

**MEMC ELECTRONIC MATERIALS, INC. (WFR:****Underperform****\$19.68\* )**

St. Peters, MO

Price Target \$15.00

Update

**STOCK DATA**

52 Week Range	\$23.75-\$8.72
ADTV - 3 Month	3.1
Market Cap	\$4,121.0
Shares	224.7
Outstanding (Diluted)	

**WFR: Sufficient Raw Wafer Capacity in '06; Poly Revenues Limited to Less than 5% of Total--Reiterate Underperform****Summary and Recommendation****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	18.5x	16.6x

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

We are glad to see a series of reports by our competitors since our downgrade on Oct 13, discussing the prospects of earnings upside for MEMC and why WE are wrong with our thesis. We believe such debates are necessary and benefit investors as they further increase their understanding of the wafer industry intricacies (which ultimately impacts MEMC's earnings prospects). To that end, and as a follow up to our downgrade report, we are providing our proprietary wafer supply model, as well as an in-depth analysis of the polysilicon market, that helped construct the basis of our downgrade. Net/net, our analysis illustrates: 1) there will be enough 300-mm wafer capacity in '06 to keep the 300-mm utilization rate around 90% (while overall utilization rates are kept around 80%), prohibiting a significant ASP increase; 2) a poly manufacturing bottleneck at MEMC is estimated to keep the poly-related revenue mix to less than 5%; 3) If MEMC were to increase its poly capacity, it would need to increase cap-ex significantly, thus reducing free cash flows; 4) higher poly prices have a big impact on solar but not semi. To that end, we encourage investors to use any rally to take profit as industry fundamentals, in our opinion, won't support significant upside to our '06 EPS estimate of \$1.18.

**Key Points**

- **Our bottom-up analysis illustrates that there will be enough 300-mm raw wafer capacity available (by '06) that will mitigate ASP increases.** Although Perfect Silicon/Epi wafers may demand higher ASPs, we believe that the blended ASP for the industry won't increase in '06 as much as the bulls may like it to.
- **MEMC's poly capacity is not enough to provide significant opportunities.** Our detailed analysis illustrates that unless MEMC were to add capacity, the sale of poly into the spot market will account for only 2% of our '06 revenue estimate.
- **And if MEMC were to add poly capacity, future free cash flows (which, in our view, are the right metric to value the stock) will be reduced.** To that end, we believe the shares are overvalued and encourage investors to sell into any rally.

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

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Buy (Outperform)	49.2 %	19.1 %
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<sup>(1)</sup>As of midnight on the business day immediately prior to the date of this publication.

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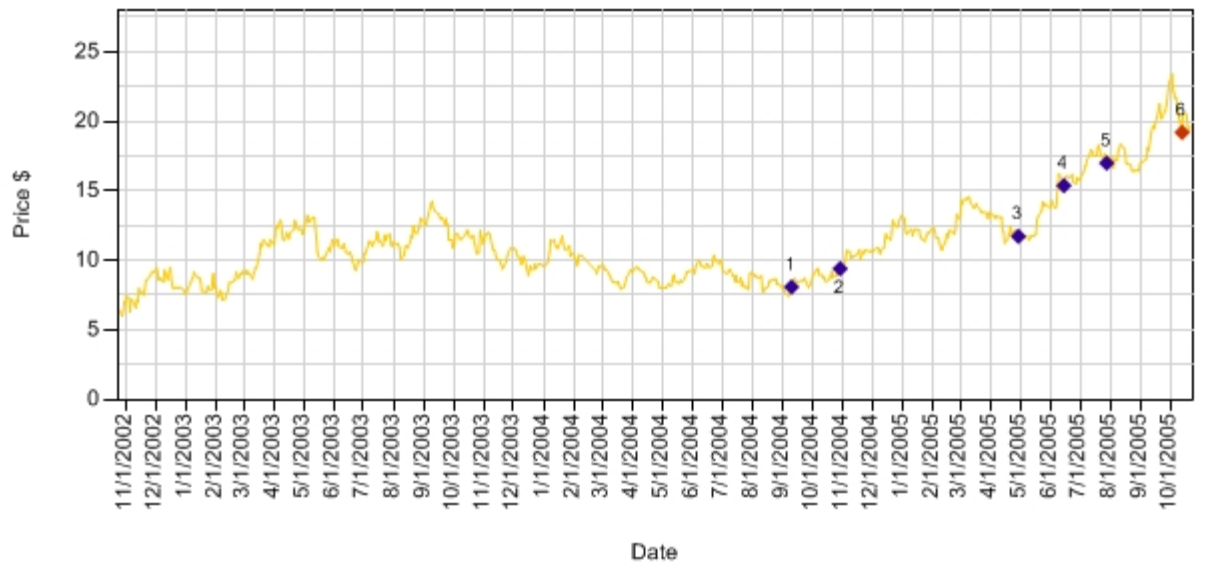
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# WFR Performance



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|-------------------------------|-----------------------------|-----------------------------|
| Close                         | Split                       | 4: \$14.00 p/t H - 06/14/05 |
| Buy (incl. Outperform, Accum) | 1: \$9.00 p/t H - 09/09/04  | 5: \$15.00 p/t H - 07/28/05 |
| Hold (incl. Mkt Perform)      | 2: \$10.00 p/t H - 10/29/04 | 6: \$15.00 p/t S - 10/13/05 |
| Sell (incl. Underperform)     | 3: \$11.50 p/t H - 04/29/05 |                             |