

# UBS Investment Research

## MEMC Electronic Materials

### Positive read-thru from polysilicon news

#### Recent polysilicon developments viewed positively

A recent S-1 filing from SunPower (solar cell division of Cypress Semiconductor) indicates that it signed a 12-year polysilicon agreement with Wacker-Chemie (the #3 supplier). The filing notes that SunPower's agreement with Wacker will not begin until 2008, which in our opinion reflects the polysilicon shortage in 2006/2007 and the amount of time (2-3 years) it takes to bring new capacity online.

#### Prepayment for polysilicon suggests strong supplier power

Although this agreement does not begin until 2008, we note that this arrangement also obligates SunPower to make an up front "prepayment" to Wacker-Chemie on January 1, 2006. While the prepayment amount was not disclosed, we believe this requirement further validates the increasing pricing power of the polysilicon suppliers.

#### Expect MEMC to see similar benefits starting in 1Q06

We estimate that MEMC is the #4 supplier of polysilicon with about 12% market share and that its polysilicon sales will be 10-15% of its total in 3Q05. As a reminder, we will be hosting a conference call on November 1st to further analyze MEMC's increasing pricing power and the shortage of polysilicon. Please contact your UBS salesperson for further details.

#### Valuation: Maintain Buy-2 and \$27 Price Target

Our 12-month price target is based on applying a 17x multiple to our CY06 EPS estimate of \$1.60.

Highlights (US\$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	781	1,028	1,118	1,307	-
EBIT	143	259	301	444	-
Net income (UBS)	117	225	273	371	-
EPS (UBS, US\$)	0.53	0.90	1.10	1.60	-
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	-
Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	-3.7	25.2	26.9	34.0	-
ROIC (EBIT) %	-3.6	58.4	49.0	58.7	-
EV/EBITDA x	18.2	7.3	11.9	8.3	-
PE (UBS) x	-7.3	10.5	17.4	12.0	-
Dividend yield %	0.0	0.0	0.0	0.0	-

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$19.21 on 20 Oct 2005 19:21 EDT

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## Global Equity Research

Americas

Electric Components & Equipment

**Rating** **Buy 2**  
**Unchanged**

**Price target** **US\$27.00**  
**Unchanged**

**Price** **US\$19.21**

RIC: WFR.N BBG: WFR US

21 October 2005

#### Trading data

52-wk. range	US\$23.39-8.73
Market cap.	US\$4.01bn
Shares o/s	209m
Free float	37%
Avg. daily volume ('000)	2,388
Avg. daily value (US\$m)	45.6

#### Balance sheet data 12/05E

Shareholders' equity	US\$0.70bn
P/BV (UBS)	6.2x
Net cash (debt)	US\$0.05bn

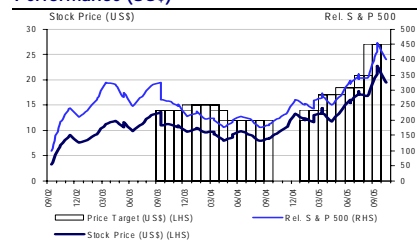
#### Forecast returns

Forecast price appreciation	+40.6%
Forecast dividend yield	0.0%
Forecast stock return	+40.6%
Market return assumption	9.2%
Forecast excess return	+31.4%

#### EPS (UBS, US\$)

	UBS	Cons.	12/04 Actual
Q1	0.23	0.23	0.16
Q2	0.26	0.26	0.20
Q3E	0.29	0.29	0.27
Q4E	0.32	0.32	0.27
12/05E	1.10	1.10	
12/06E	1.60	1.42	

#### Performance (US\$)



Source: UBS

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#### ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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## ■ MEMC Electronic Materials

MEMC, headquartered in St Peters, MO, is the world's only publicly traded pure-play silicon wafer manufacturer. The company produces and sells silicon wafers for the semiconductor industry, and is fourth in market share. MEMC sells its products to most semiconductor device manufacturers. Products include prime polished, epitaxial and test/monitor wafers in diameters ranging from 100mm to 300mm. The company operates nine plants that are strategically located close to the major semiconductor markets in the U.S., Europe, and Asia. Texas Pacific Group, a private equity company, controls MEMC.

## ■ Statement of Risk

MEMC's business is subject to the cyclical nature of semiconductor demand, which can result in share price volatility. There is a risk of overcapacity of 300mm wafers in the future, which can result in price and margin erosion. In addition, continued investment in R&D and infrastructure are needed to ensure the long-term viability of the business which could limit EPS upside.

Potential share sales by largest shareholder Texas Pacific Group could increase the supply of shares in the market and limit appreciation in MEMC's share price. MEMC has historically used stock options to compensate its employees. We estimate that the company's potential stock option expense in CY06 is -\$0.04 or 2% of our official \$1.60 EPS estimate.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 10% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 10% above the MRA, lower degree of predictability	<b>Buy</b>	37%	35%
<b>Neutral 1</b>	FSR is between -10% and 10% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -10% and 10% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	50%	32%
<b>Reduce 1</b>	FSR is > 10% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 10% below the MRA, lower degree of predictability	<b>Sell</b>	13%	28%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2005.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Rating/Return Divergence (RRD)** This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

### EXCEPTIONS AND SPECIAL CASES

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

## Companies mentioned

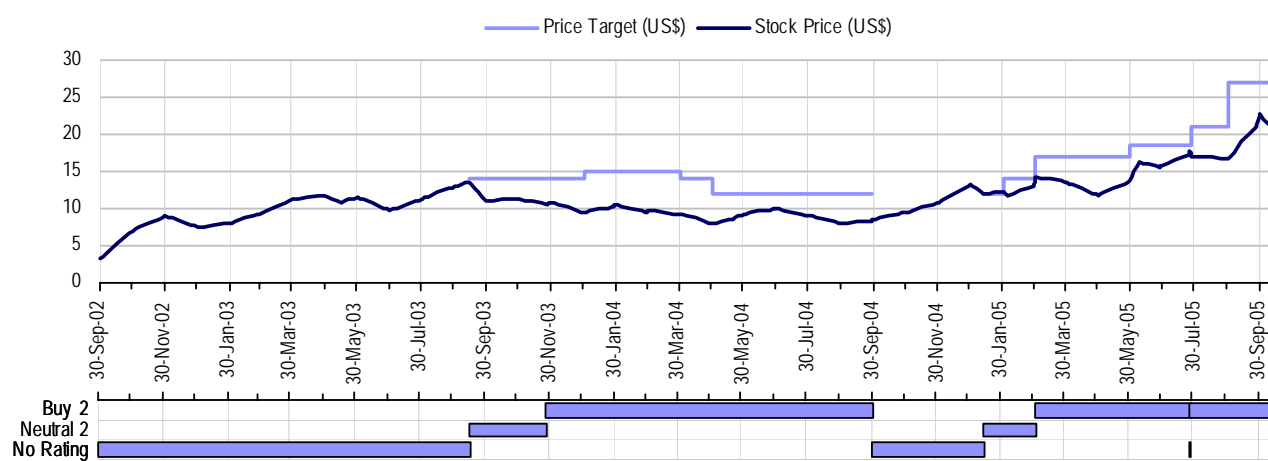
Company Name	Reuters	Rating	Price	Price date/time
<b>MEMC Electronic</b> <sup>2,4,16</sup>	WFR.N	Buy 2	US\$19.50	19 Oct 2005 19:37 EDT

Source: UBS. EDT: Eastern daylight time.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

## MEMC Electronic Materials (US\$)



Source: UBS; as of 19 October 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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