

Artprice: the art market disruptor; IPO of its subsidiary artmarket.com

A study by Tradingandipo.com

In the French electricity sector a “disrupteur” is a circuit breaker. In English, the verb to disrupt means to throw into turmoil or disorder, to upset, to disturb.

Over recent years, and within an astonishingly short timeframe, technological innovation and the Internet have triggered major upheavals of the established order of things with the emergence of new economic and social players that are today unavoidable global players. In many respects, the existence of these players looks like a logical – albeit accelerated – evolution in the direction that globalization has been heading for over a century. New vertical markets have appeared sweeping away or modifying the markets that served as their original foundation, generating unprecedented shareholder value in the process.

The Internet has profoundly modified global trade. Lots of firms that have been unwilling or unable to embrace the digital era have disappeared.

It is in fact impossible to resist the natural evolution of the economy and today's economy has become a “disruptive” economy. According to Clayton Christensen (1), Professor of Economics at Harvard Business School, capitalism is currently in the throes of a major and fundamental evolution. He first explored this theme in his book *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. The history of Kodak is an obvious example. With the arrival of digital photography, the company almost went under and only managed to escape bankruptcy by selling off its “Photos” activity *in extremis*, precisely the activity on which its reputation was originally founded.

To qualify as a “disruptor”, a firm needs to be subject to the laws of Robert Metcalfe (2) (founder of 3Com) and Gordon Earle Moore (3) simultaneously. According to Metcalfe the utility of a network is proportional to the squared number of its users, and according to Moore, the performance of IT tools is improving at an exponential rate (doubling every 18 months). The combination of these two laws allows the *disruptor* to reduce its operating costs over time on the back of the “ever-improving” performance of digital and IT tools, and thus to create more and more shareholder value. We will now analyze whether Artprice is a pure disruptor in the Art Market.

Economic systems evolve incrementally whereas technology evolves exponentially, becoming the primary fuel of disruptors. Disruption manifests itself via the imaginative will of its instigator to break through the conformism that sets in either by habit or by monopoly, or both. Technological change thus allows the materialization of disruptive projects. Thirty years ago, who would have thought that we would one day be able to perform stock market transactions from our homes in a fraction of a second?

Nowadays the natural targets for disruptors are activities that can be dematerialized, where service costs can be substantially reduced, particularly those costs related to intermediation. One of the most recent examples is Uber, which is completely modifying the urban transport and taxi sector and is today valued at over 17 billion dollars.

The profitability of such projects is facilitated by ever-diminishing operating costs resulting from the combined impact of the Metcalfe and Moore Laws. As a result, investment risks

are lower and profit targets are reached in much shorter timeframes. In this context, investor behavior follows a common-sense logic that favors disruptive projects at the expense of traditional ones, as the recent large-scale capital raising operations by Uber and Airbnb (4) have amply demonstrated. The high levels of market valuation reached by disruptive firms are therefore a perfectly understandable expression of this investment logic.

However, this logic does require a radical change in investment philosophy. Once obsessed with short-term profitability, capital is now targeting projects with the potential to create leaders that can generate very substantial profits in the medium to long term. The disruptor is an ideal and natural vehicle for this type of investment.

The disruptor short-circuits markets by placing demand in direct contact with supply. But to do so, the two sides of the market need to be standardized. The digital revolution and the Internet have allowed this standardization by offering an intuitively ergonomic environment that combines the description of the product or service with the necessary actions to complete the transaction. More importantly, the description and the actions are available in almost any language so that nationality is no longer a barrier to the market.

Through the capillarity of the Internet, these new players and these new networks and circuits have shown exponential growth rates. They ignore the notion of the Nation-State. The growth of the delocalized, dematerialized and virtual economy is giving birth to a common and unifying world. The driving forces of this evolution are global players like Artprice.

Social networks are an integral part of the disruptive economy and they play a decisive role by effectively acting as global advertising agencies for new services, concepts and ideas. Indeed, they act as unprecedented accelerators and are themselves disruptors.

There are plenty of other examples of disruptive activities: “crowdfunding” is a concept that is revolutionizing the banking sector by short-circuiting traditional calls to the market by banks and by considerably reducing the fees and commissions associated with such operations. Moreover, it gives donors freedom of choice by simultaneously offering a broad range of different projects. Crowdfunding offers a capital raising success potential proportional to the project’s global exposure and it attracts new investors precisely because of this unlimited horizon.

In the accommodation sector, the AirBnB website has challenged the historical players of the hotel sector by offering hundreds of thousands of short-term rental solutions all over the world at prices way below hotel tariffs, simply by bringing supply and demand into direct contact with each other on its website, and without the inertia and operating costs of a hotel group.

Every time a disruptor has appeared, the traditional players, disturbed by the sudden arrival of an unexpected competitor, put pressure on governments. They try to slow the development of the disruptor by calling for the adoption of restrictive regulations, or by initiating legal actions or by engaging in intensive lobbying in rear-guard actions that are more often than not lost before they even begin. Because as Clayton Christensen emphasized “disruption represents an irreversible transformation of capitalism”.

(1) Clayton Christensen, born in 1952, author of "The Innovator's Dilemma: when new technologies cause great firms to fall » In 2011, Forbes considered him "one of the most famous business theorists of the last fifty years".

(2) Robert Metcalfe, born in 1946, engineer and inventor of the Ethernet and founder of 3Com.

(3) Gordon Earle Moore, born in 1929, co-founder of Intel.

(4) Uber raised \$1.2 billion in June 2014 and Airbnb raised \$450 million in April 2014 with respective market valuations of \$17 billion and \$10 billion.

Trading and Ipo will analyse why Artprice is the disruptor of the Art Market ahead of the activation of artmarket.com. Trading and Ipo will conduct regular studies and analyses focused on the major disruptors of their respective sectors.

The art market has been a global market for centuries and ARTPRICE is, according to news agencies and the major references in the international media, the global leader in art market information. ARTPRICE permanently enriches its databanks with information from 4,500 partner auction operators and it publishes a constant stream of art market trends for the main news agencies and 7,200 print and audiovisual media organizations. ARTPRICE has 3.2 million free and paid subscribers, having adopted the freemium mode.

This digital model – which is experiencing very strong growth all over the world – is called "freemium". Much of the data is available free, but the value-added information is paid.

ARTPRICE's interim report on the art market, distributed by Agence France Presse (AFP) in August 2014, shows that the art market is booming. The title of the long press release by AFP summarizes the condition of the market, "Global art market: sales jump 17% in the first half of the year, to a new absolute record."

Trading And Ipo confronts the theories of Clayton Christensen with those of Thierry Ehrmann, CEO and founder of ARTPRICE, to confirm, point by point, ARTPRICE's position within the precepts of the "disruptive economy".

Trading And Ipo: According to Clayton Christensen, disruptive innovation is primarily a way of defining the transformation of a market. An innovation that is disruptive allows a whole new population of consumers at the bottom of a market access to a product or service that was historically only accessible to consumers with a lot of money or a lot of skill. How does ARTPRICE justify its position as a disruptor?

Thierry Ehrmann: ARTPRICE is exactly that: *the* disruptor of the Art Market. We went from 500,000 avid collectors of postwar art to 70 million professional and non-professional art consumers thanks to information instantly available online. ARTPRICE has by far the largest art market information database in the world and provides unlimited access for less than \$100 per year.

Trading And Ipo: According to Clayton Christensen, "the potential for the emergence of new companies of this type is substantial... and growing. Wherever there are activities that can dematerialized and reintermediated, there is room for new business models."

Thierry Ehrmann: That's exactly how ARTPRICE built its monopoly, in full respect of the law. We "standardized" 108 million works of art and more than a million artists with unique identifiers and perfect traceability, a task that involved over a million hours of work by art historians. The dominant disruptor cannot dematerialize and reintermediate without standardizing the market it wishes to monopolize. Once that was in place, it was easy for ARTPRICE to bring supply and demand into direct and ultra-rapid contact, either on its standardized fixed-price marketplace or on its standardized auction platform, allowing millions of people the opportunity to buy and sell artworks in just a fraction of a second.

Trading And Ipo: According to Clayton Christensen, "disruption helps new models to emerge and creates larger markets by making products and services cheaper and more accessible in markets that have been dominated by non-transparent oligopolies or companies that enjoy "status quo profits"". This involves a fundamental, radical and irreversible transformation of the capitalist system. "Disruptors are innovators seeking solutions to the problems they encounter."

Thierry Ehrmann: We were very lucky to arrive on an art market whose players, of all sizes, were still operating with nineteenth century practices with a high level of distrust for computers, no standardization whatsoever, opaque information closely guarded by a veritable caste, often with hidden agreements between them and incestuous relations with those in power. And that had been going on for more than five centuries. On top of that you had a large market of "willing victims" who would buy artworks at somewhere between 7 to 9 times the price paid by the seller. Now, with ARTPRICE and its capillarity on Internet via principally GOOGLE and subsequently BAIDU (number 1 in China) and BING (Microsoft), and after making 540 million data available online in six languages, the margins have mechanically collapsed. To summarize Clayton Christensen, we found "solutions to ancestral problems" via innovation.

Trading And Ipo: According to Clayton Christensen, "disruptive innovation is quickly becoming the cruel and brutal rule of capitalism." As a result of this new context, the companies and institutions of the "old economy" literally buckle under the weight of regulations, overhead expenses, the immediacy of the market, the financial results demanded by financial markets, the jobs that need to be maintained, etc. ... and try to pressurize governments to throw regulatory batons into the wheels of the disruptors, often with little or no effect, and above all, often increasing their exposure to long-term risk. They can also imitate the disruptors in an attempt to grab the remaining market shares with the hope of benefiting from the overall increase in the size of the market. As a last resort, they can buy up newcomers, if they can afford it, which is not always the case.

Thierry Ehrmann: Clayton Christensen's analysis applies to ARTPRICE in every respect. The old economy of the Art Market has launched nearly a hundred legal actions, all of them futile and some of them extremely vindictive. Our legal response was equally ruthless and much blood has been shed.... but you can't stop the train of history.

70% of the art market's players are dying, crushed by overhead costs, auction room closures, real estate costs... with thousands of employees being made redundant.

In France, the business community and the State have a visceral fear of disruption. This has been amply demonstrated in the telecom, hotel bookings and taxi sectors... amongst many others.

After 500 years of monopoly (since 1556 in fact), the old French art market appealed to the

legislator to pass reforms (2001) and then prompted the "reform of the reform" in 2012, under which, in 2014, they managed, quite simply, to get the term "online auction" banned from the Internet. In fact, they dreamed up practically everything possible and imaginable to kill off any kind of market disruption, which is why we are leaving for the United States (New York) via our subsidiary Artmarket.com, formerly Artprice Inc. / Sound View Press (1973).

Our strength is the full standardization of the Art Market across the entire value chain. This standardization is protected under intellectual property rights and is absolutely essential for dematerialization. After many years of under-valuation, we have decided to get the true value of our client base recognized via an IPO on the US market. We have a preference for the Nasdaq which incidentally has just crossed the 4,500 threshold. French accounting methodology is closely linked to the old economy. The concept of the digital economy is non-existent in France and hence an appropriate valuation in that country is impossible.

Trading And Ipo: ARTPRICE claims to have 3.2 million members and targets 12 million members. AirBnB claims 11 million members and its value exceeds \$10 billion. What is the difference between an AirBnB member and an ARTPRICE member?

Thierry Ehrmann: A huge difference: unlike an AirBnB member, an ARTPRICE member cannot be substituted by another member. In fact, ARTPRICE members are extremely well defined (qualified) from a commercial perspective (logs, Big Data) which allows us, in strict compliance with European and American legislation, to know what they are looking for, possess, or wish to sell in terms of art (fine art). Even if the leading three auction houses in the world combined their databases, they wouldn't be able to simultaneously achieve such a deep level of information or compete with the number of members that ARTPRICE has. To answer your question about a comparison with AirBnB, their members are substitutable because they are homogeneous. In the case of ARTPRICE, our members are not interchangeable because they are heterogeneous. It is therefore obvious that the value of ARTPRICE is much higher than that of AirBnB based on the specificity ("qualification") of its members.

Trading And Ipo: It may be helpful to briefly overview the two main activities of ARTPRICE's business: the first, that we are most familiar with, is that of providing all information regarding the art market, along with all indices, statistics and price levels; and the second axis is the Standardized Marketplace. Can we talk about the first historical activity?

Thierry Ehrmann: Yes, we come with a considerable advantage over a pure start-up because we have the position of world leader in art market information with over 3.2 million "qualified" members and more than 30 million indices and statistics. Moreover, we are the only group to produce highly reliable data covering a very broad input base with highly-targeted surveys. Our methodology is built around the analysis of repeat sales. This method consists in following the history of an artwork, leaving no room for doubt, and calculating its price index over time. Previously the main method used was the comparison method, which, in the Art Market, gives extremely poor results. To construct this perfectly legal monopoly, we had to buy almost all of the historical companies operating in the publishing sector of the Art Market, i.e. all the companies that produced the price guides, artists' biographies and descriptive catalogs (*catalogues raisonnés*) in Europe and the USA.

For example in the USA we acquired Sound View Press, America's leading publisher of art

price guides, artist biographies, including the famous *Who was Who in American Art*. Sound View Press, which includes forty funds, was created in 1973 by Peter Hastings Falk who is still with us today.

We also acquired the US fund *Signatures & Monograms* from Caplan & Creps and the American Bayer database on the Anglo-Saxon art market from 1700 to 1913.

In Europe, we acquired about thirty funds including the famous Enrique Mayer Guide (1962-1987), the H. Mireur Dictionary of Art Sales (1700-1900) and the Franck Van Wilder publications. We also purchased 450,000 manuscripts and auction catalogs that our historians have fully updated for 18 years by standardizing hundreds of millions of data. Today, after the work conducted by ARTPRICE, an artwork possesses a veritable I-D that allows it to participate in dematerialized trading because you can be certain that it is indeed what it pretends to be, which of course reflects exactly what Clayton Christensen said.

Trading And Ipo: Can you tell us now about your Standardized Marketplace, which, according to our analysis and research, was set up in 2004.

Thierry Ehrmann: Yes, since 2004, we have created and protected under Intellectual Property rights the first standardized fixed-price marketplace in the world via, on which, every day, buyers and sellers alike can find between 70,000 and 90,000 works of art with an average price of around \$11,000.

This standardized fixed-price marketplace was completely redesigned to be combined with our standardized auction marketplace that we launched in 2012 and which, the day it opened, had more than 500 million dollars' worth of artworks for sale. At that moment, the Council of Voluntary Sales, the French auction market authority that is strongly resisting the disruptive economy, gave a major press conference during which it indicated its intention to initiate a lawsuit against ARTPRICE for having launched its Standardized Auction Marketplace.

In the end, it turned out to be completely false and the Council of Voluntary Sales was forced to admit that there is no lawsuit against ARTPRICE. It's pathetic, but that is France.

Nevertheless, the Council of Voluntary Sales continued to harass ARTPRICE with recurrent public statements such as "the internet giants ARTPRICE and Ebay have created confusion among consumers", and this harassment has contributed to our decision, announced at ARTPRICE's AGM, to move our standardized fixed-price and standardized auction marketplaces to the United States. Between them, the Asia-Pacific region and United States account for more than 75% of the global art market, and we expect this figure to rise to 80% by 2015.

Trading And Ipo: Can you remind us of your share price when you launched your online standardized auction marketplace in January 2012?

Thierry Ehrmann: The market is highly instinctive and was paying a fair price. It reached EUR 67 after an increase of EUR 50 and four times the turnover of the entire freefloat of 63%, i.e. more than twice Artprice's entire capital. We therefore have an extremely reliable reference price and the market had priced in the reality of our online offer and not that of a business plan. This is why the IPO of **Artmarket.com** will use very real market data based on models that have already been validated. We believe we can offer, in the light of

independent studies, exponential growth, a perfectly legal monopoly on the standardization of art market data and the certainty that in 2012 we achieved our goal, a goal that was blocked by France's morbid fear of disruptors and particularly by the "non-transparent oligopolies earning privileged position profits" as described by Clayton Christensen.

Trading And Ipo: Do you see the IPO of Artmarket.com in New York as some kind of revenge?

Thierry Ehrmann: You cannot fight against fear and stupidity. I am pragmatic like most Americans, I go where the market goes and where the authorities allow me to do my business and where investors are willing to pay a fair market price. The market will be very happy to buy a phenomenal growth rate, as described by all the independent market research on Artprice, with the additional security of a world leader that has benchmarked all of its models and owns a perfectly legal monopoly built on innovation, hard work, external growth and intellectual property rights.

Trading And Ipo: **Artmarket.com** is obviously the ideal generic that all art and economics journals have dreamt of possessing. Is that because it refers to the Art Market?

Thierry Ehrmann: Yes, our acquisition of that name allows us to come up at the top of any Google search involving "Art Market" out of a total of 425 million results. Recall that Artprice's parent company Server Group, has been on the Internet since 1987 and we have always filed or acquired generic domain names. As a trained lawyer, I consider that a generic name does not infringe the rights of any third parties, wherever we may be in the world. I usually explain that Anglo-Saxon generic domain names are more powerful than global brand names that will inevitably encounter obstacles in certain countries. ARTPRICE has also blocked potential infringers by owning **Artmarket.net** that will be our dedicated intranet to the 4,500 Auction Houses that have been our partners for many years. **Artmarket.org** will publish news from our news agency **Art Market Insight**. These are key assets that are already generating a very substantial volume of traffic.

Trading And Ipo: Clayton Christensen describes how the disruptive economy is establishing itself as "the cruel and brutal rule of the continuity of capitalism." Can you explain the art market from that angle in a few words?

Thierry Ehrmann: I often say that the art market is like the financial market, but ten times more cruel and intelligent because its players have mastered all the rules of the financial markets since many of them started off in the financial sector. According to historians, the art market is the oldest market in the world.

Trading And Ipo: Why have you decided to move to New York?

Thierry Ehrmann: As I have warned and repeated continually for many years, France is losing its standing in the global art market. In 1950, France accounted for more than 50% of the global art. Today, according to our latest interim report on the global art market, it accounts for less than 4%. The Americans, who started from scratch, understood the only thing that needed to be understood: control of the global art market constitutes a powerful political objective – somewhere in the realm between earthly power and spiritual power – hence the fierce struggle which saw China overtake the United States in 2010. But the United States has managed, with a strong dose of patriotism, to react quickly and effectively to regain its leader position in the first half of 2014. The second half of the year

will no doubt see be a fierce battle between the USA and China.

Trading And Ipo: You are talking about America, but our question was really “why New York?”

Thierry Ehrmann: It's very simple; New York is the leading art marketplace in the world, ahead of Beijing, London and Hong Kong. In fact, 90% of the entire American art market changes hands in New York.

Trading And Ipo: In some interviews, particularly in the international press like *Time Magazine* and *Le Monde* in France, you were already talking a long time ago about a “*disruptive economy as a continuation of a capitalism that has merged its two main two main currents, the Rhineland current and the Anglo-Saxon current*”. Today, how do you react to a vision that has, in effect, become a doctrine?

Thierry Ehrmann: You can only understand the Internet (which we pioneered in France as of 1987) if you admit that we are facing a veritable paradigm. Based on this assumption, the Christensen doctrine becomes perfectly clear. In my view, in 2014 we have arrived at less than 10% of the history of the Internet. As a pioneer of the Internet in Europe, I see the internet as one of the most exciting engines for historical change that we have ever experienced. That's why we want to pursue the rest of this digital revolution in the USA.

Trading And Ipo: It has to be said that this cold and hard economic analysis leaves little room for emotion.

Thierry Ehrmann: That may be so, but do you know that aside from my role as CEO and founder of my industrial groups, I managed to organize a 30-year retrospective of my monumental sculptures (1982 to 2012) at the Contemporary art museum which I founded in Lyon, the *Musée l'Organe*, also known as *La Demeure du Chaos*, or, as the New York Times called it, the *Abode of Chaos*. So we can reconcile industry, finance and art... because art will always be the bridge between the material and the spiritual.

<http://www.tradingandipo.com>

About Artprice:

Artprice is the global leader in art price and art index databanks. It has over 30 million indices and auction results covering more than 500,000 artists around the world. Artprice Images(R) gives unlimited access to the largest Art Market resource in the world: a library of 108 million images or prints of artworks from the year 1700 to the present day, along with comments by Artprice's art historians.

Artprice permanently enriches its databanks with information from 4,500 auctioneers and it publishes a constant flow of art market trends for the world's principal news agencies and approximately 6,300 international press publications. For its 3,200,000 members (members log in), Artprice gives access to ads posted by members. This space represents the world's leading Standardised Marketplace® for buying and selling art. These sales take place under two systems: either fixed price sales or auction-sales (regulated by paragraphs 2 and 3 of Article L 321.3 of the French Code of Commerce).

Artprice is listed on the Euronext Paris SRD L.O. (Euroclear: 7478 - Bloomberg: PRC - Reuters: ARTF)

Press Releases:

http://serveur.serveur.com/press_release/pressreleaseen.htm

Discover the Alchemy and the universe of Artprice <http://web.artprice.com/video>, which headquarters are the famous Museum of Contemporary Art, the Abode of Chaos

<http://goo.gl/mwsqp>

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