researchstock.com

May 2, 2001 www.researchstock.com

Huffy Corporation

NYSE: HUF - $8.79

Richard J. Wayman, CFA
rwayman@researchstock.com

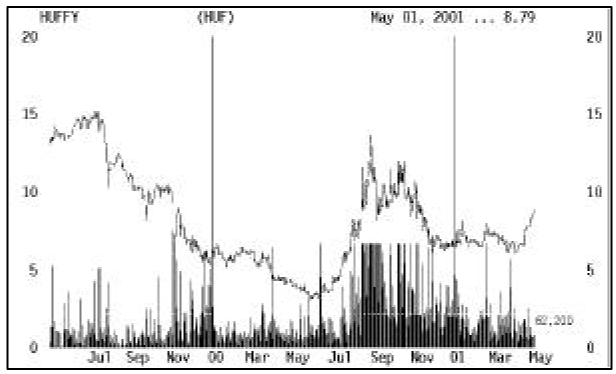
www.huffy.com

1Q01 Results

1Q01 Results Met Expectations, But Retail Sales Will Be Key Variable

Current Data			EPS			P/E
Fiscal Year End		Dec	2000	$	1.03	8.5
Current Price	$	8.79	2001E	$	1.07	8.2
52-Week Range		14-3	2002E	$	1.18	7.5
Shares Out (Mill)		10.2	**Valuation**		**Current**	**LTM**
Ave Volume LTM		86,311	P/E (Next FY)		8.18	6-3
Market Cap. (Mill)	$	89.66	P/B		1.20	1.3-0.8
LTD/Total Capital		0.0%	Price/Sales		0.18	0.18-0.12
Institutional Holdings		34.0%	**Operating Data**		**This Qtr**	**LTM**
Insider Holdings		9.3%	Sales Growth		-18.8%	13.1%
Book Value	$	7.31	Operating Margin		2.0%	5.8%
10Yr Bond		5.29%	Net Inc. Growth		188.7%	132.3%

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

Key Investment Points

- Reconfigured operations post significant EPS growth despite lower sales.
- EPS from comparable operations were $0.10 versus $0.05.
- Debt free balance sheet.
- A lean mean cash flow machine: $19.7million ($1.90 per share) in cash at March 31.
- Our 12-18 month target price remains $13.00.

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.

Investment Thesis

HUF is not your father's bicycle company! After a multi-year restructuring program, HUF has converted itself from a single-brand bicycle manufacturer to a multi-brand sporting goods designer and distributor that has one of the leading brand names in each of its product lines. By outsourcing manufacturing, it eliminated almost all its fixed costs and created a flexible supplier network. While some competitors are starting to copy HUF's strategy, we think HUF's purchasing power gives it a competitive advantage. While we expect the bicycle industry to grow in the mid/low single digits (excluding fads), HUF's increased operating efficiencies should boost EPS growth above this pace.

The Company's debt-free balance sheet and cash position provide a good cushion for any temporary sales imbalance caused by the current weak economy and gives HUF the ability to make acquisitions. We do not think that the market has factored HUF's financial strength into the share price.

1Q01 Results

HUF continued to benefit from reconfigured operations as EPS increased significantly despite an 18.8% sales decline. EPS for the quarter was $0.10 versus $0.05 for comparable operations in 1Q00 (reconfiguration and other charges resulted in a net loss per share of $0.11 in 1Q00). Net profit margins improved, despite the drop in sales and reduced gross margin, as HUF benefited from reduced operating costs and other income.

Sales for the quarter were $81.2 million, an 18.8% decline from the $100.1 million recorded last year. The weak economy and bad weather adversely impacted sales, as it did for most retailers. Management noted that bicycle sales were down about 16% while sales for basketball products and Huffy Service First ("HSF") were down slightly more than the 18.8% average decline.

This quarter was a continuation of sales weakness that was evident in 4Q00 results (quarterly and LTM, last twelve months, sales momentum is illustrated in Figure 1). While management indicated that most of the inventory overhang from 4Q00 has been shipped, we think inventory levels at the end of 1Q01 were about $14-15 million higher than desired as retailers delayed and reduced deliveries. It is reassuring to note that sales of the core product line (bicycles) were not as weak as the other segments. There were some indications that sell through at the retail level improved near the end of the quarter as nice weather returned to most of the nation. 2Q01 sales will be a critical data point because the second quarter is the Company's second busiest quarter (HUF's seasonal peak in 4Q) and it is the last quarter before difficult comparisons with 2000's scooter fad.

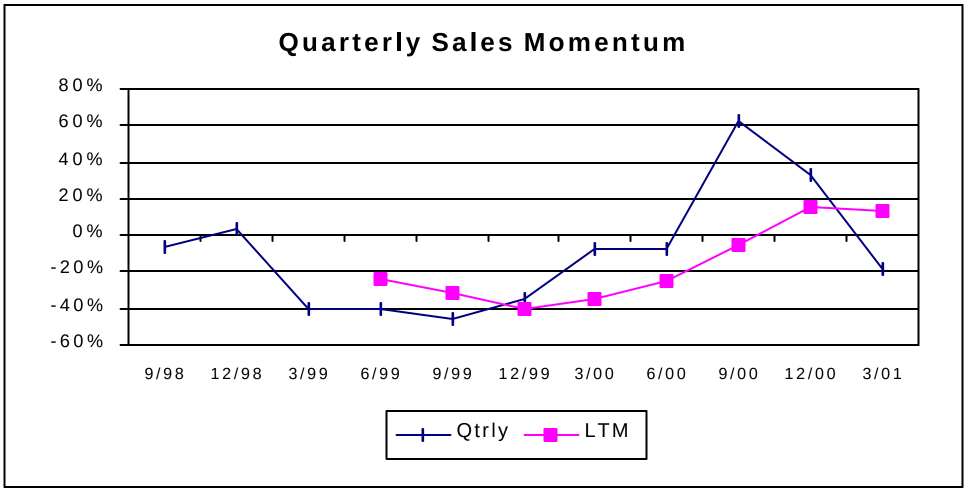


Figure 1

The operating margin, before reconfiguration expenses, was relatively flat at 2.0% versus 1.9% last year as lower SG&A expenses offset a decline in the gross margin. To summarize:

- The gross margin declined to 14.3% from 14.8% as lower margins on bikes and basketballs offset a 3.2-point improvement in HSF margins. (We attribute the improvement HSF margins to the efforts initiated after 4Q00, when HSF results were below expectations.)

- SG&A expense fell in both dollar terms and as a percent of sales as the result of ongoing efforts to restrain costs and as lower sales volumes meant lower sales commissions.

- EBITDAR (earnings before interest, taxes, depreciation, amortization and restructuring) declined to 3.7% from 4.2% due to a reduction in depreciation/amortization ("D&A") expenses. D&A was reduced as HUF wrote off certain intangibles as the result of the reconfiguration last year.

Also contributing to the improved results were lower interest expense and other income of $421,000. Interest expense fell as the Company repaid its last few loans in 1Q01 versus debt of $99 million at the end of 1Q00. Other income consisted of the reversal of some of the accounting reserves that were taken for the sale of True Temper and WIS operations and contributed about $0.02 to EPS.

Table 1 summarizes 1Q01 results and compares them to last year.

Table 1: Quarterly Operating Comparison			
($ Million, except per share)	**1Q00**	**1Q01**	**Change**
Revenues	100.07	81.24	-19%
Cost of Goods Sold	85.31	69.61	-18%
Gross Profit	14.76	11.64	21%
SG&A	12.90	10.04	-22%
Plant Reconfig	1.72	0.00	-100%
Operating Income	0.15	1.59	968%
Interest Expense/ (Inc.)	1.97	0.41	-79%
Other Expenses/ (Inc.)	-0.01	-0.42	3375%
PreTax Income	-1.81	1.60	189%
Income Taxes	-0.69	0.61	189%
Net Income-Cont. Ops	-1.12	0.99	189%
Discont. Ops.	-0.02	0.00	100%
Net Income	-1.14	0.99	187%
EPS-Diluted	$ (0.11)	$ 0.10	187%
From Cont. ops.	$ 0.05	$ 0.10	-92%
Diluted Shares	10.165	10.369	2%
Effective Tax Rate	38%	38%	
Margin Analysis			
Gross	14.8%	14.3%	
EBITDAR	4.2%	3.7%	
Operating (Ex-Restruct.)	1.9%	2.0%	
Net	-1.1%	1.2%	

Financial Condition

HUF's financial condition remains solid. At the end of the quarter, the Company had no debt and $19.6 million in cash. While high inventory levels are a concern, HUF's balance sheet and cash flow make it a tolerable situation. In addition, receivables appear to be under control as DSO (days sales outstanding) dropped to 62 from 74 in 1Q00. Figure 3 illustrates the trends in inventory turnover and DSO.

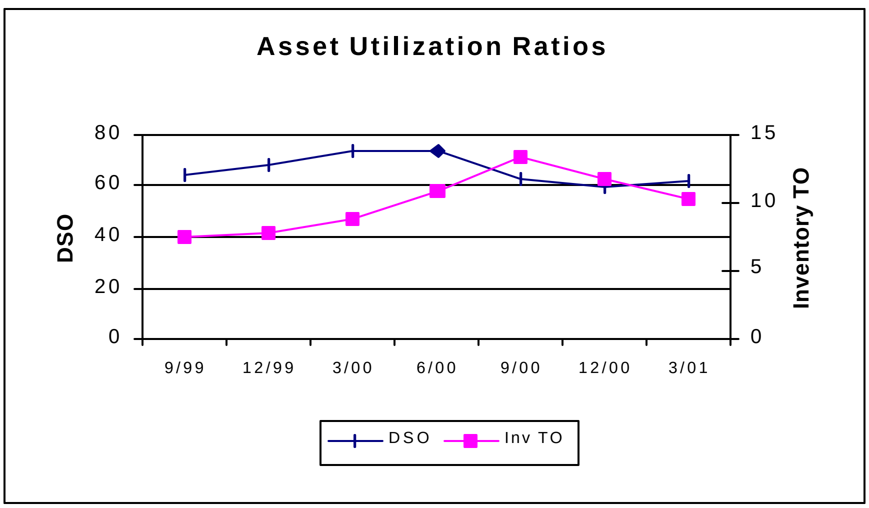


Figure 3

Peer group performance

HUF continued to outperform its closest peer, and in certain aspects the Leisure Time Products sector, during the last 12 months. As shown in Table 4, HUF's EBITA margin and EPS growth continued to surpass Cannondale's (BIKE), despite BIKE's relatively better sales performance and gross margin.

Table 4: LTM Operating Comparison

	Sales		Margins					%
	$	**Growth**	**Gross**	**EBIDTA**	**Net**		**EPS**	**Change**
HUF	**$560**	**-7%**	**18%**	**8.2%**	**2.2%**	**$**	**1.59**	**194.0%**
BIKE	$155	-6%	34%	7.7%	-8.5%	$	(0.60)	-300.0%
Sector Ave.	$477	17%	30%	14.9%	-7.0%	$	0.46	-14.1%
Sales>$500MM	$1,487	3%	32%	12.7%	3.9%	$	1.30	-3.1%

Source: Baseline

Outlook

Sales momentum and inventory levels will be of particular interest during the next few quarters, but we think HUF will be able to adjust orders and avoid excessive inventory levels. Another factor in the Company's favor is that overhang does seem to be clearing, albeit slower than planned. While the overhang may pressure the gross margin, management indicated that they expect to further reduce SG&A, which we think may compensate for gross margin weakness.

HUF is introducing several new types of scooters that may favorably impact results. These line extensions consist of technological innovations such as adding a steering mechanism, flexible board, or adding two more wheels. We think these extensions have a higher probability of market success than extending the brand by simply branding the scooter with a Pokemon label. However, our model does not assume any additional sales or profits from this undertaking.

We "fine-tuned" our 2001 EPS forecast down $0.01 to $1.07, due to the inclusion of 1Q01 results and lowered our sales and expense expectations. Our 2001 sales estimate was reduced to $396 million from $440 million to incorporate 1Q01 results and our expectation that sell through rates will remain slow in 2Q01, although that is usually HUF's second best quarter. We maintain our forecast of 5% sales growth, but the lowered 2001 forecast causing, our 2002 sales estimate to decline to $416 million from $462 million. Table 5 contains our annual income forecast while Table 6 summarizes our quarterly expectations. Our major assumptions are as follows:

- Gross margin of approximately 16% (it was 16.7% in 2000).
- SG&A expenses are in the $10-12 million per quarter range for the rest of 2001.
- Continued inventory overhang may pressure the gross margin, but we compensate by a conservative SG&A forecast.
- Nominal interest expense; and
- An effective tax rate of 38%.

Table 5: Operating Forecast						
($ Million, except per share)	**1997**	**1998**	**1999pf**	**2000**	**2001**	**2002**
Revenues	580.7	584.2	386.1	488.2	**396.2**	**416.1**
Cost of Goods Sold	488.6	392.2	386.1	406.8	**333.3**	**348.9**
Gross Profit	92.1	76.2	36.7	81.3	**62.9**	**67.2**
SG&A	75.7	59.7	56.2	53.8	**44.2**	**46.0**
Plant Reconfig	0.0	21.3	38.6	0.7	**0.0**	**0.0**
Operating Income	16.4	-4.9	-58.0	26.9	**18.7**	**21.2**
Interest Expense/ (Inc.)	3.9	2.5	1.8	8.4	**1.1**	**1.5**
Other Income/Expenses	1.0	0.0	0.3	1.3	**-0.4**	**0.0**
PreTax Income	11.5	-7.4	-60.1	17.1	**18.0**	**19.7**
Income Taxes	3.0	-2.9	-20.8	6.4	**6.8**	**7.5**
Discont. Ops	0.5	2.3	6.1	24.3	0.0	**0.0**
Net Income	9.0	-2.2	-33.3	35.0	**11.1**	**12.2**
EPS-Diluted (as reported)	$ 0.69	$ (0.18)	$ (3.13)	$ 3.39	**$ 1.07**	**$ 1.18**
From on-going operations				$ 1.03	**$ 1.07**	**$ 1.18**
Diluted Shares	13.1	12.3	10.6	10.3	**10.4**	**10.4**
Effective Tax Rate	26%	39%	35%	38%	**38%**	**38%**
			Boldface data are forecasts.			
Growth Rates						
Sales	0.2%	0.6%	-33.9%	26.4%	**-18.8%**	**5.0%**
Net Income	22.1%	-124.2%	-1437.6%	205.1%	**-68.1%**	**9.5%**
Margin Analysis						
Gross	15.9%	13.0%	9.5%	16.7%	**15.9%**	**16.2%**
Operating	2.8%	-0.8%	-15.0%	5.5%	**4.7%**	**5.1%**
Net	1.5%	-0.4%	-8.6%	7.2%	**2.8%**	**2.9%**

Table 6: Quarterly Operating Forecast								
($ Million, except per share)	**1Q00**	**2Q00**	**3Q00**	**4Q00**	**1Q01**	**2Q01**	**3Q01**	**4Q01**
Revenues	100.07	122.03	123.88	142.21	81.24	**90.00**	**100.00**	**125.00**
Cost of Goods Sold	85.31	104.97	102.03	114.53	69.61	**75.60**	**83.50**	**104.63**
Gross Profit	14.76	17.06	21.84	27.68	11.64	**14.40**	**16.50**	**20.38**
SG&A	12.90	11.60	12.54	16.73	10.04	**10.10**	**12.00**	**12.10**
Plant Reconfig	1.72	1.61	-1.82	-0.80	0.00	**0.00**	**0.00**	**0.00**
Operating Income	0.15	3.85	11.12	11.74	1.59	**4.30**	**4.50**	**8.28**
Interest Expense/ (Inc.)	1.97	2.54	2.71	1.21	0.41	**0.20**	**0.30**	**0.20**
Other Expenses/ (Inc.)	-0.01	-0.12	1.36	0.11	-0.42	**0.00**	**0.00**	**0.00**
PreTax Income	-1.81	1.44	7.04	10.42	1.60	**4.10**	**4.20**	**8.08**
Income Taxes	-0.69	0.80	2.18	4.14	0.61	**1.56**	**1.60**	**3.07**
Net Income-Cont. Ops	-1.12	0.64	4.87	6.28	0.99	**2.54**	**2.60**	**5.01**
Discont. Ops.	-0.02	3.88	0.37	20.09	0.00	**0.00**	**0.00**	**0.00**
Net Income	-1.14	4.51	5.24	26.37	0.99	**2.54**	**2.60**	**5.01**
EPS-Diluted	$ (0.11)	$ 0.06	$ 0.47	$ 2.54	$ 0.10	**$ 0.25**	**$ 0.25**	**$ 0.48**
From Cont. ops.	$ (0.11)	$ 0.06	$ 0.50	$ 0.61	$ 0.10	**$ 0.25**	**$ 0.25**	**$ 0.48**
Diluted Shares	10.165	10.265	10.386	10.4	10.369	**10.369**	**10.369**	**10.369**
Effective Tax Rate	38%	56%	31%	40%	38%	**38%**	**38%**	**38%**
Margin Analysis								
Gross	14.8%	14.0%	17.6%	19.5%	14.3%	**16.0%**	**16.5%**	**16.3%**
EBITDAR	1.9%	4.5%	7.5%	7.7%	2.0%	**4.8%**	**4.5%**	**6.6%**
Operating	0.1%	3.2%	9.0%	8.3%	2.0%	**4.8%**	**4.5%**	**6.6%**
Net	-1.1%	3.7%	4.2%	18.5%	1.2%	**2.8%**	**2.6%**	**4.0%**
Boldfaced data are estimates.								

Valuation

We reiterate our 12-18 month target price of $13.00. The target price is at the high end of the range because we think there is more upside potential to valuation multiples. The values shown in Table 7 reflect historical levels and a period where HUF was posting significant losses. We also do not think these multiples reflect the Company's strong balance sheet ad cash flow potential which could provide financing for an acquisition. Despite our lowered sales forecast and a modest reduction in some of our assumed multiples, our target range is relatively unchanged (see Table 7).

Table 7: Target Price Calculations

	Multiples			2002	Target
	LTM	**Current**	**Forecast**	**Estimate**	**Range**
Price/Book	3.8	1.2	1.8	$ 9.30	$ 16.75
	0.8		0.8		$ 7.44
Price/Sales	0.34	0.17	0.33	$ 40.12	$ 13.24
	0.07		0.10		$ 4.01
P/E	3.1	5.5	8.0	$ 1.18	$ 9.41
	-6.8		2.0		$ 2.35
			Average	High	$ 13.13
				Low	$ 4.60

Risk Considerations

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

The shares are thinly traded and could experience signficant volatility.

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

The EPA issue is a wild card. While the company has reserved an amount it deems adequate, it is possible that the Company could have a higher liability for any one of a number of reasons. The potential liability is discussed in detail in the notes to the financial statements in the SEC filings (10-Qs and 10-Ks).

statements, researchstock.com, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

Unless specifically attributed to others, all opinions, comments, forecasts, assumptions, and estimates contained in this report are those of the analyst and researchstock.com and were based on public information believed to be correct as of the date of this report.

NEITHER RESEARCHSTOCK.COM NOR ANY PROVIDERS OF INFORMATION MAKE ANY WARRANTIES, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANANILITY OF FITNESS FOR A PARTICULAR USE.

researchstock.com, Inc. is an independent research firm that publishes research reports on companies that may, or may not be clients. researchstom.com, Inc. derives most of its compensation from investment research and financial advisory services, and has been compensated for the preparation of this report. researchstock.com, Inc.'s monthly retainer is a fixed monthly fee. Researchstock.com does not accept any form of equity as compensation, nor does it have any “performance” incentives. This information is solely for informative purposes and is not solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the securities, markets or developments referred to in the material. The information contained herein is subject to change without notice, and we assume no responsibility to update the information in this report. Any sales or earnings forecasts contained in this report were independently prepared by researchstock.com, Inc., unless otherwise stated, and are not endorsed by the management of the company which is the subject of this report. All expressions of opinion are subject to change without notice**.** The information contained herein was obtained from sources, which we consider reliable, but we have not independently verified such information and thus do not guarantee that it is accurate or complete. Additional information is available upon request. researchstock.com, Inc. and/or its officers and directors, stockholders, and employees, and/or members of their families may have a long/short position in the securities mentioned in this report and may make purchases and or sales for their own account of those securities as principal or agent in the open market or otherwise. researchstock.com, Inc. or one of its affiliates may from time to time perform investment banking or other services for, or solicits investment banking or other business from, any company mentioned in this report. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors should obtain individual financial advice based on their own particular circumstances before making investment decisions on the basis of this report.