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Iervolino Entertainment seeks acquisitions in entertainment sector, COVID-19 delays process - CEO

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Iervolino Entertainment [BIT:IE], an Italian content producer, is "keeping its ears open" for potential acquisition targets, CEO and founder Andrea Iervolino told *Mergermarket*.

While management has identified a shortlist of potential targets, the EUR 80m-revenue company's internal M&A team is still scouting candidates, Iervolino said. It would welcome advisors' pitches leading to further ideas, he said.

The company is optimistic about closing an acquisition by the end of the year, he said, although all M&A talks are presently on hold due to the coronavirus pandemic.

Iervolino Entertainment could acquire in various sectors of the film and TV production industry, he said, from movie post-production companies to animated series' producers. Specialist celebrity-management agencies could also fit the bill, he said, adding that while this is a recognizable sector in the US, it is still at an early stage in Italy and has substantial growth potential.

There is growth potential worldwide in short-films production, so while Iervolino Entertainment is looking for targets in Italy with strong international clients bases, targets across Europe are appealing, he said. Eastern-Europe based peers are interesting as they can offer lower production costs, he said. UK-based content producers are desirable as they generally have capillary commercial networks which lead to easy US distribution, he added.

The company can finance acquisitions using in-house cash and shares, Iervolino said. It recorded EUR 22.6m EBIT on EUR 80m revenue in 2019, he said. A sector analyst familiar with the company told *Mergermarket* that Iervolino Entertainment is expected to generate EUR 107m revenue this year, with EUR 23m EBIT.

In the mid-term, Iervolino Entertainment intends to switch its listing to the STAR segment of the Milan Bourse, Iervolino said. Although it is too soon yet, management will consider this scenario to finance a particularly large acquisition, he added.

Iervolino Entertainment has no peers on the Milan Bourse and looks to international markets to find comparables, a sector banker said. Possible benchmarks could include French animation specialist Xilam [EPA:XIL], French audiovisual content producer Mediawan [EPA:MDW], and Lions Gate Entertainment [NYSE:LGF.A], a California movie studio, the banker said.

Traditional movie studios like Walt Disney Co. [NYSE:DIS], or WarnerMedia, part of AT&T [NYSE:T], could be seen as Iervolino Entertainment's peers, the banker continued. He noted that both studios produce animated series: Disney produces "Guardians of the Galaxy", and WarnerMedia, "City Girls".

Acquisitions are not a new strategy for Iervolino Entertainment, which bought specialist short-content company Short Art Media LLC sette Intellectual Properties (IP) in December, from Arctic Justice, Iervolino said. Financial terms were not disclosed.

While the ongoing COVID-19 pandemic is delaying M&A, the company is also seeing an upside to the crisis; use of streaming services is booming, he said, which means operators are buying more of its content.

In Italy, the European epicentre of the epidemic, daily movie downloads have skyrocketed since the end of February, when the government implemented the first measures to tackle the pandemic, he said.

Streaming services are entering a golden age, Iervolino said, and have driven strong global demand for audio-visual content in recent years. In 2018, the global market for on-demand video content reached EUR 28bn, and it is expected to grow by 4.1% CAGR until 2023, he said, citing a recent report by *Parrott Analytics*.

To meet anticipated market growth, the company is creating a production pipeline of animated series for the coming months and next year, Iervolino said.

Iervolino Entertainment started trading on AIM Milan in August, floating 15.7% of its capital to raise EUR 10.7m, as reported by Italian press. It was advised by NoMad Banca Mediolanum, global coordinator and bookrunner Intermonte, and lawyers DLA Piper and Gianni, Origoni, Grippo, Cappelli & Partners, as reported.

Founded in 2011, Iervolino Entertainment produces content for cinema, new media and television, with a particular focus on short animation.

by Micaela Osella in Milan

Grade: Confirmed

BIDDERS

Iervolino Entertainment

Countries

S.p.A.

OTHERS

AT&T Inc.

The Walt Disney Company

Xilam Animation SA

Lions Gate Entertainment Corp.

Mediawan S.A.

TARGET

Iervolino Entertainment S.p.A.

Previous Global Co-ordinator

Intermonte Securities Corporate Finance

Previous Lawyer

DLA Piper

Gianni, Origoni, Grippo, Cappelli & Partners

Italy
United Kingdom

Sectors

Leisure
Media

Sub-Sectors

Media houses
Other entertainment

Topics

Bolt on/Opportunistic
Cross Border
ECM
IPO
Other M&A Intelligence

Intelligence ID: 3023518