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Excellence in Investing: San Francisco

OCT 2013

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I. Guiding Principles

Guiding Principles

1) Management should invest the Company's capital in the highest return opportunities
   - Minimum return hurdle should be at least the Company's cost of capital

2) If the Company's investable resources exceed the amount of its attractive investment opportunities, the Company should return that capital to shareholders

3) Lowering the cost of capital used to fund attractive business activities will increase the value of the enterprise

Application of Guiding Principles to Sotheby's

1) Unlock Value of Owned Real Estate

   – Sotheby's should monetize its real estate through a sale or sale / leaseback transaction

2) Prudently Capitalize Financing Segment

   – Sotheby's should finance this segment with less expensive capital, rather than with equity

3) Eliminate the Value Diminishing Dealer Segment

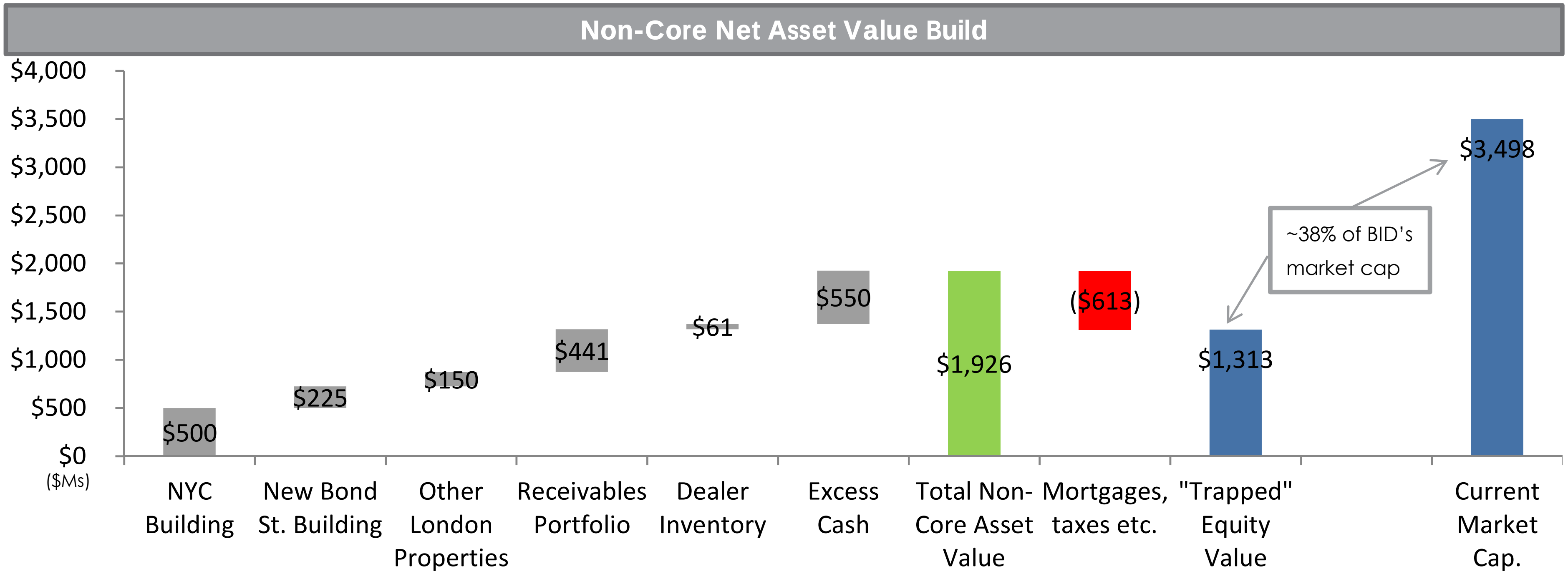
   – Close or sell the Dealer segment

Significant Opportunity to Unlock Shareholder Value

- $1.3 billion in trapped equity value (~38% of market cap or ~$19/share)
  - Owned real estate = $875 million
  - Receivables portfolio = $441 million
  - Dealer inventory = $61 million
  - Optimized capital structure = $550 million
  - Less mortgages, taxes, etc. =($613 million)

- A $1.3 billion accelerated share repurchase would drive significant long-term value
  - Estimated $68 per share value is a 56% premium above July 30th close

Sotheby's Trapped Assets Are Material



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II. Introduction to Sotheby's

Sotheby's (NYSE: BID)

Sotheby's

Ticker: "BID"

Stock Price: $51.15 (1)

- Sotheby's is one of two major global art auction houses
  - Acts as an agent by selling art through auctions or private sales
  - Also provides art-related financial services and operates an art dealer
  - Founded in 1744, Sotheby's is the oldest company listed on the NYSE

- **Capitalization:**
  - Equity Value: $3.5B
  - Enterprise Value: $3.3B

- **Operating Statistics (2):**
  - 2013E Revenue: $779M
  - 2013E EBITDA: $231M
  - 2013E EBIT: $212M

- **Valuation Multiples:**
  - TEV / EBITDA: 14.3x
  - TEV / EBIT: 15.6x

Source: Company filings, Bloomberg and CapitalIQ.
(1) Closing stock price as of October 16, 2013. All figures in this presentation reference this stock price.
(2) Consensus estimates.

Prior to Activist Involvement, BID Shares Have Not Performed Despite a Strong Art Market

Why not?

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Source: Bloomberg.
* According to 13-D filings

Opportunities Abound

Income Statement		Balance Sheet	
Revenue	Contemporary, Private Sales, China & Middle East Expansion, Digital, Licensing	**Assets**	Allocating capital to the highest return opportunities
Expenses	Efficiency, Allocation	**Liabilities**	Funding business activities with the lowest cost of capital

Opportunities Abound

Our presentation today will focus here

Income Statement

Revenue
- Contemporary, Private Sales, China & Middle East Expansion, Digital, Licensing

Expenses
- Efficiency, Allocation

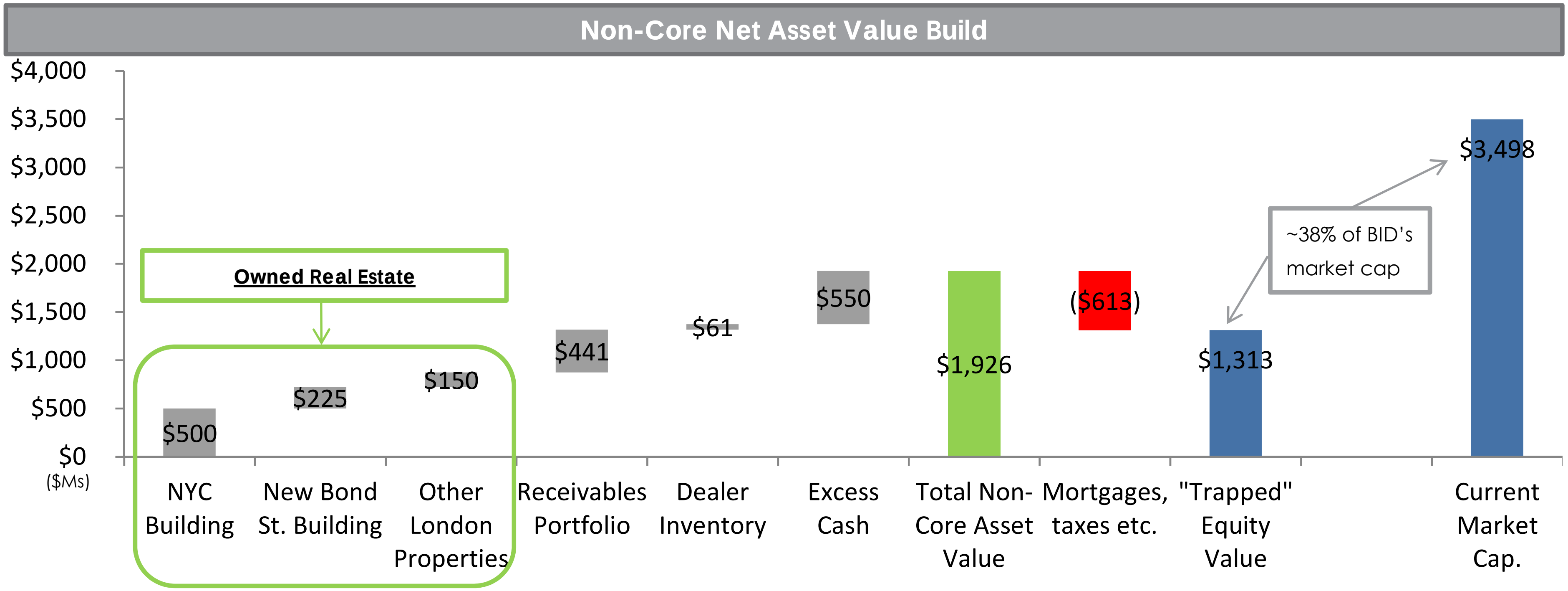
Balance Sheet

Assets
- Allocating capital to the highest return opportunities

Liabilities
- Funding business activities with the lowest cost of capital

III. Opportunities For Value Creation

(1) Owned Real Estate



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Owned Real Estate

New York – 1334 York Avenue

439.6K sq ft

London – New Bond Street

*95.5K sq ft owned in London, of which we estimate 48K is New Bond St building**

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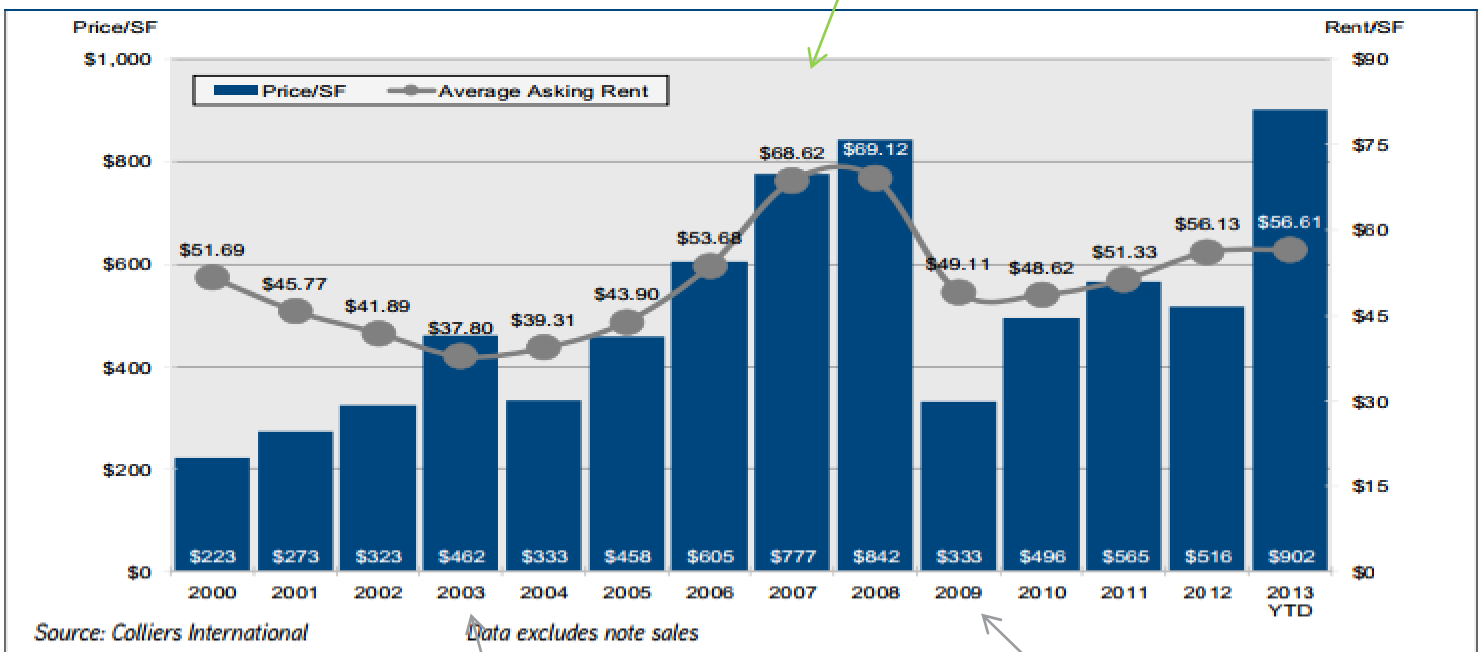
* Note: Estimates based on maps from U.K. Land Registry

We Estimate the Value of the NYC Office to be ~$500M

Manhattan Office Precedent Transactions: Price & Rent per SF

Feb 2007 – RFR's ask for 1334 York Ave was $500M



Feb 2003 – RFR purchases 1334 York Ave for $175M

Feb 2009 – Sotheby's purchases NYC office from RFR for $370M

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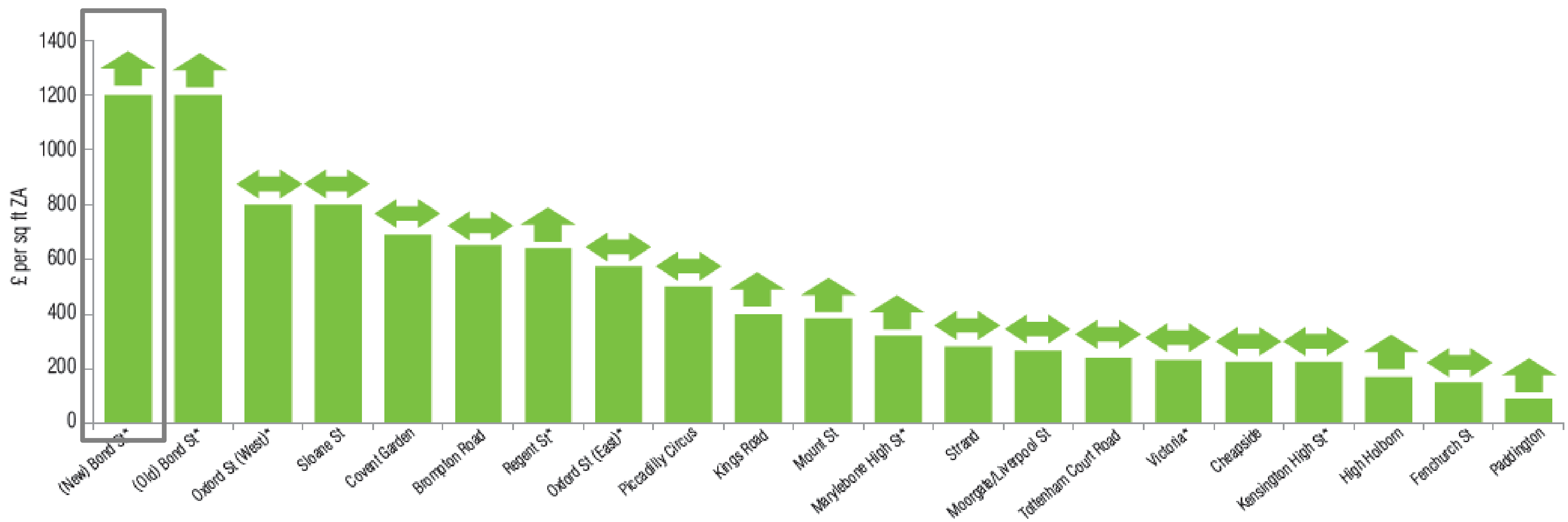
Source: Colliers, Q2 2013.

New Bond Street is London's Premier Shopping District

Central London – Comparison of Retail Space Rent

Chart 29: Central London Prime Rent, Q2 2013

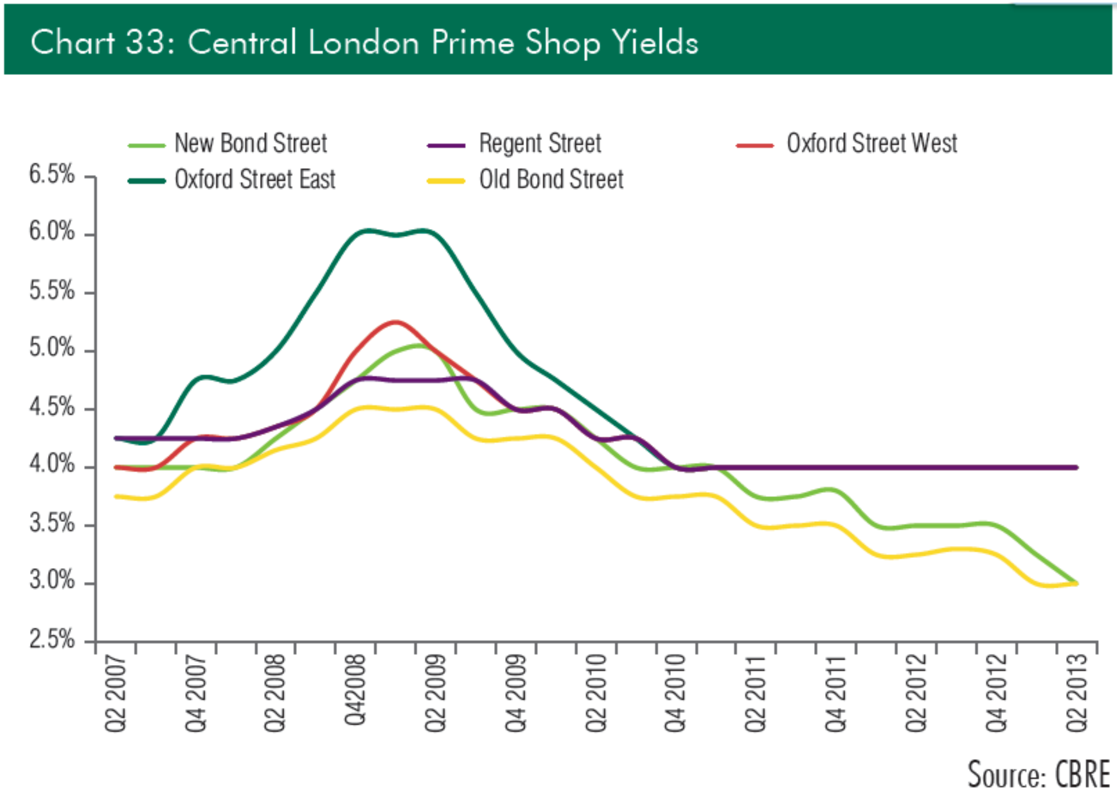


*30 ft zones

*CBRE, NWEC

Source: CBRE

Now is an Attractive Time to Monetize London Real Estate



Source: CBRE, Q2 2013

Precedent Transactions Done at High Valuations

- Cap rates for precedent transactions are in the 1.5%-3.0% range
- Ground floor space on New Bond Street typically occupied by high-end luxury retailers

New Bond Street North of Conduit Street

Conduit Street

Coach & Smythson
39-42 New Bond Street
*Sold in Q4 2011 for **$154M***
*and **2.95% cap rate***

Sotheby's
34-35 New Bond Street

Hublot
31 New Bond Street
Sold in Q4 2011 for $18M at
2.63% cap rate

New Bond Street South of Conduit Street

Conduit Street

Louis Vuitton
17-20 New Bond Street
*Sold in Q4 2011 for **$307M***
*at **2.63% cap rate***

Other Nearby Comps

*141-142 New Bond Street rumored to be on market in Q3 2013 for $130M at **2.5% cap rate***

*178 New Bond Street sold in Q2 2013 for $51M at **2.14% cap rate***

*9 Old Bond Street sold in Q2 2013 for $30M at **1.42% cap rate***

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Source: CB Richard Ellis

Illustrative Valuation of New Bond Street Building

($ Ms)			
Retail Space - New Bond Street:			
SF	8,773	8,773	8,773
Price per SF (GBP)	£6,000	£7,000	£8,000
NAV (GBP Ms)	£53	£61	£70
Ex. Rate (USD = GBP)	$1.62	$1.62	$1.62
NAV ($ Ms)	**$85**	**$99**	**$114**
Retail Space - Saint George Street:			
SF	3,263	3,263	3,263
Price per SF (GBP)	£2,000	£2,500	£3,000
NAV (GBP Ms)	£7	£8	£10
Ex. Rate (USD = GBP)	$1.62	$1.62	$1.62
NAV ($ Ms)	**$11**	**$13**	**$16**
Office Space:			
SF	36,108	36,108	36,108
Rent per SF	£100	£110	£120
Rental Income (GBP Ms)	£4	£4	£4
% Margin	70%	70%	70%
NOI (GBP Ms)	£3	£3	£3
% Cap Rate	4.5%	4.0%	3.5%
NAV (GBP Ms)	£56	£70	£87
Ex. Rate (USD = GBP)	$1.62	$1.62	$1.62
NAV ($ Ms)	**$91**	**$113**	**$140**
Memo: Price per SF (GBP)	*£1,556*	*£1,925*	*£2,400*
Total NAV ($ Ms)	**$187**	**$225**	**$270**
Memo: Total SF	*48,144*	*48,144*	*48,144*
Memo: Price per SF (GBP)	*£2,424*	*£2,917*	*£3,495*

Harry Winston sold ~£7,000 per SF in June 2013

~Avg. West End office rent as per CBRE

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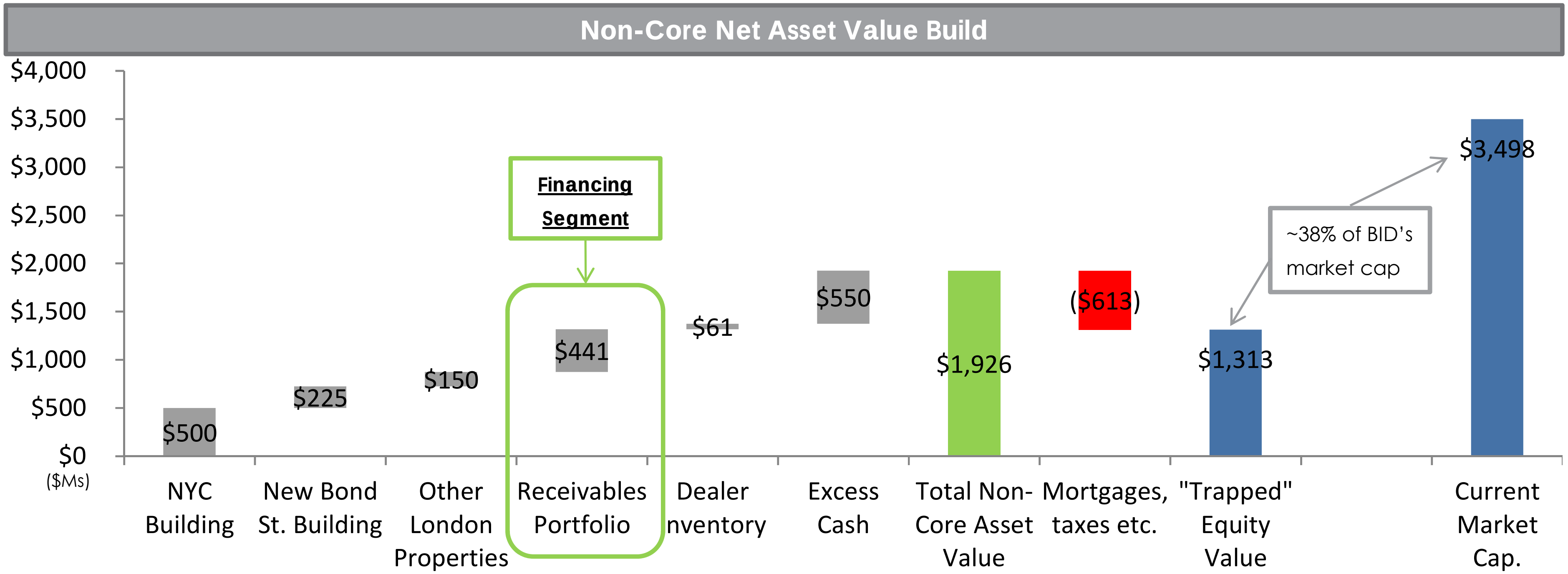
Source: Market data per CBRE, public press releases

Illustrative Value of Other Owned London Real Estate

- Sotheby's also has an additional ~47K of owned real estate in London. While we are uncertain of the exact nature or location of this space, we believe it is close to the New Bond Street building (the 2004 10-K notes the "*New Bond Street **premises*** are approximately ***200,000 square feet***")

($ Ms)			
Other London SF:			
Total London Owned + Freehold SF	95,470	95,470	95,470
Less: New Bond Street Building	(48,144)	(48,144)	(48,144)
Other London SF	47,326	47,326	47,326
Rent per SF	£100	£110	£120
Rental Income (GBP Ms)	£5	£5	£6
% Margin	70%	70%	70%
NOI (GBP Ms)	£3	£4	£4
% Cap Rate	4.5%	4.0%	3.5%
NAV (GBP Ms)	£74	£91	£114
Ex. Rate (USD = GBP)	$1.62	$1.62	$1.62
NAV ($ Ms)	**$119**	**$148**	**$184**
Memo: Price per SF (GBP)	*£1,556*	*£1,925*	*£2,400*

Source: Market data per CBRE, public press releases


Non-Core Net Asset Value Build
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
($Ms)
Financing Segment
$500
$225
$150
$441
$61
$550
$1,926
($613)
$1,313
$3,498
~38% of BID's market cap
NYC Building
New Bond St. Building
Other London Properties
Receivables Portfolio
Dealer Inventory
Excess Cash
Total Non-Core Asset Value
Mortgages, taxes etc.
"Trapped" Equity Value
Current Market Cap.

What are the Notes Receivable?

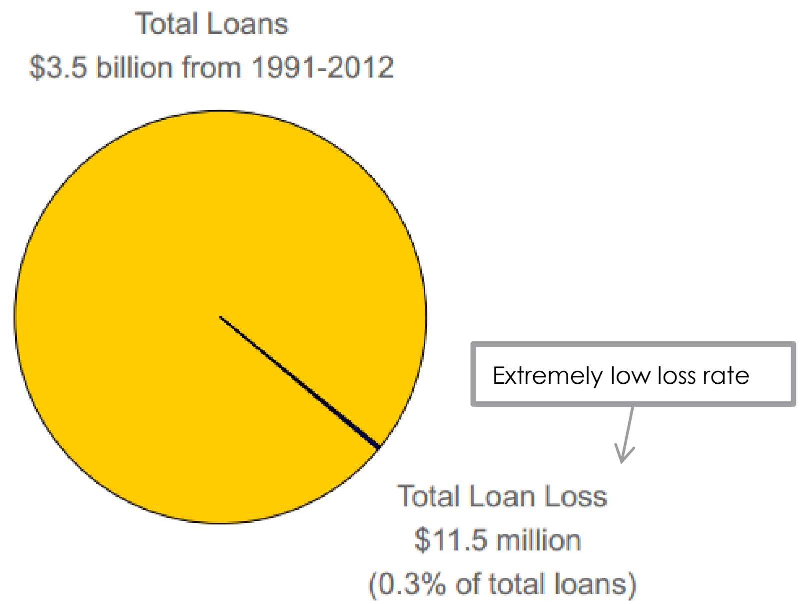
- Sotheby's loans money to consignors to create stronger relationships and improve future auction volume
  - These loans are typically secured by the art at <50% LTV with variable rates (currently ~5%)
- Sotheby's typically provides two types of secured loans:
  - (1) "consignor advances" which are loans to borrowers who are contractually committed, typically within a year, to sell the property at auction
  - (2) "term loans" made for general purposes secured by property but not presently intended for sale

Source: Company filings.

These Loans Have Experienced Extremely Low Loss Rates

Loan Risks and Historical Loan Losses

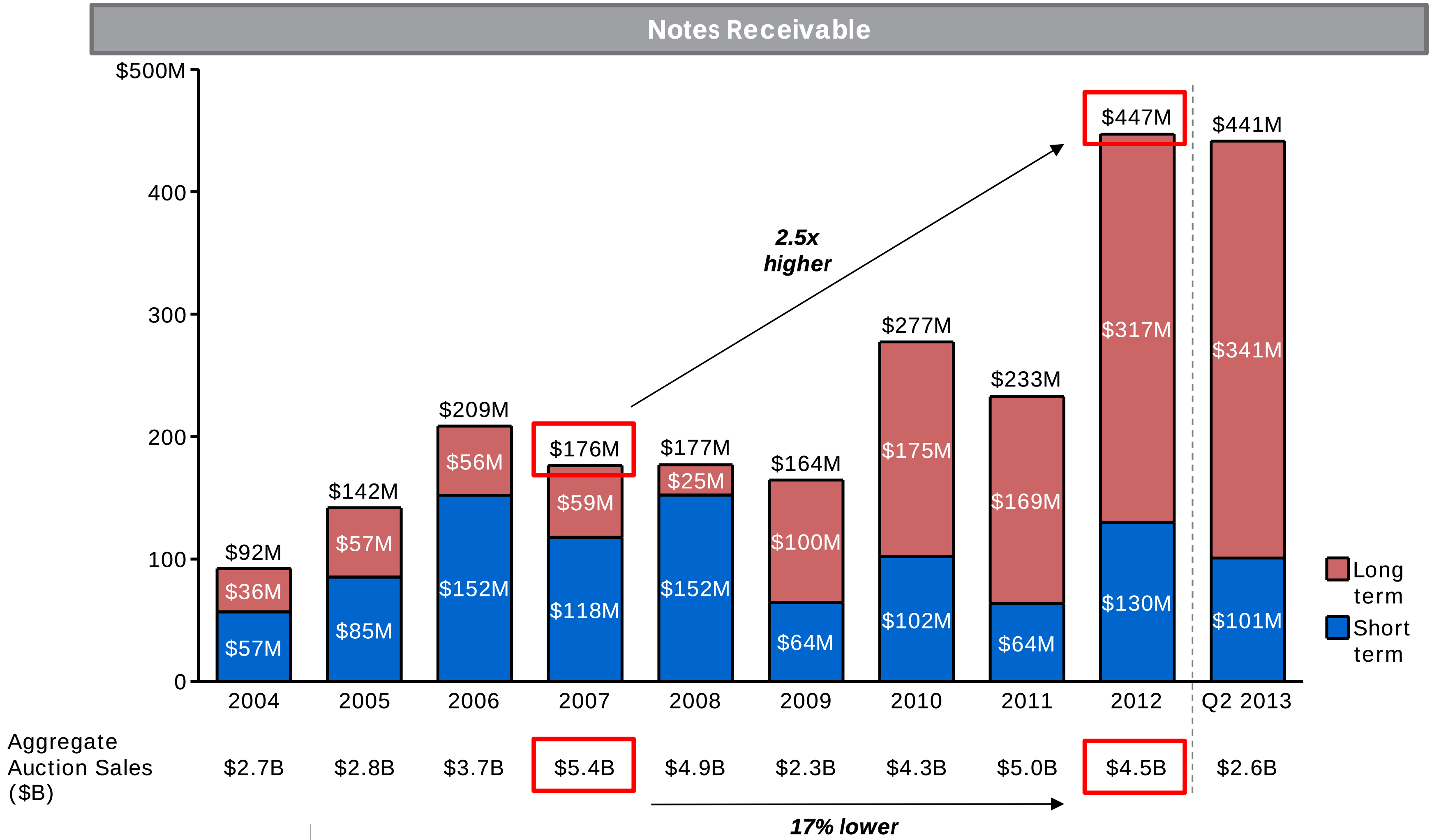
- Valuation appraisal error
- Macroeconomic decline
- Title defect
- Portability of collateral
- Prior liens
- Export/provenance claims
- Bankruptcy



Source: Company investor presentation.

Sotheby's Has Experienced Incongruous Growth in Loan Balance

- Sotheby's now has 2.5x more loans compared to 2007, even though aggregate auction sales are 17% lower



Source: Company filings.

Sotheby's Does Not Generate an Attractive Yield on its Loans

- Sotheby's Financial segment is currently unlevered ➔ 100% equity financed
- The segment generates ~$22M run-rate EBIT on $441M notes receivable balance (a pre-tax yield of ~5.0% or ~3.4% post-tax)

Interest Income

($ in millions)	2006	2007	2008	2009	2010	2011	2012	H1 2013
Revenues	$17.0	$19.1	$17.5	$12.7	$17.2	$16.3	$25.5	$15.1
Implied SG&A	(15.3)	(14.7)	(12.4)	(5.3)	(2.3)	(4.0)	(6.8)	(4.2)
EBITDA	**$1.7**	**$4.4**	**$5.1**	**$7.4**	**$14.9**	**$12.2**	**$18.7**	**$10.9**
Depreciation & Amortization	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT / Segment pretax	**$1.6**	**$4.2**	**$4.9**	**$7.2**	**$14.8**	**$12.1**	**$18.6**	**$10.9**

~$22M run-rate and ~3.4% post-tax yield

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Source: Company filings.

What is Sotheby's Cost of Capital?

Illustrative WACC

Total Capitalization:

	$	% of Total
Market Value of Equity	$3,498	*87.1%*
Face Value of Debt	$519	*12.9%*
Total Capitalization	**$4,017**	

	10Y T	+ Beta [1]	* Risk Prem. [2]	= Cost of Equity
Cost of Equity	2.6%	1.8	5.4%	12.3%

	YTW	* (1 - Tax Rate)	= Cost of Debt
Cost of Debt	6.2%	72.0%	4.5%
	Tax Rate	*28.0%*	

We estimate that Sotheby's WACC is ~11% vs. ~3.4% post-tax yield from its financing business

WACC:

	Weighting	Cost	Weight Avg.
Equity	87.1%	12.3%	10.8%
Debt	12.9%	4.5%	0.6%
Total			**11.3%**

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Source: Bloomberg, Goldman Sachs research and Company filings.
(1) 3 year adjusted beta from Bloomberg.
(2) Goldman Sachs investment research "U.S. Weekly Kickstart," August 2, 2013.

Sotheby's Notes Receivable are Attractive vs. Other Yield Instruments

	Sotheby's – Notes Receivable	Bloomberg Investment Grade US Corporate Bond Index (BUSC)	Bloomberg USD High Yield Corporate Bond Index (BUHY)	Marriott Vacations – Timeshare Receivables
Receivable Balance	• $441M			• $988M as of Q2 2013
Duration	• 6-18 months	• 10.03 years	• 5.21 years	• 10 years, but no prepayment penalties so typically shorter
Yield	• 4.7%	• 3.21%	• 6.25%	• 13%
Spread to Benchmark	• 4.6% over 1yr Treasury of 0.11%	• **0.50% over 10yr Treasury of 2.71%**	• **4.76% over 5yr Treasury of 1.49%**	• 10.29% over 10yr Treasury of 2.71%
Credit Quality	• 0.4% loan losses between 1991-2011*			• 4.5% default rate in 2012
Spread after estimated loan losses	• **4.2% over 1yr Treasury**			• **5.79% over 10yr Treasury**
Financing	• None			• 2yr warehouse facility arranged by Credit Suisse • Non-recourse • **~80% advance rate at LIBOR+150**

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Source: Company investor presentation.

Financial Institutions Have Bought Receivables From Captive Finance Subsidiaries At ~1x Book Value

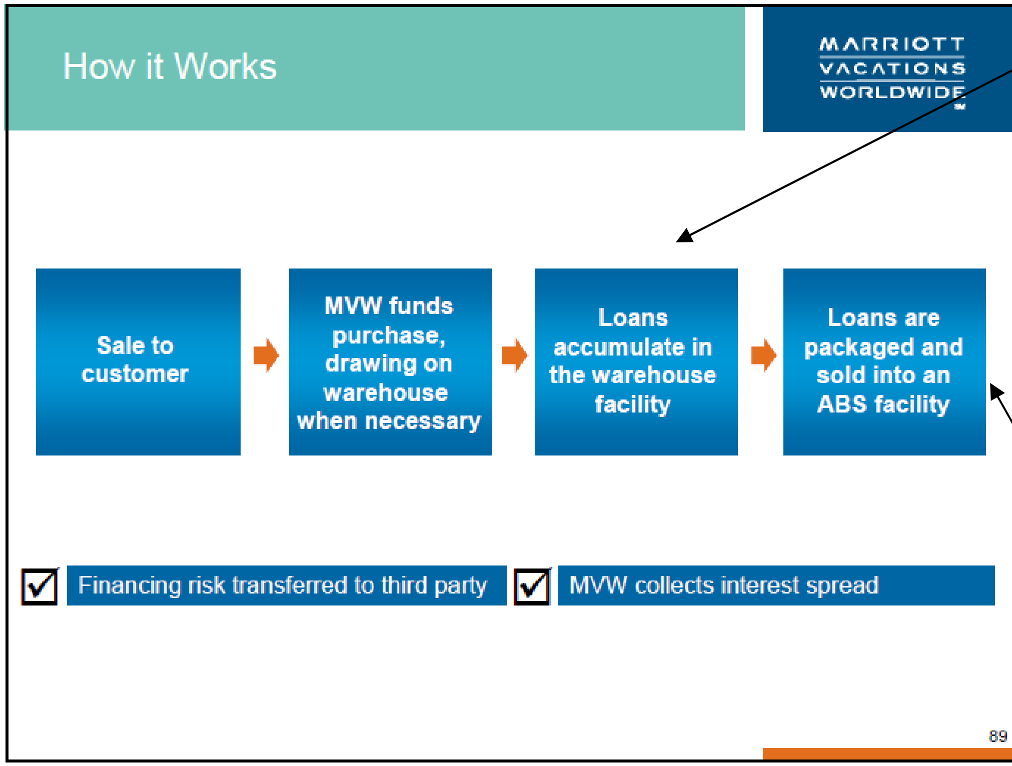
($ in millions, unless noted)

Announcement Date	Completion Date	Acquirer	Portfolio	Receivables Value	Sale Value	Implied Multiple
February 19, 2013	September 6, 2013	Citigroup	Best Buy's U.S. Credit Card Portfolio (Held by Capital One Financial Corporation)	$7,000	$7,000	1.00x
October 23, 2012	March 13, 2013	TD Bank Group	Target Corporation Consumer Credit Card Portfolio	$5,700	$5,700	1.00x
August 12, 2010	April 5, 2011	Capital One Financial Corporation	Kohl's Private Label Credit Card Portfolio	$3,300	$3,300	1.00x
January 9, 2009	January 9, 2009	HSBC USA	HSBC Finance's Auto Finance Receivables	$2,998	$2,758	0.92x
January 9, 2009	January 9, 2009	HSBC USA	HSBC Finance's AFL-CIO Union Plus MasterCard/ Visa Portfolio	$6,089	$5,962	0.98x
January 8, 2009	January 8, 2009	HSBC USA	HSBC Finance's General Motors MasterCard Receivables Portfolio	$6,292	$6,156	0.98x

Source: Public documents.

Case Study: Marriott Vacations Collects Timeshare Receivables on Its Warehouse Facility, Then Sells Securitizations to the Open Market

Excerpt from Marriott Vacations Investor Presentation



Warehouse Facility

- Arranged by Credit Suisse
- $250M capacity
- 1mo LIBOR + 150
- Non-recourse
- 2 years (renewed Sept 2012 until Sept 2014)
- Advance rates vary (ranging from 50-96%); first draw in Oct 2011 was 81% advance rate

Recent Securitizations

- 2010: Financed $229M of notes at 95% advance rate at 3.6% interest rate
- 2012: Financed $250M of notes at 95% advance rate at 2.6% interest rate

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Source: Marriott Vacations Worldwide investor presentation.

Company's Current Undrawn Revolver with GE Capital **Already** Allows for 85% Advance Rate on Eligible Art Loans at L+200-250

- "The activities of the Finance segment, which are conducted through Sotheby's wholly-owned subsidiaries, **have in recent years been funded through the operating cash flows of the Auction segment.** Sotheby's may supplement the funding of the Finance segment with revolving credit facility borrowings, **but has not borrowed under its revolving credit facility during the last four years**." – 2012 10-K, pg. 7

Definition of Domestic Borrowing Base in Revolver

- "Domestic Borrowing Base" means, as of any date of determination, an amount equal to (a) ***85% of the Available Domestic Art Loan Balance*** as of such date plus (b) the Domestic Eligible Art Inventory Component as of such date plus (c) the Domestic CNTA Component as of such date minus (d) Reserves established by Agent at such time.

Lenders are already willing to lend against this loan portfolio

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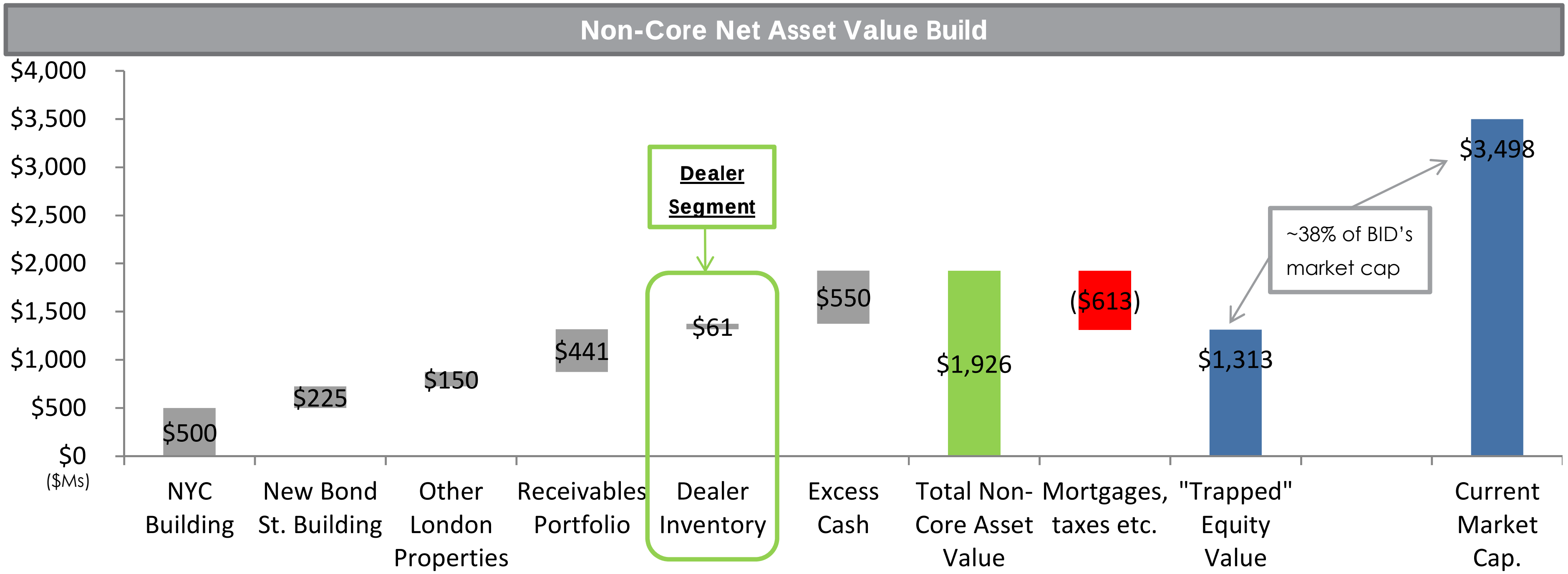
Receivable-Level Debt Does **NOT** Inhibit Financial Flexibility

- Can be structured as non-recourse to parent company → little to no impact on the core auction business
- More than enough margin of safety given extremely low loss rates of 0.3%, proven over 20+ years of data
- "Matching" assets and liabilities ➔ credit facility allows for immediate draws and repayment
- The associated interest expense should be thought of as an operating expense rather than incremental leverage on the core auction business

(3) Dealer Segment



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Dealer Segment is a Drag on Earnings

- Sotheby's paid $82.5M to acquire Noortman Master Paintings in June 2006 (1.95M shares at $29.01 and $26M of assumed debt)

Dealer Segment Financials

($ in millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	*Cumulative Since 2007*
Revenue	$3.6	$5.1	$12.8	$62.8	$55.6	$22.3	$29.1	$21.8	$26.2	
Growth		*42.4%*	*149.0%*	*391.3%*	*(11.4%)*	*(59.8%)*	*30.2%*	*(25.1%)*	*20.1%*	
Gross Profit	???	???	$6.7	$13.6	($6.4)	($2.2)	$4.2	($1.9)	$5.1	**$12.4**
Margin	???	???	*52.6%*	*21.7%*	*(11.5%)*	*(9.7%)*	*14.4%*	*(8.9%)*	*19.3%*	
Implied G&A	???	???	(2.9)	(20.8)	(19.3)	(5.3)	(5.1)	(7.1)	(6.0)	
EBITDA	**$7.3**	**$4.4**	**$3.9**	**($7.2)**	**($25.7)**	**($7.5)**	**($0.9)**	**($9.1)**	**($1.0)**	**($51.3)**
D&A	(0.0)	(0.0)	(1.8)	(2.0)	(2.0)	(2.8)	(0.8)	(0.2)	(0.5)	
EBIT	**$7.3**	**$4.4**	**$2.1**	**($9.1)**	**($27.7)**	**($10.3)**	**($1.7)**	**($9.3)**	**($1.4)**	**($59.5)**
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest expense	0.0	0.0	(0.4)	(0.8)	(0.5)	(0.1)	(0.0)	(0.0)	(0.0)	
Segment pretax	**$7.3**	**$4.4**	**$1.7**	**($9.9)**	**($28.1)**	**($10.4)**	**($1.7)**	**($9.3)**	**($1.4)**	**($60.9)**

~$83M acquisition resulted in ($61)M in losses and counting

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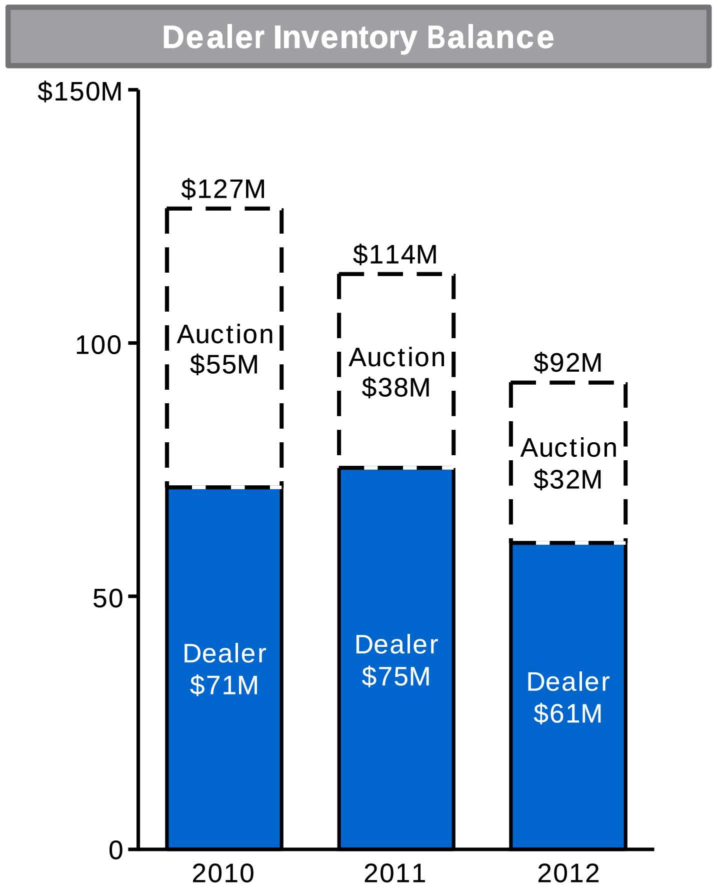
Source: Company filings.

Dealer Segment Depresses Shareholder Returns

- Dealer segment also ties up a large amount of capital while generating negative earnings



Dealer segment should be shut down and inventory sold

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Source: Company filings.

IV. Maximizing Shareholder Value

We Estimate Sotheby's Could Free Up ~$1.3B of Capital (~$19 per share or ~38% of the Market Cap)

($ in millions)

Non-core Asset Value		*Assumption / Commentary*
Sale-leaseback NYC Office	$500	*5% cap rate*
Sale-leaseback New Bond St. Building	225	*3.5% cap rate*
Sale-leaseback Other London Properties	150	*4% cap rate*
Receivables Portfolio	441	*Book value as of 6/30/12*
Shut down Dealer segment	61	*Inventory as of 12/31/12*
Excess cash	550	*Assume $150M min cash as of 6/30/13*
Non-core Asset Value	**$1,926**	
As % of Current TEV	***58.1%***	
(-) NYC Office - Mortgage	(226)	*As of 6/30/13*
(-) NYC Office - Assumed Taxes	(54)	*30% tax rate, $320M basis (per investor pres)*
(-) London Real Estate - Assumed Taxes	(102)	*30% tax rate, $34M basis (owned + freehold NBV)*
(-) Debt finance 85% of receivables	(66)	*Keep 15% of receivables as equity*
(-) Taxes on repatriation	(165)	*Assume 30% tax rate*
"Trapped" Equity Value	**$1,313**	
Per Share	***$19.20***	
As % of Current Mkt Cap	***37.5%***	

Conservatively assumes no tax-efficient way of monetizing assets

Memo: EBITDA Impact		
2014E Consensus EBITDA	$282	
(-) NYC Rent @ 5% cap rate	(25)	
(-) New Bond St. Rent @ 3.5% cap rate	(8)	
(-) Other London Properties Rent @ 4% cap rate	(6)	
(-) Receivable debt int exp	(8)	*Assume L+200*
(+) Shut down Dealer segment	1	
Subtotal - Adjustments	(46)	
Adjusted 2014E EBITDA	**$236**	

Note: We assume receivables financed with non-recourse debt. Associated interest expense treated as an operating expense and associated debt not included in TEV.

Maximizing Shareholder Capital Return

- Sotheby's has a significant amount of excess capital that it should invest into the highest return opportunities the Company has available
- Reinvesting a portion into growth capex is a viable option, **provided that these investments produce a return in excess of the Company's cost of capital**
- **If the Company does not have such reinvestment opportunities, it must return the capital to shareholders**

Capital Allocation Options

	Repay 5.25% Senior Notes	Dividends	Repurchase Stock	Strategic Investments	Status Quo
Est. Pre-Tax ROIC	**<5.3%**	**7.2%**	**28%+** [(2)]	**NA**	**3.3%**
Risk	**Low**	**High**	**Medium**	**NA**	**Low**
Comments	Retiring debt offers a low, but guaranteed, return to shareholders. However, the Company may face higher rates in the future if it needs to raise new debt. Early retirement of the bonds also requires paying prepayment penalties.	Shareholders can reinvest dividends in the equity markets, which have historically generated long-term returns of ~7% [(1)].	Sotheby's can re-invest in itself: an enduring, high-quality franchise that has existed since 1744, at today's prices, which do not fully reflect the Company's strong future growth potential. This strategy rewards committed long-term shareholders who will own more of the Company's future earnings.	Depending on the project and opportunity, strategic initiatives or M&A could also offer accretive options for shareholders.	Current pre-tax yield that the Company is earning [(3)] by owning its NYC and London real estate, equity funding its receivables portfolio, operating its Dealer segment and holding excess cash on its balance sheet.

Source: Company filings, Bloomberg.

(1) 10 year annualized total return for the S&P 500.
(2) Upside to Marcato's illustrative price target.
(3) Assuming a 5% cap rate on the Company's NYC Office, 3.5% cap rate on its New Bond St. building, 4% cap rate on its Other London Properties , 85% of the Company's current receivables , 100% of dealer income and mortgage expenses.

MARCATO CAPITAL MANAGEMENT

Illustrative Impact of a $1.3B Share Repurchase

- We believe Sotheby's repurchasing its shares would lead to significant long-term value accretion for shareholders

($ in millions, except per share)

	Status Quo	*NYC Mortgage*	*Excess Cash*	*Adjust EBITDA*	***Special Dividend***	*$1.3B Share Repurchase At $60 per Share*	***Share Repurchase***
2014E EBITDA	$282			(46)	$236		$236
Multiple	*13.5x*				*14.0x*		*14.0x*
Enterprise Value	**$3,807**				**$3,299**		**$3,299**
Implied TEV/EBIT	*14.5x*				*14.4x*		*14.4x*
(-) Debt	(519)	219 (1)			(300)		(300)
(+) Cash	700		(550)		150		150
Equity Value	**$4,002**				**$3,163**		**$3,163**
Implied P/E	*25.5x*				*21.4x*		*21.4x*
Shares	68				68	(22)	47
Stock Price	**$58.52**			**Going Concern**	**$46.25**		**$68.02**
				"Trapped" Equity Value	**19.20**		
				Total	**$65.45**		
Upside	***14.4%***				***28.0%***		***33.0%***

56% premium to $43.71 when Marcato filed initial 13-D on July 30th

An Accelerated Share Repurchase would be an efficient way to accomplish this and could be completed in ~1 year

MARCATO
CAPITAL MANAGEMENT

Source: Company filings and CapitalIQ.
Note: We assume receivables financed with non-recourse debt. Associated interest expense treated as an operating expense and associated debt not included in TEV.
(1) Mortgage debt as per 6/30/13 balance sheet.

Significant Upside Remains from Operational Improvements

Income Statement	
Revenue	Contemporary, Private Sales, China & Middle East Expansion, Digital, Licensing
Expenses	Efficiency, Allocation

Balance Sheet	
Assets	Allocating capital to the highest return opportunities
Liabilities	Funding business activities with the lowest cost of capital

MARCATO
CAPITAL MANAGEMENT

Significant Opportunity to Unlock Shareholder Value

- Sotheby's trapped equity value of $1.3 billion is significant
  - ~38% of market cap or ~$19/share

- Reinvestment opportunities do not produce a return in excess of the Company's cost of capital ➔ therefore, this capital should be returned to shareholders

- A $1.3 billion accelerated share repurchase would drive significant long-term value
  - Estimated $68 per share value is a 56% premium above July 30th close