

(WFR \$12.04* Market Perform)

2003 EPS

FY Dec	Old	New	Con
1Q	\$0.09A	-	
2Q	\$0.12A	\$0.13A	-
3Q	\$0.15A	\$0.16A	-
4Q	\$0.15A	-	
FY03	\$0.50A	\$0.53A	-

2004 EPS

FY Dec	Old	New	Con
1Q	\$0.17A	\$0.16A	-
2Q	\$0.16A	\$0.19A	-
3Q	\$0.27A	-	
4Q	\$0.23E	\$0.26A	-
FY04	\$0.83E	\$0.89A	-

2005 EPS

FY Dec	Old	New	Con
1Q	\$0.21E	\$0.24E	0.23
2Q	\$0.26E	-	
3Q	\$0.29E	\$0.28E	-
4Q	\$0.31E	\$0.30E	-
FY05	\$1.07E	\$1.09E	1.07

MEMC ELECTRONIC MATERIALS, INC.

Shares Out. (Mil) 207.9

Market Cap. \$2,502.9

Old Price Target: \$10.00

New Price Target: \$10.00

**WFR 4Q Results: Margin Pressure an Issue--
Maintaining Market Perform Rating****Summary and Recommendation**

MEMC reported its 4Q results yesterday after the close. Reported 4Q revenues of \$268.4M were down 2.5% QOQ, although in line with the midpoint of the company's guidance range, and above our estimate of \$261.5M. But, reported gross margin of 36.6% was well below our estimate of 38% due to an unfavorable product mix (200mm wafers under pricing pressure). Although the disappointing margins are expected to keep pressure on stock, we believe a mix of improving wafer demand environment by midyear as well as the company's continued efforts to improve EBITDA and FCF margins are two catalysts that could make us become more aggressive on the name. However, given the uncertainties with demand this early in the quarter, we maintain our Market Perform rating until there is increased visibility.

Key Points

- **4Q margins an issue.** Although revs. were better than expected, the lower GM combined with higher than expected op. cost resulted in a 25.6% op. margin, lower than our est. of 27.6%. Despite the lower op. profit of \$68.6M, a lower than modeled tax rate helped MEMC to realize op. EPS of \$0.26, above our \$0.23 est.
- **Guidance was a mixed bag.** Despite WFR's flat 1Q05 revenue guidance, which is \$21M above our est., the impact to EPS is only \$0.03 of upside to our estimate.
- **300mm ramp underway.** WFR continues to add 300mm capacity as it spent \$52M in capex in 4Q04, up 100% QOQ. This is expected to help it have 150,000 of 300mm wafers-per-month capacity by the end of 1Q05, which will help improve the 300mm wafers mix to 18%.
- **Focus on EBITDA and FCF margin improvement.** When we launched coverage on the name last August, we argued for continued improvement in operational efficiencies and cash flow before becoming aggressive on the name. Although the mix issue put pressure on GM exiting '04, we are somewhat encouraged to see the EBITDA margin improving to 30% by the year-end, up from 22% in '03.

*Closing price of last business day immediately prior to the date of this publication.

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MEMC ELECTRONIC MATERIALS, INC. (WFR)

<http://www.fbrcorp.com/d.asp?GVKEY=060992&IID=01>

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Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
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Sell (Underperform)	7.5 %	0.0 %

⁽¹⁾As of midnight on the business day immediately prior to the date of this publication.

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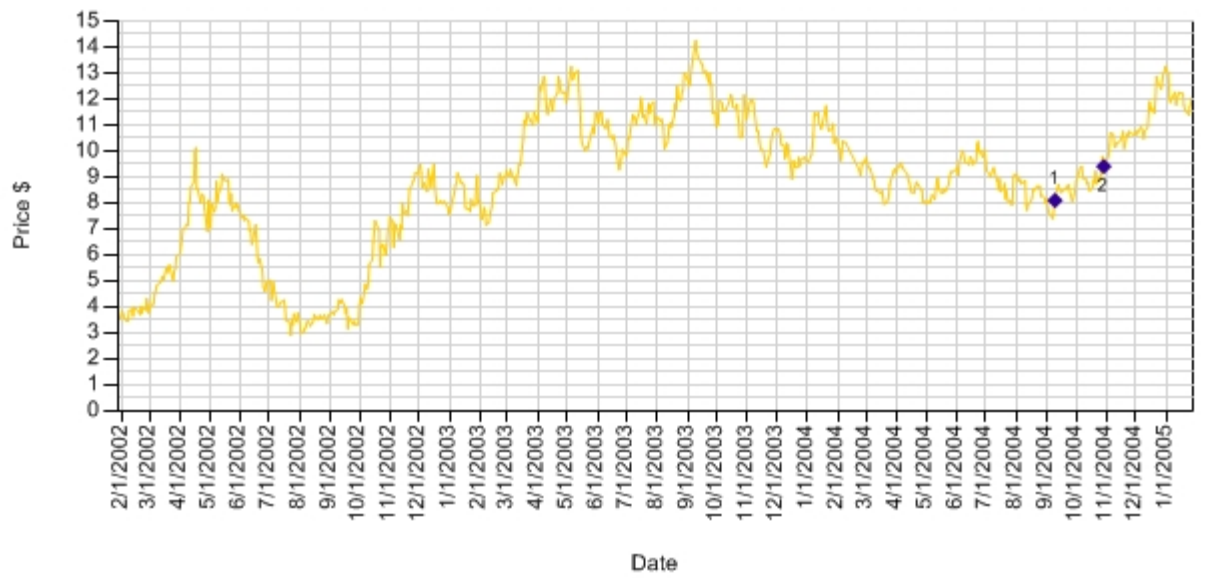
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WFR Performance



- Close
- Buy (incl. Outperform, Accum)
- Hold (incl. Mkt Perform)
- Sell (incl. Underperform)
- Split
- 1: \$9.00 p/t H - 09/09/04
- 2: \$10.00 p/t H - 10/29/04