

Black Television Pioneer Likes His View of Image

ENTERTAINMENT: Local distributor acquired by Bob Johnson in roll-up.
By **JONATHAN POLAKOFF** Monday, April 9, 2012

Robert “Bob” Johnson made Black Entertainment Television a name brand in African-American households with shows such as “Bobby Jones Gospel” and “Video Soul.”

Now the black-media entrepreneur has a broader goal: becoming a major player in the new world of online content distribution. And one of his major vehicles for getting there? Struggling Image Entertainment Inc.

Johnson announced plans last week to acquire the Chatsworth independent distributor as a first step toward acquiring a vast reserve of content to license to online streaming services, which American viewers are finally taking to in big numbers.

“An explosion of distribution outlets will become available,” Johnson said in an interview with the Business Journal. “Digital will become faster, more flexible and mobile. Those things have to be fed by content.”

In 2010, Johnson formed RLJ Acquisition Inc. and last year raised \$144 million in an initial public offering with the intent to buy one or more entertainment businesses. The Bethesda, Md., firm is a special purpose acquisition company, in essence a corporate shell that raises investor funds to acquire companies.

The proceeds of last year’s stock sale will go toward not only the acquisition of Image, but Silver Spring, Md., home entertainment distributor Acorn Media Group, which was also announced last week. Both need to be approved by RLJ investors later this quarter.

Acorn and Image will operate jointly under the name RLJ Entertainment Inc., and the company is expected to trade on the Nasdaq. Image Chief Executive Ted Green is staying on to run the combined companies, from Chatsworth and suburban Washington, D.C.

Holders of Image common stock will receive 2.1 million shares of RLJ Entertainment common stock. Image preferred stockholders will receive \$22.6 million in cash and notes. In all, Image’s current investors will own about 11 percent of the combined company, which doesn’t have a market valuation yet.

Fading model

Image’s business has long been buying rights from independent movie producers, contracting for the production of discs, and marketing and wholesaling those discs to brick-and-mortar and online retailers.

The company owns exclusive rights to 3,700 DVD titles, including the Criterion Collection, which includes classics such as “Godzilla” and “Wizard of Oz.” Newer titles are acquired from film festivals and markets, and the company is known for its genre-specific collections, such as horror and African-American titles.

Acorn’s niche, meanwhile, is acquiring home entertainment rights to British TV and movies, such as comedy series “Doc Martin.” The company was also more highly valued than Image, with Acorn shareholders receiving \$105 million, 1 million shares of common stock of RLJ Entertainment and warrants to purchase another 1 million shares of stock.

Indeed, Image has been hard hit by the decline of DVD sales. Four years ago, Image was offered a \$100 million buyout from a San Francisco investment group, but the deal fell apart.

Just one year later, San Francisco private-equity firm JH Partners Co. bought a controlling interest in the company for only \$22 million, as the eroding DVD industry cut into the company's valuation. Image eked out a profit of \$763,000 in its last quarter, trades on the Pink Sheets for less than a dime a share and has a market valuation of just \$20.5 million, even after the announced acquisition.

However, Image has been remaking itself under the guidance of Green, who came on in early 2010 to lead the transformation into digital distribution – consistent with Johnson's plan to build a large content library.

Green said the sale was arranged after sitting down with Johnson in a meeting arranged by some mutual connections. He said it became clear that he and Johnson shared a vision of consolidation in the home entertainment distribution business.

“We will look aggressively at library acquisitions,” he said. “The key to us is controlling for all platforms. Bob has tremendous connections. We're going to be opportunistic.”

Green has already been rolling up libraries, such as Madacy Home Video in 2010, which brought titles such as “The Lucy Show” and “Bonanza” to Image. Image now has a large digital library already, with rights to some 2,200 titles.

However, while that is about two-thirds the size of its DVD library, Image receives much less for each digital viewing than for a disc sale. In its fiscal third quarter, Image's revenue from DVDs and Blu-ray discs came to \$28 million, but just \$4 million from digital distribution.

But fueling the hopes for Image is the popularity of digital viewing with consumers. Recently, there have been several media reports that viewers are cutting off their cable subscriptions to stream movies on their TVs through platforms such as the Xbox 360 and PlayStation 3 video game consoles.

Also, there are new services that are starting to compete with the streaming service of Los Gatos-based Netflix Inc. and those likely will bid up prices for digital content in the future. Already this year, Philadelphia-based Comcast Corp. debuted a streaming service called Streampix and Seattle online retail giant Amazon.com expanded its own service, Amazon Instant Video.

Tom Adams, an analyst at IHS Screen Digest in Salinas, said Johnson's acquisition of Image's library may have been very timely, a bargain near the bottom of the market.

“(The idea that) consumers won't pay for stuff online is finally evaporating,” Adams said. “We're starting to see some growth in (video on demand) and licensing of catalogs. It might make it a very opportune time to jump in.”

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