

Huffy Corporation

NYSE: HUF - \$6.02

www.huffy.com

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4Q and FY02 Results

20%+ EPS Growth Expected from Expanded Product Lines

Current Data		EPS	P/E
Fiscal Year End	Dec	2002	\$ (0.12) -52.3
Current Price	\$ 6.02	2003E	\$ 0.55 11.0
52-Week Range	8.95-5.48	2004E	\$ 0.68 8.9
Shares Out (Mill)	14.8	Valuation	
Ave Volume LTM	30,443	Current	LTM
Market Cap. (Mill)	\$ 89.02	P/E (Next FY)	10.96 19-14
LTD/Total Capital	0.0%	P/B	1.23 1.5-1.1
Institutional Hldngs	32.0%	Price/Sales	0.19 0.25-0.19
Insider Holdings	9.3%	Operating Data	
Book Value	\$ 4.90	Current	LTM
10Yr Bond	3.65%	Sales Growth	48.2% 38.3%
		Operating Margin	0.6% 0.4%
		Net Inc. Growth	113.9% 67.0%

Source: Baseline except for EPS estimates, researchstock.com

Source: Baseline

Key Investment Points

- Core EPS increased to \$0.38 from a net loss per share of \$0.82.
- Sales growth and margin expansion resulted from acquisitions.
- GenX was acquired 9/19/02 and was accretive to earnings.
- Financial Condition remains strong.
- Our 12-18 month target price is \$8.00

Company Description

Huffy Corporation ("HUF") designs and manufactures sport products and provides services for retailers. The Company's Consumer Products segment sells bicycles, basketball backboards, backboard support systems, goals and related products through its operating divisions Huffy Bicycle Company and Huffy Sports Company. GenX, the company's wholly-owned subsidiary, sells golf, hockey, skis, snowboards, and in-line skates as well as other merchandising services. The Company's Huffy Service First unit provides retailers with in-store and in-home assembly and repair and in-store display services for a variety of products. HUF acquired McCalla on 3/27/02 and Gen-X on 9/19/02. The addition of McCalla is expected to add \$15-\$20 million in sales in 2002 while the acquisition of Gen-X could add sales of \$150 million in 2003.

Note: Please read the important disclosures at the end of this report.

The Bottom Line

We remain positive about HUF's long term potential because of the benefits expected from the GenX acquisition and services business. GenX expanded HUF's product line (into golf, hockey, snowboards, skis, and in-line skates), is expected to materially improve profit margins, and expanded distribution channels. The strength of HUF's core earnings is difficult to discern due to the charges that occurred in 2001 and 2002. However, they did "clear the decks" so management could focus on future growth.

Recent Stock Price Decline

The stocks recent fall appears to be an overreaction to an article that appeared in the Wall Street Journal and might be a good entry point for long-term investors. We think the fundamentals remain intact and a technical analysis indicates that this is a good buy point.

HUF shares have fallen about 7% since February 25th, possibly as the result of an article that appeared in the Wall Street Journal. The article discussed the merger of Sport's Authority and Gart Sports Co. and how it could result in pricing pressure on suppliers. HUF was mentioned as a supplier that might be pressured. While the merger may have some impact, there are so many other forces weighing down on the sector that the merger may not add that much additional pressure. And we feel that we have reflected all these pressures in our model.

A technical analysis indicates that this could be a good "buy" point. The stock has bounced off the \$5.50 level twice in the last two years and other technical measures also indicate that the stock is nearing the bottom. The stock could run into some resistance at \$7.00 and \$8.00.

4Q02 Results

Results were in line with our forecast as continuing operations posted EPS of \$0.07 versus a loss of \$0.71 in 4Q01. The GAAP loss per share (which included a \$5.97 million charge for the WIS litigation) was \$0.29. Our GAAP forecast was for a net loss of \$0.28. Sales increased 48% as the result of acquisitions (McCalla in 3Q01 and GenX in late 3Q02) and strength in basketball backboards and inflatable balls. Operating margins improved to 0.6% from a negative 7.9% as the result of top line growth, improved gross margin (mainly due to GenX) that offset higher pension and insurance costs. Operating results for the 4Q02 are compared to 4Q01 in Table 1, below.

Table 1: Quarter Comparison			
(\$ Million, except per share)	12/01	12/02	Change
Revenues	85.09	126.07	48%
Cost of Goods Sold	76.53	104.71	37%
Gross Profit	8.56	21.36	150%
SG&A	15.33	20.66	35%
Operating Income	-6.76	0.70	-110%
Interest Expense/ (Inc.)	0.37	0.78	111%
Other Expenses/ (Inc.)	0.19	0.25	-34%
PreTax Income	-11.03	-0.33	97%
Income Taxes (benefit)	-3.66	-1.35	-63%
Net Income-Cont. Ops	-7.37	1.02	114%
Discont. Ops.	0.00	-5.25	na
Net Income	-7.37	-4.22	43%
EPS-Diluted	\$ (0.71)	\$ (0.29)	60%
FAS 142 equivalent	\$ (0.69)	\$ (0.29)	59%
Diluted Shares	10.383	14.788	42%
Effective Tax Rate	33%	412%	
Margin Analysis			
Gross	10.1%	16.9%	68%
EBITDA	-6.9%	1.2%	92%
Operating	-7.9%	0.6%	91%
Net-Continuing operations	-8.7%	0.8%	91%
Other Data			
Cash per share	\$ 2.56	\$ 0.37	-86%
Days Sales Outstanding	61	51	-17%
Inventory Turnover	9	13	41%

2002 Results

Pro forma EPS from continuing operations was \$0.38 versus a net loss per share of \$0.82 in 2001. The 2001 results were adversely impacted by charges for a plant closure and cost reductions (\$3.9 million non-cash or \$0.24 per share) and K-mart (\$4.6 million, or \$0.30 per share). Net of these charges for both years, we estimate the core operating EPS for 2001 was \$0.28. Here is a summary of the key factors:

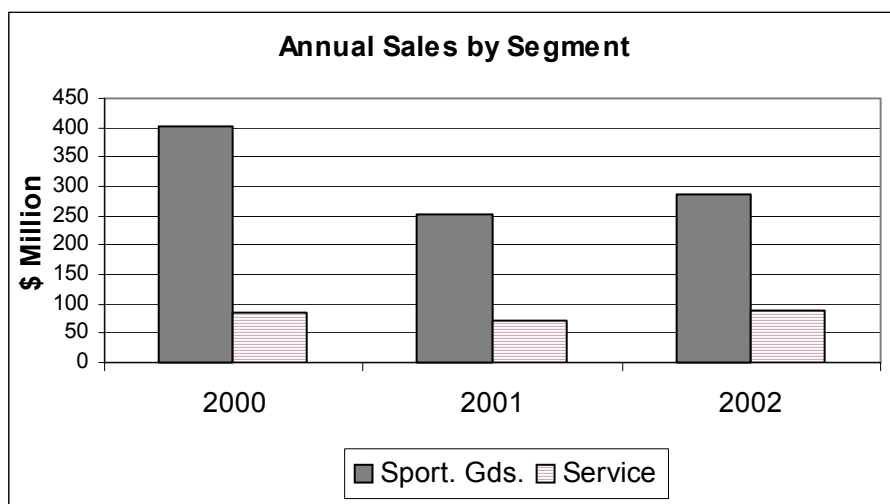
- Sales growth of almost 13% was due to acquisitions (noted above), basketball backboards and inflatable balls.
- Operating margins improved to 2.3% from a negative 3.4% as top line growth and gross margin expansion (as well as an easy comparison with last year) offset increased SG&A costs. The gross margin improved SG&A expenses rose as the result of acquisitions and increased pension costs (resulting from the bear market).
- Interest expense increased as the result of debt used to finance acquisitions and increased working capital needs.

For the first time, HUF provided sales and profit data for their two main segments, sporting goods and service (shown in Table 2 and Fig 1). Sporting goods, which comprises the bulk of HUF's business, bounced back in 2002 thanks to the GenX acquisition and an easy comparison with 2001 (recession, restructurings, and K-Mart). The scooter fad boosted sales and earnings in 2000.

Results from merchandise services have been sporadic due to divestitures and acquisitions. HUF sold Washington Inventory Services ("WIS") in 2000, which resulted in the decline in sales, but improved margins in 2001. 2002 results were boosted by the acquisition of McCalla (3Q01), but margins were hurt by start-up costs associated with a major initiative with Home Depot (NYSE:HD).

Table 2: Segment Sales and Margins			
Sport Goods	2000	2001	2002
Sales	\$ 403.7	\$ 252.1	\$ 285.8
Gross Marg.	17.5%	11.2%	20.0%
Op Profit	\$ 34.89	\$ (0.67)	\$ 19.52
Op Margin	8.6%	-0.3%	6.8%
Service			
Sales	\$ 84.50	\$ 73.03	\$ 87.11
Gross Marg.	12.7%	14.9%	10.6%
Op Profit	\$ 2.60	\$ 3.00	\$ (1.68)
Op Margin	3.1%	4.1%	-1.9%

Fig 1



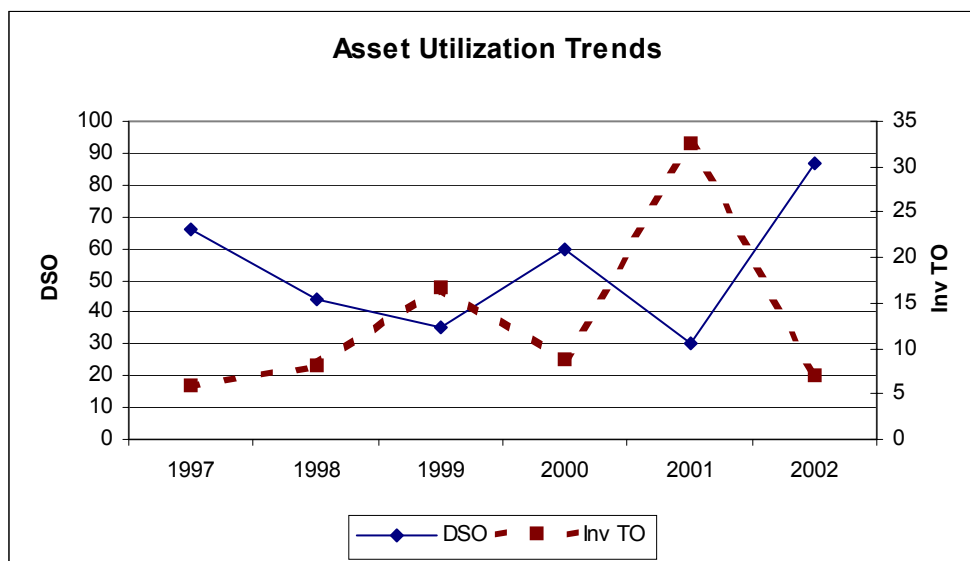
Financial Condition

Although HUF's financial condition significantly changed with the GenX acquisition, the Company's financial condition is good. Debt increased to \$59.6 million in 4Q02 from \$52.3 in 3Q02 as the slow economy impacted sales and as the GenX cash cycle altered HUF's traditional cash flows. However, despite the increased debt, times interest earned was a comfortable 6.2x.

	1997	1998	1999	2000	2001	2002
Debt/Assets	26.9%	40.7%	38.4%	9.8%	0.0%	21.1%
Times Interest	49.7	2.1	-26.6	3.8	-3.8	6.2

The impact of the GenX acquisition on asset utilization ratios is exaggerated in 2002 because the balance sheet reflects the snapshot of the balance sheet at yearend while the revenue and cost of goods sold effect is for a scant 3 months and 11 days (see Fig 2). In 2003 we expect these ratios to be lower than 2002, but above HUF's historical levels.

Fig 2



Peer Group Comparison

We expanded HUF's peer group to include sporting good companies with similar products. While the table below indicates that HUF performed relatively well in a difficult environment, the data is skewed due to the impact of acquisitions and charges on HUF as well as others in the group.

(\$Million)	Sales		Margins			% Change		Net Debt/ EBITDA
	\$	Growth	Gross	EBITDA	Net	EPS		
HUF	\$ 372.9	13%	19%	2.9%	1.2%	\$0.39	244%	1871.1%
Leisure Industry	\$ 619.6	10%	38%	3.3%	1.2%	\$0.78	49%	588.8%
Golf	\$ 287.4	-14%	36%	13%	-56%	\$ 0.09	22%	33%
Peer group	\$ 276.1	-5%	33%	9%	-19%	\$ 0.39	66%	441%
Peer Group								
ADGO	\$ 33.7	-35.0%	40%	na	-32.3%	(\$0.45)	32%	-
ALDA	\$ 37.5	-5.0%	13%	4.6%	-143.0%	(\$0.38)	10%	-
ELY	\$ 791.1	-3.0%	55%	22.2%	8.5%	\$1.11	25%	33.0%
VFLX	\$ 49.3	1.0%	18%	1.9%	0.4%	\$0.05	142%	-
ESCA	\$ 155.5	4.0%	32%	13.9%	7.7%	\$1.70	-1%	301.9%
HED	\$ 387.5	-1.0%	45%	na	-0.3%	(\$0.08)	-133%	751.0%
KTO	\$ 583.7	-2.0%	32%	8.1%	1.5%	\$0.70	218%	467.0%
RAWL	\$ 170.2	0.0%	29%	5.6%	2.0%	\$0.43	231%	650.5%

Source: Baseline

Outlook

We reduced our 2002 EPS forecast to \$0.55 from \$0.83 due mainly to lower sales and cash flow expectations. Our initial 2004 EPS forecast is for \$0.68

. Our key assumptions are as follows:

- GAAP revenues are expected to grow 28% due to the timing of the GenX acquisition (late in 2001). Our pro-forma assumption is that core growth rate of the combined entities will be 2.9% in 2003 and 2.5% in 2004 due to continued economic weakness and low consumer confidence assumptions.
- The gross margin will range between 21.6% and 12.4% (2003 and 2004, respectively), higher than HUF's historical range because of the higher margins on GenX products.
- SG&A expenses increase due to higher pension and health care costs and as HUF increases marketing efforts (17.0-17.7% versus a historic range of 11.0%-15.5%).
- Interest expense increased due to the addition of GenX-related debt. We assumed a 7-8% interest rate. Our previous forecast had assumed that this debt would be repaid by early 2004, but the WIS settlement and weak economy have caused us to be more conservative.

Our annual forecast is outlined in Table 5 and our quarterly expectations for 2003 are shown in Table 6.

Table 5: Operating Forecast								
(\$ Million, except per share)	1997	1998	1999	2000	2001	2002e	2003e	2004e
Revenues	481.5	584.2	422.9	488.2	331.1	372.9	479.9	489.5
Cost of Goods Sold	407.5	392.2	386.1	406.8	291.2	306.5	377.9	385.3
Gross Profit	74.0	76.2	36.7	81.3	40.0	66.3	102.0	104.3
SG&A	61.8	59.7	56.2	53.8	47.6	57.9	85.0	85.0
Plant Reconfig	0.0	21.3	38.6	0.7	3.7	0.0	0.0	0.0
Operating Income	12.2	-4.9	-58.0	26.9	-11.4	8.5	17.0	19.3
Int Expense-Net (Inc)	0.5	2.5	1.8	8.6	1.8	2.0	4.4	3.6
Non-recurring						0		
Other Expenses/(inc.)	1.4	0.0	0.3	1.3	0.3	1.6	0.5	0.5
PreTax Income	10.3	-7.4	-60.1	17.1	-12.8	5.2	12.3	15.4
Income Taxes	2.7	-2.9	-20.8	6.4	-4.4	0.6	4.2	5.2
Discont. Ops	1.4	2.3	6.1	24.3	0.0	-6.0	0.0	0.0
Net Income	9.0	-2.2	-33.3	35.0	-8.4	-1.4	8.1	10.1
EPS-Diluted (as reported)	\$ 0.69	\$ (0.18)	\$ (3.13)	\$ 3.39	\$ (0.82)	\$ (0.03)	\$ 0.55	\$ 0.68
- FAS 142 equivalent				\$ 3.46	\$ (0.75)	\$ (0.03)	\$ 0.55	\$ 0.68
Diluted Shares	13.1	12.3	10.6	10.3	10.3	12.0	14.8	15.0
Effective Tax Rate	26%	39%	35%	38%	34%	11%	34%	34%
Boldface data are forecasts.								
Growth Rates								
Sales	-16.9%	21.3%	-27.6%	15.4%	-32.2%	12.6%	28.7%	2.0%
Net Income	9.6%	-124.2%	-1438%	205.1%	-124.0%	83.6%	689.5%	24.9%
EPS- FAS 142 equivalent					-121.7%	96.0%		
Margin Analysis								
Gross	15.4%	13.0%	8.7%	16.7%	12.1%	17.8%	21.3%	21.3%
SGA/Sales	12.8%	10.2%	13.3%	11.0%	14.4%	15.5%	17.7%	17.4%
Operating	2.5%	-0.8%	-13.7%	5.5%	-3.4%	2.3%	3.5%	3.9%
Net	1.9%	-0.4%	-7.9%	7.2%	-2.5%	-0.4%	1.7%	2.1%

Table 6: Quarterly Data (per GAAP)					
(\$Mill except EPS)	1Q	2Q	3Q	4Q	FY
2000 Sales	100.1	122.0	123.9	142.2	488.2
EPS	(\$0.11)	\$0.06	\$0.47	\$2.54	\$ 3.39
2001 Sales	81.2	86.9	77.9	85.1	331.1
EPS	\$0.10	\$0.07	(\$0.27)	(\$0.71)	(\$0.82)
2002 Sales	70.4	93.4	83.0	126.1	372.9
EPS	\$0.06	\$0.12	\$0.08	(\$0.29)	(\$0.03)
Growth	-38.7%	62.4%	128.7%	59.8%	96.3%
2003 Sales	102.00	131.59	113.01	133.35	489.55
EPS	\$ (0.09)	\$ 0.24	\$ 0.12	\$ 0.28	\$ 0.55
Growth	-77.5%	-61.5%	91.0%	53.1%	43.0%

Valuation

We reduced our 12-18 month target price to \$8.00 from our previous target of \$9.50 based upon the methodology outlined in Table 7. Part of the decline is due to our revised forecast, but the main factor is the uncertainty regarding the economy and consumer spending. If HUF does meet our earnings estimates and there is an improvement in the markets and the economy, we would be inclined to raise our target price.

		Multiples		2003		Target	Mult.	2004		Target
		LTM Range	Current*	Forecast	Estimate	Range		F'cast	Est.	Range
Price/Book	High	1.4	1.2	1.4	\$ 7.30	\$ 10.22	1.4	\$ 7.98	\$ 11.17	
	Low	0.8		1.0		\$ 7.30	1.0		\$ 7.98	
Price/Sales	High	0.29	0.24	0.30	\$ 32.46	\$ 9.74	0.30	\$ 32.66	\$ 9.80	
	Low	0.16		0.16		\$ 5.19	0.16		\$ 5.23	
P/E*	High	-8.7	8.6	15.0	\$ 0.55	\$ 8.24	15.0	\$ 0.68	\$ 10.15	
	Low	-13.1		2.0		\$ 1.10	2.0		\$ 1.35	
* Current P/E is based on 2003 EPS forecast				Average	High	\$ 9.40	Average	High	\$ 10.38	
					Low	\$ 4.53		Low	\$ 4.85	
				Average		\$ 6.97	Average		\$ 7.61	

The assumed valuation multiples are based upon historic ranges as well as peer group comparisons. A summary of peer group valuation metrics are show in Table 8.

		P/E		Price to			Sales/ Share	Ent Val/ EBITDA
		2002	2003	Book	CF	Sales		
HUF	\$6.02	15.4	10.9	1.2	9.4	0.25	\$24.12	11.8
Leisure Industry	\$11.97	6.18	1.39	2.1	7.8	0.71	\$32.15	6.4
Golf	\$6.17	6.17	-	2.2	5.5	0.59	\$23.88	6.2
Peer group	\$6.30	0.7	8.9	0.9	8.9	0.4	\$ 14.68	5.5
Peer Group								
ADGO	\$0.34	-	-	0.3	-	0.2	\$ 1.50	-
ALDA	\$1.51	-	-	0.3	3.9	0.2	\$ 7.58	3
ELY	\$11.09	0.9	10.3	1.3	6.9	1.1	\$ 10.41	4.2
VFLX	\$3.75	-	-	0.6	20.8	0.4	\$ 10.71	2.7
ESCA	\$14.20	-	-	2.2	6.3	0.6	\$ 23.88	6.2
HED	\$1.62	0.1	-	0.3	5.1	0.2	\$ 9.73	-
KTO	\$9.00	1.0	7.4	0.7	5.6	0.3	\$ 32.54	5.3
RAWL	\$8.86	0.9	-	1.7	13.7	0.4	\$ 21.05	11.6

Source: Baseline

Risk Considerations

In addition to normal investment risk, investors need to consider the following when evaluating an investment in the shares of this stock:

The shares are thinly traded and could experience significant volatility.

The Company is not widely followed by Wall Street analysts. As a consequence, any improvement in operations may not be reflected in the share price as quickly as it might if the Company was widely followed.

The EPA issue regarding groundwater contamination at a former HUF site appears to have been resolved, with the superfund settlement which was announced on May 10, 2002. The Company has reserved the estimated amount needed (\$6.93 million), and the costs will have no impact on earnings. The Company continues to seek contribution from other non-signatory potentially responsible parties, although no payback of funds is included in any of our estimates.

The introduction of Schwinn bicycles into the mass marketing retail segment is expected to create strong competition with HUF not only for sales but also for floor space at various retailers. 2002 floor space allocations have already been decided, but there is risk in this area in 2003.

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