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## MEMC Electronic Materials, Inc. <sup>(2,3)</sup>

Reiterate Strong Buy; Lowering FY06 EPS Due to Higher Tax Rate

### STRONG BUY

WFR \$19.34

Price	\$19.34	<b>FY: Dec</b>		<b>2004A</b>	<b>2005E</b>	<b>2006E</b>
Target Price	\$25.00	Revenue (M)	1Q	\$228.8	\$257.9A	\$308.2
52-Wk Range	\$8.87 - \$23.39		2Q	\$255.5	\$275.4A	\$320.6
Shares Out. (M)	224.7		3Q	\$275.3	\$288.3A	\$336.6
Market Cap. (M)	\$4,345.7		4Q	\$268.4	\$311.3	\$350.0
Average Daily Vol. (000)	3,087		<b>FY</b>	<b>\$1,028.0</b>	<b>\$1,132.9</b>	<b>\$1,315.4</b>
Float (M)	188.5					
Secular Growth Rate	18%			<b>2004A</b>	<b>2005E</b>	<b>2006E</b>
ROAE	52.2%	EPS	1Q	\$0.16	\$0.15A	\$0.28
			2Q	\$0.20	\$0.26A	\$0.30
LT Debt (M)	\$106.7		3Q	\$0.27	\$0.25A	\$0.32
LT Debt/Total Cap.	14.0%		4Q	\$0.26	\$0.34	\$0.34
Book Value/Share	\$2.90		<b>FY</b>	<b>\$0.90</b>	<b>\$1.00</b>	<b>\$1.25</b>
Cash/Share	\$0.65		P/E	21.5x	19.3x	15.5x
		Previous FY		--	\$1.10	\$1.45
			<b>CY</b>	<b>\$0.90</b>	<b>\$1.00</b>	<b>\$1.25</b>
			P/E	21.5x	19.3x	15.5x

### INVESTMENT HIGHLIGHTS

- Reiterate Strong Buy rating; lowering FY06 EPS and target price reflecting higher 2006 tax rate.** MEMC (rated Strong Buy) reported pro forma EPS of \$0.25, below our and the Street estimate of \$0.29, due to higher manufacturing costs caused by hurricane-related disruptions at the company's polysilicon raw material plant, higher R&D expense, and a pushout of \$7.3 million in polysilicon revenues and operating profits into the fourth quarter due to a change in revenue recognition policies. MEMC also indicated a tax-related restatement of 1Q earnings that will reduce 1Q earnings by \$0.08 without any impact on first-half revenues. On the positive side, management noted higher wafer unit volumes (up over 5% in 3Q) and a more favorable outlook for pricing and gross margins for 4Q driven by stable unit demand, tight polysilicon raw material supplies, and a continuing mix shift to higher-margin 300mm wafers. MEMC management guided toward 8% sequential revenue growth and 39% gross margins, higher than our 4Q assumptions of 6% revenue growth and 38% gross margins, driven by a stable pricing environment, balanced mix between 200mm and 300mm wafers, and growing polysilicon sales to the booming solar market, which now represents 8-10% of revenues with above-corporate gross margins. We are raising our 4Q EPS estimate from \$0.32 to \$0.34 to account for the higher revenue and margin guidance, lowering our FY05 EPS estimate from \$1.10 to \$1.00 to account for the tax-related earnings reduction, and lowering our FY06 EPS estimate from \$1.45 to \$1.25 to account for higher 2006 tax rate of 27% versus our prior assumption of 15%. We are reiterating our Strong Buy and lowering our target price from \$30 to \$25, keeping a 20x multiple on our lower 2006 estimate of \$1.25.
- MEMC is a low-cost leader in the consolidating silicon wafer materials industry with global technology capabilities,** and we continue to rate the stock Strong Buy given its compelling valuation at less than 16x our 2006 EPS estimate of \$1.25 relative to a secular earnings growth rate of 18% per year. We have the following observations: 1) MEMC's high margin 300mm wafer production ramp appears to be proceeding rapidly with the company on track to double capacity from 175K/month currently to 350K/month by year-end 2006 and potentially increasing further to 600K/month by year-end 2007; 2) the Taisil (Taiwan) 300mm plant is ramping rapidly and positions the company well to serve strong Asian demand; 3) the polysilicon raw material shortages appear to be worsening with the recent sale of Komatsu's ASMI polysilicon subsidiary to REC (Germany), which will convert all the polysilicon capacity to solar cell use and stop serving the semiconductor wafer market; 4) MEMC is scheduled to negotiate long-term contract pricing in a favorable demand environment with approximately 40% of its customers in the 4Q timeframe; 5) MEMC is exploring vertical integration strategies for selling finished solar wafers into the solar cell industry in order to achieve higher revenue growth and diversification. Shortages of polysilicon raw material, further industry consolidation, and new revenue opportunities in processed solar wafer business would present further upside to our 2006 estimates.

- **Semiconductor industry capacity utilization improving; shift to 300mm fabs picking up momentum.** We believe that fundamentals at MEMC continue to be stable, driven by improving industry capacity utilization rates, stable 200mm and 300mm wafer pricing, and good seasonal end demand in key markets such as PC, cell phone, and consumer electronics. Recent updates from key customers such as Samsung, TXN, AMD, INTC, NSM, and other analog customers have been positive, together with improving 3Q capacity utilization and wafer starts at key Taiwan foundries such as TSM and UMC. We note that electronic grade polysilicon production capacity is growing at 5-10% per year while demand is growing at 10-15% for semiconductor wafers and 20 to 30% for the booming solar cell market, resulting in potential shortages and firming wafer pricing in 2006. MEMC is slated to negotiate contract pricing with about 40% of its customer base in 4Q under this relatively positive supply-demand environment. Also, the smooth ramp in the Taisil (Taiwan) 300mm wafer factory gives MEMC the ability to double 300mm capacity from 175K/month currently to 350K/month by the end of 2006 and further to 600K/month by year-end 2007.
- **MEMC is a global technology leader in silicon wafers benefiting from secular positive trends.** Due to the recent improvement in leading-edge and mature semiconductor industry capacity utilization from around 80% in 1Q to 85% in 2Q, we believe downstream unit demand for silicon wafers will likely grow at 8-10% in 2005. This view is consistent with our overall chip industry forecast of 10% revenue growth in 2005 versus 25% in 2004. The 100% increase in electronic grade polysilicon contract pricing from \$35 per kilogram a year ago to \$60 now and developing shortages due to competing demand from the solar panel industry will likely lead to further consolidation among smaller silicon wafer suppliers and lead to a stable pricing environment even for mature 200mm and 150mm wafers. We note that WFR is vertically integrated and makes more than 90% of its polysilicon, giving it a 15-20% cost advantage. We believe WFR can still outperform the silicon wafer industry and grow revenues by 10% and 16% in 2005 and 2006 and operating profit by 14% and 35% through a combination of better pricing on specialty 200mm and 300mm wafers, market share gains, and operating efficiencies.
- **Wafer pricing could be stable due to richer mix despite more industry capacity.** Going forward, we believe continuing industry consolidation and rational capacity additions for silicon wafers will likely lead to stable pricing for WFR for both mature 200mm/150mm wafers and leading-edge 300mm wafers. The company continues to efficiently add 200mm and 300mm wafer capacity, improve operations, focus on customer and end-market diversification, and invest in longer-term, higher margin products such as bonded silicon-on-insulator wafers for leading-edge, sub-90nm process technology. As such, we believe the company is likely to continue to improve efficiencies in its operations and gain better operating leverage.
- **We believe wafer industry dynamics and semiconductor demand should lead to multiple expansion and superior stock performance for WFR.** We estimate semiconductor industry wafer materials production capacity utilization is now 80-90% for 200mm and 300mm silicon wafers. Our estimates are based on our belief in the continuation of moderate cyclical demand in the semiconductor industry with expanding unit volumes growing 8-10% in 2005, tight semiconductor wafer materials production capacity utilization (~90%), and wafer industry consolidation. Longer-term, we believe that WFR can grow revenues at 8-12% per year and earnings at 18% per year. In addition, we believe WFR's highly-focused management team is likely to continue to execute on its strategy of focusing on balanced growth between mature 150mm/200mm silicon wafer products and leading-edge, specialty 200mm/300mm wafer technology with cost-effective production strategies aimed at a blue-chip, global, customer base. WFR's integration of its Taisil joint venture in Taiwan could place the company in a position to accelerate market share gains in the high-growth Taiwan and mainland China wafer markets. While the company may not be viewed favorably by Wall Street due to the commodity-like nature of the wafer business, we believe a combination of a cyclical silicon wafer upturn and WFR's lean operating structure will lead to gradual P/E multiple expansion and superior stock performance.

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## INVESTMENT RISKS

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Risks to WFR's stock include exposure to the cyclicity of semiconductor device manufacturers. Weakness in the PC, server, cell phone, industrial, and other end markets have caused slowdowns in wafer starts and wafer manufacturing in the past. The silicon wafer business tends to be competitive and silicon wafer pricing can be volatile, both of which cause uncertainty for wafer producers. WFR has significant exposure to overseas markets such as Europe and Asia and could therefore be exposed to broader global macro risks.

## COMPANY DESCRIPTION

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MEMC Electronic Materials Inc. is engaged in the production of wafers for the semiconductor industry. The company provides wafers in sizes ranging from 100 millimeters to 300 millimeters and in three categories: prime polished, a highly refined, pure wafer with an ultra-flat and ultra-clean surface; epitaxial, a thin, silicon layer grown on the polished surface of the wafer; and test/monitor, which is substantially the same as a prime polished wafer but with some less rigorous specifications. The company's wafers are used as a starting material for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices. In turn, these semiconductor devices are used in computers, cellular phones, and other mobile electronic devices, automobiles, and other products. Its principal customers are semiconductor device manufacturers, including memory, microprocessor, and ASIC manufacturers, as well as foundries.

**FIGURE 1: WFR – Earnings Model (\$MM, except per share data)**

Oct 26, 2005 kshankar	2004					2005E					2006E				
FYE: Dec. (\$MM, Except EPS)	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year	1Q/Mar A	2Q/Jun A	3Q/SepA	4Q/Dec	Year	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year
<b>Revenues</b>	<b>\$228.8</b>	<b>\$255.5</b>	<b>\$275.3</b>	<b>\$268.4</b>	<b>\$1,028.0</b>	<b>\$257.9</b>	<b>\$275.4</b>	<b>\$288.3</b>	<b>\$311.3</b>	<b>\$1,132.9</b>	<b>\$308.2</b>	<b>\$320.6</b>	<b>\$336.6</b>	<b>\$350.0</b>	<b>\$1,315.4</b>
Cost of Goods Sold	155.4	168.4	164.5	170.2	658.5	164.6	175.0	187.0	189.9	716.4	188.0	194.7	203.6	210.0	796.4
<b>Gross Margin</b>	<b>\$73.3</b>	<b>\$87.2</b>	<b>\$110.7</b>	<b>\$98.2</b>	<b>\$369.4</b>	<b>\$93.3</b>	<b>\$100.4</b>	<b>\$101.3</b>	<b>\$121.4</b>	<b>\$416.4</b>	<b>\$120.2</b>	<b>\$125.8</b>	<b>\$132.9</b>	<b>\$140.0</b>	<b>\$519.0</b>
SG&A expenses	\$17.2	\$17.8	\$17.8	\$19.2	\$71.9	\$18.2	\$18.3	\$18.1	\$18.0	\$72.6	\$18.0	\$18.0	\$18.1	\$18.3	\$72.4
R&D expenses	8.9	9.3	9.4	10.4	38.0	11.4	11.0	13.9	11.0	47.3	11.1	11.3	11.6	11.8	45.8
Restructuring expenses				(1.0)											
<b>Total Operating Expenses</b>	<b>26.1</b>	<b>27.1</b>	<b>27.2</b>	<b>28.5</b>	<b>108.9</b>	<b>29.6</b>	<b>29.4</b>	<b>32.1</b>	<b>29.0</b>	<b>119.9</b>	<b>29.1</b>	<b>29.3</b>	<b>29.7</b>	<b>30.1</b>	<b>118.2</b>
<b>Operating Income</b>	<b>\$47.2</b>	<b>\$60.0</b>	<b>\$83.6</b>	<b>\$69.6</b>	<b>\$260.5</b>	<b>\$63.7</b>	<b>\$71.1</b>	<b>\$69.2</b>	<b>\$92.5</b>	<b>\$296.5</b>	<b>\$91.1</b>	<b>\$96.5</b>	<b>\$103.2</b>	<b>\$109.9</b>	<b>\$400.8</b>
Total Non-Operating Income/(E	\$6.5	(\$9.1)	(\$0.4)	(\$59.0)	(\$62.0)	(\$1.3)	(\$1.5)	(\$1.5)	(\$1.6)	(\$5.9)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$4.1)
<b>Pre-Tax Income</b>	<b>53.7</b>	<b>51.0</b>	<b>83.2</b>	<b>10.7</b>	<b>198.5</b>	<b>62.4</b>	<b>69.6</b>	<b>67.7</b>	<b>90.9</b>	<b>290.6</b>	<b>90.1</b>	<b>95.5</b>	<b>102.2</b>	<b>108.9</b>	<b>396.7</b>
Income Taxes	13.4	(12.6)	20.8	(60.9)	(39.3)	2.0	8.7	(31.7)	12.7	(8.3)	24.3	25.8	27.6	29.4	107.1
Net Income before other items	40.3	63.6	62.4	71.6	237.8	60.4	60.9	99.4	78.2	298.9	65.8	69.7	74.6	79.5	289.6
Equity income/(loss) in joint ven	(1.7)	0.0	0.0	0.0	(1.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	(2.7)	(3.0)	(2.7)	(2.4)	(10.7)	(1.8)	(2.0)	(1.5)	(1.2)	(6.4)	(1.0)	(0.8)	(0.5)	(0.5)	(2.8)
Net income after other items	35.9	60.6	59.7	69.2	225.4	58.7	58.9	97.9	77.0	292.5	64.8	69.0	74.1	79.0	286.9
Extraordinary items															
Net Income Available for Comr	35.9	60.6	59.7	69.2	225.4	58.7	58.9	97.9	77.0	292.5	64.8	69.0	74.1	79.0	286.9
Average Shares Outst.(primary	207.2	207.7	207.8	208.1	207.7	208.8	209.2	214.7	215.1	212.0	215.6	216.0	216.4	216.9	216.2
<b>GAAP EPS (primary)</b>	<b>\$0.17</b>	<b>\$0.29</b>	<b>\$0.29</b>	<b>\$0.33</b>	<b>\$1.09</b>	<b>\$0.28</b>	<b>\$0.28</b>	<b>\$0.46</b>	<b>\$0.36</b>	<b>\$1.38</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.34</b>	<b>\$0.36</b>	<b>\$1.33</b>
Average shares outst. (fully dilt	222.1	221.0	220.4	221.1	221.1	223.9	224.7	227.1	227.6	225.8	228.1	228.5	229.0	229.4	228.7
<b>GAAP EPS (fully diluted)</b>	<b>\$0.16</b>	<b>\$0.27</b>	<b>\$0.27</b>	<b>\$0.31</b>	<b>\$1.02</b>	<b>\$0.26</b>	<b>\$0.26</b>	<b>\$0.43</b>	<b>\$0.34</b>	<b>\$1.30</b>	<b>\$0.28</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.34</b>	<b>\$1.25</b>
<b>Proforma EPS (fully diluted)</b>	<b>\$0.16</b>	<b>\$0.20</b>	<b>\$0.27</b>	<b>\$0.26</b>	<b>\$0.90</b>	<b>\$0.15</b>	<b>\$0.26</b>	<b>\$0.25</b>	<b>\$0.34</b>	<b>\$1.00</b>	<b>\$0.28</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.34</b>	<b>\$1.25</b>
<b>Margins (Pct. Rev)</b>															
Gross Margins	32.1%	34.1%	40.2%	36.6%	35.9%	36.2%	36.5%	35.1%	39.0%	36.8%	39.0%	39.3%	39.5%	40.0%	39.5%
R&D	3.9	3.6	3.4	3.9	3.7	4.4	4.0	4.8	3.5	4.2	3.6	3.5	3.4	3.4	3.5
SG&A	7.5	7.0	6.5	7.1	7.0	7.0	6.7	6.3	5.8	6.4	5.8	5.6	5.4	5.2	5.5
Operating Margins	20.7	23.5	30.4	25.9	25.3	24.7	25.8	24.0	29.7	26.2	29.6	30.1	30.7	31.4	30.5
Other Income (Expenses)	2.8	-3.6	-0.1	-22.0	-6.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3
Pre-tax Margins	23.5	19.9	30.2	4.0	19.3	24.2	25.3	23.5	29.2	25.7	29.2	29.8	30.4	31.1	30.2
Tax Rate (Pct.)	25.0	-24.7	25.0	-571.9	-19.8	3.2	12.4	-46.8	14.0	-2.8	27.0	27.0	27.0	27.0	27.0
Net Margin	17.6	24.9	22.7	26.7	23.1	23.4	22.1	34.5	25.1	26.4	21.3	21.8	22.2	22.7	22.0
<b>Yr-to-Yr Pct. Change</b>															
Revenues	21.5%	33.2%	40.5%	30.9%	31.6%	12.7%	7.8%	4.7%	16.0%	10.2%	19.5%	16.4%	16.8%	12.4%	16.1%
Gross Margins	35.3	56.7	89.2	52.4	58.7	27.2	15.2	(8.5)	23.7	12.7	28.9	25.3	31.2	15.3	24.6
Operating Income	44.4	78.2	128.9	75.4	82.6	34.9	18.4	(17.1)	32.8	13.8	43.0	35.8	49.1	18.9	35.2
Pre-Tax Income	83.2	47.5	70.9	(75.4)	27.4	16.2	36.5	(18.6)	752.9	46.4	44.3	37.3	51.0	19.8	36.5
Net Income	90.8	137.1	70.9	107.0	99.8	50.0	(4.1)	59.3	9.2	25.7	8.9	14.4	(24.9)	1.7	(3.1)
Fully Diluted EPS	72.5	59.6	72.3	70.3	68.0	(5.9)	31.1	(7.4)	28.7	12.1	86.9	15.1	29.0	1.8	25.0
<b>Qtr-to-Qtr Pct. Change</b>															
Revenues	11.6%	11.7%	7.7%	(2.5%)	--	(3.9%)	6.8%	4.7%	8.0%	--	(1.0%)	4.0%	5.0%	4.0%	--
Gross Margins	13.9	18.8	27.1	-11.4	--	-5.0	7.7	0.9	19.8	--	-1.0	4.7	5.7	5.3	--
Operating Income	19.0	27.1	39.2	-16.7	--	-8.5	11.5	-2.6	33.5	--	-1.4	5.9	7.0	6.4	--
Pre-Tax Income	24.0	-5.1	63.1	-87.2	--	485.9	11.4	-2.7	34.3	--	-0.8	6.0	7.0	6.5	--
Net Income	16.5	57.7	-1.9	14.8	--	-15.6	0.8	63.1	-21.3	--	-15.8	6.0	7.0	6.5	--
Fully Diluted EPS	4.8	69.7	-1.2	15.4	--	-16.2	0.1	64.4	-21.5	--	-16.0	6.2	7.3	6.3	--

Source: Company reports and JMP Securities.

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**FIGURE 2: WFR – Segment Model**

Oct 26, 2005 kshankar	2004				2004E	2005E					2006E				
FYE: Dec. (\$MM, Except EPS)	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year	1Q/Mar A	2Q/Jun A	3Q/SepA	4Q/Dec	Year	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year
<b>Segment Model (Million \$)</b>															
150mm/less wafers	\$64	\$66	\$69	\$67	\$266	\$62	\$63	\$63	\$68	\$257	\$65	\$64	\$64	\$67	\$259
200mm wafers	\$142	\$158	\$171	\$164	\$635	\$155	\$165	\$170	\$177	\$667	\$173	\$180	\$185	\$189	\$726
300mm wafers	\$23	\$31	\$36	\$38	\$127	\$41	\$47	\$55	\$65	\$208	\$71	\$77	\$88	\$95	\$330
Segment total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$288	\$311	\$1,133	\$308	\$321	\$337	\$350	\$1,315
Topline model total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$288	\$311	\$1,133	\$308	\$321	\$337	\$350	\$1,315
<b>Segment Model(%)</b>															
150mm/less wafers	28%	26%	25%	25%	26%	24%	23%	22%	22%	23%	21%	20%	19%	19%	20%
200mm wafers	62%	62%	62%	61%	62%	60%	60%	59%	57%	59%	56%	56%	55%	54%	55%
300mm wafers	10%	12%	13%	14%	12%	16%	17%	19%	21%	18%	23%	24%	26%	27%	25%
Segment total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>150mm/less wafers</b>															
Total 150mm/less wafers Rev (	\$64	\$66	\$69	\$67	\$266	\$62	\$63	\$63	\$68	\$257	\$65	\$64	\$64	\$67	\$259
Total 150mm/less wafers Units	2.56	2.66	2.75	2.68	10.66	2.81	2.88	2.88	3.11	11.69	3.24	3.21	3.20	3.33	12.96
Blended 150mm/less wafers A:	\$25	\$25	\$25	\$25	\$25	\$22	\$22	\$22	\$22	\$22	\$20	\$20	\$20	\$20	\$20
<b>200mm wafers</b>															
Total 200mm wafers Rev (\$Mlr	\$142	\$158	\$171	\$164	\$635	\$155	\$165	\$170	\$177	\$667	\$173	\$180	\$185	\$189	\$726
Total 200mm wafers Units (Mlr	2.84	3.17	3.41	3.27	12.69	3.44	3.76	3.78	3.94	14.92	4.11	4.27	4.41	4.50	17.29
Blended 200mm wafers ASP (¢	\$50	\$50	\$50	\$50	\$50	\$45	\$44	\$45	\$45	\$45	\$42	\$42	\$42	\$42	\$42
<b>300mm wafers</b>															
Total 300mm wafers Rev (\$Mlr	\$23	\$31	\$36	\$38	\$127	\$41	\$47	\$55	\$65	\$208	\$71	\$77	\$88	\$95	\$330
Total 300mm wafers Units (Mlr	0.08	0.12	0.15	0.17	0.52	0.19	0.23	0.31	0.41	1.15	0.47	0.53	0.62	0.68	2.29
Blended 300mm wafers ASP (¢	\$275	\$260	\$240	\$225	\$245	\$215	\$200	\$175	\$160	\$181	\$150	\$145	\$142	\$140	\$144
<b>Product Type</b>															
Polished/prime wafers	62%	62%	62%	62%	62%	60%	60%	60%	60%	60%	59%	59%	59%	59%	59%
Epitaxial wafers	30%	30%	30%	30%	30%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Test/monitor wafers	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
SOI wafers	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%	2%	2%	2%
Strained Silicon wafers	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Compound Semi/SiC wafers	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Product Type</b>															
Polished/prime wafers	\$142	\$158	\$171	\$166	\$637	\$155	\$165	\$173	\$187	\$680	\$182	\$189	\$199	\$207	\$776
Epitaxial wafers	\$69	\$77	\$83	\$81	\$308	\$83	\$88	\$92	\$100	\$363	\$99	\$103	\$108	\$112	\$421
Test/monitor wafers	\$11	\$13	\$14	\$13	\$51	\$13	\$14	\$14	\$16	\$57	\$15	\$16	\$17	\$18	\$66
SOI wafers	\$2	\$3	\$3	\$3	\$10	\$3	\$3	\$3	\$3	\$11	\$6	\$6	\$7	\$7	\$26
Strained Silicon wafers	\$5	\$5	\$6	\$5	\$21	\$5	\$6	\$6	\$6	\$23	\$6	\$6	\$7	\$7	\$26
Compound Semi/SiC wafers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Segment Total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$288	\$311	\$1,133	\$308	\$321	\$337	\$350	\$1,315
Topline Total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$288	\$311	\$1,133	\$308	\$321	\$337	\$350	\$1,315

Source: Company reports and JMP Securities.

**FIGURE 3: WFR – Balance Sheet (\$MM, except per share data)**

Oct 26, 2005 kshankar FYE: Dec. (\$MM, Except EPS)	2003 1Q/Mar	2003 2Q/Jun	2003 3Q/Sep	2003 4Q/Dec	2004 1Q/Mar	2004 2Q/Jun	2004 3Q/Sep	2004 4Q/Dec	2005 1Q/Mar	2005 2Q/Jun	2005 3Q/Sep
<b>Assets</b>											
Cash & Short-term Investments	\$160.8	\$127.6	\$125.8	\$130.7	\$140.6	\$129.5	\$103.3	\$92.3	\$116.3	\$101.0	\$143.2
Accounts Receivable, Net	88.0	98.1	107.4	103.0	119.2	138.9	151.9	140.7	130.5	132.1	126.8
Inventories	90.6	96.2	98.0	109.5	123.0	112.6	119.8	127.6	135.3	134.9	132.4
Prepaid Exp. & Other Current Assets	19.1	18.5	25.8	22.1	31.5	16.4	20.1	29.7	28.2	27.3	37.3
Deferred Income Taxes											
<b>Total Current Assets</b>	<b>\$358.5</b>	<b>\$340.4</b>	<b>\$356.9</b>	<b>\$365.3</b>	<b>\$414.5</b>	<b>\$397.4</b>	<b>\$395.1</b>	<b>\$390.3</b>	<b>\$410.3</b>	<b>\$395.2</b>	<b>\$439.8</b>
Property, Plant, Equipment, Net	\$191.5	\$203.3	\$253.5	\$270.4	\$361.6	\$392.7	\$387.3	\$444.7	\$476.3	\$503.9	\$510.5
Investments in Joint Ventures	17.9	19.5	22.2	24.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill, Net	3.8	3.8	3.8	3.8							
Deferred Tax Asset, Net	32.1	26.1	18.5	15.2	22.4	45.6	43.6	119.8	126.8	127.1	174.7
Other Non-Current Assets	30.8	33.9	38.5	42.9	53.7	61.2	55.4	55.1	54.5	53.3	51.6
<b>Total Assets</b>	<b>\$634.7</b>	<b>\$627.1</b>	<b>\$693.4</b>	<b>\$721.7</b>	<b>\$852.1</b>	<b>\$896.8</b>	<b>\$881.3</b>	<b>\$1,009.9</b>	<b>\$1,068.0</b>	<b>\$1,079.5</b>	<b>\$1,176.5</b>
<b>Liabilities</b>											
Current L-T Debt, S-T Borrowing	\$100.3	\$53.4	\$80.6	\$71.8	\$86.9	\$57.5	\$21.9	\$24.4	\$23.1	\$21.7	\$15.4
Accounts Payable	63.9	69.4	82.6	95.2	91.9	101.2	99.0	124.1	133.4	104.6	103.9
Accrued Liabilities	30.9	31.1	28.8	34.0	39.2	43.1	32.4	37.7	21.4	23.9	15.0
Customer Deposits	14.8	14.5	14.6	15.7	11.5	8.1	5.0	0.0	0.0	0.0	0.0
Other Accrued Liabilities	46.1	38.1	36.3	27.4	24.3	26.8	31.2	29.4	45.9	48.8	50.5
<b>Total Current Liabilities</b>	<b>\$255.9</b>	<b>\$206.4</b>	<b>\$242.8</b>	<b>\$244.1</b>	<b>\$253.8</b>	<b>\$236.6</b>	<b>\$189.5</b>	<b>\$215.6</b>	<b>\$223.8</b>	<b>\$198.9</b>	<b>\$184.9</b>
Longterm Debt	\$170.4	\$87.4	\$60.0	\$59.3	\$127.6	\$125.1	\$120.5	\$116.1	\$113.3	\$108.2	\$106.7
Pension and Similar liabilities	106.3	107.6	109.4	126.4	130.0	127.5	112.4	116.4	116.2	113.2	106.5
Customer Deposits	16.8	14.8	9.7	3.6	3.0	3.1	3.2	0.0	0.0	0.0	0.0
Other Liabilities	27.8	29.8	32.3	30.7	41.6	43.8	57.6	72.4	46.7	45.3	72.2
<b>Total Liabilities</b>	<b>\$577.1</b>	<b>\$446.0</b>	<b>\$454.3</b>	<b>\$464.0</b>	<b>\$555.9</b>	<b>\$536.1</b>	<b>\$483.2</b>	<b>\$520.6</b>	<b>\$500.0</b>	<b>\$465.7</b>	<b>\$470.2</b>
Minority Interests	\$60.4	\$59.1	\$62.0	\$64.1	\$66.8	\$65.0	\$44.0	\$46.5	\$48.2	\$50.3	\$51.7
Redeemable Preferred Stock											
Common stock	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2
Additional Paid-In Capital	27.5	123.6	150.6	150.1	151.7	151.6	152.5	154.7	158.4	159.6	178.4
Retained earnings	(27.7)	1.0	28.8	45.9	79.8	145.6	203.1	308.4	385.5	434.9	511.8
Treasury Stock	(4.7)	(4.7)	(4.4)	(4.4)	(4.2)	(3.6)	(3.6)	(22.3)	(26.3)	(33.0)	(37.9)
<b>Total Stockholders Equity</b>	<b>(\$2.9)</b>	<b>\$121.9</b>	<b>\$177.0</b>	<b>\$193.6</b>	<b>\$229.3</b>	<b>\$295.7</b>	<b>\$354.1</b>	<b>\$442.9</b>	<b>\$519.7</b>	<b>\$563.6</b>	<b>\$654.6</b>
<b>Total Liab. &amp; Stockholders Equity</b>	<b>\$634.7</b>	<b>\$627.1</b>	<b>\$693.4</b>	<b>\$721.7</b>	<b>\$852.1</b>	<b>\$896.8</b>	<b>\$881.3</b>	<b>\$1,009.9</b>	<b>\$1,068.0</b>	<b>\$1,079.5</b>	<b>\$1,176.5</b>
<b>Key Financial Ratios</b>											
Tangible Book Value/Share, (\$)	(\$0.03)	\$0.54	\$0.77	\$0.85	\$1.03	\$1.34	\$1.61	\$2.00	\$2.32	\$2.51	\$2.88
Cash/Share, (\$)	\$0.76	\$0.59	\$0.56	\$0.59	\$0.63	\$0.59	\$0.47	\$0.42	\$0.52	\$0.45	\$0.63
Working Capital/share, (\$)	\$0.49	\$0.62	\$0.51	\$0.54	\$0.72	\$0.73	\$0.93	\$0.79	\$0.83	\$0.87	\$1.12
Total Assets/share, (\$)	\$3.01	\$2.88	\$3.10	\$3.24	\$3.84	\$4.06	\$4.00	\$4.57	\$4.77	\$4.80	\$5.18
Current Ratio	1.40	1.65	1.47	1.50	1.63	1.68	2.08	1.81	1.83	1.99	2.38
Quick Ratio	0.97	1.09	0.96	0.96	1.02	1.13	1.35	1.08	1.10	1.17	1.46
LTDebt/Total Capitalization	101.74%	41.76%	25.32%	23.43%	35.75%	29.73%	25.39%	20.77%	17.90%	16.11%	14.02%
Return-on-sales (ROS), Qtr	10.48%	14.22%	17.97%	16.78%	15.70%	23.71%	21.69%	25.77%	22.76%	21.39%	33.96%
Return-on-sales(ROS), TTM	2.13%	4.90%	15.48%	14.93%	16.16%	18.76%	19.76%	21.93%	23.48%	22.89%	26.12%
Return-on-equity (ROE), Qtr*4	(2708.75%)	89.51%	79.53%	71.07%	62.62%	81.97%	67.47%	62.46%	45.16%	41.81%	59.83%
Return-on-equity (ROAE), TTM	(51.88%)	378.63%	173.88%	95.27%	73.58%	74.18%	71.08%	68.19%	61.56%	52.43%	52.21%
Return-on-assets (ROA), Qtr*4	12.44%	17.40%	20.31%	19.07%	16.86%	27.03%	27.10%	27.39%	21.98%	21.83%	33.29%
Return-on-assets (ROA), TTM	2.58%	5.94%	18.24%	17.43%	18.35%	21.00%	22.75%	24.77%	25.74%	24.41%	26.27%
Asset Turnover, Qtr*4	1.19	1.22	1.13	1.14	1.07	1.14	1.25	1.06	0.97	1.02	0.98
Average asset turnover, TTM	1.21	1.21	1.18	1.17	1.14	1.12	1.15	1.13	1.10	1.07	1.01
Accts. Rec. Days Sales Outst. (Qtr)	42	46	49	45	47	49	50	47	46	43	40
Accts. Rec. Days Sales Outst. (TTM)	47	46	47	46	48	48	49	49	49	47	44
Inventory turns (Qtr)	5.92	5.66	5.61	5.14	5.05	5.98	5.49	5.34	4.87	5.19	5.65
Average inventory turns (TTM)	6.38	6.11	5.84	5.56	5.34	5.43	5.41	5.45	5.39	5.21	5.26
Inventory days Outstanding (Qtr)	61	64	64	70	71	60	66	67	74	69	64
Inventory days outstanding (TTM)	57	60	63	66	68	67	67	67	68	70	69
Revenue/employee, (Qtr*4), \$	\$163,778	\$166,808	\$170,345	\$178,286	\$198,922	\$222,208	\$239,377	\$233,370	\$224,221	\$239,468	\$245,341
Average Revenue/employee (TTM), \$	\$158,898	\$163,553	\$165,666	\$169,804	\$178,590	\$192,440	\$209,698	\$223,469	\$229,794	\$234,109	\$235,653
Qtr Revenue, (\$MM)	188.3	191.8	195.9	205.0	228.8	255.5	275.3	268.4	257.9	275.4	288.3
Qtr COGS, (\$MM)	134.1	136.2	137.4	140.6	155.4	168.4	164.5	170.2	164.6	175.0	187.0
Qtr Net Income, (\$MM)	19.7	27.3	35.2	34.4	35.9	60.6	59.7	69.2	58.7	58.9	97.9
Fully Diluted Shares Outstanding (Millions)	210.7	217.7	223.8	223.0	222.1	221.0	220.4	221.1	223.9	224.7	227.1
# Of Employees (Actual)	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,700
Qtr Capital Expenditures (\$MM)	8.76	28.26	25.21	23.00	26.09	46.40	25.55	51.74	54.40	51.20	32.26
Qtr Capital Expenditures/Revenue	4.65%	14.73%	12.87%	11.22%	11.40%	18.16%	9.28%	19.28%	21.10%	18.59%	11.19%
Qtr Depreciation (\$MM)	15.81	1.28	6.18	7.78	9.92	10.24	11.44	12.53	13.34	14.36	14.74
Qtr Depreciation/Revenue	8.40%	0.67%	3.16%	3.79%	4.34%	4.01%	4.16%	4.67%	5.17%	5.22%	5.11%

Source: Company reports and JMP Securities.

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MEMC Electronic Materials, Inc. (2,3), WFR, \$19.34, Strong Buy.

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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months
Strong Buy	Buy	64	24%				
Market Outperform	Buy	109	41%	Buy	173	66%	24
Market Perform	Hold	77	29%	Hold	77	29%	7
Market Underperform	Sell	12	5%	Sell	13	5%	0
Sell	Sell	1	0%				
<b>TOTAL:</b>		<b>263</b>	<b>100%</b>		<b>263</b>	<b>100%</b>	<b>31</b>

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. If the latest date is different than the report date, then the price is as of the previous day's close. The action reflected in this note is not annotated in the stock price chart. Source: FactSet and JMP Securities.



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