FBR EQUITY RESEARCH

Important disclosures may be found on the last two pages of the report.

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

St. Peters, MO
October 13, 2005

Underperform
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 Outstanding (Diluted)	224.7

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.

First Things First: a Preview of the Third Quarter

MEMC has not announced the date of the 3Q05 earnings release, but we expect the company to exceed our estimates on both the top and bottom lines. As we highlighted in our Asia trip report from early September, based on our checks with Japanese competitors as well as wafer distributors, we believe 300mm wafer prices increased by as much as 10% (QOQ) during the quarter, while 200mm wafer prices were flat (QOQ); we would expect MEMC to have experienced similar increases in wafer ASPs. Additionally, given the company's emphasis on the shortages of polysilicon material, we would also expect some polysilicon-related revenues to have finally started to contribute. Therefore, given the expected upside to revenues and a modest improvement in the overall margins, we expect upside to our earnings estimate.

Figure 1: FBR Estimates versus Company Guidance and Consensus

	SEP05E				Compares		DEC05E		
	Reported	Est	Guidance	Consensus	JUN05A	SEP04A	Est	Guidance	Consensus
Rev ($M)	$286	$286	$284-$289	$289	$275	$275	$298	N/A	$304
% Y/Y	4%	4%			8%	41%	11%		
% Q/Q	4%	4%	3% - 5%		7%	8%	4%		
GM	37%	37%	improve over 2Q		36%	40%	37%		
OM	26%	26%	improve over 2Q		26%	30%	27%		
Tax Rate	14%	14%			12%	25%	14%		
Shares (M)	225	225			225	220	225		
OP EPS	$ 0.28	$ 0.28		$ 0.29	$ 0.26	$ 0.27	$ 0.30	N/A	$ 0.32

Source: FBR Research and company reports

However, based on our most recent checks with wafer distributors, we do not expect much of a 300mm wafer ASP increase in 4Q05. We remind investors that, in our opinion, a majority of contracts (short- and long-term) are based on volume and not ASPs. Although some may argue that customers are renewing contracts, thus helping MEMC with ASPs, we believe that minimum guaranteed order volume is the main issue in contract negotiations, not ASPs. Given our expectations of 4%-5% QOQ growth in the overall wafer starts in 4Q05, as well as a bit of polysilicon-related revenues, we expect MEMC to guide to, at least, 5% QOQ revenue growth for 4Q05, above our current estimate. Given higher margins in 3Q05, and higher revenues in 4Q05, we also expect the company's 4Q05 operating profit to exceed our current estimate.

Despite Expected Upside to 2H05 Estimates, We See Limited Upside to '06 Estimates

We have been arguing for some time that, unless '06 presents a super-cycle in the semiconductor industry, MEMC's earnings growth (above and beyond our current estimate) is limited. We continue to believe that upside to our next year's EPS estimate is limited because: 1) the lack of a 300mm wafer ASP increase, and 2) the lack of meaningful revenues from the sale of polysilicon material into the spot market.

1) Why the 300mm wafer ASPs increase will be very limited, at best. Figure 2 below illustrates the historical trends in ASP changes when wafer manufacturers migrate to larger wafers. Although the quality of 300mm wafers represents an opportunity by which select wafer manufacturers could gain some pricing power, overall pricing trends are downward at every migration.

In addition, we found out yesterday that SUMCO will proceed with its planned IPO early next month, with the proceeds expected to fund 300mm wafer-capacity increases of as much as 40% per year over the next two years. Wacker-Siltronic also told us, in mid September, that it remains on target with its planned equity offering, which is expected to help fund capex for 300mm wafer-capacity expansion. And, based on our research, we believe Shin-Etsu will increase 300mm wafer capacity by 30%-40% in '06, while Komatsu could increase it by as much as 50%. Such trends, along with our expectations of 45%-50% 300mm wafer-capacity increases at MEMC in '05, lead us to believe that there will not be as much pricing power next year. This, combined with our best-case assumption that 200mm wafer capacity remains unchanged but fully utilized, leads us to believe that the overall ASPs may be flat to up slightly--as a best case.

Figure 2: Historical Blended ASP of Polished and Epitaxial Wafers, at Start of Year, 1998-2004 (Price per Square Inch U.S. Dollars)

Wafer Diameter	1998	1999	2000	2001	2002	2003	2004	CAGR
3 Inches	$2.05	$1.99	$1.96	$1.98	$1.90	$1.84	$1.68	-3.2%
%Y/Y Change		*-3%*	*-2%*	*1%*	*-4%*	*-3%*	*-9%*	
100 mm	$2.02	$1.91	$1.90	$1.90	$1.81	$1.90	$1.85	-1.4%
%Y/Y Change		*-5%*	*0%*	*0%*	*-5%*	*5%*	*-3%*	
125 mm	$1.94	$1.83	$1.83	$1.79	$1.63	$1.53	$1.46	-4.6%
%Y/Y Change		*-6%*	*0%*	*-3%*	*-9%*	*-6%*	*-5%*	
150 mm	$2.00	$1.68	$1.64	$1.65	$1.46	$1.38	$1.28	-7.1%
%Y/Y Change		*-16%*	*-2%*	*1%*	*-12%*	*-5%*	*-7%*	
200 mm	$2.54	$1.95	$1.80	$1.78	$1.44	$1.30	$1.20	-11.7%
%Y/Y Change		*-23%*	*-8%*	*-1%*	*-19%*	*-10%*	*-7%*	
300 mm	N/A	N/A	N/A	N/A	$4.66	$3.03	$2.49	-27.0%
%Y/Y Change						*-35%*	*-18%*	

Source: Gartner Dataquest and FBR Research

2) Why we remain doubtful about the impact of a polysilicon shortage on MEMC's earnings power. As known by any average Joe on the Street, there is a shortage of polysilicon material used in the solar cell industry. It should be noted that the solar-grade poly is of a lower grade when compared to the semiconductor wafer poly grade. The shortage of solar poly grade, in our opinion, has led the spot solar-poly ASP to increase to $60-$65/kg, while the semiconductor-grade poly is currently sold at $90-$100/kg in the spot market. Given this scenario, the bulls have been arguing for incremental revenues as MEMC sells its excess poly material into the solar market.

Although we find the above scenario a clever way of leveraging the company's resources, we still find it hard to quantify the impact of poly sales into the solar market when MEMC's internal polysilicon manufacturing utilization rate was near 100% as of 4Q04. And, based on the past several quarterly conference calls, we do not expect MEMC's internal polysilicon capacity to increase by more than 3%-5% per year for the next two to three years. Therefore, given MEMC's plans to increase its own semiconductor capacity by 100% in '05 and 45%-50% in '06, this leads us to believe that MEMC may not have enough excess polysilicon material to sell into the spot market. As with semi-grade polysilicon, our research suggests that the top raw wafer manufacturers have either secured long-term poly supply, or have their own subsidiaries making polysilicon.

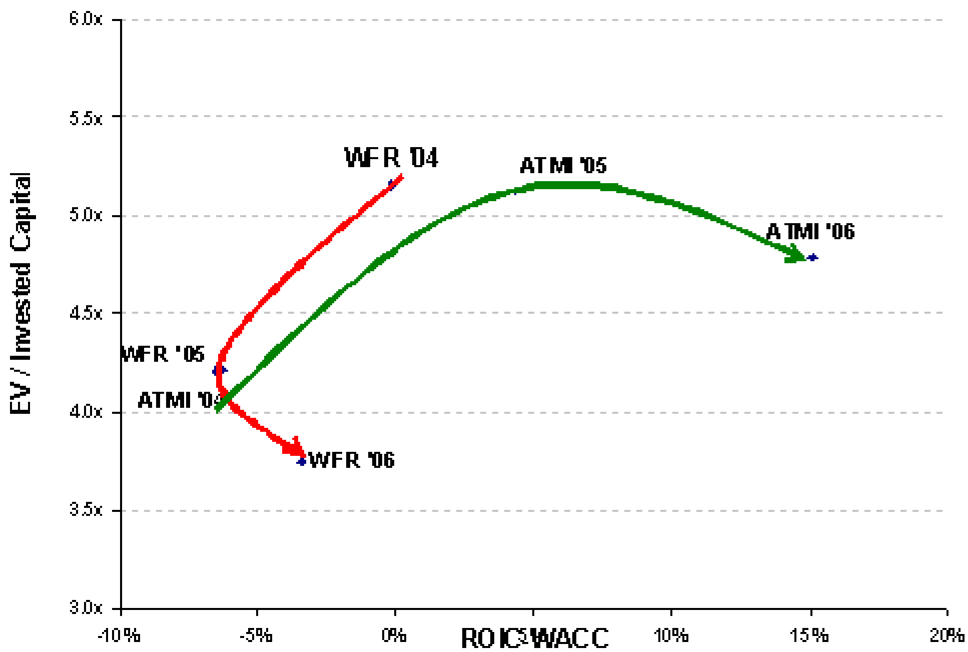
How to Value a Capital-Intensive Commodity Business

Two of the most challenging issues, in our opinion (regarding whether to buy, sell, or hold on to the shares of MEMC), have been valuation and determining what valuation methods/metrics to apply. Although the bulls highlight the company's low P/E multiple, we remind investors of a few critical factors: 1) MEMC's long-term business model is based on a commodity business. Even if such requirements as SOI or strained silicon help with some pricing power, in the long term (>1 year), this remains a commodity business, with the bulk of ASP power coming in the up-cycles; and, even though there are fewer vendors in the industry, the larger vendors with sizable market share are beginning to add capacity as a mean of consolidating or retaining market share. 2) Although this is a commodity business, it still remains a capital-intensive one, given the capacity requirement.

Therefore, we believe investors should focus on free cash flows and ROIC to better determine management's effectiveness. Below, we have provided an analysis of two consumable companies: MEMC, which still requires significant capex (approximately 15% of revenues in '05 and '06); and ATMI, with a capex requirement of less than 10% in '05 and '06. We note that ATMI has become a less capital-intensive company following the company's divestiture of its non-core businesses in '04.

Figure 3 below shows the current enterprise value as a multiple of the invested capital for each company against the ROIC (excluding the cost of capital), a metric illustrating the value that each company generates for its shareholder for each given year. Therefore, as the value created by the company increases for the given assets employed in creating the value, the market is expected to give a higher premium. As explained above, given MEMC's capital requirement and, thus, estimated free cash flow for the years '04-'05, the figure below shows that MEMC, according to our estimates, will not create much "value," though ATMI, through the divestiture of its capital-intensive businesses in '04, is expected to significantly increase the value created. In conclusion, we are using this graph to highlight the importance of the right "comparable peer group" when evaluating the shares of MEMC. And, to that end, we caution investors against using ATMI, or other less capital-intensive consumable companies like ATMI, in the valuation comp group.

Figure 3: EV/Invested Capital versus ROIC-WACC for WFR and ATMI (2004-2006E)



Source: FBR Research and company reports

To the extent that we do not expect a significant upside to our revenue assumptions for next year, and in the absence of operating-margin expansion above and beyond what is in our '06 model, we believe that a 10x-12x multiple is most appropriate. This, combined with less then 10% upside to our '06 EPS estimate (assuming a best-case scenario), leads us to believe that our $15 price target is the most appropriate. We therefore encourage investors to take profit here as, once true earning power is realized, we expect most of the hype to come out of the stock.

Risks

The microelectronics business is highly cyclical, with occasional periods of extreme imbalance between supply and demand.

We expect the overall semiconductor market to continue to improve into 2006. Current risks to this thesis are the following: 1) global GDP weakens unexpectedly; 2) overall semiconductor demand falls below our expectations; and 3) overall capex equipment installations (and thus supply) come in below our current expectations.

Although Texas Pacific Group’s (TPG) ownership in MEMC has been reduced, from 34% to its current level of about 25%, we believe that this is still an overhang on the stock that has nothing to do with fundamentals. We expect further reduction in TPG’s ownership going forward.

Although the industry has consolidated, mitigating the risk of wafer-supply overcapacity, we believe that the risk of overcapacity remains, as Japan-based competitors, with deep pockets, could flood the market with 300mm capacity aimed at increasing market share, although such an increase in supply is not expected to fully materialize until 2H06.

Company Profile

Incorporated in 1984, MEMC Electronic Materials, Inc. is engaged in the design, manufacture, and sale of electronic-grade wafers for the semiconductor industry. The company provides wafers in sizes ranging from 100 millimeters (4 inches) to 300 millimeters (12 inches), including three general categories of wafer: prime polished, epitaxial, and test/monitor. Its principal customers are semiconductor device manufacturers, including major memory, microprocessor, and application-specific integrated circuit (ASIC) manufacturers and foundries. MEMC's wafers are used as a starting material for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices. The company operates manufacturing facilities in Europe, Malaysia, Japan, South Korea, the United States, and Taiwan.

(FY DEC) 12 Oct 05	MAR04A	JUN04A	SEP04A	DEC04A	FY04	MAR05A	JUN05A	SEP05E	DEC05E	FY05	MAR06E	JUN06E	SEP06E	DEC06E	FY06
REVENUE	228.8	255.5	275.3	268.4	1,028.0	257.9	275.4	286.4	297.9	1,117.5	283.0	297.1	314.9	318.1	1,213.1
% Change Y/Y	21.5%	33.2%	40.5%	30.9%	31.6%	12.7%	7.8%	4.0%	11.0%	8.7%	9.7%	7.9%	10.0%	6.8%	8.6%
% Change Q/Q	11.6%	11.7%	7.7%	-2.5%		-3.9%	6.8%	4.0%	4.0%		-5.0%	5.0%	6.0%	1.0%	
TOTAL COGS	155.4	168.4	164.5	170.2	658.5	164.6	175.0	181.1	186.5	707.1	182.8	188.3	192.0	192.8	755.9
GROSS PROFIT	73.3	87.2	110.7	98.2	369.4	93.3	100.4	105.3	111.3	410.4	100.2	108.8	122.9	125.3	457.2
% Total Revenue	32.1%	34.1%	40.2%	36.6%	35.9%	36.2%	36.5%	36.8%	37.4%	36.7%	35.4%	36.6%	39.0%	39.4%	37.7%
R&D	8.9	9.3	9.4	10.4	38.0	11.4	11.0	11.0	10.5	43.9	10.0	10.5	11.0	11.1	42.7
% Total Revenue	3.9%	3.6%	3.4%	3.9%	3.7%	4.4%	4.0%	3.8%	3.5%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
SG&A	17.2	17.8	17.8	19.2	71.9	18.2	18.3	18.5	20.3	75.3	19.8	21.4	22.7	22.9	86.8
% Total Revenue	7.5%	7.0%	6.5%	7.1%	7.0%	7.0%	6.7%	6.5%	6.8%	6.7%	7.0%	7.2%	7.2%	7.2%	7.2%
OPERATING PROFIT	47.2	60.0	83.6	68.6	259.5	63.7	71.1	75.8	80.6	291.2	70.4	77.0	89.2	91.3	327.8
% Total Revenue	20.7%	23.5%	30.4%	25.6%	25.2%	24.7%	25.8%	26.5%	27.1%	26.1%	24.9%	25.9%	28.3%	28.7%	27.0%
% Change Y/Y	44.4%	78.2%	128.9%	72.9%	81.9%	34.9%	18.4%	-9.3%	17.4%	12.2%	10.4%	8.3%	17.7%	13.2%	12.6%
% Change Q/Q	19.0%	27.1%	39.2%	-17.9%		-7.2%	11.5%	6.7%	6.3%		-12.7%	9.3%	15.9%	2.3%	
OTHER	6.5	(9.1)	(0.4)	2.4	(0.6)	(1.3)	(1.5)	(1.0)	(1.0)	(4.8)	(1.0)	(0.8)	(0.5)	(0.5)	(2.8)
PRETAX PROFIT	53.7	51.0	83.2	71.1	258.9	62.4	69.6	74.8	79.6	286.4	69.4	76.2	88.7	90.8	325.1
% Total Revenue	23.5%	19.9%	30.2%	26.5%	25.2%	24.2%	25.3%	26.1%	26.7%	25.6%	24.5%	25.6%	28.2%	28.5%	26.8%
% Change Y/Y	83.2%	47.5%	70.9%	64.0%	66.1%	16.2%	36.5%	-10.0%	12.0%	10.6%	11.1%	9.5%	18.6%	14.0%	13.5%
% Change Q/Q	24.0%	-5.1%	63.1%	-14.6%		-12.1%	11.4%	7.5%	6.4%		-12.8%	9.8%	16.4%	2.3%	
TAXES	13.4	12.7	20.8	10.6	57.6	9.4	8.7	10.2	10.8	39.0	10.4	11.4	13.3	13.6	48.8
Tax Rate	25.0%	25.0%	25.0%	15.0%	22.2%	15.0%	12.4%	13.6%	13.6%	13.6%	15.0%	15.0%	15.0%	15.0%	15.0%
OTHER AFTER TAX	1.7	(17.5)	-	(11.0)	(26.8)	(25.0)	-	-	-	(25.0)	-	-	-	-	-
MINORITY INTERESTS	2.7	3.0	2.7	2.4	10.7	1.8	2.0	2.0	2.0	7.8	2.0	2.0	2.0	2.0	8.0
NET INCOME - CONT OPS	35.9	43.1	59.7	59.0	197.7	51.3	58.9	62.6	66.8	239.6	57.0	62.8	73.4	75.1	268.3
% Total Revenue	15.7%	16.9%	21.7%	22.0%	19.2%	19.9%	21.4%	21.9%	22.4%	21.4%	20.1%	21.1%	23.3%	23.6%	22.1%
% Change Y/Y	81.9%	57.9%	69.7%	71.4%	69.5%	42.9%	36.8%	4.9%	13.2%	21.2%	11.0%	6.6%	17.2%	12.5%	12.0%
% Change Q/Q	4.4%	20.0%	38.6%	-1.2%		-13.0%	14.8%	6.3%	6.6%		-14.7%	10.2%	16.9%	2.4%	
NET INCOME - TOTAL	35.9	60.6	59.7	70.0	226.2	76.3	58.9	62.6	66.8	264.6	57.0	62.8	73.4	75.1	268.3
% Total Revenue	15.7%	23.7%	21.7%	26.1%	22.0%	29.6%	21.4%	21.9%	22.4%	23.7%	20.1%	21.1%	23.3%	23.6%	22.1%
% Change Y/Y	81.9%	122.2%	69.7%	103.4%	94.0%	112.5%	-2.8%	4.9%	-4.6%	17.0%	-25.3%	6.6%	17.2%	12.5%	1.4%
% Change Q/Q	4.4%	68.8%	-1.5%	17.2%		9.1%	-22.8%	6.3%	6.6%		-14.7%	10.2%	16.9%	2.4%	
SHARES	222.1	221.0	220.4	222.1	221.4	223.9	224.7	225.1	225.5	224.8	225.9	226.3	226.7	227.1	226.5
EPS - CONT OPS	$ 0.16	$ 0.19	$ 0.27	$ 0.27	$ 0.89	$ 0.23	$ 0.26	$ 0.28	$ 0.30	$ 1.07	$ 0.25	$ 0.28	$ 0.32	$ 0.33	$ 1.18
% Change Y/Y	72.5%	55.6%	72.3%	72.1%	67.5%	41.8%	34.5%	2.7%	11.5%	19.4%	10.1%	5.8%	16.3%	11.8%	11.1%
% Change Q/Q	4.8%	20.6%	39.0%	-2.0%		-13.7%	14.4%	6.2%	6.4%		-14.8%	10.0%	16.7%	2.2%	
EPS - TOTAL	$ 0.16	$ 0.27	$ 0.27	$ 0.32	$ 1.02	$ 0.34	$ 0.26	$ 0.28	$ 0.30	$ 1.18	$ 0.25	$ 0.28	$ 0.32	$ 0.33	$ 1.18
% Change Y/Y	72.5%	118.9%	72.3%	104.2%	91.7%	110.8%	-4.4%	2.7%	-6.0%	15.2%	-26.0%	5.8%	16.3%	11.8%	0.6%
% Change Q/Q	4.8%	69.6%	-1.2%	16.3%		8.2%	-23.1%	6.2%	6.4%		-14.8%	10.0%	16.7%	2.2%	

WFR Cash Flow Model

($ Millions)	1Q04A	2Q04A	3Q04A	4Q04	1Q05	2Q05	3Q05E	4Q05E	1Q06E	2Q06E	3Q06E	4Q06E
Net Income from Operations	35.91	60.60	59.72	69.97	76.31	58.91	62.65	66.77	56.97	62.78	73.41	75.14
Depreciation & Amortization	9.92	10.24	11.44	12.53	13.34	14.30	15.00	16.00	16.00	16.00	15.75	15.90
(Incr) Decr in Accounts Receivable	(16.23)	(19.61)	(13.01)	11.15	10.19	(1.57)	(9.13)	(5.65)	7.34	(6.98)	(8.79)	(1.55)
(Incr) Decr in Inventories	(13.56)	10.49	(7.22)	(7.79)	(7.70)	0.41	(9.53)	(5.78)	7.51	(7.13)	(8.99)	(1.59)
(Incr) Decr in Other Current Assets	(9.40)	10.10	1.32	(9.61)	1.50	0.96	0.00	0.00	0.00	0.00	0.00	0.00
Incr (Decr) in Current Liab. (Excl. debt)	27.31	11.01	(6.26)	31.86	(20.31)	(23.50)	0.00	0.00	0.00	0.00	0.00	0.00
=Cash from Operations	33.95	82.83	46.00	108.12	73.34	49.51	58.99	71.34	87.82	64.67	71.37	87.91
(Incr) Decr in Other Non-Current Assets	(57.23)	0.01	0.06	0.01	(0.03)	0.82	0.00	0.00	0.00	0.00	0.00	0.00
Capital Spending (Net of sales)	(29.00)	(44.00)	(25.50)	(51.73)	(54.40)	(51.20)	(34.03)	(28.00)	(45.27)	(45.00)	(46.00)	(46.00)
=Cash from Investing	(86.23)	(43.99)	(25.44)	(51.72)	(54.43)	(50.38)	(34.03)	(28.00)	(45.27)	(45.00)	(46.00)	(46.00)
Incr (Decr) in Non-curr Liab. (Excl. debt)	(23.55)	(7.57)	(1.17)	(8.47)	5.05	(2.34)	0.00	0.00	0.00	0.00	0.00	0.00
Additional Debt	83.42	(31.94)	(40.19)	(78.90)	(4.08)	(6.46)	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock/Other Equity	(0.18)	5.78	0.60	18.06	1.31	(15.03)	(0.00)	0.00	0.00	0.00	0.00	0.00
=Cash from Financing	59.68	(33.73)	(40.75)	(69.31)	2.28	(23.83)	(0.00)	0.00	0.00	0.00	0.00	0.00
=Increase/(Decrease) in Cash	7.41	5.10	(20.20)	(12.91)	21.19	(24.70)	24.96	43.34	42.55	19.67	25.37	41.91
+Beginning Cash	130.70	140.62	129.49	103.31	92.31	116.32	101.00	125.96	169.30	211.85	231.52	256.89
+Adjustment	(0.40)	(13.79)	(5.94)	1.91	2.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=End Cash	137.70	131.93	103.35	92.31	116.32	91.62	125.96	169.30	211.85	231.52	256.89	298.80
FREE CASH FLOW												
Quarterly	4.95	38.83	20.50	56.39	18.94	(1.69)	24.96	43.34	42.55	19.67	25.37	41.91
% Y/Y	-59%	868%	133%	120%	282%	-104%	22%	-23%	125%	-1266%	2%	-3%
% Q/Q	-81%	684%	-47%	175%	-66%	-109%	-1581%	74%	-2%	-54%	29%	65%
FY-End				$ 121				$ 86				$ 129
% Y/Y				138.5%				-29.1%				51.4%
FCF Margin	2%	15%	7%	21%	7%	-1%	9%	15%	15%	7%	8%	13%
YE-FCF Margin				12%				8%				11%
ASSETS												
Cash & equivalents	140.62	129.49	103.31	92.31	116.32	101.00	125.96	169.30	211.85	231.52	256.89	298.80
Acounts receivable, net	119.25	138.86	151.87	140.73	130.53	132.11	141.24	146.89	139.55	146.52	155.31	156.87
Inventories, net	123.05	112.56	119.78	127.56	135.27	134.85	144.38	150.15	142.65	149.78	158.77	160.35
Other current assets	31.54	16.44	20.12	29.72	28.22	27.26	27.26	27.26	27.26	27.26	27.26	27.26
Total Current Assets	414.45	397.36	395.08	390.33	410.34	395.21	438.83	493.60	521.30	555.08	598.23	643.28
PPE	361.55	392.71	387.28	444.67	476.34	503.86	522.89	534.89	564.16	593.16	623.41	653.51
Other non-current assets	76.06	106.74	98.94	147.54	181.29	180.47	180.47	180.47	180.47	180.47	180.47	180.47
Total Assets	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,142.19	1,208.96	1,265.93	1,328.71	1,402.11	1,477.26
LIABILITIES & SHAREHOLDERS' EQUITY												
Short term debt	86.90	57.45	21.87	24.40	23.06	21.71	21.71	21.71	21.71	21.71	21.71	21.71
Other current liabilities	166.88	179.12	167.63	191.23	200.71	177.20	177.20	177.20	177.20	177.20	177.20	177.20
Total Current Liabilities	253.78	236.57	189.50	215.62	223.76	198.91	198.91	198.91	198.91	198.91	198.91	198.91
Long term debt	127.61	125.12	120.51	116.08	113.35	108.23	108.23	108.23	108.23	108.23	108.23	108.23
Other non-current liabilities	241.33	239.40	217.22	208.76	211.15	208.81	208.81	208.81	208.81	208.81	208.81	208.81
Total Liabilities	622.72	601.08	527.24	540.46	548.26	515.96	515.96	515.96	515.96	515.96	515.96	515.96
Total Shareholders' Equity	229.34	295.73	354.05	442.08	519.71	563.59	626.24	693.01	749.98	812.75	886.16	961.30
Total Liabilities & Shareholders' Equity	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,142.19	1,208.96	1,265.93	1,328.71	1,402.11	1,477.26
LIQUIDITY RATIOS												
Current Ratio	1.63	1.68	2.08	1.81	1.83	1.99	2.21	2.48	2.62	2.79	3.01	3.23
Quick Ratio	1.02	1.13	1.35	1.08	1.10	1.17	1.34	1.59	1.77	1.90	2.07	2.29
Net Working Capital	$ 161	$ 161	$ 206	$ 175	$ 187	$ 196	$ 240	$ 295	$ 322	$ 356	$ 399	$ 444
Long-term Debt/Equity	0.56	0.42	0.34	0.26	0.22	0.19	0.17	0.16	0.14	0.13	0.12	0.11
Total Debt/Equity	94%	62%	40%	32%	26%	23%	21%	19%	17%	16%	15%	14%
Operating Income/Assets Ex Cash	5%	6%	8%	7%	5%	6%	6%	6%	5%	6%	6%	6%
Operating Income/Assets Ex Cash (12 mo)	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
BOOK & CASH VALUE												
Book Value Per Share	$1.03	$1.34	$1.61	$1.99	$2.32	$2.51	$2.78	$3.07	$3.32	$3.59	$3.91	$4.23
Tangible Book Value/Share	$1.03	$1.34	$1.61	$1.99	$2.32	$2.51	$2.78	$3.07	$3.32	$3.59	$3.91	$4.23
Cash Per Share	$0.63	$0.59	$0.47	$0.42	$0.52	$0.45	$0.56	$0.75	$0.94	$1.02	$1.13	$1.32
Net Cash Per Share	($0.33)	($0.24)	($0.18)	($0.22)	($0.09)	($0.13)	($0.02)	$0.17	$0.36	$0.45	$0.56	$0.74

IMPORTANT INFORMATION CONCERNING FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

Company Specific Disclosures

Specific disclosures are applicable to tickers indicated.

MEMC ELECTRONIC MATERIALS, INC. (WFR) http://www.fbrcorp.com/d.asp?GVKEY=060992&IID=01

General Disclosures

Information about the research analyst responsible for this report:

The analyst(s) whose name(s) appear with an ** on the front page of this report certifies that the views expressed herein accurately reflect the analyst's personal views as to the subject securities and issuers, and further certifies that no part of such analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the report. The analyst(s) responsible for this research report has received and is eligible to receive compensation, including bonus compensation, based on Friedman, Billings, Ramsey & Co. Inc.'s ("FBRC") overall operating revenues, including revenues generated by FBRC's investment banking department.

Information about our investment banking department:

In the normal course of its business, FBRC seeks to perform investment banking and other services for various companies and to receive compensation in connection with such services. As such, investors should assume that FBRC intends to seek investment banking or other business relationships with the companies.

Information about our recommendations, holdings and investment decisions:

Our brokers and analysts may make recommendations to their clients, and our affiliates may make investment decisions that are contrary to the recommendations contained in a research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, FBRC, its affiliated entities, and their respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities mentioned in this report.

Information about our rating system:

FBRC instituted the following three-tiered rating system on October 11, 2002 for securities it covers:

- Outperform — FBRC expects that the subject company will outperform similar companies within its industry over the next 12–18 months. We recommend that investors buy the securities at the current valuation.
- Market Perform — FBRC expects that the subject company will perform in line with similar companies within its industry. We recommend that investors maintain their current positions and add on weakness as the valuation or fundamentals become more favorable.
- Underperform — FBRC expects that the subject company will underperform similar companies within its industry. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

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.
A description of the five-tiered rating system used prior to October 11, 2002, can be found at http://www.fbrcorp.com/disclosurespre10702.asp.

General information about this research report:

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. This report should not be construed as advice designed to meet the particular investment needs of any investor, nor as an offer or solicitation to buy or sell the securities mentioned herein, and any opinions expressed herein are subject to change.

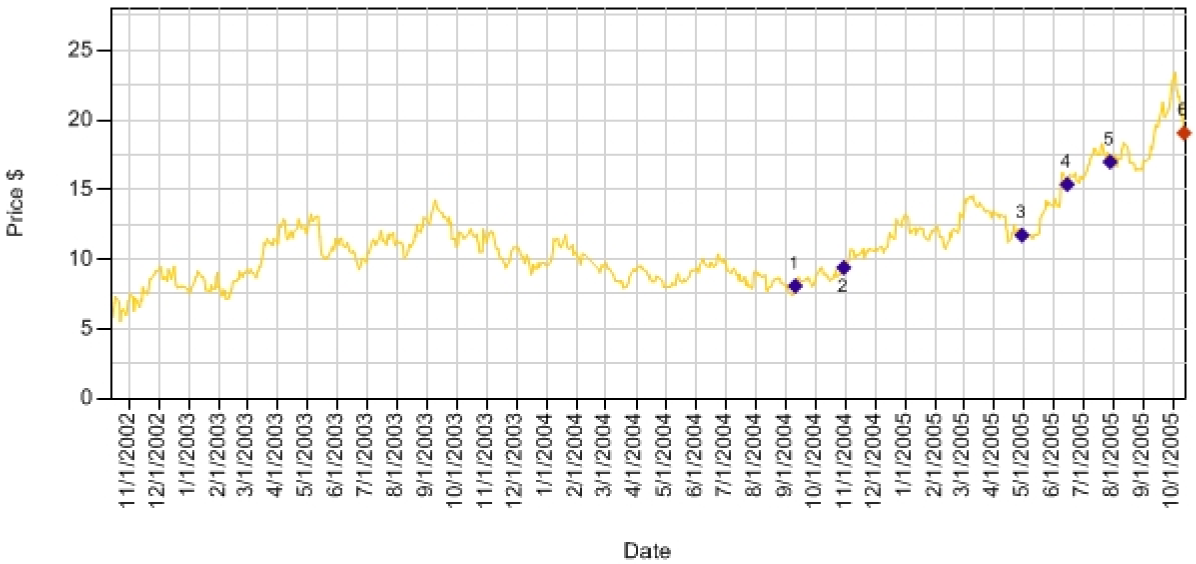
These securities may be sold to or purchased from customers or others by FBRC acting as principal or agent. This publication has been issued and approved by FBRC under a compliance routine approved by Friedman, Billings, Ramsey, International Ltd., its U.K. FSA Regulated affiliate, for distribution to U.K. and European non-private clients.

Commentary regarding the future direction of financial markets is illustrative and is not intended to predict actual results, which may differ substantially from the opinions expressed herein. References to "median," "consensus," "Street," etc., estimates of economic data refer to the median estimate of economists polled by Bloomberg L.P.

If any hyperlink is inaccessible, call 800.846.5050 and ask for Editorial.

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

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