Warner Music CEO looks 'beyond iTunes' amid losses

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(AP) -- Digital download sales growth slowed further for Warner Music Group Corp. in its fiscal third quarter, prompting CEO Edgar Bronfman Jr. to say Thursday that the company was looking "beyond the iTunes model" to return to growth.

After the company reported a wider loss, Bronfman pointed to new "access models" based on monthly music subscription plans, and the entry of Google Inc. and others into the business to reverse a decade of declining CD sales.

"Digital growth ... has the opportunity to return to more robust growth rates as we see the introduction more broadly of access models and new business models beyond the iTunes model," Bronfman told analysts.

Revenue from digital sales of recorded music grew just 3.7 percent to $169 million. That's a slower pace than the 4.5 percent growth posted a year ago and 39 percent growth two years earlier.

Sales of downloads from Apple Inc.'s iTunes store are slowing as the market matures, especially in the United States. Late adopters of new gadgets such as the iPod and iPhone generally consume less content than early buyers.

The third-quarter gains in digital music sales were limited to markets outside the United States. Domestically, digital music sales fell 3 percent to $102 million. Digital music sales outside the U.S. grew 12 percent thanks mainly to the later introduction of iTunes and a smaller base.

Bronfman said device manufacturers such as Apple and Sony Corp. are jockeying for position with Internet giants like Google and Microsoft Corp. for dominance in the arena for wireless content. He said he expected that competition to help Warner's business as companies vie to develop business plans that use music to attract customers.

"We think content, and music specifically, is a critical enabler to those companies," he said.

Sales of physical CDs and vinyl records declined 25 percent to $350 million from $469 million, according to Warner's earnings release.

Online piracy and declining shelf space for CDs has hurt physical music sales industrywide. Warner also suffered from fewer big releases, as its top-seller, the soundtrack to the latest in the "Twilight" movie saga, compared poorly to prior-year releases such as Green Day's "21st Century Breakdown."

Warner's loss expanded in the three months to June 30 to $55 million, or 37 cents per share, from $37 million, or 25 cents per share, a year ago. Revenue dropped 16 percent to $652 million from $773 million.

Excluding a one-time charge for severance payments of 6 cents per share, the adjusted loss of 31 cents per share was better than the loss of 37 cents per share expected by analysts polled by Thomson Reuters. Revenue was worse than expected though, as analysts were looking for a decline to $678 million.

Warner continued to cut costs amid the downturn and its cash position grew to $400 million from $383 million at the end of March. Wedbush analyst Chris White praised the company's balance sheet management in tough times, but kept his "Neutral" rating and $5 price target on the shares.

"Although pressure on the recorded music industry continues unabated, Warner Music has the balance sheet strength to be one of the last men standing," he wrote in a research note.

Shares fell a penny to $4.68 in afternoon trading Thursday.