

Sotheby's quarterly earnings brief: Q1'26

Perimeter: consolidated (restricted group noted) | Data as of July 30, 2026

Subsequent events

In April 2026, Sotheby's issued \$825 million of 8.25% senior secured notes due April 2031 at 99.032 and redeemed the full \$765 million 7.375% 2027 notes — executed, per the CFO on the [Q1'26 earnings call \(May 12, 2026\)](#); the book ran to roughly \$1 billion against the \$825 million deal per [Octus primary reporting \(Apr. 15, 2026\)](#). Also in April, the company secured \$90 million of incremental RCF commitments, taking the facility to \$660 million (\$130 million maturing August 2026, \$530 million July 2030) — executed. Both agencies moved: S&P affirmed B- and revised the outlook to stable from negative on April 14, assigning B-/'3' (55%) to the new notes ([S&P Ratings Alert](#)), and Moody's assigned B3 to the financing and changed the outlook to positive. Nothing material on the name has surfaced in intel since the May 9 PCA.

Three things that matter this quarter

- Maturity wall cleared, ratings arc turned. The 2027 stack was the last real trigger in this capital structure; it is gone at 8.25%, the RCF now runs to 2030 and both agencies shifted outlook upward within a week of launch. The credit question has moved from refinancing risk to financial policy.
- Operating recovery is confirmed, not episodic. Adjusted EBITDA swung \$46.7 million year over year to \$42.2 million in a seasonally small quarter — a fourth consecutive strong print — and LTM adjusted EBITDA of \$318.4 million now exceeds every full year since 2021. Consolidated net leverage of 4.68x compares with 9.48x a year earlier, at the same seasonal point in the cash cycle.
- The soft spot is price, not volume. Auction commission margin fell 100bps year over year to 15.4% on a competitive dealmaking environment — against 18% in Q3'25, the highest since 2020. With supply loosening, the give-back suggests the margin-over-share discipline is being tested exactly when it matters most for FY26 EBITDA conversion.

KPI trend table

\$MM, consolidated, calendar quarters. Oldest to newest.

	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	YoY
Aggregate Auction Sales	1,621.5	728.0	1,439.2	826.1	2,683.8	975.3	+34.0%
Private Sales	242.5	190.2	354.4	310.2	408.7	388.0	+104%
Revenue	323.9	206.4	299.7	249.1	477.6	299.2	+45.0%
Revenue growth % YoY	(13.6%)	+7.7%	(18.4%)	+83.9%	+47.5%	+45.0%	—
Gross Profit	236.0	125.4	225.1	176.7	349.8	180.1	+43.6%
% Margin	72.9%	60.8%	75.1%	70.9%	73.2%	60.2%	—
Adjusted EBITDA1	105.1	(4.5)	88.0	33.1	155.1	42.2	+\$46.7
% Margin	32.5%	(2.2%)	29.4%	13.3%	32.5%	14.1%	—
Free Cash Flow2	270.9	(224.8)	258.1	(298.0)	642.3	(352.3)	—
Cash	60.3	123.1	55.7	47.7	270.1	89.4	—
Net Debt4	1,266.7	1,554.8	1,323.0	1,669.2	964.3	1,490.2	—
Net Leverage3	8.85x	9.48x	8.34x	7.56x	3.54x	4.68x	—
Auction Commission Margin	—	16.4%	16.9%	18.0%	—	15.4%	(100bps)

¹ Company headline definition, per management presentation.

² Octus Fundamentals levered free cash flow (post cash interest and taxes); Q1 and Q3 outflows are seasonal working-capital tie-ups funded on the RCF.

³ Consolidated, including unsub mortgage debt, excluding capitalized leases; on LTM adjusted EBITDA. The PCA restricted-group net debt ex unsub was \$1,350.3 million at Q1'26 — the gap is perimeter, not a data conflict. Refer to capitalization for PCA debt schedule.

Guidance detail

No formal numeric FY26 guidance is issued. The company's forward markers from the May 12 call: the May Marquee Sales low estimate ran 70% above the prior-year comparable; the June London Lewis Collection was estimated at ~\$200 million, the most valuable private collection Sotheby's has offered in the UK; FY26 capex is guided to approximately \$61.6 million, similar to 2025, skewed to technology; and roughly \$9 million of residual cost savings plus \$16–17 million of incremental real-estate savings land in FY26. Management framing was unambiguous on momentum — strong supply and record demand carrying into the year, with a 92% YTD sell-through, the strongest since 2010. Note these markers predate nothing material; no staleness flag applies. For an external benchmark, S&P models a ~1% revenue decline in 2026 with adjusted margins near 31% and ~\$200 million of FOCF.

Guidance tracker:

Target	First stated	Status
\$100M cost savings program	2024 (FY'24 calls)	~\$91M realized by end-2025 vs original full realization by end-2025; ~\$9M slips to H1'26 — delivered late
Long-term net leverage 4.0x–4.5x	Q2'24 call	Delivered; a turn inside target at Q4'25, 4.7x at the seasonal Q1 peak
York Avenue savings ~\$33–35M annualized	Q3'25 call	On track; ~\$25M realized run-rate as of Q1'26
Refinance 2027 notes on attractive terms	Q3'25/Q4'25 calls	Delivered April 2026 at 8.25%
FY26 capex ~\$61.6M	Q1'26 call	Not yet due

Capital structure

Organized by PCA. As of March 31, 2026; LTM adjusted EBITDA \$318.4M.

Sotheby's - Capitalization				
(MM in \$)	Q1'26	PF	Maturity	Rate
Mortgage Debt	139.2	139.2	Apr-2028	SONIA+550
Other Debt	-	-		
Total Unsub Debt	139.2	139.2		
\$85M RMS RCF	3.7	3.7	01-May-2028	
\$30M Uncommitted RMS RCF	-	-		
2026 Securitization Facility	-	-	May 2029	
Total Asset-Backed Debt	3.7	3.7		
Revolving Credit Facility 1	368.0	368.0	11-Jul-2030	S+CSA+375
\$30M Short Term Loan Facility 2	-	-	30-Jun-2025	S+375
1L Term Loan B	-	-	15-Jan-2027	S+CSA+450
Senior Secured Notes due 2027	765.0	-	15-Oct-2027	7.375%
Senior Secured Notes due 2029	300.0	300.0	01-Jun-2029	5.875%
Senior Secured Notes due 2031	-	825.0	2031	8.250%
Total First Lien Debt	1,433.0	1,493.0		
Senior Notes due 2025	-	-	15-Dec-2025	4.875%
\$3M Concierge Promissory Note	3.0	3.0	Apr-2027	
Other Borrowings	-	-		
Total Unsecured Debt	3.0	3.0		

Sotheby's - Capitalization				
(MM in \$)	Q1'26	PF	Maturity	Rate
Total Debt	1,578.9	1,638.9		
Less: Unsub Debt	(139.2)	(139.2)		
Total Restricted Group Debt	1,439.7	1,499.7		
Less: Unrestricted Cash	(89.4)	(149.4)		
Net Debt	1,350.3	1,350.3		
Adj. EBITDA	318.4	318.4		
Total Net Leverage	4.24x	4.24x		
Liquidity:				
RCF Availability	570.0			
RCF Drawn	(368.0)			
RCF LCs / Guarantees	(23.1)			
Unrestricted Cash	89.4			
Total Core Liquidity	268.3			
Other Availability 3	89.9			
Other Drawn	(6.7)			
Other LCs / Guarantees	-			
Total Liquidity	351.5			

Notes:

- When drawn at over 35%, subject to 6.5x leverage maintenance covenant.
- Cancelled in Feb. 2026.
- Excludes uncommitted \$30 million RCF. Subject to borrowing base.

Pro forma per the Q1'26 PCA, the 2027s drop out and the \$825M 8.25% 2031s come in, taking total debt to ~\$1,638.9M and PF leverage including unsub to 4.68x (restricted group 4.24x). Leverage denominators here exclude capitalized operating leases; the leases-capitalized net figure is 4.68x on EBITDA. Note one schema wrinkle: Fundamentals carries the property mortgages inside the consolidated super-senior/ABS layer, while the PCA treats them as unsub debt outside the restricted group — the buckets frame the table, the PCA distinction matters for recovery on the notes. Liquidity at quarter end: \$89.4M cash plus \$262.1M available (\$180.9M RCF unused plus ABL), against the seasonal Q1 trough; management cited ~\$179M RCF availability net of LCs.

Ratings history

Agency	Current	Prior	Action date	Outlook	Driver
Moody's	B3	B3 (stable)	Apr-2026	Positive	Outlook raised on refinancing; Moody's leverage metric 4.7x YE'25 vs 11.2x prior. B3 assigned to 2031 notes
Moody's	B3	B2	Feb 27, 2024	—	Downgrade in the 2024 downturn
S&P;	B-	B- (negative)	Apr 14, 2026	Stable	Refinancing plus 2025 recovery; '3' (55%) recovery on 2031 notes
S&P;	B-	B	Jun 11, 2024	—	Downgrade in the 2024 downturn

Worth opening

- [Quarterly Transcripts 2026Q1 \(call of May 12, 2026\)](#): the CFO's chronological walk through the February securitization, March RM extension, April RCF upsize and April refi, plus the restricted-group framing of the numbers.

- [Quarterly Earnings Report 2026Q1](#): the revenue-by-nature table (auction commissions \$136.5M, private sale commissions \$33.4M), the \$106M net payable swing from \$586M at year end, and the restricted-vs-unrestricted balance sheet bridge on page 27.
- [Primary High Yield: Sotheby's New 2031 SSNs covenant analysis \(Apr. 15, 2026\)](#): the full LME-protection checklist — J.Crew/Pluralsight/Envision blockers in, Serta protection only partial, ~453% of EBITDA day-one pari capacity with nearly half reserved for the revolver.
- [Ratings Alert: S&P outlook to stable \(Apr. 14, 2026\)](#): S&P's forecast case — ~\$200M FOCF, ~\$50M annual distributions, group leverage 7.6x in 2026 including SFS and property.
- Sotheby's PCA (May 9, 2026): the six-quarter model, the HoldCo/ADQ economics and the restricted-group waterfall context.

An earnings presentation was searched for in the fundamentals document corpus (type filter included) and none was returned for Q1'26 — as a private issuer, Sotheby's disclosure runs through the quarterly report and lender call rather than a public deck.

Additional coverage

- Apr. 17, 2026 — [Covenants Weekly: Primary Reviews for Sotheby's, Ontic, TransDigm and Others](#)
- Apr. 15, 2026 — [Sotheby's \\$825M Secured High-Yield Bond Refinancing 2027 Debt Over Book Size](#)
- Apr. 15, 2026 — [Primary: Sotheby's Launches \\$825M Senior Secured Notes Due 2031, Initial Whispers in Mid-8% Area](#)
- Apr. 14, 2026 — [Ratings Alert: Sotheby's Outlook Revised To Stable From Negative \(S&P\)](#)

Six-quarter themes

The demand-supply inflection. H1'25 was supply-starved with record demand metrics — Q2'25 was a self-described transitional quarter and revenue fell 18.4%, missing the Octus forecast case. Q3'25 was the inflection (strongest third quarter in company history, +48% auction sales), Q4'25 the confirmation (+65.5%, Pritzker/Lauder, the \$236M Klimt) and Q1'26 the carry-through (+34%, the strongest Q1 at 68% of the prior Q2). The through-line management pushed on the Q4'25 and Q1'26 calls: the wealth-transfer-driven single-owner pipeline has not slowed.

Margin over market share, now under pressure. Commission margin climbed from 16.4% (Q1'25) to 18% (Q3'25, highest since 2020) on bespoke dealmaking discipline, then gave back to 15.4% in Q1'26 on competition. This is the metric that converts the volume recovery into EBITDA; the trajectory from here is the single most important operating variable.

Cost program: promised, delivered late, then extended. The \$100M program stated in 2024 was originally due complete by end-2025; ~\$91M landed by then with ~\$9M into H1'26. The York Avenue sale (Oct-2025) added \$33–35M of annualized real-estate savings, ~\$25M already in the run rate. The Q4'25 salary spike was bonus normalization, not cost slippage, per management on the [Q4'25 call](#).

Balance sheet repair, sequenced. From the 2024 stress: \$1B ADQ/Drahi equity injection, RCF extension and bifurcation (Jul-2025), SFS LC decoupling (~\$70M capacity release), SFS receivable collections (\$91M Oct-2025, ~\$120M more per the offering memorandum), AR securitization (Feb-2026), RM extension (Mar-2026), then the 2031 refi (Apr-2026). Consolidated net leverage: 8.85x → 4.68x in five quarters, inside the 4.0x–4.5x stated target at year end.

Working-capital seasonality is the residual risk. Q1 and Q3 remain heavy cash-burn quarters (Q1'26: \$352M levered outflow, RCF drawn to \$368M). The company is deliberately diversifying funding around it — securitization, RCF capacity, SFS decoupling — but even S&P's stable outlook flags that modest underperformance in a key selling season still moves the metrics materially.

What drove the quarter

Revenue was volume-led and broad. Consolidated sales of \$1.45 billion rose 49%; aggregate auction sales rose 34% to \$975.3M and net auction sales 32%, driven by the NY Old Masters sale, Hong Kong Modern & Contemporary and RM Sotheby's

outperformance, with the de Gunzburg design collection (\$96M, 100% sold) and the record Hong Kong watch sale (\$53M) among the standouts. Private sales doubled to \$388M — the second-highest quarterly figure in the Octus model after Q4'25 — lifting private sale commissions 85% to \$33.4M. Inventory revenue rose \$33.4M, largely RM vehicles, at improved margin. There is no perimeter noise in these comparisons; the restricted group is intact quarter over quarter.

The EBITDA bridge is operating leverage, dented by price. Total opex ex-inventory costs and restructuring rose 13% against 30% comparable revenue growth. Direct costs rose \$11M with auction volumes (irrevocable-bidder share, introductory commissions); salaries rose \$14.2M on performance compensation; marketing and G&A were flat to lower, with the Breuer move savings visible in the run rate. Against that, the 100bps commission-margin decline to 15.4% is the quarter's one genuinely negative datapoint — it cost roughly \$8M of revenue on Q1 net auction sales, and management attributed it squarely to competitive dealmaking rather than mix.

Cash flow was the normal Q1 tie-up, at larger scale. Levered FCF was negative \$352M on the seasonal working-capital build — the net client payable position swung from \$586M at year end to \$106M — funded by RCF draws to \$368M plus the cash built in Q4'25 (\$270M down to \$89M). Capex of \$26.7M ran ahead of the FY pace on Madison Avenue buildout and technology; the \$61.6M FY26 guide implies moderation. The Q4'25 experience (a \$642M FCF quarter) is the template for the give-back in H2.

Versus expectation. The PCA's read is that the robust quarter was anticipated — previewed in the April offering memorandum and consistent with management's March commentary that the supply pipeline and record demand had not slowed. The surprise in the print is compositional (private sales strength, commission-margin softness), not directional. LTM adjusted EBITDA of \$318.4M now sits above the restricted group's FY'22 level and above the entire group's 2024 EBITDA including SFS.

Watch items: the commission-margin path through the May marquee and Lewis Collection settlements; RCF paydown cadence in Q2/Q3 against the stated goal of minimizing revolver use; and financial policy now that leverage is inside target — the January \$40.5M dividend to the parent (which the PCA reads as servicing the HoldCo amortization) plus S&P's modeled ~\$50M annual distributions suggest the deleveraging phase is over.

My view, for what it is worth against your Sotheby's history: this is now a performing single-B credit with a cyclical demand profile rather than a stressed one. The fulcrum question has dissolved — at 4.95x gross through the first lien on LTM EBITDA that is still rising, and with the 2029s at 5.875% the cheapest claim in the stack, first-lien recovery in a downside re-rate scenario is anchored by the brand/intangibles value the ADQ round implied (~\$3B share capital) and by the S&P '3' (55%) on the secured notes, which looks conservative against the current run rate. The risks worth pricing are commission-margin erosion and a shareholder-return pivot, not liquidity.

Questions for the next call

The record already answers the RCF-usage question (the \$120M SFS settlement was received post-quarter and applied to the revolver per the offering memorandum, as flagged in the Q1'26 PCA), so it is framed as confirmation below.

- Commission margin fell 100bps to 15.4% against 18% in Q3'25 — how much of that is structural competitive pressure versus estimate-setting on marquee consignments, and what margin is embedded in your FY26 outlook?
- Confirm the ~\$120M SFS receivable settlement landed in Q2 and was applied to the RCF — what is the expected revolver balance exiting the June quarter after May marquee settlements?
- The \$130M RCF tranche matures August 31, 2026 — extend it, replace it, or let it roll off given the \$660M total commitments?
- With leverage inside the 4.0x–4.5x target and the January \$40.5M dividend paid, what is the distribution framework from here — is the ~\$50M annual level S&P models the right planning assumption?
- Any borrowings yet under the \$100M AR securitization, and how do its economics compare with the RCF for seasonal funding?
- The 2031 notes' backdated builder basket carries meaningful day-one restricted payments capacity — should lenders read that as pre-positioning for larger shareholder returns?

Pull comps?

The market prices this credit against Christie's on operating share (private, no public debt — data limited to the disclosed auction-sales comparisons in the PCAs, where Sotheby's H2'25 growth ran at more than twice Christie's) and against luxury-adjacent single-B consumer credits on valuation. I can pull a comps run against a verified set — say the 2029s/2031s against B/B3 consumer-discretionary secured paper — if useful; no directly comparable auction-house public credit was verified in this run.