

Skate's Art Market Research

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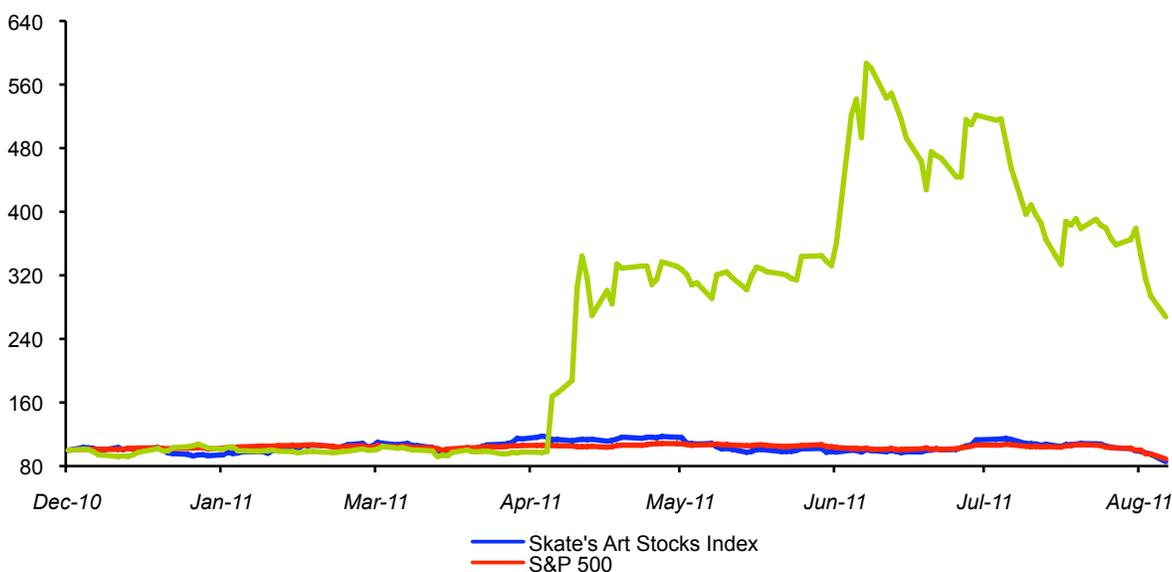
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Skate's Market Notes

Artprice's Share Re-pricing: Bubble or a Strong Investment Case in the Making?

For years at Skate's we have been consistently suspicious of Artprice, the French art market data provider and classified listing service for galleries ([click here](#) for Skate's coverage of Artprice). This summer, however, quite a few of our readers have contacted us to ask that we reconsider our views, citing spectacular share price performance and volumes dynamics at Artprice. They did have strong arguments to disagree with our skeptical view of Artprice, whose stock saw a massive upward re-pricing in early April from USD 11.70 on April 6 to USD 40.90 on April 13 (converted to USD from EUR, which is Artprice's base trading currency). It has remained at these new levels since then following yet another jump in late May (see performance chart below), with no correlation whatsoever with either the market's overall performance measured by the S&P 500 or with the industry as measured by Skate's Art Stock Index benchmark.

Exhibit 1 – Artprice versus Benchmark Indices



Source: Skate's Art Market Research

What is perhaps even more important is that the re-pricing occurred together with a massive surge in trading volumes that has made Artprice the second most actively traded stock in Skate's Art Stock Index (after Sotheby's) so far this year. Artprice's trading volume in the first seven months of the year has been greater than that of all the other Skate's Art Stock Index companies taken together with the exception of Sotheby's.

Exhibit 2 – Most Actively Traded Stocks in Skate's Art Stock Index, 7 months of 2011, USD (mln)

| Rank | Company | Volume, 7 months, USD mln |
|------|---------------------|---------------------------|
| 1 | Sotheby's | 5104 |
| 2 | Artprice | 755 |
| 3 | Collectors Universe | 70 |
| 4 | Stanley Gibbons | 32 |
| 5 | Shinwa Art Auction | 28 |

Source: Skate's Art Market Research

Whatever our coverage of Artprice has been to date, the truth is that now it is the second most liquid and by far the best performing stock in Skate's Art Stock Index so far this year. Based on the data, it would seem that our readers who like Artprice were right all along and that we were wrong in our failure to see the investment case for the French firm run by the flamboyant Thierry Ehrmann. The investment case was clearly the best in the global art industry, offering 230% YTD annualized returns to those investors who added Artprice to their portfolios last winter.

That said, our opinion remains unchanged. Artprice's performance this year suggests the presence of a speculative bubble that cannot be sustained. We became even more convinced when the firm released its six months financial report earlier this month. So what is happening behind the market frenzy?

First and foremost, Monsieur Ehrmann has been very skillful in drumming up investor confidence in Artprice's investment case over the last 12 months. His act took place in a series of carefully choreographed and meticulously timed public communications, and his colorful "French only" brush strokes painted a grand picture of Artprice as the art world's Facebook in making: born in France, unparalleled in content size and diversity, duly overweight in China and about to enter an explosive growth phase on the back of the French art market's liberalization. This stock market propaganda has been heavily focused on building anticipation for the French government's adoption of a new law liberalizing the art trade in France (including over electronic platforms), a law from which Artprice would stand to benefit greatly. When the government did adopt the law on July 7 (called *la Directive Service sur les ventes aux enchères d'Art*), Artprice kept the pressure on, suggesting that a massive change in art trading (and Artprice's economics) was about to happen.

One can almost see how French investors' souls were charmed by Ehrmann's colorful preaching. For most of last year Artprice published report after report highlighting the growth of China as a global art marketplace and underscoring the diminishing importance of France. In its annual report for 2010, as usual very light on financial data and bearing a closer resemblance to a lengthy Sunday op-ed essay, Artprice devoted considerable attention to the fact that in less than 45 years France went from first place to fourth in terms of global art trading volume, having been overtaken by China, the U.S. and the UK (currently the top three global art markets by volume according to Artprice). In line with French intellectual traditions of public debate, Monsieur Ehrmann vocally advocated for legislative changes that would allow for greater use of the internet in art buying and selling in order to stimulate volume increases and address the continuous fraud that has become the French art market's most notable malaise in recent years. Multiple scandals around local auctions selling fakes and misattributed artworks have abounded. The French needed to do something to reform their art market, and the legislature agreed to

advance the reform. As the evangelist of change, Ehrmann stood to benefit most from it through Artprice's increased revenues from servicing an increasingly transparent and electronic art trade. One week before Bastille Day, the national holiday that defines French liberty and enlightenment, Artprice published a statement where it called the adoption of the *la Directive Service sur les ventes aux enchères d'Art* a "vote of last chance for France" given the country's diminishing role on the public art market scene. In this context, buying Artprice's shares was almost presented as a duty for French citizens this summer.

This is all very charming, but is it really enough to assign a EUR 200 mln market capitalization (implied by the current stock price) to a company that barely made EUR 2.5 mln in sales in the first six months of the year, especially since this company does not grow and is still too shy to disclose its profits (or losses) or in fact any other financial information apart from its revenues?

One could call us at Skate's stubborn old conservatives who lack vision and passion for France (we would vigorously deny such assertions, by the way), but our answer to question above is a firm "No." Here is why:

- 1) Artprice's secrecy concerning its financial numbers demonstrates a lack of respect for its shareholders. The company lacks best practice corporate governance and does not meet the standard of a responsible public company. As such, it presents a great risk to its investors, as they do not know the firm's true financial condition, including basics like profits and losses, debt position and related parties transactions. None of these are disclosed.
- 2) Artprice's revenues, the only financial data published by the firm, are not impressive at all, falling well below revenues of its major rival artnet ([click here](#) for the latest Skate's report on artnet's six months financials for 2011). In fact, artnet's art market data segment continues to suffer from a dramatic decline in profitability and stagnating sales volumes, and all indications point to a similar trajectory for Artprice's financials.
- 3) Artprice does not have the functionality to commercialize a potential increase in online art dealing. Unlike artnet it has no online auction offering, and unlike VIP Art Fair it has no ability to charge dealers extra membership fees. Its strategic premise that art buyers and sellers would vet their online art transactions against a fee-based Artprice reference source is weak, as there are multiple free content alternatives available on the web. Artprice's specialty libraries and archives have limited commercial use.
- 4) Artprice is Thierry Ehrmann, and there is no management depth and no succession planning. This is a spectacular one-man show to watch and might indeed be a good buy as long as one understands that investing in Artprice shares is quite unlike a classic equity investment and more like the purchase of theatre tickets.

This year, Artprice share tickets paid handsome returns to those looking to be entertained by Ehrmann; whether the man has more tricks up his sleeve to please the audience members who bought Artprice shares at a revenue multiple of 40 this summer remains to be seen.

Skate's recommendation: sell or short Artprice now.

Exhibit 3 – Artprice Six Months 2011: Financial Disclosure (all financial data published as-is)

| CA en Keuros | 2T11 | 2T10 | Variation en % |
|-------------------------------|-------------|-------------|-----------------------|
| Internet | 921 | 918 | +1 |
| Indices et autres prestations | 81 | 77 | +5 |
| Edition | 0 | 3 | |
| Total 2ème Trimestre | 1002 | 998 | +1 |

| CA en Keuros | 1er semestre 2011 | 1er semestre 2010 | Variation en % |
|-------------------------------|--------------------------|--------------------------|-----------------------|
| Internet | 2365 | 2260 | +5 |
| Indices et autres prestations | 158 | 176 | -10 |
| Edition | 0 | 3 | |
| Total 2ème Trimestre | 2523 | 2439 | +3 |

Source: www.artprice.com, published on August 11, 2011