A PRAYER TO STOP SOTHEBY'S AGONY

An exceptional auction house was born in 1744 in the heart of London on New Bond Street. That house built a revered tradition of uniting collectors with word-class works of art and marketing the world's most cherished possessions. Now, almost three centuries after, Sotheby's auction house is crumbling. The victims: approximately 250 auctions each year in over 70 categories.[1] "The unprecedented shakeup follows a losing battle with an activist investor, a change in leadership, and a pricey acquisition of an art advisory firm, and it puts the auctioneer in a dicey position just before one of its big sale seasons."[2]

Sotheby's has engaged in the wrong business model. First, as we predicted in 2011,[3] a market buoyed by sales at the top 1% of all lots would not be sustainable over time. Furthermore, one thing the venerable Victorian auction house never did, was to engage, (but occasionally as it was the

[1] Data taken from "About: Board of Directors." *Sotheby's*. Web. 31 Mar. 2016. <http://www.sothebys.com/en/inside/board-of-directors.html>.

[2] Boucher, Brian, and Kinsella, Eileen. "Exodus at Sotheby's -artnet News." *Artnet News*. 29 Mar. 2016. Web. 31 Mar. 2016. <https://news.artnet.com/market/exodus-sothebys-plunges-auctioneer-rocky-waters-461087?utm_campaign=artnetnews>.

[3] Javier Lumbreras. "From whom the bells tolls: The death of Christie's and Sotheby's". *Artemundi*. http://artemundiglobalfund.com/wp-content/uploads/2012/10/PRESS-RELEASE-EN.pdf

exception not the rule) in the business of buying and selling artworks, and assembling numerous inventories. How is that they ended up using fancy guarantees from poorly negotiated deals? Dealing in art is a whole different ballgame. Neither Sotheby's nor its employees have ever been avid dealers since they have never had "skin on the game".

Samuel Baker, a London bookseller and founder of Sotheby's, must be turning in his grave because of the poor decisions made by it's board of directors, specifically three main players. The first is the board's Chairman, Domenico De Sole, former Chairman of Tom Ford, Director of Gap Inc., and former President and CEO of the Gucci Group for which De Sole several brands like Yves Saint Laurent, Bottega Veneta, Balenciaga, Stella McCartney, and Alexander McQueen. He is undoubtedly a fashion business idol, but has no –positive[4]– art market experience or artistic education at all.

The second key actor is Thomas S. Smith, Jr., Sotheby's present Chief Executive Officer and President. As a Chief Executive of the Madison Square Garden Company, Tad Smith owns the New York Knicks basketball team, the New York Rangers hockey team and Radio City Music Hall. Although he had no experience with the art market or any formal education in art appreciation, Sotheby's tapping him to become its Chief Executive Officer on March 16th, 2015.

Finally, there is Daniel Loeb –the activist investor who deserves special mention within this circle of the artistically ignorant category. Owning 15% of the company, Mr. Loeb was an outspoken critic of Sotheby's management, in particular, he openly called for ex-CEO William Rupert's resignation. Mr. Loeb had been agitating to change the company's business model in order to "return

[4] De Sole's lack of experience has led him into one of the majors scandals which involves a $8.3 million Rothko from Knoedler Gallery. For further information about this case, please refer to: Miller, M.H. "Domenico De Sole, Who Paid $8.3 M. for Fake Rothko, Takes the Stand in Knoedler Trial." *ARTnews*. 28 Mar. 2016. Web. 31 Mar. 2016. <http://www.artnews.com/2016/01/28/domenico-de-sole-who-paid-8-3-m-for-fake-rothko-takes-the-stand-in-knoedler-trial/>.

capital to shareholders" and optimize "the Company's balance sheet."[5] To accomplish these goals, Mr. Loeb demanded Sotheby's to expand its board of directors and combine its current slate with others nominated by Loeb. The additional board would include Loeb himself, Olivier Reza, a financial advisor associated with the jewelry business, and Harry Wilson, a former Yahoo board member known for his restructuring expertise and as a Republican nominee for the office of New York State comptroller in 2010.[6]

The other members of the board are: Jessica Bibliowicz, a wealth management and insurance brokerage giant; Kevin C. Conroy, a senior executive at Univision; Diana Lancaster Taylor, a former New York State Superintendent of Banks and the domestic partner of New York mayor Michael Bloomberg; Dennis Weibling, former Sotheby's intern CFO and finance eminence; and finally Robert S. Taubman, son the recognized –and polemic[7]- collector and former Sotheby's icon A. Alfred Taubman.[8] Out of the nine members just mentioned, only Weibling and Taubman would have had any idea about how to make money with art, judging from the great success guaranteeing and ultimately selling the Alfred Taubman collection to Sotheby's at a substantial $12 Million USD loss to the auction house.[9]

[5] Lopez, Linette. "Sotheby's Four-Slide Takedown Of Dan Loeb." *Business Insider*. Business Insider, Inc, 09 Apr. 2014. Web. 31 Mar. 2016. <http://www.businessinsider.com/sothebys-case-against-loeb-in-4-slides-2014-4>.

[6] Kinsella, Eileen. "Dan Loeb Triumphs, Will Join Sotheby's Board - Artnet News." *Artnet News*. 05 May 2014. Web. 31 Mar. 2016. <https://news.artnet.com/market/dan-loeb-triumphs-will-join-sothebys-board-13776>.

[7] In the early 2000s, an investigation into alleged price-fixing between Sotheby's and rival auction house Christie's led to a confession by Taubman, who was convicted in a jury trial of price fixing. He was fined $7.5 million (USD) and imprisoned for ten months in 2002 for antitrust violations.

[8] Alfred Taubman, the American multimillionaire who bought Sotheby's in 1993. For further information, please refer to: Lumbreras, Javier. *The Art of Collecting Art*. Barcelona: Fomento Cultural Banamex, 2011. Print. p. 204

[9] Pogrebin, Robin. "Sotheby's Announces $12 Million Loss Over Taubman Sale." *The New York Times*. 22 Jan. 2016. Web. 04 Apr. 2016. <http://www.nytimes.com/2016/01/23/arts/design/sothebys-announces-12-million-loss-over-taubman-sale.html?_r=0>.

So, it seems that an art degree or huge art market experience is not needed. For anyone who has been involved in the art world for more than fifteen minutes, the recent "corporate takeover" of Sotheby's sounds a depressingly familiar note. In case you have forgotten, the last corporate raider to take over Sotheby's and promise to raise profitability, cut the waste and boost the stock prices ended up in jail.[10] The board's lack of experience within the art market is evidenced by Sotheby's new marketing focus, which favors advertising and technology for online retail.

The reality, however, is that art remains a business where relationships really matter. As Marion Maneker said, "Someone should tell Dan Loeb and Tad Smith to not turn Sotheby's into the next Gucci."[11] The art business is still a "high-touch" business. Buyers want to be stroked, supported and coddled before they agree to wire a million dollars or more to Sotheby's for a fragile object with no useful attributions, except of course, the intellectual. Obviously, it is not cheap to provide such hospitality and the large costs associated with maintaining client relation specialists are investment issues that have been consciously criticized by the new CEO. He said, "We spend too much on people, travel, entertainment, client relationships, etc. Don't know how spending was allowed to get that far out of control ... I think Bill [Ruprecht's] strategy was revenue people at whatever the cost."[12] The revenue-at-whatever-the-cost-era has been declared as over in Sotheby's, which led to the unprecedented exodus of the auction house's most experienced staffers. Here's a roster of names and how many years they each served:[13]

1. Aileen Agopian, 5 years. Former senior vice president and international senior contemporary art specialist
2. Melanie Clore, 35 years. European chairman and worldwide co-chairman of Impressionist and modern art
3. Anthony Grant, 26 years. Senior vice president and international senior specialist in contemporary art
4. Miety Heiden, 18 years. Senior vice president and head of contemporary private sales for North America
5. Patrick McClymont, 2 years. Chief financial officer
6. David Norman, 31 years. Vice chairman of Sotheby's Americas

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[10] Hint: Please look at footnote 6.

[11] Maneker, Marion. "Someone Should Tell Dan Loeb That Tad Smith Will Never Turn Sotheby's into the next Gucci." *Quartz*. 19 Mar. 2016. Web. 31 Mar. 2015. <http://qz.com/366032/someone-should-tell-dan-loeb-that-tad-smith-will-never-turn-sothebys-into-the-next-gucci/>.

[12] *Ibid.*

[13] Information taken from Boucher, Brian, and Kinsella, Eileen. "Exodus at Sotheby's -artnet News." *Artnet News*. 29 Mar. 2016. Web. 31 Mar. 2016. <https://news.artnet.com/market/exodus-sothebys-plunges-auctioneer-rocky-waters-461087?utm_campaign=artnetnews>.

7. Scott Nussbaum, 12 years. Contemporary art specialist
8. Alex Rotter, 15 years. Global co-head of the contemporary art department
9. Polly Sartori, 15 years. Head of 19th-century European paintings
10. Matthew Weigman, 31 years. Director, worldwide sales publicity
11. Warren Weitman, 37 years. Chairman for North and South America
12. Cheyenne Westphal, 25 years. Worldwide head of Contemporary art.
13. Elaine Whitmire, 35 years. Vice chairman, head of specialists, decorative arts
14. Henry Wyndham, 22 years. Chairman of Sotheby's Europe
15. Mitchell Zuckerman, 27 years. Executive vice president of global operations

It appears that the finance suits believe in getting the art people out of the business of auctioning art. The board's focus has been to leave the money decisions to the professional financiers, i.e. people who make a living by buying up companies, carving up their assets, sacking staff, artificially inflating the stock price and then moving on to a better, bigger company.

In a desperate effort to compensate for the lack of knowledge in art business, the board of directors decided to overpay the private firm, Art Agency Partners, around $85 million on January 11th, 2016 to boost sales. Now they are also building an art fund. A business that neither Amy Capellazzo or Allan Schartzman know anything about or have had successful experience doing in their 2-year-old private firm. The company's co-founders, Amy and Allan, joined Sotheby's senior management as co-chairs of the new fine art division that handles Impressionist, Modern and Contemporary art. The heads of these departments now report to Cappellazzo and Schwartzman. As predicted, this situation bothered the key talent of the company and has resulted in shrinking sums bust mostly revenues; specifically, during 2016's first-quarter sales are down 33 percent and the fourth-quarter net loss amounted to $11.2 million.[14]

Sotheby's
BID:US
New York
1 Year Time Frame

© Bloomberg

[14] *Ibid.*

The snowballing problem doesn't stop there. The persistent mistakes made by the board have affected the auction house's stock value. Sotheby's shares have lost 48 percent of their value in the past 12 months, and it registered a 7.7 percent decline in the Standard & Poor's 500 Index of U.S. equities. Sotheby's BID's revenue has also dropped by 4.4%. Weak revenue has hurt the bottom line with earnings per share decreasing. Consistent with the plunge in the stock price, the company's earnings per share are down 116.03% compared to the fourth quarter of 2015. Sotheby's net income has also significantly decreased by 115.1% compared to the same quarter one year ago, falling from $74.00 million to -$11.15 million.[15] Sotheby's instability has become a major red flag – out of 4 analysts covering Sotheby's (NYSE:BID), 0 rate it "Buy", 0 "Sell", while 6 "Hold". This means that there are no positive assessments of Sotheby's. The auction house was also the topic in 11 analyst reports since July 28th, 2015 according to StockzIntelligence Inc.[16]

It is safe to conclude that the current board of directors, with their corporate backgrounds, simply does not understand much about the art world, know little about the art business and nothing about the behavior of art as an asset or as a source of revenue in the various business models, i.e., online sales, intermediation, services, consignments, JV's, guarantees, loans, private sales, co-investments, funds, etc. They cannot just make business models and believe that they can somehow transform Sotheby's into another species of the luxury goods business or, in this case, some sort of entertainment franchise like the one that Tad Smith was managing before he was seduced to join Sotheby's.[17] The saddest part of the story is that the auction house's instability might permeate the prevailing feeling of uncertainty in some art investors and the collectors. To make the importance of art connoisseurship stand out in the art market and avoid selling art's soul to the financial alter ego. So let's pray that Sotheby's gets back to the path of wellness.

By Javier Lumbreras and Giovana Edid

Disclamer: At the time of publication, the author(s) held no long or short positions in the Sotheby's stock.

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[15] "Watch Out: Barbarians At The Gate For Sothebys (BID)." *TheStreet.* 30 Mar. 2016. Web. 31 Mar. 2016. <http://www.thestreet.com/story/13512250/1/watch-out-barbarians-at-the-gate-for-sothebys-bid.html?puc=bloomberg>.

[16] "A Reversal for Sothebys Is Not Near. The Stock Rises Again - Riverside Gazette." *Riverside Gazette.* 30 Mar. 2016. Web. 31 Mar. 2016. <http://www.riversidegazette.com/a-reversal-for-sothebys-is-not-near-the-stock-rises-again/>.

[17] Genocchio, Benjamin, and Eileen Kinsella. "Sotheby's Takeover With Dan Loeb, Tad Smith -- Artnet News." *Artnet News.* 23 Mar. 2015. Web. 31 Mar. 2016. <https://news.artnet.com/market/sothebys-takeover-dan-loeb-tad-smith-278897>.

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