

Skate's Art Market Research

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Skate's Market Notes

Skate's Art Stocks Update

New Art Industry Stock to be Listed in Germany
Mallett Continues to Bleed
Abbey Gets 38 New Investors in Art Fund
Some New Data about Mysterious Fotoeffect

New Art Industry Stock to be Listed in Germany

Polish Abbey House's very successful IPO earlier this year (the firm's share price is up 270% in PLN terms since May) was clearly an inspiration for many art industry entrepreneurs. Skate's has learned that at least one such entrepreneur is about to follow with a listing shortly; [Weng Fine Art AG](#), a well-established art dealer from Krefeld, Germany is set to be the first listing on the Frankfurt Stock Exchange in 2012 when its shares will be admitted to trading on January 3, 2012. Skate's is currently reviewing Weng Fine Art's application to Skate's Art Stock Index. If granted the firm would become the 14th constituent company in the index and the second after artnet to come from Germany (another German firm, Berlin-based photography dealer and fund CameraWork, was excluded from the index earlier this year due to lack of trading).

Weng Fine Art is an international art dealer focused on B2B art trading and established and managed by former financier Rüdiger Weng, who owns 87% of the firm's shares with the balance owned by individual shareholders. The listing on January 3, 2012 will provide liquidity to those shareholders; no new equity offering is scheduled to take place at that time, although a capital increase for Weng Fine Art is likely to take place later in 2012 and will be executed in a form of a public offering on the Frankfurt Stock Exchange.

Skate's will publish its index decision together with a very detailed profile of Weng Fine Art AG on December 26, 2011.

Mallett Continues to Bleed

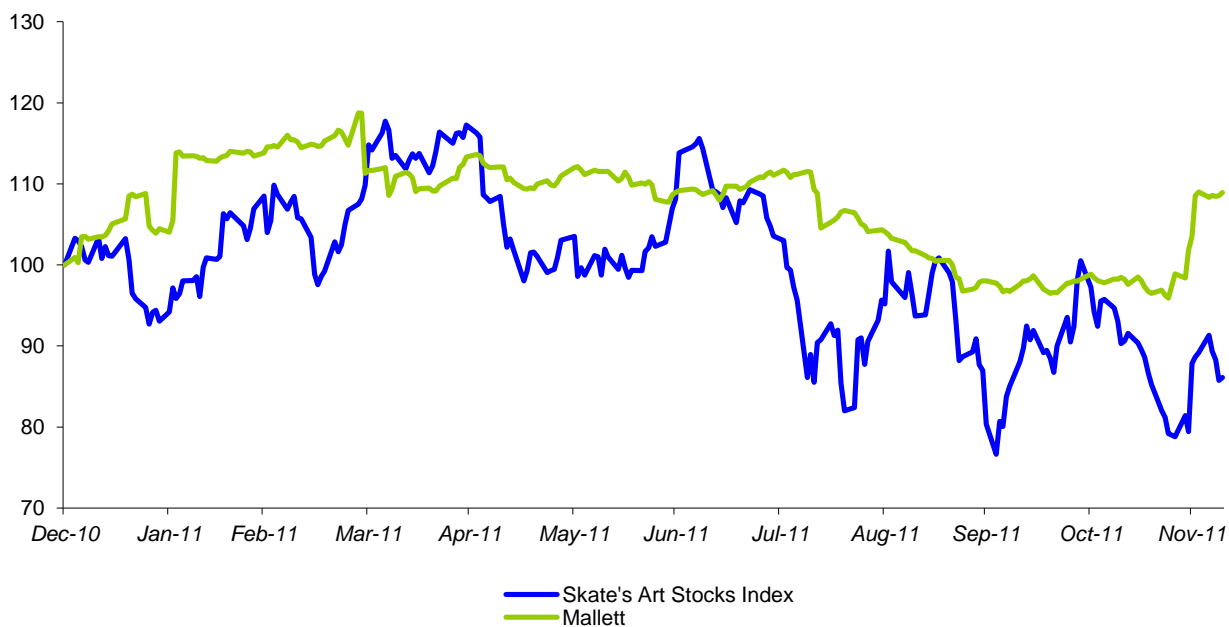
Looking back at the more than 7-year history of Skate's Art Stock Index, art dealers generally suffered ill fates as public companies, with firms like Britain's Partridge Fine Arts and Luxembourg's Artemis Fine Arts going bust and being delisted. Sotheby's struggled with integrating Noortman Master Paintings and eventually wrote off most of what remained after the acquisition in 2006. The only remaining listed art dealer to date is the British firm Mallett, which has been losing money consistently since 2008 and is the smallest art stock in our index with approximately \$15 million in market capitalization today.

Mallett recently published its interim trading report, and it contains a sentence resembling an epitaph to the concept of an art dealer equity story: *"Balancing our cash position with the need for new stock to maintain a freshness in our showrooms remains a key focus for management."*

To make matters worse for Mallett, its management and key shareholders continue to quietly battle for control with activist investor Peter Gyllenhammar who recently achieved a 24% ownership interest in the firm and apparently aims to exceed the 25% threshold by Christmas. This shareholder standoff is the major reason behind the over performance of Mallett stock vis-à-vis Skate's Art Stocks Index as shown in the chart below and predicted in our coverage of Mallett from [June 22, 2011](#).

Maintaining a consistently profitable business model and being transparent to shareholders clearly remains a challenge to art dealers worldwide. Let's wait and see if Weng Fine Art AG can produce a better benchmark for art dealers than Mallett is doing today.

Mallett Share Price versus Skate's Art Stock Index, YTD 2011



Source: Skate's Art Market Research

Abbey Expands its Art Fund

Over the summer an innovative Polish group launched its art fund, and responding to growing interest from Polish consumers in art investing, Abbey House opened subscription to its art fund to wider distribution channels, including major local financial intermediaries that had been marketing the Abbey Fund to investors. This offering apparently worked quite well, for on December 12, 2011 Abbey announced that it had taken 38 new investors in the Abbey Fund and achieved about PLN 10 million (approximately \$3 million) in net assets. Given the relatively small transaction amounts for artworks traded by Abbey (\$1,000-5,000 per work) this would provide a very strong support base to Abbey House's business model of producing new local Polish artists and marketing their works to middle class Polish consumers. Now fuelled with the Abbey Fund, Abbey House is clearly on its way to increasing the volume of art trading through its inventory and distribution system beating its projections for revenues communicated at its IPO.

Sobranie Fotoeffect Discloses Some Information but Remains Shy, Likely to be Forced to Sell Some Assets

Sobranie Fotoeffect, the Russian art fund monster with \$500 million in net assets that generates strong trading volumes for its fund ownership units on Moscow's MICEX exchange, continues to remain very secretive about its holdings and value enhancement strategy. The fund is down 6.8% on a year-to-date basis. Several information disclosures were recently made by the fund to the regulator, the two most interesting of which follow:

- 1) This massive fund only has 10 investors, up from just five at the beginning of the year. Three investors are Russian residents, six are foreign entities, and there is one nominal owner. The foreign entities (likely to be special purpose offshore companies) own most of the fund's ownership units.
- 2) The fund's cash resources are being quickly depleted given the significant ownership costs arising from massive collection and administrative fees charged by various service providers. In September 2011 alone the cash balances of the fund decreased from RUB 17 million to RUB 9 million (approximately \$300,000), which will likely force Sobranie Fotoeffect to begin selling photographic assets from the fund in the immediate future to meet cash needs for expenses such as payment of management fees.