

Skate's Art Market Research

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SKATE'S MARKET NOTES

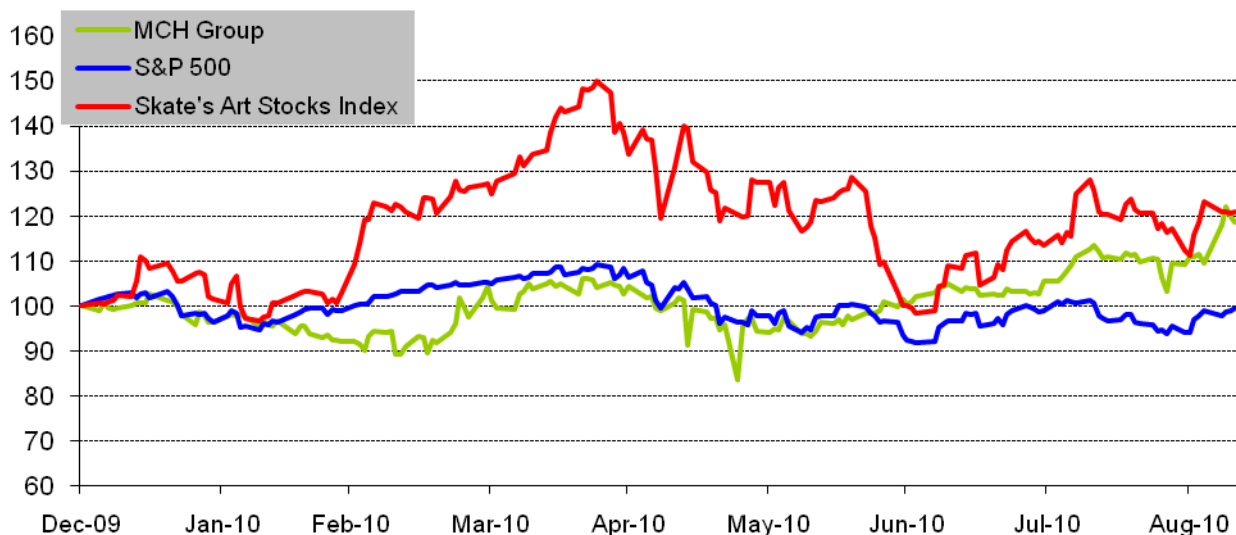
Sep 15, 2010

MCH Group, Owner of Art Basel, Reports Upbeat First-half Results and a Return to Pre-crisis Numbers

MCH Group, a Swiss-listed trade fair and exhibition services company, published strong financial results last week. The company, which was included in Skate's Art Stocks Index because it owns and operates Art Basel fairs, reported six month revenues totaling 242.1 million Swiss Francs. This represents a more than 20% increase over the same period in 2009 and the successful rebound of MCH Group's top line to exceed pre-crisis 2007 numbers.

The only visible damage caused by the economic downturn came in the form of reduced profitability and a less favorable product mix. Based on the first half of 2010, the group's net profit margin stands at 16% (19% in the same period of 2007, but a strong recovery from 8% in 2009), and the EBITDA margin is 28% (versus 33% in 2007 and 23% in 2009). The group's attempts to diversify away from exhibition business took the opposite direction – in 2007 the MCH Exhibitions segment contributed 69% of Group revenue; in 2010 this contribution grew to 76%. The MCH Infrastructure segment no longer registers as material for the group: its revenue share of MCH's top line went from 8% to 4% between 2007 and 2010.

Nevertheless, MCH Group performance so far this year was sufficiently exciting to please capital markets – the company's stock is among the best-performing constituents of the Skate's Art Stocks Index, scoring 18% year-to-date capital gains and strongly outperforming the S&P 500.



Source: www.skatepress.com

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Looking forward, Skate's has a few words of caution with regards to MCH Group. First, the company's management seems to be concerned with the group's exposure to continuing market adversity, specifically in the building materials and construction segment where MCH Group has significant fairs and exhibitions. In its financial disclosures, the management states that "the second six months will thus be considerably weaker than the first half". Despite this, the MCH Group is expecting record income at the end of the year and profits in the order of magnitude of the half-year result.

In other words, MCH Group is not expecting to make much money in the second half of the year – clearly the Art Basel Miami event in December is unlikely to have a significant positive impact. Interestingly, MCH Group's management does not mention the art market services segment at all in its six month disclosure and produces no evidence for the financial impact of art-related events on the group's interim results.

Secondly, as we have noted earlier this year, the art industry's growing interest in online dealing represents a significant long-term threat to Art Basel events. The recent launch of an online art fair by four major dealers (<http://vipartfair.com/press/VIP%20Art%20Fair%20news%20release%20FINAL%208-18-10%20US.PDF>), each a significant customer of Art Basel, clearly confirms the trend. Online fairs have the benefits of costing less while offering a more controlled way for established dealers to reach potential buyers.

If this experiment in January proves successful, online fairs will quickly start to take business away from Art Basel. Proliferation of online fairs compounded with continuous growth in online art auction trade (Saffron, the Indian auction, recently reported \$30m in annual volumes; Artnet continues to consistently grow online volumes as well (<http://skatepress.com/index.php?cat=104>) which represents a long term challenge to Art Basel's business model and demands MCH Group to come up with an online strategy for Art Basel fairs next year.