

# artnet

For art's sake

Q1 figures

Media

The online element of the international fine art market has continued to appreciate in Q115, despite a duller auction market, and artnet's News platform has been building on the higher levels of interest. Revenues from advertising are growing strongly, with the relevant content and inventory attracting global luxury brands. Improvements to the user experience, with greater flexibility and personalisation, have yet to come through fully in the results from the other segments. With a more favourable currency position, we anticipate the group returning to profit in the current year.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	13.0	0.1	3.2	0.0	55.3	0.0
12/14	13.9	(0.6)	(14.1)	0.0	N/A	0.0
12/15e	15.5	0.3	3.0	0.0	59.0	0.0
12/16e	16.6	0.6	7.1	0.0	24.9	0.0

Note: \*PBT and EPS are normalised and fully diluted, excluding intangible amortisation, exceptional items and share-based payments.

## FY15: Art fair partnerships and forays to China

The redesigned website was launched a year ago in Q214, with the roll-out of additional new products and services set to be completed during FY15, delivering greater flexibility and value to users. artnet News content is helping to drive much higher numbers of page views and longer dwell times. The improved positioning and a more professional-looking offer should continue driving higher advertising, building on progress in Q115. Longer, in-depth articles and translation into Chinese will help reinforce the advertising proposition with global luxury brands. New partnerships with high-profile art fairs (TEFAF Maastricht and Frieze New York) are designed to help promote gallery membership in a competitive market, as well as reinforcing the artnet brand. Q115 figures have benefited from shifts in exchange rates, with flat revenues in US\$ translating to 21% revenue growth in the €, the reporting currency (and that of our forecast). We are modelling constant currency FY15 top-line growth of 11% and, more importantly, a return to profitability.

## Intended reporting change

A change to reporting policies means that, in future, advertising revenues will be apportioned to the activities from which they are derived, rather than as a separate entry across the group. artnet News will be identified as a distinct operation and our model will be adjusted in due course to reflect the presentational change.

## Valuation: Overshadowed

The share price came back sharply in March, with indications of an FY14 pre-tax loss of €0.6m and large exceptional items regarding provisions on a copyright case in France. It may take a while to rebuild market confidence, with the closing of the discount to quoted peers (currently trading on 2.4x EV/Revenue forward 12 months) dependent on improving performance and a return to profitability.

22 May 2015

**Price** €1.77

**Market cap** €10m

US\$0.887:€1

Net cash (€m) at end March 2015 0.16

Shares in issue 5.6m

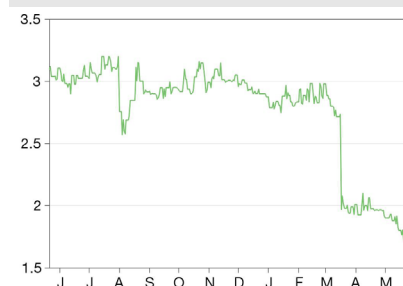
Free float 46%

Code ART

Primary exchange XETRA

Secondary exchange FRA

### Share price performance



% 1m 3m 12m

Abs (11.2) (38.3) (43.7)

Rel (local) (10.7) (42.5) (54.0)

52-week high/low €3.29 €1.77

### Business description

artnet is an online business offering an integrated range of information and transaction services in the fine art, design and decorative art markets. It has four divisions: Price Database, Galleries, Auctions and News.

### Next events

AGM 15 July 2015

Interim results 14 August 2015

Nine-month figures 13 November 2015

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## Forecast adjustments

We have adjusted our figures to reflect the publication of the full year 2014 accounts and the recent Q115 report. Our previous 2014 estimates showed an EBITDA loss broadly in line with that achieved, with interest payments and tax charge both ahead of our model. We have brought back our current year forecasts (in line with guidance) and have initiated projections for the following financial year, which are based on good growth in advertising and with the auctions business gaining traction, but with subdued progress in other segments. There should be improved efficiencies as the benefits accruing from the investment in the website and platform come through more strongly.

**Exhibit 1: Revisions to forecasts**

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2014	(6.3)	(14.1)	N/A	(0.4)	(0.6)	N/A	(0.3)	(0.3)	N/A
2015e	5.7	3.0	(47)	0.5	0.3	(40)	0.7	0.5	(29)
2016e	-	7.1	N/A	-	0.6	N/A	-	0.8	N/A

Source: Company accounts, Edison Investment Research. Note: 2014 new = actual.

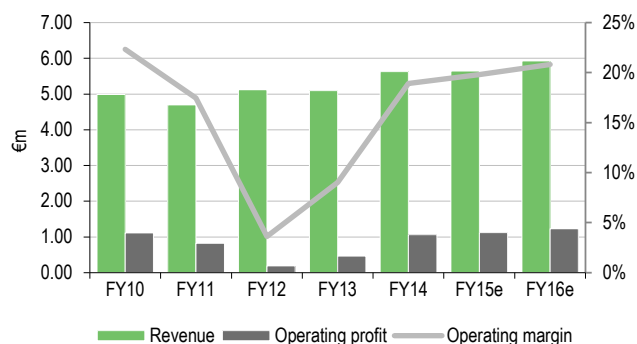
The exceptional costs taken in FY14 were:

- a provision for damages post the court case in France (and that impending in Germany) of €950k. This action had been successfully defended by artnet in the lower court and relates to copyright of auction house catalogue photographs;
- a currency adjustment for an intragroup liability following the significant depreciation of the euro against the US dollar in H214; this amounted to €0.3m;
- re-evaluation of deferred tax assets in light of the slower than anticipated rate of income growth. A non-cash item, this adjustment was €842k; and
- the full write-off of the capitalised development costs for artnet Analytics, a product that has underperformed management expectations, but is still anticipated to generate a return on a longer-term basis. The write-off was €537k.

## Divisional performance and prospects

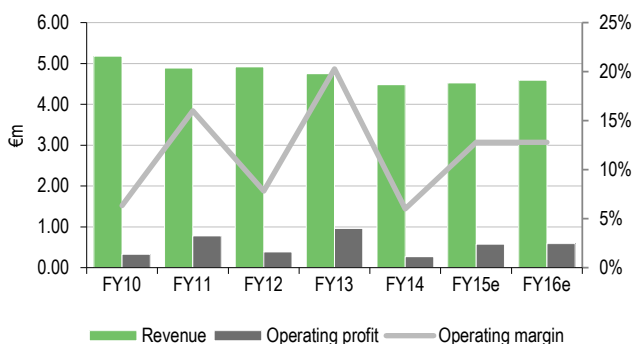
The comparative figures and projections by division will be changing once advertising revenues are reallocated to their core activities and artnet News will be represented as a distinct segment. For now, we continue to present the divisional split as reported.

**Exhibit 2: artnet price database key financials**



Source: Company accounts, Edison Investment Research

**Exhibit 3: artnet Galleries key financials**



Source: Company accounts, Edison Investment Research

## artnet price database (39.2% Q115 revenues)

The price database remains at the heart of the group's offer, containing details of over nine million lots from around the globe. The database's longevity and depth of detail give it market authority, particularly for its institutional clients – increasingly important where some market data are becoming more freely available. artnet achieved price increases in 2014 and, with improvements in personalisation and client dashboards currently being implemented, the benefits should come through in 2015 and 2016.

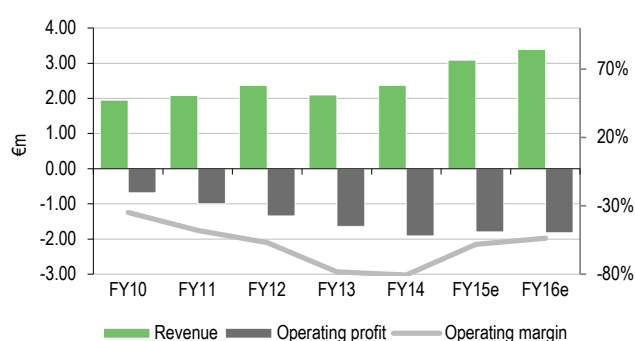
## artnet Gallery Network (29.0% Q115 revenues)

The group's FY14 report described growing market concentration among galleries and auction houses reducing the pool of potential members. Revenues in US dollars decreased by 12% y-o-y in Q115, with the reported increase attributable to currency. The rate of gallery membership cancellations has slowed, but recruitment of new members has underperformed internal targets. Work currently being implemented to improve the attraction and usefulness of the various gallery pages should help slow the attrition rate further, as well as attracting and engaging new audiences. The recent partnerships with TEFAF Maastricht (March 2015) and Frieze New York (May 2015) have given valuable endorsement and further similar collaborations are planned.

## artnet Auctions (17.1% Q115 revenues)

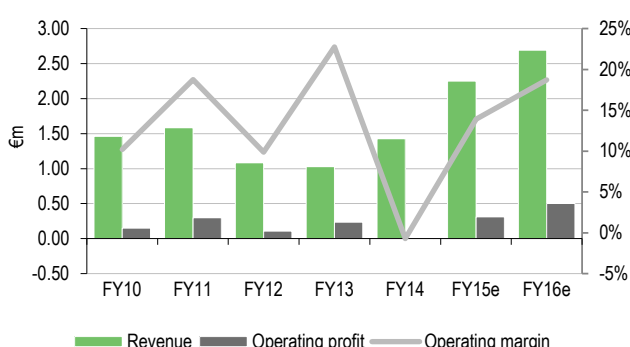
artnet Auctions has been deliberately moving up the scale of average lot pricing (artnet's average lot value rose 37% to \$9,578 in FY14), although Q115 average prices were flat. Euro divisional revenues were 4% lower in Q115, following FY14 growth of 13%, but average monthly revenues in the quarter were down 1.5% on FY14. Market acceptance of online transactions and auctions is now clearly established and this has been attracting new entrants. artnet has been working to improve and simplify its online process – particularly in reducing the registration hurdle – and is hopeful that this will also help drive the top line and move the division closer to delivering positive returns.

**Exhibit 4: artnet Auctions key financials**



Source: Company accounts, Edison Investment Research

**Exhibit 5: artnet Advertising key financials**



Source: Company accounts, Edison Investment Research

## artnet Advertising (14.7% FY14 revenues)

The launch of artnet News has been very successful at driving traffic to the redesigned website, with one million monthly visits achieved just four months after launch. The product now has much improved configuration for the advertising content, which is primarily from global luxury brands. The higher percentage of associated sales and marketing costs of establishing the positioning affected margin in FY14, but we expect the segment to start delivering meaningful profits from FY15 onwards.

## artnet News

The group has indicated that this segment will be reported separately in future. In the year since its launch, it has proved a strong attraction for driving traffic to the artnet website, underpinning the increase in advertising revenues. The addition of Chinese content and the partnerships with well-established international art fairs should help maintain the momentum. In the Q115 report, management states that its intention is that artnet News will be “financially self-sustaining by the end of the 2015 fiscal year”.

### Exhibit 6: Financial summary

	€m	2012	2013	2014	2015e	2016e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		13.49	12.97	13.91	15.50	16.60
Cost of Sales		(6.01)	(5.74)	(5.57)	(6.08)	(6.50)
Gross Profit		7.47	7.23	8.34	9.42	10.10
EBITDA		(0.16)	0.43	(0.31)	0.48	0.77
Operating Profit (before amort. and except.)		(0.50)	0.16	(0.44)	0.36	0.65
Intangible Amortisation		(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
Exceptionals		(0.63)	0.00	(1.49)	0.00	0.00
Other		(0.03)	0.08	0.00	0.00	0.00
Operating Profit		(1.32)	0.09	(2.08)	0.21	0.50
Net Interest		(0.04)	(0.05)	(0.12)	(0.10)	(0.03)
Profit Before Tax (norm)		(0.55)	0.11	(0.56)	0.27	0.62
Profit Before Tax (IFRS)		(1.37)	0.05	(2.20)	0.12	0.47
Tax		(0.02)	(0.00)	(0.85)	(0.10)	(0.22)
Profit After Tax (norm)		(0.60)	0.18	(1.41)	0.17	0.40
Profit After Tax (FRS 3)		(1.39)	0.04	(3.05)	0.02	0.25
Average Number of Shares Outstanding (m)		5.55	5.55	5.55	5.63	5.63
EPS - normalised (c)		(10.9)	3.2	(15.4)	3.0	7.1
EPS - normalised fully diluted (c)		(10.9)	3.2	(14.1)	3.0	7.1
EPS - (IFRS) (c)		(25.0)	0.7	(54.9)	0.4	4.5
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		55%	56%	60%	61%	61%
EBITDA Margin (%)		-1%	3%	-2%	3%	5%
Operating Margin (before GW and except.) (%)		-4%	1%	-3%	2%	4%
<b>BALANCE SHEET</b>						
Fixed Assets		3.77	3.58	2.33	2.36	2.31
Intangible Assets		1.00	1.18	0.65	0.76	0.80
Tangible Assets		2.48	2.13	1.36	1.27	1.18
Investments		0.29	0.28	0.32	0.32	0.32
Current Assets		2.23	2.46	2.29	2.10	2.35
Stocks		0.00	0.00	0.00	0.00	0.00
Debtors		0.92	0.63	0.82	0.91	0.98
Cash		0.75	1.53	1.18	0.90	1.08
Other		0.56	0.30	0.29	0.29	0.29
Current Liabilities		(3.07)	(2.85)	(4.30)	(4.48)	(4.50)
Creditors		(2.85)	(2.63)	(3.81)	(4.13)	(4.31)
Short term borrowings		(0.23)	(0.22)	(0.49)	(0.35)	(0.19)
Long Term Liabilities		(0.57)	(0.98)	(0.56)	(0.56)	(0.56)
Long term borrowings		(0.37)	(0.72)	(0.25)	(0.05)	(0.05)
Other long term liabilities		(0.20)	(0.26)	(0.31)	(0.51)	(0.51)
Net Assets		2.37	2.21	(0.22)	(0.57)	(0.40)
<b>CASH FLOW</b>						
Operating Cash Flow		(0.46)	0.83	(0.05)	0.63	0.90
Net Interest		(0.04)	(0.05)	(0.05)	(0.10)	(0.03)
Tax		(0.02)	(0.00)	(0.01)	(0.09)	(0.20)
Capex		(0.68)	(0.32)	(0.16)	(0.03)	(0.03)
Acquisitions/disposals		(0.68)	0.00	0.00	0.00	0.00
Other		0.01	(0.00)	(0.10)	(0.30)	(0.30)
Dividends		0.00	0.00	0.00	0.00	0.00
Net Cash Flow		(1.87)	0.46	(0.37)	0.11	0.34
Opening net debt/(cash)		(1.96)	(0.16)	(0.59)	(0.45)	(0.50)
HP finance leases initiated		0.00	0.00	0.23	0.00	0.00
Other		0.07	(0.03)	0.00	(0.06)	(0.00)
Closing net debt/(cash)		(0.16)	(0.59)	(0.45)	(0.50)	(0.84)

Source: Company accounts, Edison Investment Research

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