

Premier Exhibitions (PRXI) – Lots of Uncertainty; Not a Lot of Risk

Date: May 22, 2014

As I mentioned in [this note](#), I don't make a habit of writing about small cap companies with very little liquidity. This time I'm making an exception with a huge "flashing lights" warning – this stock trades \$35,000 in dollar volume per day. Buying or selling more than \$3,500 worth of this stock in a single day will likely move the market. So if you are inclined to take the risk, put the trade on in your PA, not your fund.

Below I present the investment case for Premier Exhibitions (PRXI) via excerpts from the April 22 shareholder call (read it in full [here](#)):

First, let me update you on the strategic alternatives process being pursued with JP Morgan. **Our Board, along with JPM, continues to review strategic alternatives.** As part of this process, our preliminary valuation work based on financial data provided to JP Morgan by Premier indicates that **our shares are trading at a discount to the intrinsic value of the cash flows from operations.** While no valuation from an investment bank is precise, the range of values being indicated by JP Morgans's preliminary valuation of Premier's operating business exceed the Company's current market capitalization before consideration for the value of the Titanic assets.

Buyside Notes: On an operating basis, PRXI shares are cheap. If you include the value of their exhibition assets, the shares are very, very cheap.

Premier owns a **unique, one-of-a kind collection of artifacts and intellectual property related to** the most iconic underwater wreck site in history. You are also aware that the auction process in 2012 did not yield a buyer for the collection. Without revisiting history, the process gave us great insight into the asset and the complexities involved in selling it. While the current market price for Premier's stock indicates investors have established a diminished value for the **Titanic assets, we remain confident that these assets hold tremendous value for shareholders.**

Buyside Notes: A 2009 appraisal done by the courts found the fair market value of the Titanic artifacts to be \$110,859,200 (see page 8 [here](#)). Management stated that the "value of the assets with the IP surrounding the collection is \$189 million" but that the \$189MM doesn't include "intellectual property that was obtained in the dive in 2010, [...] a database of information related to all the artifacts, all of the video, all the photography, all the passenger stories [...]."

Let's assume the low end is the right value. \$110MM doesn't include the "IP" nor does it include any appreciation since 2009, but let's use it. Now compare \$110MM to the current enterprise value of the Company, which is \$42MM. The difference between the value the market is assigning and the intrinsic value is a gaping \$68.7MM (note that in a sale, there will be tax implications so shareholders wouldn't realize the entire \$68.7MM but the point remains: based

on the assets alone, this Company is seriously undervalued).

Given the level of complexity in fully valuing all of the company's Titanic assets, **future attempts to monetize these assets will focus on a sale of Premier's RMST subsidiary. We believe this will allow the company to manage the tax implications associated with any proposed transaction and enable the company's shareholders to maximize the value of these assets.** Of course, any sale involving the Titanic assets would be subject to the court's oversight, as dictated by the covenants and conditions.

With that said, **we believe the value of the Titanic assets exceeds the current market value of the company.** We not only have an existing appraisal to support that claim but we are in the process of obtaining a current appraisal that we expect will also support this position.

Buyside Notes: Undervalued indeed. In 60-90 days, PRXI expects to have an updated current valuation (they have engaged the same appraisers – Zerler & Rogers – who appraised the assets for the court in 2009). This will be the first time the Company can reasonably estimate the combined value of the Titanic artifacts and their intellectual property.

[...] **there is no urgent need to sell the assets until an appropriate buyer steps forward willing to pay what the board feels is a fair price for the assets.** The best corollary I can provide is that of a trophy real estate asset. If the asset is currently producing positive cash flow, an owner of a trophy real estate asset would wait until a buyer stepped forward willing to pay an attractive price for the property. We believe our Titanic assets represent a trophy asset and, while we will continue to evaluate options to position RMST for sale at a fair price, we are not currently compelled to sell the assets until such time as a buyer appears that is willing to pay a fair price. Until then, the company will continue to exploit the assets through development of new attractions utilizing our unique intellectual property and expanding the contribution these assets make to the enterprise value of the company.

[...] the company is engaged in a process to **secure \$10 million in debt financing to support the company's growth initiatives.**

Buyside Notes: Why would they be raising recourse debt (recourse to the Company but ex-Titanic assets as those can't be encumbered) at mid-to-high teens interest rates? Is it because they see an opportunity to invest that capital at higher rates of return? Here's what Management wants to use the money for:

Refreshing Bodies and Titanic exhibitions in Las Vegas and on tour = \$2MM

Ice Age (deal closing with Fox) and another project = \$1.5MM

New content for NYC location = \$2.25MM

Strategic acquisitions of content = \$2MM - \$3MM

Develop digital infrastructure = \$1MM

Working capital to partner on new content opportunities = \$0.25MM - \$1.25MM

As CEO, I try to keep the business simple. Premier for the last few years has suffered from a revenue shortfall. We succeeded in reducing overhead by \$6 million and **our operations are**

about as lean as they can be if we ever hope to grow the company. We secured strong creative professionals through the AEI acquisition and the next two years will demonstrate the value these individuals bring to Premier. Tangible evidence of their value has already been evident through the **changed perceptions of Premier in the museum community and with the desire of content providers to work with Premier on new projects**. We have also created a **repeatable process for strategic growth initiatives**, such as new content, imposing a significant cost of capital and requiring a minimum IRR on all new projects. Overall, **our capital allocation decisions are driven by the probability analysis relating to the return of our capital. [...] without a high degree of certainty that we will succeed in recovering our invested capital on any project, we are unlikely to take the risk and pursue that opportunity.**

Buyside Notes: It appears that Management is focused on risk-adjusted IRR as they should be. Even though the anticipated \$10MM of new capital is expensive, it's going to be used to create value, not destroy it.

For **Fiscal '15**, which ends February 2015, we are anticipating **EBITDA of \$5.5 million**. For **Fiscal '16**, we are currently forecasting **EBITDA of \$17 million**. The key drivers of the growth from '15 to '16 are a full year of New York operations, the introduction of Ice Age and one other piece of new content, plus the continued success of our other permanent locations and consistent revenue from our existing exhibition content. While **Fiscal '17** is a long way off, our strategic plan calls for **\$18 million in EBITDA**. The main bridge from fiscal '16 to fiscal '17 is one additional piece of new content.

Buyside Notes: The projections above assume the Company successfully closes the \$10MM in financing and accomplishes the 6 initiatives listed above. Under these assumptions and **taking a 40% haircut to projected FY16 EBITDA, this Company is trading at 4x 2016 EBITDA.**

I believe that the business is much more viable today than it was in the past and I think it will be much more interesting to potential buyers.

Buyside Notes: While it's clear the current market price of PRXI is nowhere near its intrinsic value, it's unclear when the market will wake up and appropriately value this Company (this is not the first time a value analyst has noted the discrepancy). Some will read this and think to themselves, "Meh, I'll pass". But the savvy will immediately appreciate the investment for what it represents: **lots of uncertainty, very little risk. And these are the types of opportunities buysiders spend their careers trying to find.**