

# Sotheby's

## **SUPPLEMENTAL FINANCIAL INFORMATION FOR THE SIX MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015**

**February 27, 2017**

The following presentation provides supplemental financial information for the six month periods ended December 31, 2016 and 2015. 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 covering the three and six month periods ended September 30, 2016 and 2015, as well as the Form 10-K covering the year ended December 31, 2016 and 2015. In addition, refer to our Press Release announcing our Fourth Quarter and Year End 2016 Financial Results. All our Press Releases and SEC filings are available on our web site at [www.sothebys.com](http://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 total Net Auction Sales in 2016 and 2015, respectively, with auction commission revenues comprising approximately 75% of our total revenues in each of these 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.

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 the estimated annual effective income tax rate. Accordingly, management believes that investors should focus on results for 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 DECEMBER 31, 2016 AND 2015**  
(In Thousands, Except Per Share Data and Percentage Information)

<u>Six Months Ended December 31,</u>	<u>2016</u>	<u>2015</u>	<u>Variance</u>	
			<u>\$/%</u>	<u>%</u>
<b>Revenues:</b>				
Agency commissions and fees	\$ 317,004	\$ 353,661	\$ (36,657)	(10%)
Inventory sales	50,788	88,711	(37,923)	(43%)
Finance	23,211	25,832	(2,621)	(10%)
Other	9,178	5,609	3,569	64%
Total revenues	<u>400,181</u>	<u>473,813</u>	<u>(73,632)</u>	<u>(16%)</u>
<b>Expenses:</b>				
Agency direct costs	32,542	47,350	(14,808)	(31%)
Cost of inventory sales	63,663	82,388	(18,725)	(23%)
Cost of finance revenues	9,191	8,518	673	8%
Other expenses	270,263	268,698	1,565	1%
Total expenses	<u>375,659</u>	<u>406,954</u>	<u>(31,295) –</u>	<u>(8%)</u>
Operating income	24,522	66,859	(42,337)	(63%)
Net interest expense (a)	(14,503)	(13,993)	(510)	(4%)
Other income	2,713	261	2,452	*
Income before taxes	12,732	53,127	(40,395)	(76%)
Income tax expense	4,388	84,432	(78,642)	(93%)
Equity in earnings of investees	2,675	2,201	474	22%
Net income (loss)	<u>11,019</u>	<u>(29,104)</u>	<u>40,123</u>	<u>N/A</u>
Less: Net loss attributable to noncontrolling interest	<u>(13)</u>	<u>(57)</u>	<u>44</u>	<u>77%</u>
Net income (loss) attributable to Sotheby's	<u>\$ 11,032</u>	<u>\$ (29,047)</u>	<u>\$ 40,079</u>	<u>N/A</u>
Basic earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.20</u>	<u>\$ (0.43)</u>	<u>\$ 0.63</u>	<u>N/A</u>
Diluted earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.20</u>	<u>\$ (0.43)</u>	<u>\$ 0.63</u>	<u>N/A</u>
Cash dividends declared per common share	<u>\$ —</u>	<u>\$ 0.20</u>	<u>\$ (0.20)</u>	<u>(100%)</u>
<b>Statistical Metrics (b):</b>				
Aggregate Auction Sales	\$ 1,797,567	\$ 2,852,123	\$ (1,054,556)	(37%)
Net Auction Sales	\$ 1,497,419	\$ 2,404,278	\$ (906,859)	(38%)
Auction Commission Margin	18.4%	13.3%	5.1%	N/A
Private Sales	\$ 333,786	\$ 302,926	\$ 30,860	10%
Consolidated Sales	\$ 2,182,141	\$ 3,243,760	\$ (1,061,619)	(33%)
<b>Non-GAAP Financial Measures (c):</b>				
Adjusted Expenses	\$ 270,627	\$ 275,443	\$ (4,816)	(2%)
Adjusted Operating Income	\$ 56,700	\$ 107,464	\$ (50,764)	(47%)
Adjusted Net Income	\$ 30,694	\$ 62,647	\$ (31,953)	(51%)
Adjusted Diluted Earnings Per Share	\$ 0.56	\$ 0.92	\$ (0.36)	(39%)
EBITDA	\$ 50,143	\$ 87,814	\$ (37,671)	(43%)
Adjusted EBITDA	\$ 82,321	\$ 128,419	\$ (46,098)	(36%)

\* - 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 DECEMBER 31, 2016 AND 2015**  
**(In Thousands)**

<u>Six Months Ended December 31,</u>	<u>2016</u>	<u>2015</u>	<u>Variance</u>	
			<u>\$</u>	<u>%</u>
Expenses:				
Agency direct costs	\$ 32,542	\$ 47,350	\$ (14,808)	(31%)
Cost of inventory sales	63,663	82,388	(18,725)	(23%)
Cost of finance revenues	9,191	8,518	673	8%
Marketing	10,274	10,524	(250)	(2%)
Salaries and related	164,261	131,713	32,548	25%
General and administrative	84,771	79,688	5,083	6%
Depreciation and amortization	11,029	9,918	1,111	11%
Voluntary separation incentive programs (net) (a)	(72)	36,938	(37,010)	N/A
Restructuring charges (net) (a)	—	(83)	83	(100%)
Total expenses	<u>\$ 375,659</u>	<u>\$ 406,954</u>	<u>\$ (31,295)</u>	<u>(8%)</u>

**Sotheby's**  
**Supplemental Financial Information**  
**EARNINGS PER SHARE**  
**ROLLING SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015**  
(In Thousands, Except Per Share Data and Percentage Information)

<u>Six Months Ended December 31,</u>	<u>2016</u>	<u>2015</u>
<b><u>Basic:</u></b>		
<i>Numerator:</i>		
Net income (loss) attributable to Sotheby's	\$ 11,032	\$ (29,047)
Less: Net income attributable to participating securities	156	—
Net income (loss) attributable to Sotheby's common shareholders	<u>\$ 10,876</u>	<u>\$ (29,047)</u>
<i>Denominator:</i>		
Weighted average basic shares outstanding	53,984	67,032
Basic earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.20</u>	<u>\$ (0.43)</u>
<b><u>Diluted:</u></b>		
<i>Numerator:</i>		
Net income (loss) attributable to Sotheby's	\$ 11,032	\$ (29,047)
Less: Net income attributable to participating securities	156	—
Net income (loss) attributable to Sotheby's common shareholders	<u>\$ 10,876</u>	<u>\$ (29,047)</u>
<i>Denominator:</i>		
Weighted average common shares outstanding	53,984	67,032
Weighted average effect of Sotheby's dilutive potential common shares:		
Performance share units	475	—
Deferred stock units	146	—
Stock options	18	—
Weighted average dilutive potential common shares outstanding	<u>639</u>	<u>—</u>
Weighted average diluted shares outstanding	<u>54,623</u>	<u>67,032</u>
Diluted earnings (loss) per share - Sotheby's common shareholders	<u>\$ 0.20</u>	<u>\$ (0.43)</u>

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

**Financial Statement Line Item Definitions**

- (i) Net Interest Expense: Represents interest expense less interest income.
- (ii) Intersegment Costs: Represents various fees and interest charged for certain client loans by the Finance segment to the Agency segment.
- (iii) Intersegment Revenues: Represents various fees and interest earned on certain client loans by the Finance segment from the Agency segment.
- (iv) 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.
- (v) CEO Separation and Transition Costs: Consists of compensation-related costs and professional fees associated with the hiring of Thomas S. Smith, Jr. as our President and Chief Executive Officer on March 31, 2015.
- (vi) 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.
- (vii) Acquisition earn-out compensation: On January 11, 2016, we acquired certain entities comprising the business of Art Agency, Partners (AAP). In conjunction with this purchase, the former principals of AAP became our employees. Acquisition earn-out compensation relates to compensation costs to be paid to these individuals contingent on our achievement of a minimum level of cumulative financial performance within certain segments of the organization.
- (viii) Contractual severance agreements (net): Represents costs relating to contractual severance agreements made with certain of our senior employees in 2016.
- (ix) Leadership transition severance costs: Represents costs relating to the 2015 termination of employment of certain of our Executive Officers, including our former Chief Operating Officer.

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**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.

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**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), CEO separation and transition costs, 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), CEO separation and transition costs, 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, the cost of finance revenues, 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), CEO separation and transition costs, 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, Adjusted EBITDA, EBITDA Margin, and Adjusted EBITDA Margin 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)**

	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Total expenses	\$ 375,659	\$ 406,954
Subtract: Cost of inventory sales	63,663	82,388
Subtract: Cost of finance revenues	9,191	8,518
Subtract: Acquisition earn-out compensation expense	30,626	—
Subtract: Contractual severance agreement charges (net)	1,624	—
Subtract: Leadership transition severance costs	—	3,750
Subtract: Voluntary separation incentive program charges (net)	(72)	36,938
Subtract: Restructuring charges (net)	—	(83)
Adjusted Expenses	<u>\$ 270,627</u>	<u>\$ 275,443</u>
Variance versus prior period - \$	<u>\$ (4,816)</u>	
Variance versus prior period - %	<u>(2%)</u>	

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**APPENDIX C**  
(In Thousands of Dollars, Except Percentage Information)

	Six Months Ended December 31,	
	2016	2015
Operating income	\$ 24,522	\$ 66,859
Add: Acquisition earn-out compensation expense	30,626	—
Add: Contractual severance agreement charges (net)	1,624	—
Add: Leadership transition severance costs	—	3,750
Add: Voluntary separation incentive program charges (net)	(72)	36,938
Add: Restructuring charges (net)	—	(83)
Adjusted Operating Income	<u>\$ 56,700</u>	<u>\$ 107,464</u>
Variance versus prior period - \$	<u>\$ (50,764)</u>	
Variance versus prior period - %	<u>(47%)</u>	
	Six Months Ended December 31,	
	2016	2015
Net income (loss) attributable to Sotheby's	\$ 11,032	\$ (29,047)
Add: Acquisition earn-out compensation expense, net of tax of (\$11,913) and \$0	18,713	—
Add: Contractual severance agreement charges (net), net of tax of (\$632) and \$0	992	—
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 \$29 and (\$13,298)	(43)	23,640
Add: CEO separation and transition costs, net of tax of \$0 and \$17	—	17
Add: Restructuring charges (net), net of tax of \$0 and \$62	—	(21)
Add: Income tax expense related to repatriation of pre-2014 foreign earnings	—	65,732
Adjusted Net Income	<u>\$ 30,694</u>	<u>\$ 62,647</u>
Variance versus prior period - \$	<u>\$ (31,953)</u>	
Variance versus prior period - %	<u>(51%)</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.

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

	Six Months Ended December 31,	
	2016	2015
Diluted earnings (loss) per share	\$ 0.20	\$ (0.43)
Add: Acquisition earn-out compensation costs, per share	0.34	—
Add: Contractual severance agreement charges (net), per share	0.02	—
Add: Leadership transition severance costs, per share	—	0.03
Add: Voluntary separation incentive program charges (net), per share	—	0.35
Add: Restructuring charges (net), per share	—	—
Add: Income tax expense related to repatriation of pre-2014 foreign earnings, per share	—	0.97
Adjusted Diluted Earnings Per Share	<u>\$ 0.56</u>	<u>\$ 0.92</u>
Variance versus prior period - \$	<u>\$ (0.36)</u>	
Variance versus prior period - %	<u>(39%)</u>	

	Six Months Ended December 31,	
	2016	2015
Net income (loss) attributable to Sotheby's	\$ 11,032	\$ (29,047)
Add: Income tax expense	4,388	84,432
Add: Net interest expense	14,503	13,993
Add: Cost of finance revenues	9,191	8,518
Add: Depreciation and amortization	11,029	9,918
EBITDA	<u>50,143</u>	<u>87,814</u>
Add: Acquisition earn-out compensation expense	30,626	—
Add: Contractual severance agreement charges (net)	1,624	—
Add: Leadership transition severance costs	—	3,750
Add: Voluntary separation incentive program charges (net)	(72)	36,938
Add: CEO separation and transition costs	—	—
Add: Restructuring charges (net)	—	(83)
Adjusted EBITDA	<u>\$ 82,321</u>	<u>\$ 128,419</u>
Variance versus prior period - \$	<u>\$ (46,098)</u>	
Variance versus prior period - %	<u>(36%)</u>	