

MEMC ELECTRONIC MATERIALS, INC. (WFR:**Underperform****\$19.07*)**

St. Peters, MO

Price Target \$15.00

Opinion Downgrade

STOCK DATA

52 Week Range	\$23.75-\$8.46
ADTV - 3 Month	3.0
Market Cap	\$3,993.3
Shares	224.7
Outstanding (Diluted)	

EARNINGS DATA

EPS (FD Operating)			
Dec.	2004A	2005E	2006E
1Q	\$0.16	\$0.23A	\$0.25
2Q	0.19	0.26A	0.28
3Q	0.27	0.28	0.32
4Q	0.27	0.30	0.33
FY	\$0.89	\$1.07	\$1.18
P/E	14.8x	17.9x	16.1x

FY	2004A	2005E	2006E
Revenue	1,028.0	1,117.5	1,213.1

FINANCIAL DATA

	2Q05
Cash & Equivalents	101.0
Accounts Receivable	132.1
Inventories	134.9
Current Assets	395.2
Total Assets	1,079.5
Total Current Liabilities	199.9
Long-Term Debt	108.2
Total Debt	129.9
Total Stockholder Equity	563.6

Financial Values In Millions

WFR: Peeling Off the Layers, Separating the Facts from the Hype--Downgrading to Underperform**Summary and Recommendation**

We are finally downgrading the shares of MEMC from Market Perform to Underperform, while keeping our price target unchanged at \$15. Although we expect MEMC to exceed our 3Q estimates, we believe that upside to '06 EPS estimates will be limited (to, at best, less than 10%) because: 1) increased 300mm raw wafer capacity (a factor that was further highlighted in yesterday's news from SUMCO that it will raise \$1.2B in mid November to fund capacity expansion), and 2) our view that the polysilicon pricing impact is negligible to MEMC's overall revenues. These, combined with the appropriate valuation multiple (a matter that, in our view, has been missed by the Street), do not give us a price target that would much exceed the mid teens. The risk to our argument is whether or not MEMC decides to actually purchase a solar panel manufacturing company/facility. But we believe that investors should remain focused on the organic revenues, peak margins and, thus, free cash flows (given the capital-intensive nature of this industry). We continue to encourage investors to swap from MEMC into ATMI, given ATMI's earning power.

Key Points

- **With margins expected to peak at high 20s, earnings upside in '06 is limited to revenue growth.** Given the capital-intensive nature of this industry and a 50% increase in 300mm wafer capacity at MEMC, we do not expect a meaningful expansion to our operating-margin assumptions.
- **Competitors raising capital, resulting in additional wafer capacity in '06, putting pressure on ASPs.** Given the news from SUMCO, we are more certain that there will be sufficient 300mm capacity in '06, thus limiting pricing power.
- **How to best value WFR; consumable vs. capital intensity.** Given that long-term revenue growth is expected to remain 10%-12% (the significant capex to bring up 300mm capacity--or otherwise lose market share--and limited margin expansion), we believe investors should not only consider the P/E multiple, but also the free cash flow outlays and whether or not the company can improve the ROIC.

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

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Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
Buy (Outperform)	49.4 %	19.1 %
Hold (Market Perform)	44.3 %	7.3 %
Sell (Underperform)	6.3 %	2.2 %

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

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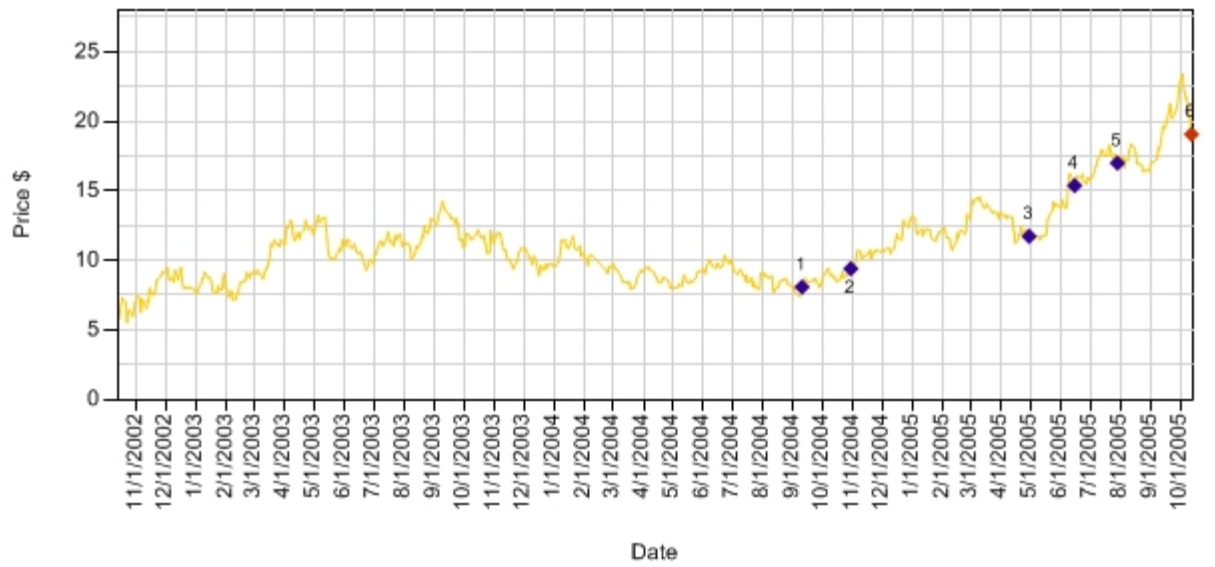
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WFR Performance



- 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
- ◆ 3: \$11.50 p/t H - 04/29/05
- ◆ 4: \$14.00 p/t H - 06/14/05
- ◆ 5: \$15.00 p/t H - 07/28/05
- ◆ 6: \$15.00 p/t S - 10/13/05