

Premier Exhibitions

Symbol: PRXI

Tel: (404) 842-2600

Atlanta, GA

September 21, 2007

Exhibitions of preserved human bodies have been wildly successful, especially in American cities. Using an embalming process that replaces body fluids with plastic polymers, exhibitors peel away the skin to show the human anatomy. After more than ten years of tours, however, most major cities in American and around the world have already played host to a major body exhibit. As exhibits close in large cities, tours will be forced to move into locales with a considerably smaller population to draw from, which will make it much more difficult to maintain huge growth expectations built into Premier's stock price. The success of these exhibits has also attracted new competition in an industry that is surprisingly lightly regulated, making it easier for tours to blanket the market. Premier has boosted its number of body exhibitions to 11 from only three in the last two years, creating rapid revenue growth, and is now three times bigger than the next largest body exhibitor. To increase the number of tours so rapidly, however, Premier leased plastinated cadavers from a source in China that uses the bodies of unclaimed prisoners, which human rights groups say have often been executed under unjust circumstances. In spite of cheery guidance, insiders are heavy sellers. The company also has a history of related party transactions.

1. Premier Exhibition's stock trades at a valuation that discounts revenue growth from body exhibits into the hereafter. The company trades at 52x current earnings, 14x sales, and 15x book value.
2. One-time revenues have accounted for a good portion of trailing-12 month net income. About 34% of Premier's net income in February came from the gain on a sale to a related party. Without those items, Premier trades at 66x earnings, a price that is unsustainable without massive, growth.
3. About 80% of Premier's revenue comes from tours of plastinated cadavers. But, body shows have already visited 25 of the top 26 cities in the country. Body exhibits usually run for an average of six months, so Premier will soon leave Washington, D.C. and San Diego for much smaller cities or cities that have previously hosted a show.
4. As with all exhibits, attendance will soon wane as the public becomes saturated with the theme. In order to maintain growth – and its stock multiple – Premier will have to replace a wildly successful tour with an even hotter exhibit. This will be almost impossible – body tours have been four to five times better attended than even the most popular exhibits.
5. The company's stock price does not reflect the risk that human rights, ethical or health issues will close any of the tours or bar tours from new cities.
6. San Francisco has banned body tours, the medical board in Tampa voted to close a body exhibit, and the head of the anatomical board in New York say that Premier's flagship exhibit in the South Street Seaport violates public health codes.
7. A federal court has barred Premier from selling the artifacts from the Titanic, and a U.S. treaty could turn the site into a memorial and eliminate Premier's salvage rights.
8. Outside shareholders face significant dilution. Premier has 1.7 million warrants and 3.0 million stock options outstanding, which if exercised would dilute outside shareholders by 14%.
9. In July and August alone, insiders sold approximately 400,000 shares for \$6.7 million at an average price of \$16.80 per share.

Summary Company Data			
Stock price (9/21/07)	\$16.58	Price/Earnings, tl 12 mos	55.3 x
Common shares out	29.5 m	Price/Earnings, Core eps	66.3 x
Market capitalization	\$488.56 m	Price/Earnings, Current est	24.4 x
Shares closely held	3 %	Price/Sales, tl 12 mos	13.7 x
Potential dilution	9 %	Price/Book Value	14.6 x
Average daily volume	513.4 k	Book Value (tangible)	\$29.6 m
Estimated daily dollar vol	\$8.5 m	Short interest, May	4.5 %
Debt/Capital (tangible)	0 %	Short interest, June	6.2 %
Auditor:	Other	Short interest, July	12.4 %
Fiscal Year End:	February	Short interest, August	14.6 %



Company Description (from Hoover's)

It was on her maiden trip when an iceberg hit the ship, and Premier Exhibitions is here to tell the tale. The company owns [RMS Titanic](#), which salvages and displays artifacts from the doomed *Titanic* ocean liner, runs a touring *Titanic* exhibit, and sells *Titanic* merchandise. It is

considered the salvor-in-possession, or owner, of the wrecked ship. Premier's other exhibits include "Bodies...The Exhibition" and "Bodies Revealed", which showcase preserved bodies and more than 150 preserved organs and body parts in an educational setting. About 80% of sales come from human anatomy exhibitions; RMS Titanic is responsible for the remainder. Premier was created as a holding company in 2004 when it spun off RMS Titanic.

The Bull Story

The cadaver business is booming. Preserved body shows have been the hottest exhibits in American cities for the last several years, and Premier is one of the leading exhibitors. It has 11 shows in place, up from eight in the second quarter and three times as many as its leading competitor. Management says that 11 body exhibits that average 50,000 tickets per month for 11 months per year at an average price of \$20 per ticket will produce \$121 million in annual box office sales. Those revenues, and an additional \$8 million from the company's Titanic exhibits, could generate earnings-per-share of \$.68 giving the company stock a multiple of only 23x earnings for a rapidly growing concept. In addition, Premier owns the salvage rights to the Titanic, and the company's largest shareholder has said the artifacts from the ship could be worth billions.

Premier's Stock Price Already Reflects a Rapid Growth in Body Shows

The optimistic outlook for Premier Exhibitions appears to be more than discounted in its stock price, which has risen by 500% in the last few years. On reported fundamentals the company trades at 52x the current quarterly earnings annualized, 14x sales, and 15x book value. However, those earnings included \$1 million of one-time license fees to open foreign exhibitions and a large gain on a sale in the prior quarter. Without one-time income, Premier trades at 66x trailing 12-month earnings.

Premier's guidance is more encouraging. If Premier reaches its targeted earnings of \$.68 per share for FY08, the stock trades at 23x forward earnings. Even then, that multiple could be too high given that it's a growth multiple for a company with two divisions – its Titanic artifacts and Body exhibitions – that are either mature or in decline.

The stock has generated less excitement about the value of the artifacts that the company has exhumed from the Titanic site. A federal court has told the company that it can't sell the collection (see below.) It does own a small portion of the collection, the 1987 Titanic assets have a stated value of \$16 million, and the value of all the artifacts would seem to be worth at most \$71 million, which is the cost estimate that Premier had included in a 2004 filing with the court that will decide the value of its salvage rights. However, that amount is only about 15% of the company's current market value.

Premier Should Produce a Blockbuster Quarter – But Then What?

About 80% of Premier's revenues, and a greater portion of its net income, come from its exhibits of plastinated corpses. Plastination is a process that replaces the bodily fluids in cadavers with plastic polymers that turn a cadaver into a life-sized Barbie doll. The good news is that Premier has leased enough plastinated cadavers to run more body exhibits

simultaneously. It expanded to 11 body shows in the August quarter from eight in May, which should produce banner numbers for the just-ended period. Its announced schedule means that the company had approximately 820 body show days in the August quarter compared to 577 days in the prior quarter – a 42% increase. The 820 show days is also 58% increase over the same quarter a year-ago. After that, however, tours should end in two major cities – Arlington, VA (Washington D.C.) and San Diego, assuming that those tours last for the company’s average exhibit length of six months. Then Premier and its body show competitors will have to move to much smaller cities or cities that have already hosted an exhibit. Since 25 of the top 26 cities in the country have already played host to a body exhibit, four different body tour companies will compete for cities with much smaller population.

All body shows also still face the risk that they will either be barred from or closed in some cities. To date, medical, ethical and public health issues have had little impact, but that could change. Premier has come under attack from medical authorities in Florida and New York. One of Premier’s two permanent exhibitions – *BODIES...The Exhibit* at the South Street Seaport in New York City – has been criticized by the head of the Anatomical Committee of the New York Associated Medical Schools, who has compared Premier’s documentation of its corpses to the practices of *The Sopranos*. Because human cadavers in New York fall under the regulations of the Department of Health, he says that the exhibit violates codes that require a burial-transit permit and have a matching death certificate, among others (*Columbia News Service*, March 29, 2006.) This has become a controversial feature in other locales also – even prompting an attempted legislative ban in Washington State.

Body Exhibits Face Intense Cadaver Competition

In addition to less attractive venues, Premier could face increased competition from exhibitors. Sold out crowds for body shows across the country have not escaped the attention of budding P.T. Barnums. So far, Premier has run into direct competition in only one city, but four body companies now tour America.

Premier did not create the original plastinated cadaver concept. Its exhibits are copycats of shows created by the inventor of plastination, Gunther von Hagens. Plastination is a lengthy embalming process, taking up to a year before peeling the skin and slicing the corpse. Von Hagens, who emigrated from East Germany, had once split a plastinated pregnant woman in two and placed her on a Hamburg bus to promote a body exhibit, one of the reasons that body tours are more controversial in Europe. Von Hagen’s company – Plastination, Inc. – was the original body exhibitor with shows entitled “Body Worlds.” It began nine years ahead of Premier and has already exhibited in key cities across American, Europe and Asia: Chicago, L.A., Philadelphia, Tokyo, Vienna, Berlin, London, Seoul, Taipei, and Dallas, among others. In the United States, the top 10 SMSAs have been dominated by Body Worlds, which has held exhibits in 7 of the top 10 cities. In terms of market segment, Plastination dominated the non-profit museum sites, while Premier frequently takes temporary space in shopping centers. Since 1995, the Plastination tours have attracted 17 million people and grossed \$200 million. By comparison, Premier tours have attracted approximately 5 million.

With low barriers-to-entry, the success of the Plastination tours has attracted at least 6 other competitors worldwide, including “Body Exploration,” “The Universe Within,”

“Mysteries of the Human Body,” “The Amazing Human Body,” and “Bodies Human: Anatomy in Motion.” At least four of these companies will compete for attendance in smaller American cities.

So far, there has been little direct competition. Last year Plastination and Premier went head-to-head for the first time in Cleveland. Plastination ultimately beat Premier for the Great Lakes Science Center, but the confrontation led to lawsuits and counter-lawsuits.

Many Body Exhibits – Especially Premier – Use Unidentified Corpses From China

The darker side of body exhibits is that they use unidentified, unclaimed corpses, which could be executed Chinese prisoners. A year ago, the *New York Times* reported on the emerging underground market for corpses in China, finding that at least 10 body factories have opened in the last few years. The factories produce plastinated cadavers for body exhibits around the world.

China has already come under criticism from human rights activists for active underground trafficking of human organs. Those who are deeply familiar with human rights issues in China oppose those exhibits that use the bodies of prisoners. “Given the government’s track record on the treatment of prisoners, I find this exhibit deeply problematic,” said Sharon Hom, executive director of Human Rights in China (*New York Times*, November 18, 2005.)

After a torrent of articles in the Western press that documented abuses in the supply of organs for transplant, China finally admitted last fall that it harvested organs from executed prisoners, many of whom received a less than fair trial. With rampant stories of confessions based on torture, some experts believe that China conducts up to 80% of the world’s executions targeted often at religious dissidents such as the passivist Falun Gong. Some also say that prisoners have contributed up to 90% of the organs harvested in China (*Los Angeles Times*, November 18, 2006.)

The *New York Times* reporter went on to say, “Here in China, determining who is in the body business and where the bodies come from is not easy. Museums that hold body exhibitions in China say they have suddenly “forgotten” who supplied their bodies, police officials have regularly changed their stories about what they have done with bodies and even universities have confirmed and then denied the existence of body preservation operations on their campuses.”

Premier leases all of its corpses for \$5 million per year from Dalian Medical University and Dr. Sui Hongjin, who also rents bodies to other exhibitors. Dr. Hongjin was formerly general manager of the body factory for von Hagens and the Body Worlds tour until they had a falling out. The Laogai Research Foundation, a human-rights organization, has also implicated Dalian Medical in the use of prisoners for organ harvesting (*San Diego Union-Tribune*, May 24, 2007), which the Chinese government acknowledged this year.

Premier says that it has seen letters of assurance from the Chinese government that their bodies have been obtained legally – whatever that means. The original Body World tours say they use only cadavers with the consent of the deceased prior to their death.

Medical associations are also upset with body exhibits because they say the shows discourage donations to medical schools. Dr. Lynn Romrell, the executive director of the anatomical board in Florida, says that body donations in Florida had fallen by 25% after shows in Miami and Tampa.

As a result of ethical and legal issues, Premier and other body shows still face the risk of a delayed but critical regulatory response. Local governments may become more responsive to ethical and health concerns. After its experience with a Body Worlds exhibit, which among other things oozed liquified human fat, San Francisco banned body shows that could not provide a consent form for each cadaver.

The Titanic Has Limited Value to Premier

While Premier promotes itself as the salvor-in-possession for the Titanic and a major shareholder has talked about selling the artifacts for billions, the company appears to have a more modest asset from the wreck. Although the company is salvor-in-possession, the federal courts have not let it take title of artifacts from the Titanic except items extracted in 1987. The Fourth Circuit Court of Appeals ruled in February 2006 that Premier does not own the Titanic site or the 6,000 artifacts which the company has removed and valued at \$71 million in a court filing. Just last month, Premier bought a title to the Titanic artifacts from a London company that had insured the contents of the ship, but since Premier paid so little for these rights, they would seem to have questionable value.

One of the more bizarre episodes with the Titanic artifacts concerns an abrupt vote in 2002 by Premier's board of directors (the company was then known as RMS Titanic) to voluntarily surrender its rights to the Titanic. Unbeknownst to the public, a ship captained and crewed by four ex-Premier employees left England to visit the wreck with an underwater remote-operated vehicle on board their ship. One of the leaders of this expedition also ran Argosy International, a related party who would also sell treasure maps to Premier. If Premier had relinquished the salvage rights, then the first expedition to retrieve items from the site would have an exclusive claim to the ship and its contents without any prohibition against selling artifacts (*London Times*, May 1, 2004.) Unfortunately for the rogue ship, the court told Premier that it could not surrender a corporate asset – the salvage rights – without a vote of its shareholders.

The Federal Court of Appeals did affirm that Premier owns 1,800 artifacts from a 1987 expedition, but the company has valued those artifacts at only \$16 million. Both the salvage rights and the 1987 artifacts seem to have a value of only 17% of the company's market value.

On the other hand, Premier could lose its salvor-in-possession rights. Many view the Titanic site as an underwater memorial and have lobbied four governments to protect the site. Robert Ballard, who first discovered the site in 1985, sees the site as hallowed ground that has

been plundered by treasure seekers. He asked, "Would anyone have stolen wristwatches off the dead in the World Trade Center?" (*The Sunday Mail*, June 19, 2005.)

The United States and Britain – with Canada and France to follow – have signed an agreement that would classify the Titanic site as a grave and restrict the removal of artifacts. Congress needs to pass an accompanying bill to enact the law, but the State Department sent legislation to Congress last month to ratify the treaty, which would classify the site as an international maritime memorial.

Premier's Income is Laden with One-Time Revenues

In the last two years, Premier has restated its income, pushing expenses into prior quarters, and it has used one-time revenues, such as a one-time gain on the sale of salvage rights for another ship to a related party, to produce a good portion of reported income.

The RMS Carpathia is the ship that came to the Titanic's rescue in 1912 and was later sunk by the Germans in World War I. In 2000, Argosy International, run by a then employee of Premier, paid the British government 500 pounds for the rights to the Carpathia. Shortly thereafter, Argosy sold those rights to Premier for \$1.4 million. In February 2007, Premier sold then resold those rights to the Carpathia, which was rumored to have been carrying gold bullion to the United States from Britain, to another related party – its largest shareholder – for cash of \$500,000 and a \$2.5 million note. That sale created a gain of \$1.6 million and produced 34% of the company's pre-tax income in February.

In the May quarter, one-time license fees from opening two exhibits produced almost 20% of Premier's pre-tax income. Free cash flow has also depended on one-time events. In the same May quarter, reported free cash flow of \$2.5 million was comprised entirely of an increase of \$1.5 million in income taxes payable and \$1 million of one-time license fees. Premier is not audited by a Big Four auditor but instead uses Kempisty and Company, who has only one managing shareholder.

Management

Current management took control of the company in a 1999 hostile takeover. Management came from the performance industry – in particular, concert promoter SFX Entertainment, and later Clear Channel Communications.

Since then, management has been generous to insiders. Premier has 1.7 million warrants and 3.0 million stock options outstanding, which if exercised would dilute outside shareholders by 14%. With an average strike price of \$2.00, the options alone are worth \$40 million. The company has also issued a great deal of stock to fund company operations. In the last two years, the number of fully-diluted shares has grown by 37%. In FY07, net income rose by 40% year-over-year but earnings-per-share grew by only 26% due to the dilution from share issuance.

Premier has not been shy about entering into related party transactions. The company paid the CEO's wife \$404,000 in 2006 for consulting services and royalty payments. In 2005,

its largest shareholder sold his Nevada company to Premier for \$2.1 million. The Nevada company was apparently the entity that leases cadavers from Dalian Medical University Plastination Company. It is not clear why Premier went through an intermediary to pay an additional \$2.1 million for the right to rent bodies from Dalian, which it pays \$5 million per year.

In a shareholder lawsuit, the Fourth U.S. Circuit Court of Appeals said in March 2005 that it found evidence that company management “approved exorbitant salaries and bonuses for themselves.” One of the contentions had been that the company bought treasure maps from a related party – Argosy International again – for \$900,000 worth of stock. According to the complaint, the maps turned out to be worthless. Argosy is the same company that sold the Carpathia rights to Premier.

Premier is unusually secretive. Unlike Plastination with its Body Worlds exhibits, Premier does not release the attendance at its shows. Neither does it allow conference call transcripts at the traditional reporting websites, nor is there any transcript retained on its own site.

With such strong guidance for upcoming body exhibits, it’s surprising that insiders have been recent heavy sellers. In July and August alone, insiders sold approximately 400,000 shares for \$6.7 million at an average price of \$16.80 per share.

Catalysts

- Premier should be firing on all cylinders. With the number of body tour days jumping by 42% this quarter and three new tours opening, the company should produce a blowout quarter. But, its next quarter has scheduled much lower growth in tour days and could even show softer revenue growth if it moves into American cities with smaller populations, disappointing momentum investors.
- Given that the crowds for body tours will fade, Premier’s stock price depends heavily on the next tour concept. Since body tours have drawn four to five times the attendance at even the next most popular exhibits, it will be difficult for Premier to create a new tour with the same appeal. Announcement of the next Premier blockbuster exhibit idea could disappoint investors. Odds do not favor a repeat success.
- Policies and practices in China continue to receive extensive press coverage – most of it negative. If the body exhibits story attracts similar public interest, it could negatively impact Premier.