

## Art Industry Investment Report

December 2009

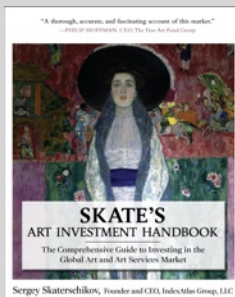
- Skate's Top 1000 Sees Big Changes
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Although the strong bull market in global equities through much of the late summer and early fall appears to have lost its steam, stocks are still generally strong. When combined with much better than expected recent employment numbers in the United States, their strength lends credence to the argument that economic recovery is real, however tenuous and slow the process may be.

For now, though, money supply remains quite loose and interest rates low, which means that inflation, while not presently a threat, could be

on horizon - especially in places like the United States where monetary policy remains exceptionally relaxed.

...which arguably goes a long way toward explaining the significantly stronger preference shown by collectors for older art this auction season. The jaw-dropping sale of Andy Warhol's *200 one dollar bills* notwithstanding, some of the strongest sales in November were of older art from the Impressionist and early Modern eras - works that may be seen as better positioned to hold their value over time.



### SKATE'S HOLIDAY PROMOTION! TEST YOUR ART MARKET KNOWLEDGE!

**McGraw-Hill and Skate's** Announce **Skate's Holiday Promotion - Test Your Art Market Knowledge and Win a Copy of SKATE'S ART INVESTMENT HANDBOOK: The Comprehensive Guide to Investing in the Global Art and Art Services Market**

**McGraw-Hill and Skate's Art Market Research** are pleased to announce Skate's Holiday Promotion, a 5-day contest beginning on Monday, December 14, 2009.

Each day from December 14-18, Skate's will post a question designed to test knowledge of the art market's premium segment. Participants who answer correctly will be entered in a drawing to receive one free copy of *Skate's Art Investment Handbook* for that day.

To view contest questions and obtain more information about Skate's Holiday Promotion, including special discounts available to participants, please visit <http://skatesartinvestment.com/promotion/>

Even works by the Old Masters, which were largely an afterthought during the boom years of 2005-2008, performed exceedingly well in early December. These sales will form a considerable part of the market analysis in our annual report for 2009, which will be published in mid-January 2010.

Aside from a flurry of activity in Skate's Top 1000, November was also a big month for Skate's Art Stocks Index, which resumed growth after showing a bit of weakness in October. Several of our constituent companies, most notably Sotheby's and Collectors Universe, performed quite well. Others, notably artnet and

Artprice, slipped following the publication of their nine months' reports.

\* \* \*

## Skate's Top 1000 Sees Big Changes

As we can see from Exhibit 1 below, November was a busy month for Skate's Top 1000. With a total of nineteen new entrants making their way into the ranking, the threshold price has increased to USD 5,813,178. This activity was in line with our early November forecast of at least sixteen new entrants to Skate's Top 1000.

### Exhibit 1 – Skate's Top 1000 Entrants – November 2009

Top 1000 Rank	Artist	Title	Year of Creation	Auction House	Date of Auction	Low Estimate, USD	High Estimate, USD	Purchase Price, USD*
26	Andy Warhol	200 one dollar bills	1962	Sotheby's	11-Nov-09	8,000,000	12,000,000	43,762,500
153	Alberto Giacometti	L'homme qui chavire	1947	Sotheby's	04-Nov-09	8,000,000	12,000,000	19,346,500
270	André Derain	Barques au port de collioure	1905	Sotheby's	04-Nov-09	6,000,000	8,000,000	14,082,500
278	Kees van Dongen	Jeune Arabe	1910-1911	Sotheby's	04-Nov-09	7,000,000	9,000,000	13,802,500
402	Edgar Degas	Danseuses	1896	Christie's	03-Nov-09	7,000,000	9,000,000	10,722,500
413	Wassily Kandinsky	Krass und mild	1932	Sotheby's	04-Nov-09	6,000,000	8,000,000	10,610,500
420	Pablo Picasso	Buste D'Homme	1969	Sotheby's	04-Nov-09	8,000,000	12,000,000	10,386,500
433	Peter Doig	Reflection (What does your soul look like)	1959	Christie's	10-Nov-09	4,000,000	6,000,000	10,162,500
549	Jasper Johns	Gray numbers	1957	Sotheby's	11-Nov-09	5,000,000	7,000,000	8,706,500
608	Pablo Picasso	Femme au chapeau vert	1947	Sotheby's	04-Nov-09	4,000,000	6,000,000	8,146,500
652	Fu Baoshi	Landscape Inspired by Dufu's Poetic Sentiments	1944	Christie's	29-Nov-09			7,780,105
770	Camille Pissarro	Le Pont Boieldieu et la gare d'Orléans, Rouen, matin, cinq heures	1898	Sotheby's	04-Nov-09	2,000,000	3,000,000	7,026,500
883	Auguste Rodin	Le Baiser, moyen modèle dit "Taille de la Porte" (modèle avec base simplifiée)		Christie's	03-Nov-09	1,500,000	2,000,000	6,354,500
903	Pablo Picasso	Claude a deux ans	1949	Sotheby's	04-Nov-09	5,000,000	7,000,000	6,242,500
931	Jean Dubuffet	Trinité-Champs-Élysées	1961	Sotheby's	11-Nov-09	4,000,000	6,000,000	6,130,500
932	Willem de Kooning	Untitled XV	1977	Sotheby's	11-Nov-09	5,000,000	7,000,000	6,130,500
933	Andy Warhol	Self-portrait	1965	Sotheby's	11-Nov-09	1,000,000	1,500,000	6,130,500
957	Ren Renfa	Five Drunken Kings Return on Horses		Christie's	29-Nov-09	648,126	777,751	6,037,942
987	Chu Teh-Chun (Zhu Degun)	Vertige Neigeux	1990-1999	Christie's	29-Nov-09			5,892,762

Source: Sothebys.com and Christies.com

\*Includes buyer's premium

The biggest news-generating sale was, of course, the phenomenal performance of Andy Warhol's *200 one dollar bills* at Sotheby's on November 11. With an original high estimate of USD 12 million, the USD 43.7 million means that mid-range expectations were exceeded by more than four times. The sale was also significant given that it was a repeat sale that generated an extraordinarily good return for the seller (see more on repeat sales below).

Sotheby's November 11 evening sale also saw another Warhol work - *Self-portrait* - unexpectedly enter Skate's Top 1000. Its USD 6.1 million sale price exceeded the auction house's high estimate of USD 1.5 million by more than four times. The sixth most valuable artist in Skate's Top 1000, Warhol currently has forty-three works in the ranking with an average value of USD 12,537,342 and a total market capitalization of USD 539,105,728.

As impressive as these Warhol sales were, the strongest action was seen in the auctions of Impressionist & Modern Art held by Christie's and Sotheby's on November 3-4. Just over half of the new entrants to Skate's Top 1000 in November - ten works in total - came from these two days of sales. All of these works save for two - Pablo Picasso's *Buste D'Homme* and *Claude a deux ans* - sold comfortably above the auction houses' high estimates.

One of the biggest surprises was the USD 19.3 million sale of Alberto Giacometti's *L'homme qui chavire*. The surprise came from the fact that the previous record sale (for USD 18.5 million) of that work took place amid the height of the market boom in May 2007 (see discussion on repeat sales below).

André Derain has only seen a few major auction sales since the June 1989 sale of *Bateaux dans le port, Collioure*. On November 4, Sotheby's fetched an amazing USD 14 million for *Barques au port de Collioure* - more than USD 6 million above the work's high estimate.

Although Andy Warhol was obviously the star when it came to sales of Post-War & Contemporary Art, other works also performed quite well. In every case save for Willem de

Kooning's *Untitled XV*, the sale price exceeded the high estimate.

Apart from Warhol, the sale of Peter Doig's *Reflection (What does your soul look like)* was the strongest in the Post-War & Contemporary category. Selling for USD 10.1 million, it beat Christie's high estimate by just over USD 4 million and represents Doig's most valuable sale since *White Canoe* was sold for USD 11.2 million in February 2007.

### Christie's Chinese Sale Beats Estimates

Particularly surprising in November were the sales of works at Christie's five-day sale of Asian Contemporary Art & Chinese 20th Century Art. Given the lack of pre-auction estimates for many of these works, as well as fact that Christie's only recently published auction catalogues, Skate's had not forecasted any new Top 1000 entrants from this sale.

The top-selling work was Fu Baoshi's *Landscape Inspired by Dufu's Poetic Sentiments*, which sold for nearly USD 7.8 million and now occupies the 652nd place in Skate's Top 1000.

The only entrant to Skate's Top 1000 from the sale that had been assigned a pre-auction estimate by Christie's was Ren Renfa's *Five Drunken Kings Return on Horses*, which sold for an astounding USD 6 million - almost eight times the auction house's high estimate of USD 777,751!

Finally, Chu Teh-Chun (Zhu Dequn) just barely made it into the ranking with the sale of *Vertige Neigeux* for almost USD 5.9 million.

The November 29 sale at Christie's marked the debut of each of these artists into Skate's Top 1000 and shows the great resilience, albeit slight correction amid growing maturity, of the Chinese art market.

### Repeat Sales Show Surprising Strength

November saw five repeat sales in Skate's Top 1000, which are the best means of tracking investment returns in the premium art segment. All but one of these works achieved a positive annualized effective rate of return (ERR), and in several cases, the numbers were quite astonishing.

Although Andy Warhol's *200 one dollar bills* was the biggest newsmaker with its USD 43.7 million purchase price, the 22.15% ERR achieved on its repeat sale after twenty-three years of ownership was not the highest seen last month. That honor goes to Camille Pissarro's *Le Pont Boïeldieu et la gare d'Orléans, Rouen, matin, cinq heures*, which sold for just over USD 7 million to achieve an annualized ERR of 24.92% after a holding period of only three years.

Jasper Johns (*Gray numbers*) and Jean Dubuffet (*Trinité-Champs-Élysées*) both achieved much more modest returns of 6.38% and 1.14%, respectively.

Alberto Giacometti's *L'homme qui chavire*, while stunning in terms of the extent to which it beat the pre-auction high estimate of USD 12 million, was the only work to produce a negative annualized ERR: -3.42% after a holding period of only two years. Despite the modest loss, the seller is likely quite pleased given the current market climate, especially in light of the market exuberance that existed at the time of purchase two years ago.

Full information on November's repeat sales can be found in Exhibit 2 below.

\* \* \*

## Exhibit 2 – Repeat Sales – November 2009

Artist	Title	Sale	Purchase Price, USD*	ERR**	Holding Period, Years
Camille Pissarro	Le Pont Boïeldieu et la gare d'Orléans, Rouen, matin, cinq heures	04-Nov-09	7,026,500	24.92%	3
Andy Warhol	200 one dollar bills	11-Nov-09	43,762,500	22.15%	23
Jasper Johns	Gray numbers	11-Nov-09	8,706,500	6.38%	6
Jean Dubuffet	Trinité-Champs-Élysées	11-Nov-09	6,130,500	1.14%	4
Alberto Giacometti	L'homme qui chavire	04-Nov-09	19,346,500	(3.42%)	2

Source: Skate's Art Market Research

\*Includes buyer's premium

\*\*ERR calculated on an annualized basis

## Sotheby's Publishes Nine Months' Report / Shares Continue Upward Surge

On November 5, 2009, Sotheby's released its third quarter and nine months' results, which reported revenues of USD 44.9 million - a USD 31 million (41%) decrease from the prior period.

According to Sotheby's statement, the company's "decrease is primarily due to an 80% decline in net auction sales attributable to the movement of the summer London Contemporary Art sales from the third quarter of 2008 to the second quarter of 2009 (net sales of \$208 million in the third quarter of 2008), the absence of the prior year's Damien Hirst single-owner sale in London (net sales of \$176 million in the third quarter of 2008) as well as the impact of the downturn in the global economy which

continued to negatively impact sales across most collecting categories."

Despite the decreased revenues, investors nevertheless cheered the report, which went on to say that "the lower level of third quarter revenues is partially offset by a 750 basis point, or 49%, improvement in auction commission margin, from 15.2% in the third quarter of 2008 to 22.7% in the current period." After a modest decline of 8% in October, Sotheby's share price for November improved by an impressive 19.6% on the back of this strong report and stronger than expected auction sales. It is currently up 113.4% for the year.

In our January issue of Skate's Art Industry Investment Report, we will present a fuller analysis of Sotheby's 3Q/9M 2009 reporting.

## **Artprice Publishes Nine Months' Report / Shares Down 17% in October**

Artprice, currently the largest listed art data company in terms of market capitalization, recently published its nine months 2009 financial statements. Unlike artnet, which published its accounts several weeks ago, Artprice is suffering in the core business of art price data.

Given that Artprice only reports sales figures – for some reason using a structure where 95% of all revenue is captured by just one segment called "Internet" – we can only compare and analyze the firm's top-line performance. In the first nine months of 2009, Artprice's sales totaled EUR 3,156,000 (versus EUR 9,242,000 for artnet for the same period). This marks a 21% decline over the same period of 2008 (artnet achieved a 4.3% increase in sales for the same period of time).

Reflecting on Artprice's declining revenues, its strong financial underperformance when compared to its major peer (artnet) and its lackluster disclosure, the recent surge in the company's share price is hardly justified by Artprice's apparent financial condition. It is obvious that Artprice is turning into a high-risk company for its minority shareholders, and given the company's substandard financial reporting (published exclusively in French), we can only assume that Artprice shows little interest in attracting investors outside France – which is curious given the company's multilingual website and apparent interest in maintaining a global client base.

After increasing by an astounding 81.8% in October, Artprice's share price declined by 17.3% in November. In light of Artprice's recent statements, our above analysis and apparently changed investor sentiment regarding the company, Skate's has decided to reduce the target price for Artprice to EUR 5 per share.

## **Collectors Universe Surges Nearly 18%**

On November 9, Collectors Universe announced its results for the company's first fiscal quarter ending on September 30, 2009.

According to Michael McConnell, CEO of Collectors Universe, "we're encouraged by the first quarter financial results. Despite a difficult economic climate, our Company has worked diligently to improve operating margins by focusing on both productivity and efficiency initiatives. Further, the completion of the Dutch Tender and resumption of the quarterly dividend represent important actions taken to address our capital structure."

Net service revenue, which increased by USD 300,000 (3%) compared to the same quarter of the previous year, was coupled with an improved gross profit margin to 60% (compared with 54% for the first quarter of last year) and an 18% reduction in operating expenses.

In our next issue of Skate's Art Industry Investment Report, we will present a fuller analysis of the Collectors Universe 1Q report, although suffice it to say that investors have found a lot to like about the company's performance this year. Building on a strong 33.1% share price improvement in October, Collectors Universe continued to see strength in November, gaining 17.9% for the month. For the year, the stock has improved by a remarkable 201%.

## **artnet Publishes Nine Months' Report / Shares Down 6% in November**

In our last issue of Skate's Art Industry Investment Report, we introduced the troubling signs in artnet's nine months' report, which the company published on September 30. To recap, the first nine months of 2009 saw sales decline from USD 13.5 million to USD 12.6 million with net profit falling from USD 2 million to a loss of USD 200,000.

When we profiled artnet in our April 2009 newsletter, we noted that the firm had elected to jump on three parallel investment projects in the midst of a market decline. Very much like Gagosian Gallery, artnet chose to expand in all directions when most of the players in the art industry were licking their wounds and trying to keep their ships afloat. This bold contrarian strategy centered on expanding into France, building up a decorative arts price database and making a big bet on online auctions. The strategy led to an 11% increase in personnel

and a significant diversion of management's time to the auctions business segment. So far, this has generated USD 735,497 in sales, or just under 6% of artnet's total revenues. When we analyzed artnet's 2008 year-end financial statements this past April, we stated that the online auctions segment must eventually bring 10% or more of total revenue in order to be considered a success.

We believe Q4 2009 remains crucial when it comes to determining whether the online auctions strategy is paying off (i.e., compensating for shrinking advertising revenue and creating a new growth opportunity for artnet). Aside from our concern about profitability (see below), we will withhold judgment on the success or failure of the online auctions expansion until artnet publishes its full-year 2009 financial report.

It is imperative that artnet either sees success with its expansion or takes action to adjust its business model. Perhaps, the quiet period after the 2009/2010 auction season (summer 2010) will be the ideal decision time. The reason for this urgency is that as artnet has experimented with expansion, the firm's business model has changed from that of a modestly growing cash cow to one of a challenged firm in transition sandwiched between negative cash flow from operations (negative USD 500,000 in nine months of 2009 versus positive USD 700,000 for the same period in 2008) and a quickly melting cash cushion – artnet's cash position has fallen from USD 4.1 million to USD 3 million (by 25%) in just nine months. Another USD 500,000 in cash has been consumed by investment activities.

This burn rate clearly made artnet revisit the scale of its investment plans – its capital expenditure program was reduced by almost 50% over the same period of 2008.

So far, artnet remains a strong going concern. It has no leverage and enjoys strong cash flows from its core price database and gallery network offering. With USD 3 million in cash, the firm can afford to experiment with new growth opportunities for some time, although

its segment reporting does reveal some troubling signs.

As we can see on page 16 of artnet's disclosure, three out of its four business segments are profitable, with the Price Database even increasing its pre-tax profitability both in absolute terms (it grew by 26% to EUR 950,000 for nine months of 2009) and relative terms (growth from a 21.3% to 26.3% margin for nine months of 2009 compared to the same period of 2008). It is the so-called "Other" segment that remains a source of growing concern. This segment, which includes all of artnet's magazines and online auctions, generated EUR 2.4 million in losses in the first nine months of the year, exceeding combined profitability of the three core segments and plunging artnet into a net loss for the period. This loss widened by 50% from the same period of 2008, which creates a rather obvious dilemma for the company. artnet's management must either find a way to reduce or ideally eliminate this loss through increased online auction revenues and rebuilding the advertising base for its magazines, or it may have to unwind some, perhaps even most of its "Other" segment in 2010.

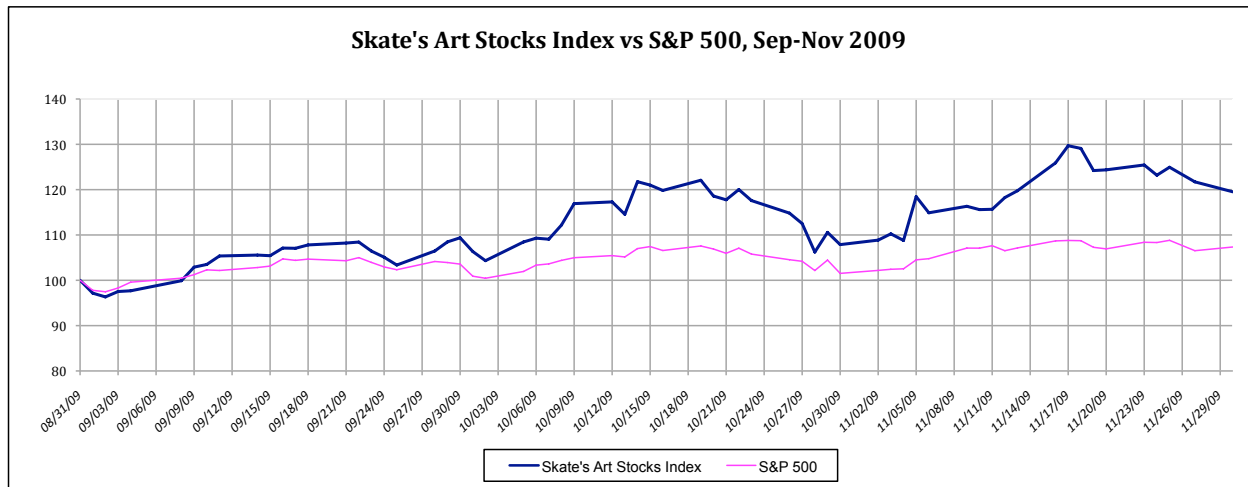
After enjoying a phenomenal rise of nearly 28% in October, artnet's share price in November declined by a modest 6%.

### **Skate's Art Stocks Index Up 10.8% From October Close**

The twelve international art industry companies included in Skate's Art Stocks Index closed at 107.1 as of November 30, which represents an increase of 10.8% for the month and a 53.9% improvement for the year. Thanks to the continued strong performance of several companies in November - most notably Sotheby's, Collectors Universe and Seoul Auctions - our index has far exceeded the target of 90.0 that we set at the beginning of 2009. For the remainder of the year, we expect our index to reflect the stabilization currently seen in global equities.

Full information on Skate's Art Stocks can be found in Exhibit 3 below.

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Source: [www.skatepress.com](http://www.skatepress.com)

### Exhibit 3 - Skate's Art Stocks - November 2009

Name	Listing/ Currency	November 2009 Performance	YTD 2009 Performance	Price as of November 30, 2009, USD	Market Cap as of November 30, 2009, USD min	Skate's Target Price (in local currency)
Sotheby's	NYSE/ USD	19.6%	113.4%	18.97	1277	USD 18
Artprice	Paris/EUR	-17.3%	133.7%	14.53	91	EUR 6
Artnet	Frankfurt/ EUR	-6.3%	-3.6%	6.97	39	EUR 9
Collectors' Universe	NASDAQ/USD	17.9%	201.0%	8.82	75	USD 8
Mallett	London/ GBP	-12.7%	75.6%	127.16	18	None
Finarte Casa d'Aste	Milan/ EUR	-3.5%	12.3%	0.28	14	EUR 0.5
Gruppo FMR	Milan/ EUR	0.0%	30.8%	7.38	26	EUR 6
Camera Work	Frankfurt/ EUR	-2.3%	-31.6%	6 748	270	EUR 1000
Art Vivant	Tokyo/JPY	0.0%	-1.7%	2.78	43	JPY 270
Seoul Auctions	Seoul/ WON	12.7%	28.7%	2.28	38	WON 2500
Shinwa Art Auction	Tokyo/JPY	-12.2%	-15.8%	212.58	13	JPY 50000
Stanley Gibbons	London/ GBP	-2.1%	20.5%	232.02	58	GBP 160
<b>Skate's Art Stocks Index</b>		<b>10.8%</b>	<b>53.9%</b>	<b>107.1</b>	<b>1,962</b>	<b>90</b>

Source: [www.skatepress.com](http://www.skatepress.com)

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