

January 28, 2002

Huffy Corporation

NYSE: HUF - \$6.10

www.huffy.com

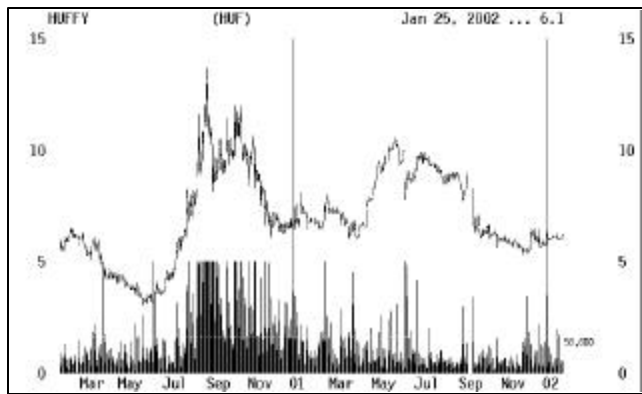
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More 4Q01 Guidance

Estimates Revised to Reflect Kmart Loss

Current Data		EPS		P/E
Fiscal Year End	Dec	2000	\$ 1.03	5.9
Current Price	\$ 6.10	2001E	\$ (0.53)	-11.5
52-Week Range	11-5	2002E	\$ 0.42	14.4
Shares Out (Mill)	10.5	Valuation		LTM
Ave Volume LTM	33,568	P/E (Next FY)	-11.46	13-11
Market Cap. (Mill)	\$ 64.05	P/B	0.84	0.9-0.8
LTD/Total Capital	0.0%	Price/Sales	0.16	0.17-0.16
Institutional Holdings	41.0%	Operating Data		2Q01
Insider Holdings	9.3%	Sales Growth	-37.1%	-14.3%
Book Value	\$ 7.28	Operating Margin	-4.5%	2.6%
10Yr Bond	5.07%	Net Inc. Growth	157.5%	174.7%

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

Key Investment Points

- 4Q01 loss per share from continuing operations to be between \$0.17-\$0.21, in line with our forecast.
- Kmart exposure will increase 2001 net loss per share by \$0.26.
- Company notes 4Q01 bicycle and backboard sales were stronger than expected.
- 2002 EPS forecast increased to reflect expectations of Lowes business and no borrowings in 2002.
- 12-18 month target price raised to \$8.80

Company Description

Huffy Corporation ("HUF") designs and manufactures sport products and provides services for retailers. The Company's Consumer Products segment makes bicycles, basketball backboards, backboard support systems, goals and related products through its wholly-owned subsidiaries: Huffy Bicycle Company and Huffy Sports Company. 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.

The Bottom Line

We revised our 2001(lowered) and 2002 (raised) EPS forecasts based upon the Company's recent release. Management's announcement yesterday indicates that 4Q01 will be relatively in-line with our forecast, pre-Kmart. HUF's exposure to Kmart is expected to cost another \$0.26 per share in 4Q01. We now expect HUF to post a net loss per share of \$0.79 in 2001 versus our prior forecast of a net loss of \$0.54.

Management also noted that:

- Basketball and Huffy Service First sales were better than expected.
- They expect to have more than \$20 million in cash at year-end.
- Do not foresee any borrowings under their credit line in 2002.

We raised our target price to \$8.80 mainly due to the impact of the Lowes alliance.

Revised Outlook

Management announced that earnings from continuing operations (before the previously announced restructuring and inventory reduction charges) were expected to be a net loss per share of between \$0.17 and \$0.21. This loss per share is a little greater than our previous forecast and is probably due to gross margin pressure from the sales mix containing a larger percentage of lower-priced bikes. On the bright side, basketball and service sales seemed to be better than expected.

Kmart was a major customer of HUF and its bankruptcy resulted in a \$2.7 million receivable write off (\$0.26 per share after tax). It is hard to forecast the impact of Kmart's bankruptcy on HUF's 2002 sales at this point. At this point, we are assuming that consumer demand remains stable (an average 3% annual growth rate) and sales "lost" from Kmart are "made up" by increased demand at other discount retailers.

For 2001, we now expect HUF to lose \$0.79 as follows:

Continuing operations:	(\$0.05)
Inventory Reduction:	(\$0.26)
Restructuring:	(\$0.22)
Kmart:	<u>(\$0.26)</u>
Total	(\$0.79)

For 2002, we are raising our forecast to \$0.42 from \$0.23 based upon management's expectation that they will be debt free for the year and as we include revenues from the Lowes agreement. We expect bike and basketball sales to increase 2.5%-3.0% over 2001 as bike sales remain flat or grow at inflation. With a decent Christmas now behind us, we expect the new orders to be relatively normal (despite Kmart) and for the Lowes agreement to provide significant sales growth and some margin improvement.

Under this strategic partnership, HSF will provide in-store service for outdoor power equipment at 450 Loews units with the potential to generate \$10 million in additional sales in 2002. If this is successful, Loews will rollout the program to the rest of its units in 2003 (currently Loews has 700+ stores across the US and opening more daily). We assume that this will add \$1.0 million in late 1Q02 and \$4.5 million each in 2Q and 4Q and boost the gross margins for 2Q and 3Q.

Table 1 contains our revised annual forecast while Table 2 contains our quarterly expectations.

Table 1: Operating Forecast						
(\$ Million, except per share)	1997	1998	1999	2000	2001	2002
Revenues	580.7	584.2	422.9	488.2	341.1	359.7
Cost of Goods Sold	488.6	392.2	386.1	406.8	297.3	307.6
Gross Profit	92.1	76.2	36.7	81.3	43.7	52.1
SG&A	75.7	59.7	56.2	53.8	43.5	44.9
Plant Reconfig	0.0	21.3	38.6	0.7	0.0	0.0
Operating Income	16.4	-4.9	-58.0	26.9	0.3	7.2
Int Expense-Net (Inc)	3.9	2.5	1.8	8.4	1.0	0.0
Restructuring					3.9	
Inv disposal					4.3	
Other Expenses/(inc.)	1.0	0.0	0.3	1.3	0.1	0.1
PreTax Income	11.5	-7.4	-60.1	17.1	-9.0	7.1
Income Taxes	3.0	-2.9	-20.8	6.4	-3.5	2.7
Discont. Ops	0.5	2.3	6.1	24.3	0.0	0.0
K mart					-2.7	
Net Income	9.0	-2.2	-33.3	35.0	-5.5	4.4
EPS-Diluted (as reported)	\$ 0.69	\$ (0.18)	\$ (3.13)	\$ 3.39	\$ (0.79)	\$ 0.42
From on-going operations				\$ 1.03	\$ (0.53)	\$ 0.42
Diluted Shares	13.1	12.3	10.6	10.3	10.4	10.4
Effective Tax Rate	26%	39%	35%	38%	39%	38%
Boldface data are forecasts.						
Growth Rates						
Sales	0.2%	0.6%	-27.6%	15.4%	-30.1%	5.5%
Net Income	22.1%	-124.2%	-1437.6%	205.1%	-115.8%	-179.9%
EPS					-151.5%	-179.9%
Margin Analysis						
Gross	15.9%	13.0%	8.7%	16.7%	12.8%	14.5%
Operating	2.8%	-0.8%	-13.7%	5.5%	0.1%	2.0%
Net	1.5%	-0.4%	-7.9%	7.2%	-1.6%	1.2%

Table 2: Quarterly Data						
(\$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	\$ 1.03	
2001 Sales	81.2	86.9	77.9	95.0	341.1	
EPS	\$ 0.10	\$ 0.07	\$ (0.27)	\$ (0.69)	\$ (0.79)	
2002 Sales	83.1	93.1	84.8	98.8	359.7	
EPS	\$ 0.04	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.42	

Valuation

We raised our 12-18 month target price for two reasons. First, the favorable impact of the Lowes business raised our 2002 forecast. And second, with the turn of the year we are extending our time horizon to mid-2003. Table 3 illustrates our valuation assumptions and methodology and Table 4 contains peer group valuation data.

		Multiples			2002 Estimate	Target Range
		LTM Range	Current*	Forecast		
Price/Book	High	3.3	0.8	2.5	\$ 6.93	\$ 17.31
	Low	0.9		0.9		\$ 6.23
Price/Sales	High	0.29	0.16	0.30	\$ 34.59	\$ 10.38
	Low	0.14		0.16		\$ 5.53
P/E*	High	13.0	11.8	30.0	\$ 0.42	\$ 12.75
	Low	11.0		2.0		\$ 0.85

* Current P/E is based on 2001 EPS forecast

Average	High	\$ 13.48
	Low	\$ 4.21
	Average	\$ 8.84

	P/E		Price to			Sales/Share	Ent Val/EBITDA
	2001	2002	Book	CF	Sales		
HUF	-11.5	14.4	0.8	5.8	0.16	\$37.40	2.9
BIKE	-	-	0.5	-	0.15	\$19.13	9.4
Sector Ave.*	18.8	16.8	2.5	23.4	1.30	\$18.28	18.4
Sales>\$500MM	17.8	18.4	3.1	18.9	1.08	\$30.41	30.9

* Sector consist of all leisure time stocks in the Baseline database.
Source: Baseline, researchstock.com

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