

Warner Music aims for higher video game royalties

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Group wants right payment 'ecosystem'

Ringtone revenues below expectations

Warner Music is pushing to extract higher royalties from video games such as Guitar Hero and Rock Star, it said yesterday, as record labels and music publishers seek to avoid repeating mistakes made at the launch of MTV and the iPod.

"The amount being paid to the music industry, even though their games are entirely dependent on the content we own and control, is far too small," said Edgar Bronfman, Warner's chief executive.

"What we need to be careful of is that we do not allow an ecosystem to occur where we are not properly compensated," he added, citing a long-held music industry belief that MTV's music video channel and Apple's iPod digital music player had taken the lion's share of the value created by its content.

Warner would not license its music to video games if royalty rates remained "far below what their true value is", Mr Bronfman said.

Third-quarter results from the only publicly-quoted major music company showed losses from continuing operations narrowed from 11 cents a share to 6 cents in the same quarter of 2007, helped by some of its longest standing artists.

A new joint venture with the estate of Frank Sinatra allowed Warner to release a best-selling collection for the 10th anniversary of the performer's death, and the group highlighted strong sales of Madonna's Hard Candy album and an extended publishing deal with Stephen Sondheim.

A 5 per cent gain in revenues to \$848m was flattered by currency translation, but the underlying 1 per cent decline demonstrated "consistent competitive outperformance" against an industry which fell 5 per cent, Mr Bronfman said.

Digital revenues rose 39 per cent year-on-year to \$166m, or 20 per cent of the total.

However, ringtone revenues, a mainstay of the industry's digital business, were below expectations. These were beginning to be replaced by "reasonable" growth in revenues from full-track over-the-air downloads, Mr Bronfman said.

He expressed high hopes for new models such as Nokia's planned Comes With Music services, in which buyers of mobile handsets will have unlimited access to the catalogues of partnering music companies.

Warner would sign several similar deals, he said, which would at last align the business models of the music and mobile industries.

The group, which discontinued dividend payments three months ago to preserve cash, reported that its cash balances had improved from \$249m in March to \$338m at the end of June.

Mr Bronfman discouraged analysts from using the \$1.8bn valuation placed on Sony BMG in Sony's buy-out of Bertelsmann's stake in the recorded music joint venture this week as a benchmark for Warner.