

Gaining luxury advertisers

Q215 results showed good progress expressed in euros, with the currency translation restraining reported performance in US dollars. artnet News is becoming well established as a prime source of market information, with monthly unique visits averaging 1.3 million over the first six months. It is expected to become self-sustaining by the year end. The higher traffic is helping drive advertising revenues from vendors of luxury goods, lifting the performance of the Gallery segment in both revenue and margin. Costs in H115 have been kept well under control and full-year guidance remains consistent with our projections.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	13.0	0.1	3.2	0.0	57.8	N/A
12/14	13.9	(0.6)	(14.1)	0.0	N/A	N/A
12/15e	15.5	0.3	3.0	0.0	61.7	N/A
12/16e	16.6	0.6	7.1	0.0	26.1	N/A

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

Currency moves boost reported revenue growth

The sharp movement in the exchange rate between the US dollar and the euro (average for 1 January to 30 June 2015 of 0.896 US\$/€ vs 0.729 in H114) has meant that a stable performance in dollars translates to a far greater rise in reported euro revenues. A focus on underlying general and administrative costs has improved the operating income from the Q1 loss of €140k to a positive return of €249k in the second quarter, giving an operating margin of 5.7%. Product development spend was reduced in Q2 after the heavier spend in Q1 on the Auctions platform and product pages. With this platform now better optimised, the focus shifts through the autumn onto growing the top line through an increased sales drive. The costs of this are reflected in our current forecasts, unchanged on the half-year results.

US art market outperforms

While the US art auction market performed well in H115, other territories have not matched the prior period. The latest Hiscox Online Art Trade Report shows the market growing strongly from \$1bn (estimated) in 2013 to \$2.64bn. Its projections show the value of the online segment reaching \$6.3bn in 2019. While this is still a small proportion of the overall market, industry scepticism is fading and new ventures (eg Sotheby's/eBay live auctions platform) are proliferating, with traditional auction houses also increasing their online marketing.

Valuation: Stable

The global quoted cohort of art-related stocks has performed very poorly to date in 2015, with the initial excitement of Etsy's flotation back in April quickly ebbing away. With artnet's return to profitability (post the heavy burden of exceptional costs in 2014) and with increased consistency in the investment story, its market valuation is looking more firmly underpinned.

artnet is a research client of Edison Investment Research Limited

Media

3 September 2015

Price €1.85

Market cap €10m

US\$0.901/€

Net cash (€m) at end June 2015 0.28

Shares in issue 5.6m

Free float 46%

Code ART

Primary exchange XETRA

Secondary exchange FRA

Share price performance



%	1m	3m	12m
Abs	(4.1)	2.7	(36.4)
Rel (local)	9.2	15.8	(39.8)

52-week high/low €3.16 €1.41

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 event

Nine-month report 13 November 2015

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Exhibit 1: Financial summary

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

Source: Company accounts, Edison Investment Research

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