

26 January 2005

MEMC Electronic Materials

Reuters: WFR.N Exchange: NYSE Ticker: WFR

Raising estimates

Stephen O'Rourke
(1) 212 250-8670
stephen.orourke@db.com

Hari Chandra
(1) 212 250-2076
hari.chandra@db.com

Fundamentals intact, reiterate Buy rating

MEMC reported F4Q04 (Dec) revenue and EPS of \$268M and \$0.26 versus our estimate of \$263M and \$0.26 and consensus of \$262 and \$0.24. We believe company fundamentals of share gains, efficient build-out of capacity, and a strong operating model remain intact. We reiterate our Buy rating and \$14 price target.

Outlook incrementally stronger, opex up slightly

We expect revenue to be largely flat in F1Q05 (Mar); we are forecasting \$268M, above our prior revenue expectation of \$258M, and \$0.25 EPS reflecting fine-tuning of the cost structure and a slightly higher minority interest expense. We believe incremental share gains and leverage to the efficient build out of 300mm capacity can drive out-performance as the cycle proceeds. (We note that MEMC can build out 300mm wafer capacity to 350k wafers per month using existing facilities.) We believe MEMC's commentary on 2005 supports our cycle view of a fundamentals bottoming in 1H'05 with a modest recovery beginning thereafter measured by wafer starts.

Cushion in numbers, maintaining Buy

We are modestly increasing our 2005 revenue estimate by \$40 million to \$1.1 billion while keeping our EPS estimate intact at \$1.05 reflecting our conservatism on gross margins in the context of an inventory correction. We note there is room for margin expansion and upside to our estimates, most likely in 2H05, as the inventory correction runs its course, and a more favorable mix emerges. We maintain our Buy rating and \$14 price target, or 13.3x our 2005 EPS estimate of \$1.05.

Forecasts and ratios

Year end December 31	2004A	2005E	2006E
1Q EPS (US\$)	0.16	0.25	0.28
2Q EPS (US\$)	0.20	0.25	0.30
3Q EPS (US\$)	0.27	0.27	0.32
4Q EPS (US\$)	0.26	0.28	0.34
FY EPS (US\$)	0.89	1.05	1.24
CY P/E	13.5x	11.5x	9.7x
Rev (US\$)	1,028	1103	1202

Source: Deutsche Bank and company reports

Deutsche Bank

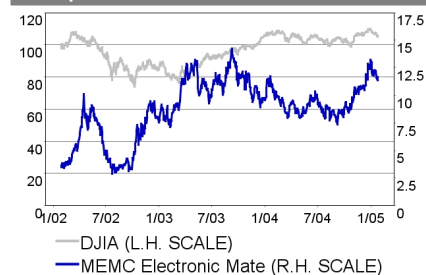


Results Review

Buy

Price at 26 January 2005 (US\$)	12.04
Price target (US\$)	14
52-week range (US\$)	13-7

Price/price relative



Performance(%)	1m	3m	12m
Absolute	-7.6%	30.3%	8.6%
DJIA	-3.4%	7.3%	-1%

Stock data

Market cap (US\$)	2,665
Shares outstanding (m)	221.4
Avg. daily volume ('000)	730

Deutsche Bank Securities Inc.

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1.

Valuation

We reiterate our Buy rating on WFR and \$14 price target. With vastly improved operations pointing towards a debt-free balance sheet by end-2005, WFR can benefit from multiple expansion on operational stability, business expansion opportunities, with a further cushion coming in from possible share repurchase activity. Accordingly, our \$14 target price translating to ~13.3x our 2005 EPS estimate of \$1.05 and ~9.7x our 2006 EPS estimate of \$1.24 may prove to be conservative.

Risks

Risks include but are not limited to (1) a weaker business environment than our present projections, (2) competitive pressures, (3) operational execution missteps, (4) delayed adoption of 300mm wafers, and (5) general economic risk.

WFR income statement

Updated on Jan 27, 2005	1Q04	2Q04	3Q04	4Q04	2004	1Q05E	2Q05E	3Q05E	4Q05E	2005E	1Q06E	2Q06E	3Q06E	4Q06E	2006E
Total Sales	\$228.8	\$255.5	\$275.3	\$268.4	\$1,028.0	\$268.4	\$271.1	\$279.2	\$284.8	\$1,103.4	\$284.8	\$291.9	\$306.5	\$318.7	\$1,201.9
Cost of Goods	155.4	168.4	164.5	170.2	658.5	169.9	170.2	173.1	175.1	688.3	174.6	177.5	184.5	190.0	726.5
Gross Income	73.3	87.2	110.7	98.2	369.4	98.5	100.8	106.1	109.6	415.1	110.2	114.4	122.0	128.8	475.4
R&D	8.9	9.3	9.4	10.4	38.0	9.9	10.0	10.2	10.4	40.5	10.4	10.7	11.0	11.3	43.4
SG&A	17.2	17.8	17.8	19.2	71.9	18.1	18.3	18.6	18.8	73.8	18.8	19.3	19.6	20.1	77.8
Operating Income	47.2	60.0	83.6	68.6	259.5	70.4	72.5	77.3	80.4	300.7	81.0	84.5	91.3	97.4	354.2
Other Income (Exp)	6.4	(1.6)	(0.4)	2.4	6.8	(0.1)	(0.1)	0.0	0.1	(0.1)	0.2	0.3	0.4	0.5	1.4
JV Royalty Income	0.1				0.1										
Pretax Income	53.7	58.4	83.2	71.1	266.4	70.3	72.4	77.3	80.5	300.6	81.2	84.8	91.7	97.9	355.6
Taxes	13.4	11.7	20.8	12.1	58.0	14.1	14.5	15.5	16.1	60.1	16.2	17.0	18.3	19.6	71.1
Equity in (loss)/income of JVs	(1.7)				(1.7)										
Minority Interest	(2.7)	(3.0)	(2.7)	(2.4)	(10.7)	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)	(1.5)	(1.5)	(1.0)	(1.0)	(5.0)
Extraordinary Item		(16.8)		(12.6)	(29.4)										
Net Income	35.9	60.6	59.7	69.2	225.4	54.8	56.4	60.4	62.9	234.5	63.5	66.3	72.4	77.3	279.5
Net Income-Continuing Operation	35.9	43.8	59.7	56.5	196.0	54.8	56.4	60.4	62.9	234.5	63.5	66.3	72.4	77.3	279.5
Avg. Shares Outstanding - Basic	207.2	207.7	207.8	208.1	207.7	209.1	208.7	210.1	209.7	209.4	210.7	210.4	211.7	211.4	211.1
Basic EPS	\$0.17	\$0.29	\$0.29	\$0.33	\$1.08	\$0.26	\$0.27	\$0.29	\$0.30	\$1.12	\$0.30	\$0.32	\$0.34	\$0.37	\$1.32
Avg. Shares Outstanding - Diluted	222.1	221.0	220.4	222.1	221.4	223.1	222.4	224.1	223.4	223.2	224.4	224.2	225.4	225.2	224.8
Diluted EPS	\$0.16	\$0.27	\$0.27	\$0.31	\$1.02	\$0.25	\$0.25	\$0.27	\$0.28	\$1.05	\$0.28	\$0.30	\$0.32	\$0.34	\$1.24
Avg. Shares Outstanding - Diluted	222.1	221.0	220.4	222.1	221.4	223.1	222.4	224.1	223.4	223.2	224.4	224.2	225.4	225.2	224.8
Diluted EPS (Excl. Charges)	\$0.16	\$0.20	\$0.27	\$0.25	\$0.89	\$0.25	\$0.25	\$0.27	\$0.28	\$1.05	\$0.28	\$0.30	\$0.32	\$0.34	\$1.24
Margin Structure*	1Q04	2Q04	3Q04	4Q04	2004	1Q05E	2Q05E	3Q05E	4Q05E	2005E	1Q06E	2Q06E	3Q06E	4Q06E	2006E
Cost of Goods Sold	67.9%	65.9%	59.8%	63.4%	64.1%	63.3%	62.8%	62.0%	61.5%	62.4%	61.3%	60.8%	60.2%	59.6%	60.4%
Gross Margin	32.1%	34.1%	40.2%	36.6%	35.9%	36.7%	37.2%	38.0%	38.5%	37.6%	38.7%	39.2%	39.8%	40.4%	39.6%
R&D	3.9%	3.6%	3.4%	3.9%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.6%	3.6%	3.6%
SG&A Expenses	7.5%	7.0%	6.5%	7.1%	7.0%	6.8%	6.8%	6.7%	6.6%	6.7%	6.6%	6.6%	6.4%	6.3%	6.5%
Operating Margin	20.7%	23.5%	30.4%	25.6%	25.2%	26.3%	26.8%	27.7%	28.3%	27.3%	28.5%	29.0%	29.8%	30.6%	29.5%
EBITDA Margin	25.0%	27.5%	34.5%	30.2%	29.5%	30.8%	31.3%	32.1%	32.6%	31.7%	33.2%	33.6%	34.2%	34.8%	34.0%
Tax Rate	25.0%	20.0%	25.0%	17.0%	21.8%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net Margin	15.7%	17.1%	21.7%	21.1%	19.1%	20.4%	20.8%	21.6%	22.1%	21.3%	22.3%	22.7%	23.6%	24.3%	23.3%

Source: Deutsche Bank and company reports

Appendix 1

Important disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price	Disclosure
MEMC Electronic Materials	WFR.N	11.70 (USD)	1, 7, 9, 13

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public offering for this company, for which it received fees.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Deutsche Bank and/or its affiliate(s) was a member of a syndicate which has underwritten, within the last five years, the last offering of this company.
13. Deutsche Bank and/or its affiliate(s) holds a trading position, as that term is defined by German law, in shares of the company whose securities are subject of the research.

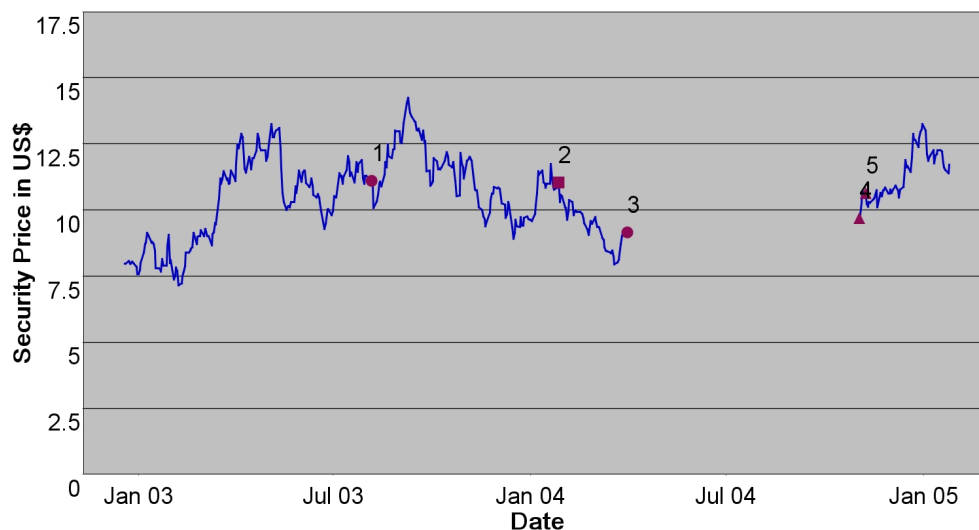
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://equities.research.db.com>.

Analyst certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Stephen O'Rourke

Historical recommendations and target price: MEMC Electronic Materials, Inc. (WFR.N)

(as of 1/25/2005)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

* New Recommendation Structure
as of September 9, 2002

- | | |
|--|---|
| 1. 8/6/2003: Buy, US\$ 15 | 4. 11/2/2004: Rating Initiated Hold |
| 2. 1/27/2004: Buy, Target Price Change US\$ 14 | 5. 11/8/2004: Upgrade to Buy, Target Price Change US\$ 14 |
| 3. 3/31/2004: Suspended Rating | |

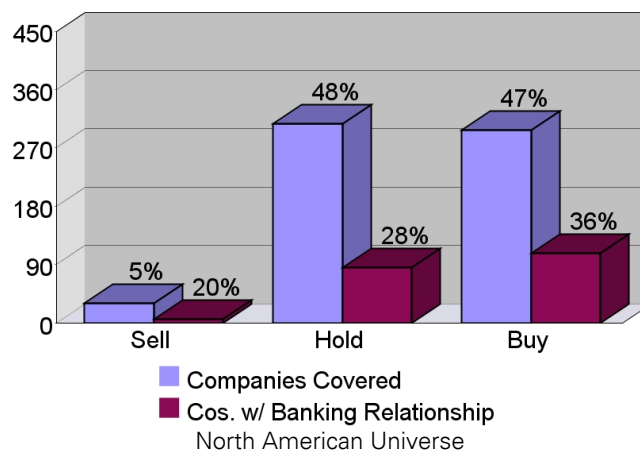
Rating key

Buy: Total return expected to appreciate 10% or more over a 12-month period.

Hold: Total return expected to be between 10% to -10% over a 12-month period.

Sell: Total return expected to depreciate 10% or more over a 12-month period.

The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the new notes will have priority.

Rating dispersion and banking relationships

Deutsche Bank Securities Inc.

North American locations

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
(1)212 250 2500

Deutsche Bank Securities Inc.

225 Franklin Street
25th Floor
Boston, MA 02110
(617) 988 8600

Deutsche Bank Securities Inc.

222 West Adams Street
Suite 1900
Chicago, IL 60606
(312) 424 6000

Deutsche Bank Securities Inc.

3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
(303) 394 6800

Deutsche Bank Securities Inc.

1735 Market Street
24th Floor
Philadelphia, PA 19103
(215) 854 1546

Deutsche Bank Securities Inc.

101 California Street
46th Floor
San Francisco, CA 94111
(415) 617 2800

International locations

Deutsche Bank AG

Winchester House
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
(44) 207 545 4900

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 41339

Deutsche Bank AG

Level 19, Grosvenor Place
225 George Street
Sydney, NSW 2000
Australia
Tel: (61) 2 9258 1555
Fax: (61) 2 9258 1550

Deutsche Securities Limited

2-11-1 Nagatacho, 20th Floor
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171 Japan
Tel: (81)3 5156 6701
Fax: (81)3 5156 6700

Deutsche Bank AG

Level 55
Cheung Kong Centre
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888
Fax: (852) 2203 6921

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed by Deutsche Bank to be reliable and has been obtained from public sources believed to be reliable, but Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may engage in securities transactions in a manner inconsistent with this research report and with respect to securities covered by this report, will sell to or buy from customers on a principal basis. Disclosures of conflicts of interest, if any, are discussed at the end of the text of this report or on the Deutsche Bank website at <http://equities.research.db.com>.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this report is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. **Additional information relative to securities, other financial products or issuers discussed in this report is available upon request.** This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.

Copyright © 2004 Deutsche Bank AG