +L-MSD comp growth. FY12: Expect total net sales to be $208mm to $215mm on +MSD comp growth.
Gross Margin	65.6%	67.7%	-210 bps	-1c	Gross margin for the quarter was 65.6% vs. 67.7% LY. The -210bps decline was mix driven due to increased sales contribution of the merchandise segment which carry lower margins than loose leaf tea. Sales mix in 4Q11 was tea 50%, merchandise 48%, and beverage 2% (vs. 52%, 46% and 2%, respectively LY).	*1Q12: We estimate gross margin to be 63.0% vs. 64.4% LY.*
SG&A Rate	32.2%	32.9%	-70 bps	+2c	SG&A dollars increased 31% to $22.0mm vs. $16.8mm. However, SG&A rate decreased -70bps due to corporate infrastructure leverage on sales growth.	*1Q12: We estimate SG&A as a % of sales to be 44.5% vs. 42.2% LY.*
Operating Margin	31.0%	32.4%	-140 bps			
Net Interest Expense (Income)	$0.1mm	$0.6mm	-80.9%			
Tax Rate	40.8%	42.6%	-180 bps			
Net Income	$12.5mm	$9.2mm	+36.2%			1Q12: Expect net income to be $3.6mm to $4.0mm. FY12: Expect net income to be $23mm to $24mm.
Shares Outstanding	39.1mm	37.7mm	+3.5%			
EPS	$0.32	$0.24	+31.6%			*1Q12: We estimate EPS $0.10.* 1Q12: Expect EPS $0.09-$0.10 vs. $0.09 LY. FY12: Expect EPS $0.58-$0.61 vs. $0.46 LY.
Cash& Equivalent	$17.8mm	$7.9mm	+125.5%			FY12: Expect capex of ~$20mm.
Inventory	$25.7mm	$16.9mm	+51.7%		Inventory at the close of the quarter increased +51.7% to $25.7mm from $16.9mm LY. We calculate inventory psf increased +9% vs. LY.	
Inventory Turn	0.81x	0.94x	-14% slower			
Net Store Openings	+4	+5	+39% square footage		During the quarter the company opened 4 stores, ending the year with 200 Company-owned stores.	1Q12: Expect to open 18-20 new stores. FY12: Expect to open 60 new stores.

Source: Company Data, Morgan Stanley Research

Exhibit 12

Teavana Income Statement

	2010				2011				2012E													
Income Statement	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Total Sales	$26	$23	$25	$51	$35	$31	$33	$68	$44	$39	$42	$88	$34	$47	$64	$90	$125	$168	$213	$280	$355	$441
Cost of Goods Sold	10	9	10	17	12	12	13	24	16	16	17	29	$16	$20	$27	$36	$46	$61	$78	$99	$124	$152
Gross Profit	16	14	15	35	22	19	21	45	28	23	26	59	$18	$27	$37	$54	$78	$107	$136	$181	$231	$289
SG&A Expense	11	11	12	17	15	15	18	22	20	20	22	27	16	22	29	38	51	70	89	113	140	171
Depr. & Amort.	1	1	1	1	1	1	2	2	2	2	2	2	2	2	3	3	4	6	8	11	14	18
Operating Income	4	2	1	17	6	2	2	21	6	1	2	30	($0)	$3	$5	$12	$23	$32	$39	$57	$77	$100
Interest Income/(Expense)	(0.6)	(0.7)	(0.7)	(0.6)	(0.7)	(0.7)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1)	(2)	(2)	(2)	(3)	(2)	(0)	0	0	0
Pretax Income	3.4	1.0	0.6	16.0	5.8	1.6	1.5	21.1	6.3	1.1	1.5	29.9	($1)	$1	$3	$10	$21	$30	$39	$57	$77	$101
Taxes	1	0	0	7	2	1	1	9	3	0	1	12	(0)	1	2	4	9	12	16	23	31	41
Net Income from Operatior	1.9	0.6	0.3	9.2	3.3	1.0	0.9	12.5	3.7	0.6	0.9	17.7	($1.3)	$0.4	$1.2	$5.3	$12.0	$17.8	$23.0	$33.7	$45.7	$59.8
Earnings Per Share	$0.05	$0.02	$0.01	$0.24	$0.09	$0.03	$0.02	$0.32	$0.09	$0.02	$0.02	$0.45	($0.04)	$0.01	$0.03	$0.14	$0.32	$0.46	$0.58	$0.85	$1.15	$1.50
Average Shares	37.5	37.6	38.0	37.7	36.7	37.8	39.0	39.1	39.2	39.4	39.5	39.7	36.7	36.8	37.1	37.3	37.7	38.4	39.4	39.8	39.8	39.8
EBITDA	$5	$3	$2	$18	$8	$4	$3	$23	$8	$3	$4	$32	$1.3	$5.0	$7.4	$15.7	$27.9	$37.5	$46.9	$67.4	$90.6	$118.1
Margin Analysis																						
Gross Margin	61.1%	58.9%	58.6%	67.7%	64.4%	61.1%	61.9%	65.6%	63.0%	59.5%	60.5%	67.4%	52.8%	57.7%	57.4%	59.6%	62.9%	63.8%	63.7%	64.5%	65.0%	65.5%
Expense Ratio	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	52.4%	32.2%	44.5%	51.5%	52.0%	30.9%	48.9%	47.1%	45.8%	42.3%	40.6%	41.5%	41.7%	40.5%	39.5%	38.7%
Operating Margin	15.5%	7.2%	5.2%	32.4%	18.5%	7.4%	4.8%	31.0%	14.4%	2.9%	3.7%	34.1%	-0.5%	6.3%	7.5%	13.5%	18.8%	18.8%	18.3%	20.3%	21.7%	22.8%
Pretax Margin	13.0%	4.4%	2.4%	31.2%	16.5%	5.1%	4.5%	30.8%	14.3%	2.8%	3.6%	34.0%	-4.3%	2.9%	4.2%	10.8%	16.8%	17.8%	18.1%	20.3%	21.7%	22.9%
Tax Rate	42.6%	42.6%	42.4%	42.6%	42.4%	35.2%	37.2%	40.8%	40.7%	40.7%	40.7%	40.7%	7.1%	72.7%	55.7%	45.8%	42.6%	40.6%	40.7%	40.7%	40.7%	40.7%
Net Margin	7.5%	2.5%	1.4%	17.9%	9.5%	3.3%	2.8%	18.2%	8.5%	1.6%	2.1%	20.2%	-4.0%	0.8%	1.9%	5.9%	9.6%	10.6%	10.8%	12.0%	12.9%	13.6%
EBITDA Margin	19.2%	11.8%	9.7%	34.8%	22.1%	12.0%	9.5%	33.4%	18.5%	8.0%	8.5%	36.5%	4.0%	10.6%	11.6%	17.4%	22.3%	22.3%	22.0%	24.1%	25.5%	26.8%
Year-Over-Year Growth																						
Sales	43.3%	33.1%	32.4%	41.0%	35.6%	36.3%	35.1%	33.6%	25.7%	25.4%	26.5%	28.5%		39.8%	35.3%	41.3%	38.2%	34.8%	26.9%	31.1%	27.0%	24.1%
Comp. Store Sales	15.7%	6.9%	5.9%	7.5%	6.0%	6.9%	6.0%	4.4%	6.0%	6.9%	6.0%	4.4%		8.4%	3.0%	6.9%	8.7%	5.5%	2.5%	6.0%	6.0%	6.0%
SG&A Expense	26.2%	26.1%	33.2%	41.4%	36.6%	42.2%	44.5%	30.9%	32.4%	31.6%	25.6%	23.2%		34.8%	31.5%	30.4%	32.6%	37.8%	27.6%	27.2%	24.0%	21.6%
Operating Income	276.7%	338.1%	100.5%	63.8%	62.1%	40.8%	26.0%	27.8%	-2.0%	-51.1%	-3.0%	41.3%		NM	59.9%	156.2%	92.6%	34.4%	23.3%	45.7%	35.5%	30.7%
Earnings Per Share	674.2%	-567.6%	NM	75.0%	75.5%	77.5%	169.2%	31.6%	4.8%	-40.3%	-6.0%	39.9%		NM	213.7%	339.0%	124.6%	45.3%	26.0%	45.3%	35.5%	30.9%
EBITDA	166.7%	117.6%	54.3%	61.3%	56.1%	38.4%	32.5%	28.4%	5.1%	-16.5%	13.5%	40.3%		273.9%	48.5%	111.2%	77.6%	34.7%	25.1%	43.5%	34.4%	30.4%

Source: Company Data, Morgan Stanley Research

Exhibit 13

Teavana Balance Sheet

	2006A	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	2015E
Assets										
Cash and cash equivalents	$1.1	$0.8	$1.2	$1.3	$7.9	$17.8	$13.6	$30.0	$41.0	$74.5
ST investments	0.0	0.0	0.0	0.0	0.0	0.0	5.0	10.0	15.0	20.0
Accounts receivable	0.0	0.0	0.0	0.3	0.3	0.4	0.5	0.7	0.8	1.0
Merchandise inventories	4.9	6.2	8.0	11.6	16.9	25.7	33.8	33.6	42.6	52.9
Prepaid minimum rent	0.0	0.0	0.0	1.1	1.4	1.9	2.4	3.1	3.9	4.9
Other	0.0	0.0	0.0	1.8	3.7	3.9	4.9	5.9	6.9	7.9
Total Current Assets	$5.9	$6.9	$9.1	$16.0	$30.2	$49.7	$60.1	$83.3	$110.3	$161.2
							12.8			
Net property and equipment	11.0	13.2	19.4	22.5	31.0	42.8	54.8	69.4	87.6	109.7
Goodwill, net	0.0	0.0	0.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Deferred income Taxes	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.3	5.4	6.8	0.6	0.5	0.8	0.8	0.8	0.8	0.8
TOTAL ASSETS	$22.2	$25.5	$35.4	$41.8	$64.1	$95.6	$118.1	$155.8	$201.1	$274.0
Liabilities and Shareholders' Equity										
Accounts payable	$0.0	$0.0	$0.0	$2.6	$3.6	$3.9	$5.1	$5.1	$6.5	$8.0
Line of credit	1.4	0.9	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	1.1	1.3	1.8	1.8	1.8	1.8	1.8
Other liabilities	7.7	9.8	12.0	7.6	23.3	1.8	10.7	14.0	17.8	22.0
Accrued expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable & accrued exp - related parties	0.0	0.0	0.0	0.0	0.0	5.0	6.4	8.2	12.3	2.3
Total Current Liabilities	$9.1	$10.7	$17.6	$11.3	$28.3	$12.6	$24.0	$29.1	$38.4	$34.2
Deferred Rent & Tenant Allowances	$0.0	$0.0	$0.0	$0.0	$0.0	$12.9	$16.9	$21.5	$25.3	$25.3
Long-term debt	0.0	0.0	0.0	1.0	1.0	2.6	2.6	2.6	2.6	2.6
Preferred Stock	6.3	7.6	9.1	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Retirement Benefit Plan Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	0.0	4.5	8.0	0.6	10.0	10.0	10.0	10.0
Deferred taxes	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Total Long-Term Liabilities	$6.3	$7.6	$9.1	$16.3	$9.5	$16.1	$29.5	$34.1	$37.8	$37.8
Shareholders' Equity:										
Common stock	$10.1	$12.2	$15.8	$21.9	$81.4	$0.0	$0.0	$0.0	$0.0	$0.0
Additional paid-in capital	0.0	0.0	0.0	0.0	0.0	276.8	276.8	276.8	276.8	276.8
Retained earnings	(3.3)	(4.8)	(7.1)	(7.7)	(55.1)	(209.8)	(212.2)	(184.1)	(151.8)	(74.8)
Notes receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	$6.8	$7.3	$8.7	$14.2	$26.3	$67.0	$64.6	$92.6	$124.9	$202.0
TOTAL LIABILITIES AND S/H EQUITY	$22.2	$25.5	$35.4	$41.8	$64.1	$95.6	$118.1	$155.8	$201.1	$274.0

Source: Company Data, Morgan Stanley Research

Exhibit 14

Teavana Cash Flow Statement

	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Net income	$1.2	$5.3	$12.0	$17.8	$23.0	$33.7	$45.7	$59.8
Depreciation and amortization	2.7	3.5	4.4	5.9	8.0	10.6	13.7	17.6
Deferred income taxes	(0.6)	0.5	(0.3)	(0.4)	0.0	0.0	0.0	0.0
Other	1.9	2.1	2.6	0.3	1.0	(1.0)	(1.0)	(1.0)
TOTAL OPERATING SOURCES	$5.2	$11.4	$18.7	$23.5	$31.9	$43.3	$58.3	$76.4
Capital expenditures	8.8	6.6	12.6	16.4	20.0	25.2	32.0	39.7
Increase (decrease) in								
Inventories	$1.8	$3.6	$5.3	$8.7	$8.1	($0.2)	$9.0	$10.3
Receivables	(0.2)	0.1	0.0	0.1	0.1	0.2	0.2	0.2
Prepaid expenses	0.7	(0.2)	1.1	0.5	0.5	0.7	0.8	0.9
Other assets	0.2	0.3	0.3	0.3	1.0	1.0	1.0	1.0
(Increase) decrease in								
Accounts payable, deferred revenue, accrued expenses, and ot	2.0	2.7	5.4	20.8	(10.1)	(3.3)	(5.1)	(5.8)
Accounts payable and accrued expenses, related parties	0.0	0.0	0.0	(5.0)	(1.4)	(1.8)	(4.1)	10.0
Other assets and liabilities	0.4	0.9	2.1	0.0	0.0	0.0	0.0	0.0
Total working capital uses	$0.2	$0.3	($0.7)	($6.2)	$21.2	$6.7	$20.3	$8.3
TOTAL OPERATING USES	$9.0	$7.0	$11.8	$10.2	$41.2	$31.9	$52.3	$47.9
INTERNAL CASH GENERATION (FUNDS NEEDED)	($3.8)	$4.4	$6.8	$13.3	($9.3)	$11.5	$6.0	$28.5
Short-term investments, net	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0
Increase in long-term debt	(0.6)	0.0	(0.3)	1.6	0.0	0.0	0.0	0.0
Net borrowings under credit facility	5.3	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0
Distributions paid to members	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common / preferred stock adjustments	0.0	0.0	0.0	105.2	0.0	0.0	0.0	0.0
Share repurchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment and redemption of dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing costs	(0.4)	(0.0)	0.0	(110.1)	0.0	0.0	0.0	0.0
Net cash used in discontined operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXTERNAL SOURCES	$4.3	($4.3)	($0.3)	($3.4)	$5.0	$5.0	$5.0	$5.0
Beginning cash balance	0.8	1.2	1.3	7.9	17.8	13.6	30.0	41.0
Increase (decrease) in cash	0.4	0.1	6.6	9.9	(4.3)	16.5	11.0	33.5
Ending cash balance	1.2	1.3	7.9	17.8	13.6	30.0	41.0	74.5
Total External Sources & Cash	($3.8)	$4.4	$6.8	$13.3	($9.3)	$11.5	$6.0	$28.5

Source: Company Data, Morgan Stanley Research

Morgan Stanley
alphawise
evidence-based research

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Other Recent Morgan Stanley Research Based on AlphaWise

North America	March 26, 2012	Nigel Coe	Electrical Equipment & Multi-Industry: Survey Says...US Industrial Outlook Even More Positive	Our recent survey indicates that the 2012 outlook is improving. Implying that volume growth has accelerated throughout the quarter in-line with typical seasonal growth
North America	March 22, 2012	Daniel Brennan	Medical Technology: Stable EU Government Life Sciences Funding Better than Feared	Our AlphaWise survey point to a stable funding environment. ILMN and LIFE are the biggest beneficiaries
Europe	March 21, 2012	Gillian Robb	UK Food Retail: Tesco's relative price positioning weaker in March	Our proprietary AlphaWise UK Food Retail price tracker shows the prices of 500-750 branded SKUs over time at Tesco, Sainsbury and Asda. The pricing survey is present over a 4-week period
North America	March 16, 2012	Scott Devitt	Internet: Survey Says: Upside in Priceline's European Bookings Growth	AlphaWise survey of 120 European hotel executives leaves us incrementally positive on the OTA space and on Priceline's ability to gain European market share
North America	March 09, 2012	Ricky Goldwasser,	Healthcare Services & Distribution: Morgan Stanley Semi-Annual CRO Survey	Our 2012 AlphaWise R&D Survey of outsourcing decision makers from pharma and biotech companies confirms preclinical spending has stabilized and points to a potential modest improvement in the outsourcing market through 2012
North America	March 07, 2012	Michelle Clark	Retail: Screening for Beneficiaries of Sales Disruption at JCP	Leveraging our proprietary store database and running customer and store overlaps, we see several beneficiaries of near-term sales disruption at JCP, including DDS, BONT, M, KSS, TJX, ROST, TGT, Gap and Old Navy
North America	March 05, 2012	Daniel Brennan	Agilent Technologies, Inc. (A.N): Growth, returns & leverage = cyclical offsets; Initiate at OW	Agilent's growth story is supported by our AlphaWise survey results that point to resilient industrial end markets
North America	March 05, 2012	Daniel Brennan	Life Technologies Corp. (LIFE.O): US Academic Exposure Bias Forecasts to Downside, Initiate at EW	Our survey of US researchers portrays a concerning weak US spending environment prior to sequestration under the Budget Control Act in 2013, creating outsized pressure on Life Technologies
North America	March 05, 2012	Daniel Brennan	Life Science Tools: Initiating at In-Line: Prefer Exposure to Commercial Markets over Academic	Our AlphaWise surveys highlight downside risks to US academic spending in 2012-13 but suggest more resilient commercial demand than feared

North America	March 05, 2012	Daniel Brennan	Waters Corp. (WAT.N): Initiate at Overweight: Core holding deserves a premium	Our AlphaWise survey of chromatography and mass spec users implies share gains for Waters Corp.

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Total	**2,918**		**1058**		

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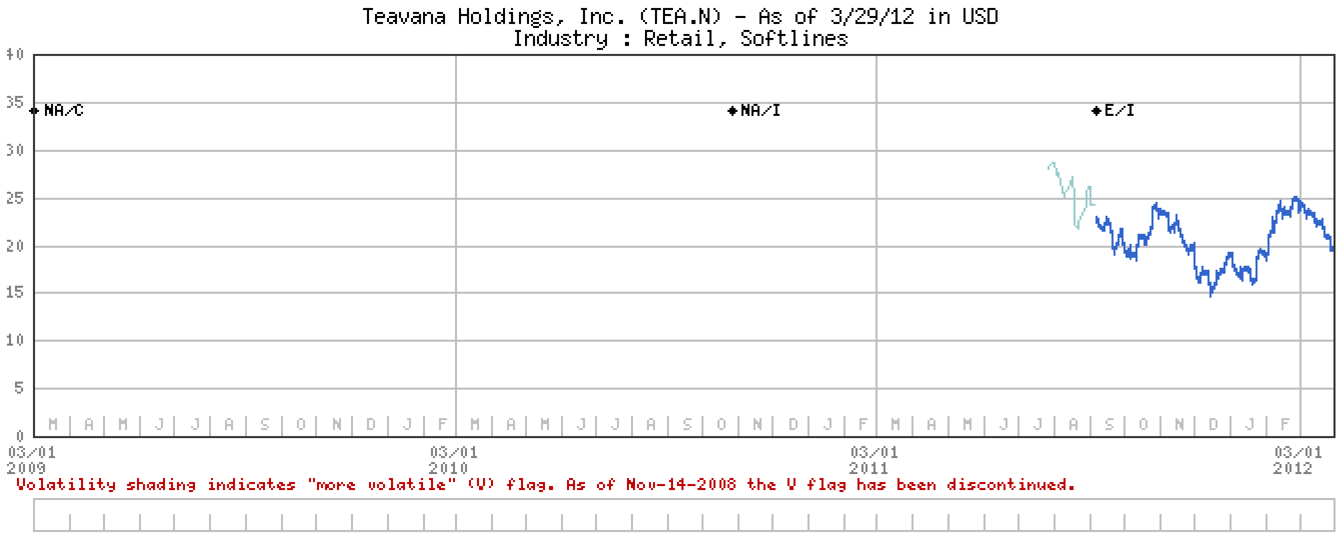
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/1/09 : NA/C; 10/26/10 : NA/I; 9/6/11 : E/I

Price Target History: 9/6/11 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (03/27/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	$29.38
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$51.12
Aeropostale Inc (ARO.N)	U (10/26/2010)	$21.55
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	$17.51
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$15.31
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$51.8
Coach Inc (COH.N)	E (11/04/2011)	$78.73
Express, Inc. (EXPR.N)	O (01/31/2011)	$25.48
Gap Inc (GPS.N)	E (10/26/2010)	$26.68
Limited Brands Inc (LTD.N)	O (10/26/2010)	$49.62
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$74.68
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	$46.53
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$59
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$15.88
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$39.53
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$20.58
Tiffany & Co. (TIF.N)	E (11/04/2011)	$71.69
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$29.72

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Morgan Stanley

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March 28, 2012

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Quick Comment: 4Q11 Beats 2c; In-Line Guidance

What's New: TEA reported 33% 4Q earnings growth with $0.32 EPS, beating MSe $0.30 and cons $0.31. 4Q sales grew 33.6% to $68.4B vs. MSe $66.8M (+1c) and cons $67.6M. Comps (excl. e-com) increased 4.4% vs. MSe 3.0%. Gross margins were lower than expected at 65.6% vs. MSe 66.8% (-1c), offset by better SGA of 32.2% vs. our 33.9% (+2c) resulting in operating margin 80bps higher than MSe 30.2%.

While earnings growth remains intact, we are watching store transaction trends. 4Q same store transactions (excluding e-commerce and beverage only) of +1.6% reversed recent negative trends (-1.8% in 2Q11 and -2.5% in 3Q11). We would like to see this continue given that TEA is in the early stage of growth and should be rapidly acquiring new customers.

Store openings drive growth. Tracking ahead of schedule, TEA ended the year with 200 stores and announced plans to increase store count 30% with an additional 60 stores in 2012. Our store penetration analysis shows a higher mix of weak and transitional malls, which has increased from 20% to 23% of the total store base, which would be expected as the concept expands.

Inventory/sqft is up 9.7% and should moderate in 2012. After two quarters of mid-20s increases in inventory/sqft, the company should continue to lower inventory levels after seeing increases from its direct sourcing initiative, planning holiday inventory, and taking early shipments to benefit from lower costs.

Management gives tempered 2012 guidance. Q1 guidance calls for 18-20 new store and sales between $44 to $45M on +L-MSD comps and EPS range of $0.09 to $0.10. FY2012 EPS should grow +25–32% to $0.58–$0.61 on revenues growing +24-28% to $208–$215M on +MSD comps.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Shr price, close (Mar 26, 2012)	$20.66
Mkt cap, curr (mm)	$788
52-Week Range	$29.35-14.28

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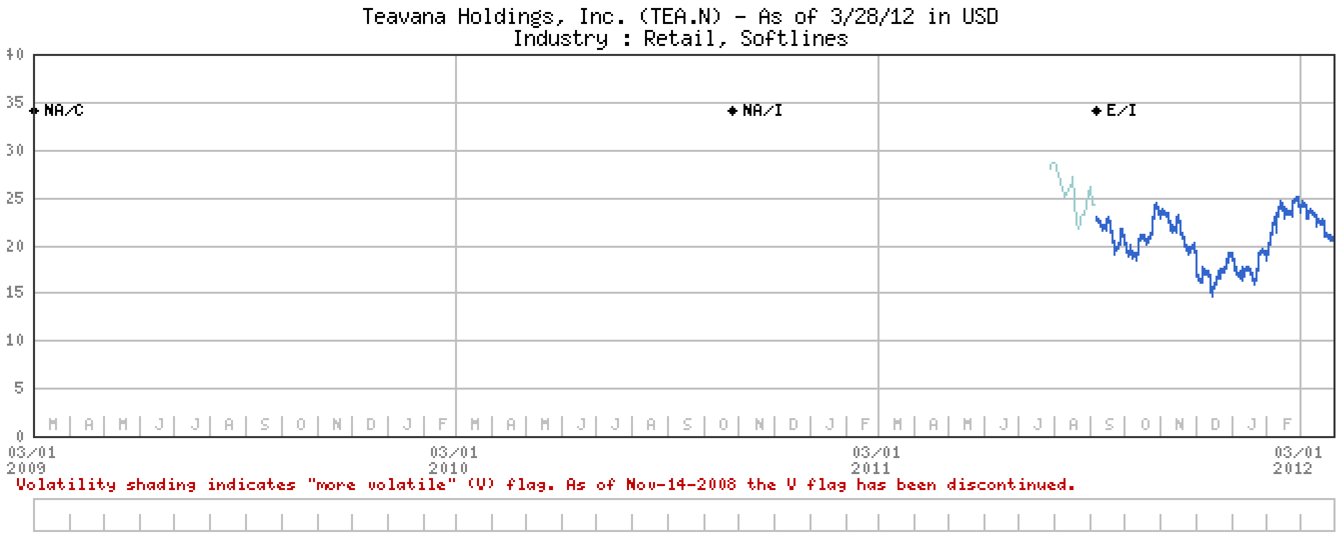
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/1/09 : NA/C; 10/26/10 : NA/I; 9/6/11 : E/I

Price Target History: 9/6/11 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (03/27/2012)
Kimberly C Greenberger		
ANN Inc. (ANN.N)	O (10/26/2010)	$29.38
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$51.12
Aeropostale Inc (ARO.N)	U (10/26/2010)	$21.55
American Eagle Outfitters, Inc. (AEO.N)	E (12/05/2011)	$17.51
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$15.31
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$51.8
Coach Inc (COH.N)	E (11/04/2011)	$78.73
Express, Inc. (EXPR.N)	O (01/31/2011)	$25.48
Gap Inc (GPS.N)	E (10/26/2010)	$26.68
Limited Brands Inc (LTD.N)	O (10/26/2010)	$49.62
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$74.68
Michael Kors Holdings Ltd (KORS.N)	O (01/24/2012)	$46.53
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$59
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$15.88
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$39.53
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$20.58
Tiffany & Co. (TIF.N)	E (11/04/2011)	$71.69
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$29.72

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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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. (TEA – $20.58)
Overweight

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.

Income Statement 3/28/2012

(Millions of Dollars, Except Per-Share Data)

	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
Net sales	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%*
Gross profit	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%*
Operating income	-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%*
Net income (GAAP)	-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%*
Net income per share (Basic)	$ (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%*
Net income per share (Diluted)	$ (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%*
Shares outstanding (Millions)																				
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
Same-Store Sales (% Change)	**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:
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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
NET SALES																				
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%*						
Total net sales	**$ 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, 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%*
% CHANGE SAME-STORE SALES	***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%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	196	200	200	218	236	254	260	260	330
% Change, year-over-year		*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%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130					178					232	294
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*					*37.0%*					*30.0%*	*26.9%*
Average Square Footage (T4Q)																				

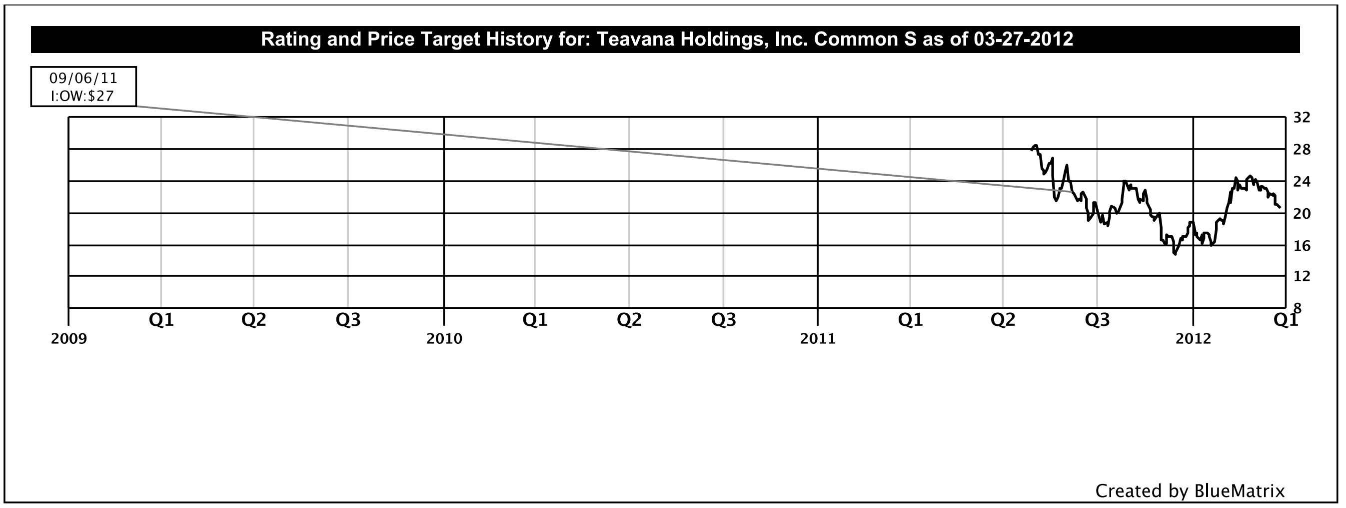
Consolidated Balance Sheet
(Millions of Dollars)

	FY 2010	FY 2011	Q1 Apr-11	Q2 Jul-11	Q3 Oct-11	Q4 Jan-12	FY 2012
CURRENT ASSETS:							
Cash and cash equivalents	$1.314	$7.901	$3.740	$1.623	$0.036	$17.818	$17.818
Accounts reveivable	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
Total current assets	**16.049**	**30.191**	**27.853**	**35.990**	**44.736**	**49.664**	**49.664**
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-curret	0.184	-					
Other non-current assets	0.627	0.513	0.760	0.693	0.673	0.775	0.775
Total assets	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**
CURRENT LIABILITIES							
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
Total current liabilities	**11.286**	**28.315**	**$25.362**	**$26.833**	**$14.886**	**$12.566**	**12.566**
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
Total liabilities	**27.585**	**37.784**	**36.175**	**46.328**	**34.643**	**28.616**	**28.616**
Stockholders' equity (deficit)							
Total stockholders' equity (deficit)	**14.182**	**26.342**	**29.627**	**30.749**	**53.829**	**67.002**	**67.002**
Total liabilities and stockholders' equity	**$41.767**	**$64.126**	**$65.802**	**$77.077**	**$88.472**	**$95.618**	**$95.618**

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
Operating activities:									
Net Income	**$5.291**	**$1.927**	**$2.506**	**$2.846**	**$12.003**	**$12.003**	**$3.323**	**$4.354**	**$5.291**
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
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**(2.186)**	**19.397**	**19.397**	**1.142**	**(0.311)**	**(4.917)**
Investing activities:									
Capital Expenditures	(6.640)	(2.346)	(5.038)	(8.980)	(12.560)	(12.560)	(5.056)	(8.848)	(13.785)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**(8.980)**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**	**(13.785)**
Financing activities:									
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 redeen 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
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**	**10.787**	**(0.250)**	**(0.250)**	**(0.247)**	**2.881**	**10.835**
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
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**	**$0.935**	**$7.901**	**$7.901**	**$3.740**	**$1.623**	**$0.036**

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

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**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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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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William Blair

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.

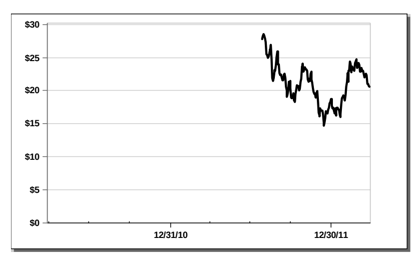
Trading Data (Thomson Financial)

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

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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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Summary Of Today's Changes

Initiation of Coverage

Ticker	Company	Rating	Price Target	2011	2012	2013	2014	Analyst
TEA	Teavana Holdings, Inc.	BUY	$28.00	$0.45	$0.59E	--	--	Edward Yruma, Jane Thorn Leeson

Price Target Changes: Increases

Ticker	Company	Old Price Target	New Price Target
CPWM	Cost Plus, Inc.	$18.00	$21.00

Estimate Changes: Increases

Ticker	Old 2012E	New 2012E	Old 2013E	New 2013E	Old 2014E	New 2014E
CMP	4.85	4.50	5.80	5.85	--	--
CPWM	1.05	1.10	1.20	1.25	--	--
FELE	2.85	2.89	--	3.18	--	--

Estimate Changes: Decreases

Ticker	Old 2012E	New 2012E	Old 2013E	New 2013E	Old 2014E	New 2014E
CMP	4.85	4.50	5.80	5.85		

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On Today's Call

Cost Plus, Inc. (CPWM) — Bradley B. Thomas, CFA (917) 368-2216 BThomas@keybanccm.com, **Jason Campbell** (917) 368-2230 jason_campbell@keybanccm.com, **Bonanza Chalaban** (917) 368-2379 bchalaban@keybanccm.com

BUY, Price Target: $21.00 from $18.00

2012: $1.10 from $1.05, 2013: $1.25 from $1.20

Cost Plus, Inc. (CPWM-NASDAQ) reported 4Q11 EPS that surpassed expectations, even after its January 5 positive holiday sales update. Strong momentum has continued through March, and we believe CPWM is capitalizing on an ongoing recovery in home related spending. Management issued 1Q and 2012 guidance above our Street-high estimate, both of which we believe could prove conservative if housing and employment recover. We continue to see CPWM as a compelling small cap stock with significant growth opportunity, that is a potential takeout target, generates meaningful free cash flow, and trades at an attractive, discount-to-its-peers valuation. We reiterate our BUY rating and are raising our price target to $21 from $18.

Rating	BUY	2013E	$1.25	Next Quarter	April
Price	$16.02	2013 P/E	12.8x	Next Quarter E	$(0.06)
12-Mo. Price Target	$21.00	2012E	$1.10	FC Mean Quarter	$1.50
Market Cap	$355.6	2012 P/E	14.6x	FC Mean 2013E	$1.05
Trading Volume	260	2011A	$0.76	FC Mean 2012E	$0.68
Revenues(mm)	$916.6	Book Value/Share	$4.18	Yield	0.0%

Strong 4Q EPS Above Consensus and Well Above Original Guidance. CPWM reported 4Q11 EPS from continuing operations of $1.56. Results were above our estimate of $1.51 and consensus of $1.50. Original guidance for the quarter had been $1.40-$1.48, and management noted on its January 5 update that EPS was expected to meet or exceed the high end of this range. Going into the results, the range of estimates on the Street was $1.49-$1.51. EBITDA for the quarter was $51.3 million, which was above management's original guidance of $45 million-$48 million. Reported 4Q11 EPS was $1.55, which included $0.01 from discontinued operations from closed stores.

Solid Comp Growth Continues. Comps in the 4Q increased 7.6% vs. our estimate of 7.0%. Comps accelerated slightly in January following the 7.4% comp posted for the nine-week holiday season, which CPWM pre-released on January 5. Comps for the quarter exceeded original guidance of 4-6%. On a same store basis, customer count for the quarter increased 3.4% and average ticket increased 4.1%. Comps accelerated on a one-, two-, and three-year rate. As a result, total sales for the quarter increased 6.7% to $364.3 million, which was above our estimate of a 6.0% increase as well as management's original guidance of a 4-5% increase (to $354 million-$360 million). On a trailing twelve-month basis, CPWM has generated sales per square foot of $231, up from $218 in 2010. Management expects to generate $243 in sales per square foot in 2012, and ultimately believes a return to $270 is achievable. During the year, CPWM generated e-commerce sales of $26 million, an increase of over 50%, and management believes it can grow e-commerce sales to $100 million over three to five years. Looking ahead, management noted that the sales momentum has continued into the 1Q of 2012, and it continues to expect a balance of traffic and ticket gains. With an improving housing and employment backdrop, we continue to believe the home furnishing sector is positioned for multiple years of ongoing recovery.

Gross Margin Strong; Comp Drives SG&A Leverage. Gross margin increased 126 basis points to 34.3% (vs. our estimate of 34.2% and management's original guidance of 34.1-34.2%) driven by higher merchandise margins and to a lesser extent lower occupancy costs as a percent of net sales. SG&A leveraged 84 basis points to 22.6% (vs. our 22.9% estimate) due to higher sales. As a result, operating margin increased 220 basis points to 11.7%, which was better than our 11.2% estimate. Looking ahead, management plans to drive gross margin improvement in all four quarters in 2012. Gross margin expansion is expected to come from modestly improved merchandise margin as well as leverage of fixed occupancy costs. Additionally, management expects to continue to leverage SG&A expense in 2012, particularly in the 13-week 4Q.

Balance Sheet Continues to Improve; Debt-Free at Year-End. CPWM's cash balance increased 118% to $5.9 million. Management reached its goal of becoming debt-free by year-end (down from $25.4 million at year-end 2010). A superficial analysis of the balance sheet (or a screen on FactSet or Bloomberg) also includes $112 million in capitalized leases of two distribution centers; however, we exclude these items from our calculations. The Company also noted that it expects to utilize some of its $37 million in NOLs next year, although it has not factored this into its 2012 guidance.

Management Provides Strong 1Q12 and Full-Year 2012 Guidance. Management initiated 2012 EPS guidance of $1.07-$1.12 (representing an increase of 41-48% year-over-year). This was above the consensus of $1.04 and our Street-high estimate of $1.05. On a 52-week vs. 52-week basis management expects EPS of $0.97-$1.02 (representing an increase of 28- 34% year-over-year). Sales for the year are expected to increase 4-14%. Management noted that the 53rd week is expected to add $16 million or 2% to sales, and $0.10 to EPS. Comps are expected to increase 5-6%. Management anticipates full-year gross margin to increase 50-60 basis points with 10-20 basis points from merchandise margins. Additionally, CPWM expects to open 5-10 stores in existing markets (of which eight leases have been signed). For the 1Q, management expects EPS of a loss of $0.07 to a loss of $0.03. Management expects sales growth of 5-7% in the quarter with comps increasing 6-8%. 1Q gross margin is expected to improve by 10-20 basis points.

Valuation Compelling When Debt Adjusted. At face value, based on a screening of FactSet or Bloomberg, CPWM appears to be trading at an EV/EBITDA of 7.4x the 2012 consensus estimate. The Enterprise Value calculation for these services includes over $112 million in capitalized lease liabilities related to the sale-leaseback of two distribution centers in 2006. Excluding this normal operating expense line item, debt is eliminated and Enterprise Value is reduced by 23%. As part of this adjustment, we include $8.5 million in financing expense associated with the capitalized leases in our EBITDA estimates. When making the above adjustments, shares of CPWM trade at EV/EBITDA multiples of 6.5x and 5.9x our 2012 and 2013 estimates, respectively, significantly below the valuation that appears on FactSet/Bloomberg and compares to the current home furnishings average of 7.0x.

Raising Estimates. Based on continued strong momentum, we are raising our 1Q EPS estimate to a loss of $0.06 from a loss of $0.08. Our 2Q estimate goes to a loss of $0.26 from a loss of $0.22 and our 3Q estimate goes to a loss of $0.30 from a loss of $0.28. For the 4Q, our estimate goes to $1.68 from $1.61. As such, our full-year 2012 estimate goes to $1.10 from $1.05. We are also raising our 2013 estimate to $1.25 from $1.20.

Valuation

Shares of CPWM trade at 14.6x and 12.8x our 2012 and 2013 EPS estimates of $1.10 and $1.25, respectively. On an EV/EBITDA basis, after removing the $112 million in long-term debt from CPWM's Enterprise Value and removing the $8 million of capital lease interest expense from EBITDA (both as discussed above), shares of CPWM trade at 6.5x and 5.9x our 2012 and 2013 estimates, respectively. Shares also trade at an EV/Sales (when making the above EV adjustments) of 0.4x and 0.3x our 2012 and 2013 estimates, respectively. Our new 12-month price target of $21 is based on 17x our new 2013 EPS estimate of $1.25. Our previous 12-month price target of $18 is based on 15x our previous 2013 EPS estimate. This compares to the 16x average for our Home Furnishings coverage. We believe a premium is warranted given the strong earnings growth and our increased confidence that the Company will return to peak sales per square foot. We maintain our **BUY** rating at this time.

Risks

Risks that could impede the stock from reaching our price target include:

- Mass merchants could take a more aggressive approach within home furnishings than we currently anticipate.
- Consumer spending and/or the housing market could slow.
- Inflationary pressures.
- Additional regulation on the sale of alcohol.

Franklin Electric Co., Inc. (FELE) — Matt J. Summerville (216) 689-0282 msummerville@keybanccm.com,
Joseph K. Radigan (216) 689-0355 jradigan@keybanccm.com

HOLD, Price Target: NA

2012: $2.89 from $2.85, 2013: $3.18 from --

Franklin Electric Co., Inc. (FELE-NASDAQ) – 2012E Increased from $2.85 to $2.89: Modest Reduction in Core Growth Assumption Offset by Contribution from Recent Acquisition of Majority Stake in Pioneer Pump Holdings; Initial 2013E Set at $3.18; 1Q12E Lowered from $0.52 to $0.49, Prompted by More Cautious Volume Assumptions, Particularly in Europe; Volume Expectations Relatively Unchanged in North America Based on Recent Channel Conversations, Though Tough Comps Remain in Focus; Emerging Markets Stable, Severe Drought Conditions in South America Positive for Irrigation-Related Submersible Motor Demand, Could Provide Some Offset to Softer Europe; Despite Favorable Crop Prices, Weather Remains Wildcard for Agriculture-Related Demand in North America vs. Difficult Year-over-Year Comparisons Throughout 2012; HOLD Rating Maintained.

Rating	HOLD	2013E	$3.18	Next Quarter	March
Price	$49.72	2013 P/E	15.6x	Next Quarter E	$0.49
12-Mo. Price Target	NA	2012E	$2.89	FC Mean Quarter	$0.52
Market Cap	$1,183.3	2012 P/E	17.2x	FC Mean 2013E	$3.50
Trading Volume	121	2011A	$2.69	FC Mean 2012E	$2.94
Revenues(mm)	$821.1	Book Value/Share	$19.15	Yield	1.0%

We are increasing our 2012E from $2.85 to $2.89; however, we are lowering our 1Q12E (March) from $0.52 to $0.49 (vs. $0.46 in 1Q11) and are therefore adopting a bit more of a near-term cautious stance on FELE shares. Our initial 2013E is set at $3.18. Our 2012E revision reflects our view that FELE will benefit from about $0.05-$0.07 of accretion from its recent acquisition of a majority equity stake in Pioneer Pump Holdings, Inc. partially offset by more cautious core growth and margin assumptions within its Water Systems and Fueling Systems segments – particularly early on in 2012. We are maintaining our view that FELE shares are near fair valuation, although we believe there could be some modest potential downside risk to the stock near term as we now shift our 1Q estimate to a below consensus view. We envision demand headwinds in Europe impacting both its Water and Fueling businesses, bearing in mind that the 1Q is already typically the seasonally weakest quarter of the year for the Company. Based on recent conversations with our channel contacts, we believe market conditions in North America are relatively in line with our prior expectations, while severe drought conditions are likely driving stronger demand in Brazil and other parts of South America. Crop prices, farm incomes and planted acreage remain favorable for agriculture-related demand globally; however, weather will be a key factor (as always), and FELE faces difficult year-over-year comparisons in this portion if its business. At this time last year, our channel conversations confirmed that distributors were very bullish on irrigation markets, which was reflected by earlier than normal purchases of submersible motors and pumps during 1Q11 in anticipation of a robust start to the season. We believe this is also a contributing factor to challenging comparisons in this end market. Below, we discuss these and other related items in more detail.

1. Geographic Views/End Markets/Volume – We believe about 15% of consolidated company sales are generated in Western Europe (similar percentage of sales for both Water and Fueling) and, as we have discussed previously, we would not be surprised if customers continued to rationalize inventory and/or defer making capital investments given the uncertain macro environment in that region and general lack of new construction activity. FELE experienced a mid to high single-digit organic sales decline in EMENA (Europe, Middle East, Northern Africa) during 2H11, and we would not be surprised to witness a similar core volume drop during 1Q12. As FELE previously indicated, it expects higher raw material costs (from the expiration of fixed cost supply contracts and the subsequent supplier price increases) to weigh on operating margins in EMENA once again in the 1Q. The Company has implemented price increases over the last several months, which it believes will largely close this margin gap in the 2Q and beyond vs. easier raw material cost comparisons (as a percentage of sales basis), but it will likely still be somewhat of a headwind in the 1Q.

Based on our channel conversations over the last several days, it appears that demand among water systems distributors in North America is relatively in line with our expectations to start the year. Some of our contacts indicated that mild temperatures may be pulling forward some project activity, though new residential construction markets clearly remain sluggish and are a consistent source of caution among our contacts. Drought conditions continue to drive strong demand in the southwest United States (i.e., Texas and New Mexico), though growth rates have moderated vs. difficult year-over-year comparisons, and recent precipitation has eased the strain on water tables in some regions. In general, demand is mixed across other regions of the United States, though customers appear to be maintaining a cautiously optimistic view on 2012 ahead of the peak growing and construction season. While agriculture-related demand tends to be volatile based on weather conditions (i.e., dry is better than wet) in the key crop producing regions and thus difficult to predict, throughout 2012 FELE faces a difficult comparison in this business (agriculture/irrigation volumes were estimated to increase in the 20-30% range each quarter in 2011), which tends to carry more attractive margins than the base residential business. The Company's agriculture-related business (e.g., its larger diameter, higher HP motors used in irrigation applications) grew significantly in 2011, as farmers invested in irrigation systems to drive up crop yields, in addition to replacing motors that failed under harsh operating conditions (i.e., longer cycle times, deeper well sets and more sand infiltration as water tables dropped). In 2011, in anticipation of healthy crop prices and strong end user demand, distributors were more aggressive with adding preseason stock in 1Q11 than normal and now appear to have reverted back to a more conservative posture thus far in 2012.

Elsewhere, reports of severe drought conditions in South America bode well for FELE's agriculture-related business in developing regions, led by Brazil and parts of Central America, noting that Brazil is the world's largest soybean producer and crop prices remain near record highs. Overall, construction, agriculture, mining and general industrial markets continue to appear solid in developing regions despite some pockets of softness such as North and sub-Saharan Africa.

2. Pricing and Channel Inventory – Beginning in late 4Q11 and throughout 1Q12, FELE implemented price increases (about 3-4% on average) across almost all product lines and geographies in both its Water and Fueling businesses. While the full benefit of these pricing actions will not likely be realized until 2Q12, conversations with our distributor contacts suggest that the price increases in North America have been followed by other industry participants and are sticking. Quarter-end discounting appears to be very minimal at this time. Inventory levels remain relatively lean in North America, which, following the last recession, appears to be a more normalized practice as distributors generally seek to risk less capital.

3. Acquisition of Pioneer Pump Holdings, Inc. – On March 7th, FELE announced that it has acquired a 70% equity stake (in total) in Pioneer Pump Holdings, Inc. (PPH) over the course of two separate transactions. PPH is a leading manufacturer of large, engine-driven centrifugal pumps used for dewatering in oil and gas, municipal, construction and mining applications. FELE had previously purchased a 35% stake in Pioneer Pump, Inc. (one of two subsidiaries fully owned by PPH) in 2005. PPH had total sales of $70 million in 2011 and will now be consolidated into FELE's income statement vs. being accounted for under the equity method. Terms were not disclosed; however, based on historical acquisitions in the Water Systems segment and our related initial assessment of purchase price and profitability, we would roughly estimate that FELE paid around $50 million for the increased stake (which would be in line with its historical acquisition target of roughly 6-8x 2012 EBITDA), and it could be about $0.05-$0.07 accretive this year, excluding purchase accounting adjustments and a one-time book gain (or "write-up") of $0.33-$0.37 anticipated in 1Q12 related to its initial equity investment. Our estimates exclude such non-recurring items.

4. In Addition to Difficult Comps in Its Profitable Agriculture-Related Business, FELE Benefited from Several Other Dynamics in 2011 that May Not Re-occur in 2012 – While it is difficult to quantify the exact magnitude, conversations with some of our distributor contacts last year appeared to support our view that FELE likely benefited from the collateral impact of the natural disasters in Japan, as one of its primary, large motor competitors (Hitachi) dealt with manufacturing disruptions during the critical spring/summer selling season last year. We also believe that another of its primary competitors (Grundfos) was negatively impacted by a quality-related recall on some of its larger diameter motors, which may have also allowed FELE to take additional share during 2011, not all of which is apt to recur in 2012.

We are maintaining our **HOLD** rating on FELE shares as we believe the stock is near fair valuation. As we look forward into 2012, we believe that FELE could face several headwinds including difficult comparisons in its North American agriculture-related business, potential negative mix shift in fueling (i.e., more emerging market revenue), raw material-related cost headwinds in component purchases (which are expected to carry into 1H12) and weak demand in Europe (organic sales declined 7% in 3Q11 and 6% in 4Q11). However, underlying momentum within the Americas appears solid, driven by residential replacement, light commercial, general industrial and irrigation markets – noting that in each of these markets, FELE likely picked up some additional market share in 2011. FELE's pricing actions have been communicated to the marketplace, with varying dates of implementation depending upon the region; however, the magnitude is in the range of 3-4% and should be fully in place during 2Q12.

Considering these factors, while we see some potential for some level of correction in the shares if 1Q results end up being a bit less robust than some may be anticipating, the longer term risk-reward appears fairly balanced at this time, and we are maintaining our **HOLD** rating on FELE shares. Given our balanced view on the stock, we recognize that longer term investors may be attracted to FELE as a potential "derivative play"' on a rebound in new construction demand, particularly residential markets in developed countries, potential strength in agriculture markets and an underleveraged balance sheet.

Valuation

At current levels, FELE shares sell at 8.9x and 8.1x EV/EBITDA based on our 2012 and 2013 EBITDA estimates (and adjusted for Pioneer), compared to its historical range of about 8-11x, and vs. its recent trough of about 6.0x. On a P/E basis, FELE shares sell at 17.2x and 15.6x our 2012E and 2013E, respectively, vs. a normalized historical range of about 15-20x.

Risks

Risk factors include adverse weather (unseasonably wet), raw material inflation and persistent softness in new home builds.

Compass Minerals International, Inc. (CMP) — Ivan M. Marcuse, CFA (216) 689-0258

imarcuse@keybanccm.com, Andrew Dunn (216) 689-0495 Andrew_Dunn@keybanccm.com

HOLD, Price Target: NA

2012: $4.50 from $4.85, 2013: $5.85 from $5.80

The winter season for Compass Minerals International, Inc. (CMP-NYSE) deicing salt business is likely down considerably compared to last year as a result of the generally mild weather throughout the Great Lakes region in 1Q12. Given this we expect deicing volumes to be lower than we initially anticipated in early February and we are cutting our deicing volume estimate to down 18% (previously -10%) vs. last year. Total earnings for 1Q12 and FY12 should be down year-over-year due to the effects of unfavorable weather patterns for both salt and SOP. The Specialty Fertilizer segment should be helped by relatively stable MOP prices supporting SOP pricing. CMP is positioned for much improved operating results in 2013 assuming average weather conditions as operating improvement initiatives are completed and expansion projects come on-line. However, due to the above mentioned weather issues, we are lowering our full-year 2012 EPS estimate to $4.50 (from $4.85) and keeping our HOLD rating.

Rating	HOLD	2013E	$5.85	Next Quarter	March
Price	$69.58	2013 P/E	11.9x	Next Quarter E	$1.47
12-Mo. Price Target	NA	2012E	$4.50	FC Mean Quarter	$1.73
Market Cap	$2,330.9	2012 P/E	15.5x	FC Mean 2013E	$6.12
Trading Volume	252	2011A	$4.79	FC Mean 2012E	$4.89
Revenues(mm)	$1,105.7	Book Value/Share	$13.34	Yield	2.9%

- **Weather Woes Continue:** Mild winter weather throughout CMP's distribution area should create a considerable headwind to deicing salt volumes. To date, we estimate 72 snow event days in key cities in CMP's core region vs. 153 in 1Q11.
- **Goderich:** We suspect that the Goderich mine is still running at below average utilization levels, but should be fully operational by 2H12 allowing CMP to participate in market growth opportunities in 2013.
- **Stable SOP Prices:** Stability in MOP pricing will help keep SOP price stable as well, in our opinion. Phase 1 of CMP's SOP expansion phase should be completed this year and help to grow SOP earnings in 2013.
- **Estimate Changes:** Based on the continued mild winter weather season and lower deicing volumes we are adjusting our 1Q12 and 2012 EPS estimates down to $1.47 (previously $1.75) and $4.50 (previously $4.85), respectively.

Valuation

CMP has traded in an average low to high EV/EBITDA multiple range of 7.4-10.1x and an average low to high P/E range of 11.9-18.2x over the past seven years. The stock is currently trading at an EV/EBITDA multiple of 8.7x and a P/E multiple of 15.5x on our estimated 2012 outlook. CMP has traded at a low to high EV/Sales of 1.8-2.5x over the past seven years and is currently trading at 2.4x. We rate shares of CMP **HOLD**.

Risks

Key risks include, but are not limited to: weather conditions impacting crop or highway deicing markets; a sustained downturn in farmer economics; commodity potash pricing volatility; energy, raw material and/or transportation cost volatility; and environmental, regulatory and/or legal issues.

Dana Holding Corporation (DAN) — Brett D. Hoselton, CFA (216) 689-0237 bhoselton@keybanccm.com, **Matthew Mishan** (216) 689-0341 mmishan@keybanccm.com, **Anthony Deem** (216) 689-0294 adeem@keybanccm.com, **Irina Hodakovsky** (216) 689-5374 ihodakovsky@keybanccm.com

BUY, Price Target: $20.00

2012: $1.99, 2013: $2.38

Following meetings with management at the Mid-America Truck, we continue to view Dana Holding Corporation (DAN-NYSE) as a BUY and reiterate our $20 price target based on the belief that: 1) revenue is well diversified across multiple end markets and regions, the majority of which likely provide a cyclical tailwind going forward; 2) restructuring appears roughly complete and new CEO Roger Wood is now shifting gears to a BorgWarner like focus on organic revenue growth (i.e., increased market share, penetration, and content per vehicle); 3) Company execution drives EBITDA margin improvements and while we are currently below its 2013 target of 12%, it leaves some upside to our current estimates; and 4) the Company's balance sheet remains solid and free cash flow going forward is likely used for bolt-on acquisitions, debt and unfunded pension paydowns, and further shareholder friendly actions in addition to its current dividend. We are maintaining our adjusted EBITDA estimate at $857 million (First Call $849 million) for 2012 and $957 million (First Call $959 million) for 2013. While we believe that adjusted EBITDA vs. diluted adjusted EPS is a better proxy for results, due primarily to its diluted adjusted EPS guidance, we are maintaining our earnings estimates at $1.99 for 2012 (First Call $1.91) and an adjusted EPS estimate of $2.38 (First Call $2.28) for 2013.

Rating	BUY	2013E	$2.38	Next Quarter	March
Price	$16.00	2013 P/E	6.7x	Next Quarter E	$0.43
12-Mo. Price Target	$20.00	2012E	$1.99	FC Mean Quarter	$0.41
Market Cap	$3,424.0	2012 P/E	8.0x	FC Mean 2013E	$2.28
Trading Volume	2,759	2011A	$1.66	FC Mean 2012E	$1.91
Revenues(mm)	$7,592.0	Book Value/Share	$15.75	Yield	0.0%

Mid-America Truck Show and ACT Seminar Takeaways: We had the opportunity to attend both the Mid America Truck Show and a two day ACT seminar and came away incrementally encouraged by the outlook for Commercial Vehicle production for both North America as well as other regions. While January and February new orders were somewhat weaker than previous months, it appears largely driven by the impact of accelerated depreciation, which ended in 2011. The fundamentals still remain very robust driven by record high vehicle age, increasing used truck prices, greater availability of financing, as well as a macro recovery driving freight demand. Suppliers, OEMs, and industry experts remain very optimistic on 2012 North American Class 8 production with the range of expectations now settling in the range of 290,000-300,000, in line with our estimate of 300,000. Additionally, we expect several more years of gradual recovery in commercial vehicle production followed by a plateo around the 2014 timeframe. In Europe, the overall assessment appears to be that production schedules have stabilized and things do not look to be getting any worse. Brazil experienced a very slow start to the year, with production virtually at zero in January; however, sentiment remains positive and there is an expectation of a ramp as we head into 2Q12.

Valuation

On a P/E basis, our $20 price target is 8.4x our 2013 EPS estimate of $2.38. On a P/E basis, DAN is trading 6.7x our 2013 EPS estimate of $2.38. DAN has traded at an average 12-month forward P/E of 13.5x. On an EV/Sales basis, DAN is currently trading at a 0.36x our 2013 sales estimate of $8.7 billion. During 2010-2011, DAN has traded at an average EV/Sales ratio of 0.38x.

Risks

The largest risk that could impede the stock from achieving our price target is a decline in global vehicle production.

Meritor, Inc. (MTOR) — Brett D. Hoselton, CFA (216) 689-0237 bhoselton@keybanccm.com, Matthew Mishan (216) 689-0341 mmishan@keybanccm.com, Anthony Deem (216) 689-0294 adeem@keybanccm.com, Irina Hodakovsky (216) 689-5374 ihodakovsky@keybanccm.com

HOLD, Price Target: NA

2012: $1.12, 2013: $1.33

Following our meeting with management at the Mid-America Truck Show, we reiterate our view on Meritor, Inc. (MTOR-NYSE) as a near-term trading opportunity based on our belief that: 1) the Company recently reiterated guidance for the third time, reflecting confidence in near-term outlook and execution; 2) the MTOR discount to its EBITDA guidance reflected in Street estimates could quickly become unwound; 3) current commercial vehicle production expectations are for a more gradual ramp vs. the 2011 accelerated recovery and management seems comfortable with its current capacity and its ability to meet customer demand profitably; 4) multiple levers for EBITDA margin improvement appear complete, and benefits should become evident when the Company reports 2Q12 results; 5) management stated that steel costs appear to have plateaued and in combination with cost recoveries, are likely a tailwind over the near term; and 5) the combination of the above could drive shorter-term sentiment improvement in a beaten down stock; however, we view the opportunity as a potential near-term trade vs. a longer-term BUY and are maintaining our HOLD rating until we see several consistent quarters of execution. We are leaving our earnings estimates unchanged at $1.12 (First Call consensus $1.17) for 2012 and $1.33 (First Call consensus $1.63) for 2013.

Rating	HOLD	2013E	$1.33	Next Quarter	March
Price	$7.46	2013 P/E	5.6x	Next Quarter E	$0.26
12-Mo. Price Target	NA	2012E	$1.12	FC Mean Quarter	$0.25
Market Cap	$722.9	2012 P/E	6.7x	FC Mean 2013E	$1.63
Trading Volume	2,318	2011A	$0.79	FC Mean 2012E	$1.16
Revenues(mm)	$3,590.0	Book Value/Share	$14.10	Yield	NM

Mid-America Truck Show and ACT Seminar Takeaways: We had the opportunity to attend both the Mid America Truck Show and a two day ACT seminar and came away incrementally encouraged in the outlook for Commercial Vehicle production for both North America as well as other regions. While January and February new orders were somewhat weaker than previous months, it appears largely driven by the impact of accelerated depreciation, which ended in 2011. The fundamentals still remain very robust driven by record high vehicle age, increasing used truck prices, greater availability of financing, as well as a macro recovery driving freight demand. Suppliers, OEMs, and industry experts remain very optimistic on 2012 North American Class 8 production with the range of expectations now settling in the range of 290,000-300,000, in line with our estimate of 300,000. Additionally, we expect several more years of gradual recovery in commercial vehicle production followed by a plateau around the 2014 timeframe. In Europe, the overall assessment appears to be that production schedules have stabilized and things do not look to be getting any worse. Brazil experienced a very slow start to the year, with production virtually at zero in January; however, sentiment remains positive and there is an expectation of a ramp as we head into 2Q12.

Valuation

MTOR is currently trading at 6.2x our 2013 EPS estimate of $1.33. From 2005-2009, MTOR has traded at an average 12-month forward P/E of 9x.

Risks

The largest risk to our earnings is a decline in global vehicle production.

Teavana Holdings, Inc. (TEA) — Edward Yruma (917) 368-2394 eyruma@keybanccm.com, **Jane Thorn Leeson** (917) 368-2220 jthornleeson@keybanccm.com

BUY, Price Target: $28.00

2011: $0.45, 2012: $0.59

Teavana Holdings, Inc. (TEA-NYSE) has a strong combination of a distinctive store environment, attractive secular trends and a visible gross margin tail – we initiate with a BUY rating. The Company's 19% operating margin is one of the highest in our coverage universe. We believe the Company has continued margin expansion opportunity as the penetration of loose tea increases from store maturation. Also, our proprietary field work points to a unique performance management and compensation model; we think this helps institutionalize the highly consultative nature of the business. Finally, and perhaps most importantly, the store's "theater" differentiates it from other mall-based retailers, and we think evokes the best from our lifestyle-focused retailers (including lululemon athletica inc. and Zumiez Inc.). We think this will drive 25%+ EPS growth for the next three to five years.

We establish a price target of $28, which implies a 47.1x P/E and a 1.2x PEG based on our 2012 estimates. This compares to a 30.1x 2012E P/E and 1.5x 2012E PEG for the high growth retail peer group.

Rating	BUY	2012E	$0.59	Next Quarter	January
Price	$22.30	2012 P/E	37.8x	Next Quarter E	$0.31
12-Mo. Price Target	$28.00	2011E	$0.45	FC Mean Quarter	$0.31
Market Cap	$869.7	2011 P/E	49.6x	FC Mean 2012E	$0.61
Trading Volume	231	2010A	$0.32	FC Mean 2011E	$0.47
Revenues(mm)	$124.7	Book Value/Share	$1.38	Yield	0.0%

The Company has a highly consultative sales force and a distinct store environment. Our proprietary field work points to an in-store operations model that combines many of the best elements of our other covered companies. Employees have rigorous goal setting, and the Company has intensive training. Sales incentives drive a consultative environment similar to Nordstrom and Buckle. A unique store environment that stimulates the senses evokes lululemon athletica. We think these attributes that differentiate the store experience are important in the age of internet retailing.

TEA has a leading position in the secularly attractive specialty tea market. Eighty-five percent of TEA's products are blends, which we think adds an element of stickiness to the consumer offer. Despite the ubiquity of tea, the Company does not have a national specialty retail competitor that offers high quality loose tea. Our analysis indicates that Teavana is generally the only loose tea retailer located in its shopping centers.

Store operating metrics are some of the strongest in our coverage and loose tea penetration provides a gross margin tail. The Company has roughly $1,000 in sales PSF, one of the highest in our coverage universe. Moreover, we view its 60% gross margin as defensible given a positive tailwind from higher penetration of loose tea (600-800+ bps maturation mix benefit). The Company continues to see strong performance from its most recent store vintages, and we believe that store performance from smaller markets will remain strong.

Valuation

At 37.8x 2012E P/E, 4.0x 2012E EV/Sales and 1.2x 2012E PEG, valuation is reasonable for a high growth retailer. The stock is up over 32% from its $17 IPO price, compared to an 8% gain in the S&P 500 Index over the same time period. We think the Company can sustain accelerating earnings growth, particularly given its aggressive new store opening program, strong new store economics and multi-year runway for gross margin expansion compared to the specialty retail peer group. Thus, we think TEA deserves to trade at a premium to the high growth retail peer group averages of 30.1x 2012E P/E, 3.0x 2012E EV/Sales and 1.3x 2012E PEG. We establish a $28 price target, which implies a 47.1x P/E based on our $0.59 2012 EPS estimate. We think the multiple is fair given the Company's earnings profile and compelling unit growth opportunity.

Risks

Risks that could impede the stock from achieving our price target:

TEA is moving into smaller markets. The Company has 196 stores, and a number of new stores will be opened in shopping malls with lower average sales per square foot than the malls in which the Company currently has a presence. New stores will generally operate at lower gross margins and higher operating expenses, as a percentage of sales, compared to mature stores. Our estimates could be at risk if the Company is unable to identify suitable locations to open new stores, obtain favorable lease terms, attract customers, hire and retain personnel, and maintain sufficient levels of cash flow to support expansion.

While we see few national competitors, the tea market remains highly competitive. The U.S. tea market remains highly fragmented with low barriers to entry. Our estimates could be at risk if the Company is unable to provide a differentiated, superior customer experience and attract more business than its regional and local competitors.

Management, particularly founder and CEO Andrew Mack, has been instrumental in the development of the concept; continued involvement is a key area of our investment thesis. Having founded the Company in 1997, CEO Andrew Mack has hired experienced senior managers to implement the Company's long-term growth strategy. The potential sudden departure of key management executives would likely impact the stock price in a significant manner, in our opinion.

KeyBanc Capital Markets Inc. Disclosures And Certifications

Important disclosures for the companies mentioned in this report can be found at https://key2.bluematrix.com/sellside/Disclosures.action.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Rating Disclosures

Distribution of Ratings/IB Services
KeyBanc Capital Markets

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [BUY]	228	44.53	47	20.61
HOLD [HOLD]	272	53.12	50	18.38
SELL [UND]	12	2.34	4	33.33

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.

The information contained in this report is based on sources considered to be reliable but is not represented to be complete and its accuracy is not guaranteed. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities. Our company policy prohibits research analysts and members of their families from owning securities of any company followed by that analyst, unless otherwise disclosed. Our officers, directors, shareholders and other employees, and members of their families may have positions in these securities and may, as principal or agent, buy and sell such securities before, after or concurrently with the publication of this report. In some instances, such investments may be inconsistent with the opinions expressed herein. One or more of our employees, other than the research analyst responsible for the preparation of this report, may be a member of the Board of Directors of any company referred to in this report. The research analyst responsible for the preparation of this report is compensated based on various factors, including the analyst's productivity, the quality of the analyst's research and stock recommendations, ratings from investor clients, competitive factors and overall Firm revenues, which include revenues derived from, among other business activities, the Firm's performance of investment banking services. In accordance with industry practices, our analysts are prohibited from soliciting investment banking business for our Firm.

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

KeyBanc
Capital Markets

Teavana Holdings, Inc.:

TEA: Initiating Coverage with a BUY Rating: Steeping Growth

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Edward Yruma: (917) 368- 2394 — eyruma@keybanccm.com
Jane Thorn Leeson: (917) 368- 2220 — jthornleeson@keybanccm.com

Rating	BUY
Price	$22.30
12- Mo. Price Target	$28.00
Dividend	$0.00
Yield	0.0%
52- Wk. Range	$14 - $29
Trading Volume (000)	231
Market Cap. (mm)	$869.7
Shares Out. (mm)	39.00
Book Value/Share	$1.38

EPS (Net) Summary

FY Jan	2010A	2011E	2012E
1Q	$0.05	$0.09A	$0.12
2Q	$0.02	$0.03A	$0.04
3Q	$0.01	$0.02A	$0.03
4Q	$0.24	$0.31	$0.40
YEAR	$0.32	$0.45	$0.59
First Call	- -	$0.47E	$0.61E
P/E	69.7x	49.6x	37.8x

ACTION STATEMENT

Teavana Holdings, Inc. (TEA-NYSE) has a strong combination of a distinctive store environment, attractive secular trends and a visible gross margin tail – we initiate with a BUY rating. The Company's 19% operating margin is one of the highest in our coverage universe. We believe the Company has continued margin expansion opportunity as the penetration of loose tea increases from store maturation. Also, our proprietary field work points to a unique performance management and compensation model; we think this helps institutionalize the highly consultative nature of the business. Finally, and perhaps most importantly, the store's "theater" differentiates it from other mall-based retailers, and we think evokes the best from our lifestyle-focused retailers (including lululemon athletica inc. and Zumiez Inc.). We think this will drive 25%+ EPS growth for the next three to five years.

We establish a price target of $28, which implies a 47.1x P/E and a 1.2x PEG based on our 2012 estimates. This compares to a 30.1x 2012E P/E and 1.5x 2012E PEG for the high growth retail peer group.

KEY INVESTMENT POINTS

The Company has a highly consultative sales force and a distinct store environment. Our proprietary field work points to an in- store operations model that combines many of the best elements of our other covered companies. Employees have rigorous goal setting, and the Company has intensive training. Sales incentives drive a consultative environment similar to Nordstrom and Buckle. A unique store environment that stimulates the senses evokes lululemon athletica. We think these attributes that differentiate the store experience are important in the age of internet retailing.

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Store operating metrics are some of the strongest in our coverage and loose tea penetration provides a gross margin tail. The Company has roughly $1,000 in sales PSF, one of the highest in our coverage universe. Moreover, we view its 60% gross margin as defensible given a positive tailwind from higher penetration of loose tea (600- 800+ bps maturation mix benefit). The Company continues to see strong performance from its most recent store vintages, and we believe that store performance from smaller markets will remain strong.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

VALUATION

At 37.8x 2012E P/E, 4.0x 2012E EV/Sales and 1.2x 2012E PEG, valuation is reasonable for a high growth retailer. The stock is up over 32% from its $17 IPO price, compared to an 8% gain in the S&P 500 Index over the same time period. We think the Company can sustain accelerating earnings growth, particularly given its aggressive new store opening program, strong new store economics and multi- year runway for gross margin expansion compared to the specialty retail peer group. Thus, we think TEA deserves to trade at a premium to the high growth retail peer group averages of 30.1x 2012E P/E, 3.0x 2012E EV/Sales and 1.3x 2012E PEG. We establish a $28 price target, which implies a 47.1x P/E based on our $0.59 2012 EPS estimate. We think the multiple is fair given the Company's earnings profile and compelling unit growth opportunity.

RISKS

Risks that could impede the stock from achieving our price target:

TEA is moving into smaller markets. The Company has 196 stores, and a number of new stores will be opened in shopping malls with lower average sales per square foot than the malls in which the Company currently has a presence. New stores will generally operate at lower gross margins and higher operating expenses, as a percentage of sales, compared to mature stores. Our estimates could be at risk if the Company is unable to identify suitable locations to open new stores, obtain favorable lease terms, attract customers, hire and retain personnel, and maintain sufficient levels of cash flow to support expansion.

While we see few national competitors, the tea market remains highly competitive. The U.S. tea market remains highly fragmented with low barriers to entry. Our estimates could be at risk if the Company is unable to provide a differentiated, superior customer experience and attract more business than its regional and local competitors.

Management, particularly founder and CEO Andrew Mack, has been instrumental in the development of the concept; continued involvement is a key area of our investment thesis. Having founded the Company in 1997, CEO Andrew Mack has hired experienced senior managers to implement the Company's long- term growth strategy. The potential sudden departure of key management executives would likely impact the stock price in a significant manner, in our opinion.

COMPANY DESCRIPTION

Teavana Holdings, Inc. (TEA- NYSE) is a rapidly growing, multi- channel specialty tea retailer that develops, sources and offers more than 100 varieties of premium loose- leaf teas, authentic artisanal teawares and other tea- related merchandise through 196 company- owned stores and a number of franchised stores. TEA is well- positioned to capitalize on growing tea awareness in the United States; tea is already the second most popular drink globally. In 2010, loose leaf tea sales represented 56% of total Company sales, while tea- related merchandise (40%) and prepared beverages (4%) made up the remainder.

Revenue Summary

	2010A	Prior 2010A	2011E	Prior 2011E	2012E	Prior 2012E
1Q	$25.8	- -	$34.9A	- -	$47.1	- -
2Q	$23.0	- -	$31.3A	- -	$40.9	- -
3Q	$24.7	- -	$33.4A	- -	$42.9	- -
4Q	$51.2	- -	$66.6	- -	$85.7	- -
YEAR	$124.7	- -	$166.2	- -	$216.6	- -

Source: KeyBanc Capital Markets Inc. estimates

KeyBanc Capital Markets Inc. Disclosures and Certifications

Teavana Holdings, Inc. - TEA

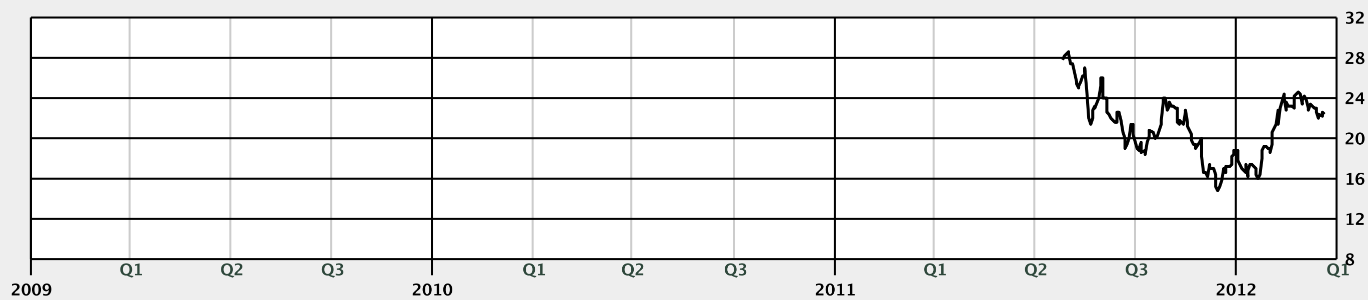
We expect to receive or intend to seek compensation for investment banking services from Teavana Holdings, Inc. within the next three months.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History

Rating and Price Target History for: Teavana Holdings, Inc. (TEA) as of 03-21-2012



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Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		CONSUMER			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	227	44.42	48	21.15	BUY [BUY]	59	45.04	7	11.86
HOLD [HOLD]	272	53.23	50	18.38	HOLD [HOLD]	70	53.44	2	2.86
SELL [UND]	12	2.35	4	33.33	SELL [UND]	2	1.53	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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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Consumer Industry Research

Teavana Holdings, Inc. (TEA-NYSE)

Coverage Initiated with a BUY Rating: Steeping Growth

March 22, 2012

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KeyBanc Capital Markets

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KeyBanc Capital Markets Inc., Member NYSE/FINRA/SIPC

Contents

Teavana Holdings, Inc. (TEA-NYSE)

INITIATING COVERAGE WITH A BUY RATING: STEEPING GROWTH

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Jane Thorn Leeson: (917) 368-2220 — jthornleeson@keybanccm.com

Rating	BUY
Price	$22.30
12-Mo. Price Target	$28.00
Dividend	$0.00
Yield	0.0%
52-Wk. Range	$14 - $29
Trading Volume (000)	231
Market Cap. (mm)	$869.7
Shares Out. (mm)	39.00
Book Value/Share	$1.38

EPS (Net) Summary

FY Jan	2010A	2011E	2012E
1Q	$0.05	$0.09A	$0.12
2Q	$0.02	$0.03A	$0.04
3Q	$0.01	$0.02A	$0.03
4Q	$0.24	$0.31	$0.40
YEAR	$0.32	$0.45	$0.59
First Call	--	$0.47E	$0.61E
P/E	69.7x	49.6x	37.8x

AT A GLANCE

Teavana Holdings, Inc. (TEA-NYSE) is a rapidly growing, multi-channel specialty tea retailer that develops, sources and offers more than 100 varieties of premium loose-leaf teas, authentic artisanal teawares and other tea-related merchandise through 196 company-owned stores and a number of franchised stores. Teavana is well-positioned to capitalize on growing tea awareness in the United States; tea is already the second most popular drink globally. In 2010, loose leaf tea sales represented 56% of total Company sales, while tea-related merchandise (40%) and prepared beverages (4%) made up the remainder.

SUMMARY AND RECOMMENDATION

Teavana has a strong combination of a distinctive store environment, attractive secular trends, and a visible gross margin tail – we initiate with a BUY rating. The Company's 19% operating margin is one of the highest in our coverage universe. We believe the Company has continued margin expansion opportunity as the penetration of loose tea increases from store maturation. Also, our proprietary field work points to a unique performance management and compensation model; we think this helps institutionalize the highly consultative nature of the business. Finally, and perhaps most importantly, the store's "theater" differentiates it from other mall-based retailers, and we think evokes the best from our lifestyle-focused retailers (including lululemon athletica inc. and Zumiez Inc.). We think this will drive 25%+ EPS growth for the next three to five years.

We establish a price target of $28, which implies a 37.5x P/E and a 1.2x PEG based on our 2012 estimates. This compares to a 30.1x 2012E P/E and 1.3x 2012E PEG for the high growth retail peer group.

KEY INVESTMENT POINTS

The Company has a highly consultative sales force and a distinct store environment. Our proprietary field work points to an in-store operations model that combines many of the best elements of our other covered companies. Employees have rigorous goal setting, and the Company has intensive training. Sales incentives drive a consultative environment similar to Nordstrom and Buckle. A unique store environment that stimulates the senses evokes lululemon athletica. We think these attributes that differentiate the store experience are important in the age of internet retailing.

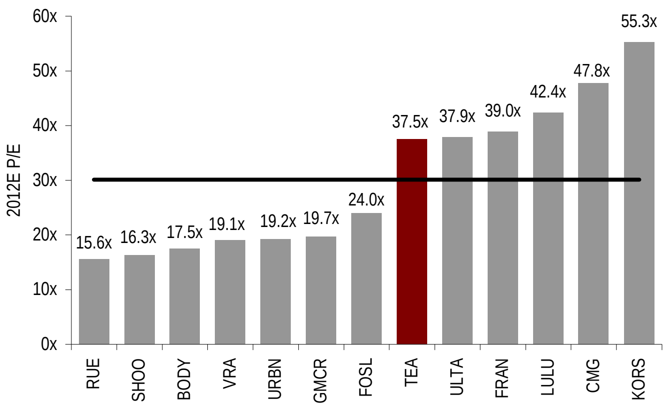
Teavana has a leading position in the secularly attractive specialty tea market. Eighty-five percent of Teavana's products are blends, which we think adds an element of stickiness to the consumer offer. Despite the ubiquity of tea, the Company does not have a national specialty retail competitor that offers high quality loose tea. Our analysis indicates that Teavana is generally the only loose tea retailer located in its shopping centers.

Store operating metrics are some of the strongest in our coverage and loose tea penetration provides a gross margin tail. The Company has roughly $1,000 in sales PSF, one of the highest in our coverage universe. Moreover, we view its 60% gross margin as defensible given a positive tailwind from higher penetration of loose tea (600-800+ bps maturation mix benefit). The Company continues to see strong performance from its most recent store vintages, and we believe that store performance from smaller markets will remain strong.

VALUATION

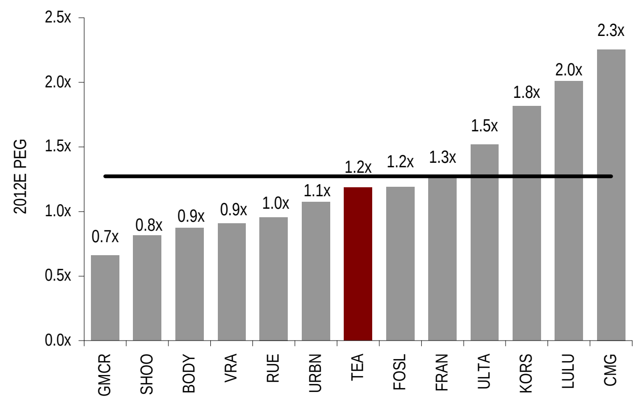
At 37.5x 2012E P/E, 4.0x 2012E EV/Sales and 1.2x 2012E PEG, valuation is reasonable for a high growth retailer. The stock is up over 32% from its $17 IPO price, compared to an 8% gain in the S&P 500 Index over the same time period. We think the Company can sustain accelerating earnings growth, particularly given its aggressive new store opening program, strong new store economics and multi-year runway for gross margin expansion compared to the specialty retail peer group. Thus, we think Teavana deserves to trade at a premium to the high growth retail peer group averages of 30.1x 2012E P/E, 3.0x 2012E EV/Sales and 1.3x 2012E PEG. We establish a $28 price target, which implies a 47.1x P/E based on our $0.59 2012 EPS estimate. We think the multiple is fair given the Company's earnings profile and compelling unit growth opportunity.

Exhibit 1: High Growth P/E Comparison



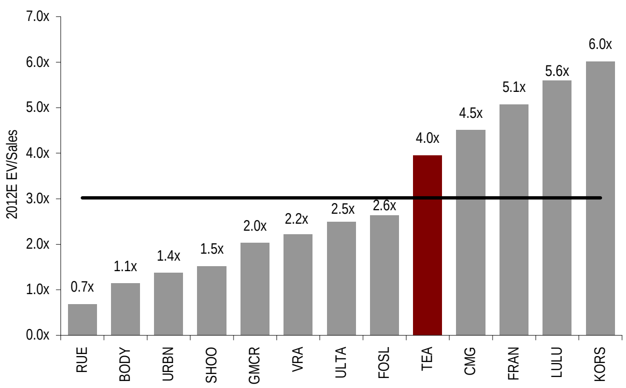
Source: Company reports, FactSet and KeyBanc Captial Markets Inc. estimates, as of 3/21/12

Exhibit 2: High Growth PEG Comparison



Source: Company reports, FactSet and KeyBanc Capital Markets Inc. estimates, as of 3/21/12

Exhibit 3: High Growth EV/Sales Comparison



Source: Company reports, FactSet and KeyBanc Capital Markets Inc. estimates, as of 3/21/12

Exhibit 4: Valuation Summary

Peer Group Valuation

Company Name	TKR	Rating	Stock Price	52 Week Price Range	Price Target	2012E P/E on PT	Mkt Cap ($mm)	S/O (mm)	EPS		P/E		EV/EBITDA		EV/Sales		PEG	
									2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
HEALTHY LIVING																		
GNC Holdings Inc.	GNC	-	$34.31	$16.08 - $34.71	-	-	3,663	106.7	$1.52	$1.88	22.6x	18.3x	12.7x	10.4x	2.1x	1.9x	1.7x	1.2x
Teavana Holdings Inc.	TEA	BUY	$22.30	$14.28 - $29.35	$28	47.1x	852	38.2	$0.45	$0.59	49.6x	37.5x	23.3x	17.9x	5.2x	4.0x	1.6x	1.2x
Vitamin Shoppe Inc.	VSI	-	$43.48	$30.93 - $48.36	-	-	1,270	29.2	$1.67	$1.86	26.0x	23.4x	12.3x	10.6x	1.5x	1.3x	1.3x	1.2x
Whole Foods Market Inc.	WFM	-	$83.97	$53.32 - $86.35	-	-	15,313	182.4	$2.08	$2.42	40.4x	34.7x	16.8x	13.7x	1.4x	1.2x	2.4x	2.0x
Peer Average											**39.5x**	**31.2x**	**17.9x**	**14.0x**	**3.6x**	**2.8x**	**1.8x**	**1.4x**
HIGH GROWTH RETAIL																		
Body Central Corp.	BODY	-	$26.43	$14.61 - $29.49	-	-	426	16.1	$1.24	$1.51	21.3x	17.5x	10.8x	8.7x	1.3x	1.1x	1.1x	0.9x
Chipotle Mexican Grill Inc.	CMG	-	$416.11	$240.09 - $414.45	-	-	13,008	31.3	$6.81	$8.71	61.1x	47.8x	29.1x	22.7x	5.5x	4.5x	2.9x	2.3x
Francesca's Holdings	FRAN	BUY	$31.24	$15.22 - $32.32	$34	42.4x	1,360	43.5	$0.58	$0.80	53.5x	39.0x	26.8x	20.4x	6.7x	5.1x	1.8x	1.3x
Green Mountain Coffee Roasters Inc.	GMCR	BUY	$55.79	$34.06 - $115.98	$80	28.9x	8,639	154.9	$1.64	$2.77	34.0x	20.1x	17.8x	11.3x	3.5x	2.2x	1.1x	0.7x
Michael Kors Holdings	KORS	-	$48.63	$23.51 - $50.69	-	-	9,291	191.1	$0.55	$0.88	88.4x	55.3x	42.5x	36.2x	7.6x	6.0x	2.5x	1.8x
Rue21, Inc.	RUE	-	$27.62	$19.69 - $37.33	-	-	676	24.5	$1.56	$1.77	17.7x	15.6x	6.9x	5.9x	0.8x	0.7x	1.1x	1.0x
Steve Madden, Ltd.	SHOO	HOLD	$43.78	$27.80 - $45.70	-	-	1,927	44.0	$2.25	$2.68	19.5x	16.3x	11.0x	9.2x	1.9x	1.5x	1.0x	0.8x
Teavana Holdings Inc.	TEA	BUY	$22.30	$14.28 - $29.35	$28	47.1x	852	38.2	$0.45	$0.59	49.6x	37.5x	23.3x	17.9x	5.2x	4.0x	1.6x	1.2x
Ulta Salon Cosmetics & Fragrance Inc.	ULTA	-	$92.07	$45.98 - $92.00	-	-	5,698	61.9	$1.90	$2.43	48.5x	37.9x	20.0x	15.4x	3.1x	2.5x	1.9x	1.5x
Urban Outfitters, Inc.	URBN	HOLD	$28.51	$21.47 - $33.90	-	-	4,123	144.6	$1.19	$1.48	24.0x	19.2x	10.0x	8.5x	1.6x	1.4x	1.3x	1.1x
Vera Bradley, Inc.	VRA	HOLD	$32.03	$24.83 - $52.36	-	-	1,297	40.5	$1.43	$1.68	22.4x	19.1x	13.2x	9.7x	3.0x	2.2x	1.1x	0.9x
Peer Average											**40.6x**	**30.1x**	**19.3x**	**15.1x**	**3.9x**	**3.0x**	**1.6x**	**1.3x**
Peer Average excluding KORS											**36.6x**	**28.0x**	**17.4x**	**13.4x**	**3.6x**	**2.8x**	**1.5x**	**1.2x**

Rating system is: BUY; HOLD; UNDERWEIGHT.
Primary coverage of FOSL and SHOO by Jane Thorn Leeson. Primary coverage of GMCR by Akshay Jagdale.
WFM FY ends in September; KORS FY ends in April; EPS estimates represent calendar year estimates.
Source: Company reports, FactSet and KeyBanc Capital Markets Inc. estimates, as of 3/21/12

RISKS

Risks that could impede the shares from achieving our price target include:

Teavana is moving into smaller markets. The Company has 196 stores, and a number of new stores will be opened in shopping malls with lower average sales per square foot than the malls in which the Company currently has a presence. New stores will generally operate at lower gross margins and higher operating expenses, as a percentage of sales, compared to mature stores. Our estimates could be at risk if the Company is unable to identify suitable locations to open new stores, obtain favorable lease terms, attract customers, hire and retain personnel, and maintain sufficient levels of cash flow to support expansion.

While we see few national competitors, the tea market remains highly competitive. The U.S. tea market remains highly fragmented with low barriers to entry. Our estimates could be at risk if the Company is unable to provide a differentiated, superior customer experience and attract more business than its regional and local competitors.

Management, particularly founder and CEO Andrew Mack, has been instrumental in the development of the concept; continued involvement is a key area of our investment thesis. Having founded the Company in 1997, CEO Andrew Mack has hired experienced senior managers to implement the Company's long-term growth strategy. The potential sudden departure of key management executives would likely impact the stock price in a significant manner, in our opinion.

EARNINGS OUTLOOK: 25%+ ANNUAL EPS GROWTH

We think that Teavana will have 25% annual EPS growth over the next three to five years. The Company has, in our opinion, one of the most differentiated store environments in the mall. The Company has an ongoing operating margin expansion opportunity not only through the typical rent/occupancy leverage, but also via higher contribution from loose teas as stores mature. The Company has the ability to at least double the current store base and should continue to post mid to high single-digit comps.

Exhibit 5: Teavana Summary Income Statement and KBCM Estimates

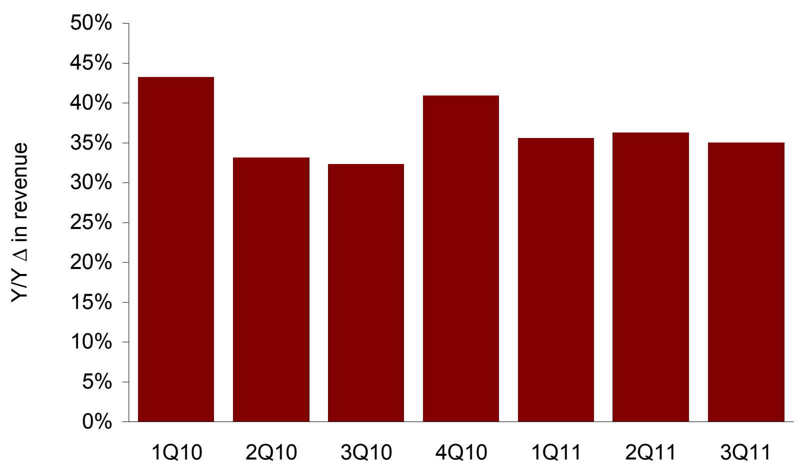
TEA Quarterly Summary													
($mm except per share data)	2009	2010			2011A/E					2012E			2013E
	Annual	Annual	1QA	2QA	3QA	4QE	Annual	1QE	2QE	3QE	4QE	Annual	Annual
Total sales	90.3	124.7	34.9	31.3	33.4	66.6	166.2	47.1	40.9	42.9	85.7	216.6	274.4
Cost of sales	36.4	46.3	12.5	12.2	12.7	21.6	59.0	16.4	15.6	16.0	27.1	75.1	92.3
Gross profit	53.8	78.4	22.5	19.1	20.7	45.0	107.3	30.7	25.4	26.9	58.6	141.6	182.2
Operating expenses	41.6	54.9	16.0	16.8	19.1	24.6	76.5	22.4	22.7	24.8	32.1	101.9	129.5
Operating profit	12.2	23.5	6.5	2.3	1.6	20.4	30.8	8.3	2.7	2.2	26.5	39.7	52.7
Earnings before taxes	9.8	20.9	5.8	1.6	1.5	20.3	29.1	8.2	2.6	2.0	26.4	39.2	52.2
Net earnings	5.3	12.0	3.3	1.0	0.9	12.0	17.3	4.7	1.7	1.3	15.6	23.2	31.0
Shares outstanding (mm)	37.3	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.1	39.1	39.1	39.1	39.1
EPS	$0.14	$0.32	$0.09	$0.03	$0.02	$0.31	$0.45	$0.12	$0.04	$0.03	$0.40	$0.59	$0.79
EBITDA	15.7	27.9	7.7	3.8	3.2	22.1	36.8	10.1	4.7	4.2	28.9	47.9	63.6
Gross margin	59.6%	62.9%	64.4%	61.1%	61.9%	67.6%	64.5%	65.2%	62.0%	62.8%	68.4%	65.3%	66.4%
Operating expenses/sales	46.1%	44.1%	45.9%	53.6%	57.0%	37.0%	46.0%	47.6%	55.3%	57.7%	37.4%	47.0%	47.2%
Operating margin	13.5%	18.8%	18.5%	7.4%	4.8%	30.6%	18.5%	17.6%	6.6%	5.0%	30.9%	18.3%	19.2%
EBITDA margin	17.4%	22.3%	22.1%	12.0%	9.5%	33.2%	22.1%	21.4%	11.4%	9.9%	33.7%	22.1%	23.2%
Total store count	108	146	161	179	196	200	200	220	238	256	260	260	330
Comps (ex. e-commerce)	6.9%	8.7%	6.0%	6.9%	6.0%	5.0%	5.8%	6.0%	5.0%	5.0%	6.0%	5.6%	5.4%
2 year stacked comps	9.9%	15.6%	21.7%	13.8%	11.9%	12.5%	14.5%	12.0%	11.9%	11.0%	11.0%	11.4%	11.0%
Y/Y inventory growth		45.7%				103.8%	103.8%	26.9%	15.3%	6.4%	4.8%	4.8%	21.3%
Y/Y sales growth	41.3%	38.2%	35.6%	36.3%	35.1%	30.0%	33.3%	34.8%	30.8%	28.3%	28.7%	30.3%	26.7%
Y/Y EPS growth	339.3%	124.4%	71.3%	77.2%	165.9%	26.2%	41.2%	36.5%	58.1%	35.9%	30.2%	32.3%	33.3%

Source: Company reports and KeyBanc Capital Markets Inc. estimates

KEY TO EARNINGS

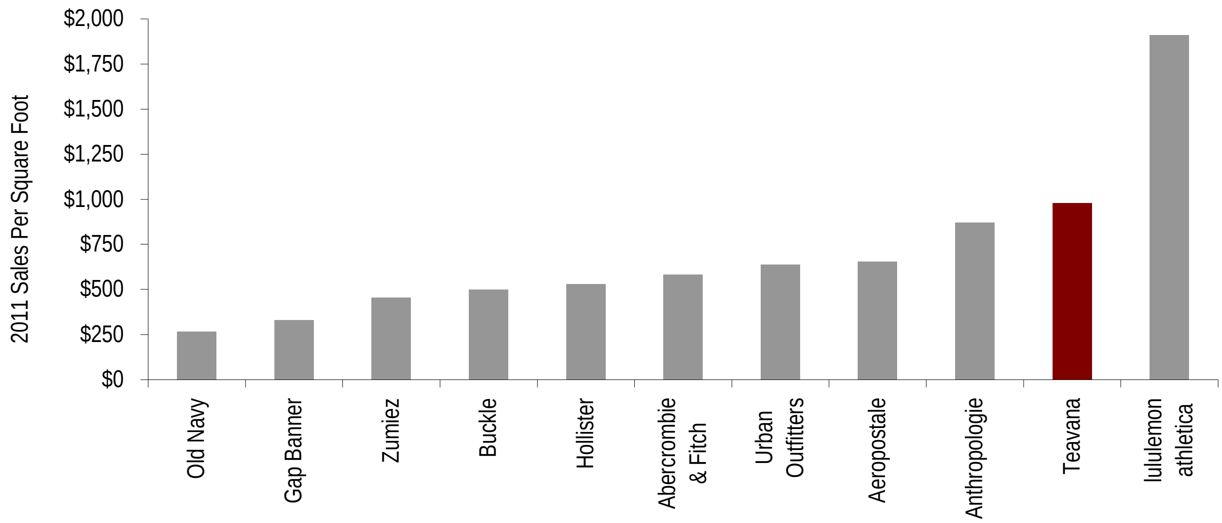
20%+ growth looks sustainable. The Company continues to drive strong revenue growth via a combination of mid single-digit comps as well as 15%+ square footage growth. The Company has seen some weakness in traffic due to a deliberate move away from prepared beverages. We think this move helps refocus the business as a purveyor of loose tea and the corresponding merchandise. Finally, the Company is well positioned within the secularly attractive healthy lifestyle space. As awareness of the health benefits of tea drinking increase, we think that the premium tea market will see accelerating growth.

Exhibit 6: Strong Double-Digit Sales Growth



Source: Company reports and KeyBanc Capital Markets Inc.

Exhibit 7: Teavana Has Impressive Sales Productivity



Source: Company reports and KeyBanc Capital Markets Inc.

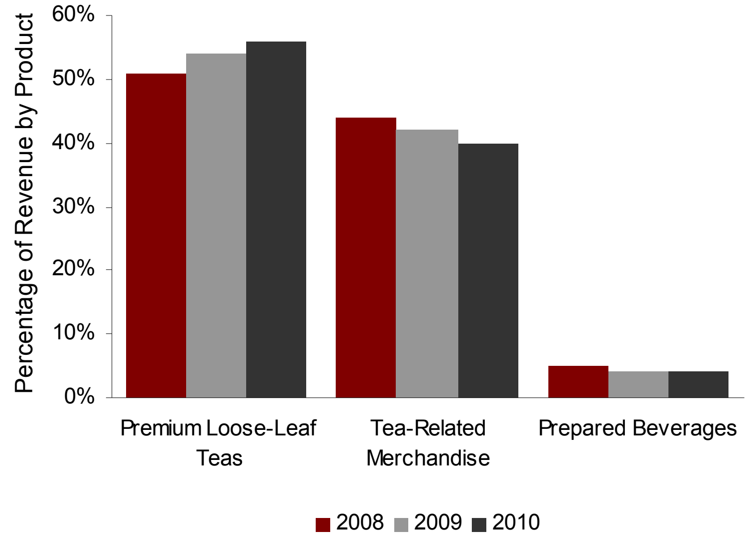
Exhibit 8: Teavana Dominates Its Market Niche in the Mall

Enclosed Mall	State	Total Stores	Shoes	Women's	Teens	Home	Jewelry Watch	Burgers	Pretzels	Tea
Mall of America	MN	520	34	67	21	14	26	12	3	3
King of Prussia	PA	400	45	63	15	9	24	4	1	2
The Galleria	TX	375	42	73	22	12	35	8	2	1
Garden State Plaza	NJ	345	40	49	25	7	19	6	2	1
Woodfield	IL	300	43	69	21	12	9	9	2	1
Roosevelt Field	NY	290	34	41	20	11	16	7	2	1
South Coast Plaza	CA	280	19	69	20	18	26	9	-	2
Aventura	FL	275	42	46	15	8	23	6	2	1
Fashion Square	AZ	250	30	54	15	12	27	4	2	1
Natick	MA	250	19	34	14	7	14	4	1	1
Fashion Valley	CA	200	23	37	16	8	14	3	1	1

Source: Company reports and KeyBanc Capital Markets Inc.

Gross margin expansion expected to continue despite three consecutive years of roughly 200+ bps growth. With the Company's move to direct sourcing fully anniversaried in the 3Q, we expect gross margin improvement from here to be driven by the natural sales mix shift away from merchandise toward higher margin loose tea as new stores mature. With 54 new stores expected in 2011, 60 planned for 2012, 70 planned for 2013 and an estimated 80 openings per year through 2015, we think there is a long runway for steady gross margin expansion as new stores enter the comp base and ramp to maturity (a four-year time frame). New stores generally open with higher than average sales in the first few months; sales begin to normalize after the first three months. Upon opening, purchases of loose tea typically make up a little over 50% of sales; tea-related merchandise (such as teapots, cups, brewers, kettles, timers, spoons, trays) and beverages make up the remaining sales. As stores mature, customers graduate from buying teaware to replenishing their favorite teas and trying new blends – a much more profitable sale. At maturity, loose tea purchases make up about 60% of sales. This evolution provides a natural margin lift, given gross margins on tea sales typically run about 1,000 bps higher than non-tea product sales. With an accelerated store opening cadence over the next four years, we expect the Company will see a sales mix shift benefit of about 600-800+ bps per class of new stores over the next decade. At the end of 2010, loose tea made up 56% of total sales.

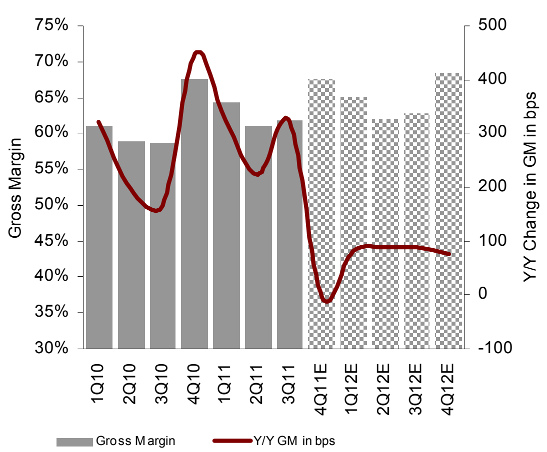
Exhibit 9: Increased Sales Focus on Loose-Leaf Teas



Source: Company reports

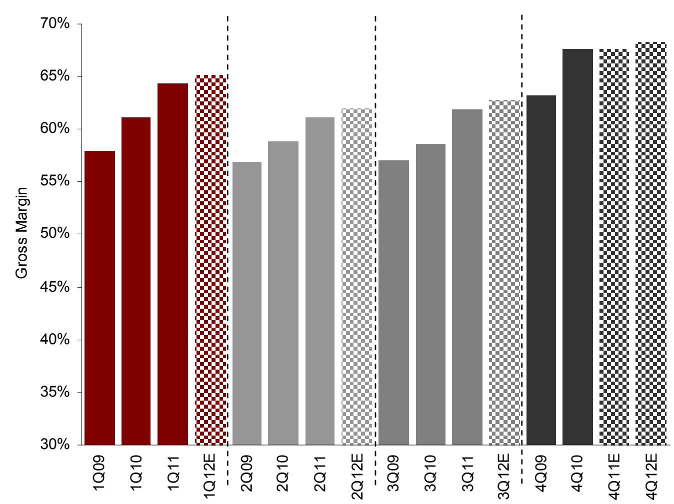
We also believe TEA's continued de-emphasis of beverage sales (as a percent of total sales) has and will continue to positively impact gross margins. Beverage sales have come down dramatically from 8-10% of total sales in 1997 to 4% today. We believe beverage sales will likely stay at this low single-digit percentage level going forward. We expect gross margins in 2011 to reach a new peak, expanding by 165 bps year-over-year to 64.5%. Margins over the last four quarters have grown significantly year-over-year (4Q10 +448 bps; 1Q11 +325 bps; 2Q11 +223 bps; 3Q11 +323 bps) as a result of the Company's move to a direct sourcing model, which drove improved product margins in non-tea merchandise categories. In addition, gross margins benefited slightly over the last year due to an increased sales mix shift toward loose tea and reduction in beverage sales.

Exhibit 10: Gross Margin Expansion to Continue



Source: Company reports and KeyBanc Capital Markets Inc.

Exhibit 11: Gross Margins Expand Over Time

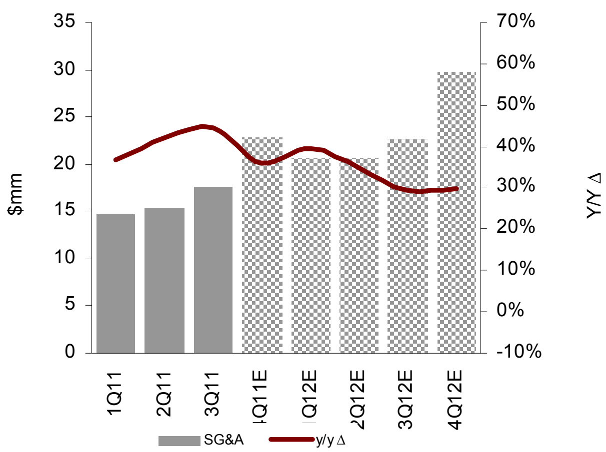


Source: Company reports and KeyBanc Capital Markets Inc.

Look for continued SG&A investments. We expect SG&A as a percent of sales to rise by 187 bps to 42.4% in 2011 and 82 bps to 43.2% in 2012 (following 100+ bps of year-over-year leverage in each of the last four years) primarily due to a significant increase in pre-opening and training costs (driven by planned acceleration of new store openings over the next few years) as well as infrastructure-related costs (including new corporate office rent, setup costs for Canada, distribution center expansion and continued investments in IT). Moreover, we expect SG&A to be incrementally pressured through 1H12 due to higher corporate costs associated with being a public company; this includes additional costs for increased personnel in finance, legal and compliance, as well as stock-based compensation. Beginning in 2013, we expect SG&A costs to normalize, as this will be the first year the Company fully anniversaries public company costs.

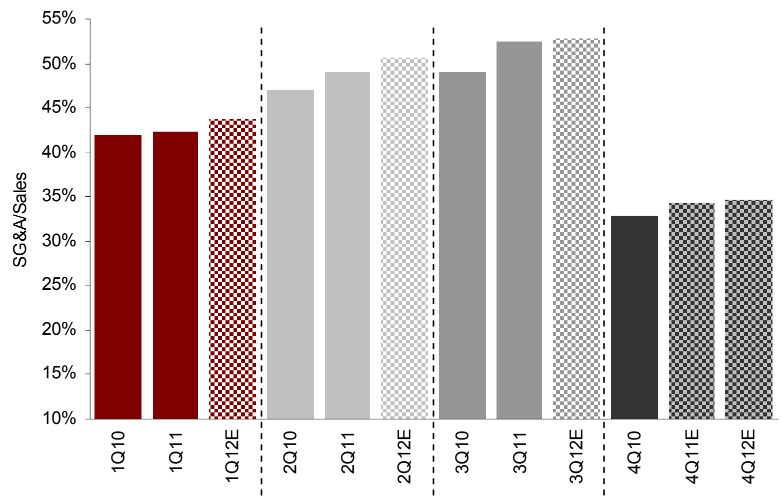
Teavana has significant opportunities in marketing and understanding customer loyalty. The Company has been aggressively looking for a VP of Marketing for the past three to six months, and hopes to have someone in place shortly, prior to the anticipated launch of its CRM system in 2012. Despite having very little customer-specific data, TEA does have a significant amount of store level and SKU level data, which we think will be very useful in building a loyalty program to further drive the average ticket and increase the number of transactions (the bigger opportunity today). The Company's ecommerce platform has been in operation for four years now, which has helped educate consumers on tea; however, this channel still represents a small portion of total sales (7% as of FY10) and will likely grow at a steady pace to 10% of the business in 2015. Though management does not have a stated target for marketing spend as a percent of sales, we believe this will be a material increase in 2012 and 2013 (as the Company starts to build out the marketing department and CRM program from nothing).

Exhibit 12: SG&A Dollars Rise as TEA Invests for Long-Term Growth



Source: Company reports and KeyBanc Capital Markets Inc.

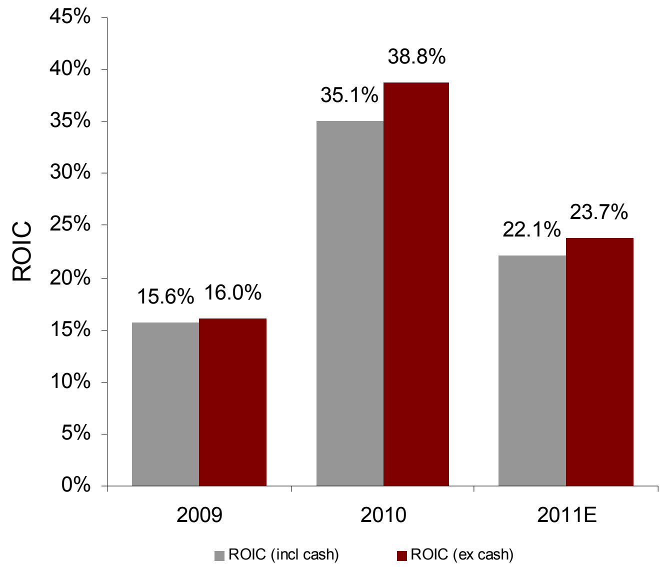
Exhibit 13: Expect SG&A/Sales to Moderate



Source: Company reports and KeyBanc Capital Markets Inc.

We see long-term operating margin expansion opportunity. After four consecutive years of 100-600+ bps of year-over-year expansion, we expect Teavana's operating margins to contract modestly in 2011 and 2012, before delivering expansion in 2013 and beyond, as the Company begins to cycle its increased spending on infrastructure investments and public company costs. We currently model an operating margin of 18.5% in 2011, and believe the Company could reach its stated 21% operating margin goal over the next five years on a more mature business platform.

Exhibit 14: Return on Invested Capital



Source: Company reports and KeyBanc Capital Markets Inc.

Exhibit 15: 2011 Guidance

2011 Guidance	
Net Sales	$162-$166mm
Net income	$16.5-$17.3mm
EPS	$0.43-$0.45
4Q 2011 Guidance	
Net Sales	$62-$66mm
Comps (including e-comm)	increasing in the mid-single digits
Net income	$11.2 - $12.0 mm
EPS	$0.29 - $0.31
2012 Guidance	
Store Openings	60 planned openings 2012; 1st international store opening later in 2012

Source: Company reports

Exhibit 16: Long-Term Financial Targets

Longer Term (thru 2015)	
Sales CAGR	25%
Annual comp (incl. ecomm)	4-5%
Annual comp (excl. ecomm)	3%
Operating margin	300 bp expansion
Net income CAGR	at least 30%

Source: Company reports

INITIATION CHECKLIST = BUY

Teavana has a strong combination of a distinctive store environment, attractive secular trends, and a visible gross margin tail – we initiate with a BUY rating. The Company's 19% operating margin is one of the highest in our coverage universe. We believe the Company has continued margin expansion opportunity as the penetration of loose tea increases from store maturation. Also, our proprietary field work points to a unique performance management and compensation model; we think this helps institutionalize the highly consultative nature of the business. Finally, and perhaps most importantly, the store's "theater" differentiates it from other mall-based retailers, and we think evokes the best from our lifestyle-focused retailers (including lululemon athletica and Zumiez).

Exhibit 17: Initiation Checklist

Differentiated retail environment	✓	**We think that Teavana has one of the most differentiated retail offerings in our coverage universe. The Wall of Tea adds to the theatrical element of the retail environment – we think it is as unique as our best-in-class retail environments (lululemon, Tiffany and Zumiez).**
Higher priced premium products	✓	**There is a very wide product and pricing breadth, which makes the offering both accessible and aspirational. The premium teas are certainly a luxury item, but are much more affordable on a per cup basis – see Exhibit 27.**
Healthy living	✓	**Tea has proven health benefits and has little or no calories.**
Strong management team	✓	**We think the Teavana management team is one of the strongest in our coverage universe. Inside ownership, particularly by CEO Andrew Mack (56% holding) is very high.**
U.S growth	**?**	**The Company has at least a 500 store U.S. opportunity. However, more growth will come from less productive B mall locations. In addition, the Company has not embarked on street locations.**

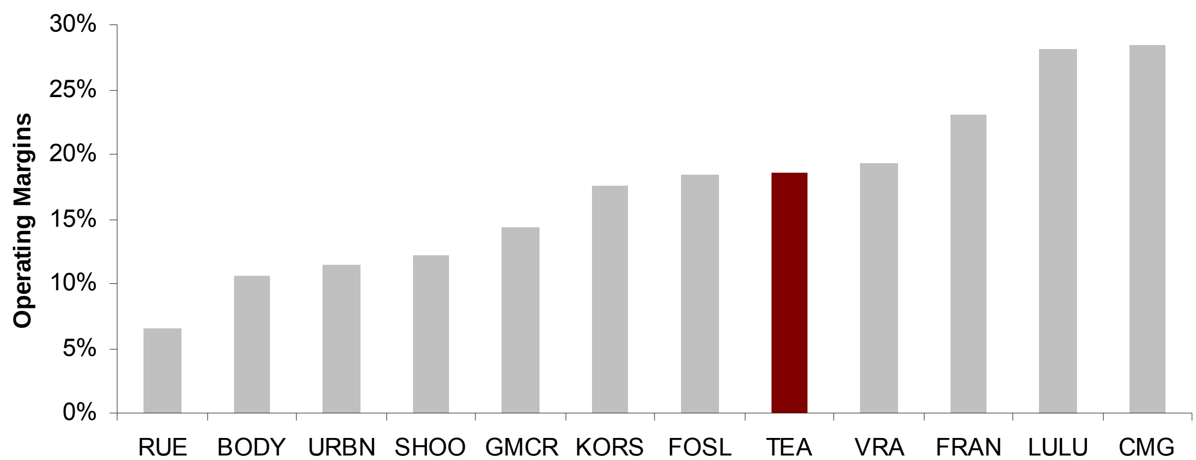
Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 18: 2011 Financial Peer Comparison

	BODY	CMG	FOSL	FRAN	GMCR	KORS	LULU	RUE	SHOO	URBN	VRA	TEA
Revenues ($mm)	$297	$2,270	$2,567	$202	$2,651	$803	$992	$760	$955	$2,474	$459	$166
% growth y/y	**22%**	**24%**	**26%**	**49%**	**95%**	**58%**	**39%**	**20%**	**50%**	**9%**	**25%**	**33%**
Gross margin	33%	40%	56%	53%	34%	52%	57%	28%	38%	35%	56%	65%
SG&A/sales	23%	12%	38%	30%	20%	35%	29%	21%	26%	23%	37%	46%
Operating margin	**11%**	**28%**	**18%**	**23%**	**14%**	**18%**	**28%**	**7%**	**12%**	**12%**	**19%**	**19%**
Inventory/COGS	11%	1%	43%	15%	38%	31%	35%	30%	10%	16%	29%	60%

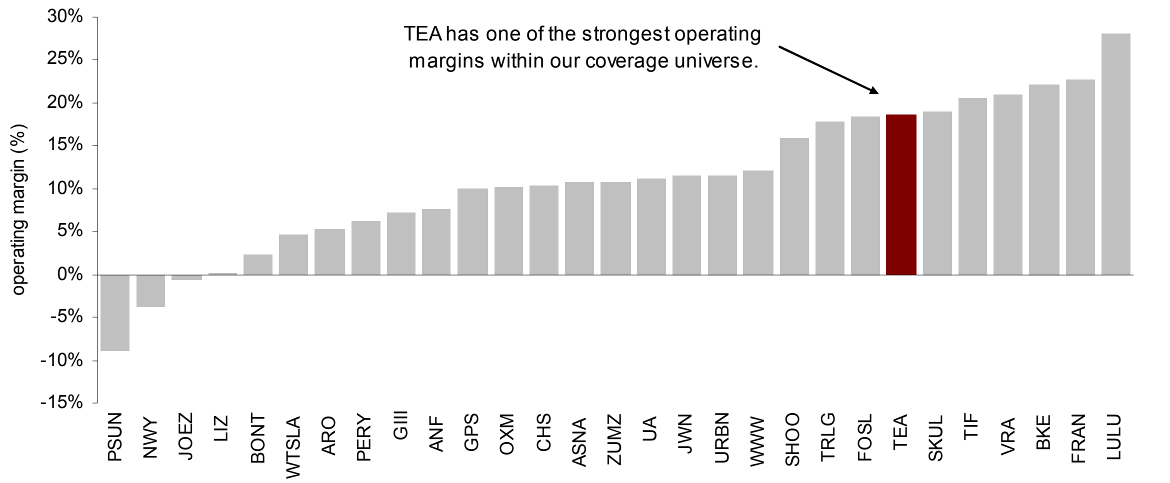
Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 19: 2011 Operating Margin Comparison of High Growth Peer Group



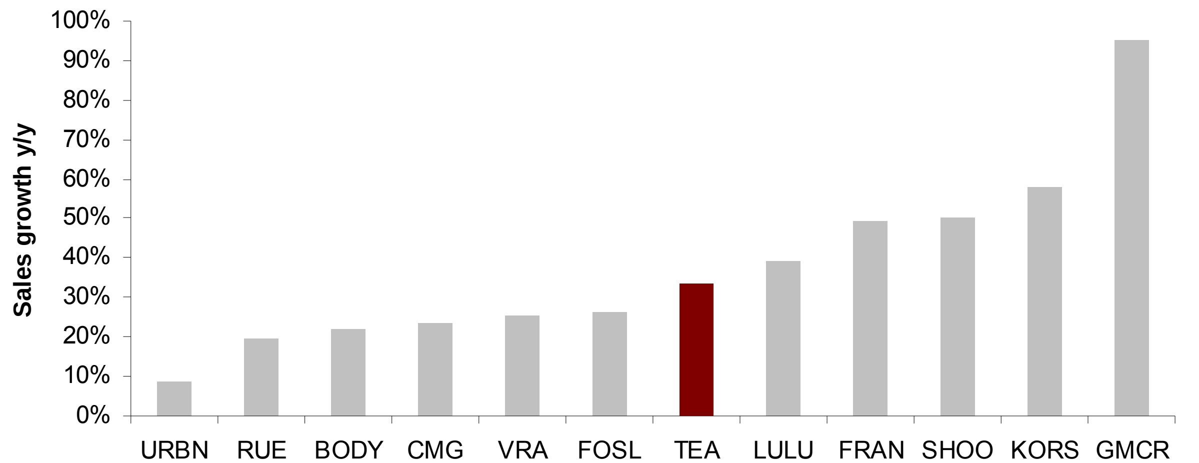
Note: Operating margins for BODY, LULU, RUE and TEA represent full FY11 estimates based upon YTD 3Q11 actuals, as these companies have not yet reported full year FY11 financials.
Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 20: 2011 Operating Margin Comparison of KBCM Coverage Universe



Note: Operating margins for WTSLA, PERY, GIII, OXM, TEA, TIF and LULU represent full FY11 estimates based upon YTD 3Q11 actuals, as these companies have not yet reported full year FY11 financials.
Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 21: 2011 Sales Growth Comparison of High Growth Peer Group

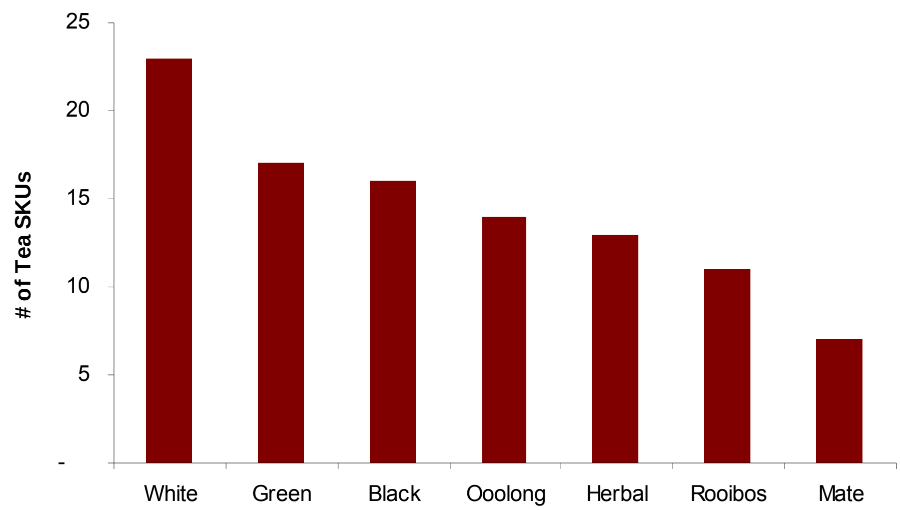


Note: 2011 sales for BODY, LULU, RUE and TEA represent full FY11 estimates based upon YTD 3Q11 actuals, as these companies have not yet reported full year FY11 financials.
Source: Company reports and KeyBanc Capital Markets Inc. estimates

TEAVANA PRESENTS A HIGHLY DIFFERENTIATED PRODUCT OFFERING

Teavana's focus on differentiated flavor combinations makes its product "sticky." We like that approximately 85% of Teavana's offering are blends, and over 30% are what we would characterize as complex blends.

Exhibit 22: Number of Teas by Category



Source: Company website

STRONG FOCUS ON STORE PERFORMANCE DRIVES A CONSULTATIVE ENVIRONMENT

Teavana has an unusually disciplined focus on store operations. Our field work uncovered a very elaborate system of weekly grades for employees.

Monthly bonuses and "grading" instill accountability. Generally speaking, the trigger for bonus payment, as well as the amount paid, is a function of each salesperson's weekly performance grades (i.e., "A," "B," "C," etc.) to determine the average monthly performance grade. An average target sales/hour goal is determined each week and is essentially a function of the expected run rate of the store as compared to other stores (i.e., higher volume stores have higher sales targets). Based upon the expected/planned sales volume for each store, a per hour sales goal is identified each month for the respective stores' salespeople. For example, if the goal was $100/hour and the actual average weekly sales per hour attributed to a given staff member was greater than $100/hour, then a top grade, such as an "A+," would be given to that salesperson for the week. At the end of the month, individual performance reviews are conducted with each salesperson to determine if he/she will receive a monthly bonus payout and the corresponding bonus amount. In order to be eligible for bonus payout, the weekly performance grade average must be an "A." Additionally, if the weekly average for a given month is an "A," a bonus is paid on only those sales from the weeks when an "A" grade was achieved.

A focus on internal promotion drives a strong culture. The Company gives its employees further incentive for top performance by making internal promotion a key focus and strategy, particularly with its aggressive new store opening plans through 2015. Of the 50 stores opened in 2011, through 3Q11, 48 of them (or 96%) opened with general managers who were promoted from within the Company. Management believes that opening stores with internally promoted general managers is critical, as this has historically improved consistency of service and store performance. This 96% internal promotion rate for new stores continues to improve; the 2011 run-rate is above the 87% rate achieved in FY10 and 39% rate achieved in FY09.

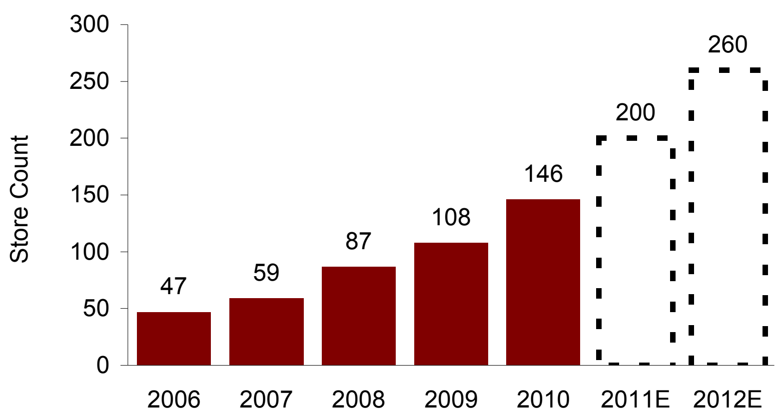
Exhibit 23: New Store Economics Looking Forward

New Store Economics	
Average Store Size	900-1,000 sq. ft.
Annual Sales	$600,000 - $700,000
4 wall contribution	~25%
Net Cash Investment*	$200,000 - $250,000
Cash-on-cash return	~75%
Payback period	~18 Months

Note: Includes store build out (net of tenant allowances), inventory and cash pre-openings costs.
Source: Company reports

Expect new store model to remain profitable. We believe new store openings will drive the majority of year-over-year EPS growth for the next four to five years, at 60-80 stores per year. Despite the Company's high penetration in "A" malls across the United States, we think TEA has an adequate amount of quality, lower rent locations in "B" malls and street locations it could tap to complete its 500-store goal by 2015. We believe this lower leverage point on occupancy expense is key to the Company's store growth plan, which also assumes lower than historical average sales in year one. Though the average size of the stores opened in 2011 is about 15% higher than the average size for stores opened in 2010 and prior, occupancy cost as a percent of sales for the 2011 class is slightly lower than the class of 2010 and prior, and occupancy cost per gross square foot is much lower than the class of 2010 and prior. In addition, TEA's new store model requires a lower amount of capital investment to open (at $200,000-$250,000) compared to the Company's historical average for new stores, thanks to a lower average buildout cost and higher average tenant allowances per new store. Despite a four-year ramp period to maturity, a new store typically has a payback period of 18 months on its initial investment.

Exhibit 24: Store Growth Plans



Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 25: 2011 Stores Compared to Existing Stores

2011 Stores Compared to Existing Stores	
Average Gross Square Feet	15% higher 1,023 vs 888 sq. ft.
Occupancy Cost as a % of Sales	Slightly lower
Total Occupancy Cost $	Lower
Occupancy Cost per Gross Square Foot	Much lower

Note: Existing stores represent stores opened in 2010 and prior. Sales are projected on an annualized basis.
Source: Company presentation

Exhibit 26: Unique Ambiance and Design in Every Store

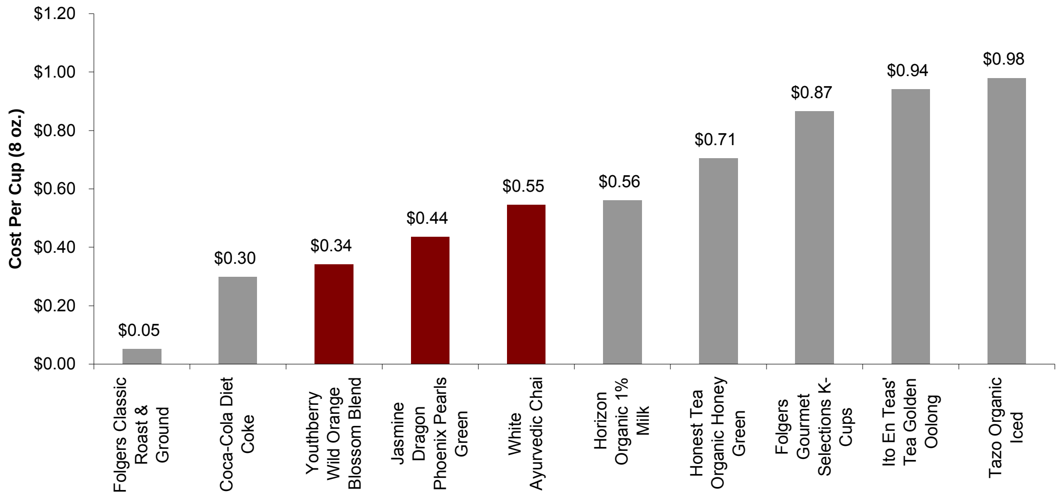
Source: KeyBanc Capital Markets Inc.

Exhibit 27: "Wall of Tea"

Source: KeyBanc Capital Markets Inc.

TEAVANA OFFERS A WIDE PRICING SPECTRUM

Exhibit 28: A Cup of Premium Tea Isn't That Expensive



Note: Based on 8 fl. oz. servings.
Source: Company reports, freshdirect.com, SymphonyIRI Proprietary Data (52 weeks ended 1/22/12)

Exhibit 29: Cost of a Cup of Teavana's Tea

Tea Name	Cost per 2 oz.	Cost per Cup
Earl Grey Black	$3.80	$0.14
Honeybush Vanilla Herbal	$4.80	$0.26
Toasted Nut Brulee Oolong	$8.00	$0.29
Rooibos Tropica	$5.80	$0.32
MateVana Herbal	$5.80	$0.32
Youthberry Wild Orange Blossom Tea Blend	$9.40	$0.34
Dragonwell	$10.20	$0.37
White Ayurvedic Chai	$10.00	$0.55
Monkey Picked Oolong	$25.00	$0.91
Silver Yin Zhen Pearls White	$22.00	$1.20

Note: Suggested amount of tea leaves (in teaspoons) varies based on tea. Cost per cup is based on 8 fl. oz.
Source: Company reports

Exhibit 30: Top Loose-Leaf Tea SKUs by Category

Type	Tea Name	$ / 2OZ.
White	Silver Yin Zhen Pearls	$22.00
	White Ayurvedic Chai	$10.00
Green	Jasmine Dragon Phoenix Pearls	$12.00
	Gyokuro Imperial	$20.00
Oolong	Monkey Picked	$25.00
	Maharaja Chai	$12.00
Black	Golden Monkey	$18.50
	Black Dragon Pearls	$15.00
Rooibos	Rooibos Tropica	$5.80
	Blueberry Bliss	$6.80
Maté	Samurai Chai	$6.20
	Rapberry Riot Lemon	$6.80
Herbal	Wild Orange Blossom	$6.80
	Pineapple Kona Pop	$7.20

Source: Company reports and Company website

Exhibit 31: Top Tea Merchandise/Accessories SKUs by Category

Category	Product	Price
Teapots	Cast-iron teapots from Japan	$69.95 - $279.95
	Yixing clay teapots	$19.95 - $29.95
Tea cups & mugs	Handcrafted tea cups	$8.95 - $14.99
	Tea set	$29.98 - $189.95
Tea Access.	Teavana Perfect TeaMaker	$19.95 - $29.95
	Zojirushi Hybrid Water Heater	$199.95
Décor, Food & Media	Asian inspired statues	$29.95 - $149.95
	Artisanal honeys	$14.95 - $19.99

Source: Company reports and Company website

COMPETITIVE LANDSCAPE

Teavana operates in a very fragmented competitive landscape. The U.S. tea market has grown consistently in recent years, which has attracted numerous entrepreneurs and competitors into the growing tea market. According to the U.S. Tea Association, the U.S. tea market has grown at a CAGR of 7.4% during the last 20 years. As of 2010, the U.S. tea market was estimated to be $7.7 billion (wholesale value), which is up from $1.84 billion in 1990. However, the U.S. tea market is immature and competitors tend to be tea rooms, which grew from 200 to 400 in the last decade (source: U.S. Tea Association), coffee houses offering specialty teas, and many different stand alone tea stores, which offer a wide assortment of tea products. Teavana currently has 196 owned stores in the United States alone and holds a significant market share of the growing U.S. tea market. David's Tea, a Canadian-based tea company, executes a similar strategy to Teavana with more than 40 Canadian stores and two stores in New York City; expansion into the U.S. market began at the end of 2011. Through our proprietary fieldwork, we discovered that David's Teas has plans in place to expand to six stores in the NYC area in the very near term and has plans for aggressive growth throughout the United States during 2012. We believe David's Tea could quickly become one of Teavana's more significant competitive threats in the U.S. market.

The U.S. tea market remains immature relative to other countries. The Company's business is highly concentrated on a single, discretionary product category, premium loose teas and tea-related merchandise, and is dependent upon significant growth of the U.S. Tea market as well as healthy consumer spending. These discretionary purchases may decline during recessionary periods or at other times when disposable income is lower. According to the Tea Association of the USA, Inc., the U.S. tea market is expected to grow from $7.7 billion in 2010 to nearly $15 billion by the end of 2014, and the specialty tea portion of the tea market will be the fastest growing segment, with annual increases in the 10-20% range (source: U.S. Tea Association). The ability of the Company to educate U.S. consumers on the many positive attributes of tea as compared to other drink options, such as soda or coffee, and help drive growth of the overall U.S. tea market is critical to the future growth prospects of the business in spite of the robust outlook for the U.S. tea market and specialty tea growth projections. In addition to beverage alternatives to tea, competition looms from other specialty retailers who offer products that vie for consumers' disposable income dollars.

Exhibit 32: Teavana Has a Broad Product Offering

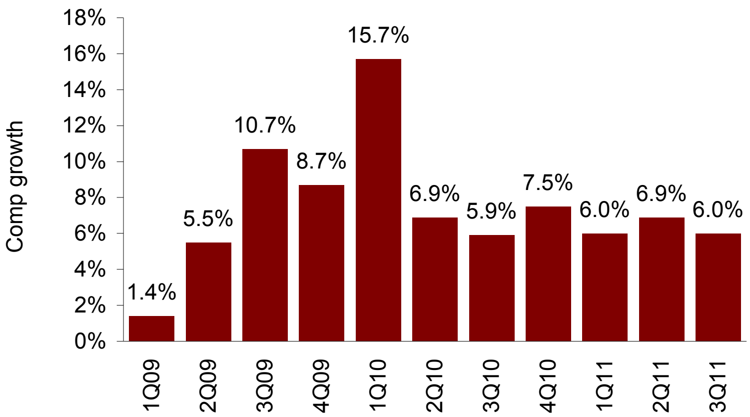
		Teavana		David's Tea		The Republic of Tea		Mighty Leaf Tea	
Tea Type	Price Point	Tea Name	Price / 2OZ.	Tea Name	Price / 2OZ.	Tea Name	Price / 2OZ.	Tea Name	Price / 2OZ.
White	Low	Weal Grey White Tea	$10.00	Cherry Potion	$6.80			White Lotus	$5.08
	Middle	Lavender Dreams White Tea	$15.00	Organic Gold Rush	$13.04	Silver Rain	$24.57	White Orchard	$8.47
	High	Silver Yin Zhen Pearls White Tea	$22.00	Organic Spring White Pearls	$22.68			Chrysanthemum Silver Needle	$14.14
Green	Low	Moroccan Mint	$4.50	Genmaicha	$5.67	Blueberry Green	$6.00	Vibrance	$4.66
	Middle	Peachberry Jasmine Sutra	$9.00	Lime Gelato	$7.94	Sky Between the Branches	$9.14	Sencha Deep Roast	$8.48
	High	Huang Shan Mao Feng Reserve	$20.00	Ceremonial Matcha	$83.63	Jasmine Pearls	$24.67	Gyokuro	$22.64
Oolong	Low	Toasted Nut Brulee	$8.00	Carrot Cake	$8.50	Milk Oolong	$7.43	Orchid Oolong	$5.93
	Middle	Jasmine	$12.50	Happy Kombucha	$10.77	Osmanthus Rare Estate	$22.64	Wuyi Oolong	$12.73
	High	Phoenix Mountain Dan Cong	$25.00	Organic High Mountain	$22.68	Monkey Picked	$24.67	Honey Orchid Phoenix Bird	$40.23
Black	Low	Earl Grey	$3.80	English Breakfast	$4.54	Ginger Peach	$5.71	Russian Caravan	$4.23
	Middle	Taj Masala Chai	$9.80	Organic Buttered Rum	$7.37	Republic Darjeeling	$7.14	Organic Breakfast	$5.08
	High	Darjeeling De Triomphe	$20.00	Nepal Black Tea	$11.34	Imperial Republic Pu-Erh	$20.67	Golden Monkey	$10.17
Rooibos	Low	Rooibos Chai	$4.80	Organic Rooibos	$5.67	Caramel Red Apple	$4.50	Organic Rooibos	$4.66
	Middle	Blueberry Bliss	$6.80	Orange Blossom	$7.37	Good Hope Vanilla Red	$6.00	Chocolate Mint Truffle	$5.08
	High	Opus Rouge	$8.00	Jolly Jellybean	$7.94	Apricot Honey Red	$7.14	Coco Chai	$5.51
Maté	Low	MateVana	$5.80	Organic Green Mate	$4.54			Organic Yerba Mate	$4.66
	Middle	Raspberry Riot Lemon	$6.80	Jumpy Monkey	$7.37				
	High	Acai Matetini	$8.00	Chocolate Rocket	$7.94			Rainforest Mate	$5.51
Herbal	Low	Honeybush Vanilla	$4.80	Organic Peppermint Amour	$5.67	Cardamon Cinnamon	$4.00	Chamomile	$4.21
	Middle	Sweet Fruit Garden	$6.80	Shanti Ayurvedic	$7.37	Chamomile Lemon Herbal	$11.43	Ginger Twist	$5.51
	High	Citrus Lavender Sage	$10.00	Mulberry Magic	$10.21	Snow Rose	$26.96	Tulsi Rose	$6.36

Source: Company reports, Company website, and competitors' company websites.

EXPECT STRONG DOUBLE-DIGIT SALES GROWTH TO CONTINUE

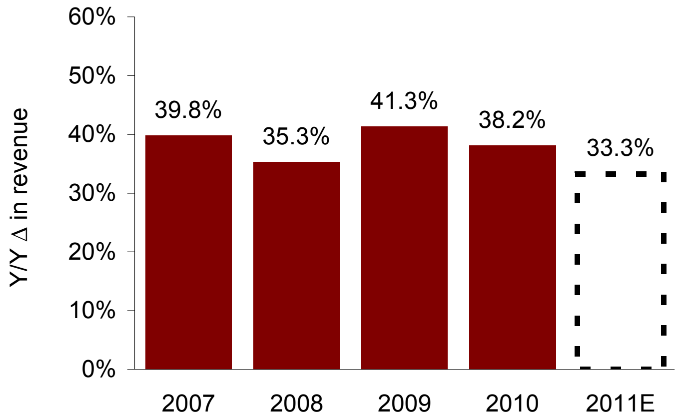
We believe strong sales trends should continue. In 3Q11, sales increased 35% year-over-year following four consecutive years of 35%+ increases year-over-year, despite macroeconomic pressures in 2008-2009. Sales growth over the last four years has benefited from a significant number of new store openings (admittedly off a small base of 47 stores in 2006) and a consistently rising average ticket. We expect sales to grow in the 20-30% range over the next several years, aided by new store openings, increasing average ticket, greater traffic and transactions, as well as improved product offerings.

Exhibit 33: Consistent Comp Growth



Source: Company reports and KeyBanc Capital Markets Inc.

Exhibit 34: 2011E Sales Growth of 33%



**Data represents January FYE.*
Source: Company reports and KeyBanc Capital Markets Inc.

THREE COMPELLING TOP-LINE GROWTH OPPORTUNITIES

#1 Accelerated New Store Openings in the United States

Expect 60-80 openings per year. We believe that TEA can maintain one of the highest growth rates in our coverage universe over the next four to five years, with new store openings to drive the majority of year-over-year EPS growth. Despite the Company's high penetration in "A" malls across the country, we think TEA has an adequate amount of quality, lower rent locations in "B" malls as well as some street locations it could tap to complete its 500-store goal by 2015. We think the lower rent structure should more than offset the lower than historical average sales PSF in year one, thereby helping to maintain the profitability of the new store base. Additionally, we think expansion should become easier as the store base grows because the Company will be able to leverage a bigger pool of store managers and trained sales associates as well as its upgraded information systems to help with future openings. Finally, we think TEA's sales should benefit over time from a new CRM and marketing program, which should drive higher traffic, transactions and new customers to the concept.

#2 International Expansion

International expansion through both franchise and owned stores. With franchise royalty income representing less than 1% of total sales in FY10 (ended January 30, 2011), we believe that the international segment could become a meaningful contributor to earnings over time. Since the end of 2010, the Company added three franchise stores in Mexico; TEA now operates a total of 18 franchise stores, including 16 in Mexico (via Casa Internacional) and two in the United States. The Company also signed a multi-year franchise agreement with Alshaya in September 2011, to develop mall-based Teavana stores in eight countries across the Middle East (including Bahrain, Kuwait, Saudi Arabia, Qatar, the UAE, Egypt, Lebanon and Jordan). The first store in the Middle East is expected to open later this year. The Company's franchise agreements provide franchise rights for a period of 10-15 years and require franchisees to sell products solely purchased from TEA. These stores carry a similar selection of tea and non-tea merchandise but have a higher percentage of beverage sales than TEA's owned stores. In addition, the Company entered Canada during 4Q11 by opening a directly owned retail store. We believe that while the majority of TEA's international expansion will be through franchise stores, the Company will open directly owned stores in select markets. Over the near term, we believe TEA will look to enter Western Europe;

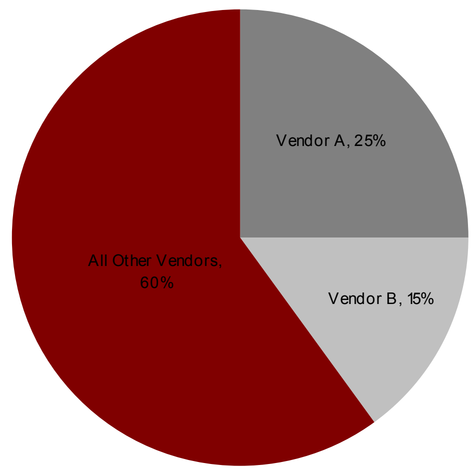
and over the longer term, TEA will likely look to enter South America, Russia, India, China, Australia and Africa.

#3 Potential Entrance into CPG

Over time, Teavana could enter the CPG market. We think the Company will tread carefully in this arena given the premium positioning in the market. The current iteration of single-cup brewer machines is not ideal for tea preparation given that they do not steep, rather, they focus on passing hot water quickly. However, a number of companies have added innovation to their tea machines, including Breville's automatic tea maker. A second potential offering is a ready-to-drink product. There have been a number of offerings in this space (Tea's Tea, Tazo, Honest Tea, among others). However, given the strength of Teavana's brand as well as its proprietary tea blends, we think this could provide a long-term opportunity.

SUPPLY CHAIN AND INVENTORY MANAGEMENT

Exhibit 35: 2010 Vendor Concentration

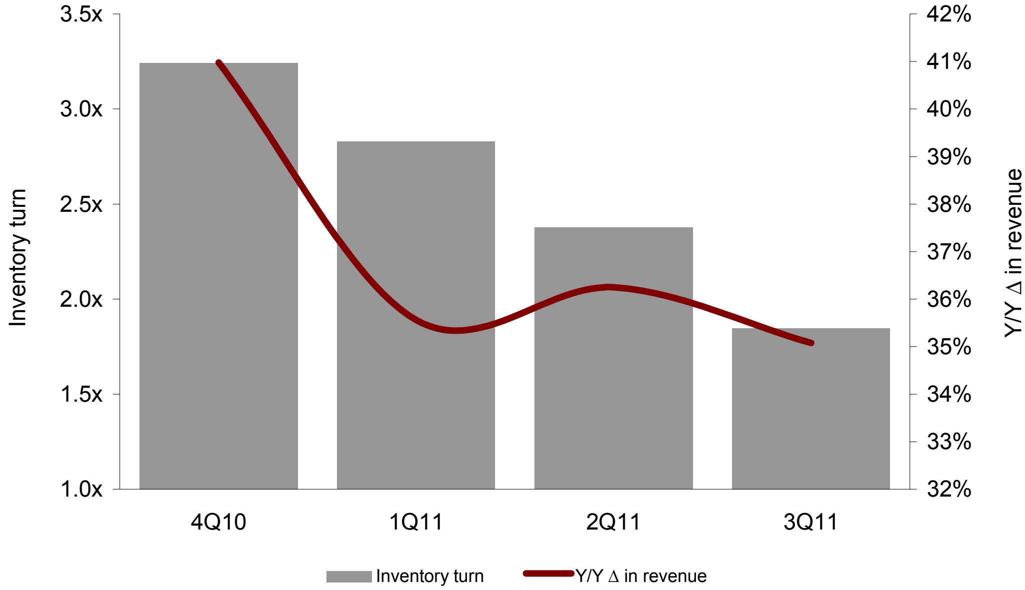


Source: Company reports and KeuBanc Capital Markets Inc.

The Company is highly reliant on a small number of vendors. The Company does not own or operate any tea estates, blending operations or manufacturing facilities. Instead, the Company relies on more than 100 vendors to supply single-estate and specially blended teas as well as tea-related merchandise on a continuous basis. TEA does not have long-term purchase contracts with the vendors or other contractual assurances of continued supply, pricing or exclusive access to products; any of the Company's suppliers or manufacturers could discontinue supplying Teavana with loose-leaf tea or tea-related merchandise in sufficient quantities. During FY10, the Company's two largest vendors supplied 40% of its total inventory purchases. The Company could be adversely affected if any of its vendors entered into arrangements with Teavana's competitors to sell similar tea products, including giving competitors exclusive licensing arrangements or exclusive access to tea blends and other products or limiting TEA's access to such arrangements or blends or other products. In addition, TEA would be adversely affected if other natural/macro events occurred, such as weather, crop disease, labor relations, import/export and customs difficulties. We believe TEA has a very seasoned merchandising team who has very well-established relationships with some of the industry's most experienced and influential tea brokers and tea gardens around the world. As such, we think the quality and blends of tea that Teavana offers are not easily duplicable.

A move to direct sourcing for non-tea merchandise has helped improve gross margins. The Company's move to direct sourcing for non-tea merchandise late in 3Q10 has led to significant year-over-year increases in gross margin over the last four quarters as well as substantial increases in inventory (both in the warehouse and in-transit). With this strategy shift, TEA not only gained greater control of the production and distribution of its non-tea merchandise categories, but also captured the distributor margin and forged stronger direct relationships with the factories. We believe the improved factory relationships should help TEA greatly in the future as the Company continues to develop innovative, customized products to sell on an exclusive basis. On the flipside, the procurement of loose tea continues to be sourced primarily through tea brokers, which we believe may be the most efficient manner to garner the product.

Exhibit 36: Y/Y Inventory Turns vs. Y/Y Sales Growth



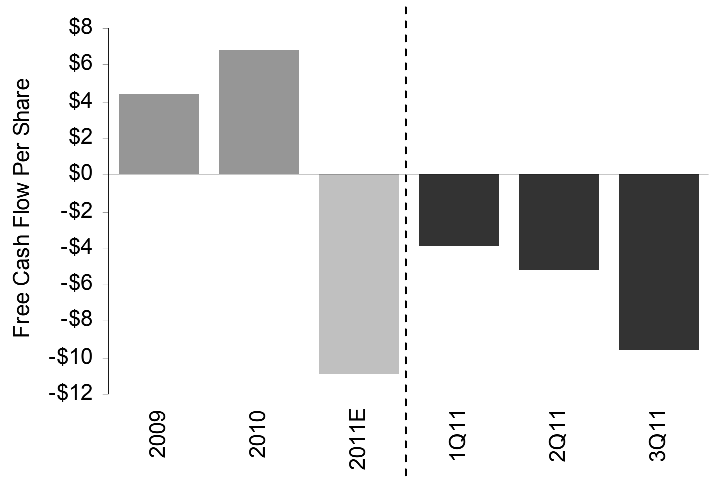
Source: Company reports and KeyBanc Capital Markets Inc.

HEALTHY BALANCE SHEET

Liquidity remains strong. Teavana maintains an amended $40 million revolving credit facility (maturing on April 22, 2016), which includes a $5 million sublimit for the issuance of letters of credit. This facility is secured by substantially all of the assets of the Company. On July 27, 2011, the Company used net IPO proceeds of $15 million to redeem all outstanding shares of its Series A redeemable preferred stock (valued at $10.7 million as of the IPO date) and to repay the $1.0 million outstanding balance (as of May 1, 2011) on its amended revolving credit facility with Fifth Third Bank.

As of October 30, 2011, the Company had an outstanding balance of $4.5 million on its revolver, $0.2 million of undrawn face amounts on letters of credit, and $35.3 million of availability for future borrowings. Working capital at quarter-end totaled $29.9 million compared to $1.9 million at the end of FY10 (ended January 30, 2011); note: current liabilities in 2010 included $13.0 million of Series A redeemable preferred stock. TEA had no additional long-term debt outstanding outside of the $4.5 million on the above-mentioned revolver. Cash balances at the end of 3Q11 were low, at $0.036 million, due to the seasonality of its business – with the greatest increase in working capital spend in the 2Q and 3Q in anticipation of the peak holiday selling season in the 4Q. We think cash balances at the end of 2011 (estimated at $7.6 million) should return to similar levels as the end of last year ($7.9 million). Moreover, we believe the Company should generate positive free cash flow in 2012 and going forward.

Exhibit 37: Free Cash Flow



Source: Company reports and KeyBanc Capital Markets Inc.

BRINGING A SENSE OF ADVENTURE TO THE MALL

Founded in 1997, Teavana offers premium loose teas and tea-related merchandise through a distinctive store ambiance, knowledgeable staff and healthy living lifestyle. Inspired by their international travels and passion for tea, CEO Andrew Mack and his wife, Nancy Mack, wanted to make high-quality teas easily accessible and opened their first store in Atlanta, Ga. To expand its store base, Teavana targeted high traffic locations within malls, lifestyle centers and other high sales volume retail venues. In 2004, the Company partnered with Parallel Investment Partners for capital resources and strategic advice to support accelerated growth plans. From 2006 to 2011, the Company grew from 47 to 196 (as of 3Q11) stores, more than tripling its store base. Each store offers a unique "Heaven of Tea" environment, equipped with highly interactive and well-trained teaologists to guide customers in understanding tea and its health benefits.

TENURED MANAGEMENT TEAM

Teavana's management team is highly entrepreneurial. With his comprehensive knowledge of the retailing business, Andrew Mack founded and served as CEO of Teavana since 1997. In 2005, Daniel Glennon joined to serve as CFO. He has extensive experience serving as CFO or VP of Finance for three small or early stage corporations. Peter Luckhurst serves as EVP of Operations and was promoted within the Company after serving as VP for Stores from 2005-2010. With tenured executives, we believe the management team will strongly execute Teavana's growth strategy. **Insider ownership remains very high, as founder Andrew Mack still owns roughly 56% of the Company.**

Exhibit 38: Management Overview

Name	Age	Position	Joined Position	2010 Compensation	% Ownership
Andrew T. Mack	46	CEO and Chairman of the Board	1997	$473,419	56.3%
Daniel P. Glennon	42	EVP and CFO	2005	$320,253	<1%
Peter M. Luckhurst	56	EVP, Operations	2010	$320,249	<1%
Juergen W. Link	50	VP, Distribution	2005	$265,011	3%
Robert A. Shapiro	64	VP, Real Estate	2005	$252,514	<1%

Source: Company reports

Exhibit 39: Board of Directors Overview

Name	Age	Joined	Background
Andrew T. Mack	46	2010	Held various management positions in the restaurant industry.
F. Barron Fletcher III	44	2004	Founder of Parallel Investment Partners. Currently: Serves as a member of the Board of Mealey's Furniture, Inc., The Fragrance Outlet, Inc. and USA Discounters, Inc. Previously: Served as partner with Saunders Karp & Megrue, worked actively with Dollar Tree, Inc. and Hibbett Sporting Goods, Inc. during the firm's ownership.
Michael J. Nevins	48	2004	Served as a SVP-Leasing for The Macerich Company.
Thomas A. Saunders III	75	2011	President of Ivor & Co., LLC, and was a founder of Saunders Karp & Megrue Partners, once a major investor in Dollar Tree, Inc. Previously: Served as a Managing Director of Morgan Stanley & Co. Currently: Serves as a member of the Board of Directors of Dollar Tree and Hibbett Sporting Goods.
John E. Kyees	64	2011	Currently: Serves as a Director and member of the Audit Committee of Casual Male Retail Group, Inc., and a Director and Chairman of the Audit and Compensation Committees of Vera Bradley, Inc. Previously: Served as the CIR Officer of Urban Outfitters, Inc. and previously as CFO. Has over 30 years of experience as a CFO, including nine years of experience serving as CFO for a public company.
Robert J. Dennis	57	2011	Currently: Serves as a Chairman of the Board of Directors of Genesco Inc., and as President and CFO. Previously: Served as President and COO of Genesco Inc. Has over 25 years of experience in the retail industry, including tenure at Genesco Inc., three years as CEO of Hat World, Inc. prior to its acquisition by Genesco Inc., three years in a senior position with Asbury Automotive and 13 years with McKinsey & Company.

Source: Company reports

Exhibit 40: Summary Quarterly Income Statement ($ in millions, except per share data)

	2009	2010			2011A/E					2012E			2013E
	Year	Year	1QA	2QA	3QA	4QE	Year	1Q	2Q	3Q	4Q	Year	Year
Revenues	90.3	124.7	34.9	31.3	33.4	66.6	166.2	47.1	40.9	42.9	85.7	216.6	274.4
Cost of goods sold	36.4	46.3	12.5	12.2	12.7	21.6	59.0	16.4	15.6	16.0	27.1	75.1	92.3
Gross profit	53.8	78.4	22.5	19.1	20.7	45.0	107.3	30.7	25.4	26.9	58.6	141.6	182.2
Selling, general & administrative expense	38.1	50.6	14.8	15.4	17.5	22.9	70.5	20.6	20.7	22.7	29.7	93.7	118.5
Depreciation and amortization expense	3.5	4.4	1.3	1.4	1.6	1.7	6.0	1.8	1.9	2.1	2.4	8.2	11.0
Operating income	12.2	23.5	6.5	2.3	1.6	20.4	30.8	8.3	2.7	2.2	26.5	39.7	52.7
Interest expense, net	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	9.8	20.9	5.8	1.6	1.5	20.3	29.1	8.2	2.6	2.0	26.4	39.2	52.2
Income tax expense	4.5	8.9	2.4	0.6	0.6	8.3	11.9	3.5	0.9	0.8	10.8	15.9	21.2
Net earnings	5.3	12.0	3.3	1.0	0.9	12.0	17.3	4.7	1.7	1.3	15.6	23.2	31.0
Weighted average shares outstanding - diluted	37.3	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.1	39.1	39.1	39.1	39.1
Earnings per share - diluted	$0.14	$0.32	$0.09	$0.03	$0.02	$0.31	$0.45	$0.12	$0.04	$0.03	$0.40	$0.59	$0.79
EBITDA	15.7	27.9	7.7	3.8	3.2	22.1	36.8	10.1	4.7	4.2	28.9	47.9	63.6
Comparable store sales	6.9%	8.7%	6.0%	6.9%	6.0%	5.0%	5.8%	6.0%	5.0%	5.0%	6.0%	5.6%	5.4%
Y/Y Inventory Growth		45.7%					103.8%					4.8%	21.3%
Margin analysis													
Cost of goods sold/revenue	40.4%	37.1%	35.6%	38.9%	38.1%	32.4%	35.5%	34.8%	38.0%	37.2%	31.6%	34.7%	33.6%
Y/Y change in bps	(222)	(326)	(325)	(223)	(323)	5	(165)	(80)	(90)	(90)	(75)	(81)	(103)
Gross margin	59.6%	62.9%	64.4%	61.1%	61.9%	67.6%	64.5%	65.2%	62.0%	62.8%	68.4%	65.3%	66.4%
Y/Y change in bps	222	326	325	223	323	(5)	165	80	90	90	75	81	103
Selling, general & administrative expense/sales	42.3%	40.6%	42.2%	49.1%	52.4%	34.4%	42.4%	43.7%	50.6%	52.9%	34.6%	43.2%	43.2%
Y/Y change in bps	(353)	(170)	34	204	341	150	187	150	150	50	25	82	(5)
Depreciation and amortization expense/sales	3.9%	3.5%	3.6%	4.6%	4.6%	2.6%	3.6%	3.8%	4.8%	4.8%	2.8%	3.8%	4.0%
Y/Y change in bps	(3)	(37)	(13)	(5)	16	20	10	20	20	20	20	20	20
Operating margin	13.5%	18.8%	18.5%	7.4%	4.8%	30.6%	18.5%	17.6%	6.6%	5.0%	30.9%	18.3%	19.2%
Y/Y change in bps	606	533	304	24	(34)	(175)	(32)	(90)	(80)	20	30	(21)	88
EBITDA margin	17.4%	22.3%	22.1%	12.0%	9.5%	33.2%	22.1%	21.4%	11.4%	9.9%	33.7%	22.1%	23.2%
Y/Y change in bps	575	496	291	19	(18)	(155)	(22)	(70)	(60)	40	50	(1)	109
Effective tax rate	45.8%	42.6%	42.4%	35.2%	37.2%	41.0%	40.8%	42.4%	35.2%	37.2%	41.0%	40.7%	40.6%
Y/Y change in bps	(986)	(320)	(20)	(746)	(548)	(160)	(184)	0	0	0	0	(6)	(6)
Y/Y growth													
Revenues	41.3%	38.2%	35.6%	36.3%	35.1%	30.0%	33.3%	34.8%	30.8%	28.3%	28.7%	30.3%	26.7%
Cost of goods sold	34.0%	27.0%	24.2%	28.9%	24.5%	30.2%	27.4%	31.8%	27.7%	25.2%	25.8%	27.3%	22.9%
Gross profit	46.8%	45.7%	42.8%	41.4%	42.5%	29.9%	36.8%	36.5%	32.7%	30.1%	30.2%	31.9%	28.7%
Selling, general & administrative expense	30.4%	32.6%	36.6%	42.2%	44.5%	35.9%	39.5%	39.6%	34.8%	29.5%	29.7%	32.8%	26.5%
Depreciation and amortization expense	30.9%	25.0%	30.9%	34.7%	40.0%	40.9%	37.0%	42.2%	36.5%	33.8%	38.7%	37.7%	33.4%
Operating income	156.2%	92.6%	62.3%	40.7%	26.1%	23.0%	31.1%	28.3%	16.7%	33.6%	30.0%	28.8%	32.8%
Net earnings	342.0%	126.9%	72.4%	78.1%	175.3%	30.6%	43.7%	41.5%	63.5%	36.3%	30.2%	34.7%	33.3%
EPS	339.3%	124.4%	71.3%	77.2%	165.9%	26.2%	41.2%	36.5%	58.1%	35.9%	30.2%	32.3%	33.3%
EBITDA	111.2%	77.6%	56.1%	38.4%	32.6%	24.2%	32.0%	30.6%	24.2%	33.7%	30.7%	30.3%	32.9%

Data represents January FYE.
Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 41: Quarterly Balance Sheet ($ in millions, except per share data)

	2009	2010			2011A/E			2012E	2013E
	Year	Year	1QA	2QA	3QA	4QE	Year	Year	Year
Balance Sheet Statement									
Current assets:									
Cash and cash equivalents	1.3	7.9	3.7	1.6	0.0	7.6	7.6	20.1	38.6
Accounts receivable	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	11.6	16.9	18.3	22.7	32.5	34.5	34.5	36.2	43.9
Prepaid assets	1.0	3.4	0.0	9.5	4.1	4.5	4.5	5.8	7.2
Income tax receivable	0.0	0.0	0.0	0.0	6.0	6.0	6.0	6.0	6.0
Other current assets	1.8	1.9	5.8	2.2	2.1	2.5	2.5	3.2	4.0
Total current assets	16.0	30.2	27.9	36.0	44.7	55.0	55.0	71.3	99.8
Property and equipment, net	22.5	31.0	34.8	38.0	40.7	41.7	41.7	55.1	66.2
Goodwill	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Other non-current assets	0.8	0.5	0.8	0.7	0.7	0.7	0.7	0.9	1.1
Total assets	41.8	64.1	65.8	77.1	88.5	99.8	99.8	129.6	169.5
Current liabilities:									
Accounts payable	2.6	3.6	0.0	5.8	6.8	7.4	7.4	7.8	9.4
Income tax payable	4.0	4.8	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Series A redeemable preferred stock	0.0	13.0	13.6	14.2	0.0	0.0	0.0	0.0	0.0
Other current liabilities	4.7	6.9	9.7	6.9	8.1	8.9	8.9	11.5	14.5
Total current liabilities	11.3	28.3	25.4	26.8	14.9	16.3	16.3	19.3	23.9
Deferred rent	3.9	7.5	8.9	11.1	12.1	9.8	9.8	12.6	15.8
Deferred tax liability, non-current	0.0	0.4	0.0	0.0	2.5	2.5	2.5	2.5	2.5
Long-term debt	1.0	1.0	1.0	5.4	4.5	4.5	4.5	4.5	4.5
Other long-term liabilities	11.4	0.5	0.9	3.0	0.6	0.7	0.7	0.9	1.1
Total liabilities	27.6	37.8	36.2	46.3	34.6	33.9	33.9	39.8	47.9
Class B redeemable common stock	21.9	81.4	87.3	253.9	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	(7.7)	(55.1)	(57.6)	(223.2)	53.8	65.9	65.9	89.8	121.6
Total liabilities and shareholders' equity	41.8	64.1	65.8	77.1	88.5	99.8	99.8	129.6	169.5

Source: Company reports and KeyBanc Capital Markets Inc. estimates

Exhibit 42: Annual Cash Flow Statement ($ in millions, except per share data)

	2009	2010			2011A/E			2012E	2013E
	Year	Year	1QA	2QA	3QA	4QE	Year	Year	Year
Cash Flow Statement									
OPERATIONS									
Net earnings	5.3	12.0	3.3	1.0	0.9	12.0	17.3	23.2	31.0
Impact of other operating activities on cash flows:									
Depreciation and amortization expense	3.5	4.4	1.3	1.4	1.6	1.6	5.8	7.6	9.9
Non-cash interest expense	1.9	2.3	0.6	0.6	0.0	0.0	1.3	0.0	0.0
Stock-based compensation	0.2	0.2	0.0	0.0	0.5	0.0	0.5	0.0	0.0
Excess tax benefit from stock option exercises	0.0	0.0	0.0	0.0	(2.6)	0.0	(2.6)	0.0	0.0
Other	0.0	0.1	0.1	(0.0)	0.1	0.0	0.2	0.0	0.0
Impact of other operating activities on cash flows:									
Accounts receivable	(0.1)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	(3.6)	(5.3)	(1.4)	(4.4)	(9.8)	(2.0)	(17.6)	(1.7)	(7.7)
Income tax receivable	0.0	0.0	0.0	0.0	(6.0)	0.0	(6.0)	0.0	0.0
Prepaid and other assets	(0.1)	(1.4)	(0.1)	(3.9)	3.6	(0.4)	(0.8)	(1.3)	(1.5)
Accounts payable	(1.6)	0.7	0.0	1.2	1.7	0.6	3.5	0.4	1.7
Income taxes payable	2.8	0.8	(2.7)	(2.1)	2.6	0.0	(2.2)	0.0	0.0
Deferred rent	1.1	3.7	1.4	2.2	1.0	(2.4)	2.3	2.8	3.2
Deferred income taxes	0.5	(0.3)	0.0	0.0	1.9	0.0	1.9	0.0	0.0
Other liabilities	1.2	2.3	(1.5)	2.6	(0.0)	0.9	1.9	2.8	3.2
Net change in working capital	*0.2*	*0.5*	*(4.3)*	*(4.5)*	*(5.1)*	*(3.2)*	*(17.0)*	*3.0*	*(1.1)*
Net cash provided by operating activities	11.1	19.4	1.1	(1.5)	(4.6)	10.4	5.5	33.8	39.7
Free Cash Flow	4.4	6.8	(3.9)	(5.2)	(9.5)	7.8	(10.9)	12.8	18.7
INVESTING									
Purchase of property and equipment	(6.6)	(12.6)	(5.1)	(3.8)	(4.9)	(2.6)	(16.4)	(21.0)	(21.0)
Net cash provided by investing activities	(6.6)	(12.6)	(5.1)	(3.8)	(4.9)	(2.6)	(16.4)	(21.0)	(21.0)
FINANCING									
Proceeds from revolving credit facility	94.0	132.2	35.5	38.8	38.8	0.0	113.2	0.0	0.0
Payments on revolving credit facility	(98.3)	(132.2)	(35.5)	(34.5)	(39.7)	0.0	(109.7)	0.0	0.0
Proceeds from initial public offering, net	0.0	0.0	(0.2)	(0.9)	16.4	0.0	15.3	0.0	0.0
Proceeds from stock option exercises	0.0	0.0	0.0	0.0	0.6	0.0	0.6	0.0	0.0
Payment to redeem Series A redeemable preferred stock liability	0.0	0.0	0.0	0.0	(10.7)	0.0	(10.7)	0.0	0.0
Cash paid for financing costs	0.0	0.0	0.0	(0.4)	0.0	0.0	(0.4)	0.0	0.0
Excess tax benefit from stock option exercises	0.0	0.0	0.0	0.0	2.6	0.0	2.6	0.0	0.0
Other	0.0	(0.3)	0.0	0.1	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Net cash provided by financing activities	(4.3)	(0.3)	(0.2)	3.1	8.0	(0.3)	10.6	(0.3)	(0.3)
Impact of foreign exchange on cash			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net increase in cash	0.1	6.6	(4.2)	(2.1)	(1.6)	7.5	(0.3)	12.6	18.5
Cash and cash equivalents at the beginning of period	1.2	1.3	7.9	3.7	1.6	0.0	7.9	7.6	20.1
Cash and cash equivalents at the end of period	1.3	7.9	3.7	1.6	0.0	7.6	7.6	20.1	38.6

Source: Company reports and KeyBanc Capital Markets Inc. estimates

KeyBanc Capital Markets 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
The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

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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KeyBanc Capital Markets

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [BUY]	227	44.42	48	21.15
HOLD [HOLD]	272	53.23	50	18.38
SELL [UND]	12	2.35	4	33.33

CONSUMER

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [BUY]	59	45.04	7	11.86
HOLD [HOLD]	70	53.44	2	2.86
SELL [UND]	2	1.53	0	0.00

William Blair

Teavana Holdings, Inc.

Fourth Quarter and 2012 Guidance Likely to Meet Expectations

- We expect Teavana will meet or modestly beat our fourth-quarter EPS estimate of $0.31, at the high end of guidance of $0.29 to $0.31 and a penny below consensus. On January 11, management reiterated both sales and earnings guidance. Teavana will report fourth-quarter earnings before the market opens on Wednesday, March 28.

- Management reiterated guidance for a midsingle-digit same-store sales gain (including e-commerce) in early January, and we project a 6% comp gain. Excluding direct-to-consumer, we project a 4% comp gain against a 7.5% year-ago comparison, reflecting two-year trends similar to the third quarter's 6.0% increase against a 5.9% year-ago comparison. We project total sales growth of 33%, to $68 million, ahead of management's guidance of $62 million to $66 million and in line with consensus.

- We expect gross margin contraction of about 40 basis points, to 67.3%, reflecting stronger sales of lower-margin merchandise (which underperformed in the year-ago period) and the lapping of the company's shift to direct sourcing. We expect SG&A to increase 150 basis points, to 34.4%, primarily reflecting accelerated new store openings, new hires and public company costs, start-up costs in Canada, and increased occupancy costs associated with the company's new store support center. We expect D&A to increase 10 basis points, to 2.5%, yielding overall operating margin contraction of 200 basis points, to 30.4%.

- We expect Teavana met its plan to open four new stores in the fourth quarter (including its first store in Canada), bringing total company-owned new store openings to 54 in 2011, 4 more than original guidance and representing growth of 37%. We believe the company remains on track to open 60 new company-owned stores this year, representing growth of 30%, as well as its first franchised store in the Middle East through its 10-year franchise development agreement with Alshaya (Teavana already has 19 franchised stores in Mexico through an agreement with Casa Internacional).

- We believe management will likely provide its first look at 2012 and expect EPS guidance will encompass our and consensus expectations of $0.62 and $0.61, respectively. Our estimate is predicated on a midsingle-digit comp gain (including e-commerce). For the first quarter, we project EPS of $0.13 (up 43% and a penny ahead of consensus), predicated on a midsingle-digit comp increase. For 2013, our estimate is $0.80, up 29% and a penny ahead of consensus.

- 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.

March 16, 2012

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

Symbol:	TEA (NYSE)
Price:	$22.11 (52-Wk.: $14-$29)
Market Value (mil.):	$908
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		69.1x	49.1x	35.7x
CY P/E			49.1x	35.7x

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

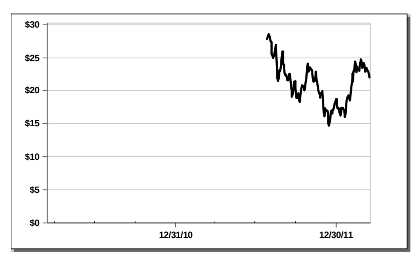
Trading Data (Thomson Financial)

Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	255,892

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	846.2
EBITDA (TTM)	17.0
Enterprise Value/EBITDA (TTM)	49.6x
Return on Equity (TTM)	9.8

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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Teavana Holdings, Inc.

March 16, 2012: $21.86 ($14-$30)

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%**	**4.8%**	**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	$46.5	$39.5	$41.2	$85.4	$212.6	$267.4
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	59.6	16.5	15.2	15.7	27.6	75.1	93.6
Gross profit	$53.8	$15.8	$13.5	$14.5	$34.6	$78.4	$22.5	$19.1	$20.7	$45.7	$108.0	$29.9	$24.2	$25.5	$57.8	$137.5	$173.8
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	17.5	23.4	71.0	19.9	19.5	20.7	28.9	89.1	111.5
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	$52.8
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	$52.4
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	$31.6
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%	67.3%	64.4%	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%	34.4%	42.4%	42.9%	49.4%	50.3%	33.9%	41.9%	41.7%
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%	3.7%	4.6%	4.6%	2.6%	3.6%	3.6%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.8%	30.4%	18.5%	17.8%	7.4%	7.0%	31.2%	19.2%	19.7%
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%	33.1%	26.0%	23.3%	25.7%	26.8%	25.8%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	44.5%	38.8%	40.4%	35.1%	26.8%	18.4%	23.8%	25.5%	25.1%
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%	28.5%	25.8%	78.8%	29.1%	31.3%	29.5%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	77.2%	165.9%	28.3%	42.8%	43.0%	59.3%	77.1%	30.2%	36.1%	29.0%

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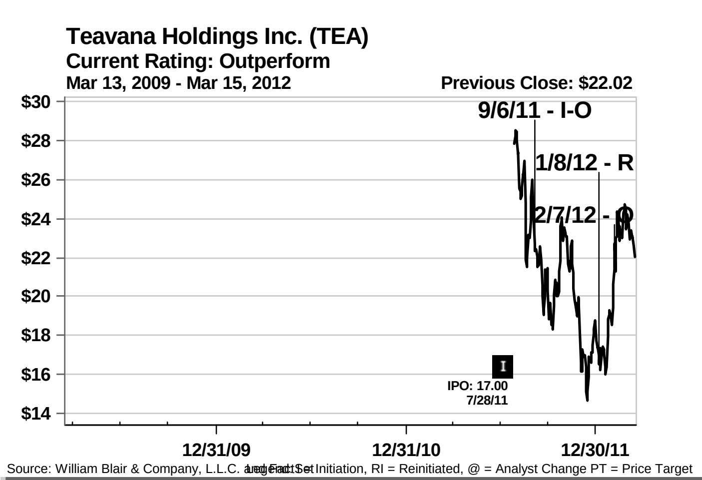
William Blair & Company, L.L.C. is a market maker in the security of Teavana Holdings, Inc. and may have a long or short position.

Additional information is available upon request.



Current Rating Distribution (as of 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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Reason for Report:
Company Update

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	$27.00
FY12E EPS	--	$0.45
FY13E EPS	--	$0.60
FY12E Rev (mil)	--	$165.3
FY13E Rev (mil)	--	$208.5

Price	$22.70
52 Week High	$29.35
52 Week Low	$14.28
12-Month Price Target	$27.00
35x FY14E EPS	
Shares Out (mil)	39.0
Market Cap. (mil)	$885.3
Avg Daily Vol (000)	266
Book Value/Share	$1.38
Net Cash Per Share	NM
Debt to Total Capital	8%
Div (ann)	$0.00
Est LT EPS Growth	35%
P/E to Est LT EPS Growth	1.1x
Fiscal Year End:	Jan

Rev (mil)	2011A	2012E	2013E
Apr	$25.8A	$34.9A	$45.4E
Jul	$23.0A	$31.3A	$38.7E
Oct	$24.8A	$33.4A	$41.1E
Jan	$51.2A	$65.6E	$83.3E
FY	$124.7A	$165.3E	$208.5E
CY	$165.3A	$208.5E	$261.8E
FY RM	7.1x	5.4x	4.2x
CY RM	5.4x	4.2x	3.4x

EPS	2011A	2012E	2013E
Apr	$0.05A	$0.09A	$0.12E
Jul	$0.02A	$0.03A	$0.04E
Oct	$0.01A	$0.02A	$0.03E
Jan	$0.24A	$0.31E	$0.41E
FY	$0.32A	$0.45E	$0.60E
CY	$0.45E	$0.60E	$0.79E
FY P/E	70.9x	50.4x	37.8x
CY P/E	50.4x	37.8x	28.7x

Teavana Holdings, Inc. (TEA – $22.70)
Overweight

Reiterating Overweight Rating On TEA Shares Following FQ4 Conclusion

CONCLUSION:

We are reiterating our Overweight rating on TEA shares following the end of the fourth quarter. We believe TEA's heightened focus on a gift-giving themed merchandise assortment and an unfavorable climate for cold water apparel combined to make Teavana a compelling proposition for shoppers during the holiday season. Longer-term, we believe Teavana is still in the early stages of its domestic store growth, and we believe there could be opportunities to launch a highly profitable consumer packed goods line over the next year or two.

- **Holiday Merchandise Assortment Strategy Likely Worked Well.** Taking hints from its innovative tea blends launch in FQ3, Teavana is likely to have posted a solid holiday selling season--particularly in view of the fact that non-cold weather apparel categories could have benefited from unexpected conversion in view of the lack of cold weather in which to sell such goods. This holiday at Teavana saw upgraded gift sets and more of them as the company was caught short of inventory last year. As a reminder, the holiday season is critically important to Teavana, and we expect FQ4 to account for slightly more than two thirds of annual EPS in FY12 and FY13.

- **Consumer Packaged Goods Line Represents Meaningful Longer-Term Opportunity.** We believe that Teavana is a strong candidate to launch a CPG line, owing to its high merchandise margins and strong brand, as well as a dearth of premium CPG tea products in the competitive landscape, particularly for loose tea. Such a product line could be sold as pre-packaged loose tea through the specialty grocer channel, or potentially as single-serving brew pods for a machine such as the Keurig. Green Mountain Coffee Roasters is set to unveil the next generation of its Keurig brewing system to investors next week, and the new device is widely expected to support a wider range of beverage options relative to previous models. Teavana would likely be an attractive candidate to develop a K-Cup to be used on Keurig's platform, and we believe GMCR's decision to expand its product portfolio beyond simple drip coffee underscores consumer demand for greater variety in beverages, a trend that we feel bodes well for Teavana.

- **EPS Outlook Intact; Maintaining Our $27 Price Target.** We are not making changes to our EPS estimates at this time. Our EPS estimates for FQ4, FY13, and FY14 and $0.31, $0.60, and $0.79, respectively. Our $27 price target is based on 35x FY14 EPS.

INVESTMENT RECOMMENDATION:

We rate TEA shares Overweight with a $27 price target.

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 196 stores.

Income Statement 1/4/2012

(Millions of Dollars, Except Per-Share Data)

	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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	33.426	65.613	165.291	45.362	38.690	41.114	83.329	208.495	261.811
% Change		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*35.1%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
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	21.849	59.235	15.922	15.515	16.404	27.498	75.340	93.529
% 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%*	*33.3%*	*35.8%*	*35.1%*	*40.1%*	*39.9%*	*33.0%*	*36.1%*	*35.7%*
Gross profit	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	20.677	43.764	106.056	29.440	23.175	24.710	55.830	133.155	168.283
% 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%*	*66.7%*	*64.2%*	*64.9%*	*59.9%*	*60.1%*	*67.0%*	*63.9%*	*64.3%*
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	21.679	69.315	19.733	18.958	20.598	27.415	86.704	107.865
% 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%*	*33.0%*	*41.9%*	*43.5%*	*49.0%*	*50.1%*	*32.9%*	*41.6%*	*41.2%*
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	22.085	36.741	9.707	4.217	4.111	28.415	46.451	60.418
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%*	*33.7%*	*22.2%*	*21.4%*	*10.9%*	*10.0%*	*34.1%*	*22.3%*	*23.1%*
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	1.690	5.946	1.800	1.900	2.030	2.150	7.880	9.900
% 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%*	*2.6%*	*3.6%*	*4.0%*	*4.9%*	*4.9%*	*2.6%*	*3.8%*	*3.8%*
Operating income	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.612	20.395	30.795	7.907	2.317	2.081	26.265	38.571	50.518
% 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%*	*31.1%*	*18.6%*	*17.4%*	*6.0%*	*5.1%*	*31.5%*	*18.5%*	*19.3%*
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	-0.060	-1.613	-0.060	-0.060	-0.060	-0.060	-0.240	-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	20.335	29.182	7.847	2.257	2.021	26.205	38.331	50.278
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	8.338	11.895	3.123	0.898	0.805	10.430	15.256	20.011
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%*	*41.0%*	*40.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income (GAAP)	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.936	11.998	17.288	4.724	1.359	1.217	15.775	23.075	30.267
% 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%*	*18.3%*	*10.5%*	*10.4%*	*3.5%*	*3.0%*	*18.9%*	*11.1%*	*11.6%*
Net income per share (Basic)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.25	$ 0.33	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.46	$ 0.12	$ 0.03	$ 0.03	$ 0.41	$ 0.59	$ 0.78
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*24%*	*41%*	*35%*	*25%*	*28%*	*31%*	*29%*	*31%*
Net income per share (Diluted)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.24	$ 0.32	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.45	$ 0.12	$ 0.04	$ 0.03	$ 0.41	$ 0.60	$ 0.79
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*29%*	*42%*	*40%*	*30%*	*32%*	*31%*	*33%*	*31%*
Shares outstanding (Millions)																				
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	38.838	37.622	38.838	38.838	38.838	38.838	38.838	38.838
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	38.315	38.203	38.315	38.315	38.315	38.315	38.315	38.315
Same-Store Sales (% Change)	**3.7%**	**8.4%**	**3.0%**	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.4%**	**6.0%**	**3.0%**	**5.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Notes:
Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

Teavana

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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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Stores				$ 85.025					$ 115.800											
% Change, year-over-year									*36.2%*											
E-Commerce				$ 5.235					$ 8.900											
% Change, year-over-year									*70.0%*											
% of total sales				*5.8%*					*7.0%*											
Total net sales	**$ 33.760**	**$ 47.200**	**$ 63.860**	**$ 90.260**	**$ 25.770**	**$ 22.980**	**$ 24.750**	**$ 51.200**	**$ 124.700**	**$ 34.939**	**$ 31.313**	**$ 33.426**	**$ 65.613**	**$ 165.291**	**$ 45.362**	**$ 38.690**	**$ 41.114**	**$ 83.329**	**$ 208.495**	**$ 261.811**
% 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%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
% CHANGE SAME-STORE SALES	***3.7%***	***8.4%***	***3.0%***	***6.9%***	***15.7%***	***6.9%***	***5.9%***	***7.5%***	***8.7%***	***6.0%***	***6.4%***	***6.0%***	***3.0%***	***5.4%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
% Change, year-over-year		*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%*	*33.5%*	*25.7%*	*25.0%*	*30.0%*	*30.0%*	*26.9%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130											
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*											
Average Square Footage (T4Q)																				

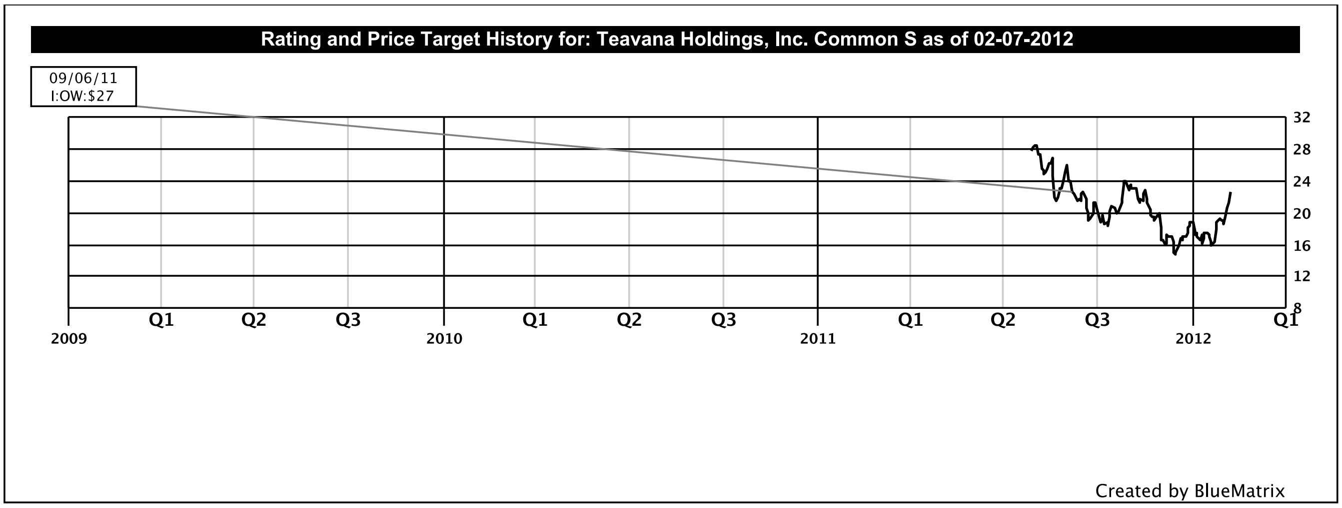
Consolidated Balance Sheet
(Millions of Dollars)

	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
CURRENT ASSETS:									
Cash and cash equivalents	$1.314				$7.901	$7.901	$3.740	$1.623	$0.036
Accounts reveivable	0.284				0.292	0.292			
Prepaid expenses and other assets	1.003				2.041	2.041			4.082
Prepaid rent	1.061				1.400	1.400			
Inventory	11.615			18.000	16.928	16.928	18.286	22.720	32.512
Deferred tax asset and other	0.772				1.629	1.629	5.827	11.647	8.106
Total current assets	**16.049**	**0.000**	**0.000**	**18.000**	**30.191**	**30.191**	**27.853**	**35.990**	**44.736**
Property & equipment, net	22.513				31.028	31.028	34.795	38.000	40.669
Goodwill	2.394				2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184				0.000	-			
Other non-current assets	0.627				0.513	0.513	0.760	0.693	0.673
Total assets	**$41.767**	**$0.000**	**$0.000**	**$18.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**
CURRENT LIABILITIES									
Accounts payable	$2.564				$3.631	$3.631	$2.112	$5.751	$6.770
Income taxes payable	$3.994				4.809	$4.809			
Deferred revenue	$1.083				1.344	$1.344			
Note payable	$0.250				-	$0.000			
Series A redeemable preferred stock	$0.000				12.992	$12.992	13.591	14.217	
Other current liabilities	$3.395				5.539	$5.539	9.659	6.865	8.116
Total current liabilities	**11.286**	**$0.000**	**$0.000**	**$0.000**	**$28.315**	**28.315**	**$25.362**	**$26.833**	**$14.886**
Deferred franchise income	0.600				0.525	0.525			
Deferred tax liability, non-current	-				0.420	0.420			2.547
Deferred rent	3.851				7.524	7.524	8.943	11.139	12.134
Long-term debt	1.000				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
Total liabilities	**27.585**	**0.000**	**0.000**	**0.000**	**37.784**	**37.784**	**36.175**	**46.328**	**34.643**
Stockholders' equity (deficit)									
Total stockholders' equity (deficit)	**14.182**				**26.342**	**26.342**	**29.627**	**30.749**	**53.829**
Total liabilities and stockholders' equity	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**

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
Operating activities:								
Net Income	**$5.291**	**$1.927**	**$2.506**		**$12.003**	**$12.003**	**$3.323**	**$4.354**
Adjustments to reconcile net income to net cash:	0.000							
Depreciation and amortization	3.489	0.973	2.033		4.361	4.361	1.274	2.703
Non-cash interest expense	1.925	0.570	1.140		2.279	2.279	0.633	1.282
Deferred income taxes	0.532				(0.253)	(0.253)		
Stock based compensation	0.169	0.034	0.068		0.157	0.157	0.037	0.063
Other		-			0.130	0.130	0.140	0.099
Change in assets and liabilities:								
Inventory	(3.646)	(0.571)	(0.875)		(5.313)	(5.313)	(1.359)	(5.792)
Other current assets	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)
Income taxes payable	2.772	(4.205)	(5.973)		0.815	0.815	(2.696)	(4.809)
Deferred rent	1.124	0.457	0.996		3.673	3.673	1.419	3.615
Accounts payable			(0.524)					1.164
Other current assets			0.130					1.866
Other accrued liabilities	(0.355)	0.305	(0.209)		2.997	2.997	(1.548)	1.018
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**-**	**19.397**	**19.397**	**1.142**	**(0.311)**
Investing activities:								
Capital Expenditures	(6.640)	(2.346)	(5.038)		(12.560)	(12.560)	(5.056)	(8.848)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**-**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**
	0.000							
Financing activities:	0.000							
Proceeds from revolving credit facility	93.980	29.815	56.489		132.239	132.239	35.510	74.338
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)		(132.239)	(132.239)	(35.510)	(69.979)
Payment on note payable					(0.250)	(0.250)		
Payments on term loan								
Cash paid for financing costs								(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)
Other								0.065
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**		**(0.250)**	**(0.250)**	**(0.247)**	**2.881**
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)		6.587	6.587	(4.161)	(6.278)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314		1.314	1.314	7.901	7.901
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**		**$7.901**	**$7.901**	**$3.740**	**$1.623**

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.

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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)

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Piper Jaffray

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**341**	**54.50**	**61**	**17.89**
HOLD [N]	**251**	**40.10**	**23**	**9.16**
SELL [UW]	**34**	**5.40**	**0**	**0.00**

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— Alex J. Fuhrman, Research Analyst

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Reason for Report:
Company Update

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	$27.00
FY12E EPS	--	$0.45
FY13E EPS	--	$0.60
FY12E Rev (mil)	--	$165.3
FY13E Rev (mil)	--	$208.5

Price	$17.71
52 Week High	$29.35
52 Week Low	$14.28
12-Month Price Target	$27.00
35x FY14E EPS	
Shares Out (mil)	39.0
Market Cap. (mil)	$690.7
Avg Daily Vol (000)	261
Book Value/Share	$1.38
Net Cash Per Share	NM
Debt to Total Capital	8%
Div (ann)	$0.00
Est LT EPS Growth	35%
P/E to Est LT EPS Growth	0.8x
Fiscal Year End:	Jan

Rev (mil)	2011A	2012E	2013E
Apr	$25.8A	$34.9A	$45.4E
Jul	$23.0A	$31.3A	$38.7E
Oct	$24.8A	$33.4A	$41.1E
Jan	$51.2A	$65.6E	$83.3E
FY	$124.7A	$165.3E	$208.5E
CY	$165.3A	$208.5E	$261.8E
FY RM	5.5x	4.2x	3.3x
CY RM	4.2x	3.3x	2.6x

EPS	2011A	2012E	2013E
Apr	$0.05A	$0.09A	$0.12E
Jul	$0.02A	$0.03A	$0.04E
Oct	$0.01A	$0.02A	$0.03E
Jan	$0.24A	$0.31E	$0.41E
FY	$0.32A	$0.45E	$0.60E
CY	$0.45E	$0.60E	$0.79E
FY P/E	55.3x	39.4x	29.5x
CY P/E	39.4x	29.5x	22.4x

Teavana Holdings, Inc. (TEA – $17.71)
Overweight

Growth Is Our Cup Of TEA. Reiterating OW on TEA Shares Heading Into 2012

CONCLUSION:

We are reiterating our Overweight rating on TEA shares as we round into the new year and in view of the significant growth prospects ahead for this high-end purveyor of teas and tea-related gifts. We believe Santa hauled around tea from house to house this year and Teavana likely saw upside in their category--especially when cold-weather apparel and accessories likely failed to bring joy to their respective retailers. 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 market entry into Canada.

- **Price Versus Transactions? That Is The (Investor) Question.** In the bulk of our note we have set aside five plausible reasons why Teavana's same-store sales have been largely price-driven as opposed to transaction-driven. Read on for the details, but we'll say this now: it is likely more about optics than about some fundamental flaw in their growth strategy. We believe Teavana is growing rapidly and expanding the high-end tea category in the process. Moreover, we believe their customer adopts into the brand and then either replenishes on line and/or replenishes in greater quantities on subsequent, but less frequent, visits. There's no shame in selling higher volumes of 90%+ margin goods (loose-tea blends).

- **Holiday Merchandise Assortment Strategy Likely Worked Well.** Taking hints from their innovative tea blends launch in FQ3, Teavana is likely to have posted a solid holiday selling seasons--particularly in view of the fact that non-cold weather apparel categories could have benefited from unexpected conversion in view of the lack of cold weather in which to sell such goods. This holiday at Teavana saw upgraded gift sets and more of them as the company was caught short of inventory last year. As a reminder, the holiday season is critically important to Teavana, and we expect FQ4 to account for slightly more than two thirds of annual EPS in FY12 and FY13.

- **ICR XChange Conference Appearance Slated For Wednesday January 11th.** We note that management is slated to present at the 14th Annual ICR XChange next week in Miami. This would be their first appearance post-holiday and we believe investors looking for outsized (unit and earnings) growth will be keen on their presentation.

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 196 stores.

Clearing the Air on a Common Investor Question

Heading into the annual ICR XChange Conference next week, where we anticipate seeing Teavana present on Wednesday January 11th, we thought it appropriate to address the single biggest question surrounding Teavana's investment thesis: why are same-store sales driven by price and not transaction? We aim to offer our insights and why we believe Teavana makes for a great growth story for 2012.

Question: Why are Teavana's same-store sales driven by price and not transactions?

Good question. We've been doing a great deal of thinking in and around this common question. To be clear, this dynamic in the same-store sales metric have been known since the time of the company's initial offering roadshow; so for those coming into the story now, know that this isn't "new." The spirit of the question is valid: in fact, we completely agree that early-stage brands/concepts should be more transactionally driven in their sales trends as opposed to price-driven. That said, we struggle to conclude (as some have done on the short side of this stock) that it is the definitive sign of a "fad" or "non-scalable concept."

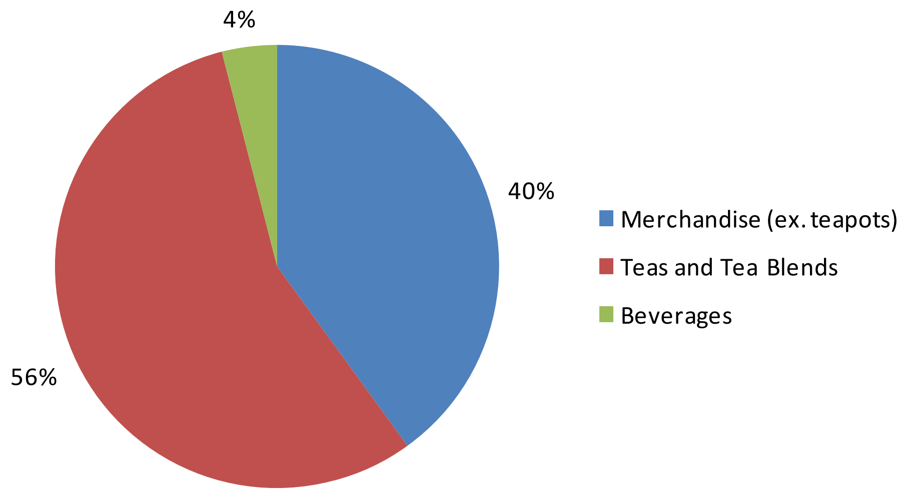
Here are some plausible reasons why Teavana's "comps" could be more price-driven than transactionally driven.

Plausible Answer #1: In-store beverages cloud the metric.

Teavana has historically sold prepared tea beverages in their store—almost, in our view, as a customer service as opposed to a full-fledged customer acquisition strategy. Though prepared beverages currently account for only about 4% of total sales, we believe they account for about 25% of the total transactions. As the company has continued to de-emphasize in-store prepared tea beverages, transactions have declined. We believe this dynamic is leveling off and will very likely become less relevant as a potential call-out in the same-store sales metrics as we head into the new year.

Exhibit 1

MERCHANDISE MIX (2010)



Source: Teavana

Plausible Answer #2: Marketing (aka "new customer acquisition") has not been a focus up until now. Customers are tripping into Teavana, not being "advertised" into Teavana.

Yes, you read that correctly; Teavana has not yet announced a head of marketing. We continue to be amazed that Teavana has found success thus far without one—likely a testament to the brand's inherent draw—but 2012 beckons a head of marketing to be installed in our view. The primary reason, we believe, is wrapped up in a more cogent new customer acquisition strategy—particularly in an as-of-yet-launched loyalty program. Some of the best retailers and brands have a successful loyalty program—one that helps recognize their best customers—driving frequency of visits (aka "traffic") to stores and higher average transaction values (aka "conversion and pricing"). Ironically, we believe tea drinkers are naturally loyal to the brew itself; thus we believe Teavana's launch of a loyalty program in 2012 would square well with this targeted customer base.

Plausible Answer #3: In-store training focuses on driving price, not transactions.

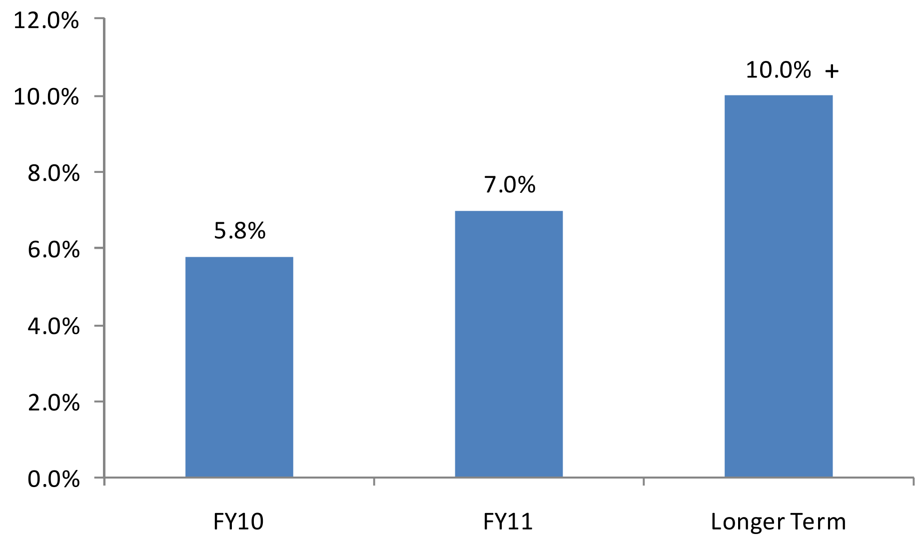
Personal story time. We recently visited a Teavana store to buy some Christmas-y tea. We intended to buy two ounces on our trip. By the time the transaction was over, the store associate had sold me a half-pound of tea—four times the amount we intended to buy. How did she do that? She suggested a blend of teas from the wall of 100 choices—which consisted of two teas at two ounces each and one tea at four ounces. Tack on the new tin I just purchased and voila we spent nearly $40. What just happened!? Now, it will technically take us four times the amount of time needed to consume the tea. We surmise that the store associate is trained and possibly paid for up selling each transaction. Should Teavana choose to emphasize "appetizers over entrees," frequency (traffic/transactions) could move higher.

Plausible Answer #4: E-commerce growing as a means to replenish tea purchasing.

Another good answer is wrapped up in the rapidly rising e-commerce channel: perhaps "she" is being introduced into the brand at retail and then replenishing in total or in part with her purchases online. Not that we recommend blending e-commerce transaction metrics into the retail transaction metrics, but we note there is a meaningful e-commerce growth rate afoot—and it has happened without the help of a marketing director.

Exhibit 2

E-COMMERCE PENETRATION



Source: Teavana, Piper Jaffray & Co.

E-commerce revenues have grown at a CAGR of 56% since FY08, and in FY11 the channel represented 7% of sales. Management expects to achieve 10% e-commerce penetration longer-term, and we believe this will likely occur in the next three to four years. The merchandise assortment and mix between loose tea and hard goods online is comparable to Teavana's brick and mortar locations, and we believe that a strong majority of Teavana's e-commerce customers are also brick and mortar customers. Growth of the e-commerce channel will likely stem from new customer acquisition as Teavana grows its store base towards 500 locations from its current total of 196.

We believe that e-commerce sales could potentially represent 12% to 15% of net sales over the next five to seven years as multi-channel customers increasingly migrate online and as customers utilize the website more and more as an educational tool. Teavana has highly functional mobile and tablet applications, including for the iPhone and iPad, which offer full purchasing functionality, suggestions of new blends to try, and even a "tea timer" that can tell customers when to stop steeping their tea depending on the type of tea and brewing method.

The growing penetration of Teavana's e-commerce business should be a natural lift to total company operating margin, as we believe the online channel is more profitable and requires minimal capital investment to support. We believe that the average order size through the e-commerce channel is approximately 20% higher than in stores (excluding prepared beverages sold through the company's stores). Furthermore, we believe that the recent launch of Teavana's auto-ship program for loose teas, which enables customers to receive periodic deliveries on any teas at the customers' discretion, will likely help to further increase the merchandise mix penetration of loose tea, which could have a significant positive impact on gross margin.

Plausible Answer #5: Teavana's retail footprint is growing faster than the market for specialty tea.

We expect Teavana to benefit from growth in overall U.S. tea consumption, as well as outperformance of high-end specialty tea brands relative to mass brands typically sold through the food, drug, and mass channel. A number of industry groups project U.S. tea consumption to increase at an 8% to 12% CAGR over the next four to five years, and we believe the domestic tea market is still very much in the early stages of the "high-end-ification" that has characterized previously homogeneous categories ranging from prepared coffee to athletic apparel to cupcakes to headphones. Whereas these categories had few high-end, niche, or differentiated offerings widely available to consumers as recently as five or ten years ago, we believe it is now considered commonplace among America's upper-middle class to pay $4 for a latte from Starbucks, a $100 for a pair of lululemon yoga pants, $5 for a Crumbs cupcake, or $70 for a pair of Skullcandy headphones.

What do these product categories all have in common? They all target an end-use that has widespread demographic appeal, and high-end offerings in each of these categories can easily be marketed to or perceived by customers as having a strong value proposition, either because of a low average ticket and opening price point (i.e. SBUX, CRMB), or because of a low "dollars per use" ratio (i.e. LULU, SKUL). We believe that tea could be undergoing a similar transformation, with high-end specialty brands likely to substantially outpace the overall category growth rate for the foreseeable future. In addition to widespread demographic appeal, we believe Teavana can easily communicate its value proposition to upper-income customers who see themselves as savvy, cost-conscious consumers. After all, two ounces of Teavana's basic loose teas cost under $4, and one could reasonably expect a $200 cast iron teapot to last for decades and sustain hundreds (or even thousands) of uses.

According to the Tea Association of the USA, specialty tea consumption at the wholesale level has grown at a CAGR of 17% per year over the past decade. Assuming a solid finish to the year, Teavana's sales have grown at a compound annual rate of 37% since 2006 (FY07).

Exhibit 3

SPECIALTY U.S. TEA GROWTH OUTPACING TRADITIONAL FDM MARKET (IN BILLIONS)

U.S. TEA INDUSTRY: ESTIMATED WHOLESALE VALUE			
	1990	2010	CAGR%
Traditional Market (FDM)	$0.87	$2.15	9%
Ready-To-Drink Market	0.20	3.30	32%
Foodservice Market	0.50	1.02	7%
Specialty Segment	0.27	1.30	17%
TOTAL	$1.84	$7.77	15%

Source: Tea Association of the United States (teausa.com), Piper Jaffray & Co.

So while we expect the market for tea consumption to grow and the market for high-end tea specialty stores (dominated by Teavana) to grow, we surmise that Teavana's unit growth rate might be slightly ahead of high-end tea consumption. The good news is that they stand to nearly, solely benefit from the "catch up" of the market for high-end tea. In the meantime, and in concert with the potential, plausible reasons enumerated above, TEA's same-store sales metrics may optically continue to be price-driven versus transaction count-driven. And we're okay with this dynamic.

Un-modeled Opportunity: CPG Business

Our published EPS estimates for Teavana call for a CAGR of approximately 35% over the next three years--well above the growth rates for most of its specialty retail peers. However, we believe much of TEA's incremental value lies beyond the scope of our model, which is based only on the company's existing brick and mortar and e-commerce channels. Longer-term, we believe that Teavana could launch a viable consumer packaged goods (CPG) line, which would leverage the company's supply-chain capabilities and likely entail minimal incremental overhead expense.

We believe Teavana is a strong candidate for a CPG line for several reasons. As is the case with the brick and mortar specialty channel, the competitive landscape for high-end teas in the domestic CPG market is highly fragmented and the larger players primarily focus on tea bags instead of loose tea. Teavana's price points and brand positioning would make it a strong partner, in our opinion, for high-end grocery or natural foods stores. Furthermore, with Teavana on a trajectory to exceed $100 million in revenue from loose tea sales alone next year, we believe Teavana's scale and sourcing efficiencies would enable it to offer high-end grocery stores a branded wholesale CPG offering at favorable economics relative to the grocer pursuing a private label offering.

In the exhibit below, we have illustrated what we believe the potential impact of a CPG business could be for Teavana. Given the high merchandise margins Teavana enjoys on its loose teas, we believe that even after taking into account packaging and other variable product costs, Teavana would likely achieve very high product margins on a CPG line. We believe that Teavana could likely add $0.09 to EPS longer-term, depending on its ability to secure distribution to a sufficient number of doors. To be clear, these projections are not incorporated in our earnings model and are intended only to give a sense of the potential longer-term profitability potential of a CPG line.

Exhibit 4

CONSUMER PACKAGED GOODS EARNINGS POTENTIAL

	Year 1	Year 2	Longer-Term
Total Number of Doors	150	250	400
Net Sales	$ 3.938	$ 6.563	$ 10.500
Incremental Overhead	$ 2.000	$ 2.250	$ 2.500
Incremental EBIT	$ 1.094	$ 2.906	$ 5.750
EBIT Contribution Margin	27.8%	44.3%	54.8%
Incremental EPS	$ 0.02	$ 0.04	$ 0.09

Source: Piper Jaffray & Co.

Teavana

Income Statement 1/4/2012

(Millions of Dollars, Except Per-Share Data)

	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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	33.426	65.613	165.291	45.362	38.690	41.114	83.329	208.495	261.811
% Change		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*35.1%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
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	21.849	59.235	15.922	15.515	16.404	27.498	75.340	93.529
% 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%*	*33.3%*	*35.8%*	*35.1%*	*40.1%*	*39.9%*	*33.0%*	*36.1%*	*35.7%*
Gross profit	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	20.677	43.764	106.056	29.440	23.175	24.710	55.830	133.155	168.283
% 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%*	*66.7%*	*64.2%*	*64.9%*	*59.9%*	*60.1%*	*67.0%*	*63.9%*	*64.3%*
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	21.679	69.315	19.733	18.958	20.598	27.415	86.704	107.865
% 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%*	*33.0%*	*41.9%*	*43.5%*	*49.0%*	*50.1%*	*32.9%*	*41.6%*	*41.2%*
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	22.085	36.741	9.707	4.217	4.111	28.415	46.451	60.418
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%*	*33.7%*	*22.2%*	*21.4%*	*10.9%*	*10.0%*	*34.1%*	*22.3%*	*23.1%*
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	1.690	5.946	1.800	1.900	2.030	2.150	7.880	9.900
% 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%*	*2.6%*	*3.6%*	*4.0%*	*4.9%*	*4.9%*	*2.6%*	*3.8%*	*3.8%*
Operating income	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.612	20.395	30.795	7.907	2.317	2.081	26.265	38.571	50.518
% 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%*	*31.1%*	*18.6%*	*17.4%*	*6.0%*	*5.1%*	*31.5%*	*18.5%*	*19.3%*
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	-0.060	-1.613	-0.060	-0.060	-0.060	-0.060	-0.240	-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	20.335	29.182	7.847	2.257	2.021	26.205	38.331	50.278
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	8.338	11.895	3.123	0.898	0.805	10.430	15.256	20.011
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%*	*41.0%*	*40.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income (GAAP)	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.936	11.998	17.288	4.724	1.359	1.217	15.775	23.075	30.267
% 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%*	*18.3%*	*10.5%*	*10.4%*	*3.5%*	*3.0%*	*18.9%*	*11.1%*	*11.6%*
Net income per share (Basic)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.25	$ 0.33	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.46	$ 0.12	$ 0.03	$ 0.03	$ 0.41	$ 0.59	$ 0.78
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*24%*	*41%*	*35%*	*25%*	*28%*	*31%*	*29%*	*31%*
Net income per share (Diluted)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.24	$ 0.32	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.45	$ 0.12	$ 0.04	$ 0.03	$ 0.41	$ 0.60	$ 0.79
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*29%*	*42%*	*40%*	*30%*	*32%*	*31%*	*33%*	*31%*
Shares outstanding (Millions)																				
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	38.838	37.622	38.838	38.838	38.838	38.838	38.838	38.838
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	38.315	38.203	38.315	38.315	38.315	38.315	38.315	38.315
Same-Store Sales (% Change)	**3.7%**	**8.4%**	**3.0%**	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.4%**	**6.0%**	**3.0%**	**5.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Notes:

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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Stores				$ 85.025					$ 115.800											
% Change, year-over-year									*36.2%*											
E-Commerce				$ 5.235					$ 8.900											
% Change, year-over-year									*70.0%*											
% of total sales				*5.8%*					*7.0%*											
Total net sales	**$ 33.760**	**$ 47.200**	**$ 63.860**	**$ 90.260**	**$ 25.770**	**$ 22.980**	**$ 24.750**	**$ 51.200**	**$ 124.700**	**$ 34.939**	**$ 31.313**	**$ 33.426**	**$ 65.613**	**$ 165.291**	**$ 45.362**	**$ 38.690**	**$ 41.114**	**$ 83.329**	**$ 208.495**	**$ 261.811**
% 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%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
% CHANGE SAME-STORE SALES	***3.7%***	***8.4%***	***3.0%***	***6.9%***	***15.7%***	***6.9%***	***5.9%***	***7.5%***	***8.7%***	***6.0%***	***6.4%***	***6.0%***	***3.0%***	***5.4%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
% Change, year-over-year		*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%*	*33.5%*	*25.7%*	*25.0%*	*30.0%*	*30.0%*	*26.9%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130											
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*											
Average Square Footage (T4Q)																				

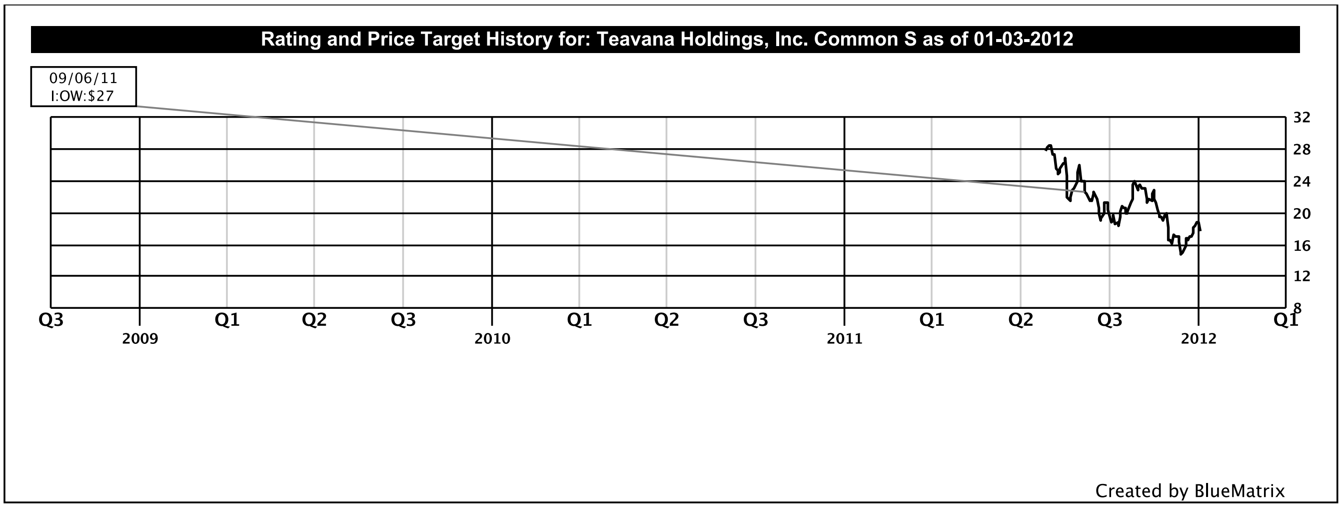
Consolidated Balance Sheet
(Millions of Dollars)

	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
CURRENT ASSETS:									
Cash and cash equivalents	$1.314				$7.901	$7.901	$3.740	$1.623	$0.036
Accounts reveivable	0.284				0.292	0.292			
Prepaid expenses and other assets	1.003				2.041	2.041			4.082
Prepaid rent	1.061				1.400	1.400			
Inventory	11.615			18.000	16.928	16.928	18.286	22.720	32.512
Deferred tax asset and other	0.772				1.629	1.629	5.827	11.647	8.106
Total current assets	**16.049**	**0.000**	**0.000**	**18.000**	**30.191**	**30.191**	**27.853**	**35.990**	**44.736**
Property & equipment, net	22.513				31.028	31.028	34.795	38.000	40.669
Goodwill	2.394				2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184				0.000	-			
Other non-current assets	0.627				0.513	0.513	0.760	0.693	0.673
Total assets	**$41.767**	**$0.000**	**$0.000**	**$18.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**
CURRENT LIABILITIES									
Accounts payable	$2.564				$3.631	$3.631	$2.112	$5.751	$6.770
Income taxes payable	$3.994				4.809	$4.809			
Deferred revenue	$1.083				1.344	$1.344			
Note payable	$0.250				-	$0.000			
Series A redeemable preferred stock	$0.000				12.992	$12.992	13.591	14.217	
Other current liabilities	$3.395				5.539	$5.539	9.659	6.865	8.116
Total current liabilities	**11.286**	**$0.000**	**$0.000**	**$0.000**	**$28.315**	**28.315**	**$25.362**	**$26.833**	**$14.886**
Deferred franchise income	0.600				0.525	0.525			
Deferred tax liability, non-current	-				0.420	0.420			2.547
Deferred rent	3.851				7.524	7.524	8.943	11.139	12.134
Long-term debt	1.000				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
Total liabilities	**27.585**	**0.000**	**0.000**	**0.000**	**37.784**	**37.784**	**36.175**	**46.328**	**34.643**
Stockholders' equity (deficit)									
Total stockholders' equity (deficit)	**14.182**				**26.342**	**26.342**	**29.627**	**30.749**	**53.829**
Total liabilities and stockholders' equity	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**

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
Operating activities:								
Net Income	**$5.291**	**$1.927**	**$2.506**		**$12.003**	**$12.003**	**$3.323**	**$4.354**
Adjustments to reconcile net income to net cash:	0.000							
Depreciation and amortization	3.489	0.973	2.033		4.361	4.361	1.274	2.703
Non-cash interest expense	1.925	0.570	1.140		2.279	2.279	0.633	1.282
Deferred income taxes	0.532				(0.253)	(0.253)		
Stock based compensation	0.169	0.034	0.068		0.157	0.157	0.037	0.063
Other		-			0.130	0.130	0.140	0.099
Change in assets and liabilities:								
Inventory	(3.646)	(0.571)	(0.875)		(5.313)	(5.313)	(1.359)	(5.792)
Other current assets	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)
Income taxes payable	2.772	(4.205)	(5.973)		0.815	0.815	(2.696)	(4.809)
Deferred rent	1.124	0.457	0.996		3.673	3.673	1.419	3.615
Accounts payable			(0.524)					1.164
Other current assets			0.130					1.866
Other accrued liabilities	(0.355)	0.305	(0.209)		2.997	2.997	(1.548)	1.018
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**-**	**19.397**	**19.397**	**1.142**	**(0.311)**
Investing activities:								
Capital Expenditures	(6.640)	(2.346)	(5.038)		(12.560)	(12.560)	(5.056)	(8.848)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**-**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**
	0.000							
Financing activities:	0.000							
Proceeds from revolving credit facility	93.980	29.815	56.489		132.239	132.239	35.510	74.338
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)		(132.239)	(132.239)	(35.510)	(69.979)
Payment on note payable					(0.250)	(0.250)		
Payments on term loan								
Cash paid for financing costs								(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)
Other								0.065
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**		**(0.250)**	**(0.250)**	**(0.247)**	**2.881**
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)		6.587	6.587	(4.161)	(6.278)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314		1.314	1.314	7.901	7.901
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**		**$7.901**	**$7.901**	**$3.740**	**$1.623**

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

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NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services
Piper Jaffray

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**346**	**53.80**	**61**	**17.63**
HOLD [N]	**262**	**40.70**	**22**	**8.40**
SELL [UW]	**35**	**5.40**	**0**	**0.00**

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Important Research Disclosures

Analyst Certification — Neely J.N. Tamminga, Sr Research Analyst

— Alex J. Fuhrman, Research Analyst

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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.

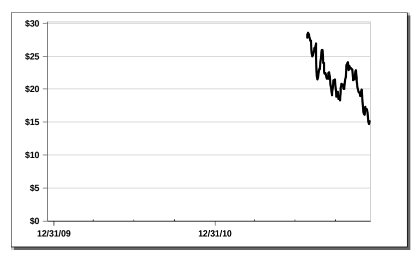
Trading Data (Thomson Financial)

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

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- 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.

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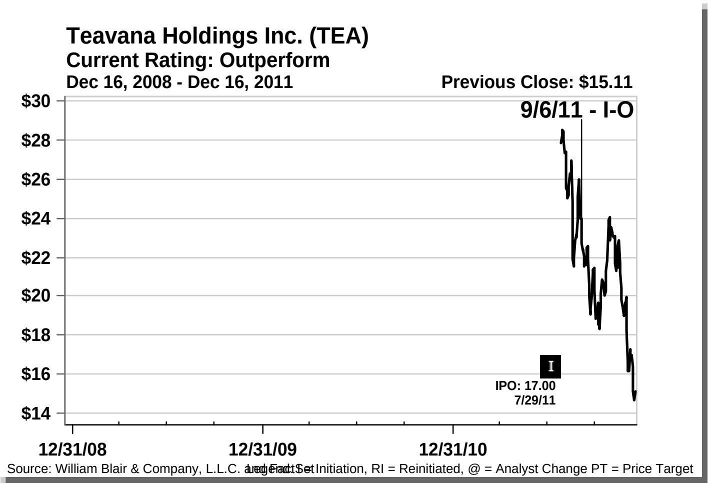
Additional information is available upon request.



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.

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Morgan Stanley

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December 5, 2011

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Quick Comment: 3Q Solid, But Falling Traffic, New Store Productivity Weigh on Stock

3Q11's 35% revenue growth impresses; added ~40% new store growth and a 6% increase in SSS (stores only). The +46% increase in e-commerce sales was also very solid. 3Q11 EPS of $0.02 was in line with consensus and $0.01 above our estimate.

What's new: Stock down 9% likely on inventory concerns, 2.5% decline in same store transactions, and decelerating new store productivity (we calculate ~74% vs. 77% last Q and 82% in 1Q). We think inventory concerns (inventory +79% y/y) are overblown as TEA eliminated the middleman to directly source product, which requires ownership of inventory earlier in the supply chain.

Market concerns in declining transactions and lower new store productivity may be well-founded. We would have expected consistently positive transaction growth in an underpenetrated category (tea) and with such a new store base (196 stores at 3Q11-end vs. 141 LY at this time and 107 2 years ago).

New store productivity is inline with management expectations. Existing fleet averages ~$860,000 per store. New stores are expected to generate $600,000 - $700,000 annually, or 70-80% of the existing fleet productivity. While our 74% productivity calculation is inline with management plan they may have fallen short of market expectations.

Maintaining our 4Q11 EPS; raising FY11. We maintain our $0.41 4Q11 EPS estimate (based on a 3% stores-only comp) and are raising our FY11 EPS to $0.45 (from $0.43). Management's updated FY11 EPS guidance is $0.43-$0.45 (vs. Street's $0.46 and the previous $0.42-$0.44 plan).

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Price target	**NA**
Shr price, close (Dec 2, 2011)	$16.65
Mkt cap, curr (mm)	$635
52-Week Range	$29.35-16.65

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of November 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1109**	**39%**	**453**	**44%**	**41%**
Equal-weight/Hold	**1203**	**42%**	**434**	**42%**	**36%**
Not-Rated/Hold	**108**	**4%**	**24**	**2%**	**22%**
Underweight/Sell	**422**	**15%**	**122**	**12%**	**29%**
Total	**2,842**		**1033**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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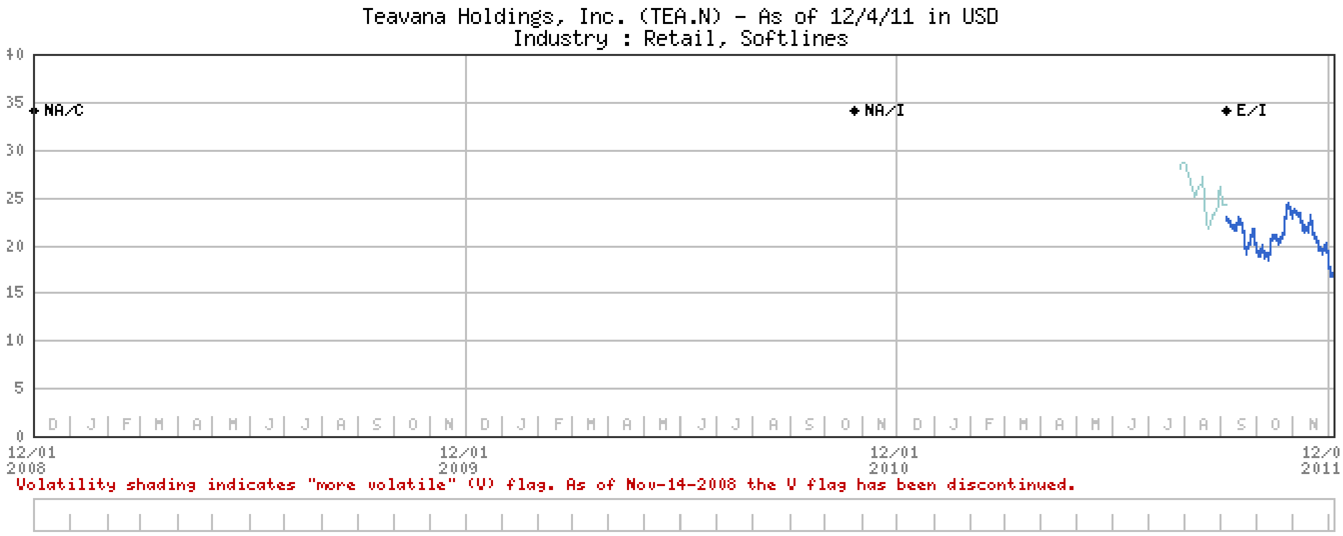
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 12/1/08 : NA/C; 10/26/10 : NA/I; 9/6/11 : E/I

Price Target History: 9/6/11 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (12/02/2011)
Kimberly C Greenberger		
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$49
Aeropostale Inc (ARO.N)	U (10/26/2010)	$16.27
American Eagle Outfitters, Inc. (AEO.N)	U (10/26/2010)	$14.17
AnnTaylor Stores Corp (ANN.N)	O (10/26/2010)	$24.43
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$10.22
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$53.98
Coach Inc (COH.N)	E (11/04/2011)	$62.2
Express, Inc. (EXPR.N)	O (01/31/2011)	$21.25
Gap Inc (GPS.N)	E (10/26/2010)	$18.7
Guess (GES.N)	E (11/03/2008)	$28.24
Limited Brands Inc (LTD.N)	O (10/26/2010)	$42.61
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$49.69
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$92.42
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$13.86
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$62.24
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$16.65
Tiffany & Co. (TIF.N)	E (11/04/2011)	$67.6
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$27.09

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

PiperJaffray

Company Note
December 2, 2011

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Reason for Report:
Earnings Announcement

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	$27.00
FY12E Rev (mil)	$163.7	$165.3
FY13E Rev (mil)	$206.6	$208.5
FY12E EPS	$0.44	$0.45
FY13E EPS	$0.59	$0.60

Price	$18.28
52 Week High	$29.35
52 Week Low	$17.00
12-Month Price Target	$27.00
35x FY14E EPS	
Shares Out (mil)	39.0
Market Cap. (mil)	$712.9
Avg Daily Vol (000)	229
Book Value/Share	$1.38
Net Cash Per Share	NM
Debt to Total Capital	8%
Div (ann)	$0.00
Est LT EPS Growth	35%
P/E to Est LT EPS Growth	1.2x
Fiscal Year End:	Jan

Rev (mil)	2011A	2012E	2013E
Apr	$25.8A	$34.9A	$45.4E
Jul	$23.0A	$31.3A	$38.7E
Oct	$24.8A	$33.4A	$41.1E
Jan	$51.2A	$65.6E	$83.3E
FY	$124.7A	$165.3E	$208.5E
CY	$165.3A	$208.5E	$261.8E
FY RM	5.7x	4.3x	3.4x
CY RM	4.3x	3.4x	2.7x

EPS	2011A	2012E	2013E
Apr	$0.05A	$0.09A	$0.12E
Jul	$0.02A	$0.03A	$0.04E
Oct	$0.01A	$0.02A	$0.03E
Jan	$0.24A	$0.31E	$0.41E
FY	$0.32A	$0.45E	$0.60E
CY	$0.45E	$0.60E	$0.79E
FY P/E	57.1x	40.6x	30.5x
CY P/E	40.6x	30.5x	23.1x

Teavana Holdings, Inc. (TEA – $18.28) Overweight

Enhanced Gift Assortment Could Be Teeing Up A Strong Holiday; Reit. OW Rating

CONCLUSION:

We are reiterating our Overweight rating on TEA shares following Teavana's FQ3 earnings report in which EPS and same-store sales exceeded our estimate. We are encouraged that the holiday merchandise assortment will feature new gift box and hard goods offerings, and we are raising our FQ4 EPS estimate in view of our expectation for a strong holiday season. 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 upcoming market entry into Canada.

- **Same-Store Sales Up 6% In FQ3; Up 8.5% Including E-Commerce.** For FQ3, same-store sales were up 6% y/y, ahead of our estimate of +3%. Including e-commerce, comparable sales were up 8.5%. Excluding prepared beverages, average ticket was up 8.3% and transactions were up 0.5%. Teavana's e-commerce channel continues to outpace overall sales results, with e-commerce sales growing 46% 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% in FY11. EPS was $0.02 for FQ3, ahead of our estimate of $0.01.

- **Merchandise Assortment Features Upgraded Gift Assortment - This Should Bode Well For Holiday.** It appears that the better than expected top-line results were due in part to a strong customer response to Teavana's innovative new tea blends. Looking into the holiday season, management has indicated an upgraded assortment of gift sets, and it appears that the mix of hard goods relative to loose tea will increase versus last year. Although the higher contribution of hard goods will likely pressure gross margin, we expect this to create a more compelling assortment for gift giving purposes and believe we could potentially see upside in FQ4 as a result.

- **Teavana Set To Open Its First Store In Canada In This Year.** On its conference call, management indicated that it will be opening four stores in FQ4, including its first store in Canada. This will be Teavana's first company-owned store outside the United States, and 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 $0.30 to $0.31 in FQ4; from $0.44 to $0.45 in FY12; from $0.59 to $0.60 in FY13; and from $0.77 to $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 196 stores.

Income Statement 12/2/2011
(Millions of Dollars, Except Per-Share Data)

	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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	33.426	65.613	165.291	45.362	38.690	41.114	83.329	208.495	261.811
% Change		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*35.1%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
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	21.849	59.235	15.922	15.515	16.404	27.498	75.340	93.529
% 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%*	*33.3%*	*35.8%*	*35.1%*	*40.1%*	*39.9%*	*33.0%*	*36.1%*	*35.7%*
Gross profit	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	20.677	43.764	106.056	29.440	23.175	24.710	55.830	133.155	168.283
% 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%*	*66.7%*	*64.2%*	*64.9%*	*59.9%*	*60.1%*	*67.0%*	*63.9%*	*64.3%*
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	21.679	69.315	19.733	18.958	20.598	27.415	86.704	107.865
% 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%*	*33.0%*	*41.9%*	*43.5%*	*49.0%*	*50.1%*	*32.9%*	*41.6%*	*41.2%*
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	22.085	36.741	9.707	4.217	4.111	28.415	46.451	60.418
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%*	*33.7%*	*22.2%*	*21.4%*	*10.9%*	*10.0%*	*34.1%*	*22.3%*	*23.1%*
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	1.690	5.946	1.800	1.900	2.030	2.150	7.880	9.900
% 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%*	*2.6%*	*3.6%*	*4.0%*	*4.9%*	*4.9%*	*2.6%*	*3.8%*	*3.8%*
Operating income	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.612	20.395	30.795	7.907	2.317	2.081	26.265	38.571	50.518
% 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%*	*31.1%*	*18.6%*	*17.4%*	*6.0%*	*5.1%*	*31.5%*	*18.5%*	*19.3%*
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	-0.060	-1.613	-0.060	-0.060	-0.060	-0.060	-0.240	-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	20.335	29.182	7.847	2.257	2.021	26.205	38.331	50.278
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	8.338	11.895	3.123	0.898	0.805	10.430	15.256	20.011
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%*	*41.0%*	*40.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income (GAAP)	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.936	11.998	17.288	4.724	1.359	1.217	15.775	23.075	30.267
% 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%*	*18.3%*	*10.5%*	*10.4%*	*3.5%*	*3.0%*	*18.9%*	*11.1%*	*11.6%*
Net income per share (Basic)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.25	$ 0.33	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.46	$ 0.12	$ 0.03	$ 0.03	$ 0.41	$ 0.59	$ 0.78
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*165%*	*24%*	*41%*	*35%*	*25%*	*28%*	*31%*	*29%*	*31%*
Net income per share (Diluted)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.24	$ 0.32	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.45	$ 0.12	$ 0.04	$ 0.03	$ 0.41	$ 0.60	$ 0.79
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*167%*	*29%*	*42%*	*40%*	*30%*	*32%*	*31%*	*33%*	*31%*
Shares outstanding (Millions)																				
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	38.838	37.622	38.838	38.838	38.838	38.838	38.838	38.838
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	38.315	38.203	38.315	38.315	38.315	38.315	38.315	38.315
Same-Store Sales (% Change)	**3.7%**	**8.4%**	**3.0%**	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.4%**	**6.0%**	**3.0%**	**5.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Notes:
Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

Teavana

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	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Stores				$ 85.025					$ 115.800											
% Change, year-over-year									*36.2%*											
E-Commerce				$ 5.235					$ 8.900											
% Change, year-over-year									*70.0%*											
% of total sales				*5.8%*					*7.0%*											
Total net sales	**$ 33.760**	**$ 47.200**	**$ 63.860**	**$ 90.260**	**$ 25.770**	**$ 22.980**	**$ 24.750**	**$ 51.200**	**$ 124.700**	**$ 34.939**	**$ 31.313**	**$ 33.426**	**$ 65.613**	**$ 165.291**	**$ 45.362**	**$ 38.690**	**$ 41.114**	**$ 83.329**	**$ 208.495**	**$ 261.811**
% 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%*	*28.2%*	*32.6%*	*29.8%*	*23.6%*	*23.0%*	*27.0%*	*26.1%*	*25.6%*
% CHANGE SAME-STORE SALES	***3.7%***	***8.4%***	***3.0%***	***6.9%***	***15.7%***	***6.9%***	***5.9%***	***7.5%***	***8.7%***	***6.0%***	***6.4%***	***6.0%***	***3.0%***	***5.4%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	196	200	200	215	225	245	260	260	330
% Change, year-over-year		*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%*	*33.5%*	*25.7%*	*25.0%*	*30.0%*	*30.0%*	*26.9%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130											
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*											
Average Square Footage (T4Q)																				

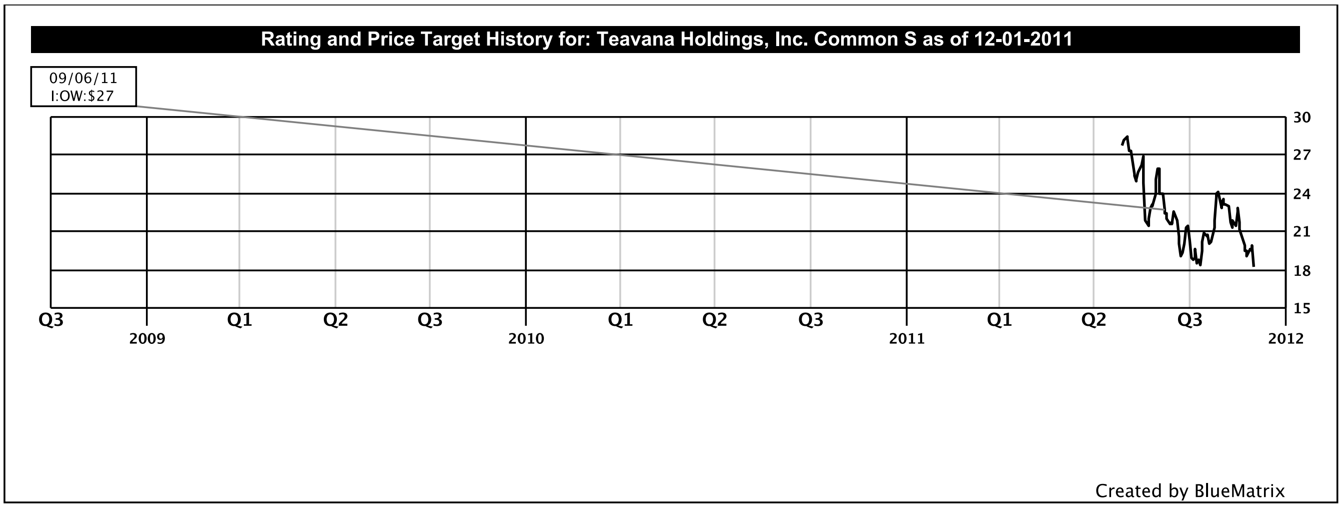
Consolidated Balance Sheet
(Millions of Dollars)

	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
CURRENT ASSETS:									
Cash and cash equivalents	$1.314				$7.901	$7.901	$3.740	$1.623	$0.036
Accounts reveivable	0.284				0.292	0.292			
Prepaid expenses and other assets	1.003				2.041	2.041			4.082
Prepaid rent	1.061				1.400	1.400			
Inventory	11.615			18.000	16.928	16.928	18.286	22.720	32.512
Deferred tax asset and other	0.772				1.629	1.629	5.827	11.647	8.106
Total current assets	**16.049**	**0.000**	**0.000**	**18.000**	**30.191**	**30.191**	**27.853**	**35.990**	**44.736**
Property & equipment, net	22.513				31.028	31.028	34.795	38.000	40.669
Goodwill	2.394				2.394	2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184				0.000	-			
Other non-current assets	0.627				0.513	0.513	0.760	0.693	0.673
Total assets	**$41.767**	**$0.000**	**$0.000**	**$18.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**
CURRENT LIABILITIES									
Accounts payable	$2.564				$3.631	$3.631	$2.112	$5.751	$6.770
Income taxes payable	$3.994				4.809	$4.809			
Deferred revenue	$1.083				1.344	$1.344			
Note payable	$0.250				-	$0.000			
Series A redeemable preferred stock	$0.000				12.992	$12.992	13.591	14.217	
Other current liabilities	$3.395				5.539	$5.539	9.659	6.865	8.116
Total current liabilities	**11.286**	**$0.000**	**$0.000**	**$0.000**	**$28.315**	**28.315**	**$25.362**	**$26.833**	**$14.886**
Deferred franchise income	0.600				0.525	0.525			
Deferred tax liability, non-current	-				0.420	0.420			2.547
Deferred rent	3.851				7.524	7.524	8.943	11.139	12.134
Long-term debt	1.000				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
Total liabilities	**27.585**	**0.000**	**0.000**	**0.000**	**37.784**	**37.784**	**36.175**	**46.328**	**34.643**
Stockholders' equity (deficit)									
Total stockholders' equity (deficit)	**14.182**				**26.342**	**26.342**	**29.627**	**30.749**	**53.829**
Total liabilities and stockholders' equity	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**	**$88.472**

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
Operating activities:								
Net Income	**$5.291**	**$1.927**	**$2.506**		**$12.003**	**$12.003**	**$3.323**	**$4.354**
Adjustments to reconcile net income to net cash:	0.000							
Depreciation and amortization	3.489	0.973	2.033		4.361	4.361	1.274	2.703
Non-cash interest expense	1.925	0.570	1.140		2.279	2.279	0.633	1.282
Deferred income taxes	0.532				(0.253)	(0.253)		
Stock based compensation	0.169	0.034	0.068		0.157	0.157	0.037	0.063
Other		-			0.130	0.130	0.140	0.099
Change in assets and liabilities:								
Inventory	(3.646)	(0.571)	(0.875)		(5.313)	(5.313)	(1.359)	(5.792)
Other current assets	(0.230)	0.181	0.021		(1.452)	(1.452)	(0.081)	(5.874)
Income taxes payable	2.772	(4.205)	(5.973)		0.815	0.815	(2.696)	(4.809)
Deferred rent	1.124	0.457	0.996		3.673	3.673	1.419	3.615
Accounts payable			(0.524)					1.164
Other current assets			0.130					1.866
Other accrued liabilities	(0.355)	0.305	(0.209)		2.997	2.997	(1.548)	1.018
Net cash (used in) provided by operating activities	**11.071**	**(0.329)**	**(0.687)**	**-**	**19.397**	**19.397**	**1.142**	**(0.311)**
Investing activities:								
Capital Expenditures	(6.640)	(2.346)	(5.038)		(12.560)	(12.560)	(5.056)	(8.848)
Net cash used in investing activities	**(6.640)**	**(2.346)**	**(5.038)**	**-**	**(12.560)**	**(12.560)**	**(5.056)**	**(8.848)**
	0.000							
Financing activities:	0.000							
Proceeds from revolving credit facility	93.980	29.815	56.489		132.239	132.239	35.510	74.338
Payments on revolving credit facility	(98.265)	(27.303)	(52.078)		(132.239)	(132.239)	(35.510)	(69.979)
Payment on note payable					(0.250)	(0.250)		
Payments on term loan								
Cash paid for financing costs								(0.433)
Payment of initial public offering costs		-					(0.247)	(1.110)
Other								0.065
Net cash used in financing activities	**(4.285)**	**2.512**	**4.411**		**(0.250)**	**(0.250)**	**(0.247)**	**2.881**
Net increase (decrease) in cash and cash equivalent	0.146	(0.163)	(1.314)		6.587	6.587	(4.161)	(6.278)
Cash and cash equivalents, beginning of period	1.168	1.314	1.314		1.314	1.314	7.901	7.901
Cash and cash equivalents, end of period	**$1.314**	**$1.151**	**($0.000)**		**$7.901**	**$7.901**	**$3.740**	**$1.623**

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

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	359	54.60	62	17.27
HOLD [N]	261	39.70	23	8.81
SELL [UW]	38	5.80	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

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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Equity Research
Consumer | Specialty Coffee and Tea

William Blair

Teavana Holdings, Inc.

Raising Estimates on Continued Healthy Sales Trends

- Teavana reported third-quarter EPS of $0.02 (versus $0.01 last year), meeting our and consensus expectations in what is seasonally a low-profit quarter for the company. Total revenue rose 35% to $33.4 million, about $1 million ahead of our and consensus expectations, including a healthy 46% increase in direct-to-consumer sales.

- Comps remained healthy, increasing 8.5% (including e-commerce) against a 7.1% year-ago comparison, ahead of management's guidance for a midsingle-digit gain and similar to the second quarter's 8.7% increase.

- Transactions improved sequentially both including and excluding beverage-only transactions, with transactions including beverage-only declining 0.6% versus a 2.3% decline in the second quarter and transactions excluding beverage-only increasing 0.5% versus a 0.1% increase in the second quarter.

- Gross margin was much better than expected, increasing 330 basis points to 61.9%, primarily reflecting the benefit of the company's shift to direct sourcing as well as leverage on strong sales. SG&A increased 340 basis points to 52.4%, with about half of the increase stemming from accelerated new store openings and the remainder stemming from expenses related to being a public company as well as set-up costs for pending Canadian operations and increased occupancy costs associated with the company's new support center. Therefore, operating margin contracted 40 basis points to 4.8%.

- Teavana opened 17 new company-owned stores in the third quarter (versus our projection for nine), meeting the company's target of 50 new stores this year one quarter ahead of time. New stores continue to perform on plan, albeit with average sales productivity somewhat lower than last year given a greater percentage of B and C malls versus A malls (as discussed in our initiation report). Teavana now expects to open four additional stores in the fourth quarter, including the company's first store in Canada, for a total of 54 new stores this year, representing store growth of 37%. For 2012, management still anticipates 60 new store openings, representing store growth of 30%.

- Inventory increased 79% year-over-year to $32.5 million at the end of the third quarter, reflecting new store openings as well as early receipts to take advantage of product and freight discounts and a greater depth of inventory to support holiday sales (particularly big-selling items). Therefore, the company is in a much better inventory position heading into the fourth quarter than it was in the year-ago period when the company experienced out-of-stocks during the holiday selling season.

December 02, 2011

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

Symbol:	TEA (NYSE)
Price:	$16.65 (52-Wk.: $18-$29)
Market Value (mil.):	$723
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	$0.03
	Q4	$0.24	$0.31	$0.40
	FY	$0.32	$0.45	$0.60
	CY		$0.45	$0.60
Sales (mil.)		125	168	213
Valuation				
FY P/E		52.0x	37.0x	27.8x
CY P/E			37.0x	27.8x

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

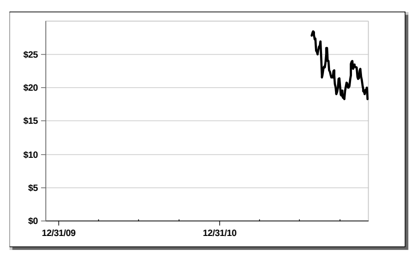
Trading Data (Thomson Financial)

Shares Outstanding (mil.)	37
Float (mil.)	NA
Average Daily Volume	234,004

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	690.9
EBITDA (TTM)	25.4
Enterprise Value/EBITDA (TTM)	27.2x
Return on Equity (TTM)	14.2

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

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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- Management issued fourth-quarter guidance calling for revenues of $62 million to $66 million (versus consensus of $67 million), including a midsingle-digit comp increase including e-commerce. EPS guidance was set at $0.29 to $0.31, encompassing consensus of $0.31 and our estimate of $0.30. Given the lapping of the shift to direct sourcing as well as management's expectation for strong sales of lower-margin merchandise, we expect roughly flat to modestly down gross margin in the fourth quarter.

- For the full year 2011, management raised revenue guidance to $162 million to $166 million, versus prior expectations for $160 million to $164 million and consensus of $166 million. EPS guidance is now $0.43 to $0.45 versus prior expectations of $0.42 to $0.44, our prior estimate of $0.44, and consensus of $0.46.

- We are raising our 2011 EPS estimate by a penny to $0.45 (up 42%), bringing it to the high end of revised guidance, and our 2012 estimate by a penny to $0.60, up 32% and versus consensus of $0.61. Our 2013 estimate remains unchanged at $0.77, up 29% and versus consensus of $0.78.

- Despite a healthy quarter and in-line outlook, Teavana's stock traded down 9%, as investors digested sales trends that were largely driven by average ticket gains. We continue to believe that Teavana's transactions will perk up in the new year, as the company builds a marketing department (virtually nonexistent now) and a CRM system. At 28 times our new 2012 EPS estimate, we would be buyers of Teavana's shares given the company's strong growth prospects and historically resilient sales trends, and we expect investors to be rewarded with 30%-plus EPS growth with the potential for upside. We reiterate our Outperform rating.

Third Quarter Meets Expectations

Teavana reported third-quarter EPS of $0.02 (versus $0.01 last year), meeting our and consensus expectations in what is seasonally a low-profit quarter for the company. Comps remained healthy, increasing 8.5% (including e-commerce) against a 7.1% year-ago comparison, ahead of management's guidance for a midsingle-digit gain and similar to the second quarter's 8.7% increase. Average ticket increased 9.1% and transactions declined 0.6%, but improved sequentially from -2.3% in the second quarter. Excluding beverage-only transactions, average ticket increased 8.3% and transactions increased 0.5%, also improved from a 0.1% increase in the second quarter. Store-only comps increased 6.0% against a 5.9% year-ago comparison, ahead of our 4% projection and at the higher end of management's guidance for a low- to midsingle-digit increase.

Total revenue rose 35% to $33.4 million, about $1 million ahead of our and consensus expectations, including a healthy 46% increase in direct-to-consumer sales. Tea represented 59% of sales (up from 58% in the year-ago period), merchandise remained flat at 37% of sales, and prepared beverages were 4% of sales (down from 5% in the year-ago period as the company continues to deemphasize the category).

Gross margin was much better than expected, increasing 330 basis points to 61.9%, primarily reflecting the benefit of the company's shift to direct sourcing last year (including higher product margins) as well as leverage on occupancy and depreciation on strong sales. Looking forward, given that the company lapped the shift to direct sourcing during the third quarter, management does not expect any associated gross margin benefit in the fourth quarter.

Selling, general, and administrative expenses increased 340 basis points to 52.4%, with about half of the increase related to accelerated store openings in the quarter (pre-opening, travel, and payroll related to training, relocation costs, and general supply expenses), while the remainder stemmed from new hires related to being a public company (finance, legal, and compliance), increased stock compensation, D&O insurance costs, audit and compliance fees, set-up costs for pending Canadian operations, and increased occupancy costs associated with the company's new support center. Depreciation and amortization increased 10 basis points to 4.6%, yielding operating margin contraction of 40 basis points to 4.8%.

Inventory increased 79% year-over-year to $32.5 million at the end of the third quarter, reflecting new store openings as well as early receipts to take advantage of product and freight discounts and a greater depth of inventory to support holiday sales (particularly big-selling items). Therefore, the company is in a much better inventory position heading into the fourth quarter than it was in the year-ago period when the company experienced out-of-stocks during the holiday selling season.

Finally, Teavana ended the third quarter with $4.5 million in debt and total liquidity of $35.3 million (including cash and availability on the company's $40 million revolver facility).

New Store Development Ahead of Plan

Teavana opened 17 new company-owned stores in the third quarter (versus our projection for nine), meeting the company's target of 50 new stores this year one quarter ahead of time. Therefore, the company ended the third quarter with 196 stores, up 39%. Moreover, 48 of the 50 new store openings thus far this year were opened with an internally promoted general manager, equating to a 96% internal promotion rate (versus 87% in 2010 and 39% in 2009), and management indicated that new stores are performing on plan.

Looking forward, Teavana now expects to open four additional stores in the fourth quarter, including the company's first store in Canada, for a total of 54 new stores this year, representing store growth of 37%. For 2012, management still anticipates 60 new store openings, representing store growth of 30%. In addition, plans remain on track for the company's first international franchised store to open in 2012 through its 10-year franchise development agreement with Alshaya.

Outlook and Stock Perspective

Management issued fourth-quarter guidance calling for revenue of $62 million to $66 million (versus consensus of $67 million), including a midsingle-digit comp increase (including e-commerce). EPS guidance was set at $0.29 to $0.31, encompassing consensus of $0.31 and our estimate of $0.30. Given the lapping of the shift to direct sourcing as well as management's expectation for strong sales of lower-margin merchandise, we expect roughly flat to modestly down gross margin in the fourth quarter.

For the full year 2011, management raised revenue guidance to $162 million to $166 million, versus prior expectations for $160 million to $164 million and consensus of $166 million. EPS guidance is now $0.43 to $0.45 versus prior expectations of $0.42 to $0.44, our prior estimate of $0.44, and consensus of $0.46.

We are raising our 2011 EPS estimate by a penny to $0.45 (up 42%), bringing it to the high end of revised guidance, and our 2012 estimate by a penny to $0.60, up 32% and versus consensus of $0.61. Our 2013 estimate remains unchanged at $0.77, up 29% and versus consensus of $0.78.

Despite a healthy quarter and in-line outlook, Teavana's stock traded down 9%, as investors digested sales trends that were largely driven by average ticket gains. We continue to believe that Teavana's transactions will perk up in the new year, as the company builds a marketing department (including a VP of marketing expected to be hired this quarter) and a CRM system. At 28 times our new 2012 EPS estimate, we would be buyers of Teavana's shares given the company's strong growth prospects and historically resilient sales trends, 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.

December 2, 2011: $16.65 ($16-$29) — **Rating: Outperform**

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

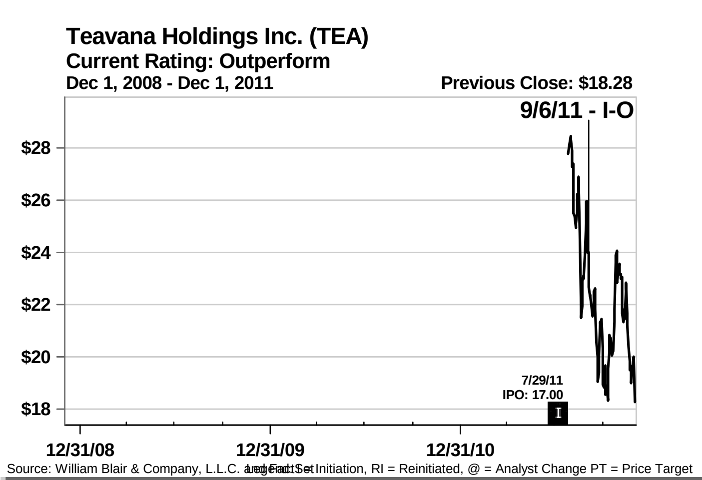
($ in millions, except per-share items)

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	**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	22.0	59.3	16.4	15.2	15.6	27.5	74.8	94.4
Gross profit	$53.8	$15.8	$13.5	$14.5	$34.6	$78.4	$22.5	$19.1	$20.7	$46.0	$108.3	$30.2	$24.3	$25.8	$58.2	$138.4	$177.7
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	17.5	23.8	71.4	19.8	19.8	21.7	29.7	91.0	115.9
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	$20.5	$30.9	$8.6	$2.6	$2.1	$26.2	$39.5	$51.3
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	$20.5	$29.3	$8.5	$2.5	$2.0	$26.1	$39.1	$50.9
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	$12.1	$17.4	$5.1	$1.5	$1.2	$15.7	$23.5	$30.6
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**	**$0.03**	**$0.40**	**$0.60**	**$0.77**
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	61.9%	67.7%	64.6%	64.8%	61.4%	62.3%	67.9%	64.9%	65.3%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	52.4%	35.0%	42.6%	42.5%	50.0%	52.5%	34.7%	42.7%	42.6%
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%	3.9%	4.8%	4.8%	2.6%	3.7%	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%	18.4%	6.6%	5.0%	30.6%	18.5%	18.8%
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%	41.3%	41.2%	34.2%	28.5%	24.2%	25.0%	27.4%	27.3%
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%	41.3%	33.1%	28.7%	29.4%	32.6%	32.9%
Operating income	156.2%	276.4%	338.4%	100.3%	63.8%	92.6%	62.3%	40.7%	26.1%	23.8%	31.6%	33.1%	11.6%	27.7%	27.9%	27.7%	29.8%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	77.2%	165.9%	27.4%	42.2%	48.2%	40.7%	24.7%	29.0%	32.4%	29.3%

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.

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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.

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William Blair

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.

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.

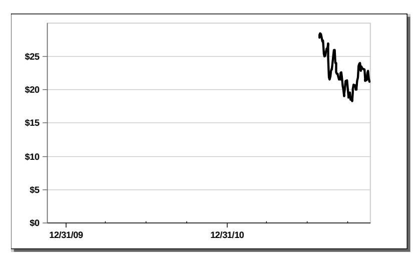
Trading Data (Thomson Financial)

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

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Teavana Holdings, Inc.

November 21, 2011: $20.57 ($18-$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-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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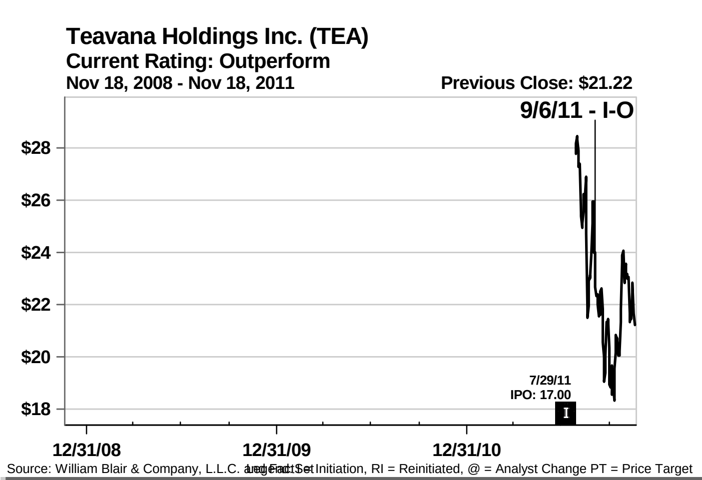
Additional information is available upon request.



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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Reason for Report:
Initiating Coverage

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	$27.00
FY12E Rev (mil)	--	$163.7
FY13E Rev (mil)	--	$206.6
FY12E EPS	--	$0.44
FY13E EPS	--	$0.59

Price:	$23.99
52 Week High:	$29.35
52 Week Low:	$17.00
12-Month Price Target:	$27.00
35x FY14E EPS	
Shares Out (mil):	37.8
Market Cap. (mil):	$906.8
Avg Daily Vol (000):	NM
Book Value/Share:	$0.81
Net Cash Per Share:	NM
Debt to Total Capital:	39%
Div (ann):	$0.00
Est LT EPS Growth:	35%
P/E to LT EPS Growth (FY11):	2.1x
Est Next Rep Date:	12/01/2011
Fiscal Year End:	Jan

Rev (mil)	2011A	2012E	2013E
Apr	$25.8A	$34.9A	$44.7E
Jul	$23.0A	$31.3A	$38.1E
Oct	$24.8A	$31.5E	$39.8E
Jan	$51.2A	$65.9E	$84.0E
FY	$124.7A	$163.7E	$206.6E
CY	$163.7A	$206.6E	$260.2E
FY RM	7.3x	5.5x	4.4x
CY RM	5.5x	4.4x	3.5x

EPS	2011A	2012E	2013E
Apr	$0.05A	$0.09A	$0.12E
Jul	$0.02A	$0.03A	$0.03E
Oct	$0.01A	$0.01E	$0.03E
Jan	$0.24A	$0.30E	$0.41E
FY	$0.32A	$0.44E	$0.59E
CY	$0.44E	$0.59E	$0.77E
FY P/E	75.0x	54.5x	40.7x
CY P/E	54.5x	40.7x	31.2x

Teavana Holdings, Inc. (TEA - $23.99)
Overweight

Growth Prospects Give Us An Oo-Long View; Initiating Coverage w/ Overweight

CONCLUSION:

We are launching coverage on TEA shares with an Overweight rating and $27 price target given our belief that Teavana is in the early stages of its store expansion with a proven and highly profitable concept. No doubt, with the shares trading at 41x FY13E EPS, we suspect investors are looking forward to opportunities such as international expansion and the launch of a CPG line, which represent potentially significant un-modeled opportunities and are discussed in detail in this report. Furthermore, we believe that given Teavana's high merchandise margins, upside to our +3% SSS estimate could result in meaningful upside to earnings.

- **Teavana Is A High-Quality Growth Story In An Emerging Category.** Teavana is a specialty retailer of high-end loose tea and tea-related merchandise operating 179 stores. We believe Teavana has the potential to grow to 500+ stores over the next five years, and we expect e-commerce sales to grow from 7% penetration to more than 10% in that time. Aside from strong top-line growth stemming from store openings and same-store sales growth, we expect earnings growth to come from enhanced product margins as Teavana's merchandise mix continues to shift more towards the high-margin loose tea category.

- **Un-Modeled Opportunities Could Play Major Role In Long-Term Growth.** In assessing Teavana's longer-term value, we believe it is important for investors to consider the potential impact of several initiatives that are beyond the scope of our model. Specifically, we believe that the opening of company-owned stores internationally, continued growth of its international franchise business, and the potential launch of a consumer-packaged-goods line could all represent accretive initiatives. In this report, we evaluate the potential impact of each of these initiatives, which we believe could play a meaningful role in TEA's longer-term earnings potential. The following report sets forth a framework to help investors think about the multi-faceted growth that we believe lies ahead of Teavana.

- **Competitive Landscape Is Highly Fragmented.** We believe Teavana fills a highly profitable, unoccupied niche in the competitive landscape. The market for high-end loose tea and tea-related accessories is highly fragmented, and there are currently no other specialty retailers of similar size in the U.S. focusing specifically on tea. We expect Teavana to benefit from growth in overall U.S. tea consumption, as well as outperformance of high-end specialty tea brands relative to mass brands typically sold through the food, drug, and mass channel.

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 179 stores.

Initiating Coverage On TEA With An Overweight Rating

We are initiating coverage on TEA shares with an Overweight investment rating given our belief that Teavana is in the early stages of a significant store expansion plan with a proven and highly profitable concept. The biggest pushback we anticipate receiving on our Overweight rating is from investors who question whether a stock should ever deserve a 35x multiple on 2013 earnings when we are "only" looking for 35% EPS growth this year, especially against a choppy macroeconomic backdrop characterized by high unemployment and fiscal austerity. We're no strangers to valuation, and these are certainly valid concerns, but if our 15+ years of experience covering retail growth stocks has taught us anything, it's that over-reliance on traditional valuation techniques for a proven, early-stage growth brand is an easy way to get burned.

The model we set forth represents an achievable and likely beatable set of assumptions through January 2014, and it is important to note several things about our projections. First of all, our model is predicated on growth of Teavana's core company-owned stores and e-commerce operations. The possibility of growth of the company's small franchise business, the potentially powerful launch of a consumer-packaged-goods or business-to-business line, and any future international store openings are all excluded from our model. As detailed throughout this report, we believe that such prospects represent potentially significant contributions to earnings, and we think it is important to be mindful of these opportunities.

Exhibit 1

VALUATION FOR GROWTH BRANDS

		Price	MktCap	EPS			Growth Rate		P/E Ratio			PEG	
Ticker	Company	9/2/2011	(bil.)	2010A	2011E	2012E	2011E	2012E	2010A	2011E	2012E	2011E	2012E
LULU	lululemon	$ 53.15	5.746	$ 0.79	$ 1.10	$ 1.36	40%	24%	67.7x	48.3x	39.1x	1.2x	1.7x
ULTA	Ulta	$ 55.33	3.386	$ 1.15	$ 1.64	$ 2.10	43%	28%	48.1x	33.7x	26.3x	0.8x	0.9x
UA	Under Armour	$ 67.36	2.676	$ 1.34	$ 1.76	$ 2.25	31%	28%	50.3x	38.3x	29.9x	1.2x	1.1x
CROX	Crocs	$ 25.40	2.272	$ 0.76	$ 1.37	$ 1.64	80%	20%	33.4x	18.5x	15.5x	0.2x	0.8x
TFM	The Fresh Market	$ 36.21	1.738	$ 0.86	$ 1.05	$ 1.29	22%	23%	42.1x	34.5x	28.1x	1.6x	1.2x
VRA	Vera Bradley	$ 32.89	1.332	$ 1.20	$ 1.35	$ 1.57	13%	16%	27.4x	24.4x	20.9x	1.9x	1.3x
VSI	Vitamin Shoppe	$ 44.09	1.284	$ 1.09	$ 1.52	$ 1.77	39%	16%	40.4x	29.0x	24.9x	0.7x	1.5x
FRAN	Francesca's	$ 22.26	0.969	$ 0.41	$ 0.53	$ 0.71	29%	34%	54.3x	42.0x	31.4x	1.4x	0.9x
PEET	Peet's Coffee And Tea	$ 55.35	0.715	$ 1.33	$ 1.47	$ 1.77	11%	20%	41.6x	37.7x	31.3x	3.6x	1.5x
RUE	Rue21	$ 22.56	0.550	$ 1.21	$ 1.52	$ 1.78	26%	17%	18.6x	14.8x	12.7x	0.6x	0.7x
mean							33%	23%	42.4x	32.1x	26.0x	1.3x	1.2x
median							30%	22%	41.9x	34.1x	27.2x	1.2x	1.2x
TEA	Teavana	$ 23.99	0.913	$ 0.32	$ 0.44	$ 0.59	38%	34%	75.0x	54.5x	40.7x	1.5x	1.2x

Source: Thomson One, Piper Jaffray & Co. estimates

For valuation purposes, we believe it is most appropriate to consider Teavana when compared to other high growth brands, particularly those with a healthy lifestyle niche. As shown in Exhibit 1, TEA shares currently trade at 41x 2012 (FY13) EPS, which represents a premium to its peer group average of 26x. We believe a premium valuation is justified in view of Teavana's well-above average growth prospects, and we note that valuation for TEA is in line with its peer group when looking at 2012 PEG.

Our price target of $27 is based on 35x our FY14 EPS estimate of $0.77, a premium to other publicly traded lifestyle brands and retailers. However, few other companies, in our opinion, have such a well mapped-out road of double-digit earnings growth. Even fewer are early enough along in the process that outsized earnings growth can support a premium multiple for an extended period of time as growth rates remain high, in our view. We believe our assigned multiple of 35x is appropriate given our expectation for 30% to 40% EPS growth or more for the foreseeable future.

We also note that Teavana is slated to deliver about 70% of its annual earnings in the upcoming fourth quarter. Should we gain visibility or increased conviction in the company's ability to meet or beat our expectations, we would be inclined to review our estimates and/or our price target as the fourth quarter unfolds.

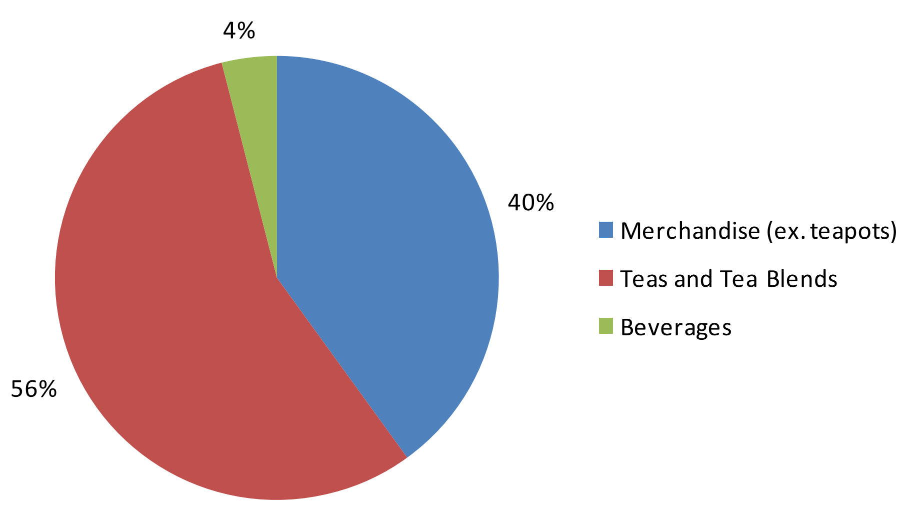
Teavana - It's Not A Restaurant

Teavana is a specialty retailer of tea and tea-related merchandise, founded in 1997 with the opening of its first store in Atlanta. In the fourteen years since the company's founding, Teavana has grown to 179 stores throughout the United States, offering proprietary loose tea blends and a mostly exclusive assortment of premium teapots and kettles. E-commerce sales accounted for 7% of total revenue in FY11, and we believe e-commerce penetration could likely exceed 10% in the next three to four years. Teavana's stores are located primarily in high-traffic locations in malls and lifestyle centers. Typical locations are located in centers with a premium anchor and upscale co-tenants such as Williams-Sonoma, Coach, and Chico's. Its stores are relatively small (800 to 900 square feet), but they are highly productive, averaging about $1,000 per square foot.

Teavana's merchandise assortment consists of loose tea and tea blends, tea-related merchandise, and beverages. As shown in the following exhibit, loose tea represents the lion's share of total revenue, with the remainder coming primarily from tea-related merchandise such as teapots, kettles, brewers, mugs, and other accessories. With the obvious exception of prepared beverages, Teavana's sales breakdown is similar in stores as it is online.

Exhibit 2

MERCHANDISE MIX (2010)



Source: Teavana

Competitive Landscape Is Highly Fragmented

We believe Teavana fills a highly profitable, unoccupied niche in the competitive landscape. The market for high-end loose tea and tea-related accessories is highly fragmented, and there are currently no other specialty retailers of similar size focusing specifically on tea. As shown in the following exhibit, Teavana's competition in the U.S. market is highly fragmented, with no major players exhibiting a strong brick and mortar presence. We believe that Teavana's scale and leverage, with landlords as well as merchandise vendors, enables it to achieve favorable merchandise and occupancy costs relative to what new entrants to the market would have to pay. Thus, we believe that Teavana will likely be able to reach its 500 store goal before any formidable competition is able to enter the fray.

Exhibit 3

BRICK AND MORTAR COMPETITION IS SMALL AND FRAGMENTED

Competitor	U.S. Locations	Global Locations	Countries	In U.S. Market Since
Tea Gschwendner	4	141	Europe, U.S., Middle East	2004
Lupicia	4	95	Japan, U.S.	2005
Adagio Teas	2	2	U.S.	1999
Amanzi Tea	2	2	U.S.	2004
Whittard	0	74	United Kingdom	NA
David's Tea	0	42	Canada	NA
Teapia	0	34	Canada	NA
Teavana	179	~176	U.S., Mexico	1997

Source: Teavana, Piper Jaffray & Co.

U.S. Tea Market Is Ripe For Further "High-End-Ification"

We expect Teavana to benefit from growth in overall U.S. tea consumption, as well as outperformance of high-end specialty tea brands relative to mass brands typically sold through the food, drug, and mass channel. A number of industry groups project U.S. tea consumption to increase at an 8% to 12% CAGR over the next four to five years, and we believe the domestic tea market is still very much in the early stages of the "high-end-ification" that has characterized previously homogeneous categories ranging from prepared coffee to athletic apparel to cupcakes to headphones. Whereas these categories had few high-end, niche, or differentiated offerings widely available to consumers as recently as five or ten years ago, we believe it is now considered commonplace among America's upper-middle class to pay $4 for a latte from Starbucks, a $100 for a pair of lululemon yoga pants, $5 for a Crumbs cupcake, or $70 for a pair of Skullcandy headphones.

What do these product categories all have in common? They all target an end-use that has widespread demographic appeal, and high-end offerings in each of these categories can easily be marketed to or perceived by customers as having a strong value proposition, either because of a low average ticket and opening price point (i.e. SBUX, CRMB), or because of a low "dollars per use" ratio (i.e. LULU, SKUL). We believe that tea could be undergoing a similar transformation, with high-end specialty brands likely to substantially outpace the overall category growth rate for the foreseeable future. In addition to widespread demographic appeal, we believe Teavana can easily communicate its value proposition to upper-income customers who see themselves as savvy, cost-conscious consumers. After all, two ounces of Teavana's basic loose teas costs under $4, and one could reasonably expect a $200 cast iron teapot to last for decades and sustain hundreds (or even thousands) of uses.

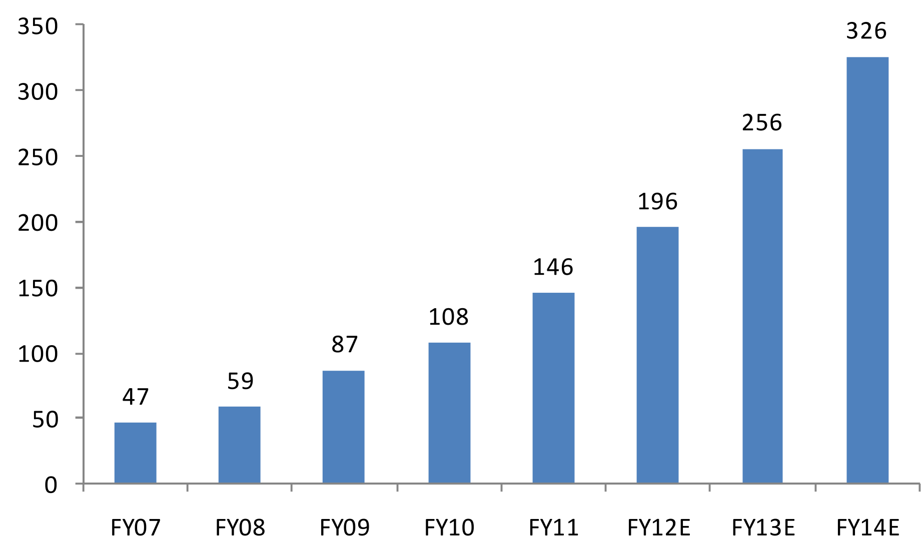
Teavana Represents A Unique Investment Proposition in Today's Market

In the current era of low to no square footage growth, Teavana strikes us as a rare gem of a good old-fashioned store growth story. Teavana checks all of our boxes when it comes to compelling growth stories: it fills an unaddressed need in the market place; its offerings have broad demographic and regional appeal; its merchandise is predominantly proprietary; and it has a successful operational track record of opening new stores. Beyond that, we note that Teavana's growth story is quite unique in that its merchandise mix naturally shifts to higher-margin loose tea sales as its store base matures. Thus, when Teavana's store base begins to approach saturation and square footage growth decelerates, margin growth will likely begin to accelerate.

Growth for Teavana over the next five years will likely stem primarily from new store openings, as the company plans to expand its store base from 179 to 500 over the next five years. Given Teavana's small box size and the widespread demographic appeal of its merchandise offerings, we view this as a realistic growth plan. Furthermore, we note that Teavana's current store base is spread evenly throughout the United States, and that sales productivity and profitability varies very little by region. As shown in the following exhibit, we expect Teavana to grow its store base by 34% in FY12 and 31% in FY13.

Exhibit 4

HISTORICAL AND PROJECTED STORE COUNT



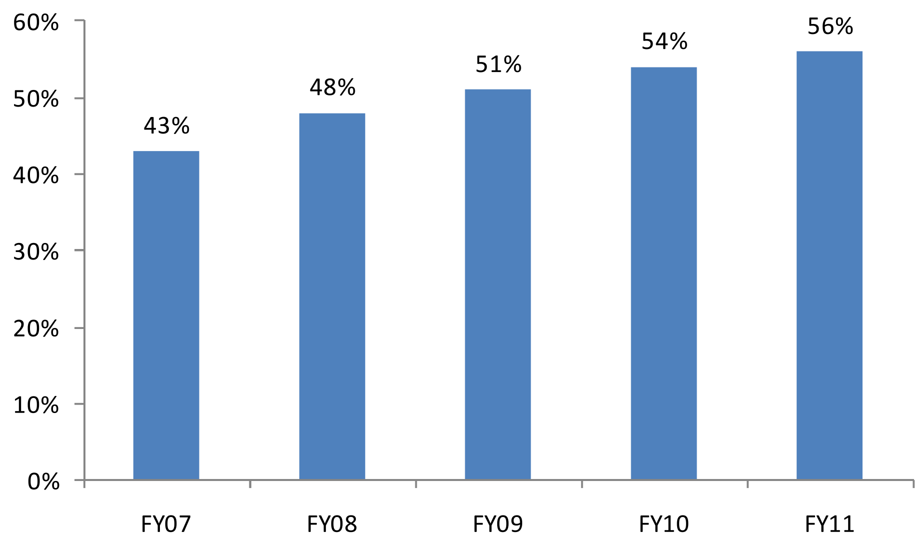
Source: Teavana, Piper Jaffray & Co.

Merchandise Mix Creates Unique Sales/Margin Trajectory

Excluding prepared beverages, which account for less than 5% of total net sales, Teavana's merchandise assortment has historically consisted of a roughly 50/50 split between loose tea and hard goods such as teapots and kettles, however, as shown in the exhibit below, it has been skewing towards a higher penetration of loose tea as a percentage of total sales over the past five years. This trend towards a greater proportion of loose tea sales is likely to continue for the foreseeable future and has a favorable impact to gross margin, as loose tea carries a considerably higher merchandise margin relative to the hard goods that Teavana sells.

Exhibit 5

LOOSE TEA AS A PERCENTAGE OF SALES



Source: Teavana

The primary reason that loose tea is increasing as a percentage of the total mix is a simple one, yet it is something rarely encountered in the wonderful world of publicly traded specialty retailers. When a new Teavana new store opens, most of the new store's customers are new to the Teavana brand, and many are new to drinking tea other than mass-brand teabags sold through the food, drug, and mass channel. When a new loyal customer is acquired, which naturally tends to happen more in the first year or two the store is open, our hypothetical new customer (let's call her Patti Pekoe) quickly realizes that microwaving a mug of water with a teabag in it just isn't going to cut it anymore. So she buys a stainless steel tea kettle. Then summer rolls around and she realizes she needs an iced tea pitcher. Eventually she caves and buys that cast iron teapot she's had her eye on. Now that Patti has an adequate arsenal of tea makers in her kitchen, her spending at Teavana will likely shift away from hard goods and towards loose tea and blends.

EBIT Contribution Likely Accelerates As New Stores Mature

Ok, so now Patti Pekoe has her cast iron teapot, stainless steel tea kettle, and iced tea pitcher. Now what? She may still buy the occasional tea canister for herself or gift set for a friend, but at this point in her tenure as a Teavana customer, her biggest hard good purchases are likely behind her. The evolution of the Patti's spending pattern has two unusual effects on the new store's profitability. Firstly, it leads to strong sales in year-one for a new store as new customers stock up on hard goods such as teapots and kettles. This leads to a tough comparison in year-two, as the ratio of existing customers to new customers increase. The basket of hard goods that Patti bought in year-one could cost anywhere from $150 to $450, and thus it is unlikely that her predominantly-loose-tea-spending in year-two will be enough to exceed her spending in year-one. Therefore, unlike most other retailers, Teavana's newest class of comparable stores typically weighs on total company same-store sales instead of lifting the chain higher.

The second unusual effect on the P&L owing to this spending mix shift is that margins for a new store can quickly ramp up even with little to no increase in sales. Patti may not spend as much at Teavana in year-two as she does in year-one, but her basket of purchases in year-two, which included a higher proportion of loose tea, likely entailed a substantially higher gross margin. To demonstrate this phenomenon, we have illustrated what we believe the EBIT contribution could look like for a hypothetical new store. As shown in the exhibit below, we believe that new stores are likely to see lower same-store sales for the first year or two, with EBIT-dollar contribution accelerating in years three and four.

Exhibit 6

EBIT CONTRIBUTION OF A HYPOTHETICAL NEW STORE

	Year-1	Year-2	Year-3	Year-4	Year-5	CAGR
Net Sales	$0.650	$0.650	$0.670	$0.700	$0.731	3.0%
Same-Store Sales		0.0%	3.0%	4.5%	4.5%	3.0%
% Loose Tea	35%	40%	45%	50%	55%	
4-Wall Contribution Margin	25%	27%	30%	32%	35%	
EBIT Contribution	$0.163	$0.178	$0.199	$0.226	$0.255	11.9%
Y/Y Change		9.0%	12.3%	13.5%	12.8%	

Source: Piper Jaffray & Co

E-Commerce Becoming a Major Share of "Tea"-Commerce

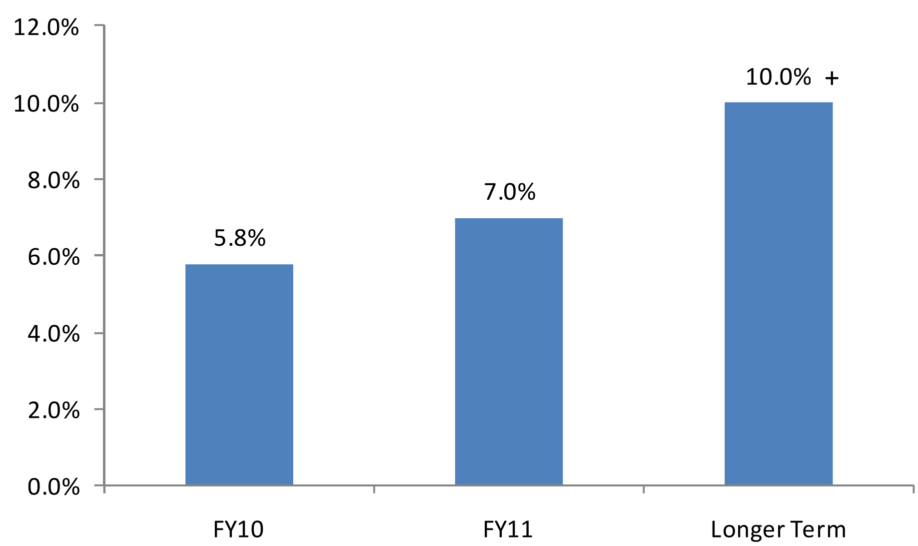
Teavana's e-commerce revenues have grown at a CAGR of 56% since FY08, and in FY11 the channel represented 7% of sales. Management expects to achieve 10% e-commerce penetration longer term, and we believe this will likely occur in the next three to four years. The merchandise assortment and mix between loose tea and hard goods online is comparable to Teavana's brick and mortar locations, and we believe that a strong majority of Teavana's e-commerce customers are also brick and mortar customers. Growth of the e-commerce channel will likely stem from new customer acquisition as Teavana grows its store base towards 500 locations from its current total of 179.

We believe that e-commerce sales could potentially represent 12% to 15% of net sales over the next five to seven years as multi-channel customers increasingly migrate online and as customers utilize the website more and more as an educational tool. Teavana has highly functional mobile and tablet applications, including for the iPhone and iPad, which offer full purchasing functionality, suggestions of new blends to try, and even a "tea timer" that can tell customers when to stop steeping their tea depending on the type of tea and brewing method.

The growing penetration of Teavana's e-commerce business should be a natural to total company operating margin, as we believe the online channel is more profitable and requires minimal capital investment to support. We believe that the average order size through the e-commerce channel is approximately 20% higher than in stores, even after excluding prepared beverages sold through the company's stores. Furthermore, we believe that the recent launch of Teavana's auto-ship program for loose teas, which enables customers to receive periodic deliveries on any teas at the customer's discretion, will likely help to further increase the merchandise mix penetration of loose tea, which could have a significant positive impact on gross margin.

Exhibit 7

E-COMMERCE PENETRATION



Source: Teavana, Piper Jaffray & Co.

Real Estate Strategy Is On Solid Footing

New store openings will likely be the primary driver of Teavana's earnings growth, and we believe the company's real estate strategy is well positioned to support this growth. We expect Teavana to open 50 net new stores in FY12, which represents 34% unit growth. For FY13 and FY14, we are estimating unit growth of 31% and 27% respectively, which would result in 326 locations by January 2014 versus management's goal of reaching 500 locations in five years.

Teavana's stores are highly productive, averaging about $1000 per square foot with an average box size of about 900 square feet. Due to Teavana's high sales productivity, small box size, strong new store growth, and the high traffic volume its stores capture, we believe Teavana is typically viewed as a highly attractive tenant for landlords of enclosed malls and lifestyle centers. Given the large white space in front of Teavana in terms of store growth, we believe it is often able to take advantage of opportunistic rents. As a result, 100% of Teavana's stores generate a positive four-wall EBIT contribution, which we believe is a testament to Teavana's demonstrated success in site selection. Going forward, management has indicated that it has identified about 150 future locations down to the individual real estate center, which should alone be sufficient to ensure two to three years of unit growth.

As shown in the exhibit below, new stores are typically highly productive from the start, with an average payback period of about 18 months. Teavana's net sales plan for new stores is approximately $600,000 to $700,000, and we believe that the contribution margin of its stores doing that level had a contribution margin of 25% to 30% in FY11.

Teavana's real estate department is headed by Robert Shapiro, who has been with the company since 2005. Prior to joining Teavana, Mr. Shapiro held senior level real-estate with the Limited, County Seat, Eddie, Bauer, and Zale Corp.

Exhibit 8

ATTRACTIVE NEW STORE ECONOMICS

Average Store Size	900 to 1,000 square feet
First Year Net Sales Plan	$600,000 to $700,000
Four Wall Contribution Margin	About 25%
Net Cash Investment*	$200,000 to $250,000
Cash on Cash Return	About 75%
Payback Period	About 18 Months

**store build out (ex tenant allowances), inventory, and cash preopening costs*

Source: Teavana

Upside To +3% SSS Projection Would Entail Substantial Upside to Earnings

Over the past five years, Teavana has achieved average annual same-store sales growth of about 6%. Teavana's merchandising and in-store execution initiatives, such as customer education and proprietary blends, could likely result in continued mid- to high-single-digit same-store growth in the future. In the interest of conservatism and in order to account for a maturing store base, we are modeling a lower 3% increase in same-store sales through the end of FY14. Given Teavana's high merchandise margins (particularly on its loose tea offerings), we estimate that should Teavana achieve same-store sales in excess of our 3% estimate, the EBIT margin on incremental sales would be approximately 50%.

Upside to our 3% same-store sales estimate would likely come from new customer acquisition, as Teavana continues to educate consumers on the health attributes and enjoyable qualities of tea. Furthermore, we believe there could be opportunities for existing customers to spend more than expected, as more experienced customers tend to increase their purchasing frequency over time as well as experiment with more expensive loose teas and blends.

As shown in the exhibit below, we believe the earnings impact from better-than-expected same-store sales could be substantial. We estimate that an 8% increase in same-store sales in FY13, assuming no upside to our model for the rest of FY12, would likely add between $0.06 and $0.07 of EPS upside to our model, resulting in EPS between $0.65 and $0.66. For FY14, 500 bps of same-store sales outperformance relative to our +3% estimate would likely result in $0.08 to $0.09 in upside to our estimate of $0.77.

Exhibit 9

EPS SENSITIVITY (FY13)

		Incremental EBIT Margin				
		45.0%	**47.5%**	**50.0%**	**52.5%**	**55.0%**
Same-Store Sales Increase	**+8%**	$0.65	$0.65	$0.65	$0.66	$0.66
	+7%	$0.63	$0.64	$0.64	$0.64	$0.64
	+6%	$0.62	$0.62	$0.63	$0.63	$0.63
	+5%	$0.61	$0.61	$0.61	$0.61	$0.62
	+4%	$0.60	$0.60	$0.60	$0.60	$0.60
	* **+3%**	$0.59	$0.59	$0.59	$0.59	$0.59

Source: Piper Jaffray & Co.

Un-Modeled Opportunity: CPG Business

Our published EPS estimates call for a CAGR of approximately 35% over the next three years--well above the growth rates for most of its specialty retail peers. However, we believe much of TEA's incremental value lies beyond the scope of our model, which is based only on the company's existing brick and mortar and e-commerce channels. Longer-term, we believe that Teavana could launch a viable consumer packaged goods (CPG) line, which would leverage the company's supply-chain capabilities and likely entail minimal incremental overhead expense.

We believe Teavana is a strong candidate for a CPG line for several reasons. As is the case with the brick and mortar specialty channel, the competitive landscape for high-end teas in the domestic CPG market is highly fragmented and the larger players primarily focus on tea bags instead of loose tea. Teavana's price points and brand positioning would make it a strong partner, in our opinion, for high-end grocery or natural foods stores. Furthermore, with Teavana on a trajectory to exceed $100 million in revenue from loose tea sales alone next year, we believe Teavana's scale and sourcing efficiencies would enable it to offer high-end grocery stores a branded wholesale CPG offering at favorable economics relative to the grocer pursuing a private label offering.

In the exhibit below, we have illustrated what we believe the potential impact of a CPG business could be for Teavana. Given the high merchandise margins Teavana enjoys on its loose teas, we believe that even after taking into account packaging and other variable product costs, Teavana would likely achieve very high product margins on a CPG line. We believe that Teavana could likely add $0.09 to EPS longer term, depending on its ability to secure distribution to a sufficient number of doors. To be clear, these projections are not incorporated in our earnings model and are intended only to give a sense of the potential longer-term profitability potential of a CPG line.

Exhibit 10

CONSUMER PACKAGED GOODS EARNINGS POTENTIAL

	Year 1	Year 2	Longer-Term
Total Number of Doors	150	250	400
Net Sales	$ 3.938	$ 6.563	$ 10.500
Incremental Overhead	$ 2.000	$ 2.250	$ 2.500
Incremental EBIT	$ 1.094	$ 2.906	$ 5.750
EBIT Contribution Margin	27.8%	44.3%	54.8%
Incremental EPS	$ 0.02	$ 0.04	$ 0.09

Source: Piper Jaffray & Co.

Un-Modeled Opportunity: International Expansion (Company-Owned)

Over the next several years, we believe it is highly likely that management will seek to open international stores as Teavana approaches its target of 500 stores in the United States. We expect international expansion to take a two-pronged approach, with Teavana opening company-owned stores in markets such as Canada and Western Europe, while utilizing franchise agreements to build its presence in less developed global markets. Given the world-wide consumption and awareness of tea, we believe that Teavana could be a viable retail concept on every continent on the planet, with the possible exception of Antarctica (and even in Antarctica, wouldn't the few researchers and die-hard *Alien vs. Predator* fans out there want a steaming hot cup of tea?).

U.S. retailers have a long history of successfully opening stores in Canada, and a shorter (but perhaps more profitable) history of successfully expanding to Western European markets such as the U.K., France, Germany, and Italy. Markets such as Canada and Western Europe typically feature similar real estate dynamics and traffic patterns to the United States market, and we believe expansion into these markets represents is achievable from an operational standpoint.

In the exhibit below, we examine the potential earnings power of international expansion using company-owned stores. Based on our work with other American specialty retailers opening stores internationally, our assumptions include slightly higher sales productivity and merchandise margins for international stores, partially offset by higher occupancy and labor costs. We believe that company-owned stores in Canada and Western Europe could eventually account for $0.36 or more in sustainable annual EPS.

Exhibit 11

INTERNATIONAL GROWTH OPPORTUNITY - COMPANY-OWNED

	Year 1	Year 2	Year 3	Longer-Term
Company-Owned International Doors	15	40	75	100
Net Sales	$ 11.250	$ 30.338	$ 57.498	$ 77.973
% Loose Tea	40%	45%	48%	50%
4-Wall Contribution Margin	27.2%	29.4%	30.7%	31.7%
Depreciation of $10M Infrastructure Buildout	$ 1.000	$ 1.000	$ 1.000	$ 1.000
Incremental EBIT	$ 2.064	$ 7.920	$ 16.678	$ 23.748
Incremental EPS	$ 0.03	$ 0.12	$ 0.26	$ 0.36

Source: Piper Jaffray & Co.

Un-Modeled Opportunity: International Expansion (Franchised)

While we believe Teavana will likely seek to open company-owned stores in Canada and Western Europe, we expect international expansion into Latin America, Asia, and the Middle East to be pursued through franchise arrangements. We believe the global appeal of tea creates the potential for a large customer base in less developed markets, and Teavana's high merchandise margins and flexible real estate requirements likely make Teavana an attractive retailer for top-tier local retail operators to partner with. On 9/2/11, Teavana announced that it entered into a ten-year franchise agreement for development in eight Middle Eastern countries with the Alshaya group, a leading franchisee with experience operating stores with brands such as Starbucks, American Eagle, and Pottery Barn.

We fully acknowledge that part of Teavana's success in the United States has stemmed from its ability to grow the overall category of tea by introducing high-end loose tea and hard goods that largely represent new category offerings for domestic consumers in new markets where Teavana opens a store. With this in mind, clearly Teavana will face a different set of challenges and opportunities on each continent it enters. While Teavana may find it difficult to replicate its U.S. mall-based market positioning in markets such as China, we believe there could be substantial opportunity for Teavana to penetrate such markets through the travel retail channel, with duty-free stores in particular representing a big opportunity.

There were 19 franchised Teavana locations at the end of FQ1, up from 15 at the end of FY11. All but two of these stores are in Mexico, and we believe these stores are performing well for Teavana's franchise partner in the region. In terms of economics, Teavana typically collects initial franchise fees in connection with newly franchised stores as well as continuing royalty fees, which are based on a percentage of the franchised location's revenue. Franchisees purchase their stores' loose tea and hard goods on a wholesale basis from Teavana.

As shown in the following table, we believe modest growth of Teavana's franchised doors by expanding into new geographic regions could add $0.10 to annual EPS longer term. This growth is based on a set of assumptions which we believe are likely conservative. Specifically, our analysis is based on an initial franchise fee of $30,000 and a continuing royalty fee of 4.5%. Our analysis assumes productivity of $500,000 in net sales (to the franchisee) per franchised location, which we believe is conservative given that Teavana's company-owned locations averaged more than $800,000 per door in FY11 and the company targets $600,000 to $700,000 in first year sales for new domestic locations.

Exhibit 12

INTERNATIONAL GROWTH OPPORTUNITY - FRANCHISED

	Year 1	Year 2	Longer-Term
Franchise Doors	25	50	150
Initial Franchise Fee	$ 0.300	$ 0.750	$ 0.750
Continuing Royalty Fees	$ 0.563	$ 1.125	$ 3.375
Wholesale Profit Dollars	$ 0.375	$ 0.750	$ 2.250
Incremental EBIT	$ 1.238	$ 2.625	$ 6.375
Incremental EPS	$ 0.02	$ 0.04	$ 0.10

Source: Piper Jaffray & Co.

Longstanding Senior Management Team At The Helm

- **Andrew Mack, CEO.** Mr. Mack co-founded Teavana in 1997 with his wife, Nancy. Prior to founding Teavana, he held a variety of positions with Darden Restaurants and received a bachelor's degree from East Tennessee State.
- **Dan Glennon, CFO.** Mr. Glennon first joined Teavana in 2005 following a career in strategy consulting at Marakon Associates, where he consulted to many industry leading retailers. Mr. Glennon is also a CPA and has prior experience with Arthur Andersen.
- **Peter Luckhurst, VP-Stores.** Mr. Luckhurst joined Teavana in 2005. Prior to joining Teavana, he was President of North America for HMV, a specialty music retailer.
- **Robert Shapiro, VP-Real Estate.** Mr. Shapiro joined Teavana in 2005. His prior experience consists of senior-level real estate positions with the Limited, County Seat, Eddie Bauer, and Zale Corp.
- **Juergen Link, VP-Distribution.** Mr. Link founded SpecialTeas in 1995, which was acquired by Teavana in 2006. Mr. Link oversees vendor relationships and manages Teavana's distribution center in Stratford, CT.
- **Jay Allen, VP-E-commerce.** Mr. Allen joined Teavana in 2008. His prior experience includes helping to grow the e-commerce businesses of Casual Male and Cutter & Buck.
- **Patrick Farrell, VP-Merchandising.** Mr. Farrell joined Teavana in 2008 following his tenure as General Manager of Urban Outfitters' e-commerce and catalog business.

Risk Factors

Macro. Consumer spending is dependent on such macro-economic factors as employment, energy prices, consumer confidence, and personal asset values.

Competition. Retail sector is mature, thus relegating the group to margin erosion during times of slowdown in demand.

International Risks. Teavana has only limited experience operating outside of the U.S. market. Further growth will depend on the ability to effectively source its products and secure capable franchise partners.

Limited Ability to Hedge Costs. Unlike other food commodities such as coffee, milk, and frozen concentrated orange juice, tea futures are not traded on any major exchange, thus potentially pressuring Teavana's margins if costs rise.

Availability of Real Estate. Teavana's growth model is predicated on a high number of new store openings. Should Teavana find it difficult to secure an adequate number of appropriate locations, growth targets could be at risk.

Dependence on Key Top Management. We believe a disruption to the ranks could have a potential negative impact should a key executive leave the company or join a competitor.

Limited Public Company Experience. Teavana has limited experience operating as a public company, and thus may initially find it difficult to manage investor expectations resulting in increased stock price volatility.

Income Statement 9/6/2011

(Millions of Dollars, Except Per-Share Data)

	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	Q3E Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
Net sales	33.760	47.200	63.860	90.260	25.770	22.980	24.750	51.200	124.700	34.939	31.313	31.548	65.887	163.687	44.668	38.130	39.783	83.999	206.580	260.181
% Change		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*27.5%*	*28.7%*	*31.3%*	*27.8%*	*21.8%*	*26.1%*	*27.5%*	*26.2%*	*25.9%*
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	12.777	21.940	59.354	15.678	15.290	15.873	27.720	74.562	92.838
% 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%*	*40.5%*	*33.3%*	*36.3%*	*35.1%*	*40.1%*	*39.9%*	*33.0%*	*36.1%*	*35.7%*
Gross profit	17.830	27.230	36.670	53.830	15.750	13.520	14.510	34.640	78.420	22.488	19.127	18.771	43.946	104.333	28.989	22.840	23.910	56.279	132.018	167.343
% Gross Margin	*52.8%*	*57.7%*	*57.4%*	*59.6%*	*61.1%*	*58.8%*	*58.6%*	*67.7%*	*62.9%*	*64.4%*	*61.1%*	*59.5%*	*66.7%*	*63.7%*	*64.9%*	*59.9%*	*60.1%*	*67.0%*	*63.9%*	*64.3%*
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	15.932	21.677	67.734	19.430	18.684	19.931	27.636	85.681	106.914
% 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%*	*50.5%*	*32.9%*	*41.4%*	*43.5%*	*49.0%*	*50.1%*	*32.9%*	*41.5%*	*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	2.839	22.270	36.599	9.559	4.156	3.978	28.644	46.337	60.430
EBITDA Margin	*3.9%*	*10.6%*	*11.6%*	*17.4%*	*19.2%*	*11.8%*	*9.7%*	*34.8%*	*22.3%*	*22.1%*	*12.0%*	*9.0%*	*33.8%*	*22.4%*	*21.4%*	*10.9%*	*10.0%*	*34.1%*	*22.4%*	*23.2%*
Depreciation & amortization	1.510	2.020	2.670	3.490	0.970	1.060	1.110	1.220	4.360	1.274	1.428	1.600	1.690	5.992	1.800	1.900	2.030	2.150	7.880	9.900
% 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%*	*5.1%*	*2.6%*	*3.7%*	*4.0%*	*5.0%*	*5.1%*	*2.6%*	*3.8%*	*3.8%*
Operating income	-0.180	2.980	4.760	12.200	3.980	1.650	1.280	16.580	23.490	6.456	2.332	1.239	20.580	30.607	7.759	2.256	1.948	26.494	38.457	50.530
% Operating Margin	*-0.5%*	*6.3%*	*7.5%*	*13.5%*	*15.4%*	*7.2%*	*5.2%*	*32.4%*	*18.8%*	*18.5%*	*7.4%*	*3.9%*	*31.2%*	*18.7%*	*17.4%*	*5.9%*	*4.9%*	*31.5%*	*18.6%*	*19.4%*
Interest expense	-1.270	-1.590	-2.060	-2.440	-0.620	-0.650	-0.690	-0.630	-2.590	-0.689	-0.742	-0.270	-0.060	-1.761	-0.060	-0.060	-0.060	-0.060	-0.240	-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	0.969	20.520	28.846	7.699	2.196	1.888	26.434	38.217	50.290
Income Taxes	-0.100	1.010	1.500	4.470	1.430	0.430	0.250	6.800	8.910	2.444	0.559	0.407	8.618	12.028	3.064	0.874	0.752	10.521	15.210	20.015
Tax Rate	*6.9%*	*72.7%*	*55.6%*	*45.8%*	*42.6%*	*43.0%*	*42.4%*	*42.6%*	*42.6%*	*42.4%*	*35.2%*	*42.0%*	*42.0%*	*41.7%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*	*39.8%*
Net income	-1.350	0.380	1.200	5.290	1.930	0.570	0.340	9.150	11.990	3.323	1.031	0.562	11.901	16.818	4.635	1.322	1.137	15.913	23.007	30.274
% Net Margin	*-4.0%*	*0.8%*	*1.9%*	*5.9%*	*7.5%*	*2.5%*	*1.4%*	*17.9%*	*9.6%*	*9.5%*	*3.3%*	*1.8%*	*18.1%*	*10.3%*	*10.4%*	*3.5%*	*2.9%*	*18.9%*	*11.1%*	*11.6%*
Net income per share (Basic)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.25	$ 0.33	$ 0.09	$ 0.03	$ 0.02	$ 0.31	$ 0.45	$ 0.12	$ 0.03	$ 0.03	$ 0.42	$ 0.60	$ 0.79
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*77%*	*127%*	*72%*	*81%*	*62%*	*25%*	*38%*	*34%*	*24%*	*98%*	*34%*	*34%*	*32%*
Net income per share (Diluted)	$ (0.04)	$ 0.01	$ 0.03	$ 0.14	$ 0.05	$ 0.02	$ 0.01	$ 0.24	$ 0.32	$ 0.09	$ 0.03	$ 0.01	$ 0.30	$ 0.44	$ 0.12	$ 0.03	$ 0.03	$ 0.41	$ 0.59	$ 0.77
EPS Growth Rate		*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*75%*	*124%*	*71%*	*81%*	*62%*	*25%*	*38%*	*34%*	*24%*	*99%*	*34%*	*34%*	*32%*
Shares outstanding (Millions)																				
Basic	36.702	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.749	36.762	37.462	38.162	37.284	38.162	38.162	38.162	38.162	38.162	38.162
Diluted	36.702	36.751	37.095	37.322	37.472	37.725	37.725	37.725	37.725	37.729	37.802	38.502	39.202	38.308	39.202	39.202	39.202	39.202	39.202	39.202
Same-Store Sales (% Change)	**3.7%**	**8.4%**	**3.0%**	**6.9%**	**15.7%**	**6.9%**	**5.9%**	**7.5%**	**8.7%**	**6.0%**	**6.4%**	**3.0%**	**3.0%**	**4.6%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Notes:

Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

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	Q3E Oct-11	Q4E Jan-12	FYE 2012	Q1E Apr-12	Q2E Jul-12	Q3E Oct-12	Q4E Jan-13	FYE 2013	FYE 2014
NET SALES																				
Total net sales	**$ 33.760**	**$ 47.200**	**$ 63.860**	**$ 90.260**	**$ 25.770**	**$ 22.980**	**$ 24.750**	**$ 51.200**	**$ 124.700**	**$ 34.939**	**$ 31.313**	**$ 31.548**	**$ 65.887**	**$ 163.687**	**$ 44.668**	**$ 38.130**	**$ 39.783**	**$ 83.999**	**$ 206.580**	**$ 260.181**
% Change, year-over-year		*39.8%*	*35.3%*	*41.3%*	*43.2%*	*33.1%*	*32.4%*	*41.0%*	*38.2%*	*35.6%*	*36.3%*	*27.5%*	*28.7%*	*31.3%*	*27.8%*	*21.8%*	*26.1%*	*27.5%*	*26.2%*	*25.9%*
% CHANGE SAME-STORE SALES	***3.7%***	***8.4%***	***3.0%***	***6.9%***	***15.7%***	***6.9%***	***5.9%***	***7.5%***	***8.7%***	***6.0%***	***6.4%***	***3.0%***	***3.0%***	***4.6%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
NUMBER OF STORES	47	59	87	108	118	128	141	146	146	161	179	187	196	196	211	221	241	256	256	326
% Change, year-over-year		*25.5%*	*47.5%*	*24.1%*	*28.3%*	*26.7%*	*31.8%*	*35.2%*	*35.2%*	*36.4%*	*39.8%*	*32.6%*	*34.2%*	*34.2%*	*31.1%*	*23.5%*	*28.9%*	*30.6%*	*30.6%*	*27.3%*
Average number of stores (T4Q)																				
GROSS SQUARE FEET (Mil.)	43	54	77	95					130											
% Change, year-over-year		*25.6%*	*42.6%*	*23.4%*					*36.8%*											
Average Square Footage (T4Q)																				

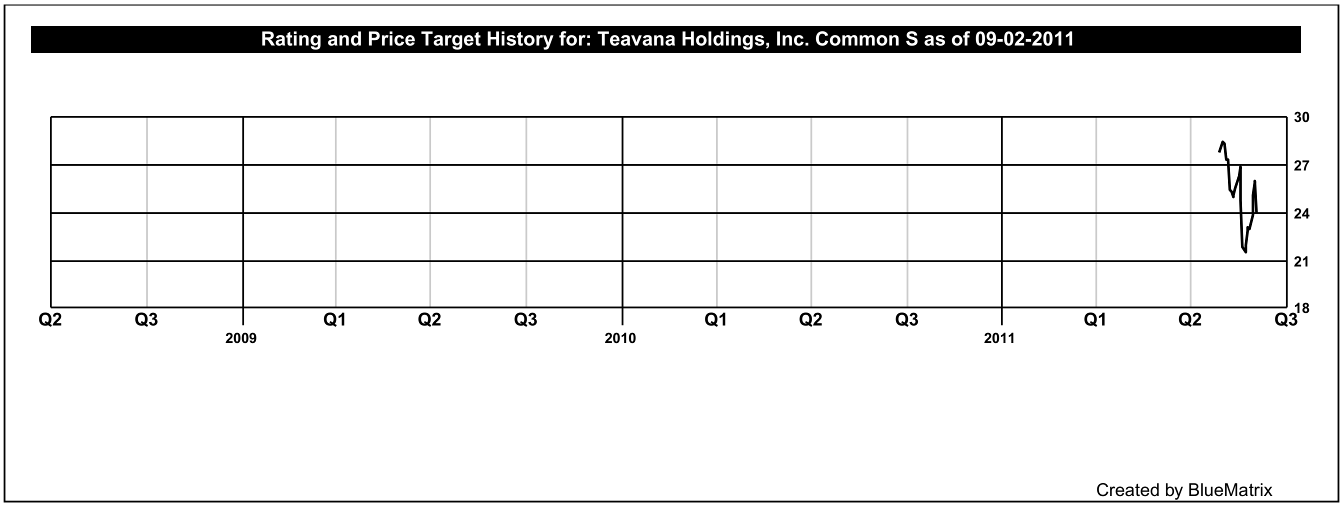
Consolidated Balance Sheet
(Millions of Dollars)

	Q4 Jan-10	FY 2010	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	FY 2011	Q1 Apr-11	Q2 Jul-11
CURRENT ASSETS:									
Cash and cash equivalents	$1.314	$1.314				$7.901	$7.901	$3.740	$1.623
Accounts reveivable	0.284	0.284				0.292	0.292		
Prepaid expenses and other assets	1.003	1.003				2.041	2.041		
Prepaid rent	1.061	1.061				1.400	1.400		
Inventory	11.615	11.615				16.928	16.928	18.286	22.720
Deferred tax asset and other	0.772	0.772				1.629	1.629	5.827	11.647
Total current assets	**16.049**	**16.049**	**0.000**	**0.000**	**0.000**	**30.191**	**30.191**	**27.853**	**35.990**
Property & equipment, net	22.513	22.513				31.028	31.028	34.795	38.000
Goodwill	2.394	2.394				2.394	2.394	2.394	2.394
Deferred tax asset, non-curret	0.184	0.184				0.000	-		
Other non-current assets	0.627	0.627				0.513	0.513	0.760	0.693
Total assets	**$41.767**	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**
CURRENT LIABILITIES									
Accounts payable	$2.564	$2.564				$3.631	$3.631	$2.112	$5.751
Income taxes payable	3.994	$3.994				4.809	$4.809		
Deferred revenue	1.083	$1.083				1.344	$1.344		
Note payable	0.250	$0.250				-	$0.000		
Series A redeemable preferred stock	-	$0.000				12.992	$12.992	13.591	14.217
Other current liabilities	3.395	$3.395				5.539	$5.539	9.659	6.865
Total current liabilities	**$11.286**	**11.286**	**$0.000**	**$0.000**	**$0.000**	**$28.315**	**28.315**	**$25.362**	**$26.833**
Deferred franchise income	0.600	0.600				0.525	0.525		
Deferred tax liability, non-current	0.000	-				0.420	0.420		
Deferred rent	3.851	3.851				7.524	7.524	8.943	11.139
Long-term debt	1.000	1.000				1.000	1.000	1.000	5.359
Series A redeemable preferred stock	10.848	10.848				-	-		
Other long-term liabilities								0.870	2.997
Total liabilities	**27.585**	**27.585**	**0.000**	**0.000**	**0.000**	**37.784**	**37.784**	**36.175**	**46.328**
Stockholders' equity (deficit)									
Total stockholders' equity (deficit)	**14.182**	**14.182**				**26.342**	**26.342**	**29.627**	**30.749**
Total liabilities and stockholders' equity	**$41.767**	**$41.767**	**$0.000**	**$0.000**	**$0.000**	**$64.126**	**$64.126**	**$65.802**	**$77.077**

Condensed Statement of Cash Flows
(Millions of Dollars)

	Q4 Jan-10	**FY 2010**	Q1 Apr-10	Q2 Jul-10	Q3 Oct-10	Q4 Jan-11	**FY 2011**	Q1 Apr-11
Operating activities:								
Net Income	**$5.291**	**$5.291**	**$1.927**			**$12.003**	**$12.003**	**$3.323**
Adjustments to reconcile net income to net cash:		0.000						
Depreciation and amortization	3.489	3.489	0.973			4.361	4.361	1.274
Non-cash interest expense	1.925	1.925	0.570			2.279	2.279	0.633
Deferred income taxes	0.532	0.532				(0.253)	(0.253)	
Stock based compensation	0.169	0.169	0.034			0.157	0.157	0.037
Other			-			0.130	0.130	0.140
Change in assets and liabilities:								
Inventory	(3.646)	(3.646)	(0.571)			(5.313)	(5.313)	(1.359)
Other current assets	(0.230)	(0.230)	0.181			(1.452)	(1.452)	(0.081)
Income taxes payable	2.772	2.772	(4.205)			0.815	0.815	(2.696)
Deferred rent	1.124	1.124	0.457			3.673	3.673	1.419
Other accrued liabilities	(0.355)	(0.355)	0.305			2.997	2.997	(1.548)
Net cash (used in) provided by operating activities	**11.071**	**11.071**	**(0.329)**	**-**	**-**	**19.397**	**19.397**	**1.142**
Investing activities:								
Capital Expenditures	(6.640)	(6.640)	(2.346)			(12.560)	(12.560)	(5.056)
Net cash used in investing activities	**(6.640)**	**(6.640)**	**(2.346)**	**-**	**-**	**(12.560)**	**(12.560)**	**(5.056)**
		0.000						
Financing activities:		0.000						
Proceeds from revolving credit facility	93.980	93.980	29.815			132.239	132.239	35.510
Payments on revolving credit facility	(98.265)	(98.265)	(27.303)			(132.239)	(132.239)	(35.510)
Payment on note payable						(0.250)	(0.250)	
Payments on term loan								
Payment of initial public offering costs			-					(0.247)
Net cash used in financing activities	**(4.285)**	**(4.285)**	**2.512**			**(0.250)**	**(0.250)**	**(0.247)**
Net increase (decrease) in cash and cash equivalent	0.146	0.146	(0.163)			6.587	6.587	(4.161)
Cash and cash equivalents, beginning of period	1.168	1.168	1.314			1.314	1.314	7.901
Cash and cash equivalents, end of period	**$1.314**	**$1.314**	**$1.151**			**$7.901**	**$7.901**	**$3.740**

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.

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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

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**352**	**56.10**	**71**	**20.17**
HOLD [N]	**239**	**38.10**	**24**	**10.04**
SELL [UW]	**36**	**5.70**	**0**	**0.00**

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

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
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Equity Research

Teavana Holdings, Inc.

Initiating Coverage With Outperform Rating

Premium retailer in rapidly growing tea market. With an inviting mall-based format and broad selection of more than 100 premium loose-leaf teas and merchandise, Teavana has achieved first-mover advantage in the fragmented U.S. specialty tea retail landscape. The domestic tea market has been growing rapidly, up more than 60% since 2004, and Teavana has experienced accelerating same-store sales gains over the past three years (2.9% in 2008, 6.9% in 2009, and 8.7% in 2010), with only one quarter of negative same-store sales in the last four years (-1.6% in fourth quarter 2008).

Impressive sales productivity yields robust unit economics. Teavana's consumer appeal is illustrated by extraordinary sales productivity of $994 per square foot (among the highest of all mall-based retailers), with consistent performance across geographies. Reflecting strong sales productivity, Teavana's stores generate healthy returns, with management targeting first-year cash-on-cash returns of about 75% and a payback period of roughly 18 months.

Plenty of room to expand store base. From about 180 company-owned stores today, we believe that Teavana has the opportunity to nearly triple its domestic mall-based presence to 500 stores, with management expecting to achieve that goal by 2015. We believe potential exists over the longer term to expand Teavana's retail presence outside malls, while also growing a more meaningful e-commerce business (about 7% of sales currently), pursuing more aggressive international retail expansion, and exploring opportunities in the premium grocery channel.

Expect 30% annual EPS growth over next three to five years. We expect 25%-plus unit expansion and same-store sales gains of 3% to 4% per year to yield annual revenue growth in the high-20% range. We anticipate consistent operating margin improvement beginning in calendar 2012 and more so in calendar 2013 given a favorable mix shift toward higher-margin loose-leaf tea as stores mature as well as leverage on fixed costs, although infrastructure investments to support growth will likely constrain margins in 2011.

Aggressive expansion is main risk. We believe that Teavana's main investment risk is its plan for aggressive store expansion, including 50 new company-owned stores this year (up 34%) and 60 new company-owned stores in 2012 (up 31%). While we believe that Teavana is well positioned to execute on its expansion plans, we view the company's ability to successfully open new stores as critical to the stock's performance.

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Consumer | Specialty Coffee and Tea

September 6, 2011
Basic Report (11-104)

Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Symbol:	TEA (NYSE)
Price:	$25.98 (52-Wk.: $17-$29)
Market Value (mil.):	$1,010
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend Yield:	None

Estimates (CY)	2010A	2011E	2012E
EPS	$0.32	$0.44	$0.59
Revenue (mil.)	$124.7	$164.4	$209.1
Valuation			
P/E	81.2x	58.9x	43.9x

Trading Data	
Shares Outstanding (mil.)	38.8
Inside Ownership	78%

Financial Data	
Net Debt/Total Capital (7/11)	7%
Book Value Per Share (7/11)	$1.19
Enterprise Value (mil.)	$1,012
CY 2012E EBITDA (mil.)	$47.5
Enterprise Value/CY12E EBITDA	21.3x
Return on Equity (CY11E)	30%
ROIC (CY11E)	18%

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

Summary and Investment Thesis

Founded in 1997 by current Chairman and CEO Andrew Mack and his wife, Nancy, Teavana is a rapidly growing specialty tea retailer, with about 180 domestic mall-based stores across 36 states (including 2 franchised locations) and 17 franchised stores in Mexico. Featuring a large selection of loose-leaf premium teas as well as tea-related merchandise, Teavana offers a differentiated and compelling mall-based experience with its inviting store format and highly trained staff.

Teavana's store base has more than tripled in the past four years, and sales have grown at a compound annual rate of 38% over the same time frame, inclusive of growth of 38% in 2010 to nearly $125 million. Loose-leaf tea accounts for 56% of sales; tea-related merchandise, 40%; and prepared beverages, 4%. Teavana's average ticket is $36 in its stores ($46 excluding beverages) and $55 online, with the company generating about 7% of sales through its e-commerce channel.

Compelling Premium Tea Retailer With Impressive Sales Productivity

Teavana's consumer appeal is illustrated by the company's strong sales productivity of $944 per square foot in 2010, with consistent performance across geographies. Moreover, Teavana has experienced positive same-store sales in each of the past five years, with only one quarter of negative comps (-1.6% in fourth quarter 2008), pointing to the resiliency of consumer demand for Teavana's products. Given the long shelf life of its products and low markdown levels, Teavana's gross margin was a healthy 62.9% in 2010, and Teavana's operating margin increased from 7.5% in 2008 to 18.8% in 2010.

Table 1
Teavana Holdings, Inc.
Domestic Retail Sales Productivity
(Fiscal year closest to calendar 2010)

	Sales Per Square Foot	U.S. Stores
Free People	$1,760	42
lululemon	1,270	82
Teavana	**994**	**146**
Anthropologie	950	147
Urban Outfitters	690	144
Victoria's Secret	660	1,028
lucy	650	64
Chico's	640	660
Aeropostale	630	906
J.Crew[a]	600	219
Title Nine	570	18
Hot Topic	560	657
Banana Republic	460	576
bebe[b]	450	213
Buckle	430	420
American Eagle Outfitters[c]	420	994
Abercrombie & Fitch	420	325
Zumiez	400	400
Joseph A. Bank	390	506
Express	350	591
Williams-Sonoma[d]	350	260
Cache/Cache Luxe	340	282
Gap	340	1,111
Ann Taylor	330	266
New York & Co.	330	555
Mall average	$300-$400	

[a] J.Crew sales per square foot include crewcuts, Madewell, and factory stores.
[b] Bebe sales per square foot include PH8 and 2b bebe.
[c] American Eagle Outfitters sales per square foot include aerie.
[d] Williams-Sonoma sales per square foot include Pottery Barn and West Elm.

Sources: Company documents and William Blair & Company, L.L.C. estimates

Teavana's stores feature a "Wall of Tea" (roughly 100 tins of premium loose-leaf tea), a wide array of tea-related accessories and items, and highly trained store associates who educate consumers about Teavana's products and the tea-making process. With premium loose-leaf teas ranging from $3 to $40 for two ounces (the minimum amount sold), Teavana offers an affordable yet premium healthy lifestyle indulgence, with two ounces yielding an average of 20 to 25 cups of tea—translating to less than $1.80 per cup at the highest price point.

The U.S. tea market has experienced robust growth, reaching $5.2 billion in sales in 2009, according to market research firm Mintel, with a compound annual growth rate of roughly 11% from 2004 through 2009. We believe the U.S. market for tea still has plenty of room to grow, as the United States represented only about 9% of total worldwide tea sales of $56.6 billion in 2009, with per capita tea consumption well behind many other nations. Encouragingly, Mintel expects the tea market in the United States to continue to post steady growth, projecting an approximate 6% compound annual growth rate through 2014.

Excellent Store Productivity Yields Consistently Robust Store-Level Returns
Teavana averaged sales per store of $844,000 in 2010 (up nearly 6% year-over-year), with all classes of stores (by age) experiencing gains. Moreover, Teavana's merchandise mix becomes increasingly more profitable as stores mature, as the mix naturally shifts toward high-margin loose-leaf tea as a store ages (also indicative of strong customer loyalty).

Encouragingly, Teavana's performance has been remarkably similar across all regions of the country, including the West, Central, Northeast, and Southeast, with each region consisting of roughly 25% of locations and contributing roughly 25% of sales. Teavana's average four-wall cash contribution margin was 30% in 2010, with all stores profitable.

New-store sales productivity is targeted at $600,000 to $700,000 per year (although the company has easily exceeded that target each of the past two years) on a net cash investment of $200,000 to $250,000 per store, as a greater proportion of non-A malls are expected to account for future growth. New stores are anticipated to generate 25% cash contribution margins and cash-on-cash returns of about 75%, with a payback period of roughly 18 months.

Ample Opportunity for Store Expansion
From about 180 company-owned stores today, we believe that Teavana has the opportunity to nearly triple its U.S. store base, in keeping with management's goal of reaching 500 domestic stores by 2015. Should Teavana meet its objectives, it would be one of the fastest-growing publicly traded retailers, with 50 new company-owned stores expected in 2011 (up 34%) and 60 new stores in 2012 (up 31%).

While Teavana's growth plans are aggressive, we believe they may also be necessary to cement the concept's first-mover advantage, particularly as others are likely to notice Teavana's highly profitable model now that the company is publicly traded. We believe there are 500 high-quality domestic malls that meet Teavana's requirements, and we see the potential for the company to augment its mall-based locations with strategically placed street locations in the future. Teavana also has 17 franchised stores in Mexico, and we expect the company to explore additional international expansion opportunities in coming years through company-owned development and/or franchised agreements. To this point, Teavana recently announced a 10-year development agreement in the Middle East with Alshaya, a leading franchise operator of other concepts such as Starbucks, P.F. Chang's, and The Cheesecake Factory.

Over the longer term, we believe the Holy Grail would be for Teavana to evolve from a retailer into a market-defining brand, similar to what Starbucks has achieved over the past 20 years. While such stories are rare, we see parallels in Teavana bringing its European-style specialty tea retail experience to the United States to the way Starbucks introduced Americans to Italian-based espresso beverages. If Teavana can define the tea market in the way that Starbucks has dominated specialty coffee, we see the potential for meaningful brand extension opportunities in the premium grocery and foodservice channels (Starbucks's consumer packaged goods business accounted for 17% of its operating profits in fiscal 2010).

We Expect 30% Annual EPS Growth Over the Next Three to Five Years

We expect 25%-plus unit expansion and same-store sales gains of 3% to 4% per year will yield annual revenue growth in the high-20% range over the next three to five years. We expect a modest contraction in operating margin in 2011 given incremental infrastructure expenses associated with the company's new store support center, expansion of the company's distribution center, and the buildout of systems and marketing functions. In addition, we see the potential for a mix shift toward lower-margin merchandise over the holidays this year, a category that management believes underperformed in 2010 (merchandise seasonally peaks as a percent of sales during the holidays).

Despite the potential for infrastructure investments to constrain margins over the near term, we expect consistent operating margin improvement beginning in calendar 2012 and more so in calendar 2013 given a favorable mix shift toward higher-margin loose-leaf tea as stores mature, the benefits of increased scale with suppliers, and leverage on fixed costs. Over the longer term, we believe operating margins in the low-20% range are achievable, versus 18.8% in 2010.

Primarily reflecting strong sales growth, we project EPS of $0.44 this year (up 39%), $0.59 in 2012 (up 34%), and $0.77 in 2013 (up 30%).

Table 2
Teavana Holdings, Inc.
Summary Operating Statistics
($ in millions, except earnings per share)

Fiscal year ending January	2008	2009	2010	2011E	2012E	2013E
Company-owned	87	108	146	196	256	326
Franchised	15	15	15	19	20	22
Ending stores	102	123	161	215	276	348
% change	37.8%	20.6%	30.9%	33.5%	28.4%	26.1%
Same-store sales	**2.9%**	**6.9%**	**8.7%**	**4.5%**	**3.8%**	**4.0%**
Revenues	**$63.9**	**$90.3**	**$124.7**	**$164.4**	**$209.1**	**$267.8**
% change	35.4%	41.3%	38.2%	31.9%	27.1%	28.1%
Gross profit	$36.7	$53.8	$78.4	$105.1	$134.6	$173.0
Gross margin	57.4%	59.6%	62.9%	63.9%	64.4%	64.6%
Selling, general, and administrative	$29.2	$38.1	$50.6	$68.7	$87.8	$111.7
% of sales	45.8%	42.3%	40.6%	41.8%	42.0%	41.7%
Depreciation and amortization	$2.7	$3.5	$4.4	$6.0	$7.9	$10.5
% of sales	4.2%	3.9%	3.5%	3.7%	3.8%	3.9%
Operating income	$4.8	$12.2	$23.5	$30.4	$38.9	$50.8
Operating margin	7.5%	13.5%	18.8%	18.5%	18.6%	19.0%
Tax rate	54.9%	45.8%	42.6%	40.8%	39.8%	39.8%
Net income	$1.2	$5.3	$12.0	$16.9	$23.2	$30.4
% change	227.0%	328.1%	126.9%	40.9%	37.2%	30.9%
EPS	**$0.03**	**$0.14**	**$0.32**	**$0.44**	**$0.59**	**$0.77**
% change	223.9%	325.5%	124.4%	38.7%	34.2%	30.1%

Sources: Company documents and William Blair & Company, L.L.C. estimates

Premium Stock Valuation Appears Fair Given Growth Prospects

Teavana's stock valuation of 44 times our calendar 2012 EPS estimate reflects a premium to its peer group average of roughly 22 times, which includes specialty beverage retailers such as Starbucks, Caribou Coffee, and Peet's, as well as other retailers that cater to higher-income consumers, such as Williams-Sonoma, Coach, Whole Foods Market, and lululemon athletica. However, Teavana's long-term EPS growth rate of 30% eclipses even its fastest-growing peer (lululemon at 25%) and easily surpasses the peer group average of 18%. As a result, although Teavana's PEG ratio of 1.5 times exceeds its peer group average of 1.2 times, its premium is in keeping with high-quality, resilient premium retailers such as Whole Foods, lululemon, Peet's, and The Fresh Market (all with PEG ratios of 1.4 to 1.8 times).

While we would not call for multiple expansion from current levels, we believe that 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 are initiating coverage with an Outperform rating and Aggressive Growth company profile.

Investment Risks

Rate of Store Growth Could Strain Operations
Teavana's plan to expand its domestic company-owned store base from about 180 stores today to 500 stores over the next five years is ambitious and could strain the company's human resources while potentially damaging its distinctive culture based on extensive training and superior customer service. In the near term, Teavana plans to open 50 stores in 2011 (up 34%) and 60 stores in 2012 (up 31%), and we project 70 new stores in 2013 (up 27%). While we believe that Teavana is well positioned to execute on its plans for new stores, we view the company's ability to successfully open high-volume new stores as critical to the stock's performance.

New Stores May Not Be as Productive as Existing Store Base
Teavana has achieved sales productivity that is among the highest in mall-based retail. However, as the company grows, its proportion of "A" malls will decrease as Teavana enters a wider array of less productive malls, which could result in average unit volumes declining from current levels. Management is already handicapping for this potential outcome, modeling new store volumes at $600,000 to $700,000. Importantly, even at lower volumes, unit-level returns remain healthy, as stores within this sales bandwidth achieved cash contribution margins of 25% to 30% in 2010.

Reliance on Single Product Category
Teavana's business is concentrated on a single product—premium loose-leaf tea—and its related merchandise. Teavana's sales would likely be penalized by any negative news related to the quality or safety of tea or tea-related products.

Exposure to Mall-Based Traffic Trends and Seasonality of Earnings
Teavana's mall-based real estate strategy renders it susceptible to mall traffic trends. In addition, Teavana earns the bulk of its earnings in its fiscal fourth quarter of the year, which typically has roughly twice the revenue of any other quarter and contributes the vast majority of full-year earnings (75% in 2010). As a result, the company is particularly vulnerable to events that hinder consumer spending or mall traffic during the holidays. The first quarter is the second-most-profitable quarter for Teavana, with the second and third quarters only slightly profitable.

Limited Float Post-Deal
Teavana has a limited float following the company's IPO, as founder and CEO Andrew Mack still holds 57% of shares and private-equity investor Parallel Investment Partners holds 19%.

Distinctive Premium Loose-Leaf Tea Retailer

Teavana was founded in 1997 by CEO Andrew Mack and his wife, Nancy, as a channel for their passion for tea that they acquired through their worldwide travels. Teavana's first store opened in Atlanta that year, followed by a second store in Atlanta in 1998 and a third in 2000. In 2001, the couple expanded Teavana's geographic presence with an opening in Minneapolis's Mall of America, followed by openings in 2002 in Las Vegas; Tysons Corner, Virginia; and Jacksonville, Florida. By 2003, Teavana had grown to 11 mall-based stores.

In 2004, the company obtained equity capital through a minority investment from Parallel Investment Partners to fund future growth. In 2005, with the help of Parallel, Teavana filled out its executive management team, hiring Daniel P. Glennon as CFO; Peter M. Luckhurst as vice president of stores (subsequently executive vice president of operations); and Robert A. Shapiro as vice president of real estate. With a solid executive team in place, Teavana entered a period of rapid growth, opening nearly 130 stores from 2005 through 2010 with no incremental equity capital.

Since its founding 14 years ago, Teavana has emerged as the leading retailer of premium loose-leaf tea in the United States, with no other comparable retailer having more than four locations. Teavana's stores offer a broad selection of more than 100 premium loose-leaf teas from around the world, composed of roughly 20% single-estate teas and 80% blended and herbal teas (85% of which are proprietary) within seven categories (white, green, oolong, black, rooibos-based blends, maté-based blends, and other herbal-based blends). Merchandise margins are consistent across Teavana's tea categories.

Stores are located in high-traffic locations within malls and lifestyle centers, each featuring a sample cart at its entrance to entice customers to try featured teas, as shown in figure 1. The overall retail experience is inviting, with blond wood fixtures, ceramic tiled floors, soft lighting, and Asian-inspired music. Each store features a "Wall of Tea" behind the sales counter, with the seven categories of tea distinguished by bright, color-coded canisters. Given the importance of newness to its customers, Teavana refreshes approximately 10% to 20% of its Wall of Tea offerings annually.

Figure 1
Teavana Holdings, Inc.
Inviting Retail Presence

Sources: Company website and Google Images

Teavana also offers an appealing selection of tea-related merchandise (more than half of which is exclusive to Teavana), including teapots, teacups, tea makers, decorative tins, gift sets, and other tea-related accessories and items. Overall, loose-leaf tea represented 56% of sales in 2010 (roughly 150 SKUs), followed by tea-related merchandise at 40% (375 SKUs at price points from $4 to $250) and prepared beverages at just 4% of sales (7 options at approximately $5 per cup).

Table 3
Teavana Holdings, Inc.
Product Mix and Depth

	% of Total Sales	SKUs	Price Range
Tea and tea blends	56%	150	$3-$40
Tea-related merchandise	40%	375	$4-$250
Prepared beverages	4%	7	$5

Sources: Company documents

Teavana's loose-leaf teas range in price from $3 to $40 for two ounces (the minimum amount sold), with single-estate teas generally the most expensive and rooibos-based blends, maté-based blends, and herbal-based blends the least expensive. Teavana does not typically raise prices on its existing tea offerings, instead introducing new teas at higher price points with its annual changes to the Wall of Tea. With 2 ounces yielding about 20 to 25 cups of tea on average (depending on strength preference), Teavana provides an affordable indulgence for as little as $0.13 per cup to as much as $1.80 per cup at the highest price point.

Figure 2
Teavana Holdings, Inc.
Merchandise Mix Features Wide Array of Tea and Tea-Related Products

Wall of Tea

Tea-Related Merchandise

Sources: Company website and Google Images

Talent Development Bolsters Reputation as Premium Tea Retailer

Given the highly interactive nature of engaging and educating customers on tea, Teavana provides extensive training for all store-level employees. Each "teaologist" (i.e., staff associate) receives three weeks of in-store and classroom training, during which time the associate is educated on the different types of tea, the tea-making process, and methods of engaging and informing customers about Teavana's premium tea offerings and related merchandise, with a culmination of three "tea tests" that must be passed. Assistant managers and general managers receive an additional four weeks of training at the company's store support center.

Each store is led by a general manager, an assistant manager, and 2 team leaders who typically oversee 8 to 10 store associates. To ensure strong new store openings, general managers are hired four months in advance of an opening, and team members are hired four weeks in advance, and new-store team members receive on-site training from specialized new-store trainers. Area managers are responsible for roughly 10 stores, while regional directors oversee about 8 area managers (or about 80 stores).

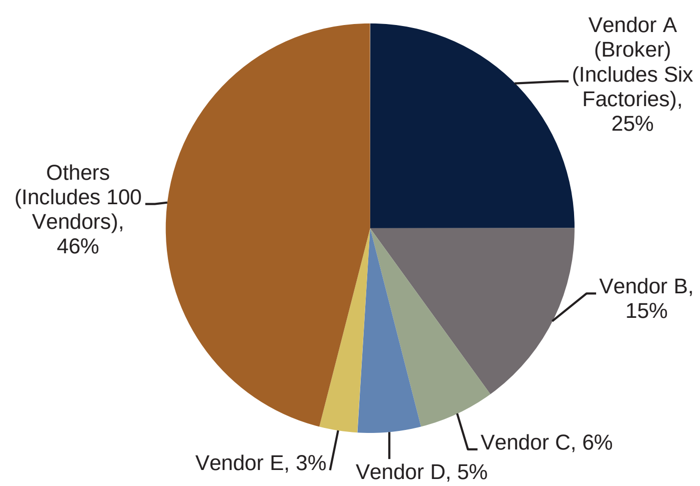
Teavana's philosophy of promoting from within has yielded strong employee retention as well as a pipeline of new talent that bodes well for future store development. In 2010, 87% of general manager positions were filled with internal candidates who were promoted, up from 39% in 2009 and 15% in 2008, and virtually all general manager positions in 2011 are expected to be filled internally. Moreover, employee turnover has been on a downward trend over the past few years, with general manager turnover at 18% last year versus 28% in 2008, assistant general manager turnover at 34% versus 58%, and full-time team member turnover at 48% versus 64%, while zero turnover has occurred in area manager or regional director positions.

In addition, Teavana actively tracks and rewards performance to identify and incentivize top performers. All positions, including part-time store associates, are eligible for individualized performance-based incentive compensation, while managers are incentivized on store performance versus sales and payroll targets.

Supply Chain and Distribution

Teavana sources its wide array of loose-leaf tea and tea-related merchandise from more than 100 vendors worldwide, with its 2 largest vendors representing 25% and 15% of inventory purchases in 2010. Tea is sourced directly from tea gardens, blenders, and brokers in 10 countries, while most tea-related merchandise comes from Asia. Teavana does not have any long-term contracts with vendors related to supply, price, or exclusivity of its tea, although the company works with suppliers to create Teavana-branded merchandise for its stores. However, premium loose-leaf tea is a very fragmented commodity with multiple harvest seasons and prices that vary greatly depending on the specific type of tea, which tempers the likelihood of inflation.

Figure 3
Teavana Holdings, Inc.
2010 Inventory Purchased by Vendor



Sources: Company documents

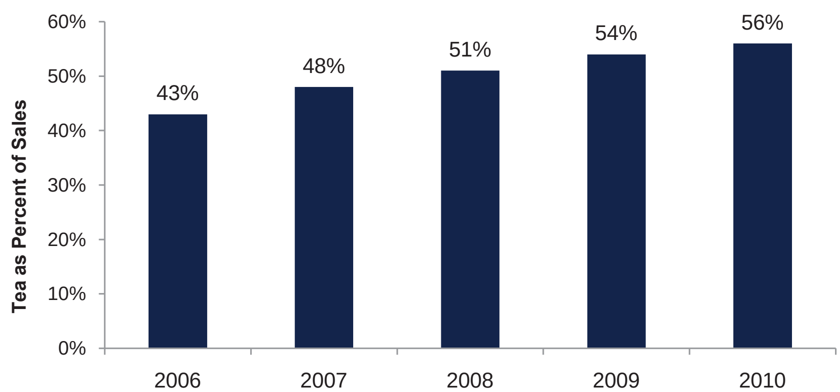
Teavana's distribution system for both its retail and e-commerce channels consists of a single 80,000-square-foot facility in Stratford, Connecticut, which should be adequate to support growth through first quarter 2013 following the completion of an ongoing three-phase expansion. The first two phases have already been completed, with 19,000 square feet (up 24%) added in April 2011 and an additional 10,000 square feet (up 12%) added in July 2011. The final phase is expected to be completed in July 2012, adding 12,900 square feet. While the company's lease runs through 2016 (and 2020 for some portions of the facility), management has commissioned a study to determine long-term distribution needs, including a further expansion of its existing distribution center or the construction of an additional facility, potentially on the West Coast.

Impressive Store-Level Returns With Plenty of Room to Expand

Teavana's stores generate impressive sales productivity, with average sales per store reaching $844,000 in 2010 (up nearly 6% year-over-year) and sales per square foot of $994 (versus $935 in 2009), among the best of all mall-based retailers. Encouragingly, Teavana's consumer appeal has proved similar across geographic regions, with sales per store fairly consistent across the West, Central, Northeast, and Southeast, with each region consisting of approximately 25% of locations and contributing roughly 25% of sales. California is Teavana's most important state, contributing 14% of sales, followed by Florida at 8%; no other state contributes more than 5% of sales.

From a store age perspective, each store class from 2004 through 2009 experienced year-over-year improvements in average sales per store in 2010, as even older stores continued to post comp gains. Moreover, Teavana's merchandise mix actually becomes increasingly more profitable as stores mature, as high-margin tea grows as a percent of sales by 8 to 10 percentage points. As shown in figure 4, loose-leaf tea grew from 43% of sales in 2006 to 56% last year, with all classes of stores selling an increased percentage of loose-leaf tea (tea as a percent of sales at Teavana's oldest stores is in the low-60% range).

Figure 4
Teavana Holdings, Inc.
High-Margin Tea Growing as Percent of Sales Mix



Sources: Company documents

New store sales productivity is targeted at $600,000 to $700,000 per year (although the company has easily exceeded that target each of the past two years) on a net cash investment of $200,000 to $250,000 per store, as a greater proportion of non-A malls are anticipated to account for future growth. New stores are expected to generate 25% cash contribution margins and cash-on-cash returns of roughly 75%, with a payback period of about 18 months. On a fully capitalized basis (capitalizing operating leases at eight times), we estimate unit-level after-tax returns of more than 25%. Notably, stores within the $700,000 to $800,000 sales bandwidth achieved cash contribution margins of 25% to 30% in 2010.

Table 4
Teavana Holdings, Inc.
Impressive Unit Economics
($ in thousands)

	Existing Locations	Model for New Units
Cash investment	$225	
Capitalized operating leases*	76	
Fully capitalized investment	$301	
Average store size (square feet)	888	950
Sales	**$844**	**$650**
Sales per square foot	*$994*	*$684*
Unit-level cash contribution	$253	$163
Depreciation	34	34
Operating income	**$219**	**$129**
Cash contribution margin	30%	25%
Operating margin	26%	20%
Cash-on-cash return on investment	**113%**	**72%**
After-tax return on fully capitalized investment	**44%**	**26%**

*Capitalized at 8 times annual rent

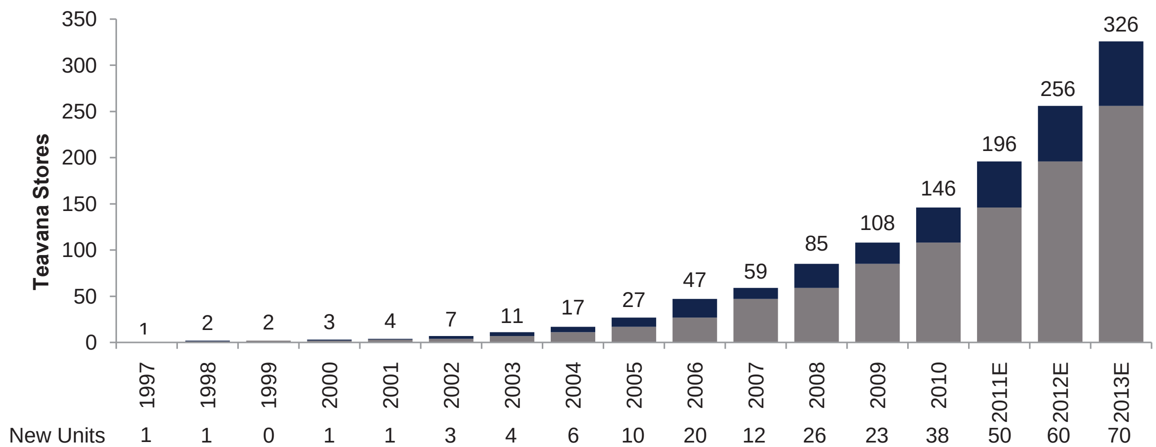
Sources: Company documents and William Blair & Company, L.L.C. estimates

Plenty of Room to Expand Store Base

From about 180 company-owned stores across 36 states, management's goal of 500 domestic stores appears reasonable, in our opinion. Still, the planned pace of expansion is aggressive, with the goal of reaching the 500 store target within five years, including 50 new company-owned stores this year (up 34%) and 60 new stores in 2012 (up 31%).

Teavana's stores are located in high-traffic areas of malls and lifestyle centers, with A and B malls viewed as the strongest opportunity given the demographics of the brand ($60,000 to $100,000 household incomes). The real estate team typically looks for an average household income of more than $50,000, good population density inclusive of owner-occupied housing within 10 miles, a strong daytime work population within 5 miles, and co-tenants such as Williams-Sonoma, Ann Taylor, and Coach; new stores are targeted at 900 square feet to 1,000 square feet (although the company has had success with a range of store sizes). Teavana also has two franchised locations in the United States, although the company has no plans to expand franchised development domestically.

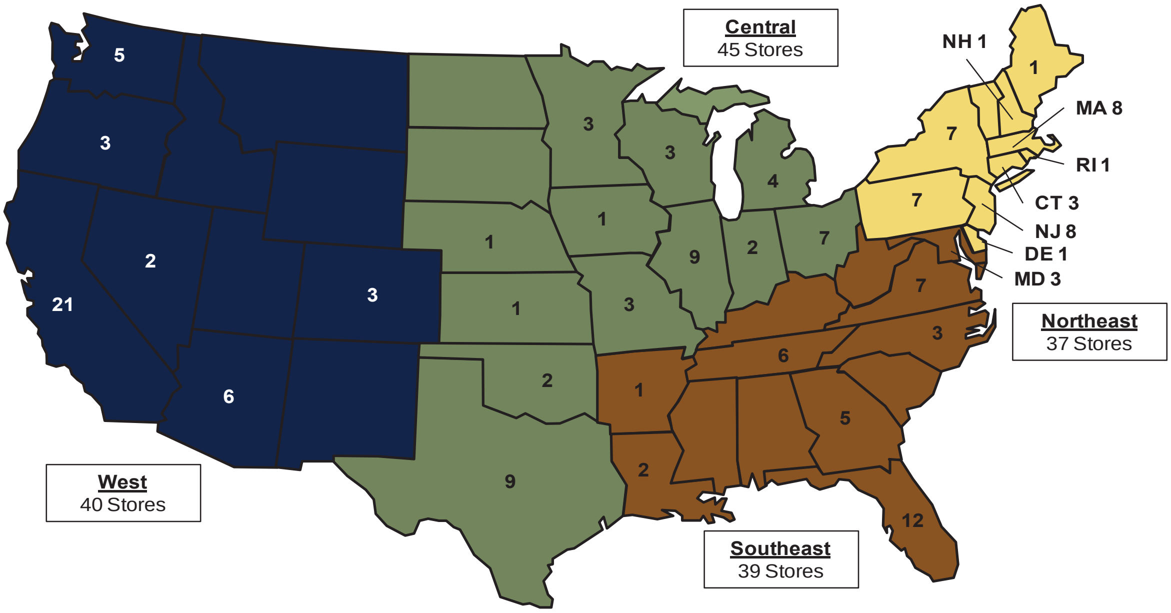
Figure 5
Teavana Holdings, Inc.
Robust Company-Owned Unit Expansion



Sources: Company documents and William Blair & Company, L.L.C. estimates

Teavana has 17 franchised stores in Mexico through an international development agreement with Casa Internacional del Te, S.A. de C.V., and the company recently announced a 10-year development agreement in the Middle East with Alshaya (a leading franchise operator of other concepts such as Starbucks, P.F. Chang's, and The Cheesecake Factory). We expect Teavana to further explore additional international expansion opportunities via partnerships with franchise operators, although management may choose to open company-owned stores in markets such as Canada.

Figure 6
Teavana Holdings, Inc.
Company-Owned Store Locations*



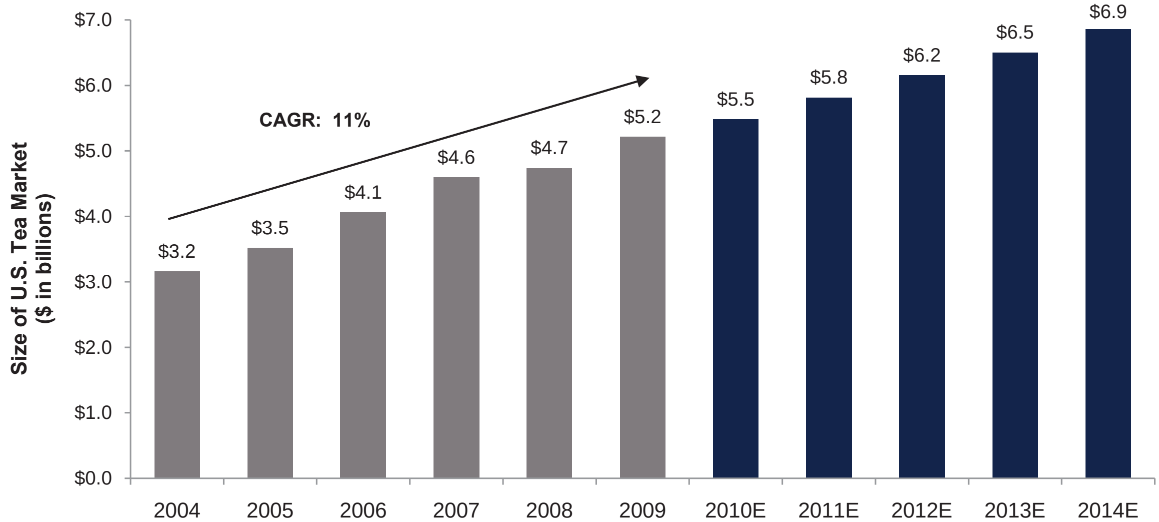
*As of May 1, 2011
Sources: Company documents

Rapidly Growing Domestic Tea Market

The U.S. tea market has experienced robust growth, reaching $5.2 billion in sales in 2009, according to Mintel, with a compound annual growth rate of roughly 11% from 2004 through 2009. We believe that the U.S. market for tea still has plenty of room to grow, as the United States represented only about 9% of total worldwide tea sales of $56.6 billion in 2009, with per capita tea consumption well behind many other nations. Encouragingly, Mintel expects the tea market in the United States to continue posting steady growth, projecting an approximate 6% compound annual growth rate through 2014.

The United States lags all other regions of the world in per capita tea consumption (with the exception of Latin America), although per capita consumption in the United States has grown faster than almost every other region over the past five years with a compound annual rate of 2% (according to Euromonitor International)—second only to Eastern Europe (which grew at an approximate 4% compound annual rate over the same time frame). The growth in U.S. tea consumption may be reflective of an increasing appreciation of the healthful qualities of tea, which is virtually calorie-free and has multiple potential health benefits (antioxidants to reduce the risk of cancer and polyphenols to inhibit the absorption of cholesterol).

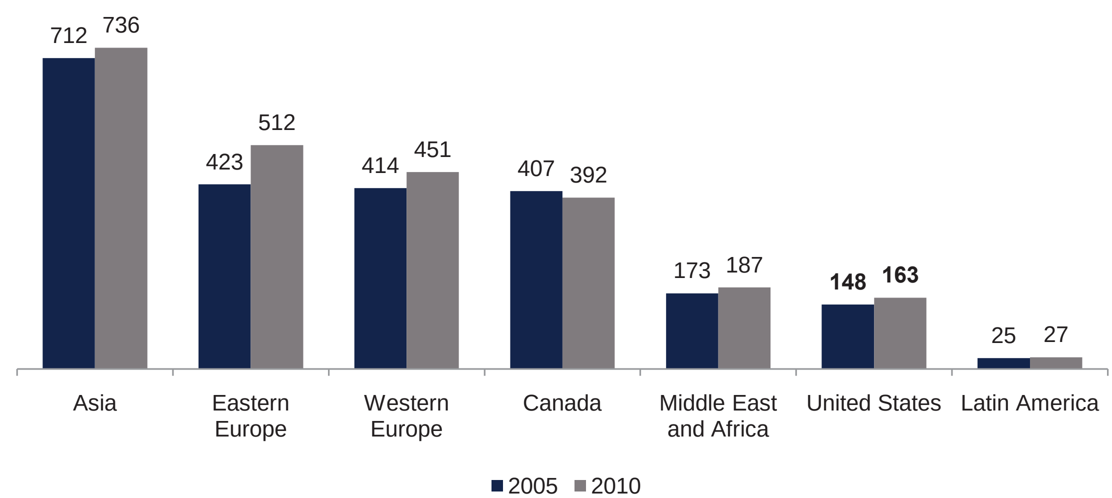
Figure 7
Teavana Holdings, Inc.
Healthy Growth Expected in U.S. Tea Market*



*Includes ready-to-drink
Source: Mintel International

Not surprisingly, Asia has the highest per capita consumption at 736 cups—4.5 times that of the United States, and consumption in Western and Eastern Europe is roughly 3 times higher than that in the United States. Even Canada's tea consumption per capita is more than twice that of the United States, while the Middle East and Africa also have slightly higher consumption patterns than the United States.

Figure 8
Teavana Holdings, Inc.
United States Lags Other Regions in Per Capita Tea Consumption
(number of cups)



Source: Euromonitor International

Competitive Environment

Although Teavana is the leader in the fragmented specialty tea retail market, the company competes in the broader tea market against consumer packaged goods companies and specialty beverage companies, such as Starbucks, Peet's, and Caribou Coffee. While Teavana has established a first-mover advantage in the United States with no comparable competitor having more than four stores, companies such as Starbucks could become more aggressive in tea in coming years with its Tazo Tea brand (tea is Starbucks's fastest-growing beverage category), although we believe it is unlikely that Starbucks will replicate the broad selection and customer service interaction available at Teavana. In addition, Argo Tea has roughly 20 stores across 3 states, catering to tea drinkers with a prepared-beverage focus, although it also offers premium loose-leaf tea as well as tea-related merchandise.

Table 5
Teavana Holdings, Inc.
Fragmented Retail Competition

Domestic Competition	Stores	States
Starbucks	10,930	50
Caribou Coffee	464	20
Peet's Coffee & Tea	193	6
Teavana	163	34
Argo Tea	20	3
Lupicia Fresh Tea	4	2
Chado Tea	3	1
Adagio Teas	2	1
Amanzi Tea	2	2
Tealuxe	2	2
TeaGschwendner	2	2
TeaSource	2	1
Kusmi Tea	1	1

International Competition	Stores	Countries
Starbucks	5,933	More than 50 countries
TeaGschwendner	138	Germany (120), Middle East (12), Brazil (3), Austria (1), Luxembourg (1), Switzerland (1)
Lupicia Fresh Tea	131	Japan (129), Taiwan (1), Australia (1)
Caribou Coffee	80	Middle East (75), South Korea (2)
Whittard of Chelsea	75	United Kingdom
DavidsTea	47	Canada
Teaopia	37	Canada
Teavana	17	Mexico
Kusmi Tea	9	France (8), Canada (1)

Sources: Company documents and websites

Internationally, Teavana faces tougher competition given more developed tea cultures, as evidenced by much higher levels of per capita consumption and already-established competition. Germany-based TeaGschwendner has more than 130 stores, most of which are in Germany, while Lupicia Fresh Tea leads the Japanese market with nearly 130 stores. In addition, Whittard of Chelsea has roughly 70 stores in the United Kingdom, and the Canadian market has two established players: DavidsTea, with nearly 50 locations, and Teaopia, with nearly 40 stores.

Management Team in Place to Lead Growth

Following a minority investment by Parallel Investment Partners in 2005, Teavana deepened its management team with the addition of a new CFO, vice president of stores, and vice president of real estate, with no senior management turnover since that time.

Andrew T. Mack, along with his wife, Nancy, founded Teavana in 1997 and serves as chairman and CEO. Before founding Teavana, Mr. Mack held a variety of management positions in the restaurant industry, including at Darden.

Daniel P. Glennon joined Teavana as CFO in 2005. Previously, Mr. Glennon was a manager at Marakon Associates, a management consulting firm, and an auditor at Arthur Andersen LLP. He also served as CFO or vice president of finance for three small or early-stage corporations.

Peter M. Luckhurst has served as executive vice president of operations since 2010 and previously served as vice president for stores from 2005 through 2010. Before joining Teavana, Mr. Luckhurst served as president of HMV North America, where his career spanned 15 years.

Juergen W. Link joined Teavana as vice president of distribution in 2005. Mr. Link founded Special Teas, Inc., in 1996 and served as the company's president until 2005, when it was acquired by Teavana.

Robert A. Shapiro has been Teavana's vice president of real estate since 2005. Before joining the company, Mr. Shapiro was senior vice president of real estate and property development for Zale Corporation.

Summary of Earnings Drivers

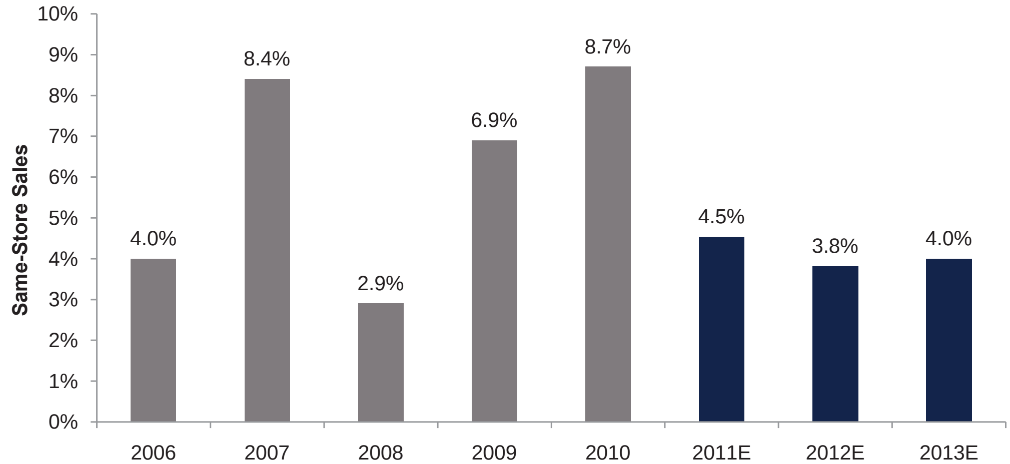
Historical and projected income statements, balance sheets, and cash flows can be found in tables 7 and 8, on pages 19 and 20.

Strong Projected Sales Growth
We expect revenue growth in the high-20% range over the next three to five years, driven by rapid new unit expansion and healthy same-store sales growth in the 3% to 4% range. Domestic company-owned store expansion will be Teavana's primary source of revenue growth, and we project 50 new stores in 2011 (up 34%), 60 new stores in 2012 (up 31%), and 70 new stores in 2013 (up 27%). In addition to mall-based expansion in the United States, we believe potential exists over the longer term to expand Teavana's retail presence outside malls while also growing a more meaningful e-commerce business (about 7% of sales currently) through an increased focus on marketing and promotional initiatives and pursuing more aggressive international retail expansion and opportunities in the premium grocery channel.

Teavana experienced strong same-store sales gains over the past two years, including a 6.9% increase in 2009 and an 8.7% increase in 2010, as shown in figure 9. Teavana's healthy comp trends have continued so far in 2011, with comps up 6.0% in the first quarter and 6.9% in the second quarter (excluding e-commerce). We project 3% to 4% quarterly comp gains through the remainder of the year.

Comps over the past two years have largely been driven by average ticket gains, as transaction growth has been hampered somewhat by the de-emphasizing of prepared beverages since 2009 (now at 4% of sales, versus 8% to 10% several years ago). Looking forward, we expect comps to be driven by both the introduction of new consumers to Teavana through incremental marketing initiatives as well as the "trade-up" of existing customers, the latter of which continues to drive average ticket increases.

Figure 9
Teavana Holdings, Inc.
Historical and Projected Same-Store Sales



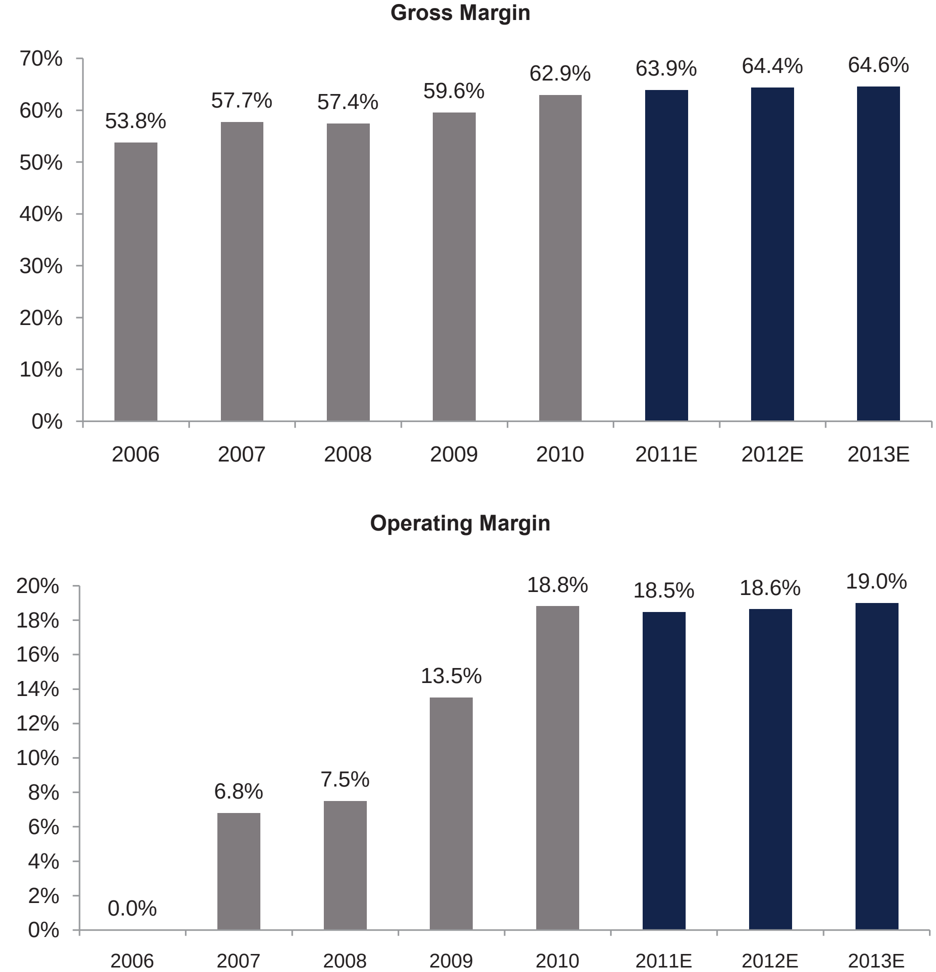
Sources: Company documents and William Blair & Company, L.L. C. estimates

Teavana's operating margin improved dramatically over the past few years, increasing from 7.5% in 2008 to 18.8% in 2010, as shown in figure 10. We expect a modest contraction in operating margin in 2011, reflecting the anniversary of gross margin expansion stemming from the company's shift to direct sourcing last year (which we estimate contributed 300 basis points to gross margin) and incremental SG&A investments associated with the company's new store support center (opened in third quarter 2010), expansion of the company's distribution center (first half of 2011), and the ongoing buildout of systems and marketing functions. In addition, we see the potential for a mix shift toward lower-margin merchandise over the holidays this year, which management believes underperformed in 2010 (merchandise seasonally peaks as a percent of sales during the holidays).

Despite the potential for infrastructure investments to constrain margins over the near term, we expect consistent operating margin improvement beginning in calendar 2012 and more so in calendar 2013 given a favorable mix shift toward higher-margin loose-leaf tea as stores mature, the benefits of increased scale with suppliers, and leverage on fixed costs. Over the longer term, we believe operating margins in the low-20% range are achievable, versus 18.8% in 2010.

Primarily reflecting strong sales growth, we project EPS of $0.44 this year (up 39%), $0.59 in 2012 (up 34%), and $0.77 in 2013 (up 30%). We expect Teavana will be able to generate sufficient cash to support its growth plans, with free cash flow (after capital expenditures) projected to grow from about $5 million this year to nearly $10 million in 2011 and nearly $15 million in 2012.

Figure 10
Teavana Holdings, Inc.
Historical and Projected Margins



Sources: Company documents and William Blair & Company, L.L.C. estimates

Premium Stock Valuation Appears Fair Given Growth Prospects

Teavana's stock valuation of 44 times our calendar 2012 EPS estimate reflects a premium to its peer group average of roughly 22 times, which includes specialty beverage retailers such as Starbucks, Caribou Coffee, and Peet's, as well as other retailers that cater to higher-income consumers, such as Williams-Sonoma, Coach, Whole Foods Market, and lululemon athletica. However, Teavana's long-term EPS growth rate of 30% eclipses even its fastest-growing peer (lululemon at 25%) and easily surpasses the peer group average of 18%. As a result, although Teavana's PEG ratio of 1.5 times exceeds its peer group average of 1.2 times, its premium is in keeping with high-quality, resilient premium retailers such as Whole Foods, lululemon, Peet's, and The Fresh Market (all with PEG ratios of 1.4 to 1.8 times).

While we would not call for multiple expansion from current levels, we believe that 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 are initiating coverage with an Outperform rating and Aggressive Growth company profile.

Sharon M. Zackfia, CFA +1 312 364 5386

Table 6
Teavana Holdings, Inc.
Comparative Valuation Analysis
($ in million, except per share)

Company	Stock Price 9/1/11	Stock Performance YTD	Stock Performance 2010	Market Capitalization (in millions)	2010 Operating Summary[a] Same-Store Sales Growth	Sales Growth	Gross Margin	Operating Margin	Return on Invested Capital[b]	Earnings EPS Growth CY11E	EPS Growth CY12E	Long-Term EPS Growth Rate	Valuation Price/ CY11E EPS	Price/ CY12E EPS	CY12E PEG Ratio	EV/CY EBITDA 2012E
Starbucks	$38.19	18.9%	39.3%	$29,475.0	7%	10%	58%	14%	15%	13%	19%	17%	24.0x	20.2x	1.2x	10.4x
Coach	55.38	0.1%	51.4%	16,703.7	NA	12%	73%	32%	32%	13%	18%	14%	17.7	14.9	1.1	9.0
Whole Foods	64.96	28.4%	84.3%	11,602.5	9%	12%	35%	5%	8%	25%	14%	16%	32.2	28.1	1.8	10.9
lululemon	54.53	59.4%	127.3%	7,901.9	30%	57%	55%	25%	33%	27%	25%	25%	50.7	40.7	1.6	22.9
Abercrombie & Fitch	62.65	8.7%	65.4%	5,666.1	7%	18%	64%	7%	8%	57%	46%	17%	19.5	13.3	0.8	5.4
Urban Outfitters	26.00	-27.4%	2.3%	4,179.3	9%	17%	41%	18%	19%	-4%	26%	20%	16.9	13.5	0.7	5.9
Williams-Sonoma	32.48	-9.0%	71.8%	3,481.3	10%	13%	39%	10%	15%	14%	13%	15%	14.7	13.0	0.9	5.3
Chico's	13.41	11.5%	-14.4%	2,361.7	6%	11%	56%	9%	13%	37%	18%	15%	15.0	12.8	0.8	4.6
Fresh Market (The)	37.40	-9.2%	87.3%	1,799.8	5%	16%	33%	7%	19%	24%	23%	21%	35.2	28.6	1.4	12.4
Peet's	56.30	34.9%	25.2%	761.2	NA	9%	54%	9%	11%	12%	23%	18%	37.6	30.6	1.7	13.2
Caribou Coffee	14.71	45.9%	30.6%	304.1	5%	8%	54%	4%	14%	-10%	24%	23%	36.1	29.0	1.3	8.8
Average		14.7%	51.9%	$7,657.9	10%	17%	51%	13%	17%	19%	23%	18%	27.2x	22.3x	1.2x	9.9x
S&P 500	1204.42									12%	9%	8%				
Teavana	**$25.98**	**52.8%**	**NA**	**$1,008.0**	**9%**	**38%**	**63%**	**19%**	**19%**	**39%**	**34%**	**30%**	**58.9x**	**43.9x**	**1.5x**	**21.3x**

[a]Fiscal year closest to calendar 2010
[b]Net operating profit after taxes (excluding nonrecurring items)/invested capital; operating leases capitalized at 8 times

Sources: Thomson, company documents, and William Blair & Company, L.L.C. estimates

Table 7
Teavana Holdings, Inc.
Quarterly Earnings Model
($ in millions, except per share)

Fiscal year ending January	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%**	**4.0%**	**3.0%**	**4.5%**	**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	$32.4	$65.8	$164.4	$45.8	$38.9	$40.3	$84.0	$209.1	$267.8
Cost of sales (including occupancy)	36.4	10.0	9.5	10.2	16.6	46.3	12.5	12.2	12.8	21.9	59.3	16.1	15.1	15.8	27.5	74.5	94.8
Gross profit	$53.8	$15.8	$13.5	$14.5	$34.6	$78.4	$22.5	$19.1	$19.6	$43.9	$105.1	$29.7	$23.8	$24.5	$56.5	$134.6	$173.0
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	16.5	22.1	68.7	19.9	19.7	20.5	27.7	87.8	111.7
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	$1.5	$20.1	$30.4	$8.0	$2.2	$2.1	$26.6	$38.9	$50.8
Interest expense, net	2.4	0.6	0.7	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	$1.2	$20.0	$28.6	$7.9	$2.1	$2.0	$26.5	$38.5	$50.4
Tax rate	45.8%	42.6%	42.7%	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	$11.9	$16.9	$4.8	$1.3	$1.2	$16.0	$23.2	$30.4
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**	**$0.12**	**$0.03**	**$0.03**	**$0.41**	**$0.59**	**$0.77**
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	60.5%	66.7%	63.9%	64.9%	61.1%	60.9%	67.3%	64.4%	64.6%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	51.0%	33.6%	41.8%	43.5%	50.5%	50.8%	33.0%	42.0%	41.7%
Depreciation and amortization	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.9%	2.6%	3.7%	3.9%	4.9%	5.0%	2.6%	3.8%	3.9%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.6%	30.5%	18.5%	17.5%	5.7%	5.1%	31.7%	18.6%	19.0%
Growth rates:																	
Revenues	41.3%	43.3%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	30.7%	28.6%	31.9%	31.2%	24.3%	24.6%	27.6%	27.1%	28.1%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	36.1%	31.3%	35.9%	35.1%	27.9%	24.1%	25.3%	27.7%	27.2%
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%	338.1%	100.5%	63.8%	92.6%	62.3%	40.8%	15.2%	21.2%	29.2%	24.1%	-4.6%	40.5%	32.5%	28.2%	30.6%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	78.1%	99.0%	25.7%	38.7%	38.6%	20.0%	69.0%	33.2%	34.2%	30.1%

Sources: Company documents and William Blair & Company, L.L.C. estimates

Table 8
Teavana Holdings, Inc.
Summary of Cash Flows and Balance Sheet
($ in millions, except per share)

Fiscal year ending January	2009	2010	2011E	2012E	2013E
CASH FLOWS					
Net Income	$5.3	$12.0	$16.9	$23.2	$30.4
Depreciation and amortization	3.5	4.4	6.0	7.9	10.5
Other	2.5	2.2	6.4	3.5	3.5
Stock-based and noncash compensation	0.2	0.2	2.0	4.0	5.0
Change in working capital	(0.3)	0.7	(9.3)	(9.3)	(10.9)
Cash from operations	**$11.1**	**$19.4**	**$22.0**	**$29.3**	**$38.4**
Capital expenditures	(6.6)	(12.6)	(16.4)	(20.0)	(24.0)
Free cash flow	**$4.4**	**$6.8**	**$5.6**	**$9.3**	**$14.4**
Change in equity	0.0	0.0	14.0	0.0	0.0
Change in debt	(4.3)	(0.3)	0.0	0.0	0.0
Net change in cash	**$0.1**	**$6.6**	**$19.6**	**$9.3**	**$14.4**
BALANCE SHEET					
Cash and cash equivalents	$1.3	$7.9	$27.5	$36.8	$51.2
Accounts receivable	0.3	0.3	0.3	0.3	0.3
Inventories	11.6	16.9	21.9	27.5	35.1
Prepaid expenses and other	2.8	5.1	11.6	17.5	23.5
Current assets	$16.0	$30.2	$61.4	$82.1	$110.1
Property and equipment, net	22.5	31.0	41.4	53.5	67.0
Other assets	3.2	2.9	2.0	2.0	2.0
Total assets	**$41.8**	**$64.1**	**$104.8**	**$137.7**	**$179.1**
Accounts payable	2.6	3.6	4.6	5.8	7.4
Income taxes payable	4.0	4.8	6.0	7.0	8.0
Other current liabilities	4.7	6.9	6.9	6.9	6.9
Current liabilities	$11.3	$15.3	$17.5	$19.7	$22.3
Long-term debt	1.0	1.0	1.0	1.0	1.0
Deferred rent	3.9	7.5	11.0	14.5	18.0
Other long-term liabilities	0.6	0.9	3.0	3.0	3.0
Shareholders' equity	25.0	39.3	72.2	99.4	134.8
Total liabilities and shareholders' equity	**$41.8**	**$64.1**	**$104.8**	**$137.7**	**$179.1**
Book value per share	$0.67	$1.04	$1.89	$2.54	$3.42
Net debt to total capitalization	-1.2%	-17.1%	-36.2%	-35.6%	-37.0%
Return on invested capital	13.7%	17.7%	17.6%	15.1%	15.2%
Return on equity	24.7%	37.3%	30.3%	27.0%	25.9%

Sources: Company documents and William Blair & Company, L.L.C. estimates

Additional information is available upon request.

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Please contact us at +1 800 621 0687 or consult http://www.williamblair.com/pages/eqresearch_coverage.asp for all disclosures.

DJIA:	11493.57
S&P 500:	1204.42
NASDAQ:	2546.04

The prices of the common stock of other public companies mentioned in this report follow:

Caribou Coffee Company, Inc.	$14.71
Cheesecake Factory Incorporated (The)	$27.04
Darden Restaurants, Inc.	$47.50
lululemon athletica inc.	$54.53
P.F. Chang's China Bistro, Inc.	$29.58
Starbucks Corporation	$38.19
Whole Foods Market, Inc.	$64.96
Williams-Sonoma, Inc.	$32.48
Zale Corporation	$3.96

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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	59%	Outperform (Buy)	8%
Market Perform (Hold)	31%	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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Initiation

September 6, 2011

Stock Rating
Equal-weight

Industry View
In-Line

Teavana Holdings, Inc.

Share Price Reflects Future Growth; Initiating at Equal-weight

TEA's current valuation largely reflects expansion prospects, in our view. We look for a more attractive entry point to overweight a compelling growth story with attractive economics.

Following the Whole Foods/lululemon model. TEA's healthy lifestyle focus is where Whole Foods and lululemon have found success. Our real estate and demographic analysis gives us high confidence in our 2010-2015 25% sales and 31% EPS CAGRs.

We like TEA's 500 store potential… Our Teavana real estate analysis validates management's 500 store 2015 plan (vs. 179 today). In our universe, TEA has one of the lowest saturation rates (2011e stores vs. long term plan) at 39% vs. the 72% average.

…steady comp performance… We think Teavana's 3% comp plan is achievable given 1) past performance and 2) our projected new store real estate/demographic analysis based on AlphaWise data.

…and ~260 bp gross margin expansion from 2010-15e. We think 2015 gross margin can reach 65.5%, driven by positive mix as stores mature. Older stores sell more higher-margin loose tea vs. lower-margin accessories.

Current valuation reflects growth: At 40x our $0.60 2012e EPS (and 1.4x our 28% long term growth rate), we think shares largely reflect Teavana's sales and earnings potential. We look for 1) a more attractive entry point or 2) sustained >MSD% same store sales growth.

Risks to our call: (1) Weakening / strengthening economy and mall traffic; (2) Increased competition (stores, online); (3) positive margin mix shift fails to materialize.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

Shr price, close (Sep 2, 2011)	$23.99
Mkt cap, curr (mm)	$882
52-Week Range	$29.35-20.28

Fiscal Year ending	01/10	01/11e	01/12e	01/13e
EPS ($)**	0.32	0.44	0.60	0.78
Div yld (%)	0.0	0.0	0.0	0.0
ModelWare EPS ($)	**0.20**	**0.07**	**0.07**	**0.08**

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates
NA = Not Applicable

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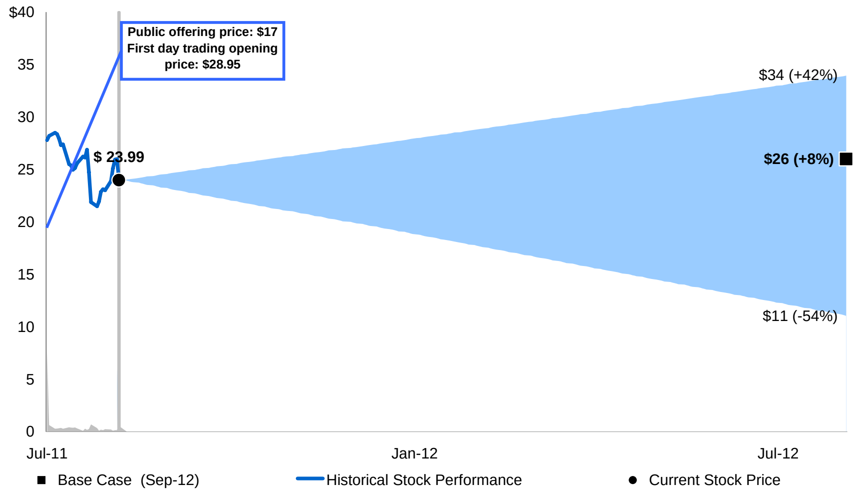
Risk-Reward Snapshot: Teavana Holdings, Inc. (TEA, $23.99, Equal-weight)

Risk-Reward Is Skewed Upward on Earnings Power



		Price Target is based on Base Case valuation
Bull Case $34	45x FY2012e EPS of $0.75	**Investor Nirvana. 2012e: +5% Comp Growth in 2012, >30% Revenue Growth.** Comps accelerate vs. 3% plan. Gross margin increases ~70 bp to 66%, driven by occupancy leverage and favorable sales mix. SG&A rate declines 50 bps due to +MSD comps. Applying a 45x multiple to our $0.75 2012e EPS implies a $34 value.
Base Case $26	43x FY2012e EPS of $0.60	**Growth Gurus. 2012e: +3% Comp, High 20% Revenue Growth.** Comps inline with 3% plan. ~30 bp gross margin helped by sales mix. SG&A leverages ~30 bp to 41.6% and yields an 18.6% EBIT margin. High growth stories tend to trade above their estimated earnings growth rates. Using LULU's example, YTD 2011 shares traded ~1.75x long term growth. We forecast 28% EPS CAGR from 2012 – 2015 for Teavana. Applying a 43x multiple (or 1.5x long-term growth) to our $0.60 2012e EPS implies a $26 value.
Bear Case $11	25x FY2012e EPS of $0.44	**Bad Karma. 2012e: +1% Comp, 20% Revenue Growth.** Comps decelerate to 1%; mall traffic falters. Gross margin rises slightly (~10 bp); TEA unable to meaningfully improve sales mix. SG&A flattish on weak comp. Applying a 25x multiple to our $0.44 2012e EPS implies a $11 value.

Why Equal-weight?

We think TEA's current valuation (40x, 2012e EPS or 1.4x long-term growth) already reflects future prospects:

- Steady comps (+3%);
- 28% new store CAGR ('10-'15) to ~500 stores; and
- Improved margin mix as stores mature

Investment Positives

- Steady same store sales growth
- Square footage growth
- Gross margin improvement
- eCommerce growth
- Not reflected in our model: international stores, consumer packaged goods

Investment Concerns

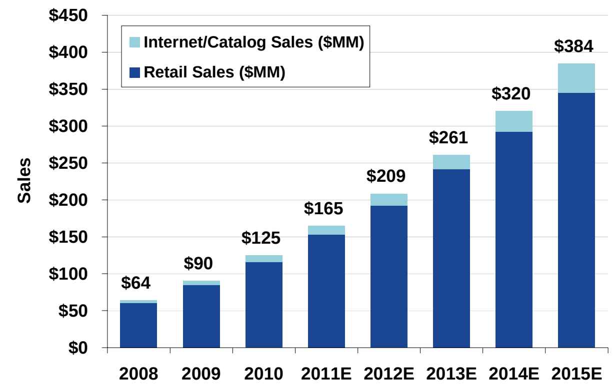
- Economy falters
- Mall traffic deteriorates
- Same store sales weaken
- Increased competition for stores (currently none) and online
- Positive margin mix shift fails to materialize
- Founder still owns 57-58% of TEA shares; private equity owns 19-20%

Potential Positive Catalysts

- Mall traffic improves
- Additional new store opportunities
- International expansion (directly owned stores)
- New product lines (consumer packaged goods)

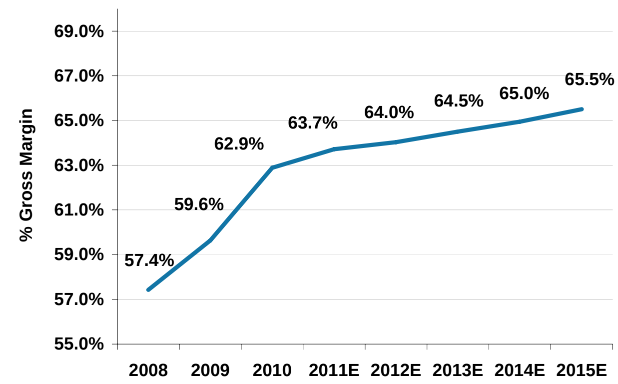
Teavana Financial Snapshot

Revenue



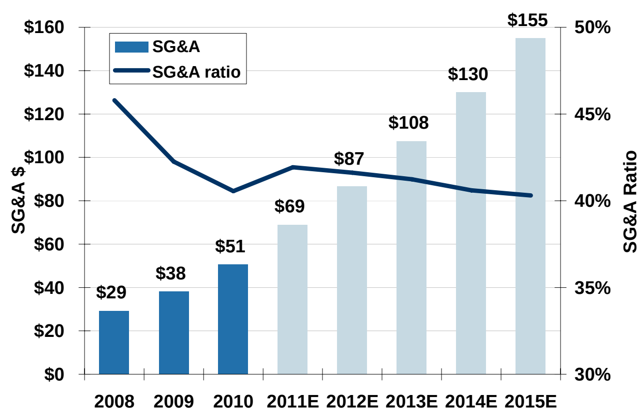
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Gross Margin



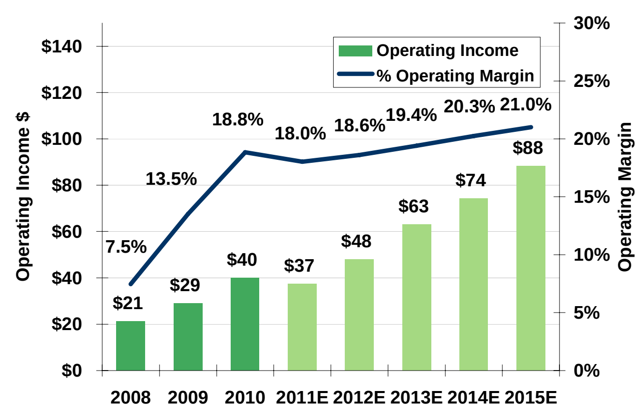
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

SG&A



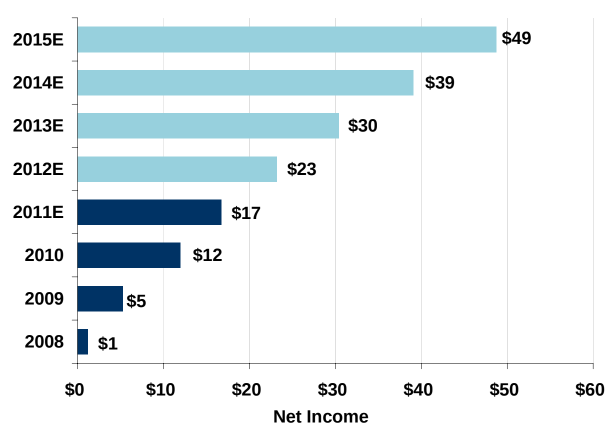
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Operating Income



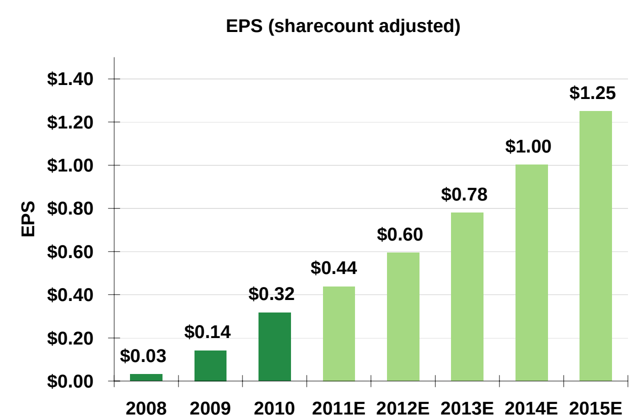
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Net Income (ex. 1x items)



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

EPS



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Investment Case

Summary and Conclusions

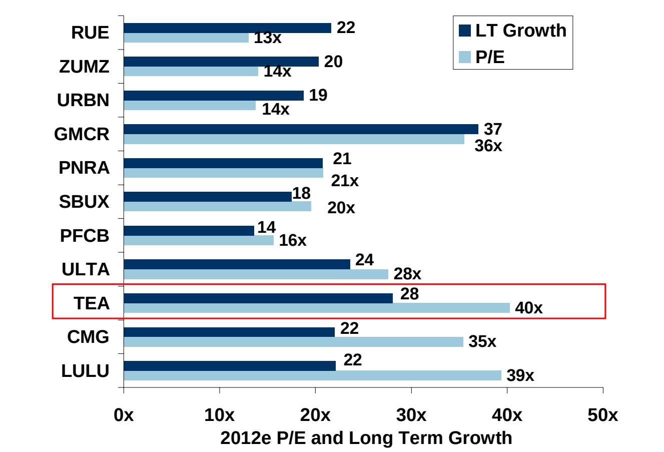
We are initiating coverage of tea retailer Teavana (TEA) with an Equal-weight rating. Through its retail stores and website, Teavana primarily sells loose tea and tea accessories. We think current valuation reflects the company's sales and earnings prospects. We forecast 25% topline growth and 31% EPS growth from '10-'15.

On July 27, 2011 TEA's IPO offering priced at $17/share. On the first day of trading (July 28, 2011), shares opened at $28.95 and closed at $27.80.

Teavana now trades at 40x our $0.60 2012e EPS, which represents 1.4x our 28% long-term growth rate. High-growth consumer retail peers trade at 22x 2012e EPS (or 1.0x long term growth, on average).

Exhibit 1

Beverages and High-Growth Consumer: 2012e P/E and Long Term Growth Rates

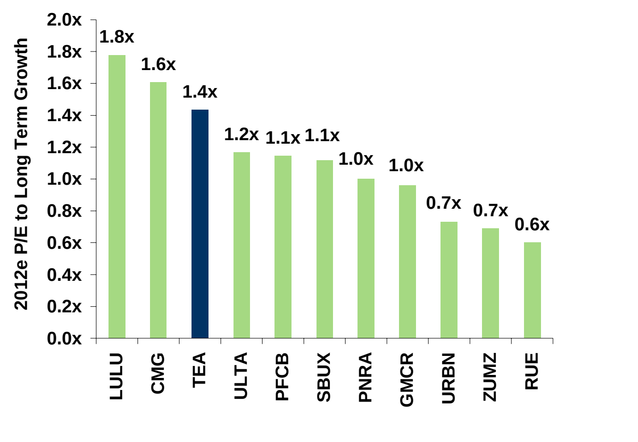


Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

While LULU trades at 1.8x long-term growth, the company has both a successful track record of double-digit comps in addition to sector leading store growth potential.

Exhibit 2

Beverages and High-Growth Consumer: 2012e P/E as Multiple of Long Term Growth Rate



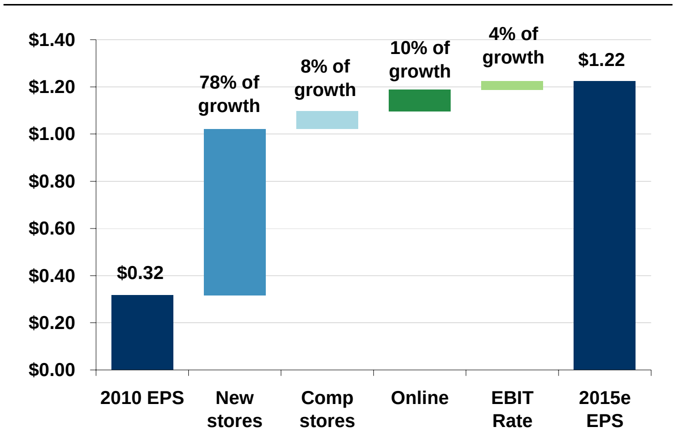
Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

Our Teavana bull case for 2015, which includes a 6% comp, 23% operating margin (+410 bp vs. 2010's 18.8%), and ~500 stores generates $1.50 EPS. Assuming growth slows after hitting 500 store goal (absent other avenues such as international stores and consumer packaged goods), the stock may trade at a mid-teens multiple (16x) on 2015e. This implies a $24 share price in 2014 (inline with current levels).

We think further multiple expansion will be difficult unless we see sustained same store sales above the company's 3% long term plan. Therefore, we await a more attractive entry point for the shares.

Exhibit 3

TEA's 2010-2015 EPS Growth Driven by New Stores



Source: Company data, Morgan Stanley Research

The retailer is the undisputed leader in its space and enjoys a premium positioning, which is reinforced by the highly trained store staff that drives product connoisseurship. We think this could help drive trade-up among existing tea drinkers as well as attract new consumers to the beverage. We like Teavana's focus on the healthy lifestyle – the same positioning behind Whole Foods' and lululemon's success. TEA's 179 locations are primarily located in shopping malls and lifestyle centers. We think the company's proprietary product, education-rich sales environment, and brand awareness through its store footprint pose formidable barriers to entry.

We like TEA's 25% square footage growth CAGR (2010-2015)… Our proprietary shopping center analysis gives us confidence TEA has enough high-quality potential locations for its 500 store plan. We think Teavana can open 50-80 stores per year. In our view, expansion becomes easier as TEA's store base grows because the company will have a larger base of Teavana-trained store management and staff to facilitate new openings.

Exhibit 4
Teavana Store: Garden State Plaza Mall (Paramus, NJ)

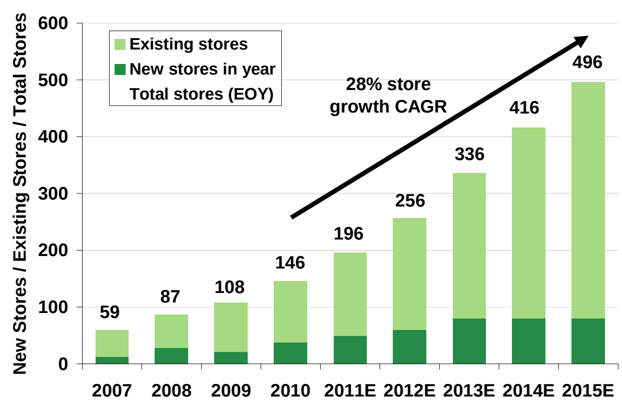
Source: Morgan Stanley Research

Exhibit 5
Teavana Store: Paramus Park Mall (Paramus, NJ)

Source: Morgan Stanley Research

As a backup to our mall analysis, we also analyzed TEA population density using AlphaWise data. Based on our calculations, ~500 locations imply ~200,000 households (with at least $40-$60K annual household income) per store. We think this is viable given TEA's current population profile (please see Exhibit 8).

Exhibit 6
TEA store growth potential: 500 stores by 2015



Source: Company data, Morgan Stanley Research

…and steady comps. Teavana's past performance gives us confidence the 3% long term comp plan is achievable. That level represents a deceleration from TEA's 7% and 9% comps in 2009 and 2010. Despite the recession, TEA only generated one negative comp quarter (4Q08, -1.8% comp).

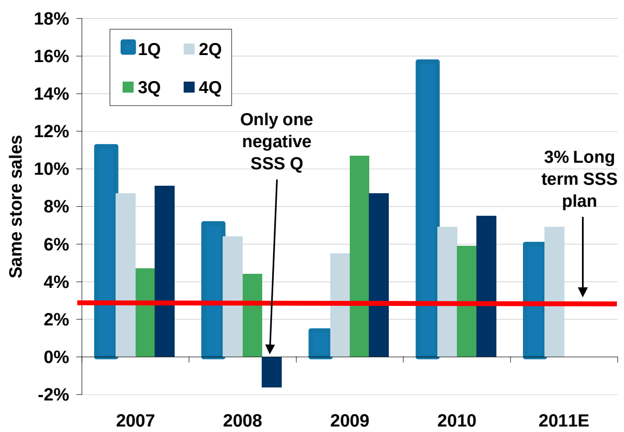
Our income demographic analysis also supports our 3% long-term comp outlook. Digging further into our household saturation study, the 200,000 households we used to arrive at

~500 stores implies average household income of $59,000. This represents a slight (5%) decline from today's $62,000.

We also think Teavana sales will benefit as the company makes marketing investments. We expect the planned customer relationship management system implementation will drive additional traffic and revenue among both new and existing customers.

Exhibit 7

Impressive same store sales indicates conservatism of 3% long-term plan

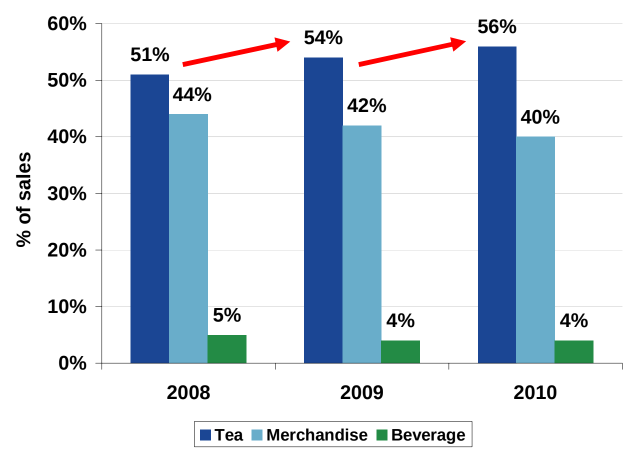


Source: Company data, Morgan Stanley Research

Store maturity drives higher margins… We also like TEA's favorable margin mix over time. We forecast gross margins will improve ~260 bp 2010-2015. As a store matures, sales mix shifts towards more high-margin loose tea (and away from lower margin tea accessories). In 2010, loose tea generated 56% of TEA revenues vs. 51% in 2008. New stores comprised 26% of 2010 locations vs. 32% in 2008.

Exhibit 8

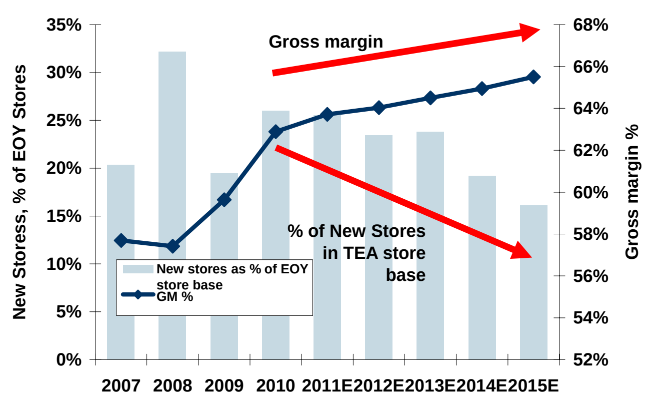
TEA Sales Mix Shifts Towards More Tea…



Source: Company data, Morgan Stanley Research

Exhibit 9

…as Store Base Matures, Which Helps Gross Margins



Source: Company data, Morgan Stanley Research

…while higher revenues drive modest expense leverage. Our model incorporates some SG&A leverage (25 bp, 2010-2015), helped by the 25% sales growth. Public company costs and our lower productivity expectations for new TEA stores (vs. current fleet) drive our expectation for relatively modest expense leverage.

Teavana's longer-term opportunity includes international expansion and consumer packaged goods. We think TEA can leverage its business model abroad given its universal product appeal. The company could also expand into consumer packaged goods and foodservice industries.

What Has Changed Since the IPO

- **2Q11 results.** On September 2, 2011, TEA reported 2Q11 EPS of $0.03. Net sales rose +36% (to $31.3 million). Same store sales rose 6.9%, driven by a 9.3% ticket increase. Transactions declined -1.8%, inline with TEA's historical range (slightly positive to slightly negative).

- Gross margin increased +223 bp y/y (to 61.1%), driven by better product margins (direct sourcing) and a sales mix shift towards loose tea (58% of 2Q11 sales vs. 57% in 2Q10). SG&A deleveraged 204 bp to 49.1% while D&A of $1.4 million remained flattish as a percent of total sales (4.6%). Higher SG&A costs were due to: 1) new hires (public company transition); 2) new store opening and training; 3) infrastructure; and 4) distribution strategy related consulting fees. The operating margin increased +24 bp to 7.4%. Net income rose 78.5% y/y to $1.0 million. 2Q11's $0.03 EPS was vs. LY's $0.02.

- As of September 2, 2011, TEA had 179 company-owned stores. The company is on track up open 50 new locations in FY11. Total inventory rose 82% y/y to $22.7 million. Teavana's direct sourcing strategy shift (TEA takes possession of goods earlier; was in full force by 3Q10) drove the y/y increase. In-store inventory remained flat vs. LY.

- Management also initiated 2011 and long-term guidance. For 2011: $160 - $164 million sales (with low- to mid-single digit same store sales) and $0.42 - $0.44 EPS (based on $16 - $16.8 million net income and 38.3 million shares). Longer-term outlook (from 2010 figures): 25% revenue CAGR, +300 bp operating margin expansion, and 30% net income growth.

- **International franchise agreement with Alshaya Group.** On September 2, 2011, TEA announced a 10-year franchise development program with the Alshaya group of companies for opening stores in Bahrain, Kuwait, Saudi Arabia, Qatar, United Arab Emirates, Egypt, Lebanon, and Jordan. The first stores are scheduled to open in 2012. Under the agreement, we expect TEA will receive a percentage of sales (we estimate 5-6%, based on previous industry franchise transactions). In our view, we believe the franchises could be slightly accretive to 2013 sales (not reflected in our model). While we view the Alshaya agreement positively, we think directly-owned stores (Canada is a possibility) would offer greater sales and EPS accretion potential.

Risks to our call: (1) Weakening / strengthening economy and mall traffic; (2) Increased competition (stores, online); (3) positive margin mix shift fails to materialize.

We would like to express our appreciation to Paul Morgan and Stephen Bakke of the Morgan Stanley REIT Research team for use of their US mall data.

Investment Debates Summary

DEBATE	MARKET'S VIEW	OUR VIEW
Is there an adequate number of quality sites to satisfy TEA's 500 store goal?	Key investor concern; some are doubtful TEA can find enough locations to satisfy growth plans.	**Yes.** • Based on our US shopping center analysis, we think there could be at least 450-500 Teavana stores located in top-rated locations. • We see upside to stores if TEA can find suitable locations in lower-rated malls or in urban areas.
Can TEA new stores generate sufficient sales productivity to drive 25% 2010-2015 sales growth?	Key investor concern; some are doubtful TEA can find enough high-potential locations to satisfy sales growth outlook.	**We think new store economics are achievable.** • Our AlphaWise store overlap and demographics analysis suggests Teavana can continue to generate solid sales productivity (even in light of significant store growth).
Valuation: Does the current share price already include the growth opportunity?	No clear consensus right now.	**Yes.** • We think TEA's sales and earnings growth prospects are already reflected in valuation

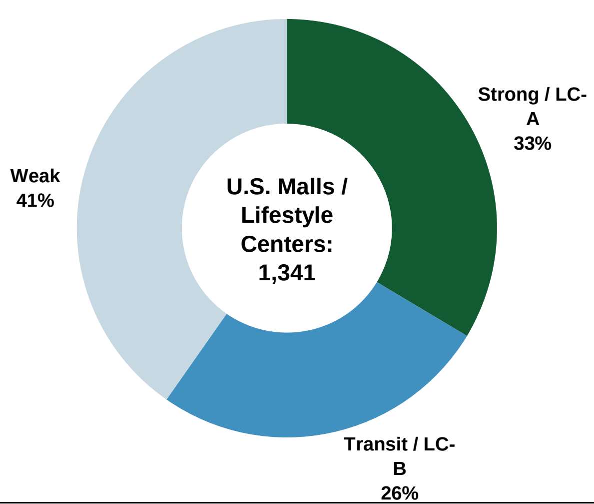
Investment Debates

Debate 1: Is there an adequate number of quality sites to satisfy TEA's 500 store goal?
Market's view: Key investor concern; some are doubtful TEA can find enough locations to satisfy growth plans.
Our view: Yes. Based on our US shopping center analysis, we think there could be at least 450-500 Teavanas located in top-rated locations. We see upside to storecount if TEA can find suitable locations in lower-rated malls or in urban areas.

First: Our mall / lifestyle center analysis supports the viability of management's 500 store plan (2015). We analyzed Teavana locations (161 as of July 2011) and then cross-checked our list against our REIT Research Team's mall ratings (Paul Morgan and team).

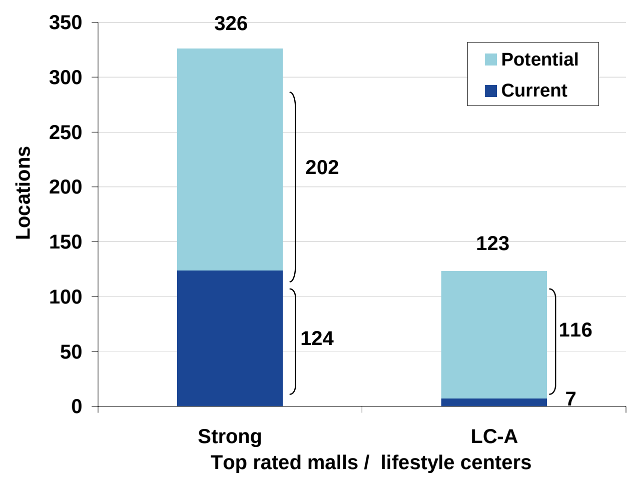
TEA only penetrates 29% of top-ranked malls / lifestyle centers. Of Morgan Stanley's top-rated 449 malls and lifestyle centers, only 131 include a Teavana (29% penetration).

Exhibit 10
Of all the US malls and lifestyle centers…



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research.

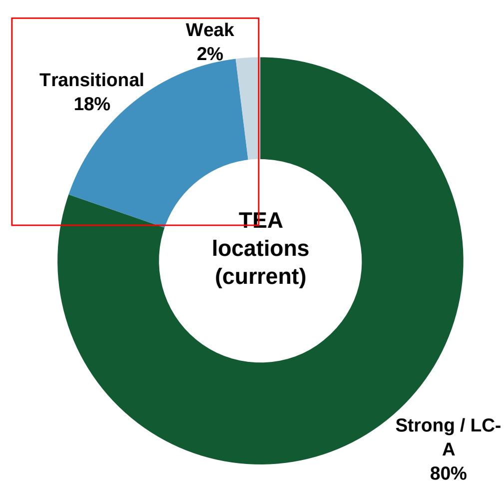
Exhibit 11
…TEA is only in 131 of the top 449 Malls and Lifestyle Centers



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of July 2011 (161 locations).

There is potential upside to our analysis if we add stores in 1) urban street locations and 2) lower-rated shopping centers. Twenty percent of Teavana's current stores are in lower-rated malls and lifestyle centers. If Teavana can secure additional suitable locations, we see additional store growth.

Exhibit 12
20% of Teavana stores are in lower-rated locations



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of July 2011 (161 locations).

Second: Our store population study indicates 450+ TEA location potential. Working with AlphaWise, we also examined income and population levels surrounding existing Teavana stores. The current median population is ~320,000. Roughly 500 stores imply a density of 200,000 households per store. We think this is feasible given current store statistics.

Exhibit 2

Our proprietary store saturation analysis suggests 450+ Teavana stores

Store Saturation Summary (all applicable markets)

Current HHs / store (median)	Current stores	$40-60K	$60-80K	$80-100K	$100K+	Total
		HH income distribution				
320,442	**161**	77	70	12	2	161

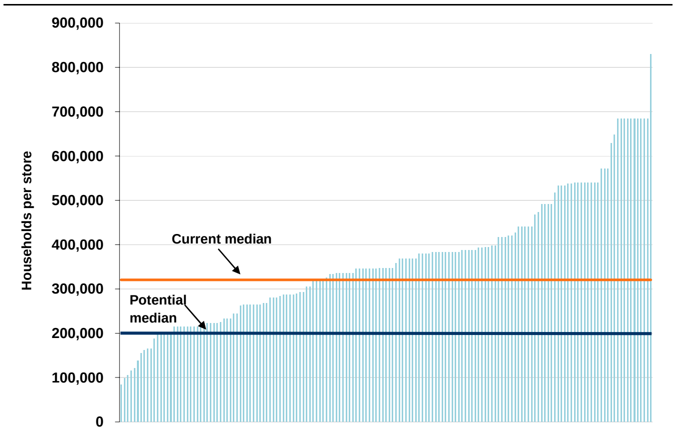
Store saturation analysis

Households per store	Potential stores	$40-60K	$60-80K	$80-100K	$100K+	Total
320,442	**277**	163	98	14	2	277
300,000	**299**	177	105	15	2	299
250,000	**365**	220	126	17	2	365
200,000	**454**	272	159	21	2	454
150,000	**624**	382	212	28	2	624
100,000	**989**	626	318	42	3	989

Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

Exhibit 13

Households per Teavana Store



Source: Company data, Morgan Stanley Research

Debate 2: Can new TEA stores successfully generate sufficient sales productivity to drive 25% 2010-2015 sales growth?
Market's view: Key investor concern; some are doubtful TEA can find enough high-potential locations to satisfy sales growth outlook.
Our view: We think new store economics are achievable. Our Morgan Stanley AlphaWise store overlap and demographics analysis suggests Teavana can continue to generate solid sales productivity (even in light of significant store growth).

Teavana's new store revenue plan appears adequately conservative at 25% below current comparable average ($600,000 - $700,000 annual sales vs. $862,000).

The company's 3% long-term comp guidance also appears conservative in light of previous performance. We think both news customers and trade-up from existing customers can fuel same store sales growth.

In our view, the sales plan conservatism addresses concerns Teavana's most optimal locations are already reflected in the fleet.

First, our proprietary AlphaWise study demonstrates Teavana's ability to generate strong same store sales despite high store overlaps. We think this bodes well for comps despite aggressive expansion plans. According to our analysis, 98% of Teavana stores are within 1, 2, and 5 miles of another Teavana store. Ninety-nine percent of all TEA locations are within 10 miles of another.

Exhibit 14

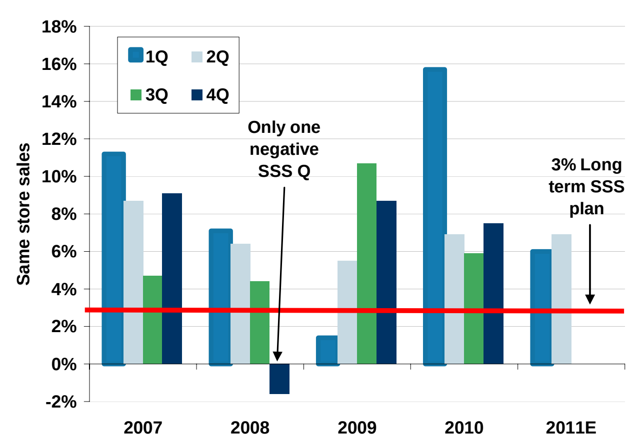
Even with high store overlaps…

	1 Mile	3 Miles	5 Miles	10 Miles
% of TEA store base	98%	98%	98%	99%

Source: Store data from company website, location analysis from Morgan Stanley AlphaWise

Exhibit 15

…Teavana still generates solid comps

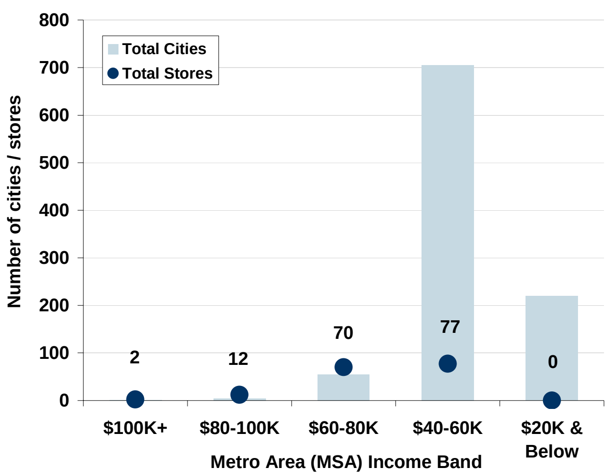


Source: Company data, Morgan Stanley Research

Second, our AlphaWise survey results provide evidence that store income demographics can stay intact (despite store expansion). This gives us further confidence in

Teavana's ability to deliver sales productivity even on a much larger store base.

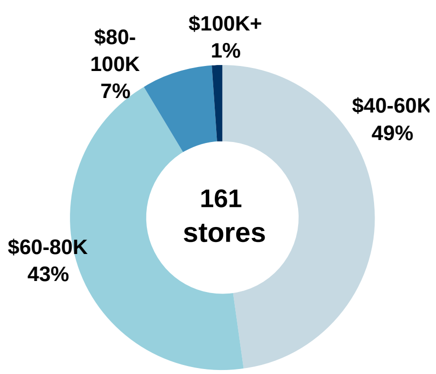
Exhibit 16
TEA store snapshot



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

According to Morgan Stanley AlphaWise, the average household income surrounding Teavana's current store base is $62,000. Fifty-one percent of current TEA locations are in areas with at least $60,000 annual household income. Forty-nine percent of TEA locations have surrounding annual household income of $40,000-$60,000.

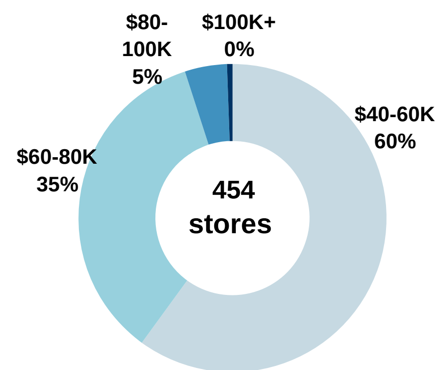
Exhibit 3
Current Teavana Store Base / $62,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA. Store data in our analysis as of July 2011 (161 locations).

If TEA expands its store footprint to 454 stores (see Debate 1, based on household density), we estimate the locations would have an average surrounding household income of $59,000 (5% below current levels). About 60% of stores would have a surrounding annual household income of $40,000-$60,000 while ~40% would have surrounding income of at least $60,000.

Exhibit 4
Projected Teavana Store Base / $59,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA.

Third, Teavana's growing store base provides the talent pipeline to support store openings. We think Teavana's store opening process eases as the store base increases. TEA's store growth plans provide career opportunities for motivated staff, and we expect the company to promote a high percentage of general managers internally. Lower management and team member turnover is a good sign; the company can leverage the larger pool of experienced staff for new store openings.

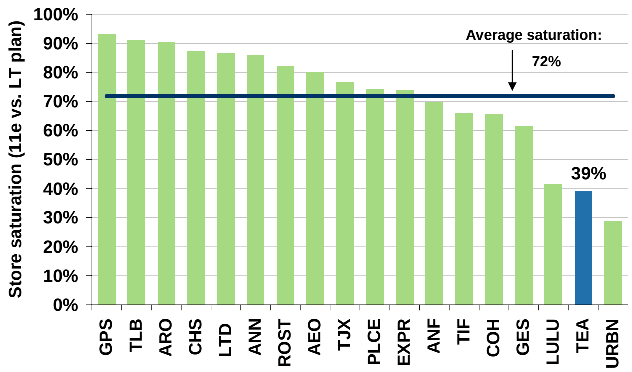
Where we could be wrong: If household incomes come under more pressure, TEA store expansion and sales productivity could be at risk.

Debate 3: Valuation: Does the current share price incorporate the growth opportunity?
Market's view: No clear consensus right now.
Our view: Yes. We think TEA's sales and earnings growth prospects are already reflected in valuation

We like TEA's high-quality growth… as evidenced by our store location and demographic analysis.

Exhibit 17

TEA store saturation – one of the lowest in our universe

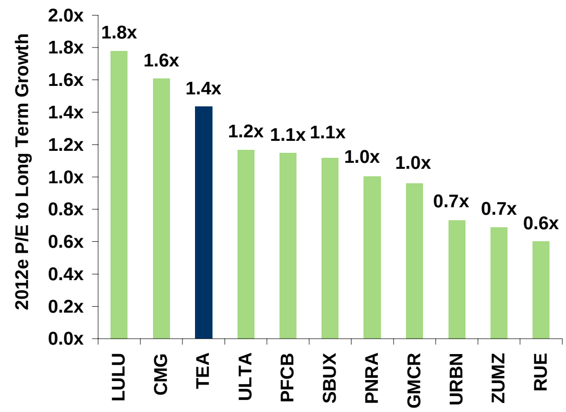


Source: Company data, Morgan Stanley Research. Reflects saturation of profitable divisions only.

…but think current valuation reflects this. Teavana is trading at 40x our $0.60 2012e EPS, which represents 1.4x our 28% long term growth rate. According to Exhibit 18, TEA's P/E to long term growth is already one of the highest among peers in beverages and high-growth consumer retail / restaurants. Until we see consistent execution above the 3% comp plan, we think shares adequately value the company's sales and earnings potential.

Exhibit 18

Beverages and High-Growth Consumer: 2012e P/E as Multiple of Long Term Growth Rate



Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

Where we could be wrong. If US macroeconomic concerns fail to subside, we think discretionary names with high domestic exposure will be negatively impacted.

Valuation

We think Teavana is most directly comparable to high-growth specialty retail, which includes lululemon, Ulta, Rue21, and Zuimiez. In our view, the closest compare is LULU given the two companies' similar healthy lifestyle positioning, premium product offering, and potential store growth.

Exhibit 19

TEA Comparable Companies

	Company Name	9/2/2011 Price	P/E (CY est.) 2011	P/E (CY est.) 2012	L/T growth	P/E to L/T Growth
TEA	Teavana	$23.99	55x	40x	28	1.4
Specialty beverage (coffee)						
GMCR	Green Mountain Coffee Roasters	$103.56	55x	36x	37	1.0
SBUX	Starbucks	37.49	24x	20x	18	1.1
Average			**39x**	**28x**	**27**	**1.0**
High growth consumer retail						
LULU	lululemon	$53.15	49x	39x	22	1.8
ULTA	Ulta	55.33	35x	28x	24	1.2
ZUMZ	Zumiez	17.46	17x	14x	20	0.7
RUE	Rue21	22.56	15x	13x	22	0.6
URBN	Urban Outfitters	25.96	17x	14x	19	0.7
Average			**27x**	**22x**	**21**	**1.0**
High growth restaurants						
CMG	Chipotle Mexican Grill	$305.50	45x	35x	22	1.6
PNRA	Panera Bread	110.52	24x	21x	21	1.0
PFCB	P.F. Chang's China Bistro	28.39	17x	16x	14	1.1
Average			**29x**	**24x**	**19**	**1.3**

Source: FactSet estimates (all ex. TEA) and market data. Morgan Stanley Research estimates (TEA only).

High-quality growth companies tend to trade ahead of their long-term growth estimates. High-growth consumer retail peers trade at 22x 2012e EPS (or 1.0x long term growth, on average). For example, LULU's average P/E in 2011 YTD was ~1.75x the company's long-term growth rate. Similar to Teavana, LULU benefits from 1) steady comps and 2) store growth potential.

We think TEA shares will follow a similar pattern to LULU. Our 12-month price target of $26 is based on 43x our $0.60 2012e EPS. 43x represents 1.5x our estimated 28% Teavana long-term growth rate.

Moreover, our bull case for 2015, which includes a 5% comp, 23% operating margin (+420 bp vs. 2010's 18.8%), and ~500 stores generates $1.50 EPS. Assuming growth slows (absent other avenues such as international stores and consumer packaged goods), the stock may trade at a mid-teens multiple (16x). This implies a $24 share price (in line with current levels).

Company Overview

The Premier Specialty Tea Retailer

Founded in 1997, Teavana retails loose-leaf teas, tea accessories and related products, and tea beverages. Teavana leads this new retail segment. We think the company's choice real estate, quality product, and highly trained sales staff are the keys to its success. As of September 2011, the company directly 179 stores in 26 states. There are also 19 franchise stores in Mexico.

Teavana stores are primarily located in malls and lifestyle centers. By region, stores are evenly spread, but CA and FL have the most TEA locations.

In 2004, Parallel Investment Partners (they have a long consumer investments track record), purchased a 23% stake.

First Mover Advantage in Fragmented Industry

According to Mintel, US tea sales could increase at a 10% CAGR from 2010 to 2014 to $6 billion. We think industry growth drivers include: (1) broader distribution; (2) increased offerings; and (3) growing interest in healthy lifestyles. Teavana lacks large, direct competitors. Other tea retail entrants have closed more than half (or all) of their US stores.

Prime Locations and a Highly Trained Staff Drive Sales…

Teavana stores averaged 1,100+ square feet in 2010. However, TEA store size does not correlate with total sales. The company benefits from its ability to secure prime mall locations (i.e. center court or adjacent key retailers).

We also think the company's highly interactive store environment propel productivity. In our view, with Teavana's large and varied assortment, product education is key for driving trade-up among existing tea drinkers and attracting new customers. Associates are highly trained and compensation is based on sales targets.

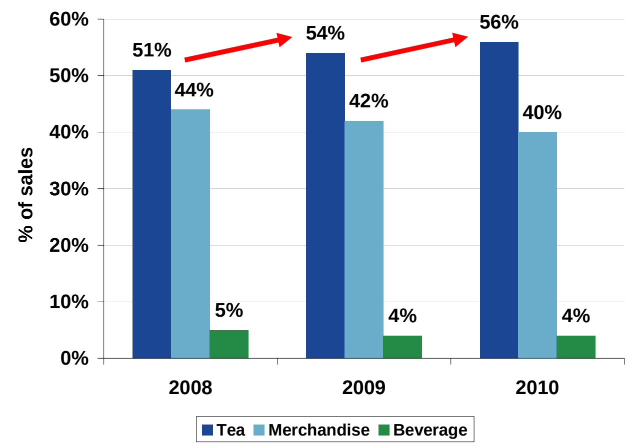
Teavana has generated positive annual same store sales from 2006-2010 (and reported only one negative comp quarter, 4Q08, with -1.6%). 2010 sales productivity approached $1,000 per square foot, and comparable store sales totaled $862,000.

Other topline growth opportunities include (1) online (7% of 2010 sales; could increase to 10+%); (2) international stores, and (3) consumer packaged goods. We also think TEA's planned CRM system implementation (we expect by mid-2012) will be a topline benefit.

…While Store Maturity Helps Margins

Average ticket at TEA is $36 including beverages. Excluding beverages, TEA's average ticket is $46. About 15-20% of transactions only include beverages. In 2010, loose tea represented 56% of sales while tea related merchandise accounted for 40%. Prepared beverages were 4% of revenue.

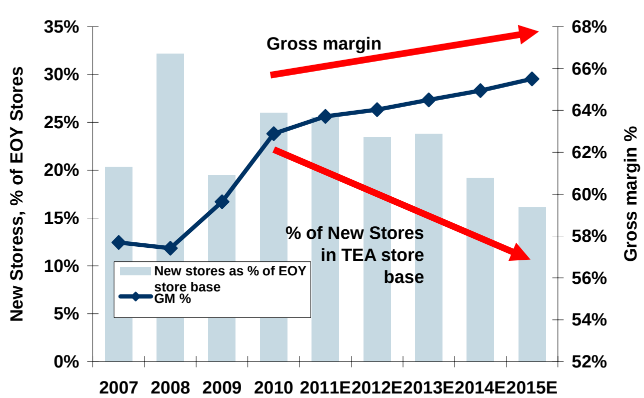
Exhibit 20
TEA Sales Mix Shifts Towards More Tea…



Source: Company data, Morgan Stanley Research

The margin evolution of Teavana stores is evidence of brand loyalty. As a location matures, its sales mix shifts towards loose tea sales (from tea accessories). Loose tea carries substantially higher margins than tea accessories. Teavana typically does not discount its product (except for an occasional small selection of accessories). Therefore, as a store matures, its profitability improves.

Exhibit 21
…as Store Base Matures, Which Helps Gross Margins



Source: Company data, Morgan Stanley Research

Management, share ownership

Senior Management

Teavana is led by co-founder and CEO Andrew Mack; Mack and his wife founded Teavana in 1997. Before Teavana, he worked in the restaurant industry. Other members of the senior management team have been with the company since 2005.

Exhibit 22
TEA Senior Management and Board

Senior Management		
Daniel Glennon	**EVP, CFO**	EVP and CFO since 2010 CFO 2005-2010 **Background:** Marakon Associates, Arthur Andersen **Joined Teavana in 2005**
Peter Luckhurt	**EVP, Operations**	EVP, Operations since 2010 VP, Stores 2005-2010 **Background:** HMV North America (President) **Joined Teavana in 2005**
Juergen Link	**VP, Distribution**	VP, Distribution since 2005 **Background:** SpecialTeas (Founder) **Joined Teavana in 2005**
Robert Shapiro	**VP, Real Estate**	VP, Real Estate since 2005 **Background:** Zale (SVP Real Estate and Property Development) **Joined Teavana in 2005**
Board of Directors		
F. Barron Fletcher III	**Director**	Parallel Investment Partners (Founder)
Michael Nevins	**Director**	Macerich (previously SVP - Leasing)
Thomas Saunders III	**Director**	Ivor & Co. (President); Saunders Karp & Megrue (Founder)
John Kyees	**Director**	Urban Outfitters (former CFO)
Robert Dennis	**Director**	Genesco (Chairman of Board)

Source: Company filings, Morgan Stanley Research

Insider Share Ownership

Post-IPO, Andrew Mack owns 57-58% of TEA shares, Parallel owns 19-20%.

Exhibit 23

Insider and 5% Share Ownership, Post-IPO

	Shares Beneficially Owned After		% Beneficially Owned	
	Without Over-Allotment Option	With Over-Allotment Option	Without Over-Allotment Option	With Over-Allotment Option
5% Stockholders:				
Teavana Investment LLC	7,571,271	7,077,016	19.90%	18.60%
Executive Officers and Directors:				
Andrew T. Mack	22,005,115	21,510,860	57.90%	56.50%
Daniel P. Glennon	264,631	255,786	*	*
Peter M. Luckhurst	233,498	225,694	*	*
Juergen W. Link	1,196,741	1,156,743	3.20%	3.00%
Robert A. Shapiro	225,652	218,110	*	*
F. Barron Fletcher III	7,571,271	7,077,016	19.90%	18.60%
Michael J. Nevins	46,699	45,138	*	*
All directors and executive officers as a	31,543,606	30,489,345	81.30%	78.40%
Additional Selling Stockholders:				
Patrick Farrell	155,665	150,642	*	*
John M. Allen	62,266	60,185	*	*
David A. Staels	77,833	75,232	*	*
Michael T. Wallace	62,266	60,185	*	*
Rocket Tea LLC	155,665	150,462	*	*

* Less than 1%

Source: Company data, Morgan Stanley Research

Exhibit 24

TEA Income Statement

($ millions except per-share data)

	2010				2011E				2012E			
Income Statement	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan
Total Sales	$26	$23	$25	$51	$35	$31	$32	$66	$46	$39	$40	$83
Cost of Goods Sold	10	9	10	17	12	12	13	22	16	16	16	27
Gross Profit	16	14	15	35	22	19	19	44	30	24	24	56
SG&A Expense	11	11	12	17	15	15	17	22	20	19	20	28
Depr. & Amort.	1	1	1	1	1	1	2	2	2	2	2	2
Operating Income	4	2	1	17	6	2	1	20	8	2	2	27
Interest Income/(Expense)	(0.6)	(0.7)	(0.7)	(0.6)	(0.7)	(0.7)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Pretax Income	3.4	1.0	0.6	15.9	5.8	1.6	0.7	19.8	7.9	2.4	1.7	26.5
Taxes	1	0	0	7	2	1	0	8	3	1	1	11
Net Income from Operations	1.9	0.6	0.3	9.1	3.3	1.0	0.5	11.9	4.7	1.5	1.1	16.0
Earnings Per Share	$0.05	$0.02	$0.01	$0.24	$0.09	$0.03	$0.01	$0.31	$0.12	$0.04	$0.03	$0.41
Average Shares	37.5	37.6	38.0	38.0	36.7	37.8	39.0	39.0	39.0	39.0	39.0	39.0
EBITDA	$5	$3	$2	$18	$8	$4	$3	$22	$10	$4	$4	$29
Margin Analysis												
Gross Margin	61.1%	58.9%	58.6%	67.7%	64.4%	61.1%	59.4%	66.8%	64.9%	60.0%	60.0%	67.4%
Expense Ratio	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	51.0%	33.9%	43.6%	48.6%	50.4%	33.0%
Operating Margin	15.5%	7.2%	5.2%	32.4%	18.5%	7.4%	3.1%	30.1%	17.4%	6.3%	4.5%	31.8%
Pretax Margin	13.0%	4.4%	2.4%	31.2%	16.5%	5.1%	2.3%	30.0%	17.2%	6.2%	4.4%	31.8%
Tax Rate	42.6%	42.6%	42.4%	42.6%	42.4%	35.2%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net Margin	7.5%	2.5%	1.4%	17.9%	9.5%	3.3%	1.4%	18.1%	10.4%	3.7%	2.6%	19.1%
EBITDA Margin	19.2%	11.8%	9.7%	34.8%	22.1%	12.0%	8.4%	32.9%	21.3%	11.4%	9.6%	34.4%
Year-Over-Year Growth												
Sales	43.3%	33.1%	32.4%	41.0%	35.6%	36.3%	30.8%	28.8%	30.7%	26.0%	23.6%	26.6%
Comp. Store Sales	15.7%	6.9%	5.9%	7.5%	6.0%	6.9%	3.0%	3.0%	6.0%	6.9%	3.0%	3.0%
SG&A Expense	26.2%	26.1%	33.2%	41.4%	36.6%	42.2%	36.2%	32.7%	34.9%	24.8%	22.1%	23.2%
Operating Income	276.7%	338.1%	100.5%	63.8%	62.1%	40.8%	-20.4%	19.8%	22.8%	7.1%	77.6%	33.8%
Earnings Per Share	674.2%	-567.6%	NM	73.5%	75.5%	77.5%	29.4%	27.1%	34.3%	38.0%	133.7%	33.9%
EBITDA	166.7%	117.6%	54.3%	61.3%	56.1%	38.4%	13.8%	21.7%	25.8%	19.6%	41.2%	32.6%

Income Statement	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Sales	$34	$47	$64	$90	$125	$165	$209	$261	$320	$384
Cost of Goods Sold	$16	$20	$27	$36	$46	$60	$75	$93	$112	$133
Gross Profit	$18	$27	$37	$54	$78	$105	$134	$168	$208	$252
SG&A Expense	16	22	29	38	51	69	87	108	130	155
Depr. & Amort.	2	2	3	3	4	6	8	10	13	16
Operating Income	($0)	$3	$5	$12	$23	$30	$39	$51	$65	$81
Interest Income/(Expense)	(1)	(2)	(2)	(2)	(3)	(2)	(0)	(0)	0	0
Pretax Income	($1)	$1	$3	$10	$21	$28	$39	$51	$65	$81
Taxes	(0)	1	2	4	9	11	15	20	26	32
Net Income from Operations	($1.3)	$0.4	$1.2	$5.3	$12.0	$16.7	$23.2	$30.4	$39.1	$48.7
Earnings Per Share	($0.04)	$0.01	$0.03	$0.14	$0.32	$0.44	$0.60	$0.78	$1.00	$1.25
Average Shares	36.7	36.8	37.1	37.3	37.7	38.1	39.0	39.0	39.0	39.0
EBITDA	$1.3	$5.0	$7.4	$15.7	$27.9	$35.9	$46.8	$60.6	$78.0	$96.9
Margin Analysis										
Gross Margin	52.8%	57.7%	57.4%	59.6%	62.9%	63.7%	64.0%	64.5%	65.0%	65.5%
Expense Ratio	48.9%	47.1%	45.8%	42.3%	40.6%	41.9%	41.6%	41.2%	40.6%	40.3%
Operating Margin	-0.5%	6.3%	7.5%	13.5%	18.8%	18.0%	18.6%	19.4%	20.3%	21.0%
Pretax Margin	-4.3%	2.9%	4.2%	10.8%	16.8%	17.0%	18.5%	19.4%	20.3%	21.1%
Tax Rate	7.1%	72.7%	55.7%	45.8%	42.6%	40.1%	39.8%	39.8%	39.8%	39.8%
Net Margin	-4.0%	0.8%	1.9%	5.9%	9.6%	10.2%	11.1%	11.7%	12.2%	12.7%
EBITDA Margin	4.0%	10.6%	11.6%	17.4%	22.3%	21.8%	22.4%	23.3%	24.4%	25.2%
Year-Over-Year Growth										
Sales		39.8%	35.3%	41.3%	38.2%	31.9%	26.8%	25.0%	22.8%	20.0%
Comp. Store Sales		8.4%	3.0%	6.9%	8.7%	4.4%	3.0%	3.0%	3.0%	3.0%
SG&A Expense		34.8%	31.5%	30.4%	32.6%	36.4%	25.8%	23.9%	20.9%	19.1%
Operating Income		NM	59.9%	156.2%	92.6%	26.2%	30.8%	30.5%	28.1%	24.5%
Earnings Per Share		NM	213.7%	339.0%	124.5%	37.9%	35.7%	31.1%	28.4%	24.8%
EBITDA		273.9%	48.5%	111.2%	77.6%	28.8%	30.4%	29.7%	28.6%	24.2%

Annual Data	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Total Store Count	47	59	87	108	146	196	256	336	416	496
Total Sq Ft (mm)	43	54	77	95	130	176	231	287	343	399
Total Sq Ft Growth		25.6%	42.6%	23.4%	36.8%	35.4%	31.4%	24.2%	19.5%	16.3%
Avg Size (sq ft)	915	915	885	880	890	898	904	855	825	805
Sales / Avg SqFt		$973,258	#######	$984,494	#######	#######	#######	$931	#######	#######

Source: Company data, Morgan Stanley Research

Exhibit 25

TEA Balance Sheet

At January 31 of the following year
($ in millions)

	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Assets							
Cash and cash equivalents	$1.3	$7.9	($22.6)	($16.5)	($11.3)	($3.2)	$10.3
ST investments	0.0	0.0	0.0	5.0	10.0	15.0	20.0
Accounts receivable	0.3	0.3	0.4	0.5	0.6	0.7	0.9
Merchandise inventories	11.6	16.9	21.4	26.1	31.3	38.4	46.1
Prepaid minimum rent	1.1	1.4	1.8	2.3	2.9	3.6	4.3
Other	1.8	3.7	7.2	8.2	9.2	10.2	11.2
Total Current Assets	$16.0	$30.2	$8.2	$25.6	$42.7	$64.7	$92.9
			9.4	16.0			
Net property and equipment	22.5	31.0	40.8	50.1	63.5	79.2	97.6
Goodwill, net	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Deferred income Taxes	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL ASSETS	$41.8	$64.1	$51.9	$78.6	$109.1	$146.8	$193.4
Liabilities and Shareholders' Equity							
Accounts payable	$2.6	$3.6	$4.3	$5.2	$6.3	$7.7	$9.2
Line of credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Other liabilities	7.6	23.3	24.7	31.3	39.1	48.0	57.7
Accrued expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable & accrued exp - related parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	$11.286	$28.3	$30.3	$37.8	$46.7	$57.1	$68.2
Deferred Rent & Tenant Allowances	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Long-term debt	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Preferred Stock	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Retirement Benefit Plan Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	4.5	8.0	10.0	10.0	10.0	10.0	10.0
Deferred taxes	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Total Long-Term Liabilities	$16.3	$9.5	$10.0	$10.0	$10.0	$10.0	$10.0
Shareholders' Equity:							
Common stock	$21.9	$81.4	$0.0	$0.0	$0.0	$0.0	$0.0
Additional paid-in capital	0.0	0.0	105.2	105.2	105.2	105.2	105.2
Retained earnings	(7.7)	(55.1)	(93.6)	(74.5)	(52.8)	(25.4)	10.0
Notes receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	$14.2	$26.3	$11.6	$30.7	$52.4	$79.8	$115.2
TOTAL LIABILITIES AND S/H EQUITY	$41.8	$64.1	$51.9	$78.6	$109.1	$146.8	$193.4

Source: Company data, Morgan Stanley Research

Exhibit 26

TEA Cash Flow Statement

For the fiscal year ending January 31 of the following year
($ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Net income	$1.2	$5.3	$12.0	$16.7	$23.2	$30.4	$39.1	$48.7
Depreciation and amortization	2.7	3.5	4.4	6.2	8.0	10.0	13.1	16.1
Deferred income taxes	(0.6)	0.5	(0.3)	(0.4)	0.0	0.0	0.0	0.0
Other	1.9	2.1	2.6	3.5	1.0	(1.0)	(1.0)	(1.0)
TOTAL OPERATING SOURCES	$5.169	$11.4	$18.7	$26.0	$32.2	$39.5	$51.2	$63.9
Capital expenditures	8.8	6.6	12.6	16.0	17.2	23.5	28.8	34.6
Increase (decrease) in								
Inventories	$1.8	$3.6	$5.3	$4.5	$4.7	$5.2	$7.1	$7.7
Receivables	(0.2)	0.1	0.0	0.1	0.1	0.1	0.1	0.2
Prepaid expenses	0.7	(0.2)	1.1	0.4	0.5	0.6	0.7	0.7
Other assets	0.2	0.3	0.3	3.5	1.0	1.0	1.0	1.0
(Increase) decrease in								
Accounts payable, deferred revenue, accrued expenses, and ot	2.0	2.7	5.4	(2.0)	(7.5)	(8.9)	(10.4)	(11.2)
Accounts payable and accrued expenses, related parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets and liabilities	0.4	0.9	2.1	0.0	0.0	0.0	0.0	0.0
Total working capital uses	$0.2	$0.3	($0.7)	$10.5	$13.8	$15.8	$19.3	$20.7
TOTAL OPERATING USES	$9.0	$7.0	$11.8	$26.5	$31.0	$39.3	$48.1	$55.3
INTERNAL CASH GENERATION (FUNDS NEEDED)	($3.8)	$4.4	$6.8	($0.5)	$1.2	$0.2	$3.1	$8.5
Short-term investments, net	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0
Increase in long-term debt	(0.6)	0.0	(0.3)	(1.0)	0.0	0.0	0.0	0.0
Net borrowings under credit facility	5.3	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0
Distributions paid to members	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common / preferred stock adjustments	0.0	0.0	0.0	105.2	0.0	0.0	0.0	0.0
Share repurchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment and redemption of dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing costs	(0.4)	(0.0)	0.0	(134.2)	0.0	0.0	0.0	0.0
Net cash used in discontined operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXTERNAL SOURCES	$4.3	($4.3)	($0.3)	($30.0)	$5.0	$5.0	$5.0	$5.0
Beginning cash balance	0.8	1.2	1.3	7.9	(22.6)	(16.5)	(11.3)	(3.2)
Increase (decrease) in cash	0.4	0.1	6.6	(30.5)	6.2	5.2	8.1	13.5
Ending cash balance	1.2	1.3	7.9	(22.6)	(16.5)	(11.3)	(3.2)	10.3
				-				
Total External Sources & Cash	($3.8)	$4.4	$6.8	($0.5)	$1.2	$0.2	$3.1	$8.5

Source: Company reports and Morgan Stanley Research estimates.

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Company (Ticker)	Rating (as of)	Price* (09/02/2011)
Kimberly C Greenberger		
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$23.99
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$60.43
Aeropostale Inc (ARO.N)	U (10/26/2010)	$10.52
American Eagle Outfitters, Inc. (AEO.N)	U (10/26/2010)	$10.44
AnnTaylor Stores Corp (ANN.N)	O (10/26/2010)	$21.92
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$12.98
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$40.79
Coach Inc (COH.N)	O (10/26/2010)	$53.21
Express, Inc. (EXPR.N)	O (01/31/2011)	$17.47
Gap Inc (GPS.N)	E (10/26/2010)	$15.6
Guess (GES.N)	E (11/03/2008)	$30.87
Limited Brands Inc (LTD.N)	O (10/26/2010)	$35.85
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$53.15
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$73.6
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$15.96
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$52.27
Talbots Inc. (TLB.N)	O (10/26/2010)	$2.4
Tiffany & Co. (TIF.N)	O (11/30/2010)	$68
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$25.96

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Teavana Holdings, Inc.

Initiating Coverage With an Outperform Rating

- We are initiating coverage of Teavana with an Outperform rating and an Aggressive Growth company profile, and EPS estimates of $0.44 in 2011 (up 39%), $0.59 in 2012 (up 34%), and $0.77 in 2013 (up 30%).

- With an inviting mall-based format and broad selection of more than 100 premium loose-leaf teas and merchandise, Teavana has achieved first-mover advantage in the fragmented U.S. specialty tea retail landscape. The domestic tea market has been growing rapidly, up more than 60% since 2004, and Teavana has experienced accelerating same-store sales gains over the past three years (2.9% in 2008, 6.9% in 2009, and 8.7% in 2010), with only one quarter of negative same-store sales in the last four years (-1.6% in fourth quarter 2008).

- Teavana's consumer appeal is illustrated by extraordinary sales productivity of $994 per square foot (among the highest of all mall-based retailers), with consistent performance across geographies. Reflecting strong sales productivity, Teavana's stores generate healthy returns, with management targeting first-year cash-on-cash returns of about 75% and a payback period of roughly 18 months.

- From about 180 company-owned stores today, we believe that Teavana has the opportunity to nearly triple its domestic mall-based presence to 500 stores, with management expecting to achieve that goal by 2015. We believe potential exists over the longer term to expand Teavana's retail presence outside malls, while also growing a more meaningful e-commerce business (about 7% of sales currently), pursuing more aggressive international retail expansion, and exploring opportunities in the premium grocery channel.

- We expect 25%-plus unit expansion and same-store sales gains of 3% to 4% per year to yield annual revenue growth in the high-20% range. We anticipate consistent operating margin improvement beginning in calendar 2012 and more so in calendar 2013, given a favorable mix shift toward higher-margin loose-leaf tea as stores mature as well as leverage on fixed costs, although infrastructure investments to support growth will likely constrain margins in 2011.

Consumer ¦ Specialty Coffee and Tea

September 06, 2011

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

Symbol:	TEA (NYSE)
Price:	$23.99 (52-Wk.: $20-$29)
Market Value (mil.):	$912
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

	2010A	2011E	2012E
Estimates*			
EPS Q1	$0.05	A$0.09	$0.12
Q2	$0.02	A$0.03	$0.03
Q3	$0.01	$0.02	$0.03
Q4	$0.24	$0.30	$0.41
FY	$0.32	$0.44	$0.59
CY		$0.59	
Valuation			
FY P/E	75.0x	54.5x	40.7x
CY P/E		40.7x	NA

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

Trading Data (Thomson Financial)

Shares Outstanding (mil.)	38
Float (mil.)	0
Average Daily Volume	637,093

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	-1.6
Enterprise Value (mil.)	66.6
EBITDA (TTM)	30.6
Enterprise Value/EBITDA (TTM)	30.1x
Return on Equity (TTM)	30.0

Source: Thomson Financial, William Blair & Company estimates

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

- Teavana's stock valuation of 41 times our calendar 2012 EPS estimate reflects a premium to its peer group average of roughly 22 times, which includes specialty beverage retailers such as Starbucks, Caribou Coffee, and Peet's, as well as other retailers that cater to higher-income consumers, such as Williams-Sonoma, Coach, Whole Foods Market, and lululemon athletica. However, Teavana's long-term EPS growth rate of 30% eclipses even its fastest-growing peer (lululemon at 25%) and easily surpasses the peer group average of 18%. As a result, although Teavana's PEG ratio of 1.4 times exceeds its peer group average of 1.2 times, its premium is in keeping with high-quality, resilient premium retailers such as Whole Foods, lululemon, Peet's, and The Fresh Market (all with PEG ratios of 1.3 to 1.7 times). While we would not call for multiple expansion from current levels, we believe that Teavana's premium valuation is justified, based on 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.

Summary and Investment Thesis

Founded in 1997 by current Chairman and CEO Andrew Mack and his wife, Nancy, Teavana is a rapidly growing specialty tea retailer, with about 180 domestic mall-based stores across 36 states (including 2 franchised locations) and 17 franchised stores in Mexico. Featuring a large selection of loose-leaf premium teas as well as tea-related merchandise, Teavana offers a differentiated and compelling mall-based experience with its inviting store format and highly trained staff.

Teavana's store base has more than tripled in the past four years, and sales have grown at a compound annual rate of 38% over the same time frame, inclusive of growth of 38% in 2010 to nearly $125 million. Loose-leaf tea accounts for 56% of sales; tea-related merchandise, 40%; and prepared beverages, 4%. Teavana's average ticket is $36 in its stores ($46 excluding beverages) and $55 online, with the company generating about 7% of sales through its e-commerce channel.

Compelling Premium Tea Retailer With Impressive Sales Productivity

Teavana's consumer appeal is illustrated by the company's strong sales productivity of $944 per square foot in 2010, with consistent performance across geographies. Moreover, Teavana has experienced positive same-store sales in each of the past five years, with only one quarter of negative comps (-1.6% in fourth quarter 2008), pointing to the resiliency of consumer demand for Teavana's products. Given the long shelf life of its products and low markdown levels, Teavana's gross margin was a healthy 62.9% in 2010, and Teavana's operating margin increased from 7.5% in 2008 to 18.8% in 2010.

Teavana Holdings, Inc.
Domestic Retail Sales Productivity
(Fiscal year closest to calendar 2010)

	Sales Per Square Foot	U.S. Stores
Free People	$1,760	42
lululemon	1,270	82
Teavana	**994**	**146**
Anthropologie	950	147
Urban Outfitters	690	144
Victoria's Secret	660	1,028
lucy	650	64
Chico's	640	660
Aeropostale	630	906
J.Crew[(a)]	600	219
Title Nine	570	18
Hot Topic	560	657
Banana Republic	460	576
bebe[(b)]	450	213
Buckle	430	420
American Eagle Outfitters[(c)]	420	994
Abercrombie & Fitch	420	325
Zumiez	400	400
Joseph A. Bank	390	506
Express	350	591
Williams-Sonoma[(d)]	350	260
Cache/Cache Luxe	340	282
Gap	340	1,111
Ann Taylor	330	266
New York & Co.	330	555
Mall average	$300-$400	

(a) J.Crew sales per square foot include crewcuts, Madewell, and factory stores.
(b) Bebe sales per square foot include PH8 and 2b bebe.
(c) American Eagle Outfitters sales per square foot include aerie.
(d) Williams-Sonoma sales per square foot include Pottery Barn and West Elm.

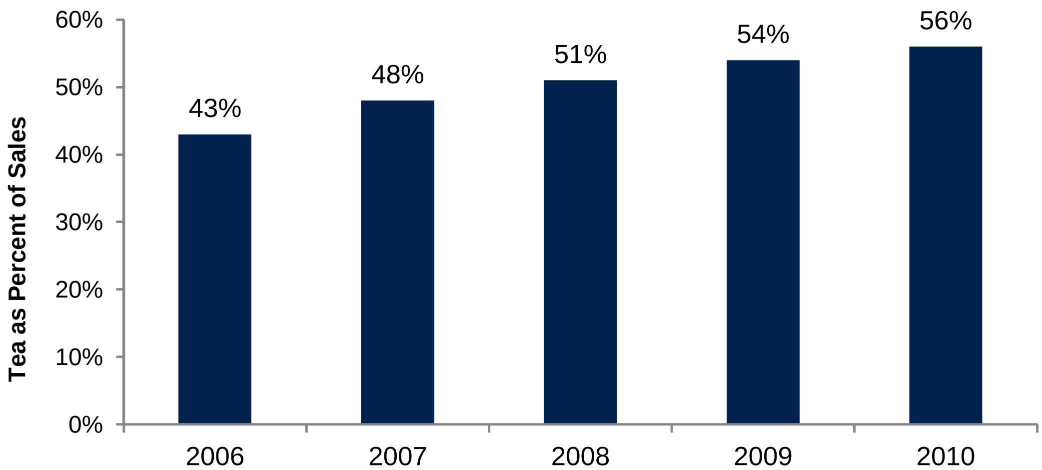
Sources: Company documents and William Blair & Company, L.L.C. estimates

Teavana's stores feature a "Wall of Tea" (roughly 100 tins of premium loose-leaf tea), a wide array of tea-related accessories and items, and highly trained store associates who educate consumers about Teavana's products and the tea-making process. With premium loose-leaf teas ranging from $3 to $40 for two ounces (the minimum amount sold), Teavana offers an affordable yet premium healthy lifestyle indulgence, with two ounces yielding an average of 20 to 25 cups of tea—translating to less than $1.80 per cup at the highest price point.

The U.S. tea market has experienced robust growth, reaching $5.2 billion in sales in 2009, according to market research firm Mintel, with a compound annual growth rate of roughly 11% from 2004 through 2009. We believe the U.S. market for tea still has plenty of room to grow, as the United States represented only about 9% of total worldwide tea sales of $56.6 billion in 2009, with per capita tea consumption well behind many other nations. Encouragingly, Mintel expects the tea market in the United States to continue to post steady growth, projecting an approximate 6% compound annual growth rate through 2014.

Excellent Store Productivity Yields Consistently Robust Store-Level Returns
Teavana averaged sales per store of $844,000 in 2010 (up nearly 6% year-over-year), with all classes of stores (by age) experiencing gains. Moreover, Teavana's merchandise mix becomes increasingly more profitable as stores mature, as the mix naturally shifts toward high-margin loose-leaf tea as a store ages (also indicative of strong customer loyalty).

Teavana Holdings, Inc.
High-Margin Tea Growing as Percent of Sales Mix



Sources: Company documents

Encouragingly, Teavana's performance has been remarkably similar across all regions of the country, including the West, Central, Northeast, and Southeast, with each region consisting of roughly 25% of locations and contributing roughly 25% of sales. Teavana's average four-wall cash contribution margin was 30% in 2010, with all stores profitable.

New-store sales productivity is targeted at $600,000 to $700,000 per year (although the company has easily exceeded that target each of the past two years) on a net cash investment of $200,000 to $250,000 per store, as a greater proportion of non-A malls are expected to account for future growth. New stores are anticipated to generate 25% cash contribution margins and cash-on-cash returns of about 75%, with a payback period of roughly 18 months.

Teavana Holdings, Inc.
Impressive Unit Economics
($ in thousands)

	Existing Locations	Model for New Units
Cash investment	$225	
Capitalized operating leases*	76	
Fully capitalized investment	$301	
Average store size (square feet)	888	950
Sales	**$844**	**$650**
Sales per square foot	*$994*	*$684*
Unit-level cash contribution	$253	$163
Depreciation	34	34
Operating income	**$219**	**$129**
Cash contribution margin	30%	25%
Operating margin	26%	20%
Cash-on-cash return on investment	**113%**	**72%**
After-tax return on fully capitalized investment	**44%**	**26%**

*Capitalized at 8 times annual rent

Sources: Company documents and William Blair & Company, L.L.C. estimates

Ample Opportunity for Store Expansion

From about 180 company-owned stores today, we believe that Teavana has the opportunity to nearly triple its U.S. store base, in keeping with management's goal of reaching 500 domestic stores by 2015. Should Teavana meet its objectives, it would be one of the fastest-growing publicly traded retailers, with 50 new company-owned stores expected in 2011 (up 34%) and 60 new stores in 2012 (up 31%).

While Teavana's growth plans are aggressive, we believe they may also be necessary to cement the concept's first-mover advantage, particularly as others are likely to notice Teavana's highly profitable model now that the company is publicly traded. We believe there are 500 high-quality domestic malls that meet Teavana's requirements, and we see the potential for the company to augment its mall-based locations with strategically placed street locations in the future. Teavana also has 17 franchised stores in Mexico, and we expect the company to explore additional international expansion opportunities in coming years through company-owned development and/or franchised agreements. To this point, Teavana recently announced a 10-year development agreement in the Middle East with Alshaya, a leading franchise operator of other concepts such as Starbucks, P.F. Chang's, and The Cheesecake Factory.

Over the longer term, we believe the Holy Grail would be for Teavana to evolve from a retailer into a market-defining brand, similar to what Starbucks has achieved over the past 20 years. While such stories are rare, we see parallels in Teavana bringing its European-style specialty tea retail experience to the United States to the way Starbucks introduced Americans to Italian-based espresso beverages. If Teavana can define the tea market in the way that Starbucks has dominated specialty coffee, we see the potential for meaningful brand extension opportunities in the premium grocery and foodservice channels (Starbucks's consumer packaged goods business accounted for 17% of its operating profits in fiscal 2010).

We Expect 30% Annual EPS Growth Over the Next Three to Five Years

We expect 25%-plus unit expansion and same-store sales gains of 3% to 4% per year will yield annual revenue growth in the high-20% range over the next three to five years. We expect a modest contraction in operating margin in 2011 given incremental infrastructure expenses associated with the company's new store support center, expansion of the company's distribution center, and the buildout of systems and marketing functions. In addition, we see the potential for a mix shift toward lower-margin merchandise over the holidays this year, a category that management believes underperformed in 2010 (merchandise seasonally peaks as a percent of sales during the holidays).

Despite the potential for infrastructure investments to constrain margins over the near term, we expect consistent operating margin improvement beginning in calendar 2012 and more so in calendar 2013 given a favorable mix shift toward higher-margin loose-leaf tea as stores mature, the benefits of increased scale with suppliers, and leverage on fixed costs. Over the longer term, we believe operating margins in the low-20% range are achievable, versus 18.8% in 2010.

Primarily reflecting strong sales growth, we project EPS of $0.44 this year (up 39%), $0.59 in 2012 (up 34%), and $0.77 in 2013 (up 30%).

Premium Stock Valuation Appears Fair Given Growth Prospects

Teavana's stock valuation of 41 times our calendar 2012 EPS estimate reflects a premium to its peer group average of roughly 22 times, which includes specialty beverage retailers such as Starbucks, Caribou Coffee, and Peet's, as well as other retailers that cater to higher-income consumers, such as Williams-Sonoma, Coach, Whole Foods Market, and lululemon athletica. However, Teavana's long-term EPS growth rate of 30% eclipses even its fastest-growing peer (lululemon at 25%) and easily surpasses the peer group average of 18%. As a result, although Teavana's PEG ratio of 1.4 times exceeds its peer group average of 1.2 times, its premium is in keeping with high-quality, resilient premium retailers such as Whole Foods, lululemon, Peet's, and The Fresh Market (all with PEG ratios of 1.3 to 1.7 times).

While we would not call for multiple expansion from current levels, we believe that 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 are initiating coverage with an Outperform rating and Aggressive Growth company profile.

Teavana Holdings, Inc.
Comparative Valuation Analysis
($ in million, except per share)

		Stock		Market	2010 Operating Summary[a]					Earnings			Valuation			
	Stock Price	Performance		Capitalization	Same-Store	Sales	Gross	Operating	Return on	EPS Growth		Long-Term	Price/	Price/	CY12E	EV/CY EBITDA
Company	**9/2/11**	**YTD**	**2010**	**(in millions)**	**Sales Growth**	**Growth**	**Margin**	**Margin**	**Invested Capital[b]**	**CY11E**	**CY12E**	**EPS Growth Rate**	**CY11E EPS**	**CY12E EPS**	**PEG Ratio**	**2012E**
Starbucks	$37.49	16.7%	39.3%	$28,934.8	7%	10%	58%	14%	15%	13%	19%	17%	23.6x	19.8x	1.2x	10.2x
Coach	53.21	-3.8%	51.4%	16,049.2	NA	12%	73%	32%	32%	13%	18%	14%	17.0	14.3	1.1	8.7
Whole Foods	63.11	24.7%	84.3%	11,272.1	9%	12%	35%	5%	8%	25%	14%	16%	31.3	27.3	1.7	10.5
lululemon	53.15	55.4%	127.3%	7,702.0	30%	57%	55%	25%	33%	27%	25%	25%	49.4	39.7	1.6	22.3
Abercrombie & Fitch	60.43	4.9%	65.4%	5,465.3	7%	18%	64%	7%	8%	57%	46%	17%	18.8	12.9	0.7	5.2
Urban Outfitters	25.96	-27.5%	2.3%	4,172.9	9%	17%	41%	18%	19%	-4%	26%	20%	16.9	13.5	0.7	5.9
Williams-Sonoma	31.30	-12.3%	71.8%	3,354.8	10%	13%	39%	10%	15%	14%	13%	15%	14.1	12.5	0.8	5.1
Chico's	12.98	7.9%	-14.4%	2,285.9	6%	11%	56%	9%	13%	37%	18%	15%	14.6	12.4	0.8	4.4
Fresh Market (The)	36.21	-12.1%	87.3%	1,742.5	5%	16%	33%	7%	19%	24%	23%	21%	34.0	27.7	1.3	12.0
Peet's	55.35	32.6%	25.2%	748.3	NA	9%	54%	9%	11%	12%	23%	18%	37.0	30.1	1.7	12.9
Caribou Coffee	14.21	41.0%	30.6%	293.7	5%	8%	54%	4%	14%	-10%	24%	23%	34.8	28.0	1.2	8.5
Average		11.6%	51.9%	$7,456.5	10%	17%	51%	13%	17%	19%	23%	18%	26.5x	21.7x	1.2x	9.6x
S&P 500	1173.96									12%	9%	8%				
Teavana	**$23.99**	**41.1%**	**NA**	**$930.8**	**9%**	**38%**	**63%**	**19%**	**19%**	**39%**	**34%**	**30%**	**54.4x**	**40.5x**	**1.4x**	**19.7x**

[a] Fiscal year closest to calendar 2010
[b] Net operating profit after taxes (excluding nonrecurring items)/invested capital; operating leases capitalized at 8 times

Sources: Thomson, company documents, and William Blair & Company, L.L.C. estimates

Investment Risks

Rate of Store Growth Could Strain Operations

Teavana's plan to expand its domestic company-owned store base from about 180 stores today to 500 stores over the next five years is ambitious and could strain the company's human resources while potentially damaging its distinctive culture based on extensive training and superior customer service. In the near term, Teavana plans to open 50 stores in 2011 (up 34%) and 60 stores in 2012 (up 31%), and we project 70 new stores in 2013 (up 27%). While we believe that Teavana is well positioned to execute on its plans for new stores, we view the company's ability to successfully open high-volume new stores as critical to the stock's performance.

New Stores May Not Be as Productive as Existing Store Base

Teavana has achieved sales productivity that is among the highest in mall-based retail. However, as the company grows, its proportion of "A" malls will decrease as Teavana enters a wider array of less productive malls, which could result in average unit volumes declining from current levels. Management is already handicapping for this potential outcome, modeling new store volumes at $600,000 to $700,000. Importantly, even at lower volumes, unit-level returns remain healthy, as stores within this sales bandwidth achieved cash contribution margins of 25% to 30% in 2010.

Reliance on Single Product Category

Teavana's business is concentrated on a single product—premium loose-leaf tea—and its related merchandise. Teavana's sales would likely be penalized by any negative news related to the quality or safety of tea or tea-related products.

Exposure to Mall-Based Traffic Trends and Seasonality of Earnings

Teavana's mall-based real estate strategy renders it susceptible to mall traffic trends. In addition, Teavana earns the bulk of its earnings in its fiscal fourth quarter of the year, which typically has roughly twice the revenue of any other quarter and contributes the vast majority of full-year earnings (75% in 2010). As a result, the company is particularly vulnerable to events that hinder consumer spending or mall traffic during the holidays. The first quarter is the second-most-profitable quarter for Teavana, with the second and third quarters only slightly profitable.

Limited Float Post-Deal

Teavana has a limited float following the company's IPO, as founder and CEO Andrew Mack still holds 57% of shares and private-equity investor Parallel Investment Partners holds 19%.

Teavana Holdings, Inc.
Quarterly Earnings Model
($ in millions, except per share)

Fiscal year ending January	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%**	**4.0%**	**3.0%**	**4.5%**	**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	$32.4	$65.8	$164.4	$45.8	$38.9	$40.3	$84.0	$209.1	$267.8
Cost of sales (including occupancy)	36.4	10.0	9.5	10.2	16.6	46.3	12.5	12.2	12.8	21.9	59.3	16.1	15.1	15.8	27.5	74.5	94.8
Gross profit	$53.8	$15.8	$13.5	$14.5	$34.6	$78.4	$22.5	$19.1	$19.6	$43.9	$105.1	$29.7	$23.8	$24.5	$56.5	$134.6	$173.0
Selling, general, and administrative	38.1	10.8	10.8	12.1	16.8	50.6	14.8	15.4	16.5	22.1	68.7	19.9	19.7	20.5	27.7	87.8	111.7
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	$1.5	$20.1	$30.4	$8.0	$2.2	$2.1	$26.6	$38.9	$50.8
Interest expense, net	2.4	0.6	0.7	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	$1.2	$20.0	$28.6	$7.9	$2.1	$2.0	$26.5	$38.5	$50.4
Tax rate	45.8%	42.6%	42.7%	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	$11.9	$16.9	$4.8	$1.3	$1.2	$16.0	$23.2	$30.4
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**	**$0.12**	**$0.03**	**$0.03**	**$0.41**	**$0.59**	**$0.77**
Margins:																	
Gross margin	59.6%	61.1%	58.9%	58.6%	67.7%	62.9%	64.4%	61.1%	60.5%	66.7%	63.9%	64.9%	61.1%	60.9%	67.3%	64.4%	64.6%
Selling, general, and administrative	42.3%	41.9%	47.0%	49.0%	32.9%	40.6%	42.2%	49.1%	51.0%	33.6%	41.8%	43.5%	50.5%	50.8%	33.0%	42.0%	41.7%
Depreciation and amortization	3.9%	3.8%	4.6%	4.5%	2.4%	3.5%	3.6%	4.6%	4.9%	2.6%	3.7%	3.9%	4.9%	5.0%	2.6%	3.8%	3.9%
Operating margin	13.5%	15.4%	7.2%	5.2%	32.4%	18.8%	18.5%	7.4%	4.6%	30.5%	18.5%	17.5%	5.7%	5.1%	31.7%	18.6%	19.0%
Growth rates:																	
Revenues	41.3%	43.3%	33.1%	32.4%	41.0%	38.2%	35.6%	36.3%	30.7%	28.6%	31.9%	31.2%	24.3%	24.6%	27.6%	27.1%	28.1%
Selling, general, and administrative	30.4%	26.2%	26.1%	33.2%	41.4%	32.6%	36.6%	42.2%	36.1%	31.3%	35.9%	35.1%	27.9%	24.1%	25.3%	27.7%	27.2%
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%	338.1%	100.5%	63.8%	92.6%	62.3%	40.8%	15.2%	21.2%	29.2%	24.1%	-4.6%	40.5%	32.5%	28.2%	30.6%
EPS	339.3%	686.6%	NM	NM	74.9%	124.4%	71.3%	78.1%	99.0%	25.7%	38.7%	38.6%	20.0%	69.0%	33.2%	34.2%	30.1%

Sources: Company documents and William Blair & Company, L.L.C. estimates

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 08/31/11)

Coverage Universe	**Percent**	**Inv. Banking Relationships***	**Percent**
Outperform (Buy)	59	Outperform (Buy)	8
Market Perform (Hold)	31	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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