Frost Securities, Inc.
Investment Bankers

WESTELL TECHNOLOGIES

(NASDAQ: WSTL)
RATING: STRONG BUY

RESEARCH NOTE
TECHNOLOGY

Syed E. Haider
214-515-4469
syed.haider@frostsecurities.com

July 20, 2000

Price (07/19/00):	$21.75	Shrs Outstanding (mm):	62.7	TTM Sales (mm):	$205.8
52-Week Range:	6 7/16 - 40 3/4	Float (mm):	36.9	Sales Growth TTM:	347%
12-Month Price Target:	$80	Inst. Holdings (mm):	36%	Cash & ST Inv. (mm):	$29.2
Market Cap (mm):	$1,362.7	Avg. Daily Vol (shrs):	1,530,681	Long-Term Debt (mm):	$10.0

Fiscal	Annual	Earnings Per Share *					Price/	PE/
Year-End	Revenues	Quarter Ending				Full	EPS	EPS Growth
(Mar)	(mm)	Jun	Sep	Dec	Mar	Year	Ratio	Ratio
2000A	$122.03	(0.09)	(0.08)	(0.04)	(0.02)	(0.24)	NM	NM
2001E	$536.03	0.06A	0.08	0.09	0.11	0.34	64.8x	1.47x
2002E	$697.81	0.14	0.18	0.24	0.29	0.84	25.8x	0.59x

* Excludes Extraordinary Gains and Losses

Founded in 1980, Westell provides a broad range of products and services for the telecommunications industry. As an early pioneer of DSL (Digital Subscriber Line) technology, Westell designs and manufactures DSL systems for both the customer premise and central switching office market segments. The company's Conference Plus, Inc., subsidiary is an Application Service Provider of advanced conferencing services through both a direct and reseller distribution channel. Westell has approximately 1000 employees and operates primarily out of its headquarters in Aurora, Illinois.

Westell Releases 1Q01 Results and Firmly Establishes Itself as a Formidable DSL Player; Raising Revenue and EPS Estimates, Raising Target Price from $55 to $80; Reiterate STRONG BUY

KEY POINTS:

- **With $108 million in total sales and $68 million in DSL-related sales, we believe Westell has firmly positioned itself as a major player in the DSL arena.**
- **The company's pro forma earnings for 1Q00, excluding amortization and extraordinary charges, were $0.06, exceeding our estimate of $0.03 and the Street consensus of $0.02. This was the first time the company reported a profitable quarter.**
- Operationally, gross margins continued a trend upwards while operating expenditures saw a sharp decline from the preceding quarter. **We believe the improving operational pattern should continue, and consequently are raising our FY01 and FY02 revenue and earnings estimates.**
- **The continued operational improvement coupled with the dramatic sales growth necessitates Westell's valuations to climb to the levels of a competitor such as Efficient Networks (NASDAQ: EFNT; STRONG BUY).**
- **Accordingly we reiterate our STRONG BUY recommendation and raise our 12-month target price from $55 to $80, representing a 260% upside from the current levels.** Our target price is based on Westell's FY02 PE-to-growth ratio of 0.64x, a 73% discount to the peer group PE-to-growth ratio of 2.37x. Adjusting to the peer group average we arrive at an $80 target price.

DISCUSSION:

- With total revenue for 1Q01 at $108 million, the company experienced strength in the CPE and Transport Systems segments, collectively comprising DSL-related product sales. We expect future growth to be driven by continued demand in DSL service. Consequently we are raising our FY01 and FY02 revenue projections from $418 and $540 million to $536 and $698 million, respectively.

- We have taken a conservative approach to gross margin expansion by raising it by 100-200 basis points every quarter. By 4Q02 we expect gross margin to reach 32.1%. Additionally, we have kept operating expenses between 20% and 22%. Therefore, according to our projections, Westell's operating margin is expected to climb from 4.3% in 2Q01 to 11.1% in 4Q02. Coupled with a high rate of revenue growth, we expect EPS to grow between 50% and 100%. Based on a more favorable operating model, we have raised our FY01 and FY02 EPS estimates from $0.25 and $0.72 to $0.34 and $0.84.

- The key factors to gross margin improvements are product introductions with value-added high-margin products, engineering design cost reductions, and cost efficiencies gained through volume product shipments such as lowered components pricing, and lower overhead allocations.

- From a customer relationship standpoint, we believe Westell has firmly established itself as one of the leading players in the DSL market through its relationships with SBC Communications (NYSE: SBC; Not Rated), Verizon (NYSE: VZ; Not Rated), British Telecom (NYSE: BTY; Not Rated), and newly announced GTE (NYSE: VZ; Not Rated). SBC, VZ, and BTY are especially significant customers, each representing over 10% in sales.

- With $68 million in DSL sales, we believe Westell is now a real force in the market. We believe the company has made the transition into a full-fledged DSL networking company. Therefore, we believe the company deserves valuations in accordance with others in the DSL segment.

Revenue ($ million):

	1Q01	2Q01	3Q01	4Q01	**FY01**	1Q02	2Q02	3Q02	4Q02	**FY02**
New Projection	108	129	144	155	**536**	165	172	179	181.3	**698**
Old Projection	108	99	113	119	**418**	126	133	139	141	**540**

EPS ($):

	1Q01	2Q01	3Q01	4Q01	**FY01**	1Q02	2Q02	3Q02	4Q02	**FY02**
New Projection	0.06	0.08	0.09	0.11	**0.34**	0.14	0.18	0.24	0.29	**0.84**
Old Projection	0.06	0.04	0.07	0.11	**0.25**	0.12	0.16	0.21	0.24	**0.72**

- **Accordingly we reiterate our STRONG BUY recommendation and raise our 12-month target price from $55 to $80, representing a 260% upside from the current levels.** Our target price is based on Westell's FY02 PE-to-growth ratio of 0.64x, a 73% discount to the peer group PE-to-growth ratio of 2.37x. Adjusting to the peer group average we arrive at an $80 target price.

Frost Securities, Inc., makes a market in WSTL.

Westell Technologies - Statement of Income

$ thousands, except per share data	FY 1999	1Q00	2Q00	3Q00	4Q00	FY 2000	1Q01	2Q01	3Q01	4Q01	FY 2001	1Q02	2Q02	3Q02	4Q02	FY 2002
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	31-Mar
	actual	actual	actual	actual	actual	actual	actual	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate	estimate
Income Statement:																
Revenues:																
Equipment Sales	71,862	17,188	17,326	21,964	33,178	89,656	98,118	117,801	131,548	141,284	488,751	149,499	155,464	161,198	161,916	628,077
Services	21,317	6,971	7,678	8,053	9,676	32,378	9,758	10,978	12,405	14,142	47,282	15,386	16,817	18,095	19,434	69,732
Total Revenue	**93,179**	**24,159**	**25,004**	**30,017**	**42,854**	**122,034**	**107,876**	**128,779**	**143,953**	**155,425**	**536,033**	**164,885**	**172,281**	**179,293**	**181,350**	**697,809**
Cost of Revenues:																
Cost of Equipment Sales	55,439	11,890	14,358	16,755	27,000	70,003	78,611	91,885	100,634	106,669	377,799	109,882	111,934	113,322	110,103	445,241
Cost of Services	12,877	4,764	5,021	4,998	6,755	21,538	6,108	6,861	7,753	8,838	29,561	9,616	10,511	11,309	12,146	43,582
Total Cost of Goods Sold	68,316	16,654	19,379	21,753	33,755	91,541	84,719	98,746	108,387	115,508	407,360	119,498	122,445	124,631	122,249	488,823
Gross Profit	**24,863**	**7,505**	**5,625**	**8,264**	**9,099**	**30,493**	**23,157**	**30,033**	**35,566**	**39,918**	**128,673**	**45,387**	**49,836**	**54,661**	**59,101**	**208,986**
Sales and Marketing	19,442	3,697	3,414	3,854	3,843	14,808	7,379	8,371	10,077	11,657	37,483	13,191	13,783	14,343	14,508	55,825
Reseach and Development	26,605	3,597	1,619	2,967	2,605	10,788	7,438	9,658	11,516	12,434	41,047	14,015	14,644	14,702	15,415	58,776
General and Administrative	13,117	3,240	3,377	2,902	4,484	14,003	5,664	6,439	7,198	7,771	27,072	8,244	8,614	8,965	9,067	34,890
Restructuring Charge		-	-	-	550											
Acquired in-Process R&D	-	-	-	-	-	-	-	-	-	-		-	-	-	-	
Amortization of Goodwill & Intangibles	-	-	-	-	1,326	1,326	7,958	-	-	-	7,958	-	-	-	-	-
Operating Cost (excl one-time charges)	*59,164*	*10,534*	*8,410*	*9,723*	*10,932*	*39,599*	*20,481*	*24,468*	*28,791*	*31,862*	*105,602*	*35,450*	*37,040*	*38,010*	*38,990*	*149,491*
Operating Profit	**(35,101)**	**(3,029)**	**(2,785)**	**(1,459)**	**(3,709)**	**(10,982)**	**(5,282)**	**5,565**	**6,775**	**8,055**	**15,113**	**9,937**	**12,796**	**16,651**	**20,111**	**59,495**
Other Income, net	404	(24)	74	854	151	1,055	169	171	172	174	686	176	178	179	181	714
Interest Expense		(379)	(348)	(690)	(438)	(1,855)	(119)	(750)	(758)	(765)	(2,392)	(773)	(780)	(788)	(796)	(3,138)
Earnings Before Taxes	(34,992)	(3,432)	(3,059)	(1,295)	(3,996)	(11,782)	(5,232)	4,986	6,190	7,464	13,408	9,340	12,193	16,042	19,496	57,071
Provision For Income Taxes (Refund)	-	-	-	-	(3,600)	(3,600)	-	-	-	-	-	-	-	-	-	-
Adjustments to Pro Forma	-	-	-	-	1,140	1,140	970	-	-	-	970	-	-	-	-	-
Net Income (Loss)	(34,992)	(3,432)	(3,059)	(1,295)	(396)	(8,182)	(5,232)	4,986	6,190	7,464	13,408	9,340	12,193	16,042	19,496	57,071
Pro Forma Net Income (*)	**(34,192)**	**(3,432)**	**(3,059)**	**(1,295)**	**(980)**	**(8,766)**	**3,696**	**4,986**	**6,190**	**7,464**	**22,336**	**9,340**	**12,193**	**16,042**	**19,496**	**57,071**
Net Earnings Per Share (Diluted)	(0.96)	(0.09)	(0.08)	(0.04)	(0.01)	(0.22)	(0.08)	0.08	0.09	0.11	0.20	0.14	0.18	0.24	0.29	0.84
Pro Forma EPS (Diluted) (*)	**(0.94)**	**(0.09)**	**(0.08)**	**(0.04)**	**(0.02)**	**(0.24)**	**0.06**	**0.08**	**0.09**	**0.11**	**0.34**	**0.14**	**0.18**	**0.24**	**0.29**	**0.84**
Wt. Avg. Basic Shrs Outstanding		36,468	36,570	36,643	41,357		62,652	62,903	63,154	63,407		63,660	63,915	64,171	64,427	
Wt. Avg. Diluted Shrs Outstanding		36,468	36,570	36,643	41,357		66,114	66,378	66,644	66,911		67,178	67,447	67,717	67,988	

(*) Excludes Extraordinary Gains and Losses, Acquired In-Process R&D, Amortization of Goodwill & Intangibles

Financial Ratios:	FY 1999	1Q00	2Q00	3Q00	4Q00	FY 2000	1Q01	2Q01	3Q01	4Q01	FY 2001	1Q02	2Q02	3Q02	4Q02	FY 2002
Equipment Sales Inc (Seq)	*-0.5%*	*-1.2%*	*0.8%*	*26.8%*	*51.1%*	*24.8%*	*195.7%*	*20.1%*	*11.7%*	*7.4%*	*445.1%*	*5.8%*	*4.0%*	*3.7%*	*0.4%*	*28.5%*
Service Sales Inc (Seq)	*50.7%*	*3.6%*	*10.1%*	*4.9%*	*20.2%*	*51.9%*	*0.8%*	*12.5%*	*13.0%*	*14.0%*	*46.0%*	*8.8%*	*9.3%*	*7.6%*	*7.4%*	*47.5%*
Sequential Sales Increase	*7.9%*	*0.2%*	*3.5%*	*20.0%*	*42.8%*	*31.0%*	*151.7%*	*19.4%*	*11.8%*	*8.0%*	*339.2%*	*6.1%*	*4.5%*	*4.1%*	*1.1%*	*30.2%*
Year-over-Year Sales Increase	*7.9%*	*5.0%*	*10.3%*	*28.4%*	*77.7%*	*31.0%*	*346.5%*	*415.0%*	*379.6%*	*262.7%*	*339.2%*	*52.8%*	*33.8%*	*24.5%*	*16.7%*	*30.2%*
Equipment Revenue Mix	*77.1%*	*71.1%*	*69.3%*	*73.2%*	*77.4%*	*73.5%*	*91.0%*	*91.5%*	*91.4%*	*90.9%*	*91.2%*	*90.7%*	*90.2%*	*89.9%*	*89.3%*	*90.0%*
Services Revenue Mix	*22.9%*	*28.9%*	*30.7%*	*26.8%*	*22.6%*	*26.5%*	*9.0%*	*8.5%*	*8.6%*	*9.1%*	*8.8%*	*9.3%*	*9.8%*	*10.1%*	*10.7%*	*10.0%*
Sequential Earnings Increase	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*34.4%*	*23.7%*	*20.1%*	*NM*	*24.6%*	*30.0%*	*31.0%*	*21.0%*	*151.4%*
Year-over-Year Earnings Increase	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*148.7%*	*140.7%*	*155.1%*	*157.0%*	*151.4%*
Equipment Gross Margin	*22.9%*	*30.8%*	*17.1%*	*23.7%*	*18.6%*	*21.9%*	*19.9%*	*22.0%*	*23.5%*	*24.5%*	*22.7%*	*26.5%*	*28.0%*	*29.7%*	*32.0%*	*29.1%*
Services Gross Margin	*39.6%*	*31.7%*	*34.6%*	*37.9%*	*30.2%*	*33.5%*	*37.4%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*	*37.5%*
Gross Margin	*26.7%*	*31.1%*	*22.5%*	*27.5%*	*21.2%*	*25.0%*	*21.5%*	*23.3%*	*24.7%*	*25.7%*	*24.0%*	*27.5%*	*28.9%*	*30.5%*	*32.6%*	*29.9%*
Sales and Marketing	*20.9%*	*15.3%*	*13.7%*	*12.8%*	*9.0%*	*12.1%*	*6.8%*	*6.5%*	*7.0%*	*7.5%*	*7.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Research and Development	*28.6%*	*14.9%*	*6.5%*	*9.9%*	*6.1%*	*8.8%*	*6.9%*	*7.5%*	*8.0%*	*8.0%*	*7.7%*	*8.5%*	*8.5%*	*8.2%*	*8.5%*	*8.4%*
General and Administrative	*14.1%*	*13.4%*	*13.5%*	*9.7%*	*10.5%*	*11.5%*	*5.3%*	*5.0%*	*5.0%*	*5.0%*	*5.1%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Recurring Operating Expenses	*63.5%*	*43.6%*	*33.6%*	*32.4%*	*25.5%*	*32.4%*	*19.0%*	*19.0%*	*20.0%*	*20.5%*	*19.7%*	*21.5%*	*21.5%*	*21.2%*	*21.5%*	*21.4%*
Recurring Operating Profit Margin	*-36.8%*	*-12.5%*	*-11.1%*	*-4.9%*	*-4.3%*	*-7.5%*	*2.5%*	*4.3%*	*4.7%*	*5.2%*	*4.3%*	*6.0%*	*7.4%*	*9.3%*	*11.1%*	*8.5%*
Net Margin	*-37.6%*	*-14.2%*	*-12.2%*	*-4.3%*	*-0.9%*	*-6.7%*	*-4.9%*	*3.9%*	*4.3%*	*4.8%*	*2.5%*	*5.7%*	*7.1%*	*8.9%*	*10.8%*	*8.2%*
Effective Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*90.1%*	*30.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Cash Flow Analysis	FY 1999	1Q00	2Q00	3Q00	4Q00	FY 2000	1Q01	2Q01	3Q01	4Q01	FY 2001	1Q02	2Q02	3Q02	4Q02	FY 2002
Net Income	*(34,992)*	*(3,432)*	*(3,059)*	*(1,295)*	*(396)*	*(8,182)*	*(5,232)*	*4,986*	*6,190*	*7,464*	*13,408*	*9,340*	*12,193*	*16,042*	*19,496*	*57,071*
Depreciation and Amortization, net	*7,022*	*1,857*	*1,705*	*1,918*	*1,843*	*7,323*	*1,922*	*2,018*	*2,119*	*2,225*	*8,286*	*2,175*	*2,284*	*2,398*	*2,518*	*9,374*
Decrease (Increase) in Accounts Receivable	*(1,411)*	*(2,136)*	*(1,647)*	*(924)*	*(370)*	*(5,077)*	*(1,333)*	*(1,399)*	*(1,469)*	*(1,543)*	*(5,745)*	*(1,508)*	*(1,583)*	*(1,663)*	*(1,746)*	*(6,499)*
Decrease (Increase) in Inventories	*(552)*	*(1,252)*	*398*	*(2,682)*	*(145)*	*(3,681)*	*(966)*	*(1,015)*	*(1,065)*	*(1,119)*	*(4,165)*	*(1,093)*	*(1,148)*	*(1,205)*	*(1,266)*	*(4,712)*
Decrease (Increase) in Prepaid Expenses	*(1,008)*	*286*	*180*	*(532)*	*(265)*	*(331)*	*(87)*	*(91)*	*(96)*	*(100)*	*(374)*	*(98)*	*(103)*	*(108)*	*(114)*	*(423)*
Increase (Decrease) in Accounts Payable	*985*	*(2,678)*	*420*	*4,251*	*259*	*2,252*	*591*	*621*	*652*	*684*	*2,547*	*669*	*702*	*737*	*774*	*2,882*
Other Adjustments	*(1,340)*	*(1,651)*	*1,351*	*(984)*	*(352)*	*(1,636)*	*(429)*	*(451)*	*(473)*	*(497)*	*(1,851)*	*(486)*	*(510)*	*(536)*	*(562)*	*(2,094)*
Cash Flow From Operations	***(31,296)***	***(9,006)***	***(652)***	***(248)***	***574***	***(9,332)***	***(5,534)***	***4,669***	***5,857***	***7,115***	***12,107***	***8,998***	***11,834***	***15,666***	***19,100***	***55,599***

Syed E. Haider
Frost Securities
214-515-4469
syed.haider@frostsecurities.com

Westell Technologies - Revenue Model

	1999 31-Mar act.	1Q00 30-Jun act.	2Q00 30-Sep act.	3Q00 31-Dec act.	4Q00 31-Mar act.	2000 31-Mar act.	1Q01 30-Jun act.	2Q01 30-Sep est.	3Q01 31-Dec est.	4Q01 31-Mar est.	2001 31-Mar est.	1Q02 30-Jun est.	2Q02 30-Sep est.	3Q02 31-Dec est.	4Q02 31-Mar est.	2002 31-Mar est.
Product Revenue																
Telco Access	57,454	13,824	12,799	11,865	13,546	52,034	30,221	32,216	34,535	35,157	132,128	33,997	33,997	33,657	32,142	133,792
Transport Systems	9,540	2,189	2,523	3,748	3,455	11,915	6,017	15,043	17,299	17,645	56,003	19,056	20,200	21,210	21,316	81,782
CPE	4,868	1,175	2,004	6,351	16,177	25,707	61,880	70,543	79,714	88,482	300,619	96,446	101,268	106,331	108,458	412,503
Equipment Revenue	71,862	17,188	17,326	21,964	33,178	89,656	98,118	117,801	131,548	141,284	488,751	149,499	155,464	161,198	161,916	628,077
Services Revenue	21,317	6,971	7,678	8,053	9,676	32,378	9,758	10,978	12,405	14,142	47,282	15,386	16,817	18,095	19,434	69,732
Total Revenue	**93,179**	**24,159**	**25,004**	**30,017**	**42,854**	**122,034**	**107,876**	**128,779**	**143,953**	**155,425**	**536,033**	**164,885**	**172,281**	**179,293**	**181,350**	**697,809**
Product % of Sales																
Telco Access	61.7%	57.2%	51.2%	39.5%	31.6%	42.6%	28.0%	25.0%	24.0%	22.6%	24.6%	20.6%	19.7%	18.8%	17.7%	19.2%
Transport Systems	10.2%	9.1%	10.1%	12.5%	8.1%	9.8%	5.6%	11.7%	12.0%	11.4%	10.4%	11.6%	11.7%	11.8%	11.8%	11.7%
CPE	5.2%	4.9%	8.0%	21.2%	37.7%	21.1%	57.4%	54.8%	55.4%	56.9%	56.1%	58.5%	58.8%	59.3%	59.8%	59.1%
Equipment Revenue	77.1%	71.1%	69.3%	73.2%	77.4%	73.5%	91.0%	91.5%	91.4%	90.9%	91.2%	90.7%	90.2%	89.9%	89.3%	90.0%
Services Revenue	22.9%	28.9%	30.7%	26.8%	22.6%	26.5%	9.0%	8.5%	8.6%	9.1%	8.8%	9.3%	9.8%	10.1%	10.7%	10.0%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Product Sales Increase																
Telco Access Sequential Increase	-0.7%	-0.1%	-7.4%	-7.3%	14.2%	-9.4%	123.1%	6.6%	7.2%	1.8%	153.9%	-3.3%	0.0%	-1.0%	-4.5%	1.3%
Transport Sys Sequential Increase	-33.6%	-5.6%	15.3%	48.6%	-7.8%	24.9%	74.2%	150.0%	15.0%	2.0%	370.0%	8.0%	6.0%	5.0%	0.5%	46.0%
CPE Sequential Increase	NM	-4.7%	70.6%	216.9%	154.7%	428.1%	282.5%	14.0%	13.0%	11.0%	1069.4%	9.0%	5.0%	5.0%	2.0%	37.2%
Equipment Sequential Increase	-0.5%	-1.2%	0.8%	26.8%	51.1%	24.8%	195.7%	20.1%	11.7%	7.4%	445.1%	5.8%	4.0%	3.7%	0.4%	28.5%
Services Sequential Increase	50.7%	3.6%	10.1%	4.9%	10.2%	51.9%	0.8%	12.5%	13.0%	14.0%	46.0%	8.8%	9.3%	7.6%	7.4%	47.5%

Syed E. Haider
Frost Securities
214-515-4469
syed.haider@frostsecurities.com