

Sotheby's First Quarter 2008 Earnings Call Outline

May 9, 2008

Summary:

- Today we are announcing a first quarter net loss of \$12.4 million which is well below the net income of \$24.3 million in the prior period. The first quarter is traditionally a loss quarter for the Company, due to seasonality, although in 2007, first quarter results were profitable for only the second time in the last eighteen years. A loss quarter is in line with our expectations.
- This decline from the prior year first quarter is not primarily due to demand or sales levels, but largely due to a lower auction commission margin of 13.6%, which is compared to 16.6% for the prior period.
- We have been operating in an environment of uncertain economic times over the last nine months so at the end of last year we focused even more keenly on managing our risks, and limiting our exposures to guarantees, by taking on fewer deals where we could have exposed our balance sheet to material losses. As risk and reward tend to travel together, we tempered some of our opportunities which led to lower margins where it meant that we could meaningfully shift risk away from Sotheby's. These are short term issues which we expect will affect 2008 to some extent but the level of financial market turbulence does appear to be diminishing. We have seen increased competition which has impacted our margins.
- Partly as a result of these factors, we are announcing a buyer's premium increase today. The new pricing structure as of June 1st will be 25% on the first \$50,000 of hammer; 20% on the next \$950,000 of hammer; and the same 12% above hammer of \$1 million.
 - **On over 95% of the lots we sell, this will be an effective price increase of 2% or less.**
- Turning to the second quarter, we are encouraged by results thus far which include the strong results of our New York Impressionist sales this week and demand for great works of art remains strong.

First Quarter 2008 Overall Results

- Net loss for the first quarter of 2008 was (\$12.4) million or (\$0.19) a share, compared to net income of \$24.3 million or \$0.37 per diluted share, in the prior period.
- Excluding the impairment charge relating to Noortman Master Paintings, the insurance recovery from the life insurance policy covering Robert Noortman and the gain from the sale of our Sussex property in the U.K. – all in the first quarter of last year – 2007 first quarter net income would have been \$16.0 million*, or \$0.25* per diluted share versus the net loss of (\$12.4) million in the first quarter of 2008.

Operating Revenues

- In the first quarter of 2008, total revenues were \$129.3 million, an \$18.1 million, or 12%, decrease from the prior period.
 - This deterioration largely stems from an \$18.6 million decrease in auction commission revenues principally due to a decline in auction commission margin to 13.6% in the first quarter of 2008 from 16.6% in prior year first quarter. 300 basis points on \$676 million in net auction sales

yield \$20 million in auction commission revenues which would have made auction commission revenues essentially flat over the period.

- Auction commission margins were adversely affected by a change in sales mix which was more heavily weighted to the high end where margins are traditionally lower; as well as by the thinner margins Bill previously mentioned as a result of competitive pressures and reducing our guarantee risk .

Direct Costs of Services

- In the first quarter of 2008, direct costs of services totaled \$13.6 million which is unchanged from the prior year and consistent with the level and composition of our First Quarter sales.

Marketing Expenses

- Marketing expenses are costs related to the promotion of the Sotheby's brand, including the cost of client service initiatives and strategic sponsorships of important cultural institutions.
- For the first quarter of 2008, marketing expenses increased \$1.2 million to \$5.3 million due to the timing of corporate sponsorships of leading museums in the United States and the United Kingdom, as well as higher costs to promote the Sotheby's brand in Europe.

Salaries and Related Costs

- For the first quarter of 2008, salaries and related costs increased \$6.4 million, or 12%, to \$61.2 million, when compared to the first quarter of 2007.
 - Excluding the unfavorable impact of foreign currency translations of \$1.7 million, salaries and related costs for the first quarter of 2008 increased \$4.7 million, or 9%.
- Full-time salaries increased \$5.3 million, or 17% to \$35.7 million, primarily due to targeted headcount additions during last year, as well as the impact of limited salary increases.
- Stock compensation expense increased \$3.0 million primarily due to a higher value of restricted stock awarded in February 2008 in conjunction with the Company's strong financial performance in 2007.
- Partially offsetting these increases is a \$3.6 million decrease in employee benefits expense which is primarily attributable to a \$3.2 million decrease in costs relating to the Company's UK Pension Plan as a result of the favorable impact of interest rates on the calculation of UK pension costs for 2008.
- We remind you that in recent years, our compensation strategy has evolved towards having greater variability – so that pay moves in direct relation to our financial performance – and incentive bonus costs, which can be dialed back easily in the event of a downturn in the business, are a greater percentage of employee pay.

General & Administrative Costs

- In the first quarter of 2008, general and administrative expenses increased \$7.4 million, or 20%, to \$45.5 million, when compared to the prior year period but we will be challenging this level of ongoing expense, going forward.
 - Excluding the unfavorable impact of foreign currency translations, general and administrative expenses increased \$6.3 million, or 17%. The remainder of the increase is largely attributable to the following factors:
 - A \$3.5 million, or 30%, increase in professional fees of which \$1 million is due to higher fees for outsourcing our tax compliance function which Management expects to decrease in future years. Also contributing to the increase are higher consulting, audit and legal fees.
 - A \$1.7 million, or 28%, increase in travel and entertainment costs principally due to the higher level of travel for pursuing business opportunities during this period of increasing globalization of our client base. Also contributing to the higher level of T&E were the overall price increases for airfares, hotels and other travel costs.
 - A \$0.8 million increase in facilities and office related expenses.

Net Interest Expense

- In the first quarter of 2008, net interest expense increased \$0.5 million to \$5.3 million, when compared to the prior year due to lower average cash balances and short-term investments as well as a higher level of outstanding borrowings during the quarter.

Earnings per Share

- Overall, first quarter 2008 loss per share from continuing operations was (\$0.19), down \$0.56, as compared to diluted earnings per share of \$0.37 for the first quarter of 2007.

Accounts Receivable

- There has been a fair amount of press coverage concerning our accounts receivable balance at the end of 2007 and its growth over the prior year. Receivable balances were higher at year end because sales were higher from the record sales in the fourth quarter of 2007 and we want to assure investors that we have always had an extremely favorable track record when it comes to collecting on our receivables and have no expectation of this trend to change.
- The growth in accounts receivable at the end of 2007 was largely due to our record sales in the fourth quarter of 2007, the fact that accounts receivable at the end of 2006 was artificially low due to the early payment by a number of buyers (as we typically do not release property until we are paid and many clients pay early to be able to take their objects home – at which point we are under no obligation to pay out the seller until the contractual date of 35 days after a sale) and that we gave certain trade terms

to buyers in the fourth quarter of 2007 in order to help market our major sales. We make every effort to have these trade terms matched by the consignor so that the credit risk is held by them.

Change in London Sales Calendar

- It is important to highlight that the London Contemporary Art sales which traditionally were held in the last week of June at the end of the second quarter are being moved to the first week of July at the start of the third quarter. This shift is necessary because our Contemporary Art sales have become so large that they cannot easily share the building with Impressionists in the same week. In 2007, these June Contemporary Art sales were approx. \$200 million.

2008 Sales To Date

- The market continues to be strong, and the demand for great works of art remains high, as we have seen throughout the spring, and most recently on Wednesday night. We are encouraged by year to date sales thus far, which are up 11% as of yesterday and include strong results from our New York Impressionist sales which brought a solid \$273 million, well above the pre-sale low estimate of \$245 million.
 - The highlights of the evening sale were a masterpiece by Fernand Léger which sold for a record \$39.2 million and Edvard Munch's *Girl's on a Bridge* which sold for a record \$30.8 million and surpassed the pre-sale high estimate.
 - Seven lots sold for over \$10 million and the average lot value of the evening sale was \$5.7 million versus \$5.1 million the previous spring and \$4.8 million last November.
- Last month, Sotheby's Hong Kong held a record week of sales which totaled \$227.1 million, a 62% increase from the prior spring sales series. Highlights included the record for any Chinese work of art sold at auction, the record for a Song ceramic sold at auction and the record for Qing Gold sold at auction.
- Our Russian Art sales in New York last month brought \$46.4 million, within the pre-sale estimate of \$41/57 million. Strong prices were realized across the wide variety of works on offer from 19th and 20th Century and Contemporary Russian paintings as well as a broad selection of works of art.

Upcoming Sales

- Beginning next week, we are looking forward to our New York Contemporary Art sales which are estimated to realize \$375/477 million.
 - The highlight of the sale is Francis Bacon's *Triptych, 1976* which is estimated to achieve \$70 million.
 - Also featured in the evening sale is Mark Rothko's *Orange, Red, Yellow* which has a pre-sale estimate of \$35 million.

- Other featured works are by Robert Rauschenberg, Andy Warhol, Jean-Michel Basquiat, Yves Klein and Tom Wesselmann.
- We also have our London Impressionist and Modern Art sales in the end of June and our London Contemporary Art sales in the beginning of July which we are actively collecting for.

Competitive Environment/Outlook

- Sales to date continue to be strong, in their reflection of the steady and ongoing demand for great works of art against a turbulent backdrop of global financial uncertainty. Our mindset as managers and stewards for a company that is over two hundred and sixty years old is that we want to be relevant and vital in 2008, and in another two hundred years, as an organization, and we manage not week to week, but based on the best interests of the future of this company.
- The demand for great works of art remains vibrant in every respect and our first quarter results are based on our investing levels, combined with lower levels of commission on our sales and are wholeheartedly not a reflection of a dispirited marketplace. The vast majority of our best customers, who continue to be active with us every year – are very active again here through early May. Of course, we are never satisfied when revenues decline and will be challenging our expense levels in the coming months.
- Our traditional competitor had approximately \$80 million more in guarantees than we did in this most recent ten day period and by our calculations, we are, year to date, the only firm to have had meaningful profitable guarantee experience. Accounting standards have required us to record guarantee losses for second quarter sales in the first quarter as losses must be recognized as soon as they are known and quantifiable. On the other hand, auction commissions and gains related to these guarantees must be deferred until the second quarter when the sales occurred.
- Against a revaluation of world equity indices by as much as 50%, and indeed a reappraisal of our own equity valuation, Sotheby's continues to deliver outstanding sales, credible results, and reflect very strong collector interest not at all correlated to these other indices. The broad long term story, of global wealth creation continues unabated, and the economic elite continue to drive our business, many of them somewhat insulated from the sub prime credit crunch we read and hear about all day long.

***Non-GAAP financial measure. See Appendix B to earnings release**

Note: All estimates do not include buyer's premium.

Forward Looking Statements:

GAAP refers to Generally Accepted Accounting Principles in the United States of America. In this earnings call, financial measures are presented in accordance with GAAP and also on a non-GAAP basis. When significant, the Company excludes the impact of changes in foreign currency exchange rates when comparing current year results to the prior year. Consequently, such period-to-period comparisons are provided on a constant dollar basis by eliminating the impact of changes in foreign currency exchange rates since the prior year. Management believes that excluding the impact of significant changes in foreign currency exchange rates when comparing current year results to the prior year provides a more meaningful discussion and analysis of fluctuations in the Company's operating results. Management also utilizes this non-GAAP financial measure when analyzing its operating results. Reconciliations of these non-GAAP financial measures used in this earnings call to the comparable GAAP amounts are provided as applicable in Appendix B of the

Company's earnings press release for the quarter ended March 31, 2008, which is available via the Investor Relations section of the Company's website, www.sothebys.com.

Also, during the course of this call, the Company may make projections or other forward-looking statements regarding future events or the future financial performance of the Company. We wish to caution you that such projections and 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. We refer you to the documents the Company files periodically with the Securities and Exchange Commission, specifically the Company's most recently filed Form 10-Q and 10-K. These documents identify important factors that could cause the actual results to differ materially from those contained in the projections or forward-looking statements.