

HUFFY

Ticker Symbol: HUF

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Another Revised EPS Forecast

Current Data

Current Price	\$5.05
52-Week Range	8.00-4.75
Shares Out (Mill)	16.2
Ave Vol. LTM (Act)	35,347
Market Cap (Mill)	\$81.65
LTD/Tot Cap	16.0%
Institutional Holdings	34.5%
Insider Buys-Sells	0.0
Book Value	\$5.19

Valuation

P/E (2003e)	26.98
P/B	0.97
Price/Sales	0.24

Operating Data

Sales Growth	28.6%
EBITDA Margin	4.5%
Net Inc. Growth	40%

EPS

2002	\$	(0.12)
2003e	\$	0.19
2004e	\$	0.21



This Qtr Source: BigCharts.com

Annual Results-FYE Dec

(\$Million)	1999	2000	2001	2002	9/02	9/03
Sales	\$561.0	\$575.0	\$331.0	\$373.0	\$83.0	\$106.7
Gr Margin	13.0%	9.5%	16.7%	12.1%	19.2%	18.9%
EBITDA	\$26.6	-\$9.8	\$33.3	-\$3.0	\$4.0	\$4.8
EPS	(\$3.69)	\$1.03	(\$0.82)	(\$0.12)	\$0.08	\$0.18
LTD/Cap.	58.1%	-	-	0.4%	5.6%	15.7%
Times Int*	-	3.0	-	6.2	13.8	3.3

* 2002 Times Interest Earned is our estimate.

Huffy Pre-Announces Disappointing 4Q03

HUF announced that sales were expected to be in line with previous guidance but that EPS would be "worse than expected." Their revised guidance is now \$0.22 to \$0.27. As noted in our last report (dated 12/3/03), our forecast was for GAAP EPS of \$0.19. While the lower EPS did not surprise us, other things did.

What is disconcerting is that the covenants needed to be renegotiated. This means that HUF was close to triggering the ratios with their 4Q03 results. Most banks will do this to help their clients, but it is like refinancing your mortgage. The banks is happy to do it, for a fee and perhaps a higher interest rate. I expect more details on this to be disclosed in HUF's SEC filing.

The two big questions (as noted in our previous report) are how soon can HUF stop the "bleeding" at Gen-X and how was the sell-through at Christmas? I think the Gen-X "issue(s)" will be solved in time, possibly by mid-year.

As for Christmas, I think everybody was buying DVDs and plasma TVs instead of sporting goods. The lack of a "hot" product also did not help. The reference to smaller margins in the press release could indicate that HUF was discounting goods to keep inventories lean. Investors should keep an eye on the peer group to see what they say about margin pressures and retail sales in order to determine if a lack of retail sell-through was HUF specific or an industry-wide problem.

Outlook

We reiterate our existing EPS forecast (noted above). There is more downside risk in the short term (next two quarters) due to the need to renegotiate the loan ratios. I think the Street will need to see about two quarters of improvement, or some other big positive news, before "liking" this stock again.

- Rick Wayman, CFA

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

Company Description: Huffy Corp manufactures, designs and sells bicycles and sports products. Subsidiary Huffy Bicycle Company makes Huffy and Royce Union branded wheeled products, including bicycles, scooters and tricycles. The Huffy Sports division supplies basketball backboards, poles, goals and related products as well as basketballs, footballs and soccer balls for use at home. Huffy Service First, a wholly-owned subsidiary, serves the needs of major retailers in 50 states, Puerto Rico, Guam and the Virgin Islands by providing in-store and in-home assembly and repair, and in-store display services for a variety of products including bicycles, barbecue grills, lawn mowers, fitness equipment and furniture. GenX (acquired in September 2002) added golf (Tommy Armour, RAM, Zebra and Tear Drop brands), snowboards (LTD and Lamar brands), hockey (Hespeler), skis (Volant), and in-line skates (Ultrawheels and Rage).

Operating Data-LTM		Sales	Gross	EBITDA	\$ Flow	LT Dbt/		
Company	Symbol	Sales	Growth	Margin	Margin	/Share	Ttl Cap	ROE
HUFFY	HUF	\$444.9	34.0%	20.6%	2.7	\$ 0.49	16.0	4.9
Peer Group Avg		\$739.7	5.9%	43.4%	16.7	\$ 2.08	18.0	20.4
Big Cap Peers		\$1,688.6	7.9%	64.4%	33.0	\$ 2.32	14.4	20.0
Peer Group								
CALLAWAY GOLF	ELY	\$789.9	2.1%	54.3%	21.4	\$ 1.61	0.0	14.3
ESCALADE	ESCA	\$206.5	37.9%	32.6%	11.9	\$ 2.54	36.0	26.5

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