Starbucks Acquires Teavana

CANDICE CHOI and SARAH SKIDMORE,Associated Press

NEW YORK (AP) — Starbucks wants to make the tea shop as ubiquitous as its namesake cafes.

The Seattle-based company said Wednesday that it will pay $620 million in cash to buy Teavana Holdings Inc., which sells high-end loose leaf teas in 300 shopping mall locations. The plan is to grow Teavana's footprint beyond the suburban mall with stand-alone shops around the world, while adding tea bars where customers can buy hot and cold drinks.

The deal marks Starbucks latest push to expand beyond its cafes, with the company facing intensifying competition from fast-food chains offering specialty coffees. Last summer Starbucks bought small bakery chain La Boulange for $100 million. Last year it added fresh-juice maker Evolution to its stable for $30 million.

The Teavana deal also positions Starbucks for stronger sales in parts of the world where tea is more popular than coffee. Teavana recently opened its first store in the Middle East with Alshaya, which is Starbucks joint venture partner as well.

CEO Howard Schultz noted in an interview that Starbucks cafes had modest beginnings as well. The company's 11 locations only sold coffee by the pound in 1987, with its dizzying menu of specialty drinks and baked goods evolving over time. Schultz said the company would use that experience to transform Teavana and tap into the $40 billion global tea market.

Starbucks Corp. already owns the Tazo tea brand, which it purchased in 1999. The company has signaled its growing interest in tea, with plans to open its first Tazo tea shop this Friday. Starbucks has described the Tazo shop as a place where customers can buy specialty drinks, packaged chocolates and dozens of loose leaf teas — not unlike the shops it's now envisioning for Teavana.

Schultz said the Tazo shop will serve as a "learning laboratory" for its development of Teavana stores. He said the brands give the company a two-tiered approach to the fast-growing tea category, since Teavana is a premium loose leaf tea while Tazo is a bagged tea product sold in supermarkets

Schultz said Teavana will also move into the consumer packaged goods category, meaning it will also be sold in supermarkets.

Brian Sozzi, chief equities analyst for NBG Productions, said the deal gives Starbucks a "high/low" positioning in a fragmented tea market, similar to the company's two-pronged approach in the coffee arena with its Starbucks and Seattle's Best cafes.

While the Starbucks cafes may serve as a blueprint for Teavana's growth, Schultz noted that coffee and tea have distinct cultures and that Teavana stores won't feel like the Starbucks cafes people are so familiar with.

Starbucks cafes, for example, are defined by their rush-hour bustle in the mornings. Tea shops have a more serene, cerebral feel. When walking into a Teavana store, Schultz said people feel as if they've "stepped into a shrine to tea."

Teavana shareholders will get $15.50 per share cash in the Starbucks deal, which is expected to close by the end of the year. Starbucks says it will add a penny per share to its 2013 earnings. Analyst Sozzi noted that the deal is an "opportunistic purchase" for Starbucks, since Teavana had its initial public offering last year with shares priced at $17.

Teavana shares jumped by $5.32, or 52.5 percent, to close at $15.45. Starbucks shares fell $1.47, or 2.9 percent, to $48.84.

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