

artnet AG

Quarterly Interim Statement
for the Third Quarter of 2020

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General Information and Business Activities

Artnet AG is a publicly-traded corporation headquartered in Berlin, Germany. Artnet AG was incorporated under the laws of Germany in 1998. The address of its registered office is Oranienstraße 164, 10969 Berlin, Germany.

Artnet AG holds 100% of the shares in Artnet Worldwide Corporation, which is located in New York, NY, USA. Artnet AG (“Artnet” or the “Company”) and Artnet Worldwide Corporation (“Artnet Corp.” collectively the “Artnet Group” or the “Group”) operate under the trade name “Artnet.”

Artnet Corp. has one wholly-owned subsidiary, Artnet UK Ltd.

The Group’s goal is to provide art collectors, galleries, publishers, auction houses, and art enthusiasts with an all-in-one platform to buy, sell, and research fine art. The Price Database contains more than 14 million auction records, allowing for in-depth art market research. Users can find artworks that are currently available for sale in the Gallery Network, Auction Houses, or on

Artnet Auctions, an online transaction platform. Artnet News, a 24-hour newswire, informs users about the events, trends, and people shaping the global art market.

Economic Development of the Group

The global economy is slowly recovering from a sharp downturn due to the coronavirus outbreak and the widespread business lockdown in the first half of the year. The International Monetary Fund projects global economic growth at -4.4 percent in 2020, a less severe contraction than expected in June. However, the pandemic continues to spread, and many countries have slowed their reopening or reinstated partial lockdowns.

Business restrictions and social distancing measures continue to negatively affect our advertising clients – luxury retailers, travel and hospitality companies as well as art businesses. Many conventional auctions, art fairs and exhibitions were canceled or postponed, and many museums and galleries scaled down their operations or closed permanently.

In light of the uncertainties posed by the pandemic, the typically volatile global market for art auctions declined in the first nine months of 2020. According to the Price Database, total auction sales value for fine art fell by 39% to 4.8 billion USD year-over-year despite a significant recovery in the third quarter.

The coronavirus crisis is accelerating the digital transformation of the art market. As the leading online information and data services provider for the art market, Artnet is broadening its reach and influence. The numbers of visitors to the site reached new heights. At Artnet News, the number of unique visitors increased by 65% in the first nine months of 2020, as compared to the previous year. As a result, Artnet's total web traffic increased by 40% in the same period. Overall, the number of unique visitors during the first nine months of the year hit an average of 4.68 million per month, up from 3.35 million in 2019.

Artnet has defied the negative industry trend due to the broad diversification of its digital business, but the company could not entirely evade the adverse effects of the economic slowdown on advertising sales and clients in the art world, including museums and galleries. As a result, Artnet's total revenue in the first nine months of the year decreased by 4% or 606k USD to 15.4 million USD, as compared to 2019. In the third quarter, the decrease slowed to 2% due to the highest quarterly sales on Artnet Auctions since the launch of the platform in 2008.

Fee-based revenue at **Artnet Auctions** increased by 19% to 3.5 million USD in the first nine months of 2020, boosted by a 36% year-over-year revenue jump in the third quarter. Artnet Auctions is one of only a few options on the market to buy and sell art in a cost-effective way, and without the time constraints of traditional auctions. By providing liquidity via its online auctions, Artnet is also playing a vital role in the art market. Artnet's online-only auction model is well on its way to becoming the industry standard for the digital age.

Top lots in the third quarter included Andy Warhol's screenprint *The Scream (After Munch)* (1984), which sold for 336k USD despite the typical slowdown of auction activity in the summer. Several contemporary artists achieved new global auction records as well. The Australian aboriginal painter Cowboy

Pwerle's *Bush Turkey Dreaming* (2008) realized 50k USD. Graffiti artist Koolhaas's painting *Untitled* (1989) sold for 90k USD. In September, *20th Century Art* became the highest performing sale in Auctions' history with works by Pop Art icon Roy Lichtenstein and Modern master Pablo Picasso each selling at healthy prices.

Price Database revenue decreased slightly by 5% to 5.5 million USD in the first nine months of the year and by 4% in the third quarter. The online archive's results were robust in light of the drastic 39% drop in auction sales this year, as a slowdown in auction activity reduces the demand for research data. Still, the Price Database's highly reliable and transparent auction data remain an essential tool for art market participants.

Gallery Network revenue decreased by 5% to 3.6 million USD in the first nine months of 2020, mostly driven by an overall lower number of members due to gallery closures and a decrease in Auction House Partnerships in light of many canceled sales. In the third quarter, revenue fell by 7% year-over-year. However, the number of Gallery members has increased every month since the outbreak of the coronavirus pandemic in March. Galleries across the world focused on their online presence and sought-out higher-tier memberships which provide additional exposure online or on social media. Members of the Gallery Network benefit from its global reach that results in increased traffic to their websites, enabling transactions to occur seamlessly during lockdowns.

Advertising revenue declined by 19% to 2.9 million USD in the first nine months of 2020. In the third quarter, ad revenue fell by the same percentage. Luxury retailers, as well as art businesses, were often forced to close their premises during lockdowns. In light of the economic downturn, they slashed their marketing budgets to cut costs. The strong growth in traffic to Artnet's websites, in particular to Artnet News, will help a swift recovery in Advertising revenue as soon as economic pressures ease on clients.

Gross profit for the first nine months of 2020 decreased by 9% or 872k USD to 9.36 million USD due to the revenue decline and increased costs at Artnet Auctions and for network administration.

Operating expenses decreased by 2% or 162k USD to 9.6 million USD, mainly due to lower marketing expenses as well as lower administrative costs in light of reduced travel and entertainment. Product Development costs increased primarily due to higher engineering expenses that were not capitalized. In 2019, most development costs were capitalized since Artnet focused on FALCON, the ongoing upgrade of its technology infrastructure. In 2020, the team shifted its focus to non-FALCON projects to support clients during the pandemic. As a result of the lower gross profit and higher product development costs, operating income fell to (244) k USD (2019: 466k USD). Net profit for the first nine months quintupled to 1.57 million USD (2019: 314k) due to a forgivable loan granted by the U.S. Small Business Administration to support businesses during the recession.

Development of Segments

Management closely monitors the Contribution Margin II (revenue minus direct and indirect variable costs) for each segment as a measure of profitability.

The Contribution Margin II (CM II) for the Price Database in the first nine months decreased by 11% to 3.10 million USD due to lower revenue as well as higher personnel and engineering costs.

The CM II for the Galleries segment fell by 16% to 2.03 million USD year-over-year due to the decrease in revenue.

For Artnet News, the CM II remained negative at (851)k USD due to lower advertising revenue and higher costs for personnel.

At Artnet Auctions, the CM II increased by 95% to 549k USD, primarily due to higher revenue and somewhat offset by higher personnel expenses and increased costs for engineering and bad debts.

Financial Position

The Group's operating cash flow in the first three quarters of 2020 remained positive.

Opportunities and Risks

The risk situation has not changed materially as compared to the 2019 reporting year. A detailed overview of risks and opportunities can be found in the 2019 Annual Report.

Outlook

General uncertainties resulting from the global economic downturn remain. As lockdowns and social distancing restrictions are tightened in various countries, the art world and the business of Artnet's advertising clients remain affected.

Due to its online-only business, Artnet's services help the art market weather this crisis. Artnet remains fully operational and essential as market participants all over the world are looking to transact online.

Despite fears of continuing economic turmoil, this moment in time represents an opportunity for Artnet to help accelerate the digital transformation of the art market. The revenue of Artnet Auctions, the company's online auction platform, rose strongly during the ongoing pandemic. Artnet is in a unique position to further benefit from this irreversible digital remaking of its industry.

Berlin, November 6, 2020



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CEO, Artnet AG

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Investor Relations

You can find information for investors and the annual financial statements at artnet.com/investor-relations.

If you have further queries, please send an email to ir@artnet.com, or send your inquiry by mail to one of our offices.

German Securities Code Number

The common stock of Artnet AG is traded on the Prime Standard of the Frankfurt Stock Exchange under the symbol "ART." You can find notices of relevant company developments at artnet.com/investor-relations.

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