

**Buy** Initial Coverage

**PT EUR 6.00** (old: n.a.)

**Price** EUR 3.91  
**Bloomberg** AYD GR  
**Reuters** AYDG  
**Sector** Internet Services

**The world's leading online platform for art**


Share data: 22.09.2009 / Closing price

**Market cap:** EUR 22.0 m  
**Enterprise Value (EV):** EUR 20.0 m  
**Book value:** EUR 3.5 m  
**No. of shares:** 5.6 m

**Shareholders:**

 Freefloat 41.0 %  
 Galerie Neuendorf 26.0 %  
 Schaeffer Immobilien 10.7 %  
 Artis Capital 10.4 %  
 Robert de Rothschild 7.3 %  
 Oliver Schmidt 4.6 %

**Calendar:**

Figures Q3 10/30/2009

Change	2009E		2010E		2011E	
	old	Δ%	old	Δ%	old	Δ%
<b>Sales</b>	12.0	-	13.9	-	16.1	-
<b>EBIT</b>	-0.8	-	1.1	-	2.8	-
<b>EPS</b>	-0.15	-	0.18	-	0.46	-

 Analysis: SES Research  
 Date of publication: 23.09.2009  
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**ARTtractive investment**

**The arnet group runs the world's leading online platform for art** providing three main services: 1) a price database for auction transactions, 2) a showroom where galleries are able to display their works online and 3) since 2008 online auctions.

The company generates revenues from subscription and membership fees, commissions as well as proceeds from advertisement on its website.

**The worldwide art market**, with a total transaction volume of approx. EUR 40 bn in 2008, is **stigmatised with high market inefficiency** caused by information asymmetry and resulting in high transaction costs and low liquidity.

**artnet's products are tailored exactly to encounter this problem by...**

- ...increasing price and information transparency
- ...lowering transaction costs
- ...and enhancing liquidity

Although arnet offers a **unique service by combining these products** on one platform and thus bringing **added value to customers**, the company has competitors in the distinct business segments from which **artnet mainly differentiates by**

- ...**price and speed** and **focus** (online auctions),
- ...**breadth and integrity of information** (price database)
- ...**reach and marketing benefits** (gallery network).

Top line growth with a CAGR of 9% should be driven by new products the development of which has burdened the profitability of late on the back of unfavourable macroeconomic conditions that ought to turn positive due to underlying fundamental drivers in the art market.

As sales from these products continue to gain momentum earnings should increase disproportionately due to high fixed costs of approx. EUR 7.5 m and the high scalability of the internet based business model.

**Low capital needs** supported by a negative WC should **enable exceptional returns with ROCE > 30%**. These look set to be defensible due to the high investments in products, excellent contacts within the industry, a unique service portfolio and a strong footprint indicated by the more than 2,000 institutional customers and about the same number of gallery clients.

**The coverage is initiated with a BUY recommendation and a 50% upside to the DCF-based PT of EUR 6 supported by free cash flow and peer group valuation.**

Fiscal year ending: 31.12.	2005	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	6.5	8.4	11.0	12.3	12.0	13.9	16.1
<i>Change Sales yoy</i>	28.5 %	29.3 %	30.7 %	11.9 %	-2.9 %	15.9 %	16.3 %
<b>Gross balance</b>	5.1	6.7	7.5	7.3	6.7	8.4	10.5
<i>Gross margin</i>	77.8 %	79.6 %	68.1 %	59.3 %	56.0 %	61.0 %	65.0 %
<b>EBITDA</b>	1.2	2.0	2.1	0.5	-0.1	1.9	3.6
<i>EBITDA-margin</i>	18.8 %	23.6 %	19.4 %	4.3 %	-1.1 %	13.8 %	22.6 %
<b>EBIT</b>	1.1	1.8	1.9	0.1	-0.8	1.1	2.8
<i>EBIT-margin</i>	17.0 %	21.8 %	17.4 %	1.2 %	-6.8 %	8.0 %	17.4 %
<b>Net income</b>	1.2	2.5	2.3	-0.5	-0.9	1.0	2.6
<b>EPS</b>	0.21	0.45	0.41	-0.09	-0.15	0.18	0.46
<b>Free Cash Flow per share</b>	0.17	0.32	0.27	-0.13	-0.14	0.23	0.48
<b>Dividend</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Dividend Yield</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>EV/Sales</b>	3.0	2.3	1.7	1.6	1.7	1.4	1.0
<b>EV/EBITDA</b>	15.7	9.7	9.0	36.2	-158.8	9.8	4.4
<b>EV/EBIT</b>	17.4	10.5	10.0	130.8	-24.8	17.0	5.7
<b>PER</b>	18.6	8.7	9.5	-43.4	-26.1	21.7	8.5
<b>ROCE</b>	-813.9 %	131.1 %	54.5 %	3.3 %	-20.4 %	27.4 %	49.0 %
<b>Adj. Free Cash Flow Yield</b>	6.0 %	10.0 %	10.7 %	2.3 %	-1.1 %	9.6 %	22.0 %

Per Share figures in EUR, other figures in EUR m., price: EUR 3.91

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<b>Equity Story</b>	<b>3</b>
Quality – unique service portfolio ensures competitive edge	3
Financials – New products to bring momentum	4
Valuation – Upside of 50%	5
Newsflow should support investment case	5
<b>Competitive Quality</b>	<b>6</b>
The art market	6
artnet Online Auctions	7
artnet Price Database	8
artnet Gallery Network	9
<b>Financials</b>	<b>11</b>
Latest development	11
Top line growth	11
Earnings growth – high operational leverage	13
P&L statement in short	14
Exchange rate effects – strong USD beneficial	15
Balance sheet – low capital needs enable high ROCE	16
Cash flow	17
<b>Valuation</b>	<b>18</b>
Free cash flow yield	18
DCF model	19
Peer group valuation	20
<b>Newsflow</b>	<b>21</b>
<b>Company &amp; Products</b>	<b>22</b>
Company background	22
Products	22
Segments	23
Shareholder structure	24
Company structure	25
<b>Figures</b>	<b>26</b>

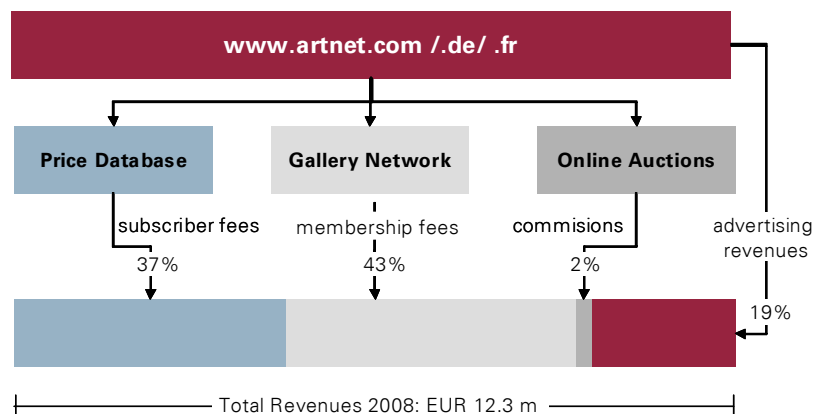
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www.artnet.com is an information platform for the international art market with products and services for institutional customers like auction houses, insurances or banks as well as private art collectors. The three main products are:

- The **Price Database** is the most comprehensive colour illustrated archive of historical auction results with more than 4 million entries. For a subscriber fee private as well as institutional customers are able to search for specific auction results giving them better price transparency in the opaque art market.
- The **Gallery Network** is the largest of its kind enabling visitors of the site to view the artworks of more than 40,000 artists on display at more than 2,000 galleries worldwide as well as providing background and contact information for which the galleries pay a membership fee.
- The **Online Auctions** give professional and private collectors the opportunity to buy and sell artworks via the internet in a highly credible environment at significantly lower transaction costs compared to traditional auction houses and in a more timely fashion.

A considerable amount of revenue is also generated from advertisements to the more than 1.7 million unique users per month, who are also attracted to the site by the artnet Online Magazine which is written by its own editors as well as renowned external authors – a key to artnet’s respected competency in the art world.

**artnet business model**



Source: SES Research

The majority of the company’s billing and operational business is conducted in USD with a regional sales distribution of 55% USA, 36% Europe and 9% ROW.

Since the reporting currency is EUR artnet has an exposure to exchange rate effects of the EUR to the USD as well as the GBP.

**Quality – unique service portfolio ensures competitive edge**

The **EUR 40 billion art market is characterised by market inefficiency** expressed by high information asymmetry, hefty transaction costs and low liquidity.

artnet’s products cater exactly to this problem by...

- ...lowering transaction costs
- ...increasing price transparency
- ...augmenting liquidity

The combination of its products on one platform as a **one-stop-shop service** not only

**brings added value to customers** but also **enables cross selling**.

Although there is **no other company that offers a comparable product combination** artnet does have rivals in the distinct product segments where **differentiation is based on...**

- **...speed, price and transparency of artnet’s Online Auctions** in comparison to traditional live auctions houses such as Sotheby’s or Christie’s
- **...breadth, depth and credibility of the price data** compared to competitors such as askart.com, artprice.com or artvalue.com
- **...reach and SEO advantages of artnet’s Gallery Network** in contrast to online registers of dealer associations.

### Financials - New products to bring momentum

Top line growth of **9% CAGR by 2011** should mainly be driven by...

- ... the **sales contribution of recently introduced products** such as the online auctions as well as the Price Database Decorative Art, which are gaining in momentum
- ...the **new artnet Market Analyst product** due to be launched in November this year
- ...the **strong growth potential of the Gallery Network** where the company so far only has a market penetration of approx. 15% and compelling advantages to offer.

**...on the back improving macroeconomic conditions due to...**

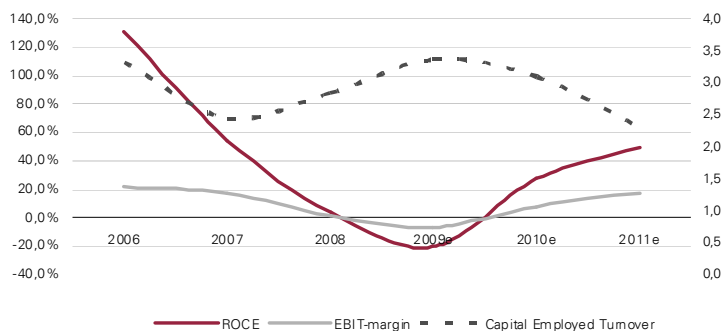
- **...rising demand from developing economies** such as China and Russia due to growing wealth and importance of status symbols.
- **...growing affinity to internet transactions** in the art industry caused by the
- **...foreseeable surge of inflation** in coming years leading to an increased demand for real assets such as artworks.

**Earnings look set to increase disproportionately** due to **fixed cost depression** backed by the highly **scalable online auction business** and the growing number of price database related products. This segment has the highest operational leverage seeing that the number of clients can be increased with next to no additional direct costs.

Due to high investments in products and brand (loss carry > EUR 50m) the unique one-stop-shop combination of products and the strong footprint expressed by the large number of institutional blue chip customers look set to ensure defensiveness of returns even though technical and formal barriers to entry are comparably low.

In combination with the **low capital needs** of the internet based business model artnet promises to **generate exceptional returns with ROCE > 30%**.

**ROCE Development - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

### Valuation – Upside of 50%

The BUY recommendation with a PT of EUR 6 is supported by all three valuation methods.

- DCF model yields a fair value of EUR 6.04 per share
- FCFY indicates a fair value of EUR 3.77 for 2010e and EUR 7.31 for 2011e.
- Peer group signals an upside of 30%-45% but with limited expressional value

### Newsflow should support investment case

The main event this year should be the **launch of the artnet Market Analyst product** scheduled for November, which will enable customers to track the price performance of initially 150 artists in the form of indices. Although there are some indices on the market the Market Analyst product promises superiority due to a new methodology and the large database of more than 4 m historic transactions.

Additionally, artnet will host **further special sales on the online auction platform** which look set to increase the attention from buyers and sellers alike.

Furthermore the company plans to **enhance the billing system along with relaunching parts of the website** in order to improve usability.

- **Art market transaction volume at approx. EUR 40 billion in 2008 and...**
- **...characterised by high market inefficiency → driver for artnet’s products**
- **Competitive advantage based on unique combination of services**
- **Differentiation to competitors in distinct product segments by**
- **...speed, price and transparency (online auctions)**
- **...breadth, depth and integrity (price database)**
- **...reach and search engine optimisation (gallery network)**

## The art market

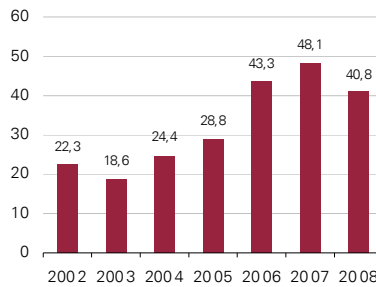
### Volume

In the last few years, the art market’s total turnover increased considerably to peak at EUR 48 bn total transaction volume in 2007 driven by the strong demand from rising economies such as China and Russia as well as the excessive amounts of cash generated on the financial markets.

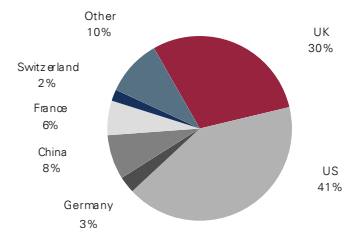
Although a number of publications indicate that artworks are fairly uncorrelated to the development of other asset classes such as equities or real estate, the art market took a hit from the financial crisis along with all the others in 2008 and looks set to show a further decline in 2009.

### The Global art Market

Transaction Volume in billion EUR



Global distribution



Source: TEFAF, Artseconomics, SES Research

### Structure

Auction houses make up about 50% of the total transaction volume generated in the art market leaving the remaining share to dealers and galleries. Other important market participants are museums, private collectors as well as an increasing number of institutional investors.

The art market in general can be characterised by high information asymmetry, low liquidity, low formal barriers to entry, high transaction costs, increasing demand and limited supply.

### Seasonality

The live auction market has two principal selling seasons, which occur in the second and fourth quarters of the year. Due to the strong sales growth in the past years artnet had no identifiable seasonal effects but one should expect that products such as the price database as well as advertising revenues should in general be positively influenced by higher market activity in these quarters.

### Competitive quality based on unique service portfolio

By combining online auctions with the largest online-price database and the gallery network on one platform in addition to detailed information on artists as well as the art market in general **artnet offers a unique one-stop-shop service to customers that can be found nowhere else.**

By **combining these services** artnet not only **brings added value to customers**, who benefit from combining products, but has high cross selling potential seen by the fact that a large number of artnet’s customers use more than one product.

Although there is no comparable company combining these services there are a number of competitors in the distinct business segments.

### artnet Online Auctions

By hosting online auctions the company mainly faces competition from two sides

- Live auctions, mainly from the indisputable market leaders, Sotheby’s and Christie’s, but also from smaller, more regional or specialised auction houses such as Bonhams, Dorotheum or Tajan.
- Online auctions, primarily from ebay’s art & antiques segment as well as a very few specialised online auctioneers such as heffel.com or freebid.de

### In comparison to live auctions artnet’s online auctions are quite simply...

#### ...cheaper

Transaction costs account for a significant amount of the total turnover in the art market. For the complete auction process traditional houses such as Sotheby’s and Christie’s charge a commission of up to 30%-40% on the hammer price for the auction process which is covered to a large extent by the buyer.

<b>Transaction costs*</b>				
Figures in EUR m				
		Sotheby's		artnet
<b>Premium price</b>		<b>6.250</b>		<b>5.500</b>
Buyer's premium	25%	1.250	10,0%	500
<b>Hammer price</b>		<b>5.000</b>		<b>5.000</b>
Seller's commission			10,0%	500
Storage and insurance / Listing fee	10,0% **	500		25
<b>Transaction cost</b>	<b>35,0%</b>	<b>1.750</b>	<b>20,5%</b>	<b>1.025</b>

\*excluding costs for shipment, \*\*estimate

Source: SES Reserach, Sotheby's

artnet has a simple and transparent cost structure for its auctions and charges 10% of the hammer price from buyers and sellers alike. Especially in the focused area with pieces in the range of EUR 500 to 50,000 this approach offers a significant cost advantage compared to traditional auction houses, which have higher commission charges in the low price area (Sotheby’s for instance charges 25% on the first USD 50k of the hammer price, 20% on the next USD 950k and 12% above USD 1m - not including costs for storage and insurance which can add up to another 10-15% of total transaction value).

**...faster**

The total processing time for a live auction can take between 4 and 8 months. This is mainly due to the fact that the live auction high season is twice a year (spring and fall) and that the artworks have to be stored at the auction houses in advance of the auction. artnet's auctions run 24/7 and unlike other online auction business models imply a transfer of the sold artworks directly from seller to buyer. Thus, the average process time is less than one month giving a significant time advantage to sellers and buyers by increasing the liquidity of artworks.

**...more transparent**

One of the main reasons for the inefficiency of the art market is the lack of price transparency. artnet gives buyers and sellers the opportunity to search the world's largest online price database for contemporary art and thus compare historic prices in addition to offering a selective number of auction results for the works sold via the auction platform.

**In comparison to other online auctions like eBay artnet differentiates by...****...focus**

artnet's focus for online auctions is the contemporary art market with prices in the range of USD 500 to 50,000 distinguishing artnet from the majority of works available on eBay.

**...consignments**

The attractiveness of any auction stands and falls with the desirability of the lots which are up for sale. Thus getting the right consignments is the key to success in the auction business. With more than 2,000 galleries as customers in the Gallery Network artnet has access to a vast supply of potential consignments from around the globe.

**...credibility**

The genuineness of artworks is of the utmost importance so that artnet checks the consignments as well as the credibility of sellers. In a number of cases artnet knows sellers anyway due to the fact that they are already Gallery Network customers.

**...cross selling**

Customers of the artnet Online Auctions not only benefit from lower transaction costs but can also access other artnet products like the Price Database or the artnet Market Alert in addition to being able to receive extensive background information on the market and artist by the artnet Online Magazines.

**artnet Price Database**

The main competitors in this segment are other online price databases with a revenue model such as artifact.com, artprice.com or askart.com as well as free price databases like artvalue.com or artinfo.com. Here artnet mainly differentiates by...

**... accuracy and integrity**

Instead of directly transferring auction house data to the database artnet edits most of the data with additional information, performs integrity checks and also tags the data enabling cross referencing of the information within the artnet portal but also to external inquiries by search engines. This does of course increase the input costs for this product but ensures the company one of its key competitive advantages in a market with low technical barriers to entry.

**...breadth and depth**

With approx. 4 m historical auction results from more than 182,000 international artists and designers artnet's fine art database comprises more lots from the top 4,000 best-selling artists than any other fine art database giving customers the most in-depth overview of historic prices for this art segment. This is supported by the fact that the database also includes prints, photographs and designs, further distinguishing artnet

from most of its competitors.

**Hits by artist**

Artist	artnet.com	artfact.com	artprice.com	askart.com	artvalue.com	artinfo.com
Koons	729	516	654	384	540	240
Hirst	1690	1558	486	598	1417	680
Warhol	17089	9248	2662	2400	8441	7566
Fee	USD 29.95 / m	USD 35 / m	USD 160 / y	USD 29.50 / m	Free	Free

Source: artnet, artfact, artprice, askart, arvalue, artinfo

A good indication that the **quality of this service is valued and perceived favourably by clients** can be drawn from the high number of blue chip institutional customers (approx. 2,000 in total) in and outside the art industry that rely on artnet’s database for their day to day work and make up about 70% of the revenue stream from this product.

**References**



Source: artnet

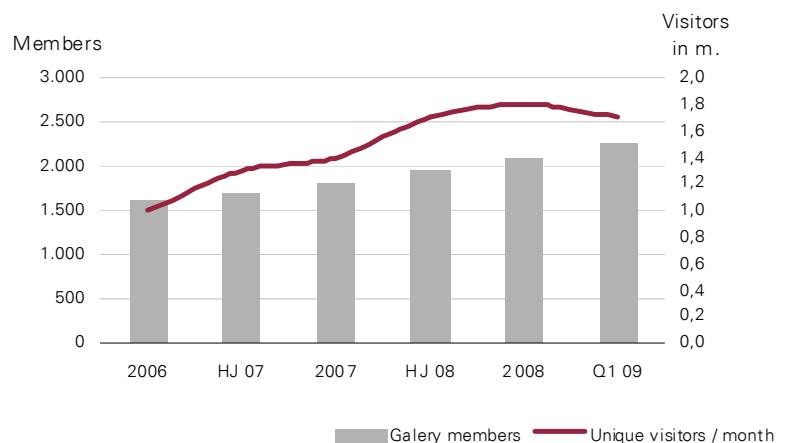
**artnet Gallery Network**

With more than 2,000 subscribed galleries artnet has the most comprehensive network of galleries on the internet. Although some regional dealer associations offer online registries – which in some cases also have imagery – artnet differentiates by...

**...reach**

With approximately 1.7 m unique visits per month artnet offers its gallery customers a highly focused and constantly growing audience with consequently low wasted reach. Then again visitors to the artnet sites can access growing network of currently more than 2,000 galleries around the world resulting in a **classical network effect** where every additional user or gallery subscriber adds to the overall value of the platform.

**Gallery Members and unique visitors / month**



Source: artnet

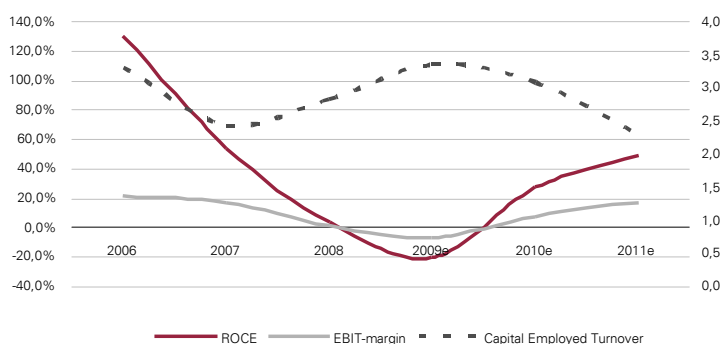
**...search engine optimisation (SEO)**

Due to the high reach and cross referencing of the platform, artnet’s gallery network customers are able to efficiently improve their search engine results for artists they have on display in their gallery. Depending on the popularity of the artist, artnet usually ranks among the top five results significantly improving their search engine ranking and thus their media reach.

After investments in new products in the last two years **returns should increase significantly as sales from these products pick up** in the coming quarters.

The **high scalability and the low capital needs** of the internet-based business model **ensure high ROCE** in excess of 30% transforming the competitive advantages into solid business quality.

**ROCE development - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

The **unique combination of services**, the **strong footprint** in the art industry expressed by the large number of gallery members (~2,000) and institutional clients (~2,000), **brand recognition and high media reach** look set to **ensure defensibility of returns**.

Even though technical and formal barriers to entry may be comparably low artnet has made substantial investments (loss carryforward > EUR 50 m ) in its products and the network of contact within the industry indicating financial barriers to entry.

- **Growth of 9% CAGR<sub>2011</sub> driven by...**
- **...beneficial macro trends**
- **...new products**
- **...online auctions**
- **Scalable business model with low capital needs...**
- **...enables disproportionate earnings growth with ROCE > 30%**

## Latest development

Due to the overall market slowdown in the first half of the year the total sales volume on USD basis was slightly down by -4.5% but increased on EUR basis from EUR 5.8 m to EUR 6.4 m owing to the stronger USD compared to last year's period.

Operating income was expectedly lower than last year's numbers and came in at EUR -0.1 m mainly due to the increase of personnel for the new products as well as external ramp up costs for the Market Analyst product due to be launched in November. Additionally the second quarter was burdened by increase in bad debt reserve of approx. EUR 0.1 m.

## Top line growth

Even though the art market took a dip in 2008 and looks set to also decline in 2009 there are fundamental developments which should support sustainable growth for the art market in general and artnet in particular.

- **Increasing demand – limited supply:** Especially due to the increasing wealth in rising economies and the importance of status symbols the demand for art has increased steadily over the last years clearly surpassing the additional supply by new artists.
- **Art as inflation hedge:** Like other real assets, artworks offer a protection against price inflation. Given the magnitude of monetary policy measures throughout the world it is only a matter of time until inflation kicks in and demand for real assets increases.
- **Higher internet affinity due to generation change amongst collectors** that should shift an increasing part of transactions from traditional auction houses and galleries to the internet.

### artnet AG - sales split by products

in EUR m	2005	2006	2007	2008	2009e	2010e	2011e
<b>Sales Gallery Network</b>	3.0	3.8	4.5	5.3	5.0	5.6	6.5
yoy	26.6%	26.8%	20.8%	16.1%	-5.4%	12.0%	15.6%
<b>Sales Price Database</b>	2.6	3.3	4.3	4.5	4.3	5.1	5.9
yoy	24.4%	28.9%	28.8%	4.4%	-3.7%	18.8%	15.6%
<b>Sales Commercials</b>	0.9	1.1	1.8	1.9	1.6	1.8	2.0
yoy	36.1%	24.8%	69.5%	5.5%	-15.8%	8.0%	12.0%
<b>Sales Online Auctions</b>	0.0	0.0	0.0	0.3	0.7	1.0	1.3
yoy	-	-	-	-	167.0%	40.7%	35.4%
<b>Sales other products</b>	0.1	0.2	0.3	0.3	0.3	0.4	0.4
yoy	-	179.0%	38.1%	7.4%	-5.5%	25.0%	9.1%
<b>Sales</b>	<b>6.5</b>	<b>8.4</b>	<b>11.0</b>	<b>12.3</b>	<b>12.0</b>	<b>13.9</b>	<b>16.1</b>
yoy	28.5%	29.3%	30.7%	11.8%	-2.9%	15.9%	16.3%

Sources: artnet AG (historical data), SES Research (estimates)

**Gallery Network – affected by recession but high growth potential**

Caused by the overall market downturn sales in the Gallery Network segment have gone down by approx. 10% from its peak in Q3/08. That said, cancellation should still remain to be the last reserve for galleries considering the high cost-benefit ratio of the gallery product, which is in many cases higher than that of the proprietary website.

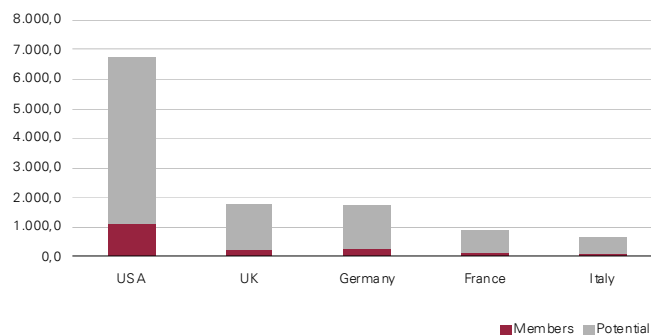
Like other parts of the economy the visibility within the art market remains to be low although the latest auction results were better than expected and fundamental growth drivers remain to be intact.

Nevertheless, on a full-year basis sales are expected to be approx. 10% lower on a USD basis with a slightly lesser effect on EUR basis (-5.4%) due to the stronger USD in comparison to last year.

The midterm growth prospects for this segment remain highly favourable. Although the company already has a good footprint with its products the market penetration in all major regions only comes to 10%-15%. Due to the high cost-benefit of the gallery network as a marketing tool artnet should be able to take an increasing stake of the more than 10,000 potential gallery customers worldwide.

Due to the fact that non-members can add contact information of their galleries to the network for free, artnet not only has over 10,000 potentially new customers at hand but also receives entries from new galleries every month both saving time and cost when it comes to market analysis.

**Gallery members by country and potential**



Source: www.artnet.com

**Price Database – momentum from new products**

Like the Gallery Network, the Price Database segment has seen a comparable sales decline owing to the lower market activity and thus fewer searches performed on the artnet platform.

This should partly be compensated by the growing sales effect from the new Price Database Decorative Art - introduced on March 10<sup>th</sup> - as well as a marginal sales effect from the Market Analyst product which is scheduled to launch in the coming weeks.

This product will enable customers to track the price development of 150 artists and their works in the form of indices and should enable artnet to generate additional customers who are seeking easy to use graphical price information for special artists or artworks.

Although there are some indices on the market their credibility and usability are limited. artnet's new methodology along with the proven database of more than 4 m historic transactions should deliver a superior result in both respects and looks set to meet a high demand from institutional and private investors alike who are seeking to invest in art as an asset class but are hampered by price intransparency.

### Online Auctions – gaining speed, potential literally unlimited

Since the introduction of the artnet Online Auctions, commissions as well as the number of registered buyers and sellers have increased steadily. Due to the fact that artnet receives a commission fee of 20% on all transactions and charges USD 25 for each posting of an artwork the company profits from the total sales volume as well as the number of artworks for auction.

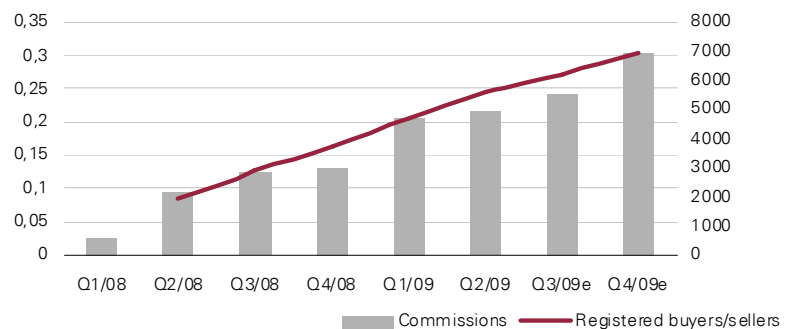
The competitive advantages in respect to...

- ...transaction cost and ...
  - ...total processing time...
- ...combined with the...
- ...large number of potential consignments from the gallery network...
  - ...and a growing private collector customer base...

...should continue to drive the auction sales and enable artnet to take an increasing stake of the multi billion USD auction market.

### Commission development and registered buyer/sellers

in USD m



Sources: artnet AG (historical data), SES Research (forecasts)

### Online Advertising and Other Products segment

As artnet's customers remain to be very restrictive on discretionary spending the advertising segment looks set to see a sales decline of approx. 15% for the full year. That said, this development should change as visibility in the market increases along with the general economic recovery. Additionally, artnet will improve its revenue model for online advertising that will facilitate price discrimination.

Sales from other products such as the imageless search and the artnet Market Alert are expected to decrease slightly along with the other product categories.

### Earnings growth – high operational leverage

Resulting from investments in the development of new products along with a slowdown in growth momentum due to the global economic downturn artnet's earnings development was dampened in 2008 and should remain on a comparably low level in 2009.

This picture looks set to change significantly as the recently introduced online auctions, the Price Database Decorative Art and the new Market Analyst product gain sales momentum resulting in a disproportionate earnings growth due to the high scalability of the internet based business model.

**Earnings development**

in EUR m

	2005	2006	2007	2008	2009e	2010e	2011e
<b>Sales</b>	<b>6.5</b>	<b>8.4</b>	<b>11.0</b>	<b>12.3</b>	<b>12.0</b>	<b>13.9</b>	<b>16.1</b>
<b>Gross profit</b>	<b>5.1</b>	<b>6.7</b>	<b>7.5</b>	<b>7.3</b>	<b>6.7</b>	<b>8.4</b>	<b>10.5</b>
Margin	77.8%	79.6%	68.1%	59.3%	56.0%	61.0%	65.0%
<b>EBITDA</b>	<b>1.2</b>	<b>2.0</b>	<b>2.1</b>	<b>0.5</b>	<b>-0.1</b>	<b>1.9</b>	<b>3.6</b>
Margin	18.8%	23.6%	19.4%	4.3%	-1.1%	13.8%	22.6%
<b>EBIT</b>	<b>1.1</b>	<b>1.8</b>	<b>1.9</b>	<b>0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.8</b>
Margin	17.0%	21.8%	17.4%	1.2%	-6.8%	8.0%	17.4%
<b>Net income</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>
Margin	17.7%	29.6%	20.5%	-4.0%	-7.1%	7.1%	15.8%

Sources: artnet AG (historical data), SES Research (estimates)

The **Price Database products have the highest leverage potential** due to the fact that the cost base, mainly resulting from the implementation as well as the integrity check of the data, is literally independent of the number of customers accessing the data. Seeing that nearly all new products will be derivatives of the PD the gross margin looks set to pick up disproportionately as the sales contribution from these products increases.

The artnet Online Auctions have fixed costs of approx. USD 1.2 m, linked mainly to personnel expenses for the art specialists as well as the marketing and sales team for this product. Given that **variable cost should be on a negligible level** this segment ought to **break even in 2010 resulting in a positive earnings momentum** going forward.

The gross margin of the gallery network should be at approx. 75% and only offers a limited leverage potential due to the fact that costs for services linked to the gallery product should increase proportionally with the number of member galleries.

Overall **fixed costs should amount to approx. EUR 7.5-8 m** (60-65% of total costs 2008) allowing **considerable fixed cost digression** as sales from the new products as well as the online auctions increase momentum in the coming quarters.

**P&L statement in short****Cost of goods sold**

COGS are the direct costs attributable to artnet's products. These are mainly personnel costs (52% of COGS 2008), depreciation and amortisation for tangible and intangible assets as well as costs for external consultants.

COGS should rise on an absolute level in the coming years mainly due to the fact that amortisation of capitalised development costs for the new Products will show an increasing effect in 2009 and 2010.

**R&D**

This position of the P&L accounts for all expenditures related to the ongoing support and improvement of the website and its products as well as development costs for new products that cannot be capitalised in accordance to IFRS.

Due to the increased product range R&D expenditures should increase slightly in the coming years. That said, the increase should be on a comparably lower level because capacities were augmented in 2008 in anticipation of higher business activity.

**S&M**

In line with the introduction of two new products in 2009 sales and marketing expenditures are expected to increase in the coming years. In comparison to prior years the company should profit from the lower costs for advertising, which looks set to have a compensatory effect.

## G&A

G&A costs include all administrative personnel costs, rent and leasing obligations, external fees for auditing and tax advisory as well as listing costs and other administrative expenses.

Due to the moderate linkage to direct operations administrative costs should remain on a comparable level after the increase in 2008 which was influenced by a build-up of capacities due to the foundation of the French subsidiary.

### Consolidated Profit & Loss artnet AG

in EUR m

	2005	2006	2007	2008	2009e	2010e	2011e
<b>Sales</b>	<b>6.5</b>	<b>8.4</b>	<b>11.0</b>	<b>12.3</b>	<b>12.0</b>	<b>13.9</b>	<b>16.1</b>
Cost of sales	1.4	1.7	3.5	5.0	5.3	5.4	5.6
<b>Gross profit</b>	<b>5.1</b>	<b>6.7</b>	<b>7.5</b>	<b>7.3</b>	<b>6.7</b>	<b>8.4</b>	<b>10.5</b>
Research and development	0.3	0.6	1.2	1.9	2.1	1.8	1.9
Sales and marketing	0.9	1.3	1.8	2.2	2.3	2.5	2.7
General and administration	2.7	3.0	2.5	3.0	3.2	3.0	3.1
Other operating income/expenses	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
<b>EBITDA</b>	<b>1.2</b>	<b>2.0</b>	<b>2.1</b>	<b>0.5</b>	<b>-0.1</b>	<b>1.9</b>	<b>3.6</b>
Depreciation of fixed assets	0.1	0.1	0.1	0.2	0.3	0.3	0.3
<b>EBITA</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>0.4</b>	<b>-0.4</b>	<b>1.6</b>	<b>3.4</b>
Amortisation of intangible fixed assets	0.0	0.1	0.1	0.2	0.4	0.5	0.6
Impairment charges and amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>1.1</b>	<b>1.8</b>	<b>1.9</b>	<b>0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.8</b>
Interest income	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Interest expenses	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Financial result	0.1	0.1	0.1	-0.2	0.0	0.0	0.1
<b>Recurring pretax income from cont. operations</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>-0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.9</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>-0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.9</b>
Taxes total	0.0	-0.6	-0.2	0.4	0.1	0.2	0.3
<b>Net income from continuing operations</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income before minorities</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>

Sources: artnet AG (historical data), SES Research (estimates)

## Exchange rate effects – strong USD beneficial

Due to the fact that artnet conducts the majority of its businesses in USD but reports in EUR, as well as having operating costs in EUR and GBP, the company is affected by exchange rate differences. In general, a stronger USD should help the company's top and bottom line development.

For the year end 2008 and 2007 the group's sensitivity to a 10% increase or decrease of the USD to the EUR or GBP for all outstanding foreign currency monetary items was as follows.

### Exchange rate sensitivity

USD /	EUR 12/31/2008 TEUR	EUR 12/31/2007 TEUR	GBP 12/31/2008 TEUR	GBP 12/31/2007 TEUR
+10%				
P&L	-69	-21	-33	-19
Equity	-5	-1	-1	0
-10%				
P&L	84	26	41	23
Equity	6	2	1	0

Source: artnet

Gains and losses from foreign currency transactions are accounted for in other income/expenses as part of the financial result.

### Tax-loss carry-forwards bring down effective tax rate

Due to the investments in the build-up of the internet platform and related products, its investments customer relationships and staff as well as the high cost structure after the IPO in 1999 artnet has a total loss carry-forward of approx. EUR 50 m. Due to the fact that Artnet Worldwide Corp. is the main revenue generating unit only the loss carry-forwards of this company are accounted for in the valuation and projections. Apart from a minimum tax of around EUR 50-60 Tsd the effective tax rate is expected to be at approx. 5%. The loss carry-forwards will start to expire from 2018 onward.

### Balance sheet – low capital needs enable high ROCE

artnet's financial position is extremely solid with no long-term financial liabilities except for financial lease obligation worth USD 0.1m for servers the company purchased in 2008. Thus the net cash position at year end 2008 was approx EUR 2.8 m or EUR 0.49 per share.

Apart from the liquid funds the main assets are tangibles – mostly computer hardware – and capitalised development costs for new products. These are depreciated for three years and should increase slightly towards year end due to the ongoing development of the new artnet Market Analyst product scheduled to be launched in November.

As a result of the internet based business model the company has limited capital needs. Actually, the working capital is negative due to the fact that a number of artnet's clients are billed on a yearly basis resulting in differed revenues of approx. 12% of total sales.

DSO is at 30 days on average but looks set to decrease slightly as auction sales take a larger share of revenues, due to the fact that they are billed on a more regular basis.

#### Balance sheet artnet AG

in EUR m

	2005	2006	2007	2008	2009e	2010e	2011e
<b>Assets</b>							
Intangible assets	0.1	0.2	0.6	1.0	1.1	0.8	0.6
thereof other intangible assets	0.1	0.2	0.6	1.0	1.1	0.8	0.6
thereof Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant & equipment	0.2	0.2	0.3	0.9	0.9	0.9	1.0
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fixed assets</b>	<b>0.3</b>	<b>0.3</b>	<b>0.9</b>	<b>2.0</b>	<b>2.1</b>	<b>1.8</b>	<b>1.5</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	0.5	0.7	0.7	1.0	0.9	1.0	1.1
Other Assets	0.4	1.2	1.6	1.8	1.8	1.8	1.8
Liquid assets	1.0	2.4	3.6	2.9	2.1	3.3	6.0
<b>Current assets</b>	<b>2.0</b>	<b>4.4</b>	<b>6.0</b>	<b>5.7</b>	<b>4.8</b>	<b>6.1</b>	<b>8.8</b>
<b>Total assets</b>	<b>2.3</b>	<b>4.7</b>	<b>6.9</b>	<b>7.6</b>	<b>6.8</b>	<b>7.9</b>	<b>10.4</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Additional paid-in capital	50.2	50.2	50.3	50.4	50.4	50.4	50.4
Surplus capital	-56.6	-55.5	-53.0	-50.7	-51.6	-50.6	-48.0
Other equity components	1.1	2.3	1.7	-0.9	-0.8	-0.8	-0.8
<b>Shareholders' equity</b>	<b>0.1</b>	<b>2.4</b>	<b>4.4</b>	<b>4.2</b>	<b>3.5</b>	<b>4.4</b>	<b>7.0</b>
<b>Minority Interest</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total equity</b>	<b>0.1</b>	<b>2.4</b>	<b>4.4</b>	<b>4.2</b>	<b>3.5</b>	<b>4.4</b>	<b>7.0</b>
Provision for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Provisions</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Accounts payable	0.5	0.3	0.4	0.5	0.5	0.6	0.6
Other liabilities	1.5	1.8	2.0	2.8	2.8	2.8	2.8
<b>Liabilities</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>
<b>Total liabilities and shareholders' equity</b>	<b>2.3</b>	<b>4.7</b>	<b>6.9</b>	<b>7.6</b>	<b>6.8</b>	<b>7.9</b>	<b>10.4</b>

Sources: artnet AG (historical data), SES Research (estimates)

## Cash flow

In accordance with sales improvements driven by the competitive advantage of artnet's product and the disproportional earnings improvement cash flows are expected to increase considerably seeing that...

- ...CAPEX cycle is in favour of the investor given that investments for a broadened product range have been made
- ...Working capital is negative due to customer paying on a yearly basis
- ...depreciation should increase on a midterm perspective due to the amortisation of capitalised development costs for the new products.

### Statement of Cash Flows artnet AG

in EUR m	2005	2006	2007	2008	2009e	2010e	2011e
Net income	1.2	2.5	2.3	-0.5	-0.8	1.0	2.6
Depreciation of fixed assets	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.1	0.1	0.2	0.4	0.5	0.6
Increase/decrease in long-term provisions	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
Other costs affecting income / expenses	0.1	-0.6	-0.1	0.3	0.1	0.0	0.0
<b>Cash Flow</b>	<b>1.2</b>	<b>2.0</b>	<b>2.3</b>	<b>0.1</b>	<b>-0.1</b>	<b>1.8</b>	<b>3.4</b>
Increase / decrease in working capital	-0.1	0.0	0.1	0.3	0.1	0.0	-0.1
<b>Cash flow from operating activities</b>	<b>1.2</b>	<b>2.0</b>	<b>2.4</b>	<b>0.4</b>	<b>0.0</b>	<b>1.8</b>	<b>3.3</b>
CAPEX	-0.2	-0.2	-0.9	-1.2	-0.8	-0.5	-0.6
<b>Cash flow from investing activities</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.6</b>
Change in financial liabilities	-0.3	-0.1	0.0	0.0	0.0	-0.1	-0.1
<b>Cash flow from financing activities</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>
Change in liquid funds	0.7	1.6	1.4	-0.8	-0.8	1.2	2.6
<b>Effects of exchange rate changes on cash</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Liquid assets at end of period</b>	<b>1.0</b>	<b>2.4</b>	<b>3.6</b>	<b>2.9</b>	<b>2.1</b>	<b>3.3</b>	<b>6.0</b>

Sources: artnet AG (historical data), SES Research (estimates)

- **Recommendation: BUY with a PT of EUR 6 is supported by...**
- **...a FCFY 2011e leading to a PT of EUR 7.31**
- **...the DCF model, which indicates a fair value of EUR 6.04 per share**
- **Peer group comparison signals upside of 30%-45% but with limited expressional value**

## Free cash flow yield

The adjusted free cash flow yield assumes that investors seek to purchase an asset (here the enterprise value) at a price such that the free cash flow return (free cash flow = net income + depreciation - maintenance capex + taxes - (1-t)\* interest) on the EV exceeds their opportunity costs (set at a simplified 10%).

Revenues should increase due to the sales contribution of new products (online auctions, decorative art PD and market analyst) as well as solid growth potential in the gallery network segment supported by an improving macro environment.

Net income should benefit disproportionately due to the high scalability of the internet based business model.

As a consequence, the adjusted free cash flow looks set to rise steadily by 2011.

The FCFY indicates a **PT of EUR 3.77 based on 2010e** and **EUR 7.31 based on 2011e**.

### Free Cash Flow Yield - artnet AG

Figures in EUR m	2005	2006	2007	2008	2009e	2010e	2011e
Net Income	1.2	2.5	2.3	-0.5	-0.8	1.0	2.6
+ Depreciation + Amortisation	0.1	0.2	0.2	0.4	0.7	0.8	0.8
- Net Interest Income	0.1	0.1	0.1	-0.2	0.0	0.0	0.1
+ Taxes	0.0	-0.6	-0.2	0.4	0.1	0.2	0.3
- Maintenance Capex	0.1	0.1	0.1	0.1	0.1	0.1	0.1
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>= Adjusted Free Cash Flow</b>	<b>1.2</b>	<b>1.9</b>	<b>2.1</b>	<b>0.4</b>	<b>-0.2</b>	<b>1.8</b>	<b>3.5</b>
Adjusted Free Cash Flow Yield	6.0%	10.0%	10.7%	2.3%	-1.1%	9.6%	22.0%
Hurdle rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
<b>= Enterprise Value</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>20.0</b>	<b>18.7</b>	<b>16.0</b>
<b>= Fair Enterprise Value</b>	<b>11.6</b>	<b>19.2</b>	<b>20.5</b>	<b>4.4</b>	<b>-</b>	<b>18.0</b>	<b>35.3</b>
- Net Debt (Cash)	-2.8	-2.8	-2.8	-2.8	-2.0	-3.3	-6.0
- Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>= Fair Market Capitalisation</b>	<b>14.4</b>	<b>21.9</b>	<b>23.3</b>	<b>7.2</b>	<b>-</b>	<b>21.2</b>	<b>41.3</b>
No. of shares (m)	5.6	5.6	5.6	5.6	5.6	5.6	5.6
<b>= Fair value per share (EUR)</b>	<b>2.56</b>	<b>3.90</b>	<b>4.14</b>	<b>1.28</b>	<b>-</b>	<b>3.77</b>	<b>7.33</b>
premium (-) / discount (+) in %	-34.5%	-0.3%	5.8%	-67.3%	-	-3.5%	87.4%

### Sensitivity Fair value per Share (EUR)

	13.0%	2.08	3.11	3.30	1.10	-	3.04	5.88
	12.0%	2.22	3.33	3.53	1.15	-	3.24	6.28
	11.0%	2.37	3.59	3.81	1.21	-	3.48	6.76
Hurdle rate	<b>10.0%</b>	<b>2.56</b>	<b>3.90</b>	<b>4.14</b>	<b>1.28</b>	<b>-</b>	<b>3.77</b>	<b>7.33</b>
	9.0%	2.79	4.28	4.54	1.36	-	4.13	8.03
	8.0%	3.08	4.75	5.05	1.47	-	4.57	8.90
	7.0%	3.45	5.36	5.70	1.61	-	5.14	10.01

Sources: artnet AG (historical data), SES Research (estimates)

## DCF model

Sales are expected to grow by 9% on average by 2011 supported by new products as well as beneficiary macroeconomic fundamentals. From 2010 onwards, growth rates have been set to decline steadily reaching a terminal growth rate of 2%.

The EBIT margin is modelled to reach its peak in 2012 with 22% as the fixed cost depression continues to take effect. Given artnet's unique competitive positions as well as high investments in brand recognition and product build-up, returns are deemed to be sustainable. Still, the EBIT margin has been set to decrease gradually to the terminal rate of 16% in 2018.

The effective tax looks set to remain below 10% until 2020 due to the loss carry-forwards of approx. EUR 23 m within Artnet Worldwide Corp. giving the tax shield a substantial valuation effect of around EUR 1.50 per share. artnet AG has additional loss carry-forwards of EUR 28.8 m which presently cannot be utilised under German tax law due to the current organisational structure of the group and thus are not considered in the valuation.

The tax rate is modelled to decrease slightly, due to a minimum tax of approx. EUR 50-60 Tsd and an effective tax rate of 5%. The terminal tax rate is set at 42% seeing that this is the corporate tax rate in New York, where Artnet Worldwide Corp. is located.

**The DCF model results in a fair value of EUR 6.04 per share.**

### DCF Model - artnet AG

Figures in EUR m

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Sales	12.0	13.9	16.1	18.0	20.0	21.8	23.4	24.8	26.0	27.0	27.8	28.4	29.0	29.6
Change	-2.9%	15.9%	16.3%	12.0%	11.0%	9.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	2.0%	2.0%
EBIT	-0.8	1.1	2.8	4.0	4.2	4.4	4.4	4.5	4.4	4.6	4.5	4.5	4.6	4.7
EBIT-Margin	-6.8%	8.0%	17.4%	22.0%	21.0%	20.0%	19.0%	18.0%	17.0%	17.0%	16.0%	16.0%	16.0%	16.0%
Tax rate	-7.6%	12.1%	7.8%	7.0%	6.9%	6.8%	6.7%	6.7%	6.7%	6.6%	6.7%	6.7%	42.0%	42.0%
NOPAT	-0.9	1.0	2.6	3.7	3.9	4.1	4.1	4.2	4.1	4.3	4.2	4.2	2.7	2.7
Depreciation	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
in % of Sales	5.7%	5.8%	5.2%	5.0%	4.5%	4.0%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Change in Liquidity from														
- Working Capital	0.1	0.0	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
- Capex	-0.8	-0.5	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0
Capex in % of Sales	6.7%	3.6%	3.7%	3.7%	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (WACC-Model)	-0.9	1.3	2.7	4.1	4.2	4.3	4.3	4.2	4.2	4.3	4.2	4.3	2.7	2.8

### Model parameter

Debt ratio	0.00%	Beta	1.30
Costs of Debt	n.a.	WACC	10.50%
Market return	9.00%		
Risk free rate	4.00%	Terminal Growth	2.00%

### Valuation (mln)

Present values 2022e	23.2
Terminal Value	8.8
Liabilities	-0.1
Liquidity	2.2
<b>Equity Value</b>	<b>34.0</b>
No. of shares (mln)	5.63
<b>Value per share (EUR)</b>	<b>6.04</b>

### Sensitivity Value per Share (EUR)

#### Terminal Growth

WACC	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
11.50%	5.39	5.42	5.45	5.48	5.52	5.55	5.59
11.00%	5.64	5.67	5.71	5.75	5.79	5.83	5.87
10.75%	5.77	5.81	5.85	5.89	5.93	5.98	6.03
<b>10.50%</b>	5.91	5.95	5.99	<b>6.04</b>	6.08	6.13	6.19
10.25%	6.06	6.10	6.15	6.19	6.25	6.30	6.36
10.00%	6.21	6.26	6.31	6.36	6.42	6.48	6.54
9.50%	6.54	6.60	6.66	6.72	6.79	6.86	6.94

#### Delta EBIT margin

WACC	-1.5 pp	-1.0 pp	-0.5 pp	0.0	+0.5 pp	+1.0 pp	+1.5 pp
11.50%	5.01	5.17	5.33	5.48	5.64	5.80	5.96
11.00%	5.25	5.41	5.58	5.75	5.91	6.08	6.25
10.75%	5.37	5.55	5.72	5.89	6.06	6.23	6.40
<b>10.50%</b>	5.51	5.69	5.86	<b>6.04</b>	6.21	6.39	6.56
10.25%	5.65	5.83	6.01	6.19	6.37	6.55	6.74
10.00%	5.80	5.99	6.17	6.36	6.55	6.73	6.92
9.50%	6.13	6.33	6.53	6.72	6.92	7.11	7.31

Source: SES Research

## Peer group valuation

The peer group comparison has a very limited significance on the valuation for the following reasons.

- Difference in size of the companies
- Limited similarity of business models
- Small number of peers
- Incomplete estimate values

### eBay

As the world's largest website for online auctions with a transaction volume of approx USD 60 bn in 2008 eBay is not only the benchmark for online auctions in general but probably also accounts for the largest part of online transactions with art and antiques.

### Sotheby's

Sotheby's is certainly the most important live auction house next to Christie's and the only stock-listed traditional auction house. Although the business is distinct in all segments but the auctions, artnet and Sotheby's are certainly exposed to the same macroeconomic conditions.

### Artprice

Artprice offers customers historical auction results available via the internet, on CD or in print. Additionally the company provides indices as well as other price information derived from the database. In 2008, Artprice generated sales of EUR 6 m (+6%) with an EBIT of EUR 0.9 (-14%).

#### Peergroup - Key Figures

Company	LC	Price in LC	MC in LC m	EV in LC m	EPS			Sales			EBITDA		
					09e	10e	11e	09e	10e	11e	09e	10e	11e
eBay	USD	24.45	31,550.4	28,935.5	1.52	1.63	1.84	8,474.8	9,059.7	10,108.8	2,981.0	3,196.3	3,565.7
Sotheby's	USD	16.94	1,133.2	1,500.6	0.02	0.54	n.a.	459.5	499.0	n.a.	71.8	80.6	n.a.
Artprice.com	EUR	6.93	44.3	43.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>artnet</b>	<b>EUR</b>	<b>3.80</b>	<b>21.4</b>	<b>20.0</b>	<b>-0.15</b>	<b>0.18</b>	<b>0.46</b>	<b>12.0</b>	<b>13.9</b>	<b>16.1</b>	<b>n.m.</b>	<b>1.9</b>	<b>3.6</b>

Source: SES Research, Bloomberg

#### Peergroup - Valuation Multiples

Company	LC	Price in LC	MC in LC m	EV in LC m	P / E			EV / Sales			EV / EBITDA		
					09e	10e	11e	09e	10e	11e	09e	10e	11e
eBay	USD	24.45	31,550.4	28,935.5	16.12	15.03	13.31	3.41	3.19	2.86	9.71	9.05	8.12
Sotheby's	USD	16.94	1,133.2	1,500.6	847.00	31.37	n.a.	3.27	3.01	n.a.	20.90	18.62	n.a.
Artprice.com	EUR	6.93	44.3	43.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average					431.56	23.20	13.31	3.34	3.10	2.86	15.30	13.84	8.12
Median					431.56	23.20	13.31	3.34	3.10	2.86	15.30	13.84	8.12
<b>artnet</b>	<b>EUR</b>	<b>3.80</b>	<b>21.4</b>	<b>20.0</b>	<b>neg.</b>	<b>21.11</b>	<b>8.26</b>	<b>1.67</b>	<b>1.44</b>	<b>1.24</b>	<b>n.m.</b>	<b>10.50</b>	<b>5.48</b>
Valuation difference to Average					n.a.	10%	61%	100%	115%	131%	n.m.	32%	48%
Fair value per share based on Average					n.a.	4.18	6.12	7.34	7.87	8.44	n.m.	4.93	5.50

Sources: SES Research, Bloomberg

The multiples derived from the peer indicate an undervaluation on the basis of P/E, EV/sales as well as EV/EBITDA supporting the PT of EUR 6 derived from the DCF model.

- 
- **New products**
  - **Special auction sales**
  - **Asset class art should come in favour**
  - **Relaunch of parts of the platform**
- 

### **Introduction of new products**

In the course of the year, artnet will introduce a further product as well as a marketing initiative that should give a positive impulse to sales development.

- The **artnet Market Analyst** is a product derived from the price database allowing customers to track the price development of an artist of particular interest in the form of indices. Although there are other indices on the market artnet has developed a methodology that promises to yield a more accurate tracking of the historical price performance.
- The **Coupon Code** is a new marketing element due to be introduced late this year enabling artnet to distribute free trial memberships for its products in exchange for a code given in the form of a coupon on fairs or in magazines or email. Additionally the billing system will be enhanced so that customers can combine products in order to benefit from discounts.

### **Auction specials**

Just like the Icon Photographs Sale in June or the Urban Art Sale in July artnet will continue to promote special sales on the online auction platform and actively promote these sales attracting buyers and sellers alike.

### **Art as inflation hedge**

Due to the fact that art is a tangible asset such as real estate or gold it offers a protection against inflation. Additionally, recent academic research has shown a low correlation of art to other asset classes making it interesting for portfolio diversification.

artnet's new Market Analyst should increase price transparency and facilitate performance tracking – one of the main reasons why the majority of institutional investors avoided art investments in the past.

### **Relaunch of parts of the platform**

Although the platform undergoes constant improvements artnet is aiming to relaunch parts of the website in the coming months to take into account the increased product range in order to improve usability.

## Company background

artnet was founded in 1989 as Centrox Corporation which later became Artnet Worldwide Corp. The artnet AG was incorporated in 1998 and went public on the Neuer Markt of the Frankfurt Stock Exchange in 1999 as artnet.com.

As a response to the high inefficiencies in the art business, artnet developed its first product, the artnet Price Database, which they brought to the internet in 1995 in order to improve price transparency. In the same year it also introduced its second product, the artnet Gallery Network whose combined revenues still make up approx. 80% of the company's sales.

In 2002, artnet.com AG changed its name to artnet AG and launched its German domain, www.artnet.de, along with the German online magazine, giving an independent and critical view of the art market.

In 2007, the company was listed in the Prime Standard of the Frankfurt Stock Exchange. At the beginning of last year, artnet introduced the artnet Online Auctions and brought its French website online along with the French online magazine. The newest product, the Price Database Decorative Art, was introduced in February of 2009.

## Products

artnet's products can be subcategorised into four main groups:

### artnet Gallery Network

The Gallery Network is an online showroom with over 2,000 galleries from 250 cities around the world. Visitors to the network can browse the gallery sites for free and access more than 168,000 works from over 39,000 artists making it the largest of its kind.

Visitors to the site cannot only view the artworks but also obtain information on materials, dimensions and in some cases prices as well as having the opportunity to contact the gallery directly via email.

For a monthly fee of USD 350 (basic membership) gallery members can display up to 18 different images with 3 free changes to the site every month.

### Price database products

The **artnet Price Database Fine Art and Design** is an illustrated online database with approximately 4 million historic transactions from more than 500 of the most renowned auction houses dating back to 1985. The database is accessible via a sophisticated search function for a monthly or annual subscription fee with price differentiation according to search volume.

The **artnet Price Database Decorative Art** contains historic auction transaction for all sorts of antiques ranging from furniture to silver, carpets and tapestry. The product was launched in April 2009 and has a similar revenue model as the Fine Art Database.

**artnet Market Alerts** enable customers to track up to 30 artists of their choice on the artnet platform. As soon as any transaction related to an artist of interest takes place on the platform (picture up for sale in the online auctions, exhibition at a member gallery, auction result added to the price database) the customer is informed by artnet for a price of USD 19.95 per month.

The **artnet Market Performance Reports** give purchasers of this product a substantial overview of the historic performance of a particular artist or a certain category, genre or epoch of art. The reports include information on transactions volumes, average prices as well as sell through rates (percentage of pieces sold in an action in relation to total amount of pieces up for sale). The price for a report is USD 50 with package price rebates for higher volumes.

The artnet Market Analyst product will be introduced later this year and will give clients

the opportunity to receive Indices for certain artists and genres.

**artnet Online Auctions**

The artnet Online Auctions were introduced in the first quarter of 2008. The platform gives buyers and sellers the opportunity to auction their works of art via the internet and thus to close their transaction in a more timely and cost efficient fashion.

Before admitting a seller to the auction platform artnet conducts a credibility check to ensure the integrity of the product. A large number of sellers are already clients of the Online Gallery Network who can now not only display their collection but also sell it via the same platform.

Apart from a listing fee of USD 25 for every piece put up for auction, artnet charges 10% commission of the hammer price from sellers and buyers alike.

**artnet Magazines**

Along with historic price information artnet offers its customers detailed and independent background coverage on the international art market via its online Magazines. The editorial offices in New York, Berlin and Paris publish the online magazine in the corresponding language and post reviews, features and news on every weekday. The respected credibility of the journalism not only attracts visitors to the site but also translate to the integrity of the price database products.

Although there is no direct revenue model attached to this product a proportion of the costs should be covered by the advertising proceeds of the artnet platform.

**Segments**

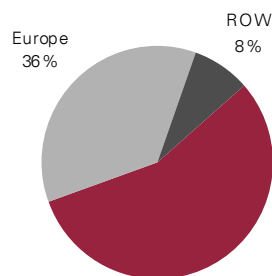
The group’s reportable segments are:

- The Online Gallery Network with revenues coming from membership fees
- The Database segment includes all sales from the Fine Art and Decorative Art Price Database, the imageless search as well as sales generated from the market alert product, the artnet Market Data Report and the artnet Artist Catalogue.
- The Advertising segment produces banner and national advertising on the website
- The Other segment includes the French, German and United States online magazines as well as revenues from the artnet Online Auctions.

From a regional perspective the majority of artnet revenues are generated in the United States followed by Europe, with the main markets in Germany and UK which each account for approx. 10% of total revenues. ROW revenues come from countries such as Japan or India with China being the main contributor (3% of total sales).

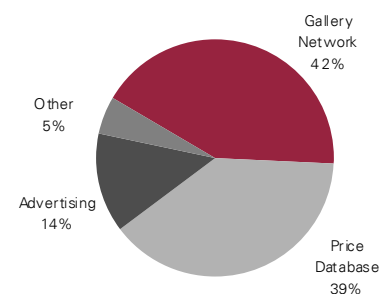
**Sales by region in 2008**

in % of total sales



**Sales by segment in Q1/09**

in % of total sales



Source: artnet

## Management

CEO Hans Neuendorf has played an active role in the art market for nearly 50 years. With his galleries in Hamburg and Frankfurt he helped to promote contemporary artist such as Andy Warhol, Richard Hamilton or Georg Baselitz. Mr. Neuendorf joined the company in 1990, was named chairman in 1992, and finally became CEO in January 1995.

Bill Fine is President of Artnet Worldwide Corp. with over 20 years experience in high-end fine art marketing and print advertising. Prior to joining artnet, he held the position of Executive Vice President and Group Publisher with Brant Publications Inc. and held publisher roles at Interior Design and Connoisseur magazines.

Brian McConville is Executive Vice President of Artnet Worldwide Corp. and heads artnet's global sales force. He joined artnet in 2003 after nearly ten years on Wall Street with the Bank of New Zealand and later managed the International- Fixed-income trading and distribution area for National Australia Bank in New York. Mr. McConville also held senior executive positions in emerging technology firms, including Chief Financial Officer of Group Intelligence, Inc.

Karin Gardiner is Vice President Finance and Controller of Artnet Worldwide Corp. with more than ten years of management experience. Prior to joining artnet, she lead financial operations for multi-national internet advertising as well as leading accounting agencies.

## Supervisory board

Chairman of the supervisory board is John D. Hushon who was the former CEO of El Paso Energy International and is now manager of North Oak Consulting in Washington DC. Mr. Hushon is a corporate lawyer and was brought to the company by a former Investor.

Dr. Christian Dohm is attorney and partner of the law firm Sibeth in Munich. He has in-depth knowledge of the German corporate law and consults the company in legal matters.

Hannes von Goesseln is an independent art advisor and art dealer with excellent and longstanding contact within the art industry.

## Shareholder structure

Galerie Neuendorf AG is a company owned by the CEO Hans Neuendorf and his family which account for approx. 26% of shares of the artnet AG.

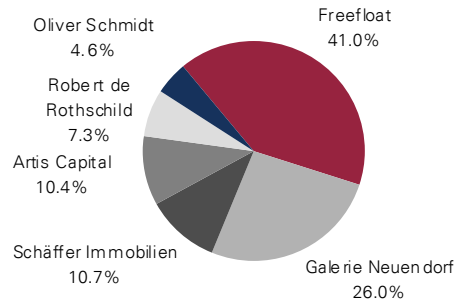
Robert de Rothschild is a successor of the Rothschild Bankers Dynasty, is a private investor living in New York and owns approx 7% of the artnet shares.

Artis Capital is a San Francisco based hedge fund with approx. USD 1 billion under management. The company, that invests in private equity as well as publicly traded companies, holds approx. 11% of artnets shares.

Klaus-Jochen Schaeffer is owner of the real estate management company Schaeffer Immobilien and used to be a member of artnet's supervisory board. Mr. Schaeffer and his company hold a 10,7% stake in artnet.

Mr. Schmidt is a private Investor from Düsseldorf who holds supervisory board positions for Tokugawa AG and Foris AG and accounts for approx. 4.6% of artnet's shares.

**Shareholder structure**



Source: Blommborg

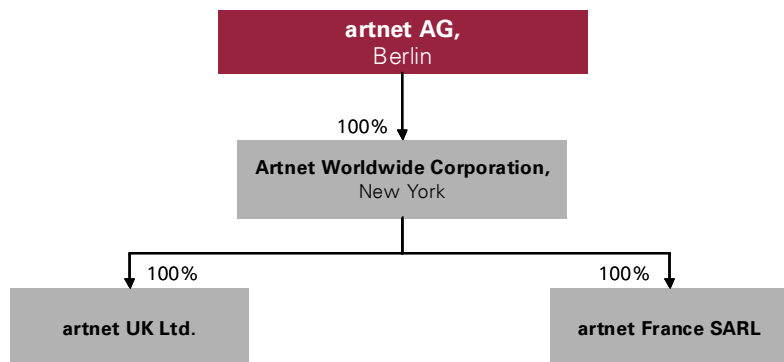
**Company structure**

artnet AG based in Berlin, Germany is the parent company of the group. It is responsible for European sales and marketing activities outside the UK and France as well as customer service and also holds parts of the group’s administrative positions.

Artnet Worldwide Corp. accounts for the highest share of operating activities within the group. Apart from conducting the worldwide sales activity and the US online magazine the Corporation is also responsible for development, maintenance as well as the technical support of the majority of artnet’s products.

artnet UK and France are distribution companies for the different artnet products in these countries with the distinct difference that artnet France and its editorial is also responsible for the French online magazine.

**Company structure**



Source: artnet AG

<b>Consolidated Profit &amp; Loss artnet</b>							
in EUR m	2005	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	<b>6.5</b>	<b>8.4</b>	<b>11.0</b>	<b>12.3</b>	<b>12.0</b>	<b>13.9</b>	<b>16.1</b>
Cost of sales	1.4	1.7	3.5	5.0	5.3	5.4	5.6
<b>Gross balance</b>	<b>5.1</b>	<b>6.7</b>	<b>7.5</b>	<b>7.3</b>	<b>6.7</b>	<b>8.4</b>	<b>10.5</b>
Research and development	0.3	0.6	1.2	1.9	2.1	1.8	1.9
Sales and marketing	0.9	1.3	1.8	2.2	2.3	2.5	2.7
General and administration	2.7	3.0	2.5	3.0	3.2	3.0	3.1
Other operating income/expenses	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
<b>EBITDA</b>	<b>1.2</b>	<b>2.0</b>	<b>2.1</b>	<b>0.5</b>	<b>-0.1</b>	<b>1.9</b>	<b>3.6</b>
Depreciation of fixed assets	0.1	0.1	0.1	0.2	0.3	0.3	0.3
<b>EBITA</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>0.4</b>	<b>-0.4</b>	<b>1.6</b>	<b>3.4</b>
Amortisation of intangible fixed assets	0.0	0.1	0.1	0.2	0.4	0.5	0.6
Impairment charges and amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>1.1</b>	<b>1.8</b>	<b>1.9</b>	<b>0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.8</b>
Interest income	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Interest expenses	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Financial result	0.1	0.1	0.1	-0.2	0.0	0.0	0.1
<b>Recurring pretax income from cont. operations</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>-0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.9</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>1.2</b>	<b>1.9</b>	<b>2.0</b>	<b>-0.1</b>	<b>-0.8</b>	<b>1.1</b>	<b>2.9</b>
Taxes total	0.0	-0.6	-0.2	0.4	0.1	0.2	0.3
<b>Net income from continuing operations</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income before minorities</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>1.2</b>	<b>2.5</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.8</b>	<b>1.0</b>	<b>2.6</b>

Sources: artnet (historical data), SES Research (forecasts)

<b>Consolidated Profit &amp; Loss artnet</b>							
in % of Sales	2005	2006	2007	2008	2009E	2010E	2011E
<b>Sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	22.2 %	20.4 %	31.9 %	40.7 %	44.0 %	39.0 %	35.0 %
<b>Gross balance</b>	<b>77.8 %</b>	<b>79.6 %</b>	<b>68.1 %</b>	<b>59.3 %</b>	<b>56.0 %</b>	<b>61.0 %</b>	<b>65.0 %</b>
Research and development	4.9 %	6.7 %	11.0 %	15.1 %	17.2 %	13.0 %	11.8 %
Sales and marketing	14.2 %	15.4 %	16.5 %	17.8 %	18.8 %	18.1 %	16.8 %
General and administration	41.5 %	35.2 %	23.0 %	24.5 %	26.8 %	22.0 %	19.0 %
Other operating income/expenses	-0.2 %	-0.6 %	-0.3 %	-0.8 %	0.0 %	0.0 %	0.0 %
<b>EBITDA</b>	<b>18.8 %</b>	<b>23.6 %</b>	<b>19.4 %</b>	<b>4.3 %</b>	<b>-1.1 %</b>	<b>13.8 %</b>	<b>22.7 %</b>
Depreciation of fixed assets	1.1 %	1.0 %	1.0 %	1.4 %	2.4 %	2.0 %	1.7 %
<b>EBITA</b>	<b>17.7 %</b>	<b>22.6 %</b>	<b>18.4 %</b>	<b>2.9 %</b>	<b>-3.5 %</b>	<b>11.8 %</b>	<b>21.0 %</b>
Amortisation of intangible fixed assets	0.7 %	0.9 %	1.0 %	1.8 %	3.3 %	3.8 %	3.5 %
Impairment charges and amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>17.0 %</b>	<b>21.8 %</b>	<b>17.4 %</b>	<b>1.2 %</b>	<b>-6.8 %</b>	<b>8.0 %</b>	<b>17.5 %</b>
Interest income	0.0 %	0.5 %	1.0 %	0.3 %	0.2 %	0.2 %	0.3 %
Interest expenses	0.5 %	0.1 %	0.2 %	0.6 %	0.0 %	0.0 %	0.0 %
Financial result	1.2 %	0.6 %	0.8 %	-1.8 %	0.2 %	0.2 %	0.3 %
<b>Recurring pretax income from cont. operations</b>	<b>18.2 %</b>	<b>22.4 %</b>	<b>18.3 %</b>	<b>-0.6 %</b>	<b>-6.6 %</b>	<b>8.2 %</b>	<b>17.8 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBT</b>	<b>18.2 %</b>	<b>22.4 %</b>	<b>18.3 %</b>	<b>-0.6 %</b>	<b>-6.6 %</b>	<b>8.2 %</b>	<b>17.8 %</b>
Taxes total	0.6 %	-7.2 %	-2.2 %	3.4 %	0.5 %	1.1 %	1.9 %
<b>Net income from continuing operations</b>	<b>17.7 %</b>	<b>29.6 %</b>	<b>20.5 %</b>	<b>-4.0 %</b>	<b>-7.1 %</b>	<b>7.1 %</b>	<b>15.8 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income before minorities</b>	<b>17.7 %</b>	<b>29.6 %</b>	<b>20.5 %</b>	<b>-4.0 %</b>	<b>-7.1 %</b>	<b>7.1 %</b>	<b>15.8 %</b>
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>17.7 %</b>	<b>29.6 %</b>	<b>20.5 %</b>	<b>-4.0 %</b>	<b>-7.1 %</b>	<b>7.1 %</b>	<b>15.8 %</b>

Sources: artnet (historical data), SES Research (forecasts)

**Balance sheet artnet**

in EUR m

	2005	2006	2007	2008	2009E	2010E	2011E
<b>Assets</b>							
Intangible assets	0.1	0.2	0.6	1.0	1.1	0.8	0.6
thereof other intangible assets	0.1	0.2	0.6	1.0	1.1	0.8	0.6
thereof Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.2	0.2	0.3	0.9	0.9	0.9	1.0
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fixed assets</b>	<b>0.3</b>	<b>0.3</b>	<b>0.9</b>	<b>2.0</b>	<b>2.1</b>	<b>1.8</b>	<b>1.5</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	0.5	0.7	0.7	1.0	0.9	1.0	1.1
Other Assets	0.4	1.2	1.6	1.8	1.8	1.8	1.8
Liquid assets	1.0	2.4	3.6	2.9	2.1	3.3	6.0
<b>Current assets</b>	<b>2.0</b>	<b>4.4</b>	<b>6.0</b>	<b>5.7</b>	<b>4.8</b>	<b>6.1</b>	<b>8.8</b>
<b>Total assets</b>	<b>2.3</b>	<b>4.7</b>	<b>6.9</b>	<b>7.6</b>	<b>6.8</b>	<b>7.9</b>	<b>10.4</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Additional paid-in capital	50.2	50.2	50.3	50.4	50.4	50.4	50.4
Surplus capital	-56.6	-55.5	-53.0	-50.7	-51.6	-50.6	-48.0
Other equity components	1.1	2.3	1.7	-0.9	-0.8	-0.8	-0.8
Book value	0.1	2.4	4.4	4.2	3.5	4.4	7.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>0.1</b>	<b>2.4</b>	<b>4.4</b>	<b>4.2</b>	<b>3.5</b>	<b>4.4</b>	<b>7.0</b>
Provision for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Financial liabilities	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Accounts payable	0.5	0.3	0.4	0.5	0.5	0.6	0.6
Other liabilities	1.5	1.8	2.0	2.8	2.8	2.8	2.8
<b>Liabilities</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>
<b>Total liabilities and shareholders equity</b>	<b>2.3</b>	<b>4.7</b>	<b>6.9</b>	<b>7.6</b>	<b>6.8</b>	<b>7.9</b>	<b>10.4</b>

Sources: artnet (historical data), SES Research (forecasts)

**Balance sheet artnet**

in % of Balance Sheet Total

	2005	2006	2007	2008	2009E	2010E	2011E
<b>Assets</b>							
Intangible assets	5.0 %	3.2 %	8.7 %	13.7 %	16.9 %	10.4 %	5.4 %
thereof other intangible assets	5.0 %	3.2 %	8.7 %	13.7 %	16.9 %	10.4 %	5.4 %
thereof Goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Property, plant and equipment	8.0 %	3.8 %	4.9 %	12.0 %	13.6 %	12.0 %	9.3 %
Financial assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Fixed assets</b>	<b>13.1 %</b>	<b>7.0 %</b>	<b>13.6 %</b>	<b>25.7 %</b>	<b>30.4 %</b>	<b>22.4 %</b>	<b>14.7 %</b>
Inventories	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	23.3 %	14.7 %	10.7 %	13.0 %	13.2 %	12.7 %	10.6 %
Other Assets	18.9 %	26.2 %	23.3 %	23.2 %	26.0 %	22.4 %	17.0 %
Liquid assets	43.2 %	51.8 %	52.6 %	38.5 %	31.0 %	42.3 %	57.5 %
<b>Current assets</b>	<b>85.4 %</b>	<b>92.7 %</b>	<b>86.7 %</b>	<b>74.7 %</b>	<b>70.2 %</b>	<b>77.3 %</b>	<b>85.1 %</b>
<b>Total assets</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	233.3 %	114.2 %	77.8 %	70.6 %	78.9 %	67.9 %	51.6 %
Additional paid-in capital	2182.4 %	1069.0 %	729.6 %	663.7 %	741.8 %	638.5 %	485.0 %
Surplus capital	-2461.0 %	-1179.8 %	-767.6 %	-667.2 %	-758.2 %	-640.2 %	-461.8 %
Other equity components	49.8 %	48.4 %	23.9 %	-11.8 %	-11.7 %	-10.1 %	-7.7 %
Book value	4.5 %	51.8 %	63.7 %	55.3 %	50.8 %	56.2 %	67.2 %
Minority Interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Total equity</b>	<b>4.5 %</b>	<b>51.8 %</b>	<b>63.7 %</b>	<b>55.3 %</b>	<b>50.8 %</b>	<b>56.2 %</b>	<b>67.2 %</b>
Provision for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Provisions	6.5 %	2.3 %	1.4 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial liabilities	0.0 %	0.0 %	0.0 %	1.9 %	1.5 %	0.6 %	0.0 %
Accounts payable	21.4 %	7.0 %	5.8 %	6.5 %	7.4 %	7.6 %	5.8 %
Other liabilities	65.7 %	38.7 %	29.3 %	36.8 %	41.1 %	35.4 %	26.9 %
<b>Liabilities</b>	<b>93.6 %</b>	<b>47.9 %</b>	<b>36.5 %</b>	<b>45.2 %</b>	<b>49.9 %</b>	<b>43.6 %</b>	<b>32.6 %</b>
<b>Total liabilities and shareholders equity</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Sources: artnet (historical data), SES Research (forecasts)

**Statement of Cash Flows artnet**

in EUR m

	2005	2006	2007	2008	2009E	2010E	2011E
Net income	1.2	2.5	2.3	-0.5	-0.8	1.0	2.6
Depreciation of fixed assets	0.1	0.1	0.1	0.2	0.3	0.3	0.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.1	0.1	0.2	0.4	0.5	0.6
Increase/decrease in long-term provisions	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
Other costs affecting income / expenses	0.1	-0.6	-0.1	0.3	0.1	0.0	0.0
<b>Cash Flow</b>	<b>1.2</b>	<b>2.0</b>	<b>2.3</b>	<b>0.1</b>	<b>-0.1</b>	<b>1.8</b>	<b>3.4</b>
Increase / decrease in inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase / decrease in accounts receivable	-0.1	-0.2	-0.2	-0.3	0.1	-0.1	-0.1
Increase / decrease in accounts payable	-0.1	0.0	0.3	0.2	0.0	0.1	0.0
Increase / decrease in other working capital positions	0.1	0.1	0.0	0.5	0.0	0.0	0.0
Increase / decrease in working capital	-0.1	0.0	0.1	0.3	0.1	0.0	-0.1
<b>Cash flow from operating activities</b>	<b>1.2</b>	<b>2.0</b>	<b>2.4</b>	<b>0.4</b>	<b>0.0</b>	<b>1.8</b>	<b>3.3</b>
CAPEX	-0.2	-0.2	-0.9	-1.2	-0.8	-0.5	-0.6
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.6</b>
Change in financial liabilities	-0.3	-0.1	0.0	0.0	0.0	-0.1	-0.1
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>
Change in liquid funds	0.7	1.6	1.4	-0.8	-0.8	1.2	2.6
<b>Effects of exchange rate changes on cash</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Liquid assets at end of period</b>	<b>1.0</b>	<b>2.4</b>	<b>3.6</b>	<b>2.9</b>	<b>2.1</b>	<b>3.3</b>	<b>6.0</b>

Sources: artnet (historical data), SES Research (forecasts)

**Financial Ratios artnet**

	2005	2006	2007	2008	2009E	2010E	2011E
<b>Operational Efficiency</b>							
Total Operating Costs / Sales	60.8 %	57.8 %	50.7 %	58.1 %	62.8 %	53.0 %	47.6 %
Sales per Employee	n.a.	171,749	164,179	124,283	103,925	106,551	115,066
EBITDA per Employee	n.a.	40,535	31,802	5,364	-1,096	14,658	26,057
EBIT-margin	17.0 %	21.8 %	17.4 %	1.2 %	-6.8 %	8.0 %	17.4 %
EBITDA / Operating Assets	-176.9 %	-356.3 %	-346.5 %	-1001.9 %	94.8 %	-1734.4 %	22413.8 %
ROA	383.5 %	757.1 %	240.4 %	-25.2 %	-40.9 %	55.6 %	166.9 %
<b>Efficiency of Capital Employment</b>							
Plant Turnover	35.3	47.2	32.6	13.5	13.0	14.7	16.6
Operating Assets Turnover	-9.4	-15.1	-17.9	-232	-90.0	-126	990
Capital Employed Turnover	25.6	3.3	2.4	2.8	3.4	3.1	2.3
<b>Return on Capital</b>							
ROCE	-813.9 %	131.1 %	54.5 %	3.3 %	-20.4 %	27.4 %	49.0 %
EBITDA / Avg. Capital Employed	-899.2 %	142.3 %	60.6 %	12.0 %	-3.2 %	47.4 %	63.6 %
ROE	1105.9 %	102.4 %	51.2 %	-11.7 %	-24.5 %	22.1 %	36.5 %
Net Profit / Avg. Equity	-245.6 %	196.3 %	66.0 %	-11.4 %	-22.1 %	24.9 %	44.7 %
Recurring Net Profit / Avg. Equity	-245.6 %	196.3 %	66.0 %	-11.4 %	-22.1 %	24.9 %	44.7 %
ROIC	343.5 %	94.5 %	50.3 %	-10.7 %	-22.3 %	20.5 %	35.0 %
<b>Solvency</b>							
Net Debt	-1.0	-2.4	-3.6	-2.8	-2.0	-3.3	-6.0
Net Gearing	-953.3 %	-100.1 %	-82.5 %	-66.2 %	-58.2 %	-74.3 %	-85.6 %
Book Value of Equity / Book Value of Debt	n.a.	n.a.	n.a.	n.m	n.m.	n.m	n.a.
Current ratio	1.0	2.0	2.5	1.7	1.4	1.8	2.6
Acid Test Ratio	0.9	1.9	2.4	1.7	1.4	1.8	2.6
EBITDA / Interest Paid	40.6	266.1	133.2	6.8	0.0	n.a.	n.a.
Interest Cover	36.8	n.a.	n.a.	3.8	n.a.	n.a.	n.a.
<b>Cash Flow</b>							
Free Cash Flow	1.0	1.7	1.5	-0.7	-0.8	1.3	2.7
Free Cash Flow / Sales	14.7 %	20.8 %	13.5 %	-6.0 %	-6.5 %	9.3 %	16.7 %
Adj. Free Cash Flow	1.2	1.9	2.1	0.4	-0.2	1.8	3.5
Adj. Free Cash Flow / Sales	16.9 %	29.9 %	20.7 %	-0.4 %	-2.4 %	11.9 %	20.0 %
Free Cash Flow / Net Profit	83.1 %	70.3 %	66.2 %	150.9 %	91.2 %	130.9 %	105.4 %
Interest Received / Avg. Cash	0.0 %	2.6 %	3.6 %	1.2 %	1.0 %	1.1 %	1.1 %
Interest Paid / Avg. Debt	n.a.	n.a.	n.a.	54.2 %	2.5 %	0.0 %	0.0 %
Dividend Payout Ratio	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Fund Management</b>							
Investment ratio	3.4 %	2.6 %	8.2 %	9.6 %	6.7 %	3.6 %	3.7 %
Maint. Capex / Sales	0.9 %	0.8 %	0.7 %	0.7 %	0.8 %	0.8 %	0.7 %
Capex / Dep	189.0 %	139.4 %	422.5 %	306.5 %	117.4 %	62.2 %	71.6 %
Avg. Working Capital / Sales	-11.6 %	-7.3 %	-5.9 %	-6.1 %	-6.7 %	-6.1 %	-4.9 %
Trade Creditors / Trade Debtors	108.8 %	209.6 %	185.7 %	199.6 %	180.0 %	166.7 %	183.3 %
Inventory turnover (days)	n.a.	n.a.	n.a.	n.m	n.m	n.m	n.m
Receivables collection period (DSOs)	30.0	30.0	24.6	29.3	28.0	27.0	26.0
Payables collection period (days)	27.6	14.3	13.2	14.7	14.7	14.7	14.7
Cash conversion cycle (days)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Valuation</b>							
P/B	211.4	9.1	5.0	5.2	6.4	5.0	3.2
EV/sales	3.0	2.3	1.7	1.6	1.7	1.4	1.0
EV/EBITDA	15.7	9.7	9.0	36.2	-158.8	9.8	4.4
EV/EBIT	17.4	10.5	10.0	130.8	-24.8	17.0	5.7
EV/FCF	20.1	11.0	12.9	-26.0	-25.9	14.6	6.0
P/E	18.6	8.7	9.5	-43.4	-26.1	21.7	8.5
P/CF	17.8	10.9	9.5	205.7	neg,	12.3	6.5

Sources: artnet (historical data), SES Research (forecasts)

**Free Cash Flow Yield - artnet AG**

Figures in EUR m

	2005	2006	2007	2008	2009e	2010e	2011e	
Net Income	1.2	2.5	2.3	-0.5	-0.8	1.0	2.6	
+ Depreciation + Amortisation	0.1	0.2	0.2	0.4	0.7	0.8	0.8	
- Net Interest Income	0.1	0.1	0.1	-0.2	0.0	0.0	0.1	
+ Taxes	0.0	-0.6	-0.2	0.4	0.1	0.2	0.3	
- Maintenance Capex	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>= Adjusted Free Cash Flow</b>	<b>1.2</b>	<b>1.9</b>	<b>2.1</b>	<b>0.4</b>	<b>-0.2</b>	<b>1.8</b>	<b>3.5</b>	
Adjusted Free Cash Flow Yield	6.0%	10.0%	10.7%	2.3%	-1.1%	9.6%	22.0%	
Hurdle rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
<b>= Enterprise Value</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>20.0</b>	<b>18.7</b>	<b>16.0</b>	
<b>= Fair Enterprise Value</b>	<b>11.6</b>	<b>19.2</b>	<b>20.5</b>	<b>4.4</b>	<b>-</b>	<b>18.0</b>	<b>35.3</b>	
- Net Debt (Cash)	-2.8	-2.8	-2.8	-2.8	-2.0	-3.3	-6.0	
- Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>= Fair Market Capitalisation</b>	<b>14.4</b>	<b>21.9</b>	<b>23.3</b>	<b>7.2</b>	<b>-</b>	<b>21.2</b>	<b>41.3</b>	
No. of shares (m)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	
<b>= Fair value per share (EUR)</b>	<b>2.56</b>	<b>3.90</b>	<b>4.14</b>	<b>1.28</b>	<b>-</b>	<b>3.77</b>	<b>7.33</b>	
premium (-) / discount (+) in %	-34.5%	-0.3%	5.8%	-67.3%	-	-3.5%	87.4%	
<b>Sensitivity Fair value per Share (EUR)</b>								
	13.0%	2.08	3.11	3.30	1.10	-	3.04	5.88
	12.0%	2.22	3.33	3.53	1.15	-	3.24	6.28
	11.0%	2.37	3.59	3.81	1.21	-	3.48	6.76
Hurdle rate	<b>10.0%</b>	<b>2.56</b>	<b>3.90</b>	<b>4.14</b>	<b>1.28</b>	<b>-</b>	<b>3.77</b>	<b>7.33</b>
	9.0%	2.79	4.28	4.54	1.36	-	4.13	8.03
	8.0%	3.08	4.75	5.05	1.47	-	4.57	8.90
	7.0%	3.45	5.36	5.70	1.61	-	5.14	10.01

Sources: artnet AG (historical data), SES Research (estimates)

**DCF Model - artnet AG**

Figures in EUR m

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Sales	12.0	13.9	16.1	18.0	20.0	21.8	23.4	24.8	26.0	27.0	27.8	28.4	29.0	29.6
Change	-2.9%	15.9%	16.3%	12.0%	11.0%	9.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	2.0%	2.0%
EBIT	-0.8	1.1	2.8	4.0	4.2	4.4	4.4	4.5	4.4	4.6	4.5	4.5	4.6	4.7
EBIT-Margin	-6.8%	8.0%	17.4%	22.0%	21.0%	20.0%	19.0%	18.0%	17.0%	17.0%	16.0%	16.0%	16.0%	16.0%
Tax rate	-7.6%	12.1%	7.8%	7.0%	6.9%	6.8%	6.7%	6.7%	6.7%	6.6%	6.7%	6.7%	42.0%	42.0%
NOPAT	-0.9	1.0	2.6	3.7	3.9	4.1	4.1	4.2	4.1	4.3	4.2	4.2	2.7	2.7
Depreciation	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
in % of Sales	5.7%	5.8%	5.2%	5.0%	4.5%	4.0%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Change in Liquidity from														
- Working Capital	0.1	0.0	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
- Capex	-0.8	-0.5	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0
Capex in % of Sales	6.7%	3.6%	3.7%	3.7%	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (WACC-Model)	-0.9	1.3	2.7	4.1	4.2	4.3	4.3	4.2	4.2	4.3	4.2	4.3	2.7	2.8

**Model parameter**

Debt ratio	0.00%	Beta	1.30
Costs of Debt	n.a.	WACC	10.50%
Market return	9.00%		
Risk free rate	4.00%	Terminal Growth	2.00%

**Valuation (mln)**

Present values 2022e	23.2		
Terminal Value	8.8		
Liabilities	-0.1		
Liquidity	2.2	No. of shares (mln)	5.63
<b>Equity Value</b>	<b>34.0</b>	<b>Value per share (EUR)</b>	<b>6.04</b>

**Sensitivity Value per Share (EUR)****Terminal Growth**

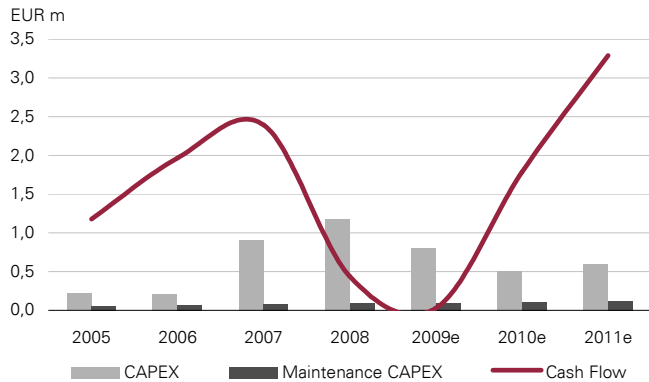
WACC	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
11.50%	5.39	5.42	5.45	5.48	5.52	5.55	5.59
11.00%	5.64	5.67	5.71	5.75	5.79	5.83	5.87
10.75%	5.77	5.81	5.85	5.89	5.93	5.98	6.03
<b>10.50%</b>	5.91	5.95	5.99	<b>6.04</b>	6.08	6.13	6.19
10.25%	6.06	6.10	6.15	6.19	6.25	6.30	6.36
10.00%	6.21	6.26	6.31	6.36	6.42	6.48	6.54
9.50%	6.54	6.60	6.66	6.72	6.79	6.86	6.94

**Delta EBIT margin**

WACC	-1.5 pp	-1.0 pp	-0.5 pp	0.0	+0.5 pp	+1.0 pp	+1.5 pp
11.50%	5.01	5.17	5.33	5.48	5.64	5.80	5.96
11.00%	5.25	5.41	5.58	5.75	5.91	6.08	6.25
10.75%	5.37	5.55	5.72	5.89	6.06	6.23	6.40
<b>10.50%</b>	5.51	5.69	5.86	<b>6.04</b>	6.21	6.39	6.56
10.25%	5.65	5.83	6.01	6.19	6.37	6.55	6.74
10.00%	5.80	5.99	6.17	6.36	6.55	6.73	6.92
9.50%	6.13	6.33	6.53	6.72	6.92	7.11	7.31

Source: SES Research

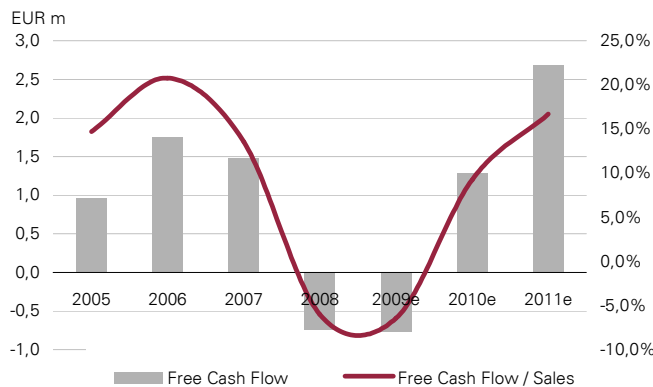
**CAPEX and Cash Flow - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- Increased CAPEX in 2008 due to investments in IT and products
- Normal cash flow more than sufficient to meet capital needs

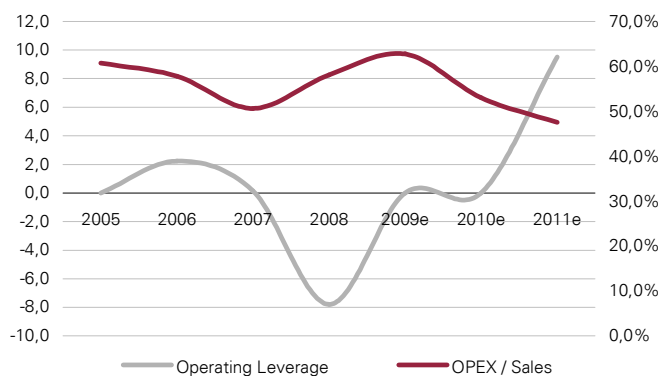
**Free Cash Flow Generation - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- Cash flow in 2008 and 2009 burdened by product build-up and recession
- Free cash flow looks set to increase as sales from new products build up

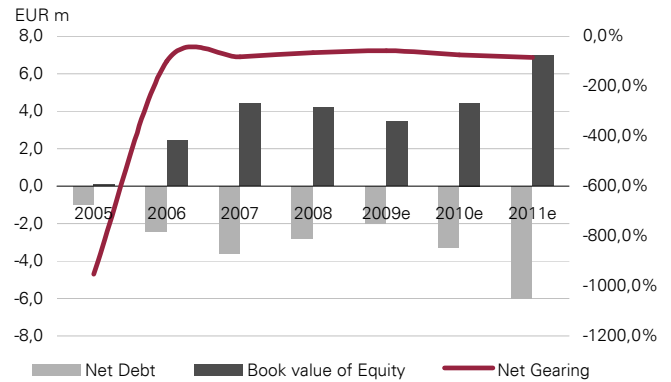
**Operating Leverage - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- High operating leverage due to scalability of internet-based business model
- Strongest leverage from Price Database products
- Fixed costs at approx. EUR 7.5 m

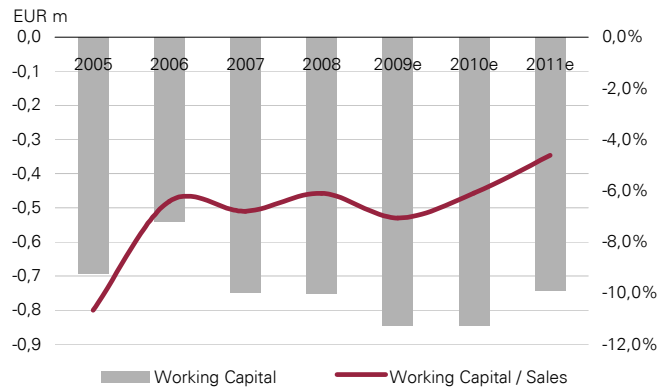
**Balance Sheet Quality - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- No financial obligations apart from EUR 0.1 m for a leasing contract
- Book value and cash position set to increase with business development

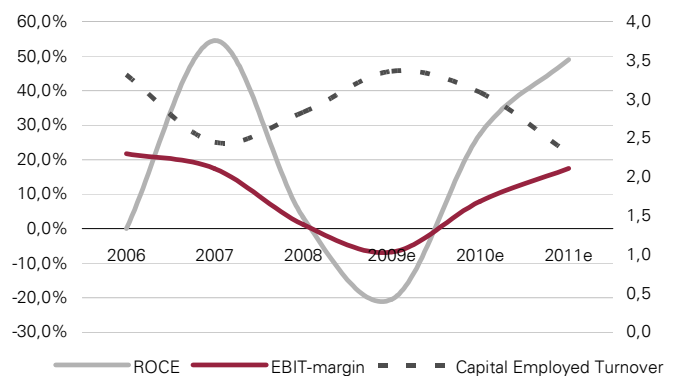
**Working Capital - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- Working capital negative due to upfront billing of yearly products
- DSO therefore at 30 days on average
- WC looks set to decrease slightly by more instant billing for acutions

**ROCE Development - artnet AG**



Sources: artnet AG (historical data), SES Research (forecasts)

- Margins in 2008 and 2009 burdened by product buildup and market development
- Low capital needs and high operating leverage enable...
- ...exceptional returns with ROCE > 30%

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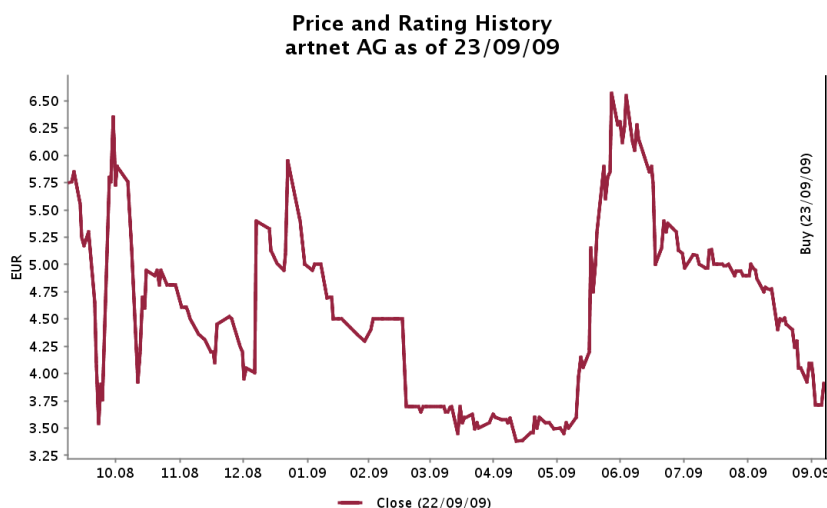
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Rating	Number of stocks	% of Universe
Buy	108	53%
Hold	56	28%
Sell	22	11%
Rating suspended	17	8%
<b>Total</b>	<b>203</b>	

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The charts have markings if SES Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

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