

# Sotheby's (BID) - 13D

Tuesday, July 30, 2013  
1:05 PM (EST)

## 13D Filing

Filer/Purchaser	Date of Filing	Transactions in Past 60 Days			Total Holdings		
		Dates of Purchase/Sale	Shares Purchased/(Sold)	Share Price/Range	Shares	Average Price	% of TSO
Marcato Capital Management LLC	7/30/2013	06/21/13 - 07/23/13	(392,059)	\$37.41 - \$41.72	4,511,719	n/a	6.61%

**Item 4 Summary** Marcato may have discussions with the Company regarding options for enhancing shareholder value through various strategic alternatives or operational or management initiatives including, but not limited to, improving capital structure and/or capital allocation, M&A, and general corporate strategies.

**Composition of Holdings** Marcato is the beneficial owner of 4,511,719 shares (6.6%), which includes options to purchase 4,057,880 shares pursuant to various American-style call options with strike prices ranging from \$0 to \$45 and exercisable through dates ranging from October 19, 2013 to June 20, 2014. They have also sold various European-style put options referencing 1,200,000 shares with strike prices of \$38 and which are exercisable on dates through October 19, 2013. They have also entered into swap agreements with respect to 1,598,400 shares of common stock.

**About the Filer** Marcato Capital Management is a San Francisco based midcap activist fund that selectively engages with management and Boards of portfolio companies to create shareholder value. It was founded in 2010 by Mick McGuire, a former partner and senior investment professional at Pershing Square Capital Management. As of its last 13F, Marcato reported managing \$725 million across 8 different positions. Marcato has made five other 13D filings - two were as part of a group with other activist investors - and took Item 4 action in all of those situations.

**Relative Size of Investment:** 27.% of the Filer's total 13F holdings; 215.7% of the size of its average investment; and 63.% of the size of its largest investment.

**Noteworthy Activist History** When Mick McGuire was at Pershing Square in 2007, it filed a 13D filing on Target Corp. and urged the Company to sell its credit card receivables operations and spin off its real estate holdings into a REIT. In a hotly contested proxy fight, Pershing nominated five candidates to the Target board. Pershing was not successful in getting board representation, but the proxy fight was the impetus for some corporate governance improvements at the Company, and Target's stock price has increased by 169% since the commencement of the proxy fight, compared to an increase of 124% for the S&P500 during the same time period.

**13D Commentary** Marcato Capital Management is a San Francisco based midcap activist fund that selectively engages with management and Boards of portfolio companies to create shareholder value. It was founded in 2010 by Mick McGuire, a former partner and senior investment professional at Pershing Square Capital Management. Sotheby's is one of two market leaders in an industry that has essentially been a duopoly for many years. They have recently raised their prices so there could be earnings growth ahead. However, the active value potential here is interesting. Mick McGuire, is formerly of Pershing Square Capital, where I am sure he spent a lot of time analyzing Target Corp., one of Pershing's largest activist investments at the time. The activist opportunities at Sotheby's are very similar to the real estate and credit card receivables agenda at Target. Sotheby's owns its primary headquarters in New York and London, which together are worth several hundreds of millions of dollars. Its balance sheet lists \$370 million of property, plant and equipment, but most of that is attributable to the New York headquarters, which it bought back in 2009 for \$370 million. The London building was bought in 1917. So, there could be significant value from selling the real estate, which Sotheby's does not need to own. In fact, Sotheby's has recently retained two real estate firms to weigh a possible sale of the New York headquarters. The second similarity to the Target situation is the financing arm. Sotheby's provides financing to sellers of art using the art as collateral pending the auction. This is a \$400 million business that is equity financed by Sotheby's and could be more valuable if it were capitalized differently or joint ventured with a financing company. All of this could free up a ton of cash that the Company could use to return to shareholders.

## Proxy Timeline

**Last Annual Meeting:** May 8, 2013  
**Shareholder Proposal Notification Deadlines:** For proposals to be included in the Company's proxy statement at the 2014 Annual Meeting: November 26, 2013; For nominations by shareholders: Between February 7, 2014 and March 8, 2014.  
**Next Annual Meeting:** tbd

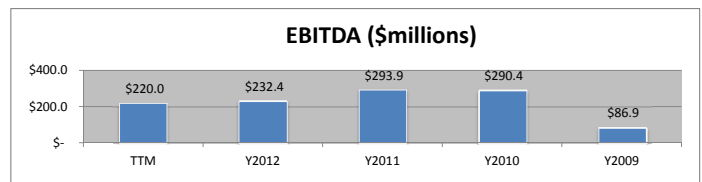
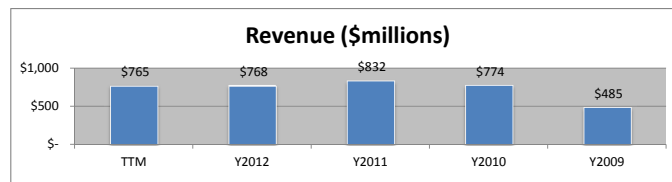
## Business Overview

- Sotheby's is a global auctioneer of authenticated fine art, decorative art, and jewelry. The Company operates in three segments: Auction, Finance, and Dealer. The Company's Auction segment functions as an agent by offering works of art for sale at auction and by brokering private sales of artwork. Sotheby's also purchases and resells works of art through its Dealer segment, conducts art-related financing activities through its Finance segment and is engaged, to a lesser extent, in brand licensing activities. The Sotheby's name is also licensed for use in connection with the art auction business in Australia, art education services in the United States and the United Kingdom and print management services.
- State of Incorporation: DE; Principal Place of Business: New York, New York.

## Material Factors

- Board Composition:** The Board is not staggered. It consists of 11 directors, each of who is re-elected at each annual meeting of shareholders. The Board and executive officers own 3.27% of the outstanding common stock of the Company.
- Voting Standard for Uncontested Elections:** Majority
- Shareholder Rights Plan:** None
- Top Ten Institutional Holders:** BlackRock Institutional Trust Company, N.A.: 4,759,737 shares (6.97%); Marcato Capital Management LLC: 4,511,719 shares (6.61%); Royce & Associates, LLC: 4,050,294 shares (5.93%); The Vanguard Group, Inc.: 3,709,758 shares (5.43%); Bestinver Gestión S.G.I.I.C. S.A.: 3,286,461 shares (4.81%); Ariel Investments, LLC: 2,376,009 shares (3.48%); State Street Global Advisors (US): 2,359,804 shares (3.46%); Neuberger Berman, LLC: 2,349,879 shares (3.44%); Ceredex Value Advisors LLC: 2,185,796 shares (3.2%); and Fisher Investments: 2,099,501 shares (3.07%)
- Insider Transactions (Last 6 months):** Purchases (Transactions): 5,140 shares (1); Sales (Transactions): 135,639 shares (16); Net Shares Purchased: -130,499 shares.

## Sales and EBITDA

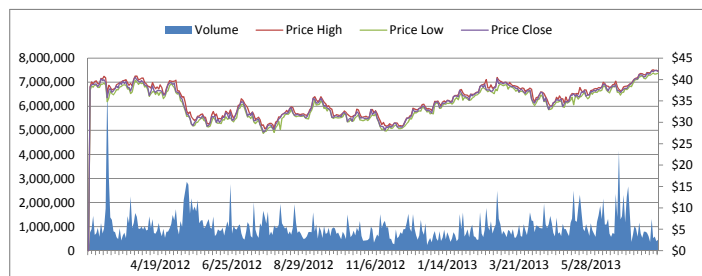


## Summary Financial Information

Equity Market Cap	\$2.96B
Enterprise Value	\$3.05B
EBITDA (LTM Ending 03/31/2013)	\$220.04M
EV/EBITDA	13.86 x

## Stock Price Performance

Stock Price	\$43.34
52 Week High (Date)	\$42.27 (07/24/13)
52 Week Low (Date)	\$27.63 (08/02/12)
Average Trading Volume	434,161
Average Trading Value	\$18,816,538



Stock Price @ 07-30-12	\$29.40	Stock Price @ 07-31-10	\$27.13	Stock Price @ 07-30-08	\$27.60
One Year Return	47.41%	Three Year Return	59.75%	Five Year Return	57.03%