

**MEMC ELECTRONIC MATERIALS, INC. (WFR:****Underperform****\$19.34\* )**

St. Peters, MO

Price Target \$15.00

Update

**STOCK DATA**

52 Week Range	\$23.75-\$9.20
ADTV - 3 Month	3.1
Market Cap	\$4,049.8
Shares	227.1
Outstanding (Diluted)	

**WFR: Lack of Poly Capacity Has Caused Deferral of Revenue; Upside to Operating Profits Has Yet to Materialize--Reiterating Underperform****Summary and Recommendation****EARNINGS DATA**

EPS (FD Operating)			
Dec.	2004A	2005E	2006E
1Q	\$0.16	\$0.22A	\$0.28
2Q	0.19	0.26A	0.29
3Q	0.27	0.25A	0.30
4Q	0.27	0.32	0.30
FY	\$0.89	\$1.06	\$1.16
P/E	14.8x	18.3x	16.6x

**Earnings Changes**

FY	Old	New
1Q05	\$0.23	\$0.22
3Q05	\$0.28	\$0.25
4Q05	\$0.30	\$0.32
FY05	\$1.07	\$1.06
1Q06	\$0.25	\$0.28
2Q06	\$0.28	\$0.29
3Q06	\$0.32	\$0.30
4Q06	\$0.33	\$0.30
FY06	\$1.18	\$1.16

FY	2004A	2005E	2006E
Revenue	1,028.0	1,126.1	1,225.8

MEMC's 3Q report was disappointing in a sense that it further validated our argument that the company does not have enough poly capacity or the ability to raise prices. The reported revenues of \$288M were \$2M above our estimate, but reported GM was 200 bps below our expectations. Although disappointing GM was due to deferring revenues from 3Q into 4Q, we believe the reason behind this was lack of capacity. In fact, on a blended basis, operating profit in 2H05 is now below prior expectations. There are several issues that we encourage investors to focus on: 1) WFR's lack of poly capacity (please see our analysis on MEMC's estimated poly capacity); 2) WFR's lack of pricing power (compared to top competitors that were able to raise ASPs in 3Q); 3) operating margins peaking; 4) SOI revenues not really material until 2007-2008 time frame; and 5) TPG's lock-up period expiring on 11/16/05. To that end, we encourage investors to take profit before bulls are disappointed that the upside they are looking for does not materialize.

**Key Points****FINANCIAL DATA**

	3Q05
Cash & Equivalents	143.2
Accounts Receivable	126.8
Inventories	132.4
Current Assets	439.8
Total Assets	1,176.5
Total Current Liabilities	186.9
Long-Term Debt	106.7
Total Debt	122.2
Total Stockholder Equity	654.6

Financial Values In Millions

- **Dismal 3Q report/guidance.** Reported operating profit of \$69M, or 24% of revenues, came in well below our estimate of 26.5%. Some of this is due to COGS of the deferred revenues that were realized in 3Q (with revenues in 4Q), but we note that the wafer GM appears to have declined, since our 2H05 revenue estimates have increased by \$14M while operating profits are up only \$4M.
- **How does poly work?** Although we agree that there are shortages of poly, we do not buy into the argument that poly could lead into substantial revenue/profit upside for 2006 because: 1) we continue to believe that WFR will not have sufficient capacity (unless it raises 2006 capex budget); and 2) WFR's competitors have adequate supply of poly, thus not being at an disadvantage.
- **Reiterate Underperform rating.** We encourage investors to look into our piece from Monday and our poly capacity analysis at MEMC in this report. We believe there is limited upside to our 2006 op. profit (which is below consensus).

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

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Rating	FBRC Research Distribution <sup>1</sup>	FBRC Banking Services in the past 12 months <sup>1</sup>
Buy (Outperform)	48.7 %	19.6 %
Hold (Market Perform)	45.2 %	6.5 %
Sell (Underperform)	6.0 %	4.7 %

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

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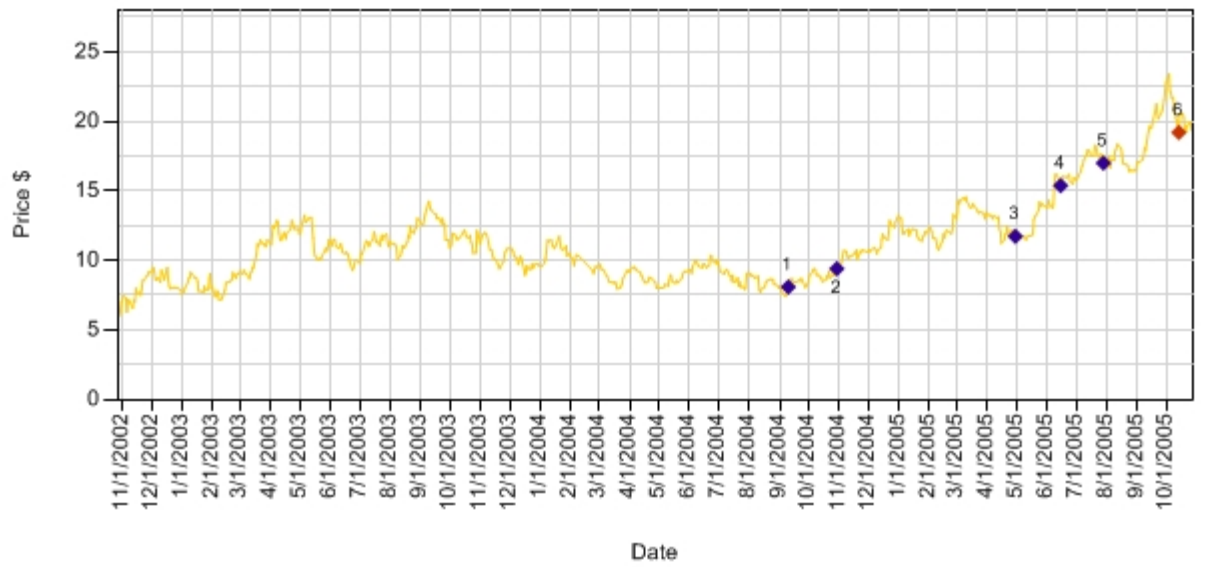
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# WFR Performance



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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 |                             |