Live Nation could lose money on Madonna deal

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NASHVILLE (Billboard) - If Madonna leaves Warner Bros. for an all-encompassing $120 million deal with Live Nation -- as the Wall Street Journal reported this week -- the concert promoter will struggle to make money on the deal, according to a Billboard analysis of the numbers.

The 10-year deal reportedly includes: $50 million in cash and stock for the right to promote Madonna’s concert tours; a signing bonus of $17.5 million; and advances totaling $50 million-$60 million for three albums.

The deal is virtually unprecedented, likely driven by touring potential, but sources say it doesn't obligate her to tour. Last year, Madonna was second only to the Rolling Stones in gross touring dollars, taking in nearly $200 million at the worldwide box office and playing to more than 1.2 million people in just 60 shows.

Of course, gross is not net. A tour with high overhead like Madonna's might net only $50 million-$70 million on a $200 million gross, according to industry estimates. According to the Wall Street Journal, Madonna would keep 90% of touring revenue, 70% of merchandise revenue and 50% of licensing sales.

So, given these parameters, on a given tour cycle, Live Nation could theoretically be looking at $5 million-$7 million from ticket sales and maybe $6.5 million-$7 million from merchandising. Madonna has done three tours in the past 10 years. With three tours over the next 10 years, sans licensing and label revenue, Live Nation could earn an estimated $42 million; this is a conservative estimate that doesn't include potential ticketing, fan club and sponsorship revenue.

Things are dicier on the recorded-music side.

The 49-year-old pop singer sold about 20 million copies worldwide of her last three studio albums, according to sources. Her last album, "Confessions on a Dance Floor" (2005), sold 1.6 million units in the United States, according to Nielsen SoundScan, and sold 7 million units worldwide.

With 20 million albums sold -- and then, adding in new revenue streams of ringtones, subscriptions and whatever revenue comes down the pike from ad-supported sites -- a traditional record label could get into striking distance of the generous advance paid by Live Nation.

If Madonna maintains her recent level of sales, a traditional record label probably could make a blended profit of about $3 per record, yielding $60 million in pre-tax profits, after marketing, distribution and royalty payments -- not enough to match the advance. But Live Nation is not a record label, doesn't have a label infrastructure, and is gambling that Madonna can maintain the same level of sales.

If Live Nation licensed the album worldwide, Billboard estimates it could earn between $84.5 million-$98.5 million in revenue -- not enough to make a profit -- yielding a total revenue in the $126.5 million-$140.5 million range.

The tipping point for profitability could be Live Nation's ability to exploit Madonna's branding. Madonna's H&M fashion line, for example, is believed to have earned more than $20 million-plus in its first year. Live Nation could benefit substantially from future such deals.

The deal had not been confirmed by Friday evening, and Live Nation officials could be reached for comment.

http://www.reuters.com/article/musicNews/idUSN1325809620071013