

# Sotheby's

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## SOTHEBY'S SENDS OPEN LETTER TO SHAREHOLDERS

- Sotheby's Has the Right Plan and the Right Team to Continue Building Sustainable Value for Shareholders and Clients
- Sotheby's Concludes Third Point's Nominees Add No Relevant Expertise Not Already Represented on the Board of Directors

**NEW YORK, 13 March 2014** – Sotheby's (NYSE: BID) today issued the following open letter to shareholders regarding its nominees for the Board of Directors and the notice from Third Point LLC submitting nomination of three candidates (the "Third Point Nominees") to stand for election to Sotheby's Board at the Company's 2014 Annual Meeting.

Highlights of the letter include:

- Sotheby's is a market leader with superior shareholder returns and record results.
- Sotheby's benefits from a solid financial foundation appropriate to the needs of the business.
- Your Board has the strength, diversity, experience and qualifications to continue to provide effective and independent oversight and direction.
- Your Board is committed to sound corporate governance policies and practices.
- Sotheby's has engaged frequently with Third Point and other shareholders, and your Board is committed to doing what is in the best interests of ALL Sotheby's shareholders. We believe shareholders should question whether Mr. Loeb will do the same – putting ALL shareholders' interests first.
- Sotheby's Board has concluded that Mr. Loeb's nominees add no relevant skills, experience or expertise that is not already effectively represented on the Board.
- Sotheby's has the right Board, the right leadership team and the right strategy in place to deliver value for ALL Sotheby's shareholders now and over the long term

13 March 2014

Dear Sotheby's Shareholder:

The Nominating and Corporate Governance Committee of Sotheby's Board of Directors has carefully considered the director nominations put forth by Third Point. The composition of your Board is something Sotheby's takes very seriously, as the experience and expertise of its directors have been and will continue to be important to enabling the Company's success.

Indeed, under the leadership and guidance of your Board of Directors, Sotheby's has delivered strong financial performance and superior shareholder returns, including a total shareholder return of 32.5% over the last year. Your Board is independent, active, engaged and focused on shareholder value. We believe your Board has the skills and expertise necessary to continue Sotheby's track record of success.

In contrast, we believe the Third Point Nominees – Daniel S. Loeb, Olivier Reza and Harry J. Wilson – add no experience or expertise that is not already represented or that is relevant to the Company's business, strategies or goals. Accordingly, based on the recommendation of the Nominating and Corporate Governance Committee, the Board has unanimously determined to reject the Third Point Nominees.

**Sotheby's is a market leader with superior shareholder returns and record results.**

Sotheby's has delivered superior shareholder returns and record results over both the short and long term.

- The Company's stock price remains near historic highs and has exceeded the S&P Midcap Index over the one, five and ten year periods.
- For 2013, Sotheby's reported record consolidated sales of \$6.3 billion, an 11% increase in total revenues to \$853.7 million and a 20% increase in net income to \$130.0 million.
- Sotheby's saw transactions from 50% of our top clients in 2013, representing more than a 20% increase in business from this client segment. Furthermore, in 2013, the number of first time buyers grew 17%, which represented 30% of all bidders during the year.

- The Company has made a major investment in digital, including the online bidding platform BIDNow, which saw a 21% increase in transactions in 2013.
- Sotheby's continued engagement efforts in Asia last year resulted in a 28% increase in transacting clients in China, with net sales among Chinese buyers growing 58% over 2012.
- Client satisfaction surveys in 2013 showed steady increases over the previous year, a strong indicator that Sotheby's investments in improving the experience of our most important client relationships are working.

**Sotheby's benefits from a solid financial foundation appropriate to the needs of the business.**

Earlier this year, we announced the Company's new Capital Allocation and Financial Policy Plan. This plan followed an extensive evaluation by Sotheby's Board of Directors and leadership team and considered input from shareholders, including Third Point. In addition to a significant return of capital, including a \$300 million special dividend, a \$150 million share repurchase program, and a commitment to return any excess capital to shareholders on an annual basis, this plan also establishes a financial policy framework with clear financial return hurdles for future investment decisions. We believe this plan helps ensure that Sotheby's remains in the strongest position to compete and succeed in the marketplace.

We are committed to growing with discipline. Your Board and management have worked to ensure that the Company's operations run efficiently, but without compromising service to clients. This includes establishing a culture of productivity and financial discipline with \$22 million of cost savings already identified for 2014 – and we won't stop there. In a business with considerable revenue variability, focusing on reducing costs is a crucial and continuous part of Sotheby's efforts to drive shareholder value. We expect to identify and communicate additional cost reductions in 2014 and beyond.

At the same time, we are making important investments in key initiatives that support Sotheby's growth both today and into the future, including in new technology, client service and emerging markets, where an increasing portion of the Company's auction sales are generated annually. These innovations position Sotheby's to leverage its advantages as a truly global auctioneer.

**Your Board has the strength, diversity, experience and qualifications to continue to provide effective and independent oversight and direction.**

Your Board is composed of 12 highly qualified directors, 10 of whom are independent. The Nominating and Corporate Governance Committee regularly reviews the composition of the Board to assess whether it has the right mix of skills and experience, and if it is necessary to add directors to build upon certain relevant expertise. To that end, we will have added five new independent directors in the past three years, including our Lead Independent Director, a role established by the Board in 2012. These new directors include a group of highly qualified, independent thinkers:

- On March 13, 2014, we announced that Jessica Bibliowicz has been nominated to stand for election to Sotheby's Board at the 2014 Annual Meeting. Ms. Bibliowicz brings significant leadership skills and entrepreneurial and finance experience to your Board, having built a successful client service business at National Financial Partners Corp., where she served as Chairman and Chief Executive Officer.
- On March 13, 2014, we announced that that Kevin C. Conroy has been nominated to stand for election to Sotheby's Board at the 2014 Annual Meeting. Mr. Conroy brings significant digital, advertising and media experience and an extensive background in managing popular global Web brands, including AOL, AIM and Netscape.
- Domenico De Sole became a director in December 2013 and assumed the role of Lead Independent Director on December 13, 2013. Mr. De Sole brings extensive experience building global luxury brands as well as significant legal experience.
- Daniel Meyer joined your Board in May 2011. As the President of Union Square Hospitality Group since 1996, Mr. Meyer has significant experience building trusted, client service oriented consumer brands, as well as strong connections and name recognition in the critical New York market.
- Marsha E. Simms joined your Board in May 2011, having served as a partner of the international law firm Weil, Gotshal & Manges LLP until her retirement in 2010. Ms. Simms has substantial legal and financial skills, including finance and debt restructuring, and a strong governance background.

Together, the Sotheby's Board possesses distinct knowledge and expertise that is critical to the Company's success. This includes significant experience leading and profitably growing other public and private companies with global luxury brands in key markets Sotheby's has targeted for growth, including Asia and Europe. Your Board also includes directors who have long-standing, global relationships within the art world and high-end luxury goods category, and directors with unique commercial insight into luxury goods. Sotheby's directors have experience and backgrounds in disciplines that are highly relevant to the Company's businesses, including marketing, finance, banking, real estate, client service and law. Your directors have demonstrated success leading corporate change and value creation through financings, capital allocation strategies and business development.

Each member of your Board is committed to continuing to deliver superior results and serve the best interests of all Sotheby's shareholders.

**Your Board is committed to sound corporate governance policies and practices.**

The Sotheby's Board, with substantive feedback from shareholders, recently approved a number of enhancements to the Company's corporate governance. Among others, the enhanced governance guidelines and best practices unanimously approved by the Sotheby's Board include:

- Enhanced responsibilities for Sotheby's Lead Independent Director, including engaging with shareholders and facilitating director evaluations;
- Mandatory retirement guidelines for non-management directors;
- Specific guidelines designed to support direct communications between shareholders and members of the Board, including the Lead Independent Director;
- Revisions to make equity awards more long-term focused for all executive officers, and enhanced transparency of the disclosure regarding performance measures and payout rationale; and
- The incorporation of "360-degree" evaluations in the Board's assessment of both individual director performance and the contributions of Board committees.

**Your Board is committed to doing what is in the best interests of ALL Sotheby's shareholders.**

**We believe shareholders should question whether Mr. Loeb will do the same –  
putting ALL shareholders' interests first.**

Sotheby's has engaged in extensive discussions with Third Point over the past several months in an effort to reach a resolution that would avoid a costly and disruptive proxy contest. In doing so, we offered to appoint Mr. Loeb to the Sotheby's Board of Directors, where he would also serve on three committees – the Nominating and Corporate Governance Committee, the Audit Committee and the Finance Committee.

This offer reflected your Board's efforts to work constructively to avoid a distracting proxy contest and not any experience or expertise that Mr. Loeb could bring to the Board.

We are prepared to continue to engage with Mr. Loeb as a shareholder, as we do with all of our shareholders. However, Mr. Loeb's abrupt decision to launch his proxy campaign in the midst of constructive dialogue has caused us to doubt his ability to work effectively as a Board member to serve the interest of all shareholders. In addition, Sotheby's shareholders should question whether Mr. Loeb will make a commitment to long-term directorship, given that his average tenure as a public company director is only between one and two years.

**Sotheby's Board has concluded that Mr. Loeb's nominees add no relevant skills, experience or expertise that is not already effectively represented on the Board.**

As jewelry designers, Mr. Reza's family has long been known to Sotheby's. Mr. Reza recently left investment banking to join his family's business. His experience in jewelry is too recent to allow him to conduct meaningful oversight, and your Board already has deep luxury goods expertise as well as deep expertise in finance, mergers and acquisitions, and capital allocation. While we appreciate the perspective Mr. Reza brings to jewelry design, we do not believe this skill set is needed on your Board in order to execute the Company's strategy or to enhance shareholder value.

As Mr. Loeb's public materials state, Mr. Wilson's skills include distressed debt and corporate restructuring. Sotheby's financial strength and performance make it clear that a corporate restructuring, akin to his experience advising on the federal bailout of General Motors, would not be relevant to Sotheby's shareholders.

Sotheby's is a market leader that generates 29% EBITDA margins\* and has appropriate liquidity to not only invest for future growth, but also to return over \$300 million to shareholders in the near-term. The Company's Capital Allocation and Financial Policy Plan has been widely well received. Even Mr. Loeb has acknowledged that this plan is the "right approach."

Sotheby's has the right Board, the right leadership team and the right strategy in place to deliver value for ALL Sotheby's shareholders now and over the long term.

The Board will present its recommended slate of director nominees in Sotheby's definitive proxy statement and other materials, including the Company's GREEN proxy card, to be filed with the Securities and Exchange Commission and mailed to all shareholders eligible to vote at the 2014 Annual Meeting, which has yet to be scheduled. Sotheby's shareholders are not required to take any action at this time.

/s/

Bill Ruprecht

Chairman, President and Chief Executive Officer

/s/

Domenico De Sole

Lead Independent Director

Additional information concerning Sotheby's corporate governance guidelines, including the enhancements announced today, are available on Sotheby's website.

**\* Reconciliation of Non-GAAP Financial Measures**

The following is a reconciliation of net income to EBITDA for 2013 (in thousands of dollars):

	<u>2013</u>
Net Income	\$130,006
Income tax expense	55,702
Income tax expense related to equity investees	12
Interest income	(2,801)
Interest expense	42,712
Depreciation and amortization	<u>19,435</u>

EBITDA

\$245,066

### **Forward-looking Statements**

This release contains certain “forward-looking statements,” as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, relating to future events and the financial performance of Sotheby’s. Such 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. As such, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as to management’s plans, assumptions and expectations as of the date hereof. In addition to the considerations and factors referred to in this release and prior filings and releases, major factors which Sotheby’s believes could cause actual events to differ materially include, but are not limited to, the overall strength of the international economy and financial markets, political conditions in various nations, competition with other auctioneers and art dealers, the success of Sotheby’s risk reduction and margin improvement efforts, the amount of quality property being consigned to art auction houses, the marketability at auction of such property, the success of Sotheby’s future auction sales and the results and reception of Sotheby’s announced capital allocation and financial review and other initiatives, including but not limited to its cost reduction initiatives, review of its real estate portfolio and related alternatives and its plans and framework for returning capital to stockholders and optimizing its capital structure and financial policies. Please refer to Sotheby’s most recently filed Form 10-Q (and/or 10-K) and other filings for a more comprehensive list of material Risk Factors. Sotheby’s disclaims any duty to update or alter any forward-looking statements, except as required by applicable law.

### **Important Additional Information**

Sotheby’s, its directors and certain of its executive officers are participants in the solicitation of proxies from stockholders in connection with Sotheby’s 2014 Annual Meeting of Stockholders. Sotheby’s intends to file a proxy statement and GREEN proxy card with the U.S. Securities and Exchange Commission (the “SEC”) in connection with such solicitation of proxies from Sotheby’s stockholders. **SOTHEBY’S STOCKHOLDERS ARE STRONGLY ENCOURAGED TO READ ANY SUCH PROXY STATEMENT (INCLUDING ANY AMENDMENTS AND SUPPLEMENTS) AND ACCOMPANYING GREEN PROXY CARD WHEN THEY BECOME AVAILABLE AS THEY WILL CONTAIN IMPORTANT INFORMATION.**

Information regarding the names of Sotheby’s directors and executive officers and their respective interests in Sotheby’s by security holdings or otherwise is set forth in Sotheby’s proxy statement for the 2013 Annual Meeting of Stockholders, filed with the SEC on March 26, 2013. To the extent holdings of such participants in Sotheby’s securities have changed since the amounts described in the 2013 proxy statement, such changes have been reflected on Initial Statements of Beneficial Ownership on Form 3 or Statements of Change in Ownership on Form 4 filed with the SEC. Additional information can also be found in Sotheby’s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 27, 2014.

These documents, including any proxy statement (and amendments or supplements thereto) and other documents filed by Sotheby’s with the SEC, are available for no charge at the SEC’s website at <http://www.sec.gov> and at Sotheby’s investor relations website at <http://investor.shareholder.com/bid/index.cfm>. Copies may also be obtained by contacting Sotheby’s Investor Relations by mail at 1334 York Avenue, New York, NY 10021 or by telephone at 800-700-6321 or 212-894-1023.

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Sotheby’s has been uniting collectors with world-class works of art since 1744. Sotheby’s became the first international auction house when it expanded from London to New York (1955), the first to conduct sales in



Hong Kong (1973), India (1992) and France (2001), and the first international fine art auction house in China (2012). Today, Sotheby's presents auctions in eight different salesrooms, including New York, London, Hong Kong and Paris, and Sotheby's BidNow program allows visitors to view all auctions live online and place bids in real-time from anywhere in the world. Sotheby's offers collectors the resources of Sotheby's Financial Services, the world's only full-service art financing company, as well as private sale opportunities in more than 70 categories, including S|2, the gallery arm of Sotheby's Contemporary Art department, as well as Sotheby's Diamonds and Sotheby's Wine. Sotheby's has a global network of 90 offices in 40 countries and is the oldest company listed on the New York Stock Exchange (NYSE).

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