

Sotheby's

SUPPLEMENTAL FINANCIAL INFORMATION FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

November 7, 2016

The following presentation provides supplemental financial information for the six month periods ended September 30, 2016 and 2015. This presentation includes information derived from Sotheby's 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 Sotheby's previously filed quarterly reports on Form 10-Q covering the three and six month periods ended June 30, 2016 and 2015, as well as the three and nine month periods ended September 30, 2016 and 2015. In addition, refer to Sotheby's Press Release announcing its Third Quarter 2016 Financial Results. All Sotheby's 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 78% and 79% of total Net Auction Sales in 2015 and 2014, respectively, with auction commission revenues comprising approximately 75% and 81%, respectively, of Sotheby's total revenues in those years. Accordingly, Sotheby's 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 Sotheby's operating expenses.

The comparison of Sotheby's 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 SEPTEMBER 30, 2016 AND 2015
(In Thousands, Except Per Share Data and Percentage Information)

Six Months Ended September 30,	2016	2015	Variance	
			\$/%	%
Revenues:				
Agency commissions and fees	\$ 325,049	\$ 379,599	\$ (54,550)	(14%)
Inventory sales	29,640	60,231	(30,591)	(51%)
Finance	25,888	24,903	985	4%
Other	9,580	5,265	4,315	82%
Total revenues	390,157	469,998	(79,841)	(17%)
Expenses:				
Agency direct costs	36,385	40,886	(4,501)	(11%)
Cost of inventory sales	36,997	60,667	(23,670)	(39%)
Cost of finance revenues	8,586	8,156	430	5%
Other expenses	244,980	265,538	(20,558)	(8%)
Total expenses	326,948	375,247	(48,299)	(13%)
Operating income	63,209	94,751	(31,542)	(33%)
Net interest expense (a)	(14,617)	(15,403)	786	5%
Other income (expense)	1,007	(1,871)	2,878	N/A
Income before taxes	49,599	77,477	(27,878)	(36%)
Equity in earnings of investees	1,411	4,809	(3,398)	(71%)
Income tax expense	16,580	32,711	(16,131)	(49%)
Net income	34,430	49,575	(15,145)	(31%)
Less: Net loss attributable to noncontrolling interest	(64)	(103)	39	(38%)
Net income attributable to Sotheby's	\$ 34,494	\$ 49,678	\$ (15,184)	(31%)
Basic earnings per share - Sotheby's common shareholders	\$ 0.61	\$ 0.72	\$ (0.11)	(15%)
Diluted earnings per share - Sotheby's common shareholders	\$ 0.60	\$ 0.71	\$ (0.11)	(15%)
Cash dividends declared per common share	\$ —	\$ 0.20	\$ (0.20)	N/A
Statistical Metrics (b):				
Aggregate Auction Sales	\$2,060,795	\$2,641,887	\$ (581,092)	(22%)
Net Auction Sales	\$1,727,703	\$2,227,571	\$ (499,868)	(22%)
Auction Commission Margin	16.9%	15.4%	1.5%	N/A
Private Sales	\$ 314,435	\$ 317,665	\$ (3,230)	(1%)
Consolidated Sales	\$2,404,870	\$3,017,698	\$ (612,828)	(20%)
Non-GAAP Financial Measures (c):				
Adjusted Expenses	\$ 261,119	\$ 297,496	\$ (36,377)	(12%)
Adjusted Operating Income	\$ 83,455	\$ 103,679	\$ (20,224)	(20%)
Adjusted Net Income	\$ 46,864	\$ 55,118	\$ (8,254)	(15%)
Adjusted Diluted Earnings Per Share	\$ 0.82	\$ 0.78	\$ 0.04	5%
EBITDA	\$ 85,195	\$ 115,610	\$ (30,415)	(26%)
Adjusted EBITDA	\$ 105,441	\$ 124,538	\$ (19,097)	(15%)

Sotheby's
Supplemental Financial Information
AGENCY SEGMENT
ROLLING SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands, Except Percentage Information)

Six Months Ended September 30,	2016	2015	Variance	
			\$ / %	%
Agency commissions and fees:				
Auction commissions	\$ 291,212	\$ 343,816	\$ (52,604)	(15%)
Private sale commissions	28,031	32,157	(4,126)	(13%)
Other Agency commissions and fees (net)	5,806	3,626	2,180	60%
Total Agency commissions and fees	325,049	379,599	(54,550)	(14%)
Inventory sales	26,104	55,556	(29,452)	(53%)
Total Agency segment revenues	351,153	435,155	(84,002)	(19%)
Agency direct costs:				
Auction direct costs	34,380	38,253	(3,873)	(10%)
Private sale expenses	2,005	2,633	(628)	(24%)
Total Agency direct costs	36,385	40,886	(4,501)	(11%)
Cost of inventory sales	34,406	57,445	(23,039)	(40%)
Total Agency direct costs and cost of inventory sales	70,791	98,331	(27,540)	(28%)
Intersegment costs (a)	3,814	7,682	(3,868)	(50%)
Agency segment gross profit	\$ 276,548	\$ 329,142	\$ (52,594)	(16%)
Statistical Metrics (b):				
Aggregate Auction Sales	\$ 2,060,795	\$ 2,641,887	\$ (581,092)	(22%)
Net Auction Sales	\$ 1,727,703	\$ 2,227,571	\$ (499,868)	(22%)
Auction commission margin	16.9%	15.4%	1.50%	N/A
Auction direct costs as a percentage of Net Auction Sales	1.99%	1.72%	0.27%	N/A
Private Sales	\$ 314,435	\$ 317,665	\$ (3,230)	(1%)

Refer to the appendices included in this presentation for definitions related to: (a) Financial Statement Line Items and (b) Statistical Metrics.

Sotheby's
Supplemental Financial Information
FINANCE SEGMENT (Sotheby's Financial Services, or "SFS")
ROLLING SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands, Except Percentage Information)

Six Months Ended September 30,	2016	2015	Variance	
			\$ /%	%
Finance revenues:				
Client paid revenues:				
Interest	\$ 19,759	\$ 21,926	\$ (2,167)	(10%)
Fees	6,129	2,977	3,152	106%
Total client paid revenues	25,888	24,903	985	4%
Intersegment revenues (a)	3,814	7,682	(3,868)	(50%)
Total finance revenues	29,702	32,585	(2,883)	(9%)
Cost of finance revenues	8,586	8,156	430	5%
SFS gross profit	\$ 21,116	\$ 24,429	\$ (3,313)	(14%)
Loan Portfolio Metrics (b):				
Loan Portfolio Balance	\$ 655,152	\$ 759,473	\$ (104,321)	(14%)
Average Loan Portfolio	\$ 625,265	\$ 759,697	\$ (134,432)	(18%)
Credit Facility Borrowings	\$ 553,000	\$ 579,500	\$ (26,500)	(5%)
Average Credit Facility Borrowings	\$ 520,984	\$ 564,279	\$ (43,295)	(8%)
Average Equity in Loan Portfolio	\$ 104,281	\$ 195,418	\$ (91,137)	(47%)
SFS Leverage Ratio	84.4%	76.3%	8.1%	N/A
Finance Revenue Percentage	9.5%	8.6%	0.9%	N/A
Weighted Average Cost of Borrowings	3.3%	2.9%	0.4%	N/A

Refer to the appendices included in this presentation for definitions related to: (a) Financial Statement Line Items and (b) Loan Portfolio Metrics.

Sotheby's
Supplemental Financial Information
TOTAL EXPENSES
ROLLING SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands)

Six Months Ended September 30,	2016	2015	Variance	
			\$	%
Expenses:				
Agency direct costs	\$ 36,385	\$ 40,886	\$ (4,501)	(11%)
Cost of inventory sales	36,997	60,667	(23,670)	(39%)
Cost of finance revenues	8,586	8,156	430	5%
Marketing	8,507	8,515	(8)	—%
Salaries and related	145,698	165,079	(19,381)	(12%)
General and administrative	80,264	82,855	(2,591)	(3%)
Depreciation and amortization	10,918	9,662	1,256	13%
Voluntary separation incentive programs (net) (a)	(407)	—	(407)	N/A
CEO separation and transition costs (a)	—	43	(43)	(100%)
Restructuring charges (net) (a)	—	(616)	616	(100%)
Total expenses	<u>\$ 326,948</u>	<u>\$ 375,247</u>	<u>\$ (48,299)</u>	<u>(13%)</u>

Sotheby's
Supplemental Financial Information
SALARIES AND RELATED COSTS
ROLLING SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands)

<u>Six Months Ended September 30,</u>	<u>2016</u>	<u>2015</u>	<u>Variance</u>	
			<u>\$</u>	<u>%</u>
Full-time salaries	\$ 71,284	\$ 72,791	\$ (1,507)	(2%)
Incentive compensation expense	18,641	35,054	(16,413)	(47%)
Share-based payment expense	5,034	15,704	(10,670)	(68%)
Acquisition earn-out compensation (a)	19,413	—	19,413	N/A
Payroll taxes	8,506	10,301	(1,795)	(17%)
Employee benefits	10,401	12,087	(1,686)	(14%)
Contractual severance agreements (net) (a)	1,240	—	1,240	N/A
Leadership transition severance costs (a)	—	9,501	(9,501)	(100%)
Other compensation expense	11,179	9,641	1,538	16%
Total salaries and related costs	<u>\$ 145,698</u>	<u>\$ 165,079</u>	<u>\$ (19,381)</u>	<u>(12%)</u>

Sotheby's
Supplemental Financial Information
EARNINGS PER SHARE
ROLLING SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands, Except Per Share Data and Percentage Information)

Six Months Ended September 30,	2016	2015
Basic:		
<i>Numerator:</i>		
Net income attributable to Sotheby's	\$ 34,494	\$ 49,678
Less: Net income attributable to participating securities	479	437
Net income attributable to Sotheby's common shareholders	<u>\$ 34,015</u>	<u>\$ 49,241</u>
<i>Denominator:</i>		
Weighted average basic shares outstanding	<u>56,058</u>	<u>68,639</u>
Basic earnings per share - Sotheby's common shareholders	<u>\$ 0.61</u>	<u>\$ 0.72</u>
Diluted:		
<i>Numerator:</i>		
Net income attributable to Sotheby's	\$ 34,494	\$ 49,678
Less: Net income attributable to participating securities	479	437
Net income attributable to Sotheby's common shareholders	<u>\$ 34,015</u>	<u>\$ 49,241</u>
<i>Denominator:</i>		
Weighted average common shares outstanding	56,058	68,639
Weighted average effect of Sotheby's dilutive potential common shares:		
Performance share units	424	360
Deferred stock units	140	167
Stock options	<u>15</u>	<u>19</u>
Weighted average dilutive potential common shares outstanding	579	546
Weighted average diluted shares outstanding	<u>56,637</u>	<u>69,185</u>
Diluted earnings per share - Sotheby's common shareholders	<u>\$ 0.60</u>	<u>\$ 0.71</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 Sotheby's 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 Sotheby's 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, Sotheby's acquired certain entities comprising the business of Art Agency, Partners (AAP). In conjunction with this purchase, the former principals of AAP became employees of Sotheby's. Acquisition earn-out compensation relates to compensation costs to be paid to these individuals contingent on Sotheby's 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 senior employees of the organization in 2016.
- (ix) Leadership transition severance costs: Represents costs relating to the 2015 termination of employment of certain Sotheby's Executive Officers, including its former Chief Operating Officer.

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 Sotheby's, including its commissions.
- (v) Consolidated Sales: Represents the sum of Aggregate Auction Sales, Private Sales, and Inventory sales.

Loan Portfolio Metrics

- (i) Loan Portfolio Balance: Represents the period end net loan portfolio balance.
- (ii) Average Loan Portfolio: Represents the average loan portfolio outstanding during the period.
- (iii) Credit Facility Borrowings: Represents the period end balance of borrowings outstanding under the SFS Credit Facility.
- (iv) Average Credit Facility Borrowings: Represents the average borrowings outstanding during the period under the SFS Credit Facility.
- (v) Average Equity in Loan Portfolio: Calculated as the Average Loan Portfolio less Average Credit Facility Borrowings.
- (vi) SFS Leverage Ratio: Calculated as Credit Facility Borrowings divided by the Loan Portfolio Balance.
- (vii) Finance Revenue Percentage: Represents the annualized percentage of total client paid and intersegment finance revenues in relation to the Average Loan Portfolio.
- (viii) Weighted Average Cost of Borrowings: Represents the annualized cost of Credit Facility Borrowings.

Sotheby's
Supplemental Financial Information
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. Sotheby's 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 Sotheby's 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 Sotheby's 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 Sotheby's voluntary separation incentive programs (net), CEO separation and transition costs, and restructuring charges (net).
- (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 Sotheby's voluntary separation incentive programs (net), CEO separation and transition costs, and restructuring charges (net).
- (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 Sotheby's voluntary separation incentive programs (net), CEO separation and transition costs, and restructuring charges (net).

These non-GAAP financial measures are important supplemental measures used by the Board of Directors and management in their financial and operational decision making processes, for internal reporting, and as part of Sotheby's forecasting and budgeting processes, as they provide helpful measures of Sotheby's core operations. These measures allow the Board of Directors and management to view operating trends, perform analytical comparisons, and benchmark performance between periods. Management also believes that these measures may be used by securities analysts, investors, financial institutions, and other interested parties in their evaluation of Sotheby's.

Management cautions users of Sotheby's financial statements that amounts presented in accordance with its 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	
	September 30,	
	2016	2015
Total expenses	\$ 326,948	\$ 375,247
Subtract: Cost of inventory sales	36,997	60,667
Subtract: Cost of finance revenues	8,586	8,156
Subtract: Acquisition earn-out compensation expense	19,413	—
Subtract: Contractual severance agreement charges (net)	1,240	—
Subtract: Leadership transition severance costs	—	9,501
Subtract: Voluntary separation incentive program charges (net)	(407)	—
Subtract: CEO separation and transition costs	—	43
Subtract: Restructuring charges (net)	—	(616)
Adjusted Expenses	<u>\$ 261,119</u>	<u>\$ 297,496</u>
Variance versus prior period - \$	<u>\$ (36,377)</u>	
Variance versus prior period - %	<u>(12%)</u>	

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

	Six Months Ended September 30,	
	2016	2015
Operating income	\$ 63,209	\$ 94,751
Add: Acquisition earn-out compensation expense	19,413	—
Add: Contractual severance agreement charges (net)	1,240	—
Add: Leadership transition severance costs	—	9,501
Add: Voluntary separation incentive program charges (net)	(407)	—
Add: CEO separation and transition costs	—	43
Add: Restructuring charges (net)	—	(616)
Adjusted Operating Income	<u>\$ 83,455</u>	<u>\$ 103,679</u>
Variance versus prior period - \$	<u>\$ (20,224)</u>	
Variance versus prior period - %	<u>(20%)</u>	

	Six Months Ended September 30,	
	2016	2015
Net income attributable to Sotheby's	\$ 34,494	\$ 49,678
Add: Acquisition earn-out compensation expense, net of tax of (\$7,551) and \$0	11,862	—
Add: Contractual severance agreement charges (net), net of tax of (\$480) and \$0	760	—
Add: Leadership transition severance costs, net of tax of \$0 and (\$3,743)	—	5,758
Add: Voluntary separation incentive programs charges (net), net of tax of \$155 and \$0	(252)	—
Add: CEO separation and transition costs, net of tax of \$0 and \$75	—	118
Add: Restructuring charges (net), net of tax of \$0 and \$180	—	(436)
Adjusted Net Income	<u>\$ 46,864</u>	<u>\$ 55,118</u>
Variance versus prior period - \$	<u>\$ (8,254)</u>	
Variance versus prior period - %	<u>(15%)</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 September 30,	
	2016	2015
Diluted earnings per share	\$ 0.60	\$ 0.71
Add: Acquisition earn-out compensation costs, per share	0.21	—
Add: Contractual severance agreement charges (net), per share	0.01	—
Add: Leadership transition severance costs, per share	—	0.08
Add: Voluntary separation incentive program charges (net), per share	—	—
Add: Restructuring charges (net), per share	—	(0.01)
Adjusted Diluted Earnings Per Share	\$ 0.82	\$ 0.78
Variance versus prior period - \$	<u>\$ 0.04</u>	
Variance versus prior period - %	<u>5%</u>	

	Six Months Ended September 30,	
	2016	2015
Net income attributable to Sotheby's	\$ 34,494	\$ 49,678
Add: Income tax expense	16,580	32,711
Add: Net interest expense	14,617	15,403
Add: Cost of Finance revenues	8,586	8,156
Add: Depreciation and amortization	10,918	9,662
EBITDA	85,195	115,610
Add: Acquisition earn-out compensation expense	19,413	—
Add: Contractual severance agreement charges (net)	1,240	—
Add: Leadership transition severance costs	—	9,501
Add: Voluntary separation program charges	(407)	—
Add: CEO separation and transition costs	—	43
Add: Restructuring charges	—	(616)
Adjusted EBITDA	\$ 105,441	\$ 124,538
Variance versus prior period - \$	<u>\$ (19,097)</u>	
Variance versus prior period - %	<u>(15%)</u>	