

Skate's Art Market Research

575 Broadway, 5th Floor, New York, NY 10012 USA /phone: +1.212.514.6010 /fax: +1.212.514.6037

Skate's Market Notes

August 12, 2010

Artprice Reports Strong Topline Growth on the Back of its Mobile Platform and Discloses New Litigation with Auctions

Artprice's Financial Information Continues to be Limited to its Revenue Numbers; No Balance Sheet, Cash Flow Statement, P&L or Auditor Report / Notes Published

Artprice, the French art market information provider, has disclosed its six months financial results for 2010, staying true to the signature Artprice financial data publishing fashion – four pages of words and three lines of numbers.

Artprice, which prides itself as the world leader in art market information and transparency, is very cagey about its own financials – the firm does not publish a balance sheet, cash flow statement, or notes to the financial statements, and its financial disclosure is limited to revenue numbers (with an essentially meaningless revenue breakdown and no costs and profits (losses) disclosed). No auditor statement, of course. The firm, however, provides several pages of French language prose to read on top of the laconic financial disclosure it makes.

Here is what we managed to learn from this eclectic set of financial statements:

Artprice versus Artnet: Better Trends but Smaller Numbers

Actual financial statements are published in Schedule 1 to this report; the revenue comparison to Artnet, Artprice's major competitor, is presented in Exhibit 1 (all values are presented in Euro, the primary reporting currency for both firms):

Exhibit 1. Artnet versus Artprice Revenues

Revenues, in '000 Euros	Q2 2010	Q1 2009	Change%	1H 2010	1H 2009	Change%	2009
Artprice	998	854	16.9%	2440	1985	22.9%	4864
Artnet	3519	3129	12.5%	6836	6387	7.0%	12219

Based on Artprice's reported financials, Artprice, has managed to grow its topline much quicker than Artnet beginning of this year, achieving 23% growth compared to Artnet's 7% growth.

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The difference has a lot to do with the first quarter performance for each of the firms. Artnet essentially started to see its revenues returning to pre-crisis levels from this spring only, while Artprice reported strong improvement of its topline after the first three months of the year.

However, even with such a significantly stronger revenue growth, Artprice remains much smaller (2.5 to 3 times depending on the metric) than Artnet. In the absence of any balance sheet or profit & loss statement from Artprice it is very difficult to justify, the reverse ratio of two firms' market capitalizations: on the day of Artprice's disclosure, it was valued at EUR 61M versus Artnet's market capitalization of EUR 28M.

We doubt the liquidity of Artprice's share price at the given market capitalization and believe that Artprice should trade with at least a 30% discount to Artnet.

Artnet has far more revenue and generally is a far more transparent organization than Artprice. Unlike Artnet, however, Artprice does not carry a loss making and capital consuming auction business in its product mix.

Therefore, while our target price of EUR 6.5 per share for Artnet (see report on Artnet six months financials at <http://www.skatepress.com/index.php?cat=104>) suggests almost a 25% premium to the current market price of Artnet, our revised target price for Artprice is EUR 3.9 per share (corresponding to a fair equity value of EUR 25M), which is more than twice below the current share price of EUR 9.3 per share based on Artprice's quotes in Paris.

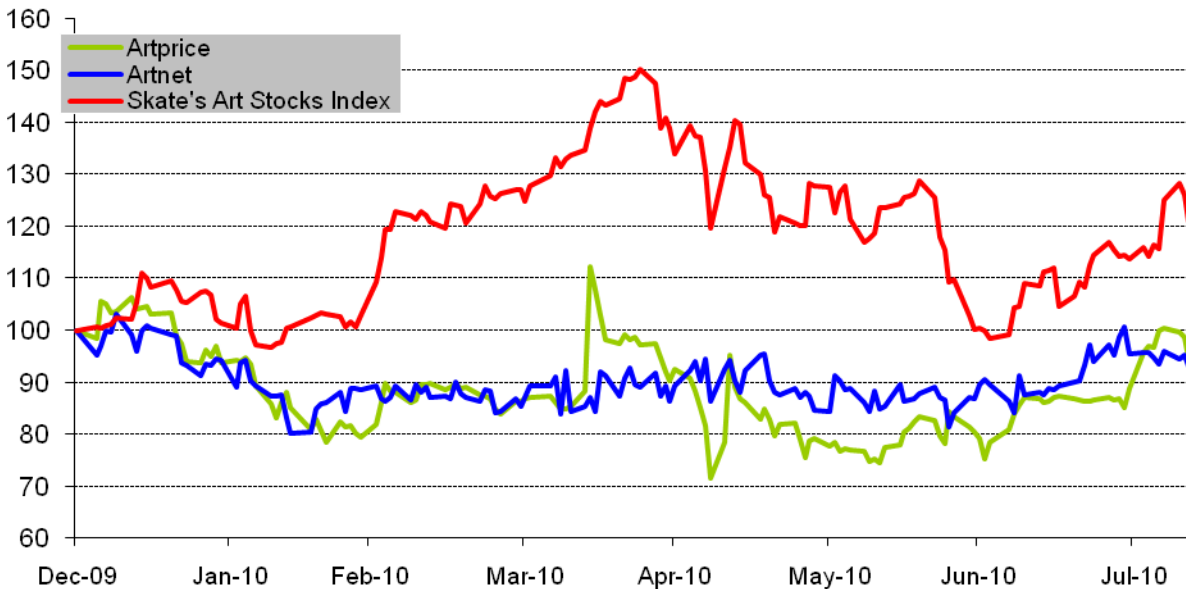
Artprice is a More Serious Threat to Artnet than it Seems

While it might be difficult to take Artprice's financials seriously, Artnet should pay attention to what Artprice says in its lengthy comments to its financial disclosure. Specifically, the Lyon-based firm claims that its strong topline growth is attributed to recently launched mobile version of the Artprice service, and which is available for all major mobile platforms, including iPad and Android. Artprice also emphasizes that its relationship with Google and Chinese Baidu helped to grow internet visibility and client acceptance worldwide. Unfortunately, Artprice provides no data to back this up, such as revenue breakdown by region or service usage by platform. However, this source of growth seems to us plausible, and it has definitely been neglected by Artnet, whose data business revenues continue to decline.

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Exhibit 2. Artnet, Artprice and Skate's Art Stocks Index Relative Performance, Year-to-Date



Also in our Artnet story (<http://www.skatepress.com/index.php?cat=104>), we have profiled the cannibalization of Artnet's core business (its Gallery Network) flowing from the multiple other avenues that galleries can use to market their inventory over the Internet. Artprice seems to be, perhaps, the most dedicated cannibal in that sense – according to its disclosure, it claims to serve 3600 auction houses / art dealers and 7400 art experts with its art listing services worldwide and prides itself for operating a “normalized art market” where it is not yet charging for facilitation of art market transactions. It remains to be seen what Artprice will do to monetize this – for now, it makes less than 50 euro cents on each of those 11,000 users per year and it seems to be no wonder that Artnet is now losing money on Gallery Network and facing declining revenues from what still remains its the largest business segment.

Artprice Conflicts with Auction Houses: Expanding, Damage not Clear Yet

Artprice's aggressive expansion in listing the art inventory of dealers and galleries sometimes proceeds in an unsolicited manner, which irritates major auction houses that see their catalogues being listed in Artprice's database.

First, there was a major litigation between Christie's and Artprice that erupted in Q1 of 2010 and now apparently has been either settled or suspended (based on the latest account, Christie's aimed to sue Artprice for EUR 63m). Now, Artprice included in its disclosure report

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that it is in litigation with five Paris based auction houses and dealers, including big names like l'Hôtel Drouot and SVV Artcurial Briest Poulain F. Tajan.

It would be really interesting to learn more of Artprice's litigation and settlement costs as well as all debts and payables outstanding; however, the firm is not disclosing information on any of its costs and liabilities. Instead, the financial statement gives a good lecture on the latest news on European art market regulation and complains again about France losing the third place in the world art market to China.

Sometimes, we wonder if Artprice actually has any other shareholders than Thierry Ehrmann (the company's founder and CEO) and his circle. And if it does, how long will happy shareholders of a public company like Artprice be satisfied with the firm's quarterly disclosure lacking financials and an auditor's report.

Schedule 1

Financial Statements Disclosed by Artprice (intentionally shown as-is)

CA consolidé deuxième trimestre 2010

Chiffre d'affaires en Keuros	2T 2010	2T 2009	Variation en %
Internet	918	755	+22
Indices et autres prestations	77	97	-21
Edition	3	2	50
Total 2ème Trimestre	998	854	+17

Chiffre d'affaires en Keuros	1er Semestre 2010	1er Semestre 2009	Variation en %
Internet	2 260	1 767	+28
Indices et autres prestations	176	212	-17
Edition	4	5	-20
Total 1er Semestre	2 440	1 985	+23

Source: www.artprice.com