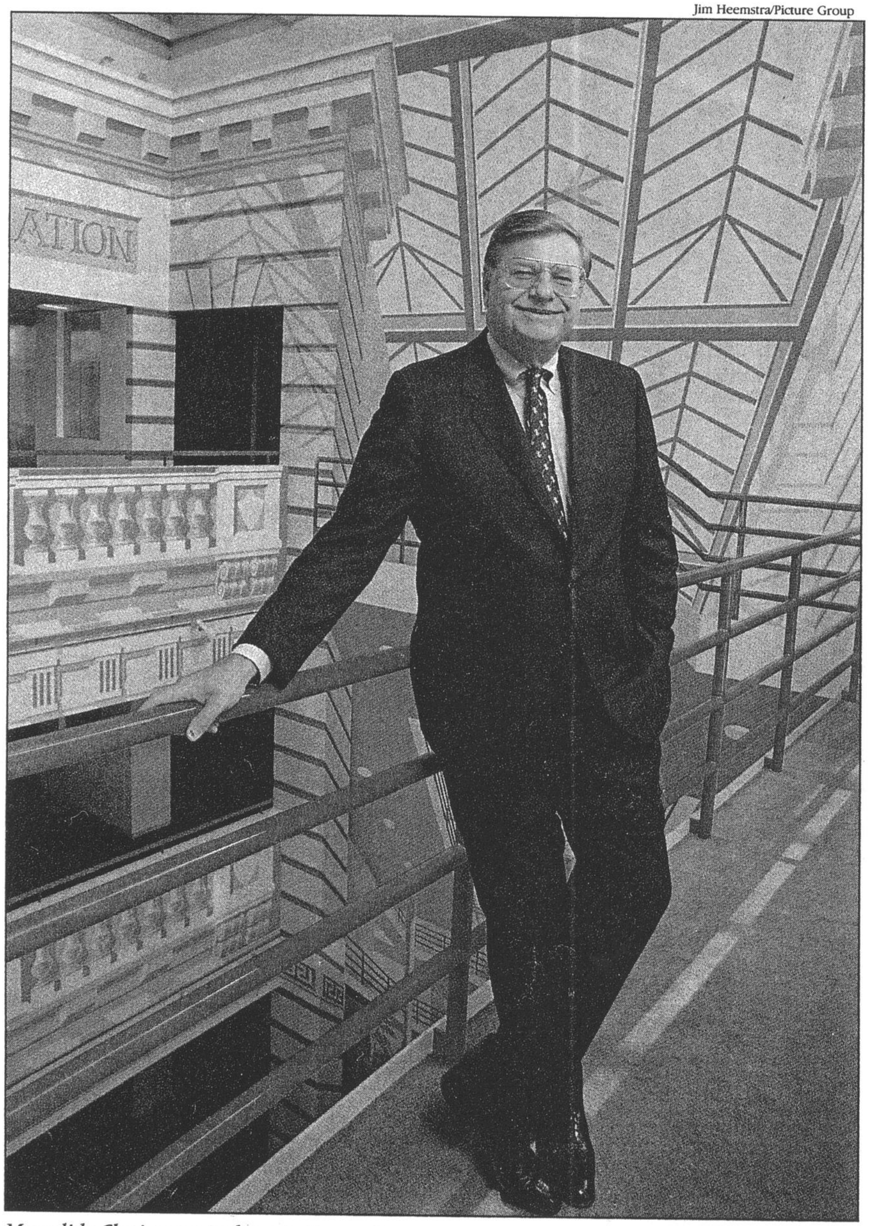
*Not for Meredith Corp. the glamour of Manhattan. The Iowa-based publisher of Better Homes & Gardens and Ladies' Home Journal is cornball and proud of it.*

# "Hudson River myopia"

Jim Heemstra/Picture Group



*Meredith Chairman Robert A. Burnett*
**"We're operators, not dealmakers."**

**By Rick Reiff**

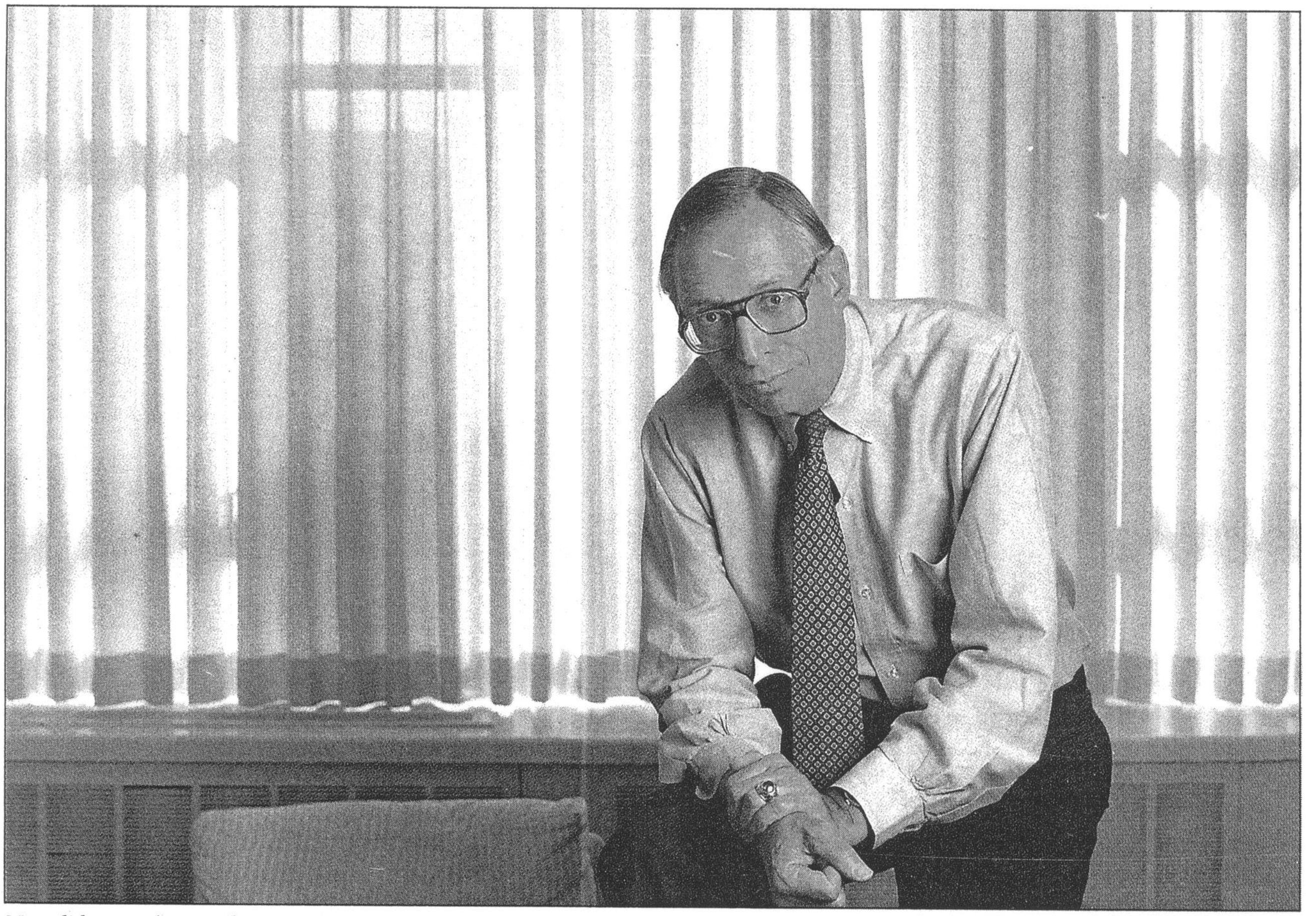
"IT'S LIKE FLAG, motherhood and country. Cornball to some, but to us, that's what it's all about," says Robert A. Burnett, chairman and chief executive officer of Meredith Corp. Burnett is describing the formula that animates the publisher of *Better Homes & Gardens, Ladies' Home Journal* and a slew of other family-oriented magazines.

Meredith is small as media conglomerates go. Its revenues for the fiscal year ending June 30 were under $680 million. Publishing accounts for 70% of revenue, broadcasting 16%, and real estate 11%. Meredith is also big in printing through its 50% ownership in Meredith/Burda, which grossed $434 million last year from plants in Newton, N.C., Lynchburg, Va., Casa Grande, Ariz. and Des Moines, Iowa.

How's Meredith doing with its admittedly cornball approach? Not great. Like most publishing companies these days, it is feeling the pressure of competition on its profit margins. Its operating margin has contracted from 14% to 9% in three years; earnings, before special items, have declined from $2.26 a share to $1.91. Meredith stock, recently around 31, trades at a mere 60% premium to book value. We say "mere" because magazine outfits like McGraw-Hill Inc. and Time Inc. currently sell at higher than 200% premiums over book.

One reason for the gap is that Meredith seems takeover- and breakup-proof. Analyst Claude R. Carmichael of the investment banking firm WR Lazard & Laidlaw figures Meredith would bring $50 to $70 a share in an allout bidding war. Burnett doesn't doubt the quick profits to be made in a breakup but insists that shareholders will be better off in the long run if the company is kept intact. Investment bankers regularly offer to restructure the company in one way or another, Burnett says. He tells them: Thanks, but no thanks.

"We're operators, not dealmakers," says Burnett, 61, who plans to hand the chief executive title over to company President Jack D. Rehm, 56, on Feb. 1. Rehm says he intends to stay the course laid out by Burnett. These two can speak with confidence because they have the backing of the investors who matter most—heirs of company founder E.T. Meredith, who no longer run the company but are represented with two seats on the board of directors. The family and other insiders own 23% of Meredith's



*Meredith President Jack D. Rehm* Jodi Buren

***Feeling the pressure of competition and higher costs on his profit margins.***

stock, but control 47% of the votes, thanks to a two-tiered voting structure. This setup has enabled the Meredith heirs to sell some shares to diversify their wealth, while retaining enough control to frustrate a raider.

Says director E.T. Meredith III, 55, who was titular chairman until he relinquished the title to Burnett last February: "I have no interest in bailing out."

Meredith's managers have no interest in bailing out of America's heartland, either. A key reason Meredith hasn't moved its headquarters from Des Moines to Manhattan, where it keeps 500 of its 3,800 employees, is a belief that the company reads Middle American values a lot better from Iowa. "We don't have Hudson River myopia," asserts *Better Homes* editor David Jordan, himself an Iowan.

He has an excellent point. From where it sits in the Midwest, Meredith enjoys a rare franchise—66-year-old *Better Homes & Gardens*. The monthly magazine, with 8.1 million paid subscribers and holding steady, is outsold only by *TV Guide*, *Modern Maturity*, *Reader's Digest* and *National Geographic*. Advertisers love the way its articles encourage people to do things in their gardens and kitchens and living rooms that increase the sales of their products. And the readers clearly love it, too. Not many magazines can maintain the high circulation *BH&G* has without going broke in the process.

Picking up *Ladies' Home Journal* and its 5 million readers for $92 million in 1986 has enabled Meredith to entice advertisers through group rates—a way of giving reduced rates to advertisers who use more than one of your publications, and of doing so without breaking the official rate card. Ford and General Motors, for example, are buying more advertising space in Meredith magazines.

The bottom line: 11% increases in advertising revenue for both *Better Homes* and *Ladies' Home* in the first nine months of this year, outpacing the magazine industry and far ahead of the other major women's service magazines. Smaller Meredith publications like *Midwest Living*, *Country Home* and *WOOD* are growing revenue even faster. *Metropolitan Home* is a slick, oversize Meredith magazine aimed at upwardly mobile urbanites who aren't ready for *Architectural Digest*. Its ad revenues will be up 35% this year, to $29 million.

At the same time, *Better Homes & Gardens New Cook Book* has become a staple of American kitchens and one of the four bestsellers of all time, with 25.5 million hardcover copies sold to date. The ten-year-old *Better Homes & Gardens* residential real estate network has grown to 570 firms. To get a franchise, real estate brokers pay an initiation fee and a slice of their sales commissions to Meredith for use of the *Better Homes* name and advertising and marketing support.

The future? Meredith, with an almost debt-free balance sheet, remains on the prowl. It plans to spend as much as $300 million to buy more magazines and add to its group of seven TV stations. Steep increases in postage and paper prices continue to take a toll—earnings for the first fiscal quarter ending Sept. 30 were down 2 cents a share from a year ago, despite a 32% rise in sales. But with higher subscription and ad rates kicking in, analysts expect Meredith earnings to rise 10% for the full fiscal year.

Even if Meredith weren't virtually takeover-proof, prospective raiders would clearly have to ask themselves: Could I do better than that? ■