

Huffy Corporation

NYSE: HUF - \$7.61

www.huffy.com

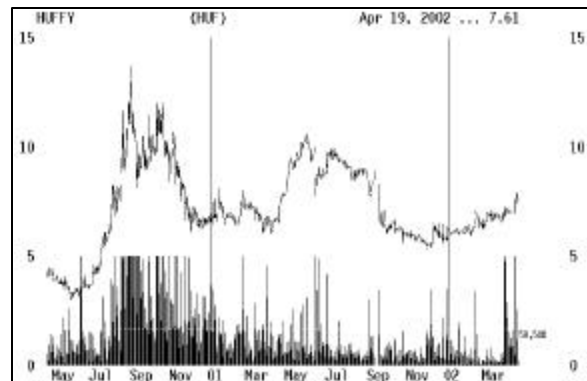
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1Q02 Results

Margin Improvement Bodes Well for Future Profitability

Current Data		EPS	P/E
Fiscal Year End	Dec	2001 (pre FAS 142)	\$ (0.82) -9.3
Current Price	\$ 7.61	2002E	\$ 0.56 13.7
52-Week Range	11-5	2003E	\$ 0.65 11.7
Shares Out (Mill)	10.3	Valuation	Current LTM
Ave Volume LTM	30,183	P/E (Next FY)	13.66 NM-NM
Market Cap. (Mill)	\$ 78.38	P/B	1.19 1.3-0.9
LTD/Total Capital	0.0%	Price/Sales	0.24 0.26-0.18
Institutional Hldngs	44.0%	Operating Data	4Q01 LTM
Insider Holdings	9.3%	Sales Growth	-13.4% -31.8%
Book Value	\$ 6.38	Operating Margin	2.1% -2.4%
10Yr Bond	5.19%	Net Inc. Growth	37.2% -168.7%

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

Key Investment Points

- HUF shares continue to outperform the S&P 500
- EPS was \$0.06 versus \$0.11 in 1Q01 (adjusted to FAS 142 equivalent)
- Gross margin improved as the result of operating changes made last year.
- K-Mart remains a key question mark
- HUF remains debt free with cash of \$14 million
- The impact of the Lowe's contract and the McCalla acquisition should start to show up in 2Q02.
- Reiterate our 12-18 month target price of \$9.00.

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.

The Bottom Line

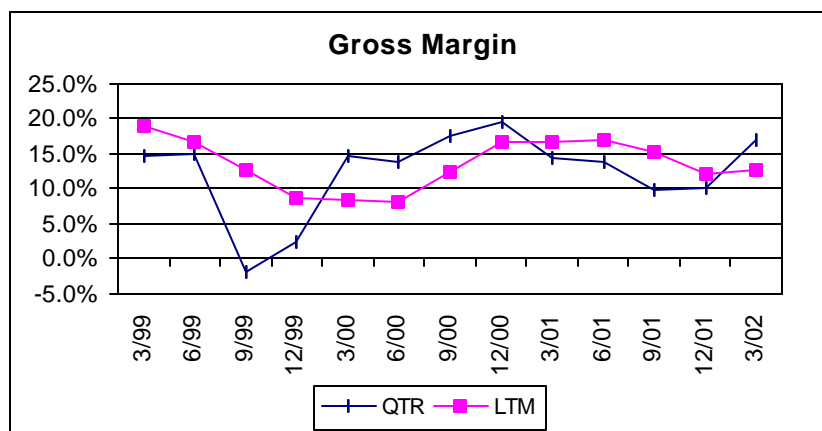
HUF is on track to post significant EPS growth in 2002. While outperforming the S&P 500 (through several time periods), the shares remain undervalued. EPS growth should accelerate in the next two quarters as the result of the Lowe's contract and the McCalla acquisition. Our 12-18 month target price is \$9.00.

1Q01 Results

EPS for the first quarter was \$0.06, which beat our forecast of \$0.03 largely due to better than expected gross margins. Sales declined 13% to \$70.4 million due to K-Mart's bankruptcy and as retailers were slow to restock. K-Mart (KM) was HUF's largest customer and orders were most likely below last year's levels as the retailer continues to work through bankruptcy financing arrangements. Management noted that basketball sales and Huffy Service First ("HSF") revenues improved and somewhat offset the decline in the bike business.

The gross margin improved to 17.1% from 14.3% as HUF started to realize the benefits of last year's restructuring efforts. Figure 1 shows the trend in the gross margin.

Figure 1



SG&A expenses were relatively even with 1Q01 and were 32% (about \$5.0 million) lower than in 4Q01. On a trailing 12-month basis, SG&A expenses as a percent of sales have recently been tracking higher due more to the decline in sales than increased spending. As shown in Figure 2, SG&A spending has been in a general decline since 1999. The spike in 4Q01 was due largely to the write-off of K-Mart receivables. Figure 3 illustrates the trend as a percent of sales.

Figure 2

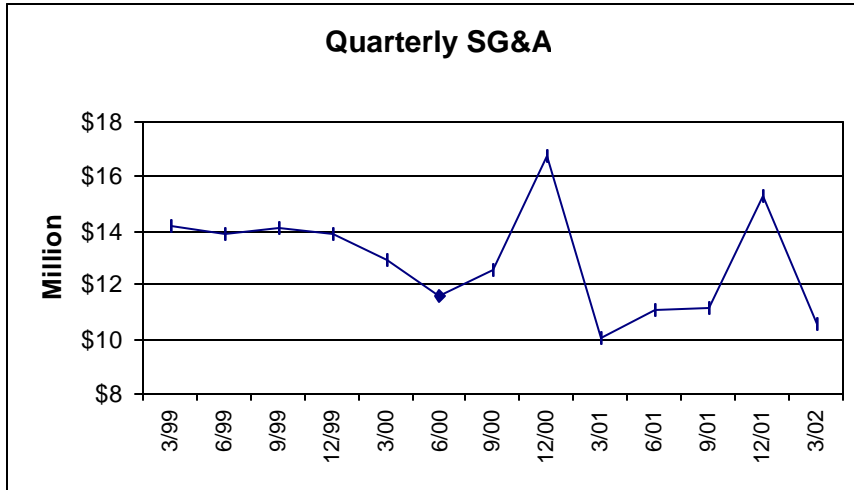
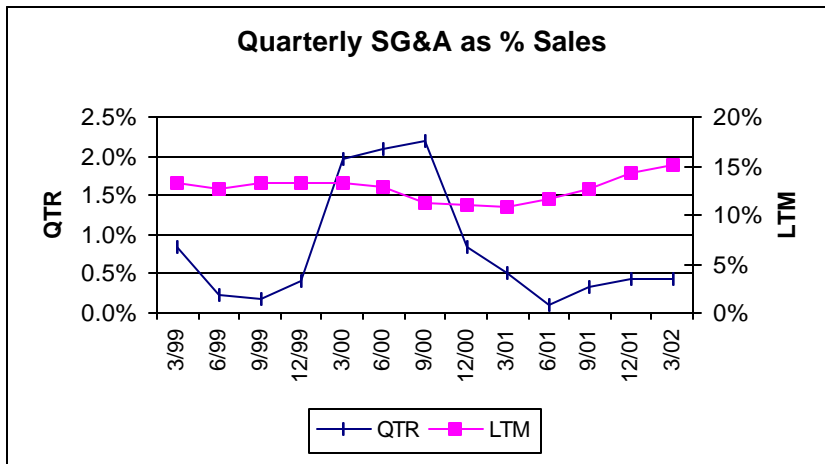


Figure 3



The net effect was that the operating margin improved for the first time in five quarters (see Figure 4). This could bode well for future profitability when revenue growth improves.

Figure 4

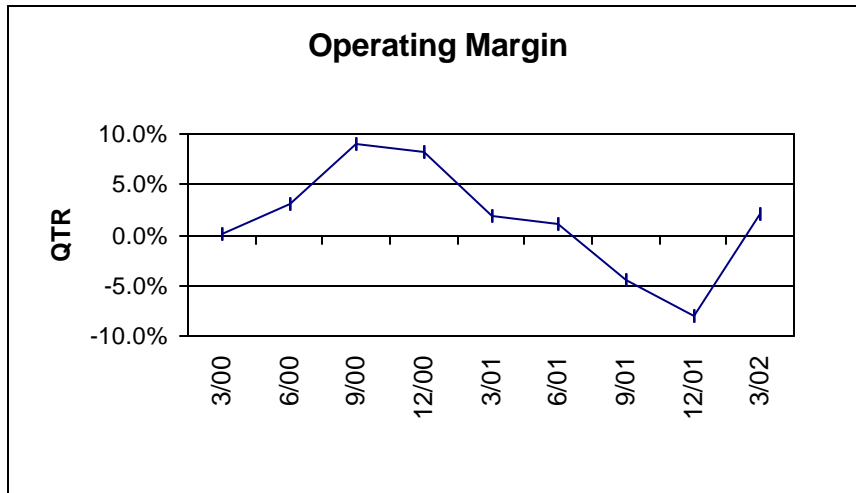


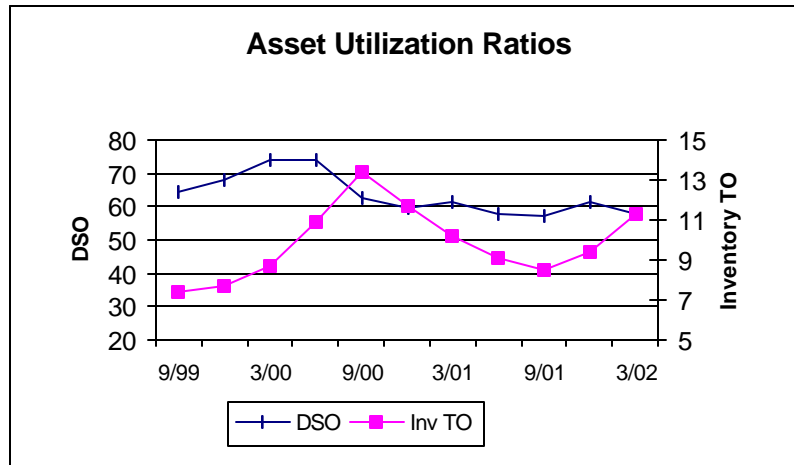
Table 1 compares the operating results for 1Q02 with 1Q01.

Table 1: Quarter Comparison			
(\$ Million, except per share)	3/01	3/02	Change
Revenues	81.24	70.39	-13%
Cost of Goods Sold	69.61	58.38	-16%
Gross Profit	11.64	12.00	3%
SG&A	10.04	10.53	5%
Plant Reconfig	0.00	0.00	
Operating Income	1.59	1.47	-7%
Interest Expense/ (Inc.)	0.41	0.30	-26%
Other Expenses/ (Inc.)	-0.42	0.20	-149%
PreTax Income	1.60	0.97	-40%
Income Taxes (benefit)	0.61	0.34	-44%
Net Income-Cont. Ops	0.99	0.62	-37%
Discont. Ops.	0.00	0.00	
Net Income	0.99	0.62	-37%
EPS-Diluted	\$ 0.10	\$ 0.06	-39%
FAS 142 equivalent	\$ 0.11	\$ 0.06	-48%
Diluted Shares	10.369	10.618	2%
Effective Tax Rate	38%	35%	
Margin Analysis			
Gross	14.3%	17.1%	19%
EBITDA	3.6%	2.1%	-41%
Operating	2.0%	2.1%	7%
Net-Continuing operations	1.2%	0.9%	-28%
Other Data			
Cash per share	\$ 1.90	\$ 1.31	-31%
Days Sales Outstanding	62	58	-6%
Inventory Turnover	10	11	10%

Financial Condition

HUF remains in solid financial condition with \$14 million in cash (\$1.31 per share) and no debt. Cash levels declined from \$26.5 million in 4Q01 due to the acquisition of McCalla and increases in receivables and inventories. The increase in receivables is due to more sales occurring at the end of the quarter and does not concern us because days sales outstanding remains within the historical range. Inventories have also increased, but were also within historical ranges and inventory turns remained high. Figure 5 illustrates the trends in these asset utilization ratios.

Figure 5



Outlook

Our 2002 EPS forecast was raised to \$0.56 from \$0.52 as the result of incorporating 1Q01 results and increasing our gross margin assumption (16.1% from 14.7%). Our other assumptions remain unchanged, namely:

- McCalla generates \$11.25 million in sales (representing 75% of \$15 million annually)
- McCalla’s operating margins are the same as HUF’s
- Lowe’s generates \$10 million annually (with the bulk of the revenues occurring in 2Q and 3Q)
- SG&A increases at rate of inflation (3%).

We increased our 2003 EPS forecast to \$0.65 from \$0.64 to reflect the net effect of the following assumptions:

- Sales growth of 5%. While this is higher than our previous 4% assumption, total sales are lower (\$350 million versus \$369 million) due to the lower than expected 1Q02 revenue base.
- Gross margin is assumed to be 16.1% which is higher than our previous assumption of 14.7% but still reflects our belief that the gross margin will remain constant from 2002 to 2003.

Table 2 contains our annual forecast and Table 3 provides our quarterly expectations for 2002.

Table 2: Operating Forecast							
(\$ Million, except per share)	1997	1998	1999	2000	2001	2002	2002
Revenues	481.5	584.2	422.9	488.2	331.1	333.0	350.7
Cost of Goods Sold	407.5	392.2	386.1	406.8	291.2	279.4	294.3
Gross Profit	74.0	76.2	36.7	81.3	40.0	53.6	56.5
SG&A	61.8	59.7	56.2	53.8	47.6	42.3	43.6
Plant Reconfig	0.0	21.3	38.6	0.7	3.7	0.0	0.0
Operating Income	12.2	-4.9	-58.0	26.9	-11.4	11.3	12.9
Int Expense-Net (Inc)	0.5	2.5	1.8	8.4	1.1	1.2	1.2
Other Expenses/(inc.)	1.4	0.0	0.3	1.3	0.3	0.6	0.5
PreTax Income	10.3	-7.4	-60.1	17.1	-12.8	9.5	11.2
Income Taxes	2.7	-2.9	-20.8	6.4	-4.4	3.6	4.2
Discont. Ops	1.4	2.3	6.1	24.3	0.0	0.0	0.0
K mart					0		
Net Income	9.0	-2.2	-33.3	35.0	-8.4	5.9	6.9
EPS-Diluted (as reported)	\$ 0.69	\$ (0.18)	\$ (3.13)	\$ 3.39	\$ (0.82)	\$ 0.56	\$ 0.65
- FAS 142 equivalent				\$ 3.43	\$ (0.77)	\$ 0.56	\$ 0.65
Diluted Shares	13.1	12.3	10.6	10.3	10.3	10.6	10.6
Effective Tax Rate	26%	39%	35%	38%	34%	38%	38%
Boldface data are forecasts.							
Growth Rates							
Sales	-16.9%	21.3%	-27.6%	15.4%	-32.2%	0.6%	5.3%
Net Income	9.6%	-124.2%	-1437.6%	205.1%	-124.0%	-170.3%	17.2%
EPS- FAS 142 equivalent					-122.4%	172.3%	17.2%
Margin Analysis							
Gross	15.4%	13.0%	8.7%	16.7%	12.1%	16.1%	16.1%
Operating	2.5%	-0.8%	-13.7%	5.5%	-3.4%	3.4%	3.7%
Net	1.9%	-0.4%	-7.9%	7.2%	-2.5%	1.8%	2.0%

Table 3: Quarterly Forecast								
(\$ Million except per share data)	3/01	6/01	9/01	12/01	3/02	6/02	9/02	12/02
Revenues	81.24	86.86	77.95	85.09	70.39	92.67	83.61	86.36
Cost of Goods Sold	69.61	74.79	70.27	76.53	58.38	78.59	70.05	72.36
Gross Profit	11.64	12.08	7.68	8.56	12.00	14.08	13.56	14.00
SG&A	10.04	11.09	11.15	15.33	10.53	10.80	10.50	10.50
Plant Reconfig	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Income	1.59	0.99	-3.47	-6.76	1.47	3.28	3.06	3.50
Int Expense-Net (Inc)	0.41	0.09	0.27	0.37	0.30	0.31	0.31	0.31
Restructuring	0.00	0.00	0.00	3.71	0.00	0.00	0.00	0.00
Other Expenses/(inc.)	-0.42	-0.34	0.87	0.19	0.20	0.18	0.10	0.10
PreTax Income	1.60	1.24	-4.61	-11.03	0.97	2.80	2.65	3.09
Income Taxes	0.61	0.47	-1.81	-3.66	0.34	1.06	1.01	1.17
Net Income-Cont. Ops	0.99	0.77	-2.80	-7.37	0.62	1.73	1.64	1.92
Discont. Ops	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.99	0.77	-2.80	-7.37	0.62	1.73	1.64	1.92
Boldface data are forecasts.								
EPS-Diluted	\$ 0.10	\$ 0.07	\$ (0.27)	\$ (0.71)	\$ 0.06	\$ 0.16	\$ 0.15	\$ 0.18
FAS 142 equivalent	\$ 0.11	\$ 0.09	\$ (0.25)	\$ (0.69)	\$ 0.06	\$ 0.16	\$ 0.15	\$ 0.18
Diluted Shares	10,369	10,503	10,323	10,383	10,618	10,618	10,618	10,618
Effective tax rate	38.0%	38.0%	39.2%	33.2%	35.5%	38.0%	38.0%	38.0%
Margin Analysis								
Gross	14.3%	13.9%	9.8%	10.1%	17.1%	15.2%	16.2%	16.2%
EBITDA	3.6%	2.6%	-2.6%	-6.3%	2.7%	4.0%	4.1%	4.5%
Operating	2.0%	1.1%	-4.5%	-7.9%	2.1%	3.5%	3.7%	4.1%
Net-Continuing operations	1.2%	0.9%	-3.6%	-8.7%	0.9%	1.9%	2.0%	2.2%

Valuation

We reiterate our \$9.00 target price because we have not materially changed our expectations or our assumed valuation metrics. Our assumed valuation metrics are currently higher than the trailing 12-month range due to the challenging year HUF had in 2001, but they are within the ranges established since 1997.

		Multiples			2003 Estimate	Target Range
		LTM Range	Current*	Forecast		
Price/Book	High	2.3	1.2	2.5	\$ 7.58	\$ 18.95
	Low	0.8		0.9		\$ 6.82
Price/Sales	High	0.24	0.25	0.30	\$ 31.36	\$ 9.41
	Low	0.13		0.16		\$ 5.02
P/E*	High	3.3	13.7	15.0	\$ 0.65	\$ 9.79
	Low	-7.3		2.0		\$ 1.31

* Current P/E is based on 2002 EPS forecast

Average	High	\$ 12.72
	Low	\$ 4.38
	Average	\$ 8.55

Table 5 compares the current valuation metrics for HUF, Cannondale (BIKE) and Escalade Inc. (ESCA). BIKE's operating performance has been boosted by the success of their motor bikes while ESCA has grown via acquisitions.

	P/E		Price to			Sales/Share	Ent Val/EBITDA
	2001	2002	Book	CF	Sales		
HUF	13.7	11.7	1.2	53.4	0.25	\$30.84	32.2
BIKE	-	-	0.8	-	0.20	\$19.49	-
ESCA	-	-	0.5	11.7	0.22	\$15.12	10.4
Sector Ave.*	27.2	20.1	2.7	17.2	1.58	\$17.71	12.4
Sales>\$500MM	20.6	22.8	3.3	16.0	1.19	\$30.86	12.6

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

HUF shares outperformed the S&P 500 in 2002 and especially within the last six months. Table 6 compares the performance of HUF shares against the S&P, the direct peer sand the leisure sector.

(% Change)	3 Days	1 Wk	1 Mo	6 Mos	YTD	12 Mos.
HUF	-0.3	8.9	12.2	23.1	18.9	-2.4
SPX	6.7	6.7	14.6	-6.2	1.4	12.7
BIKE	-1.7	1.8	-5.0	71.6	91.7	26.4
ESCA	0.3	3.2	-11.5	73.8	74.6	-12.9
Sector Ave.*	0.7	1.4	7.0	49.0	24.9	48.9
Sales>\$500MM	-0.6	-0.7	8.9	52.4	26.5	433.4

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

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 is a wild card. While the company has reserved an amount it deems adequate (\$6.93 million), it is possible that the Company could have a higher liability for any one of a number of reasons. In the 10-K for 2001, HUF indicates that it expects to start dispersing payments during 2002. The potential liability is discussed in detail in the notes to the financial statements in the SEC filings (10-Qs and 10-Ks).

This report contains "forward looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence upon third party vendors; and other risks discussed in the Company's periodic report filings, including interim reports, with the Securities and Exchange Commission. By making these forward looking statements, researchstock.com, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

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