

Huffy Corporation

NYSE: HUF - \$7.03

www.huffy.com

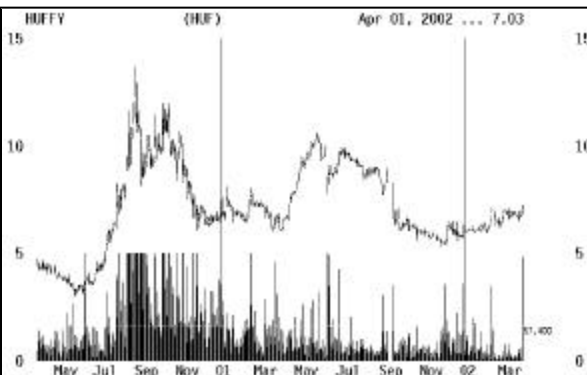
Richard J. Wayman, CFA
rwayman@researchstock.com

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		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
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 in 2001.
- 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).

		Multiples			2003	Target
		LTM	Current*	Forecast	Estimate	Range
		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.

	P/E		Price to			Sales/Share	Ent Val/EBITDA
	2002	2003e	Book	CF	Sales		
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 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.

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, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKE NO EXPRESSED OR IMPLIED WARRANTIES OF MERCHANTABILITY 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. researchstock.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 of \$2,500. 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 solicit 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.