



ART MARKET GURU

MAECENAS
INDUSTRY NOTE

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SUMMARY

One of the most anticipated and highest profile art market Blockchains in 2017 was Maecenas¹. The company's white paper² (published in August 2017) promises the Blockchain network will provide liquidity to galleries, museums and high net worth individuals by providing digital "shares" in works of art they house. On Blockchains, digital shares are represented by electronic tokens. Maecenas provides a token it calls ART. The token is a form of currency on the Blockchain, usually referred to as a "cryptocurrency" or "cryptocoin" (or just "coin"). "Crypto-" references the programmatic way in which the coins are "minted" through Blockchain technology.

The company uses the ART token in two ways: to convert the value of an artwork into fractional financial units and to provide a way for stakeholders to purchase artworks through the Blockchain³.

Once an stakeholder in the Maecenas Blockchain buys ART tokens, the stakeholder can use the tokens to bid on up to 49-percent ownership of fine art objects during electronic auction.

The company also offers that the Blockchain platform will provide ART token holders with transparency on all transactions involving an artwork, as well as records of provenance and certifications of authenticity.



¹ <https://www.maecenas.co>

² <https://www.maecenas.co/Maecenas-WhitePaper.pdf>

³ <https://www.artmarket.guru/le-journal/blockchain-and-the-art-markets/>

⁴ <https://www.artmarket.guru/product/art-and-blockchain-industry-report/>

The company's Autumn 2017 Initial Coin Offering (ICO) of its ART token raised more than US\$15.5 million. It is as of yet unclear the extent to which the funds the company has raised will go toward operational costs, including marketing and sales, and how much of stakeholder financing will go toward shareholdings in artworks.

The Risk Analysis considers the interests of four kinds of stakeholder in Maecenas ART tokens:

- ▶ Those who wish to invest in the capital of Maecenas
- ▶ Cryptocurrency speculators
- ▶ Those who wish to invest in artworks through Maecenas
- ▶ The museums, galleries and collectors who place their fine art for sale with Maecenas

The Report is a thorough stakeholder risk analysis of Maecenas. We look at the Strengths, Concerns, Opportunities, and Challenges that define the business's operations and strategy. We apply the Blockchain-specific Due Diligence categories of Technology, Cybersecurity, Corporate Governance, Stakeholder Rights, and Government Policy to further determine the risks stakeholders in the company's cryptocurrency should be aware of. Download a copy of ArtMarketGuru's guide "How to Make and Protect Investments in Art through Blockchain Technology"⁴ to learn more about our Due Diligence methodology.

The Risk Analysis suggests that the success of Maecenas's ICO was attributable to the speculative conditions surrounding technology firms in general and cryptocurrencies (like Bitcoin⁵) specifically. The Analysis reveals risks to stakeholders arising from the speculative nature of the company's funding; the opacity surrounding the sources of funding; and the lack of experience of the leadership team. Concerns also arise about the lack of a country-specific legal entity and location(s) for stakeholder dispute resolution and arbitration.

Blockchain technology has the potential to revolutionize the art world by providing an immutable record of the provenance and accreditation of artworks. Opportunities for the innovative online platform as a distributed ledger of transactions and record of the history and certifications of artworks are abundant. However, stakeholder risk increases significantly through the company's issuance of its own cryptocurrency.

The Analysis calls into question the need for Maecenas to issue a cryptocurrency at all. We understand the ICO as a way to fund the business outside national regulatory strictures for transparency and accountability. Three market risks related to the use of cryptocurrencies in the business model arise, however:

- ▶ the speculative nature of cryptocurrencies in general
- ▶ currency market fluctuations
- ▶ the volatility of the art markets

⁴ <https://www.artmarket.guru/product/art-and-blockchain-industry-report/>

⁵ <https://www.artmarket.guru/le-journal/bitcoin-the-next-tulip-craze/>

The combined conditions of the three markets create a high-risk environment for stakeholders who have sought to invest in artworks through Maecenas. gyrations in these markets could create a situation in which there are few buyers and wide bid-ask spreads. Value-destroying conditions could make it very difficult for stakeholders to convert their “crypto profit” into an actual one.

Stakeholders who wished to help capitalize Maecenas through the ICO also face the same risk of losses in the event of dramatic fluctuations in any of the markets. Speculators in cryptocurrencies are also exposed; however, their “sense of adventure” will likely make their losses feel less “painful” than stakeholders seeking a safe asset haven in Maecenas.

Stakeholder flight from either the art asset or the cryptocurrency may create “pyramid” scenarios in which the company solicits more stakeholders to retain past stakeholders and to distribute expected returns to departing stakeholders.

