**Sotheby's Fourth Quarter 2015 Earnings Pre-Announcement Call Outline**
**22 January 2016**

Safe harbor: GAAP refers to Generally Accepted Accounting Principles in the United States of America. In this call, financial measures are presented in accordance with GAAP and also on an adjusted non-GAAP basis. Also, during the course of this call, the Company may make projections or other forward-looking statements regarding future events or the future financial performance of the Company. We wish to caution you that such projections and statements are only predictions and involve risks and uncertainties, resulting in the possibility that the actual events or performance will differ materially from such predictions. We refer you to the documents the Company files periodically with the Securities and Exchange Commission, specifically the Form 8-K that was filed this morning regarding this announcement, which includes an explanation of the non-GAAP financial measures used on this call, as well as reconciliation to the comparable GAAP amount, and the Company's most recently filed Form 10-Q and 10-K. These documents identify important factors that could cause the actual results to differ materially from those contained in the projections or forward-looking statements.

**SPEAKER: Tad Smith, President and CEO**

Good morning. Thank you for joining us, and for your interest in Sotheby's.

- This morning's call is to discuss a number of announcements. First, I will begin with the pre-announcement of our fourth quarter earnings. Of course, these pre-announcement figures are preliminary and subject to change given the year-end financial close and review process, as well as events occurring after this call – we plan to have a full report of earnings in late February as regularly scheduled.
- Adjusted Net Income* for the fourth quarter of 2015 is estimated to be $75 to $79 million and Adjusted Diluted Earnings Per Share* is estimated to be $1.11 to $1.17 which is largely flat on the Adjusted Net Income* line and likely to be slightly better on the Adjusted EPS* line due to the share repurchases we made late in 2015. Adjusted Net Income* and Adjusted Diluted Earnings Per Share* were $78 million and $1.12, respectively, in the fourth quarter of 2014.
    - Fourth quarter Adjusted Net Income* is impacted by a decrease in Agency segment gross profit due to a lower level of various-owner auction sales, as well as income statement charges related to the Taubman Collection. We now project to lose approximately 1%, or $6 million of the guaranteed amount, due to a shortfall in sale proceeds. Also, approximately $6 million of sale-related expenses were incurred in the fourth quarter of 2015, which is on the low end of the usual 1-2% of direct costs as a percent of sales. The total $12 million for Taubman is included in fourth quarter Adjusted Net income*
    - The remaining property from the Taubman Collection with a pre-sale low estimate of approximately $24 million will be offered at auctions in 2016, primarily at the Old Master Paintings sale in New York on January 27th, and could result in additional guarantee losses if the property offered at these auctions does not meet pre-sale

expectations. Any further loss associated with the Taubman Collection would be accrued to the fourth quarter of 2015, if material.

  - As a result of the guarantee shortfall, no net auction commission revenue will be recognized for the Taubman collection in the fourth quarter of 2015 or in 2016. With no revenue from the Taubman Collection in the fourth quarter, auction commission margin is down versus the prior year fourth quarter. Excluding the Taubman collection sales, auction commission margin for the fourth quarter and full year did improve when compared to the prior year.
  - These factors, which unfavorably impact the comparison to the prior year, are largely offset by a reduction in Adjusted Expenses*.

- On an unadjusted GAAP basis, we expect to report an estimated net loss for the quarter of ($10) million to ($19) million or ($0.15) to ($0.29) per diluted share, as compared to net income of $74 million or $1.06 per diluted share in the prior year.
  - The estimated net loss for the fourth quarter of 2015 is due to two factors. First, we will be recording a significant non-cash income tax charge in the quarter, which I will explain later in the call. Second, during the quarter, we recorded a $37 million pre-tax charge or $0.35 per diluted share associated with the voluntary separation incentive programs that were implemented late in 2015.
- For the full year 2015, Adjusted Net Income* is estimated to be $138 million to $142 million and Adjusted Diluted Earnings Per Share* is estimated to be $1.99 to $2.05, as compared to Adjusted Net Income* and Adjusted Diluted Earnings Per Share* of $142 million and $2.03, respectively, in 2014.
- On an unadjusted GAAP basis, we expect to report estimated net income of $36 million to $45 million or $0.52 to $0.65 per diluted share for the full year, as compared to net income of $118 million or $1.68 per diluted share in the prior year.
- Second, turning from earnings to capital allocation, I said on the call early last week that, due to the ongoing deal negotiations with *Art Agency, Partners,* we were unable to be in the market buying shares when the trading window was open in December. With the public release of information from today's call we are able to repurchase shares at what we view as attractive prices.

On the topic of share repurchases, the Board approved a $200 million increase to our existing $125 million share repurchase authorization which brings our current authorization total to $325 million. We expect to begin to repurchase shares as soon as possible through open market purchases and/or accelerated share repurchase agreements subject to the share price, the market and economic conditions, as well as other corporate considerations.

- Third, this significant increase in our share repurchase program and the need for cash in the U.S. to fund other corporate strategic initiatives have made it clear that approximately $381 million of accumulated foreign earnings that were previously set aside for investment overseas will instead be repatriated to the U.S.

- As a result of this change, we will recognize a non-cash tax charge of $63 million to $68 million net of foreign tax credits in the fourth quarter of 2015 as we change our APB23 assertion.
- The specific timing of the repatriation of these foreign earnings and cash payment of the associated U.S. tax is currently being evaluated.

- We will continue to review our projections and planned uses of U.S. and foreign earnings to determine whether our future foreign earnings will be reinvested overseas.
  - If we conclude that our future foreign earnings will not be needed to fund U.S. operations or commitments and will be reinvested outside of the U.S., our effective income tax rate will decrease in 2016 and future years when compared to 2015 and 2014.
- Fourth, and staying on the theme of optimizing capital for shareholders, yesterday, our Board decided to eliminate our current $0.10 quarterly cash dividend, effective immediately, and allocate the capital to repurchase shares instead.
- Fifth, with respect to 2016 and looking ahead to the current, seasonally-quiet first quarter, there are a few items I would like to highlight.
  - A year ago, our first quarter results were our second highest in company history, only eclipsed by a record-breaking 2007, and included a number of very strong events such as: record London February Impressionist and Contemporary sales of $533 million, robust New York March Asia Week and January Old Master sales, as well as the London Contemporary single owner Bear Witness sale last March which totaled $50 million.
  - We have recently published the catalogues for our February Impressionist and Contemporary sales in London and mid-point estimates are down 23% from last February's record actual sales totals and 16% from last year's mid-point estimates. We will have more to share with you about the market on the full earnings report next month once we have some more data points in 2016 to digest. But I can say that we anticipate a more typical net loss quarter for the first quarter of 2016, as in six out of the last eight first quarters.
  - In terms of other upcoming auctions, this morning, we announced the sale of property from the personal collection of one of Britain's most beloved figures - Deborah, Duchess of Devonshire, the youngest of the legendary Mitford Sisters who, for more than half a century, stood at the center of British rural, cultural and political life, and was also the mother of our esteemed director, the Duke of Devonshire. While the value of the collection is less than $1 million, given the public's fascination with the Dowager Duchess, our expectation is that our exhibition and auction at the beginning of March will draw significant attention and provide opportunities for engaging with a broad cross-section of both existing and new clients.

    - We will have a better idea of how the first quarter is shaping up when we next speak.

- The bulk of today's call was about capital allocation, which is one of the four key priorities I outlined back in March. As we have taken a number of significant steps, I thought it might be helpful to turn things over to Dennis to talk about the process we undertook to evaluate our position before we moved forward.

**SPEAKER: Dennis Weibling, Interim Chief Financial Officer**

- Thank you, Tad.
- As this is not a normal course earnings call or detailed capital allocation review announcement, I will keep my comments brief and high level.
- Our ongoing capital allocation process is thorough, detailed and thoughtful.
- The capital allocation framework considers our various capital needs – including amounts to support our business requirements and opportunities, pursue growth initiatives and, importantly, ensure appropriate liquidity for any environment. It also includes a comprehensive examination of Sotheby's capital structure, our liquidity, our cost structure and opportunities for growth. Additionally, the review leverages off all of the hard work done in our detailed annual financial planning process for 2016 that was completed last month. We stress tested the business throughout the cycle and under different market conditions over the last ten plus years, ultimately getting very comfortable that we can breakeven on a cash basis on significantly lower net sales levels.
- A significant component of this framework is guarantees. As an update, as of today, our outstanding guarantee position net of irrevocable bids and other hedges is a relatively modest $92 million, which we expect will be reduced by $30 million, to $62 million, after next week's sales of Old Master Paintings, and includes guarantees relating to our February auctions. We are actively soliciting consignments for the May auctions in New York and are comfortable with our capacity to take on a prudent level of guarantee risk. As always, strategy, opportunity, sound judgment and sensible risk management will guide our use of guarantees.
- At December 31st, we estimate we have approximately $849 million in cash. After taking into account funds held for consignors, we estimate that approximately $570 million of Sotheby's total cash is available to support our capital needs.
- For me, this detailed examination of our capital structure has demonstrated the resilience of the business through an economic cycle. This has been quite a robust process and I have a good deal of confidence in our work.

- Lastly, we would like to provide some brief estimated balance sheet data in advance of 10-K filing next month. At December 31, our balance sheet reflected:
    - Cash and Cash Equivalents = $849 million
    - Accounts Receivable = $876 million
    - Notes Receivable = $714 million
    - Inventory = $215 million
    - Consignor Payables = $979 million
    - Finance Segment Revolver Borrowings = $542 million
    - Long-Term Debt = $615 million
- With that, this concludes our prepared remarks but I should remind everyone that this announcement is a change from our normal practice and we do not plan to regularly pre-announce earnings in the future. We don't have much more on fourth quarter revenues or expenses that we're prepared to discuss with you at this time.
- Thank you for your time, and at this point, Tad and I are happy to take your questions.

* Non GAAP financial measure. See the Company's Form 8-K, filed January 22, 2016, for a description of each non-GAAP financial measure used on this call and a reconciliation to the comparable GAAP amount.