Merger Talks Surface in Music Industry

By REUTERS

May 12, 2003

Merger Talks Surface in Music Industry

Filed at 10:20 a.m. ET

LONDON (Reuters) - The familiar tune of deal-making swept through the music business on Monday as it emerged that AOL Time Warner Inc. and Germany’s Bertelsmann have been exploring a music merger in yet another attempt to match two music companies.

Facing sliding sales and rampant piracy in the battered sector, AOL Time Warner and Bertelsmann have been examining a merger of their recorded music divisions that would bring together artists ranging from pop queen Madonna to Latin rockers Santana, sources familiar with the situation said.

However, several sources cautioned the talks were just one of a number of discussions taking place as the world’s top five music companies scramble for a solution to the industry’s woes.

‘‘You have five music companies and more than 25 possibilities. Nevertheless I would expect to see at least one deal this year,’’ said one banker familiar with the situation.

Most of the world’s five music majors have been exploring mergers or outright sales in recent months, as the combination of cash-strapped parent companies and tumbling music sales put pressure on music companies to do something fast.

Both media giant AOL Time Warner -- itself formed through a merger in January 2001 -- and German media group Bertelsmann AG have made no bones about their need to shed assets to cut huge debt piles. However, both are seen to have bought some time by selling other assets.

Sources said AOL Time Warner is already in advanced talks with three potential suitors for its CD/DVD manufacturing business, which is expected to raise around $1.0 billion. The company has also fielded interest in its music publishing unit.

However, one source said the sale of recorded music was not foremost in AOL’s mind right now.

Warner Music declined to comment. AOL Time Warner was not immediately available to comment.

PRESSURE ON EMI

News of the latest talks cast gloom over Britain’s EMI Group, the world’s third-biggest music company, which has lately been in separate talks with both Bertelsmann and AOL.

EMI shares fell five percent on concerns it could be left out in the next round of mergers. However, by 1330 GMT its stock had recovered to trade 0.6 percent down at 125-3/4 pence, while AOL Time Warner shares were 0.3 percent down at $12.98.
‘‘A merger involving EMI would likely be a positive for the stock, but the merging of two competitors would leave EMI stranded,’’ Lehman Brothers said in a research note.

Initially reported in the Wall Street Journal, the AOL/Bertelsmann talks have involved top management, though the paper said key issues such as valuation and control remain outstanding. Bertelsmann declined to comment on the report.

‘‘Lots of talks are going on throughout the music industry but we do not comment on speculation,’’ said a spokesman.

Warner Music ranks number four in the world with artists including Linkin Park, while Bertelsmann’s BMG ranks five with a roster including the Elvis Presley catalog. A combination would rival industry giant Universal Music in the U.S. market.

Both AOL Time Warner and Bertelsmann separately came close to merging their music businesses with EMI three years ago, but were confounded by European regulators uncomfortable with the world’s five biggest music companies shrinking to four.

However, recent rulings have led some to believe that regulators could be more open to a deal among the big five now.

While rumors have focused on EMI, Warner and BMG, the world’s biggest music company Universal Music also recently held talks with Apple Computer Inc. But sources close to the groups say those talks have since cooled.