



Six Questions: Miguel Penella, CEO of RLJ Entertainment

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Miguel Penella

When RLJ Entertainment earlier this month announced the promotion of COO Miguel Penella to CEO, replacing Ted Green, it underscored the success of Acorn Media Group and limited patience B.E.T. founder and RLJ namesake Robert Johnson has with realizing a return on his \$127 million acquisition of Image Entertainment and Acorn. Green had been CEO of Image.

Penella previously was CEO of Washington, D.C.-based Acorn — a distributor of primarily British TV content, including Agatha Christie titles.

No reason was given for Green's departure, but RLJ Entertainment disclosed that preliminary 2012 fiscal results would fall below projections. The company expects to report (in March) revenue of \$180 million to \$185 million, which is 15% below estimates. It projects to post lower pre-tax earnings of \$28 million to \$30 million, due to a shortfall in Image revenue, which was partially offset by higher publishing and film-licensing income generated from Acorn.

Indeed, Acorn's fiscal results were in line with projections, which apparently opened a door for Penella to assume overall control. With that comes added responsibilities and consequences in a short window — realities not lost upon Penella.

• What will be your first focus as CEO of the combined properties, in terms of content acquisitions and distribution?

Penella: Our whole focus is completing the integration of Image and Acorn into one single organization. There are a lot of synergies that we expect to realize from the combination of a number of functions, including backend, warehouse distribution, sales, marketing and finance. And it's more than just efficiencies, but also in terms of sharing information and updating our internal processes and how we look at the business.

• What was Acorn Media doing right in home entertainment to meet its 2012 fiscal goals?

Penella: We are focusing on programming acquisitions efforts around audiences that we believe we can develop strong relationships with, programs [audiences] have a strong passion for — the ones they really want — and audiences for which we believe we can take the leading position in content acquisitions and libraries we can build.

The Acorn line is a brand we have operated successfully for many years. We feel we have a very strong understanding of the audience, a very good relationship with the audience, and one in which we have acquired significant content rights to license and rights that we own. One brand around which we believe we are developing a very sound digital strategy is premium channel Acorn TV. In addition to British TV series, we

are talking about urban, horror and independent action thrillers. We have a couple of other genres we are looking at.

The Acorn side of the business is mostly known for the Acorn brand, in addition to managing the Acacia (health and fitness) and Athena (long-form documentaries) brands. At Acorn, we have come out of a process of understanding our audience, which in North America are well-educated, affluent consumers who are avid readers and enjoy high-quality British history, mysteries and TV dramas. We are very much focused on understanding their interests, how to talk to them, programs they have a passion for, and outlets we can reach them through. And how they like to consume this content. And we have adapted our organization to them.

• **Will you be implementing those changes at Image?**

Penella: Yes, that is very much our thinking. Within our company we have the expertise to successfully service our audiences. And that's what we intend to do at Image. We have an understanding of the areas Image already does well in and will focus on areas they maybe don't do so well in. With those audiences we feel we can really connect with, we need to develop a strategy to distribute content across physical and digital platforms — for example, the urban African-American market. Through the leadership of [RLJ namesake Robert] Johnson, we are looking at that audience and looking at opportunities at developing a proprietary digital channel like Acorn TV. We haven't made the formal decision to launch it, but we are seriously looking into it, including access, control of content, marketing, promotion and business model.

It's also about developing relationships with third-party digital channels, including Amazon Prime and Netflix.

• **Will Image/Acorn release UltraViolet titles?**

Penella: We don't have any immediate plans to release any titles in UltraViolet. We sell electronic downloads on Acorn TV, which include a digital copy in the cloud through our own internal systems. We also work with Walmart's Vudu.com, which offers storage similar to UltraViolet. So we are doing a number of things in that area. We believe offering a digital copy alongside a physical disc is of great value to the consumer. The economics of UltraViolet have not quite worked for us yet, but we are still actively looking at it.

• **Can sellthrough of packaged and digital media make a comeback in an era of \$2 rentals and SVOD?**

Penella: I believe it can survive. What is happening in home entertainment is a multiplication of choices for consumers in terms of acquiring it, paying for it and devices to watch it on. I think it comes down to the content. For certain types of content, consumers want to collect and gift. That type of packaged media is here to stay for quite a long time. But overall, it is going to be a more fragmented and complicated environment.

• **Is SVOD a boon or bust to home entertainment margins? How do you deal with all-you-can-watch streaming services while trying to maintain the sellthrough model?**

Penella: For companies like RLJ Entertainment, we are trying to understand how to maximize the value of franchises and programs. SVOD services like Netflix are performing a very important role, in terms of the exploitation of the content and service to the consumer. But Netflix plays one role among many. And there is always a need for consumers to have a first look at content, which plays into a premium channel serving a particular audience or interest.

There is always going to be content that goes first into theaters and then on physical, digital and then on Netflix. It will ultimately depend on the franchise and the intended audience.

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