Keynote Address to The Deal's Convergence 2.0 Symposium
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Thank you Richard.

Allow me to start off with a brief story about an industry ....the industry formerly known as the recorded music industry... It's a sad story, unfortunately. And you've all heard it before ... but it's one I think worth repeating... It's about the crisis we're facing: a menacing present and even gloomier future:

Amid momentous technological change, a catastrophic slump kicks in: annual double digit growth rates vanish, sales plummet, consumers get illegal copies for free, companies downsize, competition from other forms of entertainment skyrockets. Desperate executives seek help from technology companies and legislators. The press fuels a constant drumbeat of imminent demise, as the Washington Post reports: "The Recording Industry Faces the Music Slump."

Lemme tell you: stuff like that can really get to a guy. You even begin to wonder if you should get out of bed in the morning. But then, thank God, you start to remember certain things... like that Post story ... which came out in April... April 1980.... Nearly three decades ago. The last time the music industry was diagnosed as "terminal."

You're all familiar with the next chapter in the story... Reports of our death were greatly exaggerated. Recovery was truly remarkable. The compact disc came in, sales turned around, and, for the next decade and a half, even as the LP and cassette began to disappear, we had the most successful era in our history.

Now, here we are again. Similar issues. Same dire predictions. The papers asking the same questions. Back then, the solution turned out to be fairly simple: replace LPs and cassettes with a higher quality digital format.

Today there is no such simple answer.

We are in the midst of a transformation that is, without question, the most profound we have ever experienced. Almost every core operating principle in the recorded music business has been shaken or challenged. So, three and a half years ago, when we acquired Warner Music, skeptics invariably called us "crazy." So... what exactly was it that we lunatics saw?

Opportunity.

We saw that for a recorded music company to keep trading exclusively on albums and singles was crazy. An obsolete model that could not work long-term. To succeed, we had to transform ourselves—re-invent ourselves—into a music-based content company.

We saw potential in the core assets that were still intact, but badly neglected and in need of attention, vision and decisive action.

We saw all of that in 2004 and we're even more convinced of it today, even as the naysayers continue to pile on their certainty that the record business is once again terminal.

Of course, in at least one area, those skeptics have a point: the business of selling CDs is fading. That's definitely the bad news, but it’s news we’ve heard before: The LP faded, then the cassette. It’s only natural that the CD over time will also fade, having been in the market for 25 years. But the good news is that the rest of the music business—digital sales, publishing, touring, endorsements, sponsorships, merchandising, and artist management—is experiencing exciting growth. In 1980 no one could have foreseen the riches that lay ahead as a result of the introduction of the CD. I'm here to tell you that, once again, the reports of our final days are greatly exaggerated. The opportunities before us are even greater than those ushered in by the CD ...opportunities which, when properly cultivated, will build a foundation for sustained long-term growth.

What makes us so confident when everyone else sees only doomsday? It's that we see the opportunities that exist as a result of new technologies, not the problems created by them. Music is everywhere and more people are listening to more music today then ever before. Of course, some will say, "Well, isn't that exactly the industry's biggest problem? When music is everywhere, its value is diminished, isn't it?"

And I can also hear people asking: " 'Opportunities'? He’s crazy. With CD sales falling, did I just hear Bronfman say the word 'opportunities'?" Yes..., you did. And let me tell you: we see a whole slew of them that the re-invention of our company has helped make possible. I'd like to rattle off just four: Online; Mobile; International; and perhaps most fundamentally, the nature of the relationships we establish with our artists.

Now let me put a little meat on those bones:

The industry's U.S. digital download business has grown 46% so far this year and is now on track to exceed $1 billion annually by year-end. Not bad considering that in 2004 the download business was at roughly... let’s see… zero. The still nascent mobile music business—a business we're just beginning to tap—has been growing by double and triple digit rates and is now approaching $1 billion annually in the U.S. alone.

The truth is, in digital, Warner Music maintains the leadership position we've held from Day One, with digital now representing 15% of our worldwide sales and 22% of Recorded Music sales in the U.S. In the first half of this year, Warner Music is the only major music company that reported digital album share substantially above our physical album share.

Overseas, mobile is king and it's the download business that's the new kid on the block. So we're using our international experience to grow mobile in the U.S. And the reverse holds true for downloading, giving a potential boost to our overall revenue picture.

And for those of you who thought that all our talk about convergence of mobile and music was purely hype, well....Apple has already sold its one millionth iPhone... And Vodafone just launched a subscription music store that offers unlimited song selection while other carriers and handset makers are pouring in to fill what everyone now sees as a gaping chasm between consumer demand for online and mobile services and the market's supply of them. Our worlds are merging in front of our eyes.

And this will give rise to new digital and mobile formats that will offer the chance to employ—much more easily and with greater variety—windowed release strategies... an approach in which the recorded music industry has, for decades, sadly lagged far behind the film and television industries. And, along with other companies we're offering music with varying degrees of rights protection, with and without encryption, all in an effort to find an interoperable solution that works for consumers and content owners.

The growth in the sale of music on the Internet and via mobile devices has been awesome, and there is a lot more to come: in video content, ringtones and bundling: albums, tracks, concert tickets, video, merchandise, games…you name it.

Remember: The sale of music on the Internet and via mobile phones is still just beginning to be born, let alone anywhere close to maturity.

Our sights are also set globally, as they should be, with more than half of our revenue coming from international markets. While we're moving quickly to transform iconic recording artists into global brands, we are not simply exporting our Anglo-American superstars to countries around the world but also nourishing local artists and inventing new ways of doing business with them and finding new local partners. Every market in which we operate has its own demands and challenges. What works here may not be what works in Japan or Brazil or Germany. And there are vast swaths of humanity, from Russia to India to China, where we sell virtually nothing at all. Imagine our opportunity as we double or more our consumer base in the digital age. And that's what makes this time of transformation so much more challenging than the last one. From one market to the next, there are enormous differences in how music is consumed and distributed. These differences will only magnify over time, and that means we must solve the puzzle of how to deal with the peculiarities of every single one of those markets.

In Asia, for example, where piracy is rampant, we have an established track record of forming broad partnerships with artists which allow us to participate in and help grow their careers outside of the recorded music realm, giving us a chance to boost all aspects of our artists' careers and share in revenue streams from management, endorsements and sponsorship deals, as well as touring, merchandise, premium ticketing and fan clubs. In doing so, we're developing an effective hedge against the revenue we're losing to pirates as well as creating a better model for career development for our artists.

In South Korea we've partnered with the country's leading wireless carrier, a relationship that's already given us several blockbuster hits, including Baek Ji Young, a top-selling pop artist. When Young released her latest album in 2006, two-thirds of the revenue generated from the music came from digital products. For those who doubt the impact of convergence on our business, listen to this: when an artist, say, five or ten years ago, released a new album, we might have had four or five products to sell... the album and a few singles. Young had 416 separate and discrete digital SKUs in the marketplace, including full tracks, master tones, ring tones, ring back tones, streaming tracks, plus visual content, artwork and videos ... all of them generated by us, wildly expanding consumer choice on an absolutely unprecedented level. And all without the need for physical inventory.

But, of course, all of this starts with the recording artist and the music. Unless we keep discovering, signing, nurturing, developing and marketing new artists, all this bold talk of future growth and new opportunities is nothing but hot air. So let's look at how we're doing.

Every year, since we acquired Warner Music we have increased our U.S. market share and for the first half of this year, WMG has a 20% album share in the U.S., Warner's highest market share in 10 years. Further, Warner Bros. and Atlantic Records are currently ranked as the No.1 and No. 2 labels repectively in the U.S. based on year-to-date market share.

We're definitely proud of all that, but we're even prouder of how we've re-invented WMG.

I keep using that term. So, what does it mean to "re-invent" ourselves?

It means realigning our workforce toward the future. Our sales team has been recast and streamlined to better serve our independent retailers as well as to handle the smaller number of large national retail accounts that dominate the physical product landscape.

It means that it's no longer good enough to simply sign an artist to a record deal, hope to get the publishing rights on top of that, and then pump out an album every year or two until it's time to put out a "Greatest Hits."

It means re-inventing the consumer experience with music in the digital age—not just releasing the digital equivalent of the analog experience. This means releasing music with video, lyrics, behind the scenes footage, blogs and links to future events and opportunities to connect to the artist.

It means that if a deal doesn't pencil out in a way that meets the needs of artists within a framework of financial discipline we're more than likely to walk.

It means having both the record company and the artist working together with the same incentive to succeed.

Reinventing ourselves means taking some of the lessons we have learned in Asia and other markets and creating comprehensive and mutually beneficial partnership deals with artists, working not only to build our artists' record sales but also to expand their business in touring, licensing, merchandise, sponsorship and endorsement opportunities, and participating in those revenues as they grow. Based on the success we have had in Asia, we've been accelerating this strategy and over the last two years and have entered into broad partnerships with many of the new artists we have signed, in the U.S. and abroad. It also means communicating with fans continuously, offering them unique content packages including videos, singles, multimedia artwork, personalization and many other forms of content throughout the year.

And it means strengthening our leadership position in the independent world. Independent labels are often in a better position to cultivate young artists. And, then, when a more aggressive approach is appropriate, we're able to move an artist upstream into the major label group, giving us a reliable pipeline for finding and growing new talent above and beyond our own A&R efforts.

You see, contrary to popular belief, record companies still have immense value to offer, so we've entered into a series of transactions aimed at making us best-in-class in a number of new areas for us and our artists. We see value in being a first-mover, leading our industry into new businesses.

We recently joined forces with Chris Lighty's Violator Management and created our Brand Asset Group with a mission to secure sponsorship and other marketing deals for artists. Chris is the industry's top brand management executive who transformed 50 Cent into a cottage industry.

We also acquired a significant minority interest in Front Line Management, the country's largest and most successful artist management firm.

And I'm pleased to announce today that we have acquired a 70% stake in Taisuke, a leading artist services company in Japan, the world's second largest music market.

We've made a number of deals here and in Europe that enable us to produce and distribute our own original video content.

And we've launched a new DVD-based music product—"MVI" or music video interactive—that we hope will inject excitement into physical retail. MVI will be part of our strategy to create an ongoing, connected experience between artists and their audiences that will give us the ability to reward consumers with a deeper, broader, more compelling experience: an interactive platform ideally positioned for selling all these exciting new forms of music-based content that will only be available to registered fans who are connected to their favorite artists. That's just a quick overview of what we're crazy about. But let's be clear: we recognize the depths of the challenges we face. Pollyannas we're not. We're crazy, but we're not that crazy.

There is no question that the rapid erosion of CD sales requires us to act quickly and more aggressively to address the issue of transformation. And as part of that transformation, we must get government as well as the average citizen to understand how serious the theft of intellectual property is. In the US, about $16 billion of theft occurs every year in the form of everything from grand larceny to purse snatching. However, the theft of virtual or intellectual property in the form of music, movies, software pharmaceuticals etc., amounts to $250 billion a year. A quarter of a trillion dollars lost each year from the most important sector of our economy.

Yet within this backdrop there is much than we can and will do and at Warner Music we see it clearly: there will be more music in the world and there will be an ever-expanding demand for that music among our consumers. Our job is to continue finding and cultivating the artists who make that music and to offer platforms and products that will connect with them with their fans in fresh and exciting new ways.

To succeed will require a blend of long-term vision and immediate action. We've established our vision for the future and we've begun executing through groundbreaking partnerships, initiatives and products. Our business is poised to rebound because the demand for music is as strong as it’s ever been and our determination to meet that demand has never been greater. While it may take some time for the rise in all the new revenue streams I have mentioned to overtake the short term effect of the decline of the CD, there is no doubt in my mind that the mid to long term future for Warner Music is very bright indeed.

So, yes. as you can see.. we’re still crazy ... after all these years.

Thank you.

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