

## **Artprice: Exclusive Interview with Thierry Ehrmann by Trading and IPO**

**Thierry Folcher, Founder of Trading and IPO:** My first question is... why in European equity markets, particularly in France, does Artprice trigger such irrational reflexes, both positive and negative? Some traders regard Artprice as some kind of magical stock that escapes the rules of technical analysis and common reasoning.

**Thierry Ehrmann, Founder and CEO of Artprice:** the story of Artprice is a story that has had a colossal impact on the Art Market. I remember the famous Art Market sociologist, Raymonde Moulin, who thirteen years ago explained to me that, whatever Artprice's fate, Artprice's existence had already had such an impact on the Art Market that turning back would be impossible.

It took me a number of years to understand exactly what the great Lady – who more or less invented art market sociology – really meant.

**Thierry Folcher:** What do you mean by “impossible to turn back”? Can you clarify this idea?

**Thierry Ehrmann:** For reasons of supply and demand as well as production techniques several centuries old, the art market was unknown to the general public in terms of information and the margins practiced by a large number of players (dealers, galleries, brokers, etc.) were generally charging more than 700% supported by a very high level of market opacity and the total absence of centralized global data.

**Thierry Folcher:** How could such a margin exist?

**Thierry Ehrmann:** In effect, that type of margin – in any sector– would almost certainly lead to accusations of criminal fraud or, in the best case, of willful misrepresentation.

The simplest explanation is that, among other factors, for centuries artworks such as oil paintings took months to produce and then months to dry. Today, in addition to acrylic paint that dries in one day, artists now have a whole range of methods derived from industrial and information technologies at their disposal, allowing them to significantly increase their production. As a result, today's art market can operate with more standard commercial margins reflecting the pace with which artworks are produced and exchanged.

Our databases contain biographical data for over a million artists who every year inject a considerable number of works into the art market.

**Thierry Folcher:** Why then do some Art Market players not take into account this revolution by trimming their surreal margins?

**Thierry Ehrmann:** You have just put your finger on the origin of the intense anger expressed against Artprice on stock market trading forums by Art Market players, posing as Artprice shareholders. In the past, dealers, brokers and market operators, primarily French, operated within a form of quasi-monopoly that allowed stratospheric margin (sometimes exceeding a coefficient of 10). Since 1556, for example, French auctioneers have functioned in a *de facto* monopoly that lasted for more than five centuries and created very strong addictions in terms of economic behavior, especially in such a closed environment where family transmission from generation to generation was standard practice.

I would however like to stress that 98% of the negative commentaries regarding Artprice come directly from the Paris market. This is very disappointing indeed: we work with 72 countries, with which we have never experienced any problems in nearly 27 years. In fact... only France has these kinds of monopolies... and look where France's art market is today... more or less ruined, with a 3% share of the global market.

**Thierry Folcher:** So some members of this “monopolistic corporation” consider Artprice as the cause of their fall?

**Thierry Ehrmann:** It’s much worse than that. Since the advent of two factors in particular, namely the 3 billion people worldwide connected to the Internet and mobile Internet (Gartner Group predicts 2.4 billion new connectors in 2014), some members of this corporation see their clients consulting the Artprice databases for price information, indices and statistics on the very place of their sales.

To illustrate... imagine a collector who has trusted a dealer for 20 years. He consults Artprice and realizes that his next acquisition is pure folly in terms of margin. So he goes home and intuitively checks his major acquisitions in recent years in Artprice’s databases. And that’s when the penny drops. Not only has he been the victim of willful misrepresentation (to say the least), but his social status as a collector has been undermined by expensive purchases over many years.

This example illustrates what amounts to a complete overturn of the existing status quo: our collector launches legal proceedings against his dealer and radically changes his purchasing behaviour by making Artprice his permanent reference.

**Thierry Folcher:** How is it that no-one else has tried to set up another Artprice in the 20th or 21st century?

**Thierry Ehrmann:** The reason is simple: to be a competitor to Artprice you would need, on the one hand, huge capital to purchase the main historical price quotation books, editorial archives, publishing companies, manuscripts and catalogues in different continents, and on the other hand, to perform over a million hours of work over almost 18 years to build and develop more than 120 databases that are protected in the United States, Europe and Asia by Intellectual Property rights covering both the content and its organization.

**Thierry Folcher:** If I follow your reasoning, Artprice has done that?

**Thierry Ehrmann:** Indeed; step by step that is what we have done. This daunting task could not be undertaken by just any industry because it requires – in addition to colossal investment – a passionate interest, an incredible amount of patience and, above all, an extraordinary level of determination to acquire art information throughout the world in all formats, whether it be publishing companies, editorial archives, manuscripts and catalogues, and then build up the databases that underpin Artprice’s standardized art information database. In effect, the combination of my legal training and my activity as an artist-sculptor for over 30 years has helped me to develop close exchanges with the art world. My retrospective exhibition (1982 - 2012) last year made me realize just how important this unique relationship has been for the development of Artprice as a business.

**Thierry Folcher:** Returning to my first question... how do you explain the persistence of certain criticism leveled against Artprice in France?

**Thierry Ehrmann:** The answer is very simple. Every day Artprice impacts hundreds of thousands of transactions in the world, particularly through its millions of members who constantly consult its databases to know the price of a work, understand its basis, and obtain transparent market statistics in a market which until recently was totally opaque, allowing certain players to accumulate immense fortunes.

Every day we are officially solicited via a multitude of letters rogatory and court requisitions from legal teams (operating in 70 different countries) working on cases relating to works of art and, of course, by Interpol.

Indeed, as we are the only organization capable of ensuring the perfect traceability of works of art over time, we are a veritable gold mine for legal departments around the world, a fact that helps to explain the blind hatred of certain people with regard to Artprice, particularly among a certain number of French operators whose indictment or status as assisted witnesses does not make things easier...

It is obvious that our impact on the art market significantly reduces the various forms of fraud and, believe me, there are lots.

**Thierry Folcher:** So Artprice destroys the sky-high margins of some... but are there also some positive impacts?

**Thierry Ehrmann:** Yes indeed; fortunately our business has a number of very positive consequences. In fact our comprehensive art market information has allowed some players to become very wealthy. I am currently in the process of collecting these stories for a forthcoming book I am writing about the secret workings of the art market which will include a chapter on this subject. Artprice is the global reference database with by far the most comprehensive information about artists and their works (past and present) all over the world and we also have a totally unique database for signatures and monograms which is automatically consulted at the beginning of any search involving a re-discovered art work.

**Thierry Folcher:** Why was Artprice the only company in the late 1990s to start this titanic task without any real competitor?

**Thierry Ehrmann:** The explanation is simple: the main operators were working on the assumption that collectors are people of a certain age who are rich, powerful and disdainful of computers, considering their time as valuable and therefore un-inclined to consult databases on the art market via the Internet.

For these operators, the transparency risk was limited to the price quotation books that gave a simple selection of auction results for just one year, without reproducing any pictures of the works involved. Moreover, no-one, apart from us, imagined that the number of people connected to Internet would soon exceed three billion.

**Thierry Folcher:** So, compared to that assumption, what is actually happening today?

**Thierry Ehrmann:** In 2013, with Artprice and an iPhone, iPad or an Android smartphone, in just a few seconds, for a few euros, the collector or art enthusiast has access, wherever he may be, to comprehensive information about an artist and the work he would like to acquire without the constraints of using a computer.

**Thierry Folcher:** I get the impression you are saying that the real revolution was not so much the advent of the Internet in the 2000s but rather the arrival of mobile Internet with smartphones and tablets?

**Thierry Ehrmann:** That's right; the Internet with its 50 million users worldwide in the early 2000s fuelled all kinds of speculative fantasies, but ultimately no-one expected that the tablet and smartphone would allow billions of people to connect to the Internet anywhere, without any computer knowledge in just a few years.

**Thierry Folcher:** So... do you see any other revolution on the horizon for 2014 - 2015?

**Thierry Ehrmann:** Yes. The technologies 4G, LTE (Long Term Evolution) and 4G + in Asia and the USA will revolutionize the Internet by allowing automatic payment and incredible connection speeds.

**Thierry Folcher:** What do you mean by “automatic payment”?

**Thierry Ehrmann:** Did you know that, according to several major research firms, in 2013 it takes a minimum of 14 minutes to buy information worth just a few dollars or euros? For example if you try to buy a press article in French or English costing between €1 and €5, you have to type in your name and address, your bank card details (number, expiry date, security code), and, since last year, to make matters worse, a security sms sent by the bank to type into the vendor site. The whole rigmarole is far too cumbersome!

**Thierry Folcher:** If I understand your reasoning, France’s Minitel in the 1980s, with its automatic kiosk system, was a futuristic experiment?

**Thierry Ehrmann:** Well in that respect yes. Joking aside, you are absolutely right. With the 4G kiosk, anyone will be able to consume paid information in just a few seconds and information will be automatically charged to his/her phone bill or company. Apple with its Apple Store has perfectly understood this. To understand how the current situation of purchasing information on the Internet is grotesque, I often invite my staff to imagine a situation, by analogy, where for each local or international telephone call they make, they would have to spend 14 minutes entering personal data and bank details before being able to place the call.

**Thierry Folcher:** The 4G and LTE kiosks... are they are adaptable to Artprice?

**Thierry Ehrmann:** Of course. In 1991, you could connect to Artprice via 3617 (FFr 5.57 per minute, i.e. with inflation, €1.20 / minute) and it generated a net margin of 45%, despite the fact that the data had no pictures or statistics and were not exhaustive.

**Thierry Folcher:** So it’s a case of “Back to the Future” then?

**Thierry Ehrmann:** In reality, from an IT point of view, the Minitel and the tablet are exactly the same. They are passive devices, without hard drives, functioning with operating systems that are insensitive to bugs and viruses and which allow access to information, such as that accumulated by Artprice, in just a few seconds, on ultra powerful servers that host all the IT, as in the case of Artprice, which has its own clean rooms and which operates on its own optical fiber network. The reality is that Internet commerce, whether for tangible goods or intangible services, represents such a percentage of the global economy that the banks, contrary to their best interests, sacrificed simplicity of payment via the kiosk system for a credit card payment system, with the whole rigmarole mentioned above, in an attempt to keep control over dematerialized transactions in the 21st century.

**Thierry Folcher:** So are the telecom operators going to take over online payments?

**Thierry Ehrmann:** It's obvious. They have proprietary engineering on their 4G networks that is ten times superior to that of a banking network of the credit card type, and they are looking for revenue on content with real added value. They will charge a commission of about 18 to 25% on a kiosk at €1 per minute. This commission will cover the payment service, its

promotion and the payment guarantee. And client anonymity, if desired, can also be guaranteed.

Eventually, kiosk revenue will become by far the largest revenue per user for telecom operators who need irreproachable and credible multi-lingual content. In fact, for telecom operators Artprice represents a perfect example of what they are looking for in the area of paid, irreproachable content... and available in seven languages including Mandarin, with a truly global market. With 4G kiosks, the operators will see a massive increase in net profits.

**Thierry Folcher:** You seem very sure about this new economic model...!

**Thierry Ehrmann :** Yes, because we are in exactly the same logic as when France Telecom, 33 years ago, did not have a kiosk system because the data flow on Minitel was too slow to bill customers on a per minute basis. This was the initial period of Minitel with 3614 involving tedious subscriptions... as we currently have on Internet.

In the second phase, France Telecom introduced a much faster data flow to the Minitel network via its professional subsidiary Transpac and switched to a kiosk mode which at the high end cost between €1 and €2.20 per minute.

Indeed, this was the origin of the fortune of our holding company Server Group which validated this economic model for 25 years in all the sectors of the economy in which our databases operated.

**Thierry Folcher:** Do you have any special relationships with 4G operators?

**Thierry Ehrmann:** We are fortunate to have, among others, Verizon USA, which is wired to our data centers' proprietary fiber optic networks. This is rare in France.

Verizon is launching in a 4G LTE network in New York and it worth noting that Verizon has the majority share of the market in New York State of and that New York represents, alone, more than 90% of American art market. I also invite you to an article published in *Les Echos* of 30 September 2013, whose title sums up Artprice's vision of the 4G revolution: "*In the United States, a real goose that lays golden eggs for operators*"... and the article starts with "*Americans spend almost twice as much as Europeans on their mobile subscriptions*".

**Thierry Folcher:** Does the 4G technology really work?

**Thierry Ehrmann:** Our tests, both in terms of speed and in terms of the analysis of Artprice clients connected via 4G to our databases, show that customers with connection speeds multiplied by 10 spend more time connected (average connection time) and are released by the kiosk system from the archaic payment method I have already described.

This is why I can state with the utmost certainty that we are only just at the very beginning of the digital economy over the Internet.

In 2015, we will be wondering: how did we put up with such a level of unparalleled stupidity in terms of payment?

And how did we live with such slow Internet speeds? It's difficult to imagine the extent to which the new Internet with its new protocols such as 4G, LTE and the new IPv6 standard will make the current period look completely *passé*. According to all the major research firms, there are 3 million people accessing Internet for the first time every day! No media in the world has ever experienced such phenomenal growth in such a short time.

**Thierry Folcher:** A lot of people still do not understand your assertion that Artprice is responsible for the standardization of the art market and therefore the owner of this standardization. Could you explain this concept in a simple way?

**Thierry Ehrmann:** It is true that in most economic sectors standardization is often associated with ISO standards or very sophisticated specifications. Artprice, simply put, after more than a million hours of work by art historians, researchers, editors and IT specialists managed to create a unique identifier per artist and a sort of registration card (by analogy ) for the artworks that determines their traceability and therefore their provenance. Unfortunately this daunting task, in accordance with accounting standards, is now recognized as an expense in the framework of prudential approach.

**Thierry Folcher:** So are you saying Artprice's balance sheet does accurately represent the economic reality of the company and could therefore mislead investors and shareholders?

**Thierry Ehrmann:** Indeed... the current chart of accounts for the financial statements of individual companies reflects the economic history of the twentieth century when intangible wealth was in its infancy and thus booked as an expense item. Today, enriched data (Artprice's raw material) is considered by all the major consultants like Roland Berger, Deloitte and Gartner Dataquest as becoming the principal source of wealth creation and profit in the 21st century.

Remember what Paul Getty said: that the petroleum of the 21st century would be intellectual property, and that is precisely the raw material that is at the heart of the Artprice's industry.

**Thierry Folcher:** There is a lot of argument and debate about Artprice's market capitalization – in both directions. What is your view?

**Thierry Ehrmann:** Once again, the people who criticize our market capitalization have a backward-looking approach. I could mention many companies, including some listed in France such as Genfit, Nicox, Carmat, ABScience that all have very strong capitalizations between €100 million and €500 million and turnovers of between €0 and €5 million, with annual recurring losses of more than €10 million on average.

These companies face a common industrial challenge, given their chronic losses, with the potential risk of not being able to raise the capital they need through capital increase. Nevertheless, their businesses are very courageous and necessary for the economy of the future.

**Thierry Folcher:** So you do consider Artprice as being comparable to these four companies?

**Thierry Ehrmann:** Not at all. While I deeply respect these four companies, I remind you that Artprice does not post any structural losses, has enjoyed capital growth without any capital increase since its IPO in 2000 and that its research and development had led to the normalization of the art market and therefore to a dominant position. Moreover, this position has been achieved in a perfectly lawful manner from a regulatory perspective – i.e. without any abuse of its position – and from the intellectual property perspective.

**Thierry Folcher:** So you consider that your capitalization is not representative of the true value of the company?

**Thierry Ehrmann:** It's obvious; our capitalization does not take into account a multitude of intangible and tangible resources that are perfectly real, highly sought-after and growing every day.

**Thierry Folcher:** Turning now to the art market which is the core of your business: what is your outlook?

**Thierry Ehrmann:** The first is democratization of the market. The number of collectors has grown from roughly half a million major collectors in the 1950s to over 70 million with investment capacities above \$1 million per year in the art market (excluding their business and real estate assets). In terms of global revenue, the art market has experienced exponential sales growth. I don't mind telling you that the major international banks and stock exchanges have all asking us to create derivative financial products based on our indices that are quoted every year in over 6,300 print, online and broadcast media. Similarly, there are lots of new art-based funds appearing and some are not small. In short, the financialization of the Art Market is indeed underway.

**Thierry Folcher:** How do you explain the fact that the art market is experiencing continuous growth, even in countries in recession?

**Thierry Ehrmann:** Over the last decade the democratization of art has been spectacular. Let me remind you that 51% of the world's artworks change hands for less than €1,500 and are therefore in direct competition with the luxury goods industry. However, a work of art appreciates in value over time, a rule which does not apply to luxury goods. Moreover, the art market is now universally recognized as a genuine safe haven in major economic crises.

**Thierry Folcher:** You often talk in your press releases about the phenomenal growth of museums in the world. Can you quantify the impact of this growth?

**Thierry Ehrmann:** Yes; I can confirm that more museums have opened over the last decade than during the entire 20th century, and that the number will nearly triple over the next ten year. You see, we have evolved from a situation of a cultural elite who visited museums to a situation of mass cultural tourism that affects hundreds of millions of people. The business press on all continents regularly comments on the double-digit growth of the museum industry, a rare growth rate these days, and this naturally has a positive impact on the art market by creating demand for new works for the museum's collections.

**Thierry Folcher:** To return to the Internet... the key word is Big Data . Where are you in this area?

**Thierry Ehrmann:** I invite you to read our regulated information releases in which, as early as 2005, we were already talking about storing and analyzing billions of client behavioral logs in full compliance with the European and American French legislation. This marketing term (Big Data) refers to the perfection of data mining which was only accessible to groups with powerful IT infrastructure, which is indeed our case.

**Thierry Folcher:** Are you still having problems with the French auction market supervisory body (the CVV)?

**Thierry Ehrmann:** Yes, our relations are difficult because the CVV has fuelled irrational fears regarding the Internet. We are regularly accused, along with Ebay, of being "Internet giants who mislead the consumer" which is a) absolutely false and b) has caused real material harm both vis-à-vis our clients and our shareholders.

In France, which represents less than 3% of the global market fine art auction market, the last thing we need is to be fighting a rearguard action when Asia's global market share has increased from 2% in 2000 to over 50% of this year, with China now accounting for over 41%. That's why we have decided to set up a permanent physical presence in Hong Kong and have developed long-term partnerships and alliances in both Singapore and China.

**Thierry Folcher:** Indeed, you often talk about the Asian market. Where are you in concrete terms?

**Thierry Ehrmann:** Greater Asia, including China, Taiwan, Singapore, South Korea and Indonesia, requires a very different cultural approach to that used in the West in terms of marketing and customer support and this logically requires management styles that are specific to the West and to Greater Asia.

**Thierry Folcher:** Could you be more clear?

**Thierry Ehrmann:** Greater Asia weighs currently accounts for more than 50% of global fine art auction turnover and by 2015 this share will be 70%. That said, we are talking about several million wealthy collectors who are new to collecting and who have a notion of the historical time scale that is very different to ours in the West.

As such, in collaboration with our partners, we have produced several digital and paper books such as “The collector's guide” co-edited with our long-time partner *Art Stage Singapore*. We did the same with our Chinese partner Artron.

These various works for Greater Asia represent advice about how to start and subsequently build up a collection of works. It is an educational approach that does not exist in the West and that will require time and resources. In exchange, we are certain of creating clients who will fully appreciate the usefulness of our databases and whose loyalty will only grow as they develop their collections.

**Thierry Folcher:** Do you consider that the auction brokerage arm of your Standardized Marketplace has not had the success you were expecting?

**Thierry Ehrmann:** The answer is complicated. The start-up exceeded our expectations in terms of the volume and quality of artworks. Unfortunately, on the very first day of its launch, the Conseil des Ventes Volontaires (CVV) issued a statement mentioning non-existent legal proceedings against us... which, to say the least, was a significant blow.

Moreover, Artprice's share price took a sharp dive in the minutes after the CVV's fictitious statement was issued. As I say, a most unfortunate turn of events... And the wound is still very present in our share price, particularly as it has been exacerbated by various interviews given by the CVV during 2013. (see *Les Echos* of 25 March 2013 ). And all this despite the fact that in order to meet the specifications of the law of 10 July 2011, we implemented a highly sophisticated infrastructure in which we forbid ourselves any form of intervention so as to satisfy the recommendations of the CVV.

**Thierry Folcher:** Your answer leaves me somewhat confused. Are you saying you are not interested in providing a service to your customers if the process is tedious and cumbersome. What exactly is your position?

**Thierry Ehrmann:** Our position is almost impossible because we built a perfect IT and legal structure resulting in 27 steps, but, under the Law of 10 July 2011, we are prohibited from any form of intervention or from giving advice to our customers and trusted third parties (escrow and release). The transfer of these works to the fixed-price arm of our Standardized Marketplace – which has experienced dramatic growth since its creation in 2005 – completely confirms these obstacles in all respects. Remember that we receive no commissions on the phenomenal reservoir of artworks that are bought and sold on our fixed-price Marketplace.

**Thierry Folcher:** At one point we saw a number of 7-digit bids placed on Artprice.com. What happened to them?



**Thierry Ehrmann:** Once again, faced with the specifications, the legislation and the CVV, the deals' protagonists (buyers and sellers) – who were well known in Asia – were subjected to constraints that for Asians, with their very developed culture of honor, were nothing short of humiliating. And that is why we eventually decided to withdraw all the works with 7-digits from the auction-brokerage site and not accept any others, in order to improve our chances of succeeding when our Asian equivalent of this auction-brokerage site is launched.

**Thierry Folcher:** So what is the solution... if there is one?

**Thierry Ehrmann:** We have to physically set up the entire infrastructure of the auction brokerage arm of our Standardized Marketplace at our Hong Kong offices with an autonomous jurisdiction that, under the laws in force, will allow us to operate an auction brokerage activity via internet perfectly lawfully.

Are you aware that the CVV is planning to introduce additional legislation (for the third time) during the fourth quarter of 2013 that will make it even more difficult for Internet operators? From an economic perspective, it is incomprehensible when we see the state of the French art market which, every year, is becoming increasingly marginalized on the global art map.

**Thierry Folcher:** So are you going to leave France?

**Thierry Ehrmann:** Put it this way... quite apart from any conflict that Artprice may be having in its home territory, it behoves any industrialist to move closer to the heart of his market, and, for us, that means Greater Asia, which accounts for 50% of the global art market today and 70% in 2015. France accounts for 3%.

We are not talking about relocation, but a carefully planned act of management, both for the company, its customers and its shareholders. The database activity will remain in France.

**Thierry Folcher:** Speaking of shareholders, there are rumors of a second stock market listing outside of France?

**Thierry Ehrmann:** In our capacity as the global leader in art market information, we have been penalized by ICE's successful takeover in the United States of the famous NYSE Euronext which has now been dismembered, leaving Euronext somewhat stranded with much reduced trading volumes and unable to find a buyer. Not even Deutsche Boerse is interested.

So, yes, we are seeking to optimize Artprice's capitalization on a financial market that meets our requirements and those of our shareholders. I invite you to consult a Reuters dispatch in which the CEO of Maurel & Prom, Mr Jean- Francois Henin, said "being listed in Paris is a handicap, especially when we are the only company in our industry. In London, everyone knows what we are talking about".

I fully appreciate his point of view, which perfectly describes the exact problems we have with Artprice's listing in Paris.

**Thierry Folcher:** Many people were surprised to see Amazon launch an art sales activity. What is your position?

**Thierry Ehrmann:** First, you need to understand that Jeff Bezos, Amazon's founder, only approaches mature markets to dematerialize them. In order to do this, Amazon needs to standardize its marketplace and provide the necessary information to buyers and sellers to promote the trust and confidence that is indispensable for the functioning of Amazon's digital economy.

For Artprice this represents a superb opportunity that we are developing with Amazon's APIs (application programming interface, open to software developers) in the form of products and services that will enhance the level of standardization, and the inclusion of Artprice data, which is unique in the world, will provide a high level of confidence for Amazon's commercial activity. Lastly, I would add that Amazon's initiative proves that we were right in believing that the art market was ready for dematerialization.

The Artprice logo will feature on Amazon APIs.

**Thierry Folcher:** What do you think then is the future for physical auction houses?

**Thierry Ehrmann:** Once again, it is clear we were on the right track long before anyone else: all the auction houses who hated or ignored Internet in the early 2000s are now the first to seek our assistance as they see the Internet becoming essential for their survival. Christie's CEO said recently that the middle market (i.e. artworks valued between €800 and €12,000) is migrating rapidly to the Internet.

According to our Statistics & Econometrics Department, this price segment (€800 to €12,000) represents 81% of the global art market and therefore a colossal potential for Artprice's Standardized Marketplace (the average price of artworks on Artprice is around €11,000).

**Thierry Folcher:** So, if I understand you correctly, the auction firms could finally see you as a partner rather than a competitor?

**Thierry Ehrmann:** Exactly. We are currently setting up colossal IT infrastructures that will enable the auction houses to conduct their entire sales process, from the catalogue to final adjudication, via a secure intranet. In addition, we are offering them lists of people who are looking for precisely the artist and/or the works that they are offering for sale, based on our behavioral analysis of our 2.3 million members.

**Thierry Folcher:** Where are you with your *Artprice Insider* social network? Has it been dropped?

**Thierry Ehrmann:** No, but we changed its development model by launching a Facebook-type open social network that allows us to capitalize on new customers in different languages, in countries with very strict internet communication barriers.

Subsequently, these new customers can access *Artprice Insider* with their true identity and a confidence rating and, between members, exchange ultra-sensitive information on the art market that cannot be communicated on a public network.

The delay in the development of this network has in fact been beneficial to us because we were able to include Twitter, which, for us, is mainly a tool intended for issuers of "primary news" such as news agencies, and Artprice is indeed an art market news agency.

Once again, patience must prevail over the temptation to generate publicity through bold but ultimately empty media announcements. And this is something our historical shareholders perfectly appreciate.

**Thierry Folcher:** At the beginning of this interview, you mentioned a radical change in the buying behavior of art collectors. Could you be more specific?

**Thierry Ehrmann:** It is clear that the purchasing behavior of collectors, both for amateurs and art market professional, is undergoing a historic transformation. The change began in the 1980s when buy orders at public auctions started arriving over the phone. Since then, auction room populations have gradually thinned out and phone orders became much more common.

By the 2000s, the major auctioneers were operating with an army of operators behind them taking telephone bids. Today, the Internet has supplanted the telephone and provides buyers with perfect reproductions of the works they are interested in, far superior in terms of views and picture quality than the picture in a paper catalogue. In addition, with Artprice, the buyer has all the necessary information in real time to form an objective opinion, similar to a qualified expert's, to determine the work's purchase or sale value and view its history in the sales room.

**Thierry Folcher:** So basically you are saying that physical sales facilities and then art galleries will gradually disappear, having migrated to the Internet?

**Thierry Ehrmann:** That's right. The major auctioneers are trying to sell or convert their massive physical sales rooms in the framework of the transfer their business to the Internet. Likewise, galleries are reducing their leases investing large sums to reach a wider customer base via internet and they can also display their entire stock online thereby expanding their offer. I am very surprised when I hear art market operators aged over 60 who tell us that their only solution is to migrate to the Internet, which for Artprice is excellent news, because a few years ago, the use of Internet-related information technology was very rare in the art world. Once again... patience is a virtue when the history of the art market is moving in your direction.

**Thierry Folcher:** Listening to you, I get the impression that there is no obstacle to Artprice. Is this really the case?

**Thierry Ehrmann:** If you want to talk about potential risks... over the last decade Artprice has overcome risks one by one. The worst of all was in the early 2000s when there was a very low rate of Internet connection among art market operators compared with other economic sectors.

I remember that a number of financial analysts and fund managers tried to tell me that less than 10% of global art market operators were connected to the Internet and that, at that rate, it would take at least 30 years to have get to a 90% connection rate.

History has decided otherwise, thanks to the mobile internet, tablets and smartphones, the penetration rate is already over 80% in 2013, a fact that completely changes the fundamentals of the global art market.

**Thierry Folcher:** In analyzing Artprice, the principal strength that makes it an unavoidable player in the art market is standardization. In this respect, how will the growth of the Internet impact standardization going forward? In other words... how can you be sure that your standard will prevail?

**Thierry Ehrmann :** Once again, its all a question of time. In 2003, we signed a partnership with Google and gradually released standardised data free of charge. This year, we are taking a huge leap forward by injecting 540 million standardized data in free access mode onto the Internet with Google and Baidu (China's leading search engine). We decided to offer freeware which consists of a proprietary software license distributed freely, but with certain usage limitations.

**Thierry Folcher:** So you have lost much of your pay data?

**Thierry Ehrmann:** Many people think that, and they take as an example the press, which has in fact never been good at knowing where to draw line between free information and paid information.

Artprice is very lucky in that auction results, indices and econometric statistics represent 20% of the total data; but without this information the other 80% of free data that standardizes the market loses its value.

Artprice's approach, which is to *not* lose revenue whilst distributing 80% of its data free, is a rare case among the different business models that can be found on Internet, including in the Press, which is still trying to achieve the right balance between free and paid data.

**Thierry Folcher:** Why not impose a tariff, even a very low one on your various products and services?

**Thierry Ehrmann:** This question keeps coming back; but, once again we must think in terms of a 21st century economy in which Artprice's proprietary data on its customer's behavior is undoubtedly its main asset and source of revenue.

Thus by distributing 80% of our products and services free, we record every day hundreds and sometimes thousands of new customers with their behavior, their favorite artists, their research logs and their collections. In fact, we consider that this information represents a daily creation of wealth; but for the accounting reasons mentioned earlier, these assets are not present in our balance sheets.

**Thierry Folcher:** Do you have an example of standardization on a specific economic sector, such as that practiced by Artprice on the art market?

**Thierry Ehrmann:** Two examples come to mind. First, British Railways which, by imposing the standard distance between the rails (track gauge) in England managed to impose the narrower gauge in Europe. Likewise, Thomas Edison, with his General Electric Company, imposed a number of major electricity standards.

On the automotive market, the arrival of the Argus-type newspapers (paper and online) has literally transformed the market for used vehicles. The Argus operates with exactly the same logic as Artprice in its field. Before its arrival, garages were charging phenomenal margins on used vehicles.

**Thierry Folcher:** Would it be appropriate to imagine an alliance or a friendly takeover of Artprice?

**Thierry Ehrmann:** We have talked a lot with the major Anglo-Saxon auction companies who realize that, despite their hundreds of years of existence and their financial resources, they are unable to acquire the culture and the understanding of the Internet to a satisfactory level. Indeed, if you look at the largest sectors of the economy, you will find that the majors of the old economy are all trying to acquire the global leaders in the digital economy.

That said, we have concrete offers from Asian partners which could be very interesting both for us and our shareholders. Again, coherent and sustainable offers take time to construct...

We should not forget that the Internet is still in its infancy, especially in terms of speed. In less than two years, very high speed internet for smartphones, tablets, televisions and video conferencing will be the basic package and will allow the delivery of new services that the general public has not even dreamt of. In this context, we have fixed ourselves a target of 10 million customers.

**Thierry Folcher:** In your opinion, how much of the global economy will pass through the Internet in 2015?

**Thierry Ehrmann:** Unquestionably, more than 50%. Do not forget that Pythagoras – one of the greatest philosophers – stated that everything can be translated into numbers, except the

emotions and the soul. Virtually all parts of the global economy are “dematerializable”; hence it is vital for Artprice to impose its standardization of the art market now. Those who imagine that Artprice’s quarterly financial statements are the only thing to watch are seriously mistaken.

Contrary to popular belief, stock market investment is a calculated bet on the future with an in-depth analysis of the industrial vision of the targeted company. When the market becomes aware of the wealth of Artprice, which is based on the history and the future of the art market – especially if we change continent – some will regret have jumped ship too early.

**Thierry Folcher:** I want to return to a recurring criticism of Artprice, namely its overall design; the website presentation seems to have evolved little.

**Thierry Ehrmann:** We are well aware of this criticism. The good news is that we have redesigned the entire fixed-price and auction-brokerage sections of our Standardized Marketplace as well various databases, with a very attractive design. The real reason for having waited so long is in fact revolutionary.

**Thierry Folcher:** What do you mean by “revolutionary”?

**Thierry Ehrmann:** For the latest version, we have made sure that, regardless of the which smartphone, tablet, operating system, including Android, iOS and Windows Phone – in fact nearly 3,000 versions altogether – Artprice users will have absolutely no need to download applications, as is currently the case.

Everything is written so that the Artprice user, whatever mobile Internet system he/she is using worldwide, will be able to connect to an optimized version of Artprice with very intuitive ergonomics. The future site is superb; but again, we needed time, especially to include the new payment methods such as the kiosk system of course, with the possibility of placing our databases at the heart of the 4G operator, without any hacking risk.

**Thierry Folcher:** With all these developments, can we hope to see Artprice in video format?

**Thierry Ehrmann:** Indeed, the explosion of bandwidth will allow us a real change with respect to video streaming in real time.

Artprice is fortunate to have a parent company that has two video production and editing studios that can make “ready-to-play” videos for television channels.

**Thierry Folcher:** will your customers and shareholders have to wait long to find out?

**Thierry Ehrmann:** Not at all! We will be introducing video as of the fourth quarter of 2013 and it will have additional functions that will radically change the art market.

**Thierry Folcher:** Speaking of the art market, a lot of people are surprised by its good health compared with that of the global economy. What is your view on this?

**Thierry Ehrmann:** The art market, which has tracked the S&P 500 (the main U.S. stock index) for years now, is experiencing continued growth with a very strong growth driver in Asia. There have never been so many international Contemporary art fairs, biennials and openings of large museum structures in the world. In fact, it is no exaggeration that every day of the year sees some major event in the global Art world.

Indeed there is no doubt in terms of the figures produced by our Statistics & Econometrics Department that markets and investors now see the art market as a real safe haven and, moreover, a market that is today sufficient liquid to allow rapid entry and exit.

**Thierry Folcher:** Is not the growth of the art market essentially driven by Contemporary art, which is inherently volatile?

**Thierry Ehrmann:** You are right about Contemporary art being the driver, but you are wrong about its volatility. That was true in the 1990s. But today, for the first time in the history of the art market, the Contemporary segment has overtaken the Modern and Old Masters segments in terms of turnover volumes and the number of works arriving on the market is staggering.

**Thierry Folcher:** Why do you think Contemporary art has taken off in such a big way?

**Thierry Ehrmann:** The most important factor is that from a macro-economic perspective, Contemporary art was previously considered volatile because the artist was alive and therefore capable of saturating the market.

Nowadays, art market operators and living artists have learned how to adapt very quickly supply to global demand. In effect, this rapid adaptation represents concrete proof that the art market, and all of its players, has become very mature in economic terms.

We process millions of artist's biographies covering four centuries of artistic creations, all bought and sold in auctions throughout the world or, in some cases, waiting to be sold on the basis of original documents or documents certified by the artists themselves, and we are regularly surprised by the biographies of young Contemporary artists with faultless CVs. In fact, the myth of the "cursed artist" is a thing of the past.

**Thierry Folcher:** Speaking of the art market boom, are you planning to introduce low cost access to your databases for amateurs?

**Thierry Ehrmann:** Yes, in addition to the 70 million "millionaire" collectors I mentioned earlier, there are now more than 250 million young art amateurs. In the United States, they are referred to as "beginners" or "art consumers". Obviously they need a very low cost access to our databases.

We are therefore planning a subscription for less than €5 deducted directly by the mobile operator on a monthly basis. Once again, European banks have been unable to offer us this very simple product although it concerns purely electronic data flows. Frankly, in the twenty-first century economy, I find that quite pathetic.

**Thierry Folcher:** You seem to consider the banks, and particularly the French banks, as the "laggards" of the digital economy.

**Thierry Ehrmann:** To illustrate what I mean, consider the announcement at the end of September 2013 by three major French banks, with tremendous fanfare, that they are going to release an electronic payment system equivalent to PayPal.

The problem is PayPal was founded in 1995, eighteen years before the French project, and has nearly 300 million customers, and Artprice has been a World Seller with Paypal for several years.

**Thierry Folcher:** To return to your auction-brokerage activity, how do you explain the fact that the major Auction Houses are raising their prices when Artprice charges almost a third of what they charge?

**Thierry Ehrmann:** Once again, this price differential needs a certain degree of interpretation. To start with, the major auction firms are laying off staff, selling off their physical sales

rooms, investing heavily in the migration to the Internet and suffering from a high level of unpaid bids.

I think that in the long run they are wrong to raise their tariffs because their intermediation margin with respect to buyer and seller fees is around 37% when we are at between 5 and 9%. Moreover, our auction brokerage service provides a guarantee that the seller will be paid via our trusted third party (escrow/release) system. So, in my view, these rising costs at auction firms represent an additional handicap in the digital economy.

**Thierry Folcher:** From what you are saying, the auction firms are heading for the wall. Are there studies that support this view?

**Thierry Ehrmann:** Yes, there are several. I recommend “The Death of Auction Houses” by Artemundi Global Fund with commentary by Art Media Agency. The title summarizes the situation quite succinctly...

**Thierry Folcher:** Speaking of margins, you often indicate that Artprice, with annual costs of roughly €5 million, is capable of generating up to €90 million in turnover. How is this possible without increasing your fixed costs?

**Thierry Ehrmann:** Artprice and its parent company Server Group have been in the economy of databases since 1985. The basic economic and industrial logic of the database industry is massive investment in the early years, both in terms of human cost and IT infrastructure.

As regards Artprice, for the same annual turnover, we have divided our workforce by three. We have also exceeded the threshold of one million hours of work by art historians, editors and IT specialists, and all of that has been now fully absorbed as an expense item.

In fact, our industry can be summed up very simply: when costs take the staircase, turnover takes the elevator.

The millions of additional subscribers that we hope to acquire will be extremely marginal in terms of additional costs, which essentially represent additional bandwidth and data storage. These requirements will probably add no more than 5-7% to our costs.

**Thierry Folcher:** I have heard it rumored that Artprice is thinking of setting up an online advertising sales agency. Is that true?

**Thierry Ehrmann:** Indeed, Artprice has traditionally built its business model around the notion of no online advertising as the group’s culture is not primarily to sell advertising space. That said, now that we are injecting hundreds of millions of critical data onto the Internet, Artprice has become completely unavoidable on the market. As a result numerous art market operators, mainly galleries and auction houses, have spontaneously asked us to create tailored campaigns for them.

So in 2014 we will create of an agency that will also offer short format videos. This change in our corporate culture is not a regression but rather a response to a natural demand without having to canvass our customers.

**Thierry Folcher:** Since the creation of Artprice, you have experienced difficult periods and other extremely buoyant periods like very few companies in Europe have experienced. Today, what assessment would you make of the past, and what do you expect in the future?

**Thierry Ehrmann** Before answering your question, I would like to tell you a very telling anecdote.

A few years ago, we received about ten requests per month to withdraw works of art sold at public auctions (and their corresponding hammer prices) from Artprice listings.

Today we have a full-time department managing dozens of permanent applications for withdrawals of artworks with their auction price results (or their unsold status) every day. Our answer is always the same: a categorical refusal because an auction sale conducted by an auction house, with its hammer price or unsold status (reserve price not reached), cannot be censored.

But the most interesting part is when we ask the applicant (usually one of the top global auction companies) why they leave the result visible on their website.

It transpires, and it is logical, that what bothers them is that Artprice keeps a record of the full traceability of artworks in the world, and they know that this sensitive information concerning their works will eventually come to light.

**Thierry Folcher:** I see... I detect a contradiction. Can you explain this?

**Thierry Ehrmann:** This is where the anecdote becomes very interesting. The applicant's response is always that the auction house, however well known it may be, is a minor problem whereas Artprice's notoriety is such that their future transactions on the "offending" work will be permanently affected by Artprice.

This illustrates what some call the "price of success". Here again, some people are very bitter about the fact that the permanent economic reality of their works sold or purchased at public auctions is tracked by Artprice. This point clearly explains the rage of some operators against Artprice, which constantly receives threats of all kinds. That said, it does not change our position.

Our position is admittedly legalistic and strict, but it is our business integrity that is at stake and that we wish to defend. In any case, the individual applicants can always take their works into the opaque market of private transactions conducted by galleries and art dealers.

**Thierry Folcher:** Returning now to the question of Artprice's share price. What advice would you give to Artprice shareholder today? What attitude should they adopt?

**Thierry Ehrmann:** First, I would take the time to analyze the IPO prospectus of 1999 and I would check to see if all the promises of development leading to a position of global leader in art market information have been fulfilled. How can you trust a listed company if it has not kept its promises for 14 years? It is the past which validates the future and we have far exceeded all our ambitious of 1999.

**Thierry Folcher:** Yes, it is true that you have gone beyond the promises outlined in that prospectus. But now you have adopted new challenges. What should an Artprice shareholder do?

**Thierry Ehrmann:** After checking the promises made in 1999, the current shareholder should perform an analysis to ensure that there is no real competitor on the heels of Artprice, which is the case, and which is supported by our software patents and other rights protecting the standardization of the art market and our databases. Next he should reflect upon the exponential growth of the art market in five continents of the globe.

In addition, he should take stock of the new art market reality, i.e. that its survival necessarily involves migration to the Internet. At the same time, he should look at the continual growth of the Internet, including the mobile Internet, to ensure that there is no technological barrier to Artprice, which is also the case.

Lastly – and this is a fundamental starting point – he should consult our official documentation registered with the French Financial Market Authority (AMF) and our regulated communications, which includes all our accounts and the legal structure of the



company, to confirm that Artprice has no debt of any kind whatsoever and has never used capital increases.

**Thierry Folcher:** OK, but right now, today, should he buy or sell?

**Thierry Ehrmann:** I have always been motivated by the idea of making my loyal shareholders as rich as possible. For them, and for my own personal satisfaction, I still work 70 hours a week with tremendous passion. Shareholders with a genuine stock market culture know that investment is not a game or a casino bet; it is a partnership over several years in which the shareholder, with access to our abundant regulated documentation, possesses a similar level of information to the members of our board of directors.

In this perspective, I believe Artprice will eventually make its loyal shareholders wealthy, as we have already done on two occasions by posting the best French stock market progression in all sectors of activity.

**Thierry Folcher:** Would you be willing to advance a price target for your shareholders?

**Thierry Ehrmann:** As I have already said, the majority of our intangible assets are perfectly real and have real market value. These assets are not included in Artprice's balance sheet.

In my view, shareholders can independently fix a target that corresponds to the reality of these assets and, most importantly, that corresponds to the very thorough and regulated information we disclose. Shareholders must understand that Artprice is unique in the world and indispensable even to its worst enemies who do not support art market transparency.

Considering that the art market is one of the oldest markets in the world, shareholders must be aware that Artprice – which was way ahead of the game by understanding the importance of the Internet for the art market – is today considered one of the pioneers of the Internet.

Lastly, in thousands of different printed and broadcast media around the world, Artprice is consistently cited as the source in 99% of the cases when figures concerning the art market, artists and their works are advanced.

**Thierry Folcher:** So despite the fall in value, shareholders should remain optimistic?

**Thierry Ehrmann:** As you know, the intervention of certain persons mentioned in this interview has consciously impacted Artprice's share price; but they will not have the last word because the direction of history is on our side, and the market, which operates without qualms or remorse, will crush them ruthlessly. A genuine stock market investor must be able to understand and verify the reasoning of a management team and disconnect from that element of the market seeking profits in a week or a day.

The shareholder must be proud to contribute to the development of Artprice, which let us not forget, is a veritable and undisputed global leader.

**Thierry Folcher:** Being a shareholder in a world leader is fine; but when will the share price truly reflect this world leader position?

**Thierry Ehrmann:** Few people are aware of exactly how much Artprice has definitively changed the art market, one of the oldest markets in the world.

As an Artprice shareholder, all you have to do is imagine 5 billion mobile Internet users connected by broadband in 2015, and then tell yourself that patience is the best quality for stock market success.

**Thierry Folcher:** What do you think is Artprice's "fair value" in terms of capitalization?

**Thierry Ehrmann:** One day, Artprice's market cap will approach €1 billion. In early 2012, before the intervention of the CVV, it was around €450 million. This estimate is not mine; it has been communicated to me on numerous occasions by major players in the art market who, more than anyone, are familiar with the real underbelly of this historic market.

One anecdote among many others summarizes the positions of these players. One day I was in Switzerland, at Art Basel, and one of the art market's biggest "market makers" took me to task. At the end of a heated discussion (to say the least), he abruptly told me that he is one of my major shareholders. His predator's logic is simple: what he loses on the erosion of art market margins will be very largely offset by what he gains on Artprice's share!

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*About Artprice :*

**Artprice is the global Leader in databank on Artprices and indices with more than 27 million indices and auction results covering more than 500,000 artists. Artprice Images® offers unlimited access to the largest Art Market resource in the world, a library of 108 million images or engravings of artworks from 1700 to the present day along with comments by Artprice's art historians. Artprice permanently enriches its databanks with information from 4,500 international auction houses and auctioneers and publishes a constant flow of art market trends for the main news agencies and 6,300 international written media. For its 2.3 million members (member log in), Artprice posts standardized adverts in what is today the world's leading Standardised Marketplace® for buying and selling works of art by private contract or at auctions -regulated by French law alinéas 2 et 3 de l'article L 321.3 du code du commerce.**

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