



Six Questions: Robert L. Johnson, Chairman of The RLJ Companies

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Robert Johnson

RLJ Acquisitions Oct. 3 formally completed the \$127 million purchase of Image Entertainment and Acorn Media, creating publicly held RLJ Entertainment Inc.

The new company is headed by Ted Green, former CEO of Image Entertainment, while former Acorn CEO Miguel Penella assumes the title of COO. Image, which is based in Chatsworth, Calif., and Washington, D.C.-based Acorn will continue at their existing locations operating under the RLJ Entertainment moniker.

Shares of RLJ Entertainment common stock will be traded on the NASDAQ capital market under the stock ticker symbol RLJE.

The merger was approved last month by Image's and Acorn's respective shareholders, making RLJ Entertainment one of the largest independent global distributors of digital and physical media content.

RLJ Acquisitions is headed by Robert Johnson, founder of BET (Black Entertainment Television), who holds the title of chairman of The RLJ Companies, including RLJ Entertainment, which is based in Bethesda, Md.

Johnson intends RLJ Entertainment to focus on exploiting Acorn's British-centric content across all distribution channels, including recently launched Acorn TV. He also envisions mining Image's 800 hours of urban content into a viable digital distribution platform.

In 1980, he launched BET — the nation's first cable network aimed at the black community. Johnson sold BET to Viacom in 2003 for \$3 billion, making him at the time the richest African-American in the country.

RLJ Entertainment marks the third company Johnson has taken public since BET, which became the first African-American-owned company publicly traded on the New York Stock Exchange in 1991, and RLJ Lodging Trust, a \$2 billion hotel REIT (real estate investment trust) with 144 hotels, which Johnson co-founded and went public in May 2011.

With careers in media and hospitality, Johnson is no stranger to the type of challenges facing home entertainment. Speaking to *Home Media Magazine*, Johnson envisions RLJ Entertainment maintaining a major focus on physical and digital sellthrough, in addition to upping rental of catalog and new-release title acquisitions via streaming platforms.

Johnson says he wants to emulate Tyler Perry's appeal in the black market through the launch of an urban-based subscription video-on-demand service (through YouTube) featuring Image's catalog fare and third-party content.

HM: How much of RLJ's focus going forward is on DVD and Blu-ray versus digital?

Johnson: We are deeply embedded in the DVD and Blu-ray physical goods business, and we will continue to do that. Maybe close to 80% of our revenue comes out of physical discs. We have seen them continue to perform for us because of the kind of content we acquire. We have good relationships with Wal-Mart and Barnes & Noble, Target and even Redbox. So we obviously think disc is a strong business. We don't see that market going away any time soon. At the same time, we recognize the slow migration to digital, and we have a footprint in that as well. Everything we acquire we get digital rights to distribute to digital platforms, including Hulu, iTunes, Netflix and Amazon Prime.

HM: Is the physical media market transitioning to rental at the expense of sellthrough?

Johnson: I think the market is going to continue to be sellthrough, but we are having great success in rental, too. People feel comfortable downloading content from iTunes and streaming from Hulu. But I think people also want to own. At Acorn, we know those consumers like to own content because they are primarily interested in British mysteries and dramas. I think we can improve upon that as we develop some urban in certain Wal-Mart stores that heretofore have not had new product come to the marketplace. We hope to inspire new urban content after producers know we are interested in distributing it.

HM: Sounds like you want to take on Tyler Perry's market. Which unit do you plan to focus distribution of urban content through, Image or Acorn?

Johnson: Acorn is more British fare, and they already have started Acorn TV, which is a subscription video-on-demand channel available on the Internet or on the Roku media player or Nook tablet. They have a target audience and the Agatha Christie library. What [Acorn] has done for me is inspire me to do the same thing with an urban niche. When we acquired Image, we got about 800 hours of urban content. On the basis of that, we can begin to build an urban SVOD platform while augmenting it with new product.

The way we're going to do that is by working with our lender [Sun Trust] to create a \$60 million film-financing pool to help some of these producers who just do not have the financial wherewithal. That's one of the biggest challenges among minority producers. They have great creative talent and a loyal audience, but they have not been able to solve the access to capital issue and distribution issue.

The major studios, when they look at an acquisition or distribution, the first thing they want to know is what is their foreign layoff? If you're doing an urban production, the answer tends to be zero. There is no foreign layoff unless you've got big stars like Will Smith or Denzel Washington. Image will be a base from which we'll build an urban SVOD digital channel. We see this as a way to get some of those low-cost digital titles made and distributed.

Tyler Perry proved what I have always known — namely that there is a hungry audience out there for urban product. And there are a lot of talented actors that are underemployed that will work at the right price. And he put them together with the distribution from Lionsgate and turned himself into the most prolific African-American producer in the country — just on the basis of his character portrayals. We're going to do some things in the same way by opening up to a number of producers ... [and getting] more variety and more diversity within that scheme of minority content.

HM: What is RLJ Entertainment bringing to home entertainment that was lacking?

Johnson: RLJ Entertainment is bringing my connections and my understanding of how technology can transform the way media reaches an audience and therefore create value. When cable and satellite TV came together, that was a technology shift. It had nothing to do with programming. Because of that tech shift, BET could aggregate millions of African-American cable homes across the country — the same with MTV and teens, ESPN with sports and CNN with news. The digital world will also transform the way content gets to the

customer. I just need to find my audience, grow that audience by marketing to them and delivering to them a compelling product.

HM: Will RLJ Entertainment partner with major studios for title distribution similar to what Image did with Sony Pictures Home Entertainment?

Johnson: We have a great relationship with Sony. Image and Acorn will look to Sony to provide physical distribution. We think that is a synergy that will help us in reducing our operating costs, which is a benefit to the company and the shareholders. We look forward to providing Sony with more content to distribute.

HM: How important is the YouTube channel for RLJ Entertainment?

Johnson: We have indicated we will move the ad-supported Faith Channel into RLJ Entertainment. We have a great leader in Tracey Edmonds, who helped build the channel on the programming end. We're excited about working with YouTube, which I think will ultimately look at an SVOD platform. We can certainly have dialog with them about that as we develop our SVOD platforms for Acorn TV and Image. The key to all of this is compelling programming with a marketing strategy that gets the consumer aware of the product.