

## Case Study

# A platform for fine arts and collectibles

Service(s) offered: Due Diligence & Valuation

Sector/Industry: Auction Houses (online/offline)



## Determining the fair market value of shares for a global platform dealing in fine arts and its multiple subsidiaries across borders

Our client (Client/BVICO) operates a global platform for the auction of fine arts and collectables with its parent company based in the British Virgin Islands. BVICO has four subsidiary companies, two of which are in India (IndCo1 and IndCo2) and one each in the US (USCo) and the UK (UKCo). The Client allows customers to view and purchase fine arts, collectibles, modern commission art, and contemporary Indian art and jewelry. The Client set a benchmark for online art auctions and had a global presence with art gallery spaces across all major cities and a wide range of art.

The promoters were in the process of streamlining the group by first selling a stake in the global business (BVICO) and then restructuring the global operations by consolidating all entities under IndCo1 (i.e. IndCo2 and BVICO will be merged into IndCo1 while USCo and UKCo will become subsidiaries of IndCo1).

The Client engaged Nexdigm to determine the fair market value of shares of BVICO along with the subsidiaries to facilitate the restructuring by computing a share exchange ratio for the merger and prepare valuation reports for submission with the Income Tax Authorities.

### Approach

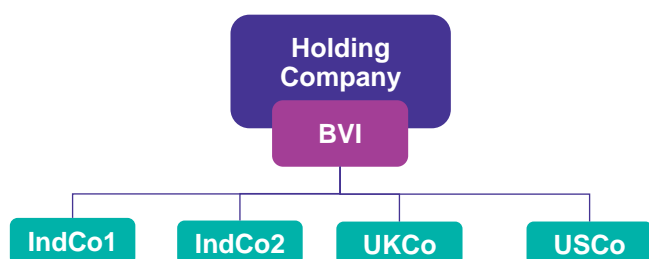
Our approach towards the assignment is detailed below:

1. Understand the Business and Group Structure
2. Evaluation of Valuation Approaches/Methodologies
3. Fair Market Valuation of Shares for Income Tax Reporting
4. Computation of Share Exchange Ratio for the merger

### Phase I - Understanding the Business and Group Structure

We started by conducting discussions with the Management while analyzing the business model and the group structure. This gave us valuable insights into the business model at a group level and the value contribution of the different subsidiaries to BVICO. The companies operate in such a way that they provide services to each other and operate as a single business entity. IndCo1 and USCo were the main operating companies, whereas BVICO, IndCo2, and UKCo provided support services to the operating companies.

## Structure before the Transaction



## Phase II – Evaluation of Valuation Approaches/Methodologies

Based on our assessment of the role performed by the companies in the overall value chain of the global platform, we decided to value each of the companies on a standalone basis using the Discounted Free Cash Flow method as this methodology would adequately capture the value that each company contributes to the overall business. Since the holding company only provided support services, it derives its value from its subsidiary companies, and accordingly, the Sum of the Parts Method was considered the most appropriate method to value BVICo.

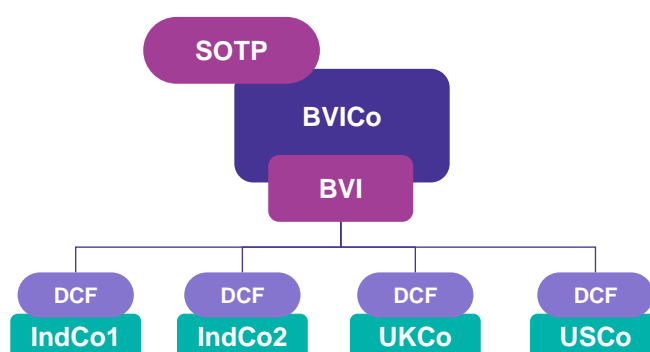
## Phase III - Fair Market Valuation of Shares for Income Tax Reporting

When shares of a foreign company having assets in India are being transferred, it is important to check whether the value of the foreign company is substantially derived from its assets located in India to determine the taxability of the transaction in India. The first phase of our scope was to determine the taxability in India of the stake sale in BVICo.

## Valuation of the Parent and its Subsidiary

As is the case with most holding companies, the asset base dominates earnings capability. Therefore, we opted for the Sum Of The Parts (SOTP) method under the Cost Approach.

Based on discussions with Management and the business plan, we arrived at the free cash flows of BVICo and the subsidiary company. We estimated the cost of capital at the standalone level, culminating in the SOTP value of BVICo.



## Impact

We arrived at the valuation of BVICo and its assets located in India (IndCo1 and IndCo2) and analyzed that the holding company derives substantial value from assets in India.

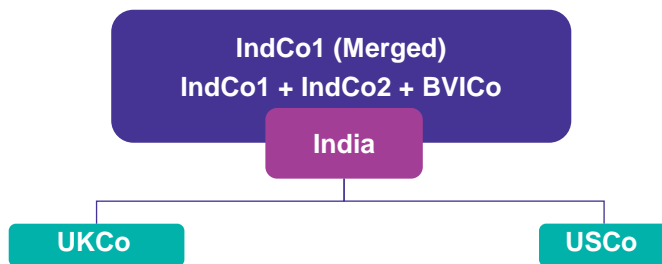
## Phase IV - Computation of Share Exchange Ratio for the Merger

The two mergers took place simultaneously; the merger of BVICo with IndCo1 and the merger of IndCo2 with IndCo1. As we had already computed the standalone fair value of the subsidiaries and the consolidated fair value of BVICo, we used these outputs in determining the fair share exchange ratio.

### Recommending a Share Exchange Ratio

Considering that some of the subsidiaries were wholly-owned and others had external minority shareholders, we recommended a share exchange ratio that was practical to implement (minimal fractional shares) and protected the interests of the minority shareholders.

### Structure after the Transaction



### Impact

While considering the share exchange ratio for the merger of BVICo and IndCo1, we needed to consider that any balance would not have impacted the interest of any shareholders. In contrast, in the case of the merger of the IndCo1 and IndCo2, there were a few minority shareholders whose interests would have been impacted. Considering the same, we had recommended a ratio wherein the interest of all the stakeholders was protected.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

[www.nexdigm.com](http://www.nexdigm.com)