Is new Warner Music buyer a sucker or savant?

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Musicians Eric Clapton, right, and Michael Buble, left, CDs on display at Best Buy in Mountain View, Calif., Friday, May 6, 2011. Warner Music Group Corp., the world's third-largest recording company with such artists as Eric Clapton, Michael Buble and Paramore, is being sold for about $1.3 billion as a global decline in CD sales weighs down the industry. (AP Photo/Paul Sakuma)

(AP) -- Billionaire Len Blavatnik is spending $1.3 billion to buy Warner Music Group Corp. a decade into a steep decline in CD sales for the music industry.

That could make him a sucker in line for many more years of slashing staff, or a savant for buying the company at the start of a digital music revolution.

The deal values Warner Music at $3 billion including debt and cash -

even higher than the $2.6 billion it sold for in 2004 when the music industry was twice as big.

Warner Music was formed in 1929 as a way for Warner Bros. Pictures to acquire the copyrights of music for films. Warner Bros. Records was created in 1958 to distribute movie soundtracks and went on to discover such artists as Neil Young and Grateful Dead.

Today, the company is home to Faith Hill, Red Hot Chili Peppers, Linkin Park and Josh Groban.

A decade-long battle with online piracy has devastated the industry. Although Warner is believed to have coped with it better than other recording companies, some industry analysts praised Warner's sellers for cashing out.

Standard & Poor's equity analyst Tuna Amobi calls it "one of the best deals in the music space of all time" - at least for the sellers.

His opinion of the buyer wasn't so rosy.

"Any time you have deep-pocketed investors in some glamor business, anything can happen," Amobi said.

It's possible Blavatnik's purchase, through the Access Industries company he controls, could turn out to be wise.

He's essentially buying into an industry that can't get much worse. And he'll be able to reap benefits from cutting duplicate jobs if he successfully bids for Britain's EMI Group Ltd., which Citibank is expected to sell soon.

Meanwhile, digital innovations could be preparing the industry for a revival.

Recent sales figures suggest the deal is well timed.

Sales of albums in the United States increased 1.4 percent in the first four months of the year to 146 million, according to Nielsen SoundScan. Although U.S. sales of CDs fell by 9 percent during the same period, that's less than the 20 percent drop in 2010.

If the gains continue, it could mark the first time that album unit sales, helped by digital downloads, have grown since 2004.

The lift didn't just happen because of one-time factors such as a slew of top artists releasing albums all at once, according to Nielsen analytics vice president David Bakula. Not even discounts can account for the gains; track sales rose even though most new ones now sell for $1.29 apiece, up from 99 cents a couple years ago.

Still, there's little question that people are paying less for music and expecting more. Total U.S. sales were just $6.3 billion last year, down from $14.3 billion at the peak in 2000.

People are demanding better ways to store, play and share music, on any device and at any time, and they don't want to pay a lot for it, said Adam Klein, the chief executive of digital music club eMusic.

Consumers' "perception of value has changed and will continue to change," he said. "The industry has got to move quite quickly to keep up with that or piracy will remain rampant."

Amazon.com Inc. has a new service that enables people to share, review and listen to music without having to store it on personal devices at all. Google Inc. and Apple Inc. are believed to be working on something similar.

Digital music is partly being held back by the huge costs of running music labels now and the high royalties they must demand from innovators, Klein said. Cutting costs will help foster the technology that will entice more people to pay for music.

It's a painful process that will undoubtedly mean more layoffs. Warner now has just 3,700 employees, down from 5,100 in late 2003.

Blavatnik, 53, doesn't face such hurdles blindly. The Russian-born investor was part of the group led by Chief Executive Edgar Bronfman Jr. that bought the company from Time Warner Inc. in 2004. He served on its board until 2008 and still has about a 2 percent stake.

Those investors slashed payrolls and took other measures such as signing artists to all-encompassing rights deals, which gave Warner Music revenue from concerts and merchandise to cope with declines in recorded music. They took the company public a year later to help recoup their investment.

Bronfman and partners Thomas H. Lee and Bain Capital have agreed to vote their combined 56 percent stake in favor of the deal. It would pay shareholders $8.25 per share when it closes. That's expected to happen by September.

Investors have already gotten back their $1.05 billion investment, plus 30 percent more thanks to special dividends and management fees over the years. The sale means they've nearly doubled their money.

"We believe this transaction is an exceptional value-maximizing opportunity that serves the best interests of stockholders as well as the best interests of music fans, our recording artists and songwriters, and the wonderful people of this company," Bronfman said in a statement.

Blavatnik may need to acquire other companies to achieve bigger cost savings to make the business work. Many people believe his decision to keep Bronfman as CEO means that Blavatnik is eyeing a bid for EMI, which Bronfman has tried and failed to buy in the past.

Citibank is looking to sell EMI after seizing it from Guy Hands' Terra Firma private equity group in February.

Other groups that lost out on bidding for third-ranked Warner - including No. 2 music company Sony Corp. - are also looking for parts that may be discarded from this deal, should antitrust regulators require that or should Warner need to raise cash.

In one possible scenario, Warner's new owner would try to buy No. 4 EMI in order to reap the benefit of slashing staff at a combined company. It would then shed certain music labels or get rid of one of the publishing divisions to satisfy regulators.

Vivendi SA's Universal Music Group, ranked No. 1, is also looking to buy parts of Warner, EMI or both.

Easing worries about the sale is the fact that Blavatnik understands the digital business, said Fred Goodman, a contributing editor at Rolling Stone magazine and author of "Fortune's Fool: Edgar Bronfman Jr., Warner Music, and an Industry in Crisis." Blavatnik once licensed music recordings from Warner for an Internet and cellphone service he operated in Russia.

"Many of the people who were interested in buying Warner Music were not really interested in doing anything other than managing it down ... making the company smaller and smaller and taking profits out by shrinking," Goodman said. "I think Blavatnik's one of the few guys where you think that might not be the case."

Warner Music's stock rose 28 cents, or 3.5 percent, to close Friday at $8.18. It hit its 52-week high earlier in the day at $8.24, a penny short of the offer price.