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Huffy Corporation

NYSE: HUF - $7.03

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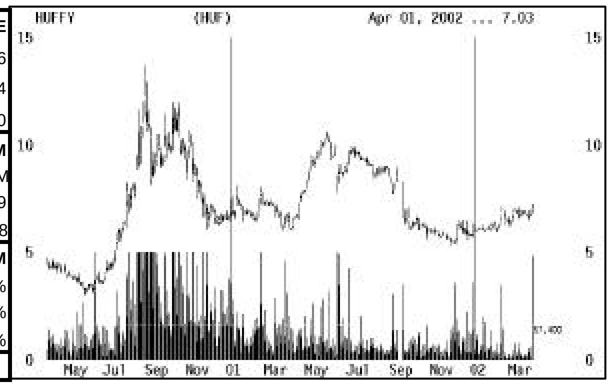
McCalla Acquisition

Acquisition Expected to Accelerate Growth, Target Price Raised

Current Data			EPS			P/E
Fiscal Year End	Dec		2001 (pre FAS 142)	$	(0.82)	-8.6
Current Price	$	7.03	2002E	$	0.52	13.4
52-Week Range		11-5	2003E	$	0.64	11.0
Shares Out (Mill)		10.3	**Valuation**		**Current**	**LTM**
Ave Volume LTM		28,539	P/E (Next FY)		13.44	NM-NM
Market Cap. (Mill)	$	72.41	P/B		1.11	1.2-0.9
LTD/Total Capital		0.0%	Price/Sales		0.22	0.22-0.18
Institutional Holdings		44.0%	**Operating Data**		**4Q01**	**LTM**
Insider Holdings		9.3%	Sales Growth		-40.2%	-32.2%
Book Value	$	6.32	Operating Margin		-7.9%	-2.3%
10Yr Bond		5.42%	Net Inc. Growth		217.3%	-178.8%

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

Key Investment Points

- McCalla will expand merchandising footprint and reduce client concentration
- K-Mart remains a key question mark
- Solid financial condition: $25 million in cash and no debt.
- Operating margins expected to improve as the result of cost reduction programs implemented in2001.
- 12-18 month target price raised to $9.00 from $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 nudged our 12-18 month target price to $9.00 from $8.80 to reflect the expected impact of the McCalla acquisition. McCalla appears to be a good "tuck-in" acquisition because it leverages HUF's existing expertise, provides client diversification, and should be relatively easy to merge because its management will remain. We raised our EPS forecast to reflect the expected revenue contribution of $11.2 million from McCalla operations.

The McCalla Acquisition

The McCalla Company, headquartered in Alpharetta, Georgia, provides merchandising services for manufacturers in the Home Center channel. McCalla is hired by the manufacturers, such as Philips Lighting, Duracell, and The Stanley Works to go to restock, cycle and provide sales training services at home center stores. Home Depot is McCalla's largest client.

The acquisition, effective April 1, 2002, is expected to be accretive to HUF's earnings in 2002. McCalla sales in 2002 are anticipated to be in the $15-20 million range, but HUF will only record 75% of annual revenues since the acquisition occurred after the close of the first quarter. While other operating data was not available, the acquisition is expected to push EPS to the high end of management's guidance of $0.10 - $0.20 for the first half of 2002 and $0.40 - $0.60 for 2002

We think this is a good acquisition for HUF for two main reasons. First, it expands their customer base in the Home Center channel. Huffy Service First will now serve the two "big dogs" in the sector, Lowe's (NYSE: LOW) and Home Depot (NYSE: HD). This not only reduces client concentration risk, but should also help further penetrate the channel.

Secondly, it is expected to contribute EPS on a relatively quickly. This appears to be an ideal "tuck-in" acquisition, not too large and not too complicated. The fact that McCalla's management will join HUF should facilitate a quick merger and continuity among both clients and employees.

Outlook

We raised our 2002 EPS forecast to $0.52 from $0.42 based upon the following assumptions:

- McCalla generates $11.25 million in sales (75% of $15 million annual sales).
- McCalla's operating margins are the same as HUF's.

While we continue to assume a 4% growth in revenues, our 2003 EPS forecast was increased to $0.64 from $0.53 due to the impact of the higher sales forecast for 2002. Table 1 contains our annual model while Table 2 has our quarterly estimates.

Table 1: Operating Forecast							
($ Million, except per share)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Revenues	481.5	584.2	422.9	488.2	331.1	**355.2**	**369.4**
Cost of Goods Sold	407.5	392.2	386.1	406.8	291.2	**302.9**	**315.1**
Gross Profit	74.0	76.2	36.7	81.3	40.0	**52.3**	**54.3**
SG&A	61.8	59.7	56.2	53.8	47.6	**42.5**	**43.5**
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	**9.8**	**10.8**
Int Expense-Net (Inc)	0.5	2.5	1.8	8.4	1.1	**0.9**	**0.0**
Other Expenses/(inc.)	1.4	0.0	0.3	1.3	0.3	**0.1**	**0.1**
PreTax Income	10.3	-7.4	-60.1	17.1	-12.8	**8.8**	**10.7**
Income Taxes	2.7	-2.9	-20.8	6.4	-4.4	**3.3**	**4.1**
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	**5.4**	**6.7**
EPS-Diluted (as reported)	$ 0.69	$ (0.18)	$ (3.13)	$ 3.39	$ (0.82)	**$ 0.52**	**$ 0.64**
- FAS 142 equivalent				$ 3.43	$ (0.77)	$ 0.52	$ 0.64
Diluted Shares	13.1	12.3	10.6	10.3	10.3	**10.4**	**10.4**
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%	**7.3%**	**4.0%**
Net Income	9.6%	-124.2%	-1437.6%	205.1%	-124.0%	**-164.6%**	**22.5%**
EPS- FAS 142 equivalent					-122.4%	167.9%	22.5%
Margin Analysis							
Gross	15.4%	13.0%	8.7%	16.7%	12.1%	**14.7%**	**14.7%**
Operating	2.5%	-0.8%	-13.7%	5.5%	-3.4%	**2.7%**	**2.9%**
Net	1.9%	-0.4%	-7.9%	7.2%	-2.5%	**1.5%**	**1.8%**

Table 2: Quarterly Data (FAS 142 equivalents)						
($Mill except EPS)		**1Q**	**2Q**	**3Q**	**4Q**	**FY**
2000	Sales	100.1	122.0	123.9	142.2	488.2
	EPS	$ (0.09)	$ 0.08	$ 0.49	$ 2.55	$ 3.43
2001	Sales	81.2	86.9	77.9	85.1	331.1
	EPS	$ 0.11	$ 0.09	$ (0.25)	$ (0.69)	$ (0.77)
2002	Sales	**81.3**	**96.4**	**87.4**	**90.1**	**355.2**
	EPS	**$ 0.02**	**$ 0.17**	**$ 0.18**	**$ 0.16**	**$ 0.52**

Valuation
WE raised our target price to $9.00 from $8.80 mainly to the expected contribution from the McCalla acquisition (see Table 3).

Table 3: Target Price Calculations

		Multiples LTM Range	Current*	Forecast	2003 Estimate	Target Range
Price/Book	High	2.3	1.1	2.5	$ 7.53	$ 18.84
	Low	0.8		0.9		$ 6.78
Price/Sales	High	0.24	0.22	0.40	$ 34.21	$ 13.68
	Low	0.13		0.16		$ 5.47
P/E*	High	12.5	13.4	16.0	$ 0.64	$ 10.26
	Low	5.0		2.0		$ 1.28

* Current P/E is based on 2002 EPS forecast

Average	High	$ 14.26
	Low	$ 4.51
	Average	$ 9.39

We also increased our expected P/E and price/sales multiples based upon current peer levels. As shown in Table 4, HUF's current valuation multiples reflect 2001's disappointing results. However, the combination of the McCalla acquisition, a successful relationship with Lowe's, and a "decent" year for bikes and sporting goods should generate material EPS growth. If HUF performs according to our forecast, we expect the market to accord multiples in line with the ones shown in Table 3.

Table 4: Peer Group Valuation Metrics

	P/E 2002	P/E 2003e	Price to Book	Price to CF	Price to Sales	Sales/ Share	Ent Val/ EBITDA
HUF	**13.4**	**11.0**	**1.1**	**38.5**	**0.22**	**$31.88**	**20.6**
BIKE	-	-	0.9	-	0.20	$19.49	-
ESCA	14.8	-	4.7	11.1	1.09	$23.17	7.8
Sector Ave.*	30.7	16.3	2.9	17.0	1.50	$17.73	10.7
Sales>$500MM	18.8	16.0	3.2	15.3	1.14	$30.83	11.8

* 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 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 ($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 dispursing 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).
