

SOTHEBYS
Form DFAN14A
April 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

SOTHEBY S

(Name of the Registrant as Specified in its Charter)

THIRD POINT LLC

THIRD POINT OFFSHORE MASTER FUND L.P.

THIRD POINT ULTRA MASTER FUND L.P.

THIRD POINT PARTNERS L.P.

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THIRD POINT PARTNERS QUALIFIED L.P.
THIRD POINT REINSURANCE CO. LTD.
LYXOR/THIRD POINT FUND LIMITED
THIRD POINT ADVISORS LLC
THIRD POINT ADVISORS II LLC
DANIEL S. LOEB
HARRY J. WILSON
OLIVIER REZA

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

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This filing contains an investor presentation distributed by Third Point LLC (Third Point) on April 14, 2014.

On March 28, 2014, Third Point, certain of its affiliates and associates, Mr. Harry J. Wilson, and Mr. Olivier Reza (the Group) filed with the Securities and Exchange Commission (the SEC) and began distributing to Sotheby s stockholders a definitive proxy statement (the Proxy Statement) in connection with Sotheby s 2014 annual meeting of stockholders. THIRD POINT STRONGLY ADVISES ALL STOCKHOLDERS OF SOTHEBY S TO READ THE GROUP S PROXY STATEMENT BECAUSE IT CONTAINS IMPORTANT INFORMATION, INCLUDING INFORMATION RELATING TO THE GROUP S PARTICIPANTS IN SUCH PROXY SOLICITATION. THE GROUP S PROXY STATEMENT, AS FILED, AND ANY FURTHER AMENDMENTS, SUPPLEMENTS OR OTHER RELEVANT PROXY SOLICITATION DOCUMENTS WILL BE AVAILABLE AT NO CHARGE ON THE SEC S WEBSITE AT [HTTP://WWW.SEC.GOV](http://www.sec.gov).

Investor Presentation
April 2014

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This
presentation

may
include
forward-looking
statements
that
reflect
the
current
views
of
Third
Point
LLC
(Third
Point
),
Mr.
Harry
J.
Wilson,
and
Mr.
Olivier
Reza
and
their
respective
affiliates
and
associates
(collectively,
the
Group
)
with
respect
to
future
events.

Statements that include the words expect,

intend,
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On
March
28,
2014,
Third
Point
LLC
and
certain
of
its
affiliates
filed
with
the
Securities
and
Exchange
Commission
(the
SEC)
and
began
distributing
to
Sotheby's
stockholders
a
definitive
proxy
statement
(the
Proxy
Statement)
in
connection
with
Sotheby's
2014

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annual meeting of stockholders. Third Point strongly advises all stockholders of Sotheby's to read the Group's Proxy Statement because it contains important information, including information relating to the Group's participants in such proxy solicitation. The Group's Proxy Statement, as filed, and any further amendments, supplements, or other relevant proxy solicitation documents will be available at no charge on the SEC's website at <http://www.sec.gov>.

Disclaimer

Source: Third Point LLC

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Event Driven Investment Strategy

Focused on special situation investing across capital structures

Proven Track Record

Produced

average

net

annualized
returns
since
inception
in
1995
of
21.2%
while
the
CS/Tremont
Event
Driven
Index,
HFRI
Event
Driven
Index,
and
S&P
500
have
returned
10.0%,
10.4%,
and
8.9%,
respectively,
over
the
same
period
Successful Activist Investor

Bloomberg recently highlighted how three Third Point activist investments (Yahoo!, CF Industries, Murphy Oil) delivered returns to shareholders that beat the S&P 500 in an article entitled, [Activist Investors are Good for the Stock Price](#)

At Yahoo!, Third Point helped create approximately \$15 billion of value for shareholders, as the share price increased over 85% during the period that Third Point directors served on the board from May 2012 until July 2013
Third Point LLC is an investment adviser based in New York

Note:

all
returns
calculated
for
Third
Point
Partners
L.P.
and

S&P
from
inception
(June
1995)
through
3/31/14;
all
references
to
the
CS/Tremont
Event
Driven
Index
and
HFRI
Event
Driven
Index
reflect
performance
calculated
through
2/28/14
Source:
Third
Point
LLC;
Bloomberg
article
 Activist
Investors
are
Good
for
the
Stock
Price
from
April
3,
2014
Third Point LLC (Third Point) is an SEC-registered investment adviser based in New York
Approximately \$14.5 billion under management
Founder
and
CEO,
Daniel
S.

Loeb,
has
over
28
years
of
experience
in
the
financial
markets
Firm Overview
Third Point Highlights
Third Point Overview

5
How did we get here?

Third
Point
owns
~9.6%
of
Sotheby's

(the
Company
or
BID)
and
believes
the
Company
can
generate
significantly
more
value for shareholders through, among other things, an infusion of new leadership, better accountability, and increased transparency

Accordingly, Third Point and the Company held a number of in-person and telephonic meetings between August 2013 and February 2014 to discuss Third Point's ideas about how to increase long-term value for shareholders

During these meetings, the Company offered a Board seat to Mr. Loeb; however, based on Third Point's experience, a single nominee from an outside shareholder in a boardroom of 12 directors is not sufficient to bring about needed change
What is Third Point suggesting specifically?

Three directors to reinvigorate the Board and help Sotheby's achieve its substantial potential

In this case, we believe that three is the right number given the total size of the Sotheby's Board (12 directors), the number of committees on the Board, and the specific challenges faced by the Company

Furthermore, three directors has proven to be effective for Third Point in the past, e.g., three Third Point nominees were elected to the Yahoo! Board

Why should Third Point's nominees (the Shareholder Slate) be elected?

The
BID
nominees
we
oppose
(Robert
A.

Taubman,
Daniel
Meyer,
and
Jessica
M.
Bibliowicz),
collectively,
have
limited

share ownership and qualifications that do not appear to add value for Sotheby's shareholders

The Shareholder Slate (Daniel S. Loeb, Harry J. Wilson, and Olivier Reza), collectively, owns nearly 10% of the Company and was carefully selected for its expertise in unlocking long-term value for public shareholders, enhancing operational efficiencies, and formulating strategy at luxury companies

In
fact,
Third
Point
nominees
have
already
delivered
benefits
to
Sotheby's
shareholders

Source: Third Point LLC
Situation Overview

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Benefits of Shareholder Involvement

Benefits of greater shareholder involvement are already clear, but without continued collaboration, progress will stall

Source: Third Point LLC; Stifel Analyst Research

Third Point Action

Response

May 2013: Third Point files 13F showing new position in BID

Sell-side writes that the new presence of a well-known shareholder-value advocate investor will bring attention to real estate, excess capital, and expense growth

August 2013: Third Point has first meeting with Sotheby's to discuss opportunities for improvement

Company announces a review of its capital allocation and financial policies

Company appoints a new CFO

October 2013: Third Point sends public letter to Sotheby's expressing concerns about leadership, shareholder misalignment, strategic direction, Board governance, and expense growth

Sotheby's expands capital allocation review to include examination of strategy, business, and cost structure

Sotheby's appoints new Lead Independent Director

Sotheby's publicly announces frameworks for business reinvestment and excess capital return, as well as a special dividend and cost savings program

February 2014: Third Point nominates three new directors and highlights the lack of owner's perspective in the Boardroom as well as the long tenure of current Board

Sotheby's shares its conclusion that Mr. Loeb would be an appropriate Board member and offers him a Board seat

Sotheby's nominates two new directors to replace Sovern (tenure: 14+ years) and Dodge (tenure: 8+ years)

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Current Board's Misdirection Campaign

In a recent presentation, the current Board actively misled investors about Mr. Loeb's credentials and Third Point's track record of creating value for shareholders

Gross misstatements regarding Mr. Loeb's expertise and experience by claiming Mr. Loeb has no experience in the art/auction, luxury, and digital media/communications spaces

These statements are plainly false:

In the art/auction and luxury spaces, Mr. Loeb is a leading collector of modern and contemporary art, has been recognized by

ARTNews
as
one
of
the
200
Top
Collectors
each
year
since
2005,
has
had
portions
of
his
personal
collection
exhibited
at
the
MoMA
in
New
York
and
in
other
global
museum
retrospectives
and
shows,
and
is
a
trustee
of
the
MOCA
in
Los
Angeles

In the media/communications area, Mr. Loeb served on the board of Yahoo!, a leading digital media/ communications firm, from 2012 to July 2013

False
statements

Disingenuous criticism of Mr. Loeb's Yahoo! involvement without reference to the benefits he brought to all

Yahoo! shareholders

Greater than 85% increase in Yahoo! s stock price while Mr. Loeb was a member of the Yahoo! Board and another ~20%

increase

in

Yahoo! s

stock

price

since

Third

Point

sold

a

portion

of

its

shares

(at

the

market

price)

back

to

Yahoo! at the

company s request

Specious

conclusion

that

Mr.

Wilson

and

Mr.

Reza

would

add

no

incremental

relevant

experience

to

the

Board despite obvious evidence to the contrary and without even bothering to interview them

Disingenuous

criticism

Highly misleading use of quotations from third party sources by selectively quoting excerpts from articles by Gabelli & Co. and The New York Times that misrepresented the full message of the articles

Quotations

only

presented

a
one-sided
story
and
left
out
praise
of
the
accomplishments
and
value
that
Third Point
and Mr. Loeb brought to Yahoo!

The Gabelli & Co. report actually states: Third Point was the largest pre-transaction shareholder at ~60 million shares and the architect of the 2012 Board reorganization (which we continue to applaud), and, later, With its 2012 reorganization, Third Point brought a shareholder advocate and adult supervision to the table.

The New York Times article actually states, regarding Third Point's directors: These were good directors, and they were part of needed change at Yahoo!.

Misleading

quotations

Source: Third Point LLC; Sotheby's Investor Briefing slides from April 8, 2014; Gabelli & Co.; The New York Times

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Management's
claim
that
2013
was
a
record
year

is
misleading
and
demonstrates
the
risk
of
having
a
Board
asleep
at
the
switch

While, relative to the Company's prior peak in 2007, the Company sold a greater dollar value of art, the more meaningful metric is that the Company generated less revenue and spent more money to do so

The bottom line is that earnings per share were down 42% versus their prior peak

Given the global tailwinds in the marketplace, this performance is unacceptable and we believe it can be linked back to failed leadership of the Sotheby's Board

Source: Third Point LLC

Our business case is a simple one

Third Point's Business Case

We strongly believe the Shareholder Slate can reinvigorate the Board and help Sotheby's achieve its substantial potential

Sotheby's is one of the world's two leading auction houses

9

CY2013 business mix

Business overview

854

6,306

Sotheby's: Overview

Note: auction sales represent the hammer price of property sold at auction and auction revenue represents total auction commissions; other revenue includes revenue from private sales brokered by Sotheby's and private sale revenue represents private sale commissions; other revenue includes

revenues (fees charged to clients for catalogue production, insurance, etc.), principal revenues, finance revenues, license revenues

Source:

Third

Point

LLC;

Company

financials;

Sotheby's

Investor

Briefing

slides

from

October

15,

2013

and

April

8,

2014

Auction sales by category

Auction

Sales, 5,127

Auction

Sales, 688

Private Sales,

1,179

Private Sales,

88

Other, 78

0%

20%

40%

60%

80%

100%

Value of Property Sold

Revenue Mix

Millions of USD

Contemporary

27%

Impressionist

22%

Asian

Other

Jewelry

Other Paintings

9%

Old Masters

4%

17%

11%

10%

Founded in 1744 in London and today operates globally with 90 locations in 40 countries

Conducted 230 auctions in 9 auction salesrooms around the world last year; also operates private sales galleries in New York, Hong Kong, and London

Over 70 collecting categories including fine art, furniture, and jewelry

Focused on the middle and upper echelons of the auction market according to management

Relative to Christie's only, Sotheby's had approximately 46% market share in auctions in 2013 vs. approximately 54% for Christie's

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Sotheby's: Shareholder Return
Current
Board
claims
BID
shares
have
outperformed

the
market;
however,
a
quick
look
at
historical
performance
suggests
failure
to
create
enduring
value
for
shareholders

Source: Third Point LLC; Bloomberg (15-year daily price chart)

Sotheby's stock
price has been
highly volatile
over the past 15
years

Price basically flat
vs. 1999 and
materially below
its 2007 high

Historical
performance
suggests current
leadership has
failed to create
enduring value for
shareholders over
the long-term

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Sotheby's: Structural Tailwinds

Global population of ultra high net worth individuals (ultra-HNWI) and their combined aggregate wealth have increased to record levels (even before factoring in gains from 2013)

Ultra-HNWI +8% vs. 2007

Ultra-HNWI aggregate wealth +9% vs. 2007

Note: ultra-HNWI defined as those with USD \$30 million or more in investable assets; investable wealth does not include the collectibles, consumables, and consumer durables; 2013 figures not yet available

Source: Third Point LLC; Cap Gemini World Wealth Reports 2008-2013

Thousands of people

Trillions of USD

103.3

77.9

93.1

102.6

100.0

111.0

60

80

100

120

2007

2008

2009

2010

2011

2012

of Ultra-HNWIs

15.0

11.4

13.8

15.4

14.7

16.3

10

12

14

16

18

2007

2008

2009

2010

2011

2012

Ultra-HNWI Aggregate Investable Wealth

12

Sotheby's: Luxury and Art Markets

Note: luxury market figures include apparel, perfumes and cosmetics, accessories, hard luxury and art de la table; global art market figures include auction and dealer sales data, as well as projections based on the results from polling (per TEFAF)

Source: Third Point LLC; Altagamma / Bain; TEFAF (The European Fine Art Foundation) Art Market Reports for 2011 through 2013

As one might expect, luxury consumption across a variety of categories is on the rise, yet the art market appears to be flat

Luxury consumption +28% vs. 2007

Category leaders

like Sotheby's are responsible for expanding their respective markets. Flattish art market suggests Sotheby's has done a poor job making art more accessible and appealing to HNWIs.

Even though art, in general, is perceived to be a greater store of value than most luxury products (e.g., handbags).

Yet the art market is flat vs. 2007

100
150
200
250
2007
2008
2009
2010
2011
2012
2013

Global Luxury Market
Billions of EUR

20
30
40
50
60
2007
2008
2009
2010
2011
2012
2013
48.1
42.2
28.3
43.0
46.1
43.0
47.4
170

167

153

173

192

212

217

Global Art Market

Billions of EUR

13

Sotheby's: Auction and Private Sales

Sotheby's has generated a similar level of auction and private sales, though a closer look suggests

they

might

be

losing

share

in
art
given
growth
in
other
categories
like
jewelry

Note: global art market data from 2007 through 2013, per TEFAF, is based on actual auction and dealer sales data, as well as p

Source: Third Point LLC; Company filings; TEFAF (The European Fine Art Foundation) Art Market Reports for 2011 through

Value of auction and private sales combined

only up slightly vs. 2007

Flattish sales in a

flattish market

suggests the Company

has failed to gain

market share

In fact, the Company

may actually be losing

share in art

given

strong growth in non-

art

categories

E.g., jewelry now

comprises 10% of

auction sales vs.

5% in 2007

But is Sotheby's losing

share in art ?

6,306

6,122

-10%

6,122

5,279

4,782

5,801

5,380

6,306

0

10,000

20,000

30,000

40,000

50,000

60,000

70,000

80,000

0
2,000
4,000
6,000
8,000
2007
2008
2009
2010
2011
2012
2013

Auction and private sales in millions of USD (left axis);
art market in millions of EUR (right axis)

Aggregate Auction and Private Sales
Global Art Market

5,122
4,614
270
513
730
1,179
2,000
4,000
6,000
8,000
2007
2013

Millions of USD
Aggregate Auction Sales of All Other Categories
Aggregate Auction Sales of Jewelry
Private Sales (category breakdown not disclosed)
2,751

14

Sotheby's: Revenue and Expenses

Note: revenue includes auction commissions, private sale commissions, other agency revenues, finance revenues, licensee fees, inventory activities, principal revenues; expenses include agency direct costs, marketing, salaries and related costs, general and administrative expenses, excludes cost of principal activities, restructuring charges, impairment charges, anti-trust related matters, gains on sale of land

Source: Third Point LLC; Company filings

Why has Sotheby's generated less revenue from a similar level of auction and private sales?

-6%

Why have expenses surpassed peak levels
despite a large cost savings program in 2009?

+2%

Mgmt targeted annual savings
of \$100 million in 2009 vs. 2008

877
719
468
747
810
744
825
0
100
200
300
400
500
600
700
800
900
1,000
2007
2008
2009
2010
2011
2012
2013

Millions of USD
Sotheby's Revenue

582
395
475
532
533
597
0
100
200
300
400
500
600
700
2007
2008
2009
2010

2011

2012

2013

Millions of USD

Sotheby's Expenses

556

More importantly, relative to 2007 (prior peak), revenue is down and expenses are up

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Sotheby's: EPS

As a result, earnings per share (EPS) has declined 42% relative to peak

Note: Reported EPS is a GAAP number

Source: Third Point LLC; Company filings

Why is the Board extolling 2013 as a Record Year ?

Down 42%!

\$3.25

\$0.44

(\$0.10)

\$2.34

\$2.46

\$1.57

\$1.88

(\$1.00)

\$0.00

\$1.00

\$2.00

\$3.00

\$4.00

2007

2008

2009

2010

2011

2012

2013

EPS in USD

Sotheby's Reported EPS

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Overview of Sotheby's Shortcomings

We believe Sotheby's weak performance can be tied back to poor corporate governance, irresponsible cost expenditures, and missed opportunities for growth

Source: Third Point LLC; Bloomberg

Current directors lack skin in the game due to limited share ownership, i.e., only 0.87% of outstanding common stock,

a
significant
portion
of
which
was
granted
as
part
of
the
Board's
compensation
package
Current directors average nearly 9 years of service
Rapid adoption of a poison pill
in response to a letter from Third Point in the hopes of preventing Third Point
from having a say in the boardroom
Poor Corporate
Governance
Auction commission margins seem low relative to attractive fee structure in part due to the unchecked use of
fractional commissions
CEO remuneration is high given the size of the Company (\$3.0bn mkt cap) and perquisites are throwbacks to a
bygone era; also, limited transparency in communicating how executive awards are determined
Announced cost savings program barely scratched the surface and suggests the Company failed to make any
serious efforts to tackle the harder issues
Lack of
Expense
Discipline
Sotheby's needs to articulate a strategy and vision
Both auction and private sales growth can be accelerated with better technology, more dynamic sales
techniques,
and
improved
client
relationship
management,
as
well
as
more
online
and
curated
sales
Management can deploy more capital against the profitable secured lending business
Principal and dealer activities, though small today, can be expanded significantly through partnerships with
living artists, artists
estates, and even real estate developers
Additional brand extension opportunities should also be explored

Failure to Seize
Growth
Opportunities

Director
Shares Owned
(000s)
% Ownership
Open market
activity since 1/1/12
Bill Ruprecht (CEO)
194.3
0.28%

Sold 86.4k
John Angelo
142.4
0.21%
Sold 137.5k
Duke of Devonshire
59.8
0.09%
Bought 5.0k
Robert A. Taubman
49.8
0.07%
-
Dennis M. Weibling
43.7
0.06%
-
Steven Dodge (retiring)
27.2
0.04%
Bought 14.6k
Michael I. Sovern (retiring)
26.7
0.04%
-
Allen Questrom
22.1
0.03%
-
Diana Taylor
18.4
0.03%
-
Daniel Meyer
6.7
0.01%
-
Marsha Simms
6.7
0.01%
-
Domenico De Sole
4.7
0.01%
Bought 4.0k
Total
602.7
0.87%
Sold 200.3k
Jessica M. Bibliowicz (nominee)

0.0
0.00%

-
Kevin C. Conroy (nominee)
0.0
0.00%

-
17
Current
Board
has
little
economic
interest
in
the
performance

of
the
Company
whereas
the
Shareholder Slate has skin in the game
2013 weighted avg. diluted share count of 69.175M
Source: Third Point LLC; Company filings; Bloomberg
Corporate Governance
No owner's perspective
in
the boardroom; directors
hardly own any stock

Substantial majority of
owned shares were stock
awards

CEO has never purchased
shares in the open market
per Bloomberg
Since 1/1/12, directors as a
group have been net sellers
New board nominees have
NOT

purchased a single share
The Shareholder Slate owns more
than 10x as many shares as the
current Board combined and both
Harry J. Wilson and Olivier Reza
have already purchased shares

To be replaced by the Shareholder Slate

Note: shares owned as of March 24, 2014 and include deferred stock units, dividend equivalent rights, as well as shares owned

Director
Tenure
Duke of Devonshire
19.6
Bill Ruprecht (CEO)
14.2
Michael I. Sovern (retiring)
14.2
Robert A. Taubman

13.7

Allen Questrom

9.3

Steven Dodge (retiring)

8.1

Dennis M. Weibling

7.9

John Angelo

7.0

Diana Taylor

7.0

Daniel Meyer

2.9

Marsha Simms

2.9

Domenico De Sole

0.3

Average

8.9

Jessica M. Bibliowicz (nominee)

0.0

Kevin C. Conroy (nominee)

0.0

18

Current Board lacks fresh perspective necessary to overhaul the Company's challenged operational structure and cure its cultural malaise

Note: tenure estimated using start dates disclosed in the Company's 2014 Proxy

Source: Third Point LLC; Company filings; Institutional Shareholder Services

Institutional Shareholder Services

(ISS) recently released

QuickScore 2.0

guidelines for

optimal Board structure stating:

tenure of more than nine years

(can)

potentially compromise a

director's independence

Using this metric, Sotheby's current

Board fares quite poorly

Nine directors have served for

more than seven years; five of

which for more than nine

Corporate Governance

The Shareholder Slate would bring the

expertise and fresh perspectives

necessary to move Sotheby's forward

To be replaced by the Shareholder Slate

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Corporate Governance
Current Board seems more interested in ensuring its members are protected, as evidenced by its rapid adoption of a discriminatory poison pill in response to a letter from Third Point
Current Board adopted a poison pill only two days after Third Point (~9.6% owner) published an open letter to Sotheby's calling for increased transparency and accountability and offering suggestions for improvement
Poison Pill
On March 25, Third Point filed a lawsuit asking the Delaware Chancery Court to require the Company to redeem

the
pill
or,
in
the
alternative,
either
amend
it
to
allow
Third
Point
to
acquire
up
to
20%
of
the
Company

or enjoin the Company from enforcing the pill against Third Point

On March 31, the Court granted Third Point's request for expedited discovery and set a preliminary injunction hearing

for
April
25,
in
advance
of
the
planned
May
6
stockholders
meeting

Note: percentage ownership calculated using 2013 weighted avg. diluted share count

Source: Third Point LLC; Company filings

Lawsuit

Oddly, Sotheby's poison pill permits passive investors (those more likely to be supportive of the current Board) to acquire up to 20% of the outstanding shares, while prohibiting non-supportive shareholders from acquiring 10% or more

Third Point is a minority shareholder looking for minority representation on the Board

Corporate takeovers are not Third Point's business model and Third Point has no intention of taking control of Sotheby's, which the Company knew

While claiming to embrace an open and honest dialogue with shareholders of the Company, we believe this poison pill demonstrates that the current Board is more

interested
in
ensuring
that
its
members
are
protected
than
it
is
in
maximizing
value
by considering shareholders
suggestions for improvement

20

Expense Discipline

Note: hammer price is the final sale price before the buyer's premium is paid

Source: Third Point LLC; Company filings

Auction commission margins seem low relative to attractive fee structure in part due to the unchecked use of fractional commissions

Attractive auction fee structure, i.e.

house charges large % hammer price

Yet actual margins suggest BID is

leaving a lot of money on the table

Hammer Price of \$4,200,000

(average hammer price of lots over \$1 million in 2013)

Buyer's Premium

(always paid; sometimes shared with consignor)

$25\% * \$100,000$

= \$25,000

$20\% * \$1,900,000$

= \$380,000

$12\% * \$2,200,000$

= \$264,000

Sub-total

= \$669,000

(15.9% of hammer)

Vendor's commission

(up to 10%; negotiable)

$10\% * \$4,200,000$

= \$420,000

Total Auction commission

= \$1,089,000

(25.9% of hammer)

Margins should be even higher for smaller lots given

how the buyer's premium is calculated

Auction margins suggest limited fees collected from consignors and increased use of fractional commissions, where Sotheby's shares the buyer's premium with the consignor

The Shareholder Slate recommends curtailing the use of fractional commissions and, at the very least, completing a detailed review of the practice since it does not appear to be generating sufficient incremental auction volumes

20.7%

18.3%

16.5%

16.3%

15.9%

0%

5%

10%

15%

20%

25%

2009

2010

2011

2012

2013

Auction commissions as % of hammer price

Sotheby's Auction Commission Margin

Expense Discipline
While
CEO
compensation
seems
high
and
perquisites
are

legendary,
shareholders

should

be

more

troubled

by

the

lack

of

transparency

and

lack

of

pay

for

performance

Source: Third Point LLC; Company filings; Bloomberg

CEO compensation in 2013 nearly as high as 2007

despite more than 40% decline in EPS

Absolute level seems high for such a small company

(approximately \$3bn market cap)

Beyond the level itself, the CEO's perquisites are

throwbacks to a bygone era

He receives a \$25,000 annual personal automobile allowance, his country club dues are paid for, and his

financial planning fees are covered by shareholders

More alarming is the lack of transparency in

communicating how these awards are determined

The Company states in this year's proxy that

disclosing certain performance goals would cause

serious competitive harm,

making vague excuses as

a response to reasonable cries for accountability from

shareholders

Finally, seemingly no pay for performance culture

More color on compensation

The Shareholder Slate believes shareholders should not

stand for the Company awarding such generous

compensation packages without transparency and

seemingly any connection to performance

21

6.2

6.0

\$3.25

\$1.88

\$1.50

\$2.50

\$3.50

0.0

2.0

4.0

6.0

8.0

10.0

2007

2013

CEO compensation in millions of USD (left axis);

EPS in USD (right axis)

CEO Compensation

Sotheby's EPS

22

Expense Discipline

Note: expenses include agency direct costs, marketing, salaries and related costs, general and administrative costs, depreciation of principal activities, restructuring charges, impairment charges, anti-trust related matters, gains on sale of land; cost items do

Source:

Third

Point

LLC;

Company

filings;
Sotheby's
Capital
Allocation
and
Financial
Policies
Review
slides
from
January
29,
2014

Announced cost savings program barely scratches the surface and suggests the Company failed to make any serious efforts to tackle harder issues

Cost review only identified savings representing nominal % total spend

More than half of targeted savings come from slashing the marketing budget and securing more favorable terms from external advisors

Salaries & Related Costs (\$293 million): no savings

General & Administrative (\$177 million): \$9 million savings from negotiated reduction in rates and reduced scope of services on professional fees and \$4 million from other savings

Direct Costs of Auction Services (\$85 million): \$5 million savings from increased efficiencies and enhanced spending controls

Marketing (\$22 million): \$4 million savings from more targeted approach to spending on core strategic priorities and reduction or elimination of less strategic components of marketing expenses

D&A (\$19 million): no savings
Company expenses

The Shareholder Slate recommends seriously analyzing both the organizational structure and expense base

597

22

0

100

200

300

400

500

600

700

2013 Expenses

2014 Savings

Millions of USD

23

Growth Opportunities

Sotheby's has clear opportunities to grow and become stronger over the long-term

Source: Third Point LLC

Define what Sotheby's *is* today or what it wants to be

Competitors are laser-focused on the consumer experience and their brand, while Sotheby's appears indifferent

Articulate a long-term growth strategy and vision for the Company and its brand

Formulate a strategy to manage the inherent cyclicality of its markets

Contingency plan for the next downturn should have both defensive and offensive elements (e.g., prudent management of capital and expenses, opportunity to be a buyer or lender of last resort, development of cycle proof earnings streams)

Strategy &

Vision

Invest in long-term talent development and recruitment

Cultivate numerous points of contact within the Company so that collectors and consignors become clients of Sotheby's, not just individual specialists

Invest in front-end technology to facilitate online sales and auctions

Invest in data technology to record private sale and auction inquiries to promote cross-selling, improve customer service, and increase volume

Follow up with clients to drive cross-selling to capture a greater share of each client's relevant spending

Develop a robust approach to smaller ticket items in order to grow the customer base and compete more effectively with Christie's

Auctions &

Private Sales

The Shareholder Slate sees many areas of opportunity available to the Company

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Growth Opportunities (cont'd)

Sotheby's has clear opportunities to grow and become stronger over the long-term

Source:

Third

Point

LLC;

Sotheby's

Capital

Allocation
&
Financial
Policies
Review
slides
from
January
29,
2014

Deploy
more
capital
against
profitable
secured
lending
business,
especially
now
that
the
business
has
a

separate debt facility to efficiently fund loans (consignor advances, general term loans)

Seemingly
no
shortage
of
capital
with
Sotheby's
having
just
returned
\$300
million
of

excess
capital
to
shareholders

Secured
Lending

Build a private business: initiate a greater number of curated auctions and exhibitions to leverage Sotheby's client base, real estate, and relationships

Opportunity exists to take share from art dealers and gallery owners (some of which are rumored to be

generating over \$ 1 billion of sales annually) given Sotheby s superior and continuous legacy, global footprint, and in-house expertise

No
defined
long-term
plan
for
the
Company s
S12
galleries

How are artists chosen? How does Sotheby s leverage its entire platform to promote them? And why is it even

called
S12
and
not
Sotheby s?
Consider
partnering
with
living
artists
and
representing
artists
estates
Principal &
Dealer
Explore additional brand extension opportunities

E.g., wine storage, data analytics
Develop a more thoughtful retail strategy

What is the long-term plan for Sotheby s Diamonds and Sotheby s Wine?

How can the Company better utilize its locations when auctions aren t happening?
Brand
Extension

25

Note: Revenues and expenses exclude inventory and principal activities as well as extraordinary items; Other Revenue include Revenues and Other Revenues

Source:

Third

Point

LLC;

Company

filings;

Sotheby's
Capital
Allocation
&
Financial
Policies
Review
slides
from
January
29,
2014;
Christie's
website
Sotheby's Potential
Operating
failures
in
2013
cost
shareholders
significant
value

conservative
improvements
in
revenue
growth
and
expense
discipline
could
have
more
than
doubled

EPS!
Pro forma earnings power
The Shareholder Slate
intends to focus on
improving operating
performance

All figures in millions of USD

2013

PF2013

Modest Improvements Yield Significant Value

Drivers:

Aggregate Auction Sales

5,127

5,940
 same as Christie's in 2013; historically BID was larger
 Net Auction Sales
 4,339
 5,027
 % Aggregate Auction Sales
 84.6%
 84.6%
 no change
 Private Sales
 1,179
 1,179
 Revenue:
 Auction Commissions
 688
 847
 Margin
 15.9%
 16.9%
 just +100bps vs. 2013; historically as high as 20.7%
 Private Sale Commissions
 88
 88
 Other Revenue
 49
 49
 Total Revenue
 825
 985
 Expenses:
 Direct Costs, Marketing, G&A
 (284)
 (256)
 targeting 10% reduction vs. 8% target by mgmt (\$22m on \$284m)
 Salaries & Related Costs
 (293)
 (264)
 targeting 10% reduction; likely inefficiencies exist here too
 Total Expenses
 (577)
 (520)
 EBITDA
 248
 465
 D&A
 (19)
 (21)
 4Q13 run-rate
 EBIT
 228

444

Interest & Other

(37)

(32)

4Q13 run-rate

Pretax Income

192

412

Effective Tax Rate

(30%)

(30%)

effective tax rate from Sotheby's 2013 10-K

Net Income

134

288

Shares

69.2

69.2

EPS

\$1.94

\$4.17

26

Third Point has a proven track record of creating **long-term** value for public shareholders and has already delivered benefits to Sotheby's shareholders

The Shareholder Slate brings much needed outsider perspectives to a tenured and complacent Board that has presided over lackluster operating performance

With reinvigorated leadership and an owner's perspective in the boardroom, Sotheby's can leverage its leading brand to generate significantly higher revenues and profits

Source: Third Point LLC

Key takeaways

Conclusion

The Shareholder Slate can be counted on to create future value for all shareholders

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Source: Third Point LLC
The Shareholder Slate
Conclusion

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Source: Third Point LLC

Daniel S. Loeb

Appendix: The Shareholder Slate

Over the course of his nearly two decades as an institutional investor, Mr. Loeb has developed a sophisticated understanding of how to create and unlock long-term value for shareholders. As Chief Executive Officer of the Company's largest shareholder, Mr. Loeb would advocate vocally for stockholders' interests if elected to the Board. For these reasons, we believe Mr. Loeb is exceptionally qualified to serve as a director of the Company.

Daniel S. Loeb is the Chief Executive Officer of Third Point LLC, a New York-based investment management firm he founded

Third Point employs an event-driven approach to investing in securities across the globe. Immediately before founding Third Point, Mr. Loeb was Vice President of high yield sales at Citigroup. From 1991 to 1993, he was Senior Vice President in the distressed debt department at Jefferies & Co. Mr. Loeb began his career as an Associate in private equity at E.M. Warburg Pincus & Co. in 1987. From May 2012 until July 2013, Mr. Loeb was a member of the Board of directors of Yahoo! Inc. He is a Trustee of the United States Olympic Foundation, Mount Sinai Hospital, the Manhattan Institute, and Prep for Prep. He is the Chairman of the Board of Summit Academies Charter Schools. He is also a member of the Council on Foreign Relations and the American Enterprise Institute's Board of Directors. Mr. Loeb graduated with an A.B. in Economics from Columbia University in 1983.

Mr. Loeb, a leading collector of modern and contemporary art, has been recognized by ARTNews as one of the 200 Top Collectors in the world for the year since 2005. Works from his family collection are frequently included in global museum retrospectives and shows. Mr. Loeb has assembled one of the most extensive collections of work by the artist Martin Kippenberger, many of which were featured in the exhibition "The Problem Perspective" at the Museum of Modern Art in New York. Mr. Loeb is a Trustee of the Museum of Contemporary Art, Los Angeles.

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Source: Third Point LLC

Olivier Reza

Appendix: The Shareholder Slate

Olivier Reza, through Myro Capital L.L.C., is, and has been since 2009, the Chairman of Reza Gem SAS, a private French company that is associated with Alexandre Reza's jewelry business

The Reza jewelry collection is considered one of the most important collections of rare gems and jewelry in the world. Mr. Reza is the Founder and Managing Partner of Myro Capital, LLC, which provides management and financial advisory services to family members and associated entities

Previously, Mr. Reza served as Managing Director in the Mergers and Acquisitions group at Lazard Freres & Co LLC in New York, where he spent ten years working on transactions totally over \$100 billion in industries ranging from industrial to consumer retail, distribution, metals and mining, oil and gas, pharmaceuticals, and manufacturing

Mr. Reza has a Masters degree in corporate and tax law from the University of Pan Theon Assas in Paris and a Masters degree in finance from Institut d Etudes Politiques de Paris

Over the course of his career, Mr. Reza has gained valuable finance and transactional experience and has had the opportunity to manage and lead an international jewelry company, developing expertise in cultivating relationships with luxury customers. Mr. Reza personally has been, and continues to be, a very active art collector. For these reasons, we believe Mr. Reza is exceptionally well-qualified to serve as a director of the Company

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Source: Third Point LLC

Harry J. Wilson

Appendix: The Shareholder Slate

Harry Wilson, the Founder and CEO of MAEVA Group, LLC, is a nationally-recognized expert in corporate restructurings, turnarounds, and transformations and in leading complicated businesses through corporate transitions, as an investor/owner, advisor, or director.

In addition to MAEVA's active role in transforming companies, Mr. Wilson frequently drives transformational change in his personal capacity as a member of the Board of Directors of companies undergoing major transitions. Currently, Mr. Wilson serves

on the board of Visteon Corporation and recently completed service on the boards of Yahoo! and YRC Worldwide. He also served on the board of directors of several other companies earlier in his career. In each of his recent director roles, he was asked to join the board by one or more major investors who wanted his help improving the respective company. Upon joining the board,

he worked closely and collaboratively with management and his fellow directors to dramatically change the operations of

these businesses and substantially improve their prospects for success. In all three recent public company situations, investors benefited from enormous value creation through Mr. Wilson's work.

Before founding MAEVA, Mr. Wilson was a Senior Advisor to the US Treasury Department, serving as a senior member of the

President's Automotive Task Force with principal responsibility for the successful restructuring of General Motors. Mr. Wilson is a partner at Silver Point Capital, a prominent credit-oriented investment fund, before serving on the Automotive Task Force.

Additionally, Mr. Wilson is

active
in
philanthropic
and
policy
initiatives.

He
recently
completed
a
Presidential
Appointment
to
the

Advisory Committee of the Pension Benefit Guaranty Corporation and serves on the board of two non-profit organizations: YC
INC and The Hellenic Initiative.

Mr. Wilson has an A.B. in government, with honors, from Harvard College and an MBA from Harvard Business School. Throughout his career, Mr. Wilson has worked with companies as an investor, a Board member, and an advisor, to address capital allocation strategies and to substantially enhance operational efficiencies. This experience includes significant time and effort building consensus among management teams, directors, investors and employees to drive major improvements.

For these reasons, we believe Mr. Wilson is exceptionally well-qualified to serve as a director of the Company.