

**Artelligence Podcast with Alexander Zacke of Auctionata**

Alexander Zacke: It was, how should I say a bidding war, for this company, which was won by Leon Black,. So we share the fate of many other people were engaged in the bidding war with Leon Black. We lost. But we are very happy for folks at Artspace, very specifically the CEO because customer information leaked to the press. It has been a very difficult time and actually now have become safe waters so I feel very happy again although obviously I would have loved to buy the company but unfortunately at some point in the negotiations we were unable to raise our offer.

Marion Maneker: I am interested to hear what your vision of a combined Artspace/Auctionata would have been?

Alexander Zacke: Well our vision would have been to introduce the auction platform that we have created, which has been so successful in the last year to the Artspace community of 150,000 users. That would have been our vision. We were not interested in the other part of art space. I think this is what eventually made the decision for the other party to raise their bids to a point where we could not go on. Because they are a publishing company and so for them, the editorial and publishing art space was very important and also the idea of having an audience of plus 50,000 readers which was more important for us, because our vision is more a marketplace.

Marion Maneker: Your original marketplace was something different from what you're going to do now. I believe the initial idea was for auctionata to be a platform for the auctions to be conducted by a group of individuals who would use the platform to make their own sales, is that correct?

Alexander Zacke: That's absolutely correct, we started with a vision for a peer to peer marketplace, which would have been a B to C model where professional vendors such as dealers, galleries, auction houses would be able to do their own auctions. At the time however there was no technically possibility to do any lasting auction in real time because at that time there was still technical issues to that and at the moment this became possible we changed our vision for a classic auction house model versus to the auction conduct the auction for the simple reason because every item that sold in an auction has to be physically present to that auction in live stream broadcast, and obviously that would be impossible for third parties to use the system unless they have a broadcasting facility there they can use.

Marion Maneker: You also allow people to sell directly on the site, not in auction environment.

Alexander Zacke: We have a fixed price format, buy it now format, classic online shop, but it is same model, we allow dealers occasionally to list in our online shop but that it is restricted to dealers who have gone the path that they are very reliable and quality merchandise so it is a program that is only available to a restricted group of high end dealers.

Marion Maneker: Now let's talk about in New York, you have opened offices and you are beginning to look for consignments, when do you plan to run your first auction out of New York?

Alexander Zacke: Well there is going to be a series of auctions starting November, going to be eight auctions this year that will all be broadcasted from our studios, in the old Tiffany building on 36<sup>th</sup> street, and we are basically moved into our offices which are Fuller building on 57<sup>th</sup> and Madison and but there is also been a literally almost how should I say shocking demand and our team over there, there our specialist have sourced a significant amount of artworks for our first offices. We have original works by Renoir, Cy Twombly, Warhol, Matisse, Chagall and so on and so on. So it is going very well. So we are looking forward, we are going to have watch auctions, fine art auctions, print auctions, Asian Art auctions, so it is going to be a pretty significant auction schedule in November and December.

Marion Maneker: And is that what you raised the 30 million dollars in addition to these original 20-22 million dollars that you raised, to expand into New York or are there other projects you are looking to do next?

Alexander Zacke: There is a couple of smaller ones, but originally we had allocated only small parts of this investment to build the New York business but now that we see the potential in New York is so massive, we have just completed an internal discussion so our investors will likely to dedicate a significant part for ongoing funding to build the New York marketplace and the traction is consistent and keeps going like it did in the first months we will likely invest a significant amount in the United States and when I say significant I mean really significant. Because the way the business currently suggests it will bear, makes us very ambitious right now.

Marion Maneker: And the demand is coming from people wanting to sell paintings? These are eight auctions in different painting categories?

Alexander Zacke: There is going to be, even in this fall there is going to be a watch auction for collectors auction as we've seen a tremendous demand in the watch area, there

is also design, 20<sup>th</sup> century design which is doing well. There is Asian art which couple of our customers approved. There is only going to be one painting auction, the auction for a number of different categories.

Marion Maneker: And then you will set up to do another cycle some time in 2015?

Alexander Zacke: Yeah, we have not yet made our plans for 2015 because obviously it depends consignments and results in 2014, but my wild guess would be that it is going to be a pretty busy schedule.

Marion Maneker: And how do you see the difference just with the few months you have had here in New York, between what's happening in New York and what you are doing in Berlin?

Alexander Zacke: Well I would say many years ago when I started the business, I had to travel for the first part to London, I thought that is the place to be. But the market in New York is the epicenter of the market, such as London and Europe, but New York is much bigger than Finland and New York is the global epicenter of the art market, so it is not only about having more vendors and buyers in place, but it is also what is so important to the industry, more specialists, more curators, more experts, more conservators. More consultants. The whole industry is like basically the question is the same. It's the different between the Vienna stock exchange and the New York stock exchange. I think it is the same difference. It is fascinating, it is breathtaking to see how far they were able to build a team of highly knowledgeable, highly educated at extremely well connected specialists, very little time. The first managing director from New York started in January, and if you go to the building now and look at what's going on there, you would think this business has been there for 20 years, this is what you think when you go into the place, and see the people work, it seems as though it has been there forever. And the reason is because all these people know exactly what they are doing because they have been in this industry because they know the market and that's something that you will not see in any other place, my guess.

Marion Maneker: So when are you moving to New York?

Alexander Zacke: I would say when I can afford an apartment on 57<sup>th</sup> street, but the answer would likely be never. It is exactly interesting that you ask, for the last time when I was there last week I actually first time I thought I might want to take an apartment in the city, but I still need to convince my wife, but I think it is likely I will spend more time in the city in 2015.

Marion Maneker: So it sounds like your ambitions are to conquer America as opposed to create a global auction house though obviously everything these days draws from potential buyers around the world.

Alexander Zacke: I think it is not so much about the idea of creating a global business. I think it is a question to be, to let people do what they know best. We here in Germany, we have developed a very good technology that enables us to build a global auction house. They have to build, we have built high end software that enables us to conduct international fine art auction transactions for valuation to the delivering of the auction items to the customer or in the transaction within one software. That illustrates hundreds of steps that you normally take place within such transaction, this is first thing, took us years to develop something we would never do out of New York City because it doesn't make sense to have a tech team in New York City when you can have a tech team in Berlin or Silicon Valley, it doesn't make sense and that is the same for the performance marketing and the same for data and financial success, same for business intelligence and maybe product management but this is one point, so Berlin will always be the head for this auction when it comes to these entities of the business, but when it comes to fine art, Berlin, why not Berlin be a headquarter if Germany is 2% of the global art market, there it would make sense to have core operations in New York City and maybe Hong Kong, and maybe in London and maybe in Paris or in Chicago or Los Angeles, but it wouldn't make sense to have it in Berlin because that is not where the art market is. And so I think it is also quite where you find the best talent. Where do you find the best specialists, you have the best specialists in the cities that I have mentioned, not in Berlin, but on the other hand where do you find the best software developers, certainly not New York City. So I think for an internet company we have specific challenges and that's the way we approach them.

Marion Maneker: Give me a sense of the scope of your ambitions. I read somewhere that you gave information having quarterly sales of about six million earlier this year, and I was just wondering what are your hopes for 2014 and expectations for 2015 in terms of your overall sales volume?

Alexander Zacke: Well we don't really record sales although it is communicated here and there, the number we look at is Net revenue which is basically the commission revenue we make. So currently for this year our total commission revenue will be 15 million dollars, and for 2015, we are planning on commissions of 50 million, by that time normally in the fast growing company you look at run rates which is basically the last month commission and you multiply it by 12 so it will predict the gross situation, so the end of next year our net revenue run rate will be around 80 million dollars. By the end of 2016 it will be around

150-250 million. And this might sound very ambitious to you but on the other hand, we have executed every business plan we have ever done and so we are very much convinced that those plans are realistic. At the end of the day it is not a question of whether the art market moves online. I think he will agree with me on the fact that this is happening, it is also not the question but the buyers or sellers want to transact online and whether they are willing to buy at a significant level online so the only question that we are, that have yet to be answered and that is also the question that our investors have in their focus and that is this business is going to be the one destination for art auctions online in five to ten years from now, which what's the name of this one business, because there is not going to be two businesses. There is going to be one doing it globally, any other type of internet market and we believe this business will be auction after.

Marion Maneker: Can you give me a sense of what you, where you think you fit in the value stack for lack of a better term, are you?

Alexander Zacke: I think it is a good, very important question to address, how you look at it from a market perspective meaning that you look at the value stack is different in Berlin than it is in New York, but the average value of any sold item at businesses like Sotheby's and Christie's is around \$50,000. Typically at a family-owned auction house the value is between \$2500 and \$5000. For Auctionata in Germany it is roughly \$5500. In Germany we think we will go in the next two or three years to around 10,000, so about double of that, we started at about 1000 two and a half years ago so it is a year it grows, and the US market however from what we see sourcing right now, we think it will start significantly higher than that already in Germany, and is likely to end up at the point of let's say between ten, 15 and maybe even above 15. We do not want to carry it any higher because at that point we could come to the competition for the super high items, the margin is extremely low. Our margin is about double of what Sotheby's has, so more interest coming into that area because it doesn't make any difference because even if we sell at double at that time we would not earn more. So obviously that wouldn't make any sense. So we believe that the sweet spot is somewhere between what typically family at auction house does and what the global auction houses have.

Marion Maneker: And what is your fee structure, what do you charge buyers and sellers.

Alexander Zacke: We charge buyers 20%, we sell, we charge sellers 20%, but on the seller side that fee is dependable on the size of the consignment and it is negotiated very frequently so that our overall gross fee that we collect in total is 27.5% this is what we have been receiving so far and Sotheby's is about 14.5%. So it is about half of what we have.

Marion Maneker: So what you are telling me is that your specialists are seeing something slightly different from what we are being told from the people that attract the art market, we are told that all the value is at the high end and a few artists, for the most expensive works, and yet you are saying here in the much lower end, still significant money but not six, seven figure items that you're surprised at the amount of material that is coming across and the expectations.

Alexander Zacke: Yes, absolutely that is exactly what I am saying. So the information you are hearing is it very simple math and that math, is that an item is more expensive will generate more profit, but that is not the case in reality, in reality the global leaders have made the choice to get into competition, of war for the super high end items and that has created a doom loop of negotiations where you have to pay all kinds of advisors and all kinds of people who are consultants and at the end the margin that they have for those items is extremely low because you have to see, Sotheby's margin have decreased for now 12 consecutive quarters. And currently it is somewhere at 14-15%. Where we have a booming art market, they are in a kind of enviable situation yet the margin keeps eroding so you wonder what's going to happen with them once the art market is not moving anymore. And so the idea is not to compete for those things, but the idea is to work in an area of the market where there isn't much bigger access to merchandise. The problem however is that brick-and-mortar auction houses do not make as much money on those items because they have to produce customers, they have to exhibit the items, and then have to entertain live auction goes which is expensive in New York or anywhere else, and this is not what we do, we are a pure internet company so we don't spend any money on any of those things and our unit economics are different. This enables us to cater to better audiences that the classic brick and mortar auction houses have a hard time to catering to because it is not as possible.

Marion Maneker: I like your expression doom loop, but the point I was trying to make is what you got to at the end is not so much the competition and margins for the auction house, but that what we are told by the people who analyze the demand is that the demand is only for the most expensive items and the middle market, the average collector is falling away and what you are giving evidence of is the opposite and I can think of several other companies that seem to be thriving on it is that there are many more people looking to buy these kinds of objects at a much lower level in the market.

Alexander Zacke: The issue is the life cycle of collectors does not start by buying a million dollar painting, obviously, not even for the very wealthy collectors or the collectors that are born in wealthy families. So the story here is those are collectors who start to develop an eye when you are 30, and you grow into the

collector role over decades and eventually you end up buying six and seven and eight nine digit works of art you can afford. The audience which you would call the middle market collector today is an audience that has been born with the internet and this is an audience that went to school with the internet, was introduced. So I am not surprised to hear from the brick and mortar market that the middle collector is disappearing but I have bad news for those guys, he has not disappeared, he is still there, it is just that he is on the internet, and not offline and I think some of those people have just underestimated the demand of this type of collector to buy online, otherwise we are just small business as you remember from our last conversation that started merely two years ago in Berlin, and our net revenue has grown just by 500% in the last year, by doing live stream auctions exactly this area out of Berlin, it was not exactly known as a place that is famous at the art market, and the reason for this is because of the demand of the internet for this kind of merchandise is in the market collector is much higher as it is offline.

Marion Maneker: No and I suspected that for a long time and it is interesting to hear real evidence of its existence and I think your growth will give us a further evidence. I actually think that is probably a perfect place to stop.

Alexander Zacke: I have to return and say thank you very much for having me.