

# The Washington Post

## Johnson Readies His Next Gamble

By Thomas Heath  
Monday, February 16, 2009; D01



Thomas F. "Mack" McLarty, left, former chief of staff to president Bill Clinton, and Robert Johnson have teamed up to invest in auto dealerships in Alabama. (Linda Davidson - The Washington Post)

Robert L. Johnson's rise to riches is one of those oft-told success tales in entrepreneurial circles, the stuff of Washington legend.

He was a lobbyist for the cable-TV industry in the late 1970s when he convinced communications mogul John Malone to invest in his idea for a television network targeted at African Americans. Thus was born BET, Black Entertainment Television, which is located in the District.

Johnson sold BET to Viacom in 2000 for \$3 billion, becoming the nation's first black billionaire. You'd think he would kick back, buy an island or a vineyard, and pursue a well-earned life of leisure.

Nope.

Johnson is hunting for opportunities. He sees lots of them in this down market. He networks like mad, partnering with others -- and often their money -- to turn his ideas into businesses. He was hobnobbing at the NBA All-Star Game this past weekend in Phoenix (after all, he is the lead owner of the NBA Charlotte Bobcats). With a boldface name, you can imagine he receives lots of pitches from other entrepreneurs. His friendship with the Clintons hasn't hurt, either. It helps "deal flow."

And he's got a lot flowing.

Johnson's latest scheme is a venture to bring video gambling machines to the Caribbean and Latin America, promising governments there a lucrative new revenue stream and a means to drive out less-scrupulous gambling operators.

But that's hardly his only preoccupation. A hotel owner, he is building a \$12 million, 78-room resort in Liberia, on the west coast of Africa, which opens next month. (Liberia's president personally asked him to build a hotel and gave Johnson a favorable, long-term lease on the land.)

He's been active with an auto-dealership venture he formed with former Clinton chief of staff Thomas F. "Mack" McLarty, recently buying a (get this) bankrupt Chevrolet dealership for \$3 million in Huntsville, Ala.

He owns RolloverSystems, in Charlotte, which helps people manage retirement accounts when they move to a new job. He is busy expanding his Urban Trust Bank. And he has invested in a \$30 million private-equity fund with the Overseas Private Investment Corp. in Africa.

Johnson told me he has something in the works involving personal finance, but that one isn't soup, yet.

Oh, and he also plans to bid on the franchise to run the D.C. Lottery.

"The entrepreneur philosophy is that there's always opportunities out there if you can identify it at the right time, bring in the right strategic resources, whether it's capital or partners, and build a team that knows how to create value," Johnson told me, in a phone call from Phoenix. "I believe there are tremendous opportunities to create value right now because money has no place to go to get higher returns. . . . You can be an entrepreneur in distressed debts."

Johnson says he is worth around \$1 billion, even after the economic earthquake. Quietly, he has moved out of the Washington area and now resides full time in Palm Beach, Fla., where he plans to head his new gambling venture in the Caribbean and South America. He still owns about \$100 million in Viacom stock. RLJ Development, his \$3 billion private-equity fund that runs about 126 hotels, has been slowed a bit by the recession. But it still has more than \$1 billion in dry powder ready for the right investment.

Johnson says the empire is making money, but like any entrepreneur, not every investment has paid off. He laughs when asked whether his Bobcats are profitable. He said the profit will come when he sells the team. Urban Trust Bank has 16 branches (14 in Wal-Marts, mostly in Florida) and \$300 million in deposits, but has yet to make money. Johnson said it will become profitable in the next quarter. A \$200 million private-equity fund called RLJ Equity Partners, in which he is teamed with the Carlyle Group, is still raising money after a year and a half and is looking to make deals.

"The Johnson empire looks at itself as making money in some assets," he said. "It has growth assets where we are putting in capital." In other words, he continues to invest in companies, betting that as the economy improves, the companies will grow into profitability. I am guessing the bank, auto dealerships and retirement savings businesses fit into that category.

"When you are a serial entrepreneur, you get a lot of deal flow of ideas," he said. "And you sort of want to move on them -- if you can get there first, with the right resources, you can create tremendous upside value when other people are sitting on the sidelines."

So here he is, teaming with [Scientific Games](#) in a strategic alliance to pursue video lottery gaming in the Caribbean and Latin America.

This is the plan: an RLJ subsidiary called Caribbean CAGE will urge Caribbean and South American governments to close illegal video gambling machines in their country and go legitimate by allowing Johnson and his team to install their machines. The machines are interconnected by satellite or wireless, so that the parties -- government, venue owner, Johnson and Scientific Games -- can follow every dollar. The satellite system allows Scientific Games to track each game, pulling the unpopular ones and loading more lucrative ones into the terminals. The venues could range from a bar or restaurant to a bodega or laundromat.

Johnson estimates the governments will take about 40 percent of the revenue from the machines, with the rest divided between Cage/Scientific Games and the venue owner. Johnson is guessing he will get about a quarter of the revenue, which could put his earnings in 2013 somewhere north of \$400 million before taxes and interest.

"My feeling is that this business is of such significance, that it creates a unique opportunity for me that's going to change my focus in business in this region, which means a couple of things on how I'm going to operate the RLJ Companies," Johnson said. "I'm relocating myself down to Florida because it's closest to where I think the core business of the RLJ Companies is going to be over the next five years."

Johnson will have a small team with him in Florida, but he will leave the private-equity firm at its headquarters in Bethesda.

Scientific Games will supply the equipment and technology. Johnson and his partners will attempt to persuade the governments to install the new machines and toss the unregulated ones. Sounds straightforward enough, but it's not going to be easy. There's bound to be competition and defenders of the status quo. To prevail, Johnson foresees teaming up with local partners or entering into professional services contracts with the governments.

"The hard part is getting the governments to say we want to break that stranglehold of illegal machines on the population," Johnson said. He hopes the lure of new revenue streams will be too much for governments to pass up, just as U.S. states have turned to gambling as a revenue source.

As he was striding out of The Washington Post's newsroom last week after a discussion about the gambling venture, I asked Johnson what he thought about the wheezing economy.

"I would look at some of these stocks that have been pounded down to way below what their true value is," said Johnson, specifically referring to [General Electric](#), Proctor & Gamble and Coca-Cola. "If the market doesn't come back for these iconic brands, then we all have bigger things to worry about."

(Disclosure: I own a few hundred shares of Coca-Cola and GE.)

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