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COMPANY ALERT

MEMC Electronic Materials

Implications of ATMI commentary on MEMC Electronics

Catalyst Event

Buy

Reuters:WFR.N Exchange:NYSE Ticker:WFR

Price (USD)	20.57
Price target	24.00
52-week range	23.39 - 8.73
Market cap (USDm)	4,309.8
Shares outstanding (m)	209.5
Volume	2,307,500
S&P 500	1,190.10

FYE 12/31	2004A	2005E	2006E
1Q EPS (USD)	0.16	0.23	0.32
2Q EPS (USD)	0.20	0.26	0.33
3Q EPS (USD)	0.27	0.29	0.36
4Q EPS (USD)	0.25	0.31	0.39
FY EPS (USD)	0.89	1.09	1.40
P/E (x)	10.6	18.9	14.7

2% to 3% Q4 wafer starts growth could imply WFR estimates a bit high

ATMI projected 2% to 3% wafer starts growth in Q405. MEMC Electronics guided revenue consistent with quarterly wafer starts projections in prior quarters. Present revenue growth estimates (DB and consensus) calls for 5% revenue growth in Q405. We believe the stock is reacting to what could imply lower near term expectations, with a more cautious eye to 2006.

The near term numbers

Q4 revenue of \$304M (DB and consensus) assumes 5.2% sequential revenue growth. We anticipate modest upside to our Q3 revenue growth estimate of 5% (guidance was for 3% to 5% growth), but assuming 5% Q3 revenue growth, and possible Q4 revenue guidance of 2% to 3%, present Q4 revenue estimates would come down by ~2%. This would impact EPS estimates by ~1 cent.

What about 2006?

Furthermore, ATMI indicated that planning assumptions for 2006 were for 5% to 6% wafers starts growth. DB is presently estimating ~14% revenue growth for MEMC, and consensus is for ~15.5% growth. We believe that company and industry fundamentals (i.e. polysilicon shortages resulting in relative pricing power in 2006, the continued mix shift to 300mm, and MEMC's Asia positioning) should help drive growth well in excess of overall wafer starts growth, but conservatism and difficulty in quantifying the impact of polysilicon shortages is likely tempering expectations.

Fundamental drivers are intact and the story hasn't changed

We continue to like the prospects for the company through 2006 and believe that the fundamental drivers for the stock remain intact and should accelerate into 2006.

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