

The Independent Analyst's Report

AULT INCORPORATED (NASDAQ: AULT)

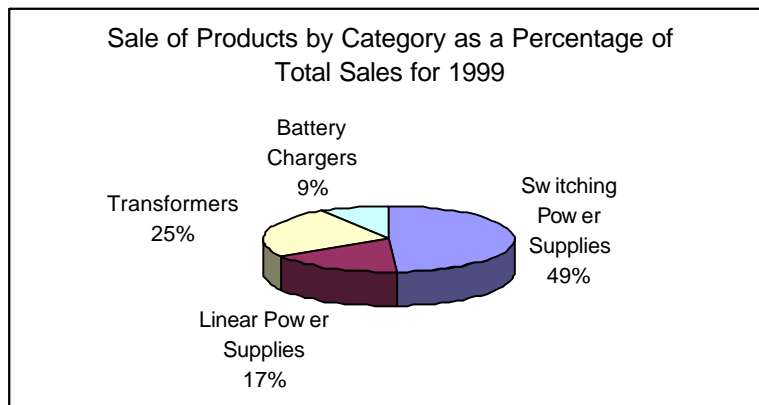
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By John J. Lah

KEY STATISTICS

Recent Price:	10 7/16	P/E: (TTM)	29.82
52 Wk Range:	\$ 4.906 - \$ 12.75	Yield:	NA
Market Cap (Mil.):	45.72	Avg. Volume (000's)	40.4
Shares Outstanding (Mil.):	4.4	Float (Mil.):	3.6
Investment Opinion:	Speculative Buy	Price Objective:	\$19.00

Ault Incorporated is a leading manufacturer of external power conversion devices, battery chargers, and transformers for original equipment manufacturers (OEMs) of telecommunications, medical, industrial instrumentation and computer peripheral equipment. Ault's power conversion products are used to adapt alternating current (AC) to provide a source of power at various levels up to 90 watts for a wide variety of electronic equipment. Ault's product lines includes four major types of external power conversion products:



- Switching Power Supplies:** The market for switching power supplies is the fastest growing segment of the overall external power conversion product market. Switching power supplies use switching transistors to convert power from AC to DC and are more energy efficient and considerably smaller and lighter in weight than linear units with comparable power outputs.
- Linear Power Supplies:** These are larger and generally less expensive than switching power supplies because their design is based on technology employing steel laminations with windings of copper wire rather than switching transistors. Linear power supplies tend to be used when the wattage output required is relatively low.
- Transformers:** The Company manufactures a wide variety of wall plug-in transformers, that are used primarily in applications where OEMs desire to remove heat, electromagnetic interference and weight from electronic equipment, while incorporating the rest of the power conversion systems within the product.

- **Battery Chargers:** Ault provides custom designed, advanced battery chargers for manufacturers of portable and battery powered equipment. Applications for the Company's battery chargers include medical devices, mobile telecommunication devices, notebook computers, and global positioning equipment and radio frequency communications products.

Situational Analysis

The global power supply market, including both internal and external power supplies, is currently estimated at approximately \$16 billion. The U.S. portion of this market is estimated at \$8 billion, with Europe and Asia accounting for roughly \$4 billion each. The external segment of the overall power supply market is estimated at approximately \$2 billion. Though smaller, the external market is growing at an 18% compound annual rate, compared to only 8-10% for the internal power supply market.

Historically, the most significant market for the Company's products has been OEMs of telecommunications/data communications equipment, and in fiscal 1999 sales in this market represented approximately 61% of net sales. The Company's products power cable and ADSL modems, network termination equipment, and various items of equipment ancillary to business telephone systems.

It is believed that the telecommunications/data communications market is the fastest growing segment of the company's business and Ault is devoting significant portions of its product development effort toward introduction of new product lines for applications in this combined market. In fact, the ADSL modem market has become the single largest source of revenues for Ault. Sales of power supplies to OEMs of ADSL modems increased more than 360% sequentially between this year's first and second quarters. At this time, Ault is shipping power supplies to five major companies in the ADSL modem market.

Financial Performance and Valuation Summary

For the second quarter of fiscal 2000 ended November 30, 1999, net sales were \$14,386,000, an increase of 30% from \$11,046,000 in the year-earlier period. The growth was primarily due to significantly higher power supply shipments to five major OEM's of high- speed ADSL modems. Operating income for the second quarter of fiscal 2000 decreased 10% to \$485,000 compared to \$538,000 for the same period in fiscal 1999. Net income also declined to \$313,000 or \$.07 per share, from \$463,000 or \$.11 per share in the second quarter of fiscal 1999. The decline in operating and net income can be attributed to a 28% increase in operating expenses, which included a 53% rise in product development and a 25% increase in marketing expenses.

The increase in operating expenses is the result of a buildup of the infrastructure undertaken by the company. As a result of these initiatives, the company believes that the infrastructure that is in place now will be able to support revenues of up to \$100 million. In addition, the unfavorable year-over-year operating expense comparisons are expected to narrow considerably beginning in the third quarter. This expense scenario, coupled with the positive sales trend, leads us to believe that Ault's earnings should rebound strongly in the second half of this fiscal year and into next year.

Financial Highlights:

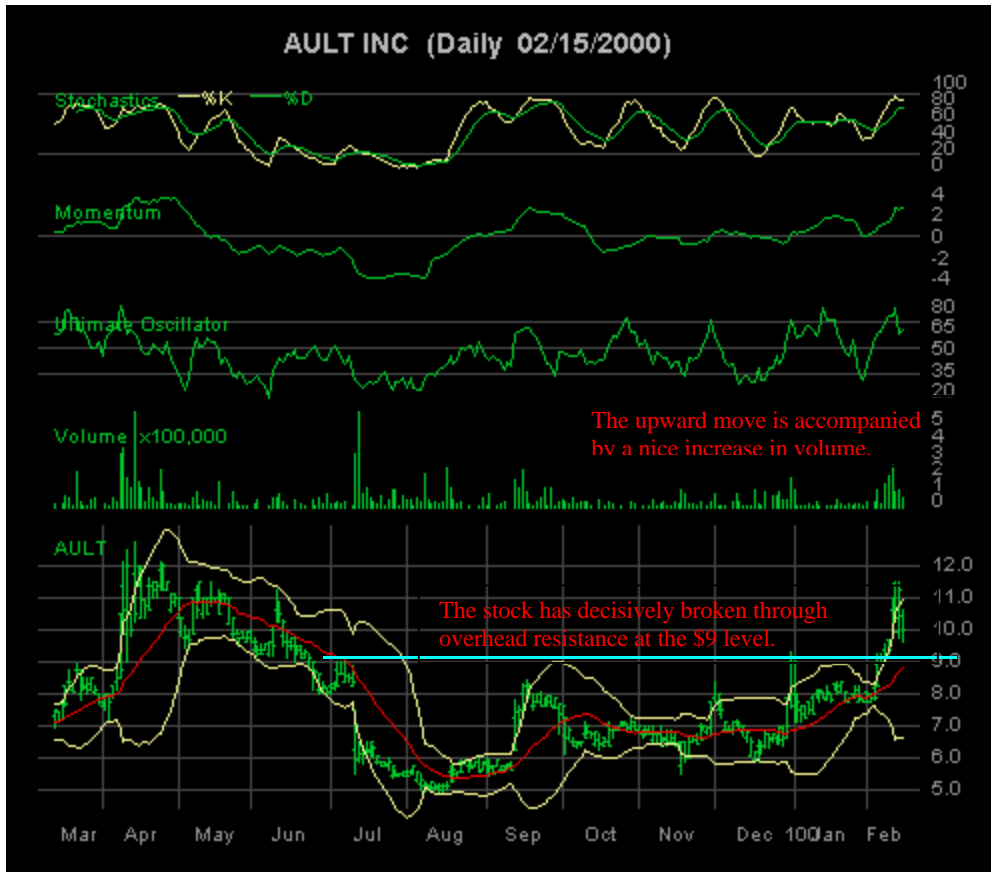
OPERATING DATA: (in thousands, except per share)	1997	1998	1999	2000(E)	2001(E)
Revenues	\$40,012	\$41,136	\$50,938	\$59,323	\$73,352
Cost of goods sold	29,489	30,376	36,920	43,508	53,233
Gross profit	10,523	10,761	14,018	15,815	20,119
Operating expenses:					
Marketing	3,306	3,707	4,376	4,988	6,048
Design engineering	1,582	1,789	2,425	3,164	3,804
General and administrative	3,052	3,387	4,625	4,849	6,186
	7,941	8,883	11,427	13,470	16,039
Operating income	2,582	1,877	2,592	2,814	4,080
Nonoperating income (expense):	-307	49	256	-151	-138
Income before income taxes	2,275	1,927	2,848	2,965	4,218
Income taxes	-90	609	860	745	1,073
Net income	\$2,365	\$1,318	\$1,988	\$2,220	\$3,145
Basic Earnings per share	\$0.79	\$0.32	\$0.47	\$0.43	\$0.61

Investment Outlook

Ault shares have been strengthening of late, with the stock moving decisively past some heavy resistance near the \$9 level, accompanied by a nice increase in volume. The technical indicators are also moving sharply higher, but at this point, appear to be a bit overextended, indicating a temporary pause in the stock's move. It is possible that AULT may pullback to the point of its breakout, near the \$8 - \$9 level from which it broke out earlier this month. However, the underlying momentum in the stock remains very strong, and the upward trend is still intact.

The fundamental business outlook also appears bright, with the company experiencing strong growth in the ADSL modem market, and the cable modem business is also expected to contribute to the company's earnings growth. The top line revenue growth appears to be in very good shape going forward and as the company begins to recognize the benefits from its investment in the build up of its infrastructure, the bottom line earnings should begin to experience positive momentum as well.

This stock appears to be attractively valued at current prices, trading at about 24x projected fiscal 2000 earnings and at only 17x our projected 2001 EPS. We believe that consumer demand for broadband related products is likely to experience strong growth over the next several years, and if the company can manage its operating costs, Ault should begin to experience accelerating earnings growth. We believe that Ault is positioned to generate earnings growth at better than 30% for the next 3 - 5 years. Based on the positive fundamental outlook and strong technical pattern, but as yet unseen turnaround in cost control, we are rating the stock as an attractive speculative buy, with a 12 - 18 months **price objective of \$19** per share.



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