

Sotheby's

SUPPLEMENTAL FINANCIAL INFORMATION FOR THE SIX MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

May 10, 2017

The following presentation provides supplemental financial information for the six month periods ended March 31, 2017 and 2016. This presentation includes information derived from our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) and presented in its quarterly and annual filings with the U.S. Securities and Exchange Commission (SEC). In this presentation, Sotheby's also uses non-GAAP financial measures. The definitions of these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in Appendix C to this presentation.

Management urges you to read this presentation in conjunction with the information included in our previously filed quarterly reports on Form 10-Q and our most recent Form 10-K for the year ended December 31, 2016. In addition, refer to our Press Release announcing our First Quarter 2017 Financial Results. All our Press Releases and SEC filings are available on our web site at www.sothebys.com.

Sotheby's
Supplemental Financial Information
SEASONALITY

The global art auction market has two principal selling seasons, which generally occur in the second and fourth quarters of the year. In the aggregate, second and fourth quarter Net Auction Sales represented 82% and 78% of our total Net Auction Sales in 2016 and 2015, respectively, with auction commission revenues comprising approximately 75% of our total revenues in each of those years. Accordingly, our financial results are seasonal, with peak revenues and operating income generally occurring in the second and fourth quarters. Consequently, first and third quarter results have historically reflected lower revenues when compared to the second and fourth quarters and, typically, a net loss due to the fixed nature of many of our operating expenses.

In quarterly reporting periods, the comparison of our results between the current and prior year quarters can be significantly influenced by a number of factors in addition to the seasonality of the global art auction market, such as changes in the timing of when certain auctions occur, the level of non-recurring single-owner auction sale events, the level and timing of individually negotiated private sale transactions, and changes in certain accounting estimates that rely upon forecasted results such as variable incentive and share-based compensation expense and our estimated annual effective income tax rate. Accordingly, when evaluating our performance, we believe that investors should also consider our results for rolling six and twelve month periods, which better reflect the business cycle of the global art auction market.

Sotheby's
Supplemental Financial Information
ROLLING SIX MONTHS ENDED MARCH 31, 2017 AND 2016
(In Thousands, Except Per Share Data and Percentage Information)

Six Months Ended March 31,	2017	2016	Variance	
			\$/%	%
Revenues:				
Agency commissions and fees	\$ 365,212	\$ 365,504	\$ (292)	—%
Inventory sales	97,806	42,279	55,527	*
Finance	24,840	27,654	(2,814)	(10%)
Other	8,368	6,915	1,453	21%
Total revenues	<u>496,226</u>	<u>442,352</u>	<u>53,874</u>	<u>12%</u>
Expenses:				
Agency direct costs	36,917	48,733	(11,816)	(24%)
Cost of inventory sales	105,454	49,448	56,006	*
Cost of finance revenues	9,795	8,630	1,165	13%
Other expenses	265,518	278,964	(13,446)	(5%)
Total expenses	<u>417,684</u>	<u>385,775</u>	<u>31,909</u>	<u>8%</u>
Operating income	78,542	56,577	21,965	39%
Net interest expense (a)	(14,525)	(14,184)	(341)	(2%)
Other income	2,920	2,424	496	(20%)
Income before taxes	66,937	44,817	22,120	49%
Income tax expense	14,871	81,724	(66,853)	82%
Equity in earnings (losses) of investees	2,122	(230)	2,352	N/A
Net income (loss)	<u>54,188</u>	<u>(37,137)</u>	<u>91,325</u>	<u>N/A</u>
Less: Net loss (income) attributable to noncontrolling interest	11	(100)	111	N/A
Net income (loss) attributable to Sotheby's	<u>\$ 54,177</u>	<u>\$ (37,037)</u>	<u>\$ 91,214</u>	<u>N/A</u>
Basic earnings (loss) per share - Sotheby's common shareholders	<u>\$ 1.01</u>	<u>\$ (0.57)</u>	<u>\$ 1.58</u>	<u>N/A</u>
Diluted earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.99</u>	<u>\$ (0.57)</u>	<u>\$ 1.56</u>	<u>N/A</u>
Cash dividends declared per common share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>N/A</u>
Statistical Metrics (b):				
Aggregate Auction Sales	\$ 2,168,976	\$ 2,997,092	\$ (828,116)	(28%)
Net Auction Sales	\$ 1,812,114	\$ 2,524,526	\$ (712,412)	(28%)
Auction Commission Margin	18.0%	13.4%	4.6%	N/A
Private Sales	\$ 310,711	\$ 321,010	\$ (10,299)	(3%)
Consolidated Sales	\$ 2,577,493	\$ 3,360,381	\$ (782,888)	(23%)
Non-GAAP Financial Measures (c):				
Adjusted Expenses	\$ 289,093	\$ 279,012	\$ 10,081	4%
Adjusted Operating Income	\$ 91,884	\$ 105,262	\$ (13,378)	(13%)
Adjusted Net Income	\$ 62,332	\$ 59,586	\$ 2,746	5%
Adjusted Diluted Earnings Per Share	\$ 1.14	\$ 0.92	\$ 0.22	24%
EBITDA	\$ 94,560	\$ 69,204	\$ 25,356	37%
Adjusted EBITDA	\$ 107,902	\$ 117,889	\$ (9,987)	(8%)

* - Represents change in excess of 100%.

Refer to the appendices included in this presentation for definitions and any relevant reconciliations related to: (a) Financial Statement Line Items; (b) Statistical Metrics, and; (c) Non-GAAP Financial Measures.

Sotheby's
Supplemental Financial Information
TOTAL EXPENSES
ROLLING SIX MONTHS ENDED MARCH 31, 2017 AND 2016
(In Thousands)

Six Months Ended March 31,	2017	2016	Variance	
			\$	%
Expenses:				
Agency direct costs	\$ 36,917	\$ 48,733	\$ (11,816)	(24%)
Cost of inventory sales	105,454	49,448	56,006	*
Cost of finance revenues	9,795	8,630	1,165	13%
Marketing	12,086	11,770	316	3%
Salaries and related	158,136	142,987	15,149	11%
General and administrative	84,367	77,240	7,127	9%
Depreciation and amortization	10,987	10,333	654	6%
Voluntary separation incentive programs (net) (a)	(58)	36,631	(36,689)	N/A
Restructuring charges (net) (a)	—	3	(3)	(100%)
Total expenses	\$ 417,684	\$ 385,775	\$ 31,909	8%

* - Represents change in excess of 100%.

Sotheby's
Supplemental Financial Information
EARNINGS PER SHARE
ROLLING SIX MONTHS ENDED MARCH 31, 2017 AND 2016
(In Thousands, Except Per Share Data and Percentage Information)

Six Months Ended March 31,	2017	2016
Basic:		
<i>Numerator:</i>		
Net income (loss) attributable to Sotheby's	\$ 54,177	\$ (37,037)
Less: Net income attributable to participating securities	808	—
Net income (loss) attributable to Sotheby's common shareholders	<u>\$ 53,369</u>	<u>\$ (37,037)</u>
<i>Denominator:</i>		
Weighted average basic shares outstanding	<u>52,986</u>	<u>64,570</u>
Basic earnings (loss) per share - Sotheby's common shareholders	<u>\$ 1.01</u>	<u>\$ (0.57)</u>
Diluted:		
<i>Numerator:</i>		
Net income (loss) attributable to Sotheby's	\$ 54,177	\$ (37,037)
Less: Net income attributable to participating securities	808	—
Net income (loss) attributable to Sotheby's common shareholders	<u>\$ 53,369</u>	<u>\$ (37,037)</u>
<i>Denominator:</i>		
Weighted average common shares outstanding	52,986	64,570
Weighted average effect of Sotheby's dilutive potential common shares:		
Performance share units	498	—
Deferred stock units	151	—
Stock options	22	—
Weighted average dilutive potential common shares outstanding	<u>671</u>	<u>—</u>
Weighted average diluted shares outstanding	<u>53,657</u>	<u>64,570</u>
Diluted earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.99</u>	<u>\$ (0.57)</u>

Sotheby's
Supplemental Financial Information
APPENDIX A

Financial Statement Line Item Definitions

- (i) Net Interest Expense: Represents interest expense less interest income.
- (ii) Voluntary Separation Incentive Programs (net): Consists of a net benefit recorded to adjust the liability associated with the voluntary separation incentive programs implemented by us in the fourth quarter of 2015.
- (ii) Restructuring Charges (net): Consists of employee termination costs associated with the restructuring plan enacted in July 2014, as well as adjustments made in subsequent periods.

Sotheby's
Supplemental Financial Information
APPENDIX B

Statistical Metric Definitions

- (i) Aggregate Auction Sales: Represents the total hammer (sale) price of property sold at auction plus buyer's premium.
- (ii) Net Auction Sales: Represents the total hammer (sale) price of property sold at auction.
- (iii) Auction Commission Margin: Represents total auction commission revenues as a percentage of Net Auction Sales.
- (iv) Private Sales: Represents the total purchase price of property sold in private sales brokered by us, including our commissions.
- (v) Consolidated Sales: Represents the sum of Aggregate Auction Sales, Private Sales, and Inventory sales.

APPENDIX C

Use of Non-GAAP Financial Measures:

GAAP refers to generally accepted accounting principles in the United States of America. Included in this presentation are financial measures presented in accordance with GAAP and also on a non-GAAP basis. Adjusted Expenses, Adjusted Operating Income, Adjusted Net Income, Adjusted Diluted Earnings Per Share, EBITDA and Adjusted EBITDA are supplemental financial measures that are not required by or presented in accordance with GAAP. Our definition of these non-GAAP financial measures is provided in the following paragraphs.

- (i) Adjusted Expenses is defined as total expenses excluding the cost of inventory sales, the cost of finance revenues, earn-out compensation expense related to the acquisition of AAP, charges related to certain contractual severance agreements (net, recorded within salaries and related costs), leadership transition severance costs (recorded within salaries and related costs), charges related to our voluntary separation incentive programs (net), and restructuring charges (net).
- (ii) Adjusted Operating Income is defined as operating income excluding earn-out compensation expense related to the acquisition of AAP, charges related to certain contractual severance agreements (net, recorded within salaries and related costs), leadership transition severance costs (recorded within salaries and related costs), charges related to our voluntary separation incentive programs (net), and restructuring charges (net).
- (iii) Adjusted Net Income is defined as net income attributable to Sotheby's excluding the after-tax impact of earn-out compensation expense related to the acquisition of AAP, charges related to certain contractual severance agreements (net, recorded within salaries and related costs), leadership transition severance costs (recorded within salaries and related costs), charges related to our voluntary separation incentive programs (net), CEO separation and transition costs, and restructuring charges (net), as well as income tax charges associated with the repatriation of pre-2014 foreign earnings.
- (iv) Adjusted Diluted Earnings Per Share is defined as diluted earnings per share excluding the after-tax per share impact of earn-out compensation expense related to the acquisition of AAP, charges related to certain contractual severance agreements (net, recorded within salaries and related costs), leadership transition severance costs (recorded within salaries and related costs), charges related to our voluntary separation incentive programs (net), CEO separation and transition costs, restructuring charges (net), as well as income tax charges associated with the repatriation of pre-2014 foreign earnings.
- (v) EBITDA is defined as net income attributable to Sotheby's, excluding income tax expense, net interest expense, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA excluding earn-out compensation expense related to the acquisition of AAP, charges related to certain contractual severance agreements (net, recorded within salaries and related costs), leadership transition severance costs (recorded within salaries and related costs), charges related to our voluntary separation incentive programs (net), and restructuring charges (net).

We use Adjusted Expenses to assess our cost structure when compared to prior periods and on a forward-looking basis, particularly in evaluating performance against our cost control initiatives. Adjusted Expenses provides insight into our ongoing cost structure, absent the interest costs associated with funding the SFS loan portfolio and the cost of inventory sales, which are unpredictable and can vary significantly from one period to the next, and costs associated with unusual items.

Adjusted Operating Income, Adjusted Net Income, Adjusted Diluted Earnings Per Share, EBITDA, and Adjusted EBITDA, are important supplemental measures used in our financial and operational decision making processes, for internal reporting, and as part of our forecasting and budgeting processes, as they provide helpful measures of our core operations. These measures allow us to view operating trends, perform analytical comparisons, and benchmark performance between periods. We also believe that these measures may be used by securities analysts, investors, financial institutions, and other interested parties in their evaluation of our performance.

We caution users of our financial statements that amounts presented in accordance with our definitions of these non-GAAP financial measures as provided below may not be comparable to similar measures disclosed by other companies because not all companies and analysts calculate such measures in the same manner. A reconciliation of the non-GAAP measures noted above to the most comparable measures reported in accordance with GAAP is presented in the following tables.

Sotheby's
Supplemental Financial Information
APPENDIX C
(In Thousands of Dollars, Except Percentage Information)

	Six Months Ended	
	March 31,	
	2017	2016
Total expenses	\$ 417,684	\$ 385,775
Subtract: Cost of inventory sales	105,454	49,448
Subtract: Cost of finance revenues	9,795	8,630
Subtract: Acquisition earn-out compensation expense	13,400	2,187
Subtract: Contractual severance agreement charges (net)	—	6,114
Subtract: Leadership transition severance costs	—	3,750
Subtract: Voluntary separation incentive program charges (net)	(58)	36,631
Subtract: Restructuring charges (net)	—	3
Adjusted Expenses	<u>\$ 289,093</u>	<u>\$ 279,012</u>
Variance versus prior period - \$	<u>\$ 10,081</u>	
Variance versus prior period - %	<u>4%</u>	

Sotheby's
Supplemental Financial Information
APPENDIX C
(In Thousands of Dollars, Except Percentage Information)

	Six Months Ended	
	March 31,	
	2017	2016
Operating income	\$ 78,542	\$ 56,577
Add: Acquisition earn-out compensation expense	13,400	2,187
Add: Contractual severance agreement charges (net)	—	6,114
Add: Leadership transition severance costs	—	3,750
Add: Voluntary separation incentive program charges (net)	(58)	36,631
Add: Restructuring charges (net)	—	3
Adjusted Operating Income	<u>\$ 91,884</u>	<u>\$ 105,262</u>
Variance versus prior period - \$	<u>\$ (13,378)</u>	
Variance versus prior period - %	<u>(13%)</u>	
	Six Months Ended	
	March 31,	
	2017	2016
Net income (loss) attributable to Sotheby's	\$ 54,177	\$ (37,037)
Add: Acquisition earn-out compensation expense, net of tax of (\$5,213) and (\$851)	8,187	1,336
Add: Contractual severance agreement charges (net), net of tax of \$0 and (\$2,372)	—	3,742
Add: Leadership transition severance costs, net of tax of \$0 and (\$1,424)	—	2,326
Add: Voluntary separation incentive programs charges (net), net of tax of \$26 and (\$13,189)	(32)	23,442
Add: CEO separation and transition costs, net of tax of \$0 and \$17	—	17
Add: Restructuring charges (net), net of tax of \$0 and \$25	—	28
Add: Income tax expense related to repatriation of pre-2014 foreign earnings	—	65,732
Adjusted Net Income	<u>\$ 62,332</u>	<u>\$ 59,586</u>
Variance versus prior period - \$	<u>\$ 2,746</u>	
Variance versus prior period - %	<u>5%</u>	

The income tax effect of each line item in the reconciliation of net income attributable to Sotheby's to Adjusted Net Income is computed using the relevant jurisdictional tax rate for each item.

**Sotheby's
Supplemental Financial Information
APPENDIX C**

(In Thousands of Dollars, Except Per Share Data and Percentage Information)

	Six Months Ended March 31,	
	2017	2016
Diluted earnings (loss) per share	\$ 0.99	\$ (0.57)
Add: Acquisition earn-out compensation costs, per share	0.15	0.02
Add: Contractual severance agreement charges (net), per share	—	0.06
Add: Leadership transition severance costs, per share	—	0.04
Add: Voluntary separation incentive program charges (net), per share	—	0.36
Add: Restructuring charges (net), per share	—	—
Add: Income tax expense related to repatriation of pre-2014 foreign earnings, per share	—	1.01
Adjusted Diluted Earnings Per Share	<u>\$ 1.14</u>	<u>\$ 0.92</u>
Variance versus prior period - \$	<u>\$ 0.22</u>	
Variance versus prior period - %	<u>24%</u>	

	Six Months Ended March 31,	
	2017	2016
Net income (loss) attributable to Sotheby's	\$ 54,177	\$ (37,037)
Add: Income tax expense	14,871	81,724
Add: Net interest expense	14,525	14,184
Add: Depreciation and amortization	10,987	10,333
EBITDA	<u>94,560</u>	<u>69,204</u>
Add: Acquisition earn-out compensation expense	13,400	2,187
Add: Contractual severance agreement charges (net)	—	6,114
Add: Leadership transition severance costs	—	3,750
Add: Voluntary separation incentive program charges (net)	(58)	36,631
Add: Restructuring charges (net)	—	3
Adjusted EBITDA	<u>\$ 107,902</u>	<u>\$ 117,889</u>
Variance versus prior period - \$	<u>\$ (9,987)</u>	
Variance versus prior period - %	<u>(8%)</u>	