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Meredith Returns to Its Roots

When Meredith's lanky CEO, Jack Rehm, walked up to the podium at a recent PaineWebber media conference, most Wall Street analysts headed for the exit. Big mistake.

Sure, Meredith's shares lost one third of their value in 1990 when write-offs put the company in the red to the tune of $1.43 a share. "In fiscal 1990, Meredith faced reality," Rehm told the few remaining attendees. "In many respects, we prepared for the future." And this is the key.

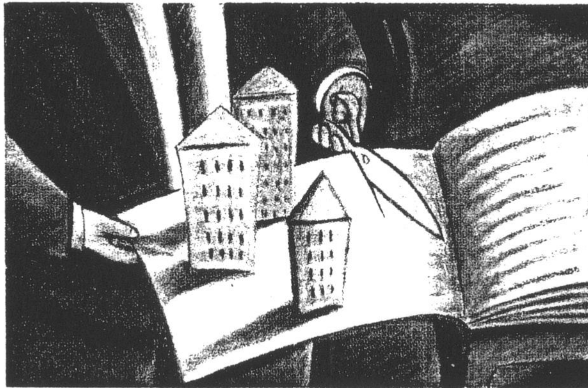
Rehm bailed out of losing markets. He has withdrawn from two real estate brokerage ventures, unloaded *Sail* magazine and a New York City television advertising rep firm, and sold the company's 50% stake in capital-intensive Meredith/Burda, a printing company joint venture. That leaves him with $250 million to pump back into Meredith's core businesses: magazine publishing (*Better Homes & Gardens*, *Ladies Home Journal* and *Midwest Living*) and television stations (in Syracuse, Kansas City and five other cities). Meredith can now buy another TV station or, better yet, another magazine. "Meredith's strength is getting magazines out to middle America," says Claude Carmichael, media analyst at New York City-based W.R. Lazard & Co., a money management firm.

For good measure, Meredith also took a $23 million, or $1.23 per share, hit to clear out the inventory of syndicated programming owned by its seven television stations. And, in October, Rehm began cutting costs, a key factor in improving Meredith's margins, now among the industry's worst. The company's broadcasting operating margins should improve to the mid-20% range and its margins on magazines should almost double to 10%-plus. Earnings should be in the black again and come in around $1.75 per share at the end of its fiscal (June) 1991 year, but analysts think the net could be even better if Rehm keeps improving margins.

That's because Meredith's revenue base should stay relatively strong amid the ad slump. The company has boosted ad rates by 6% to 9% for its publications and is increasing newsstand prices by 25¢ to 50¢. And advertisers gravitate to big-name magazines when times get tough.

Given these turnaround moves, some media analysts find Meredith's stock cheap. W.R. Lazard's Carmichael says Meredith has sales of $45 per share, but it sells for slightly more than half that. "It's very unusual for a media company to trade at a fraction of revenue like Meredith does," Carmichael says. "And they have no long-term debt."

Dominick & Dominick's Peter Russ thinks Meredith is especially cheap when valued on pretax cash flow after capital expenditures, which should average $7 per share annually over the next five years. The company is selling for just over three times surplus cash, less than half what the rest of his media universe is selling for.



—Anthony Baldo
NYSE (MDP) 23¾, div. 64¢, yld. 2.7%.

Tandem Syncing Silicon Valley Spending

Revenues have never been a problem at Tandem Computers—but neither has spending. Sales for the Cupertino, Cal.-based manufacturer of fail-safe computer systems have ticked upward in every quarter, and over the past five years, have grown at a compounded rate of 24% a year to $1.87 billion. On the other hand, net income has fallen as many times as it has risen in the past 12 quarters. Operating expenses accounted for 54% of revenues last year, about 10 percentage points above the level of most high-tech companies.

Wall Street reacted to Tandem's free-spending ways this fall by hammering the stock to a four-year low of $9. It currently trades for just 11¼, or less than one third of its five-year high.

Now Tandem is tightening the screws on expenses. It has instituted a hiring freeze, halted salary hikes until the summer, eliminated incentive programs and stopped giving cash in lieu of vacation time. Management, led by founder and CEO Jim Trebig, is forgoing bonuses.

Chief Financial Officer David Rynne agees that costs are "too high." Tandem built a corporate structure for high growth that failed to materialize, he explains. Still, Tandem's product revenues are growing at almost three times the industry average, driven by a range of excellent "never say die" computers that can be run as anchors for large networks. In addition, says Rynne, Tandem has made heavy investments in new products for networking and in its fast new Cyclone mainframe. The spending has not been wasted, he maintains, pointing out that revenues in the company's other nonfinancial business—telecommunications, distribution, transportation and manufacturing—grew a handsome 50%-plus this year.

Rynne maintains that no one is pushing panic buttons yet. "A general layoff would be a very last resort," he says.

Instead, Tandem will concentrate on keeping expenses flat in 1991. To some extent, the controls have already taken hold. Operating costs grew just 19.9% in 1990, substantially below the 26.3% five-year rate, and sharply below the 32.3% rate in 1988.

Joe Payne of Alex. Brown & Sons says that the bad news is probably already in the stock, which currently trades at 9.6 times his fiscal 1991 earnings estimate of $1.17 a share, lower than other analysts' estimates. He adds: "Tandem is one of the computer companies best positioned to grab share in the exploding market for data-base automation." He's talking about the market for distributed data processing, in which a company's data resides in a network of computers.

—Jagannath Dubashi
NYSE (TDM), 11¼, no div.