

MEMC Electronic Materials Inc. (WFR/NYSE)

3Q05 Results a Penny Below Expectations. Recovery of Semiconductor IC Business and Supply Constraints of Polysilicon will Lead to Wafer ASP increases Starting 1Q06. Stock Undervalued. Maintain BUY

Price (10/26/05):	\$19.34	Shares Outstanding (MM):	209.4
52 Week Range:	\$23.75 - \$8.72	Market Cap. (MM):	\$4,050
Recommendation/Target:	Buy / \$26.00 (was \$21)	Average Daily Volume (000):	3,022
Price/LTM Sales:	3.69	Tangible Book Value:	\$3.13
Convertible Debt:	No	Debt/Capital:	16%
		Net Cash Value per Share	\$0.10

	12/02A	12/03A	12/04A	12/05E			12/06E		
				Old	New	Consensus	Old	New	Consensus
Revenue (MM)	\$687.2	\$781.1	\$1,028.0	\$1,125.4	\$1,134.6	\$1,128.0	\$1,365.6	\$1,365.6	\$1,304.0
Growth Rate	11.2%	13.7%	31.6%		10.4%	9.7%		20.4%	15.6%
Op. Margin	11.7%	18.3%	25.2%		26.3%			28.8%	
EPS: 1Q	(\$0.12)	\$0.09	\$0.16A		\$0.23A		\$0.31	\$0.32	\$0.32
EPS: 2Q	\$0.09	\$0.13	\$0.19A		\$0.26A		\$0.34	\$0.35	\$0.34
EPS: 3Q	(\$0.20)	\$0.12	\$0.27A	\$0.28	\$0.28A	\$0.29	\$0.37	\$0.38	\$0.37
EPS: 4Q	\$0.14	\$0.15	\$0.26A	\$0.31	\$0.32	\$0.32	\$0.40	\$0.41	\$0.38
EPS: Year	\$0.02	\$0.48	\$0.89A	\$1.09	\$1.09	\$1.10	\$1.43	\$1.46	\$1.42
Growth Rate	NM	NM	82.6%		23.5%	27.9%		33.6%	29.1%
P/E Ratio	NM	39.9x	21.8x		17.7x	17.6x		13.3x	13.6x

Disclosures applicable to this security: B, C, D, E, J (disclosure explanation at the end of this report)

INVESTMENT CONCLUSION

We believe MEMC is an attractive investment for the following reasons: 1) Solid financial position that will enable them to be profitable and grow their business unlike several competitors. 2) Favorable market conditions that include recovery of the semiconductor industry; increasing capacity utilization favoring APS; and consolidation in the industry favoring suppliers that are qualified for 300 mm diameter substrates (MEMC being one); 3) New management strategy focusing on profitability, market-share and technology.

SUMMARY

- 3Q05 Pro-forma EPS equal to \$0.28 came in a penny below consensus while pro-forma sales of \$296 million (up 7% Q/Q) came in above consensus (\$289 million) and previous guidance for 3%-5% Q/Q growth.
- Blended wafer ASP for the quarter was down slightly as expected. Expectations for 4Q05 are for flat ASPs followed by the beginning of an up-tick in ASPs by 1Q06.
- MEMC benefited from the continued ASP increases in Polysilicon during 3Q05. Polysilicon represented 8% sales during the quarter and we expect it to increase as MEMC increases its production capacity. Polysilicon currently sells at a higher margin compared to silicon wafers.
- MEMC is very well positioned with increased demand coming from the semiconductor industry and the solar cell industry in combination with supply constraints of polysilicon which we expect will lead to wafer ASP increases by 1Q06.
- MEMC generated \$42 million in operating cash flow (vs 46 million last quarter). During 3Q05 MEMC repaid \$8 million in debt. We expect MEMC will repay their debt balance of \$122 million by 1H06.
- MEMC 300 mm wafer production capacity is on track by the end 2006 to 350,000/month. The Taisil factory in Taiwan started volume production of 300 mm wafers during 3Q05
- We are not changing our 2005 estimate. We are increasing slightly our 2006 EPS estimate due to lower estimated operating expenses as a % sales to 9.5% vs our previous estimate of 10%. We are tweaking our 2006 estimate up slightly to EPS \$1.46 vs our previous estimated EPS \$1.43 on unchanged sales \$1366 million

- We believe that MEMC's stock price is attractive. Our new 12-18-month target price of \$26 (up from \$21) is based on 18x our 2006 EPS. The stock is undervalued at 13x our 2006 EPS estimate.
- The main risks to the MEMC story are 1) if competitors start building capacity ahead of demand this would have the effect experienced in 1998-1999 of fast decline in ASPs leading to an unprofitable industry. 2) if the semiconductor chip industry starts to decline it will not be able to drive demand for the substrate industry.

INVESTMENT THESIS

- We believe MEMC will benefit immensely starting the end 2005 through 2007 from the short supply of poly (raw material to manufacture silicon wafers). The price of poly has been increasing sharply (from \$9/Kg in 2000, \$25/Kg in 2004, \$35/Kg at the beginning 2005 to more than \$50-\$55/Kg this month) driven by growing demand from the solar cell industry while supply is limited. We expect this condition to start to benefit MEMC by the end of 2005 as follows:
 1. Revenue growth driven by increases in silicon wafer ASPs as supply of poly and silicon wafers becomes scarce
 2. Gross margin expansion. MEMC produces internally 95% of their poly raw material unlike its competitors, resulting in very limited exposure to price increases and short supply of poly.
 3. Market-share expansion possibilities into the solar cell industry driven by MEMC's unique vertically integrated competitive position within the silicon wafer industry.
- We expect that the pricing of poly will continue to increase into 2007 as demand outstrips supply. The industry is increasing its poly production capacity, which should result in supply-demand equilibrium by the end 2007.
- We believe the silicon wafer manufacturers will pass on the incremental cost of the raw poly (at least partially) to its semiconductor chip customers by increasing the pricing of silicon wafers benefiting sales for the overall silicon wafer market.
- We expect MEMC to grow at a rate above the industry. We are projecting revenue to grow annually in the low double digit range driven by increasing demand for wafer volume, firm ASPs and market-share gains. EPS should be growing at the much faster pace of about 20-30% due to a) absorption of fixed cost driven by higher volume; b) higher productivity; c) lower manufacturing costs and d) lower operating expenses.
- **MEMC is a turnaround story** that has been on track to recovery since its acquisition in November 2001 by the Texas Pacific Group (TPG) and since new management came on board on April 2002. Management is sharply focused on:
 - Rising Productivity: Productivity improved 60% in 2001 –2002; 15% 2002-2003 and 18% 2003-2004 as a result of increased volume production with lower headcount. (Headcount was reduced by 33% in 2001, and benefits were realized by 2002 when product volume increased 29% with no additional headcount.)
 - Lowering Production Costs: Cash cost per unit decreased 25% in 2001- 2002; 18% 2002-2003 and 14% 2003-2004 as a result of better manufacturing yields, better process refinement, and lower cost of ownership.
 - Improving cycle times: improved more than 25% over last two years as a result of more streamlined materials flows
 - Lowering annual revenue for breakeven operating profit. Today it is at \$500 million, down from \$1 billion at the beginning of 2002
 - Gaining market-share back to historical levels of about 15%-20% (up from 10% in 2001)
 - Maintaining technology leadership
- **Industry conditions in the silicon wafer market are very favorable for MEMC:**
 - We expect the total area of silicon wafers to increase at a rate of 8% per year driven by the recovery of the semiconductor chip industry.
 - The industry is in a consolidation phase. With MEMC as one of the top four players we expect MEMC to gain share as the smaller competitors disappear.
 - We expect ASPs to be flat to up into 2007 as a result of:
 - The wafer industry is close to full capacity with mid 90% capacity utilization. We expect the trend to higher levels of capacity utilization to continue. We believe that once capacity utilization reaches 95% (which should occur by 2H2005), customers will experience wafer shortages resulting in firm ASPs.

- The industry is starting to shift to 300 mm wafers that sell at a premium per unit area (about 100% higher) vs 200mm diameter wafers. This will help overall ASPs as the product mix shifts to 300 mm. Today 15% of the area is from 300mm. By 2007 it should grow to 40% of the area.
 - Increase pricing of poly-silicon raw material driven by strong demand from the solar cell industry will result in wafer manufacturers passing along at least partially the incremental cost to semiconductor chip customers.
 - The increasing demand for smaller line-widths and better yields will increase demand for higher performance wafers that also sell at an ASP premium.
- **MEMC is a competitive player with very strong financial position and a very strong IP position.** We believe this will enable them to continue to gain market-share as the industry consolidates and as new competitors face ever higher barriers to entry. Currently the main barrier to entry is the financial capability to grow capacity for 300mm substrates. Currently there are only four companies that have qualified their 300mm wafers. This is down from 10 producers of 200 mm wafers.

OUTLOOK:

We are tweaking our 2005 estimate with unchanged EPS \$1.09 on sales \$1135 million (up from \$1125 million). We are increasing slightly our 2006 EPS estimate due to lower operating expenses as a % of sales. Our new 2006 estimate is EPS \$1.46 on sales \$1366 million vs our previous estimate for EPS \$1.43 on sales 1366 million.

Guidance for 4Q05 is for sequential growth 2%-3% in pro-forma sales (\$303-\$306 million) in line with consensus \$304 million. Pro-forma gross margins are expected to be 37%-38%. Operating expenses are expected to decline to \$29 million.

The tax rate for the next quarter is expected to be 13.6% and the tax rate for 2006 and 2007 is expected to be 15% or less as a result of favorable foreign tax conditions.

Management's long term model which they expect to achieve within a two year term period is:

	New Model
Operating Profit	25-30%
Gross Margin	35-40%
Operating Expenses	10%
Capital expenditures	15% or less
Operating Cash flow	25-30%
Free Cash Flow	10-15%
Annual EPS growth	20%

COMPANY DESCRIPTION

MEMC Inc is a leading worldwide producer of silicon wafers for the semiconductor industry. It is the worlds largest public company solely devoted to the supply of wafers to semiconductor device manufacturers.

VARIANCE

MEMC

Quarter: 2Q05

Year: 6/05

Income Statement	Lst Yr 6/30/2004	Lst Qtr 3/31/2005	Estimate 6/30/2005	Actual 2Q/05A	Growth			Cents EPS Delta
	2Q/04	1Q/05	2Q/05		Vs. Lst Yr	Vs. Lst Qtr	Vs. Est.	
Revenues	255.5	257.9	265.6	275.4	7.8%	6.8%	3.7%	1.360
COGS Incl. D&A	168.4	164.6	168.4	175.0	3.9%	6.3%	3.9%	(0.113)
Gross Profit	87.2	93.3	97.1	100.4	15.2%	7.7%	3.4%	1.247
R&D	9.3	11.4	11.4	11.0	18.8%	(3.4%)	(3.6%)	0.154
SG&A	17.8	18.2	18.2	18.3	2.8%	1.1%	0.9%	(0.062)
Operating Expenses (subtotal)	27.1	29.6	29.6	29.4	8.3%	(0.7%)	(0.8%)	0.092
Operating Profit	60.0	63.7	67.6	71.1	18.4%	11.5%	5.2%	1.339
Net Interest Expense	2.1	1.2	1.2	1.5	(28.5%)	24.7%	22.8%	(0.105)
Earnings Before Taxes/Extras	58.4	63.2	67.2	69.6	19.1%	10.1%	3.5%	0.893
Income Taxes	12.7	9.5	10.1	8.7	(32.0%)	(9.1%)	(14.2%)	0.797
Tax Rate	21.8%	15.1%	15.0%	12.4%	(42.9%)	(17.5%)	(17.1%)	1.690
Net Income Before Minority/Convert/Extras	45.7	53.7	57.1	60.9	33.3%	13.6%	6.6%	
Minority Interest	3.0	1.8	1.8	2.0	(31.7%)	14.5%	14.5%	(0.114)
Net Income Before Convert/Extras	42.8	51.9	55.4	58.9	37.7%	13.5%	6.4%	
Convertible Interest Add-back	0.0	0.0	0.0					0.000
Net Income Before Extras	42.8	51.9	55.4	58.9	37.7%	13.5%	6.4%	1.576
Extraordinaries	17.8	25.3	0.0					0.000
Net Income	60.6	77.2	55.4	58.9	(2.8%)	(23.6%)	6.4%	1.576
Average Shares	221.0	223.9	224.0	224.7	1.7%	0.3%	0.3%	(0.082)
EPS Before Extras	\$0.19	\$0.23	\$0.25	\$0.26	35.5%	13.2%	6.0%	1.494
EPS After Extras	\$0.27	\$0.34	\$0.25	\$0.26	(4.4%)	(23.9%)	6.0%	1.494
					eflta (b.p.)			
Percent of Sales	2Q/04	1Q/05	2Q/05		Vs. Lst Yr	Vs. Lst Qtr	Vs. Est.	
COGS Incl. D&A	65.89%	63.83%	63.42%	63.53%	236	29	(11)	
Gross Profit	34.11%	36.17%	36.58%	36.47%	236	29	(11)	
R&D	3.63%	4.42%	4.30%	4.00%	(37)	42	30	
SG&A	6.98%	7.04%	6.85%	6.66%	32	38	18	
Operating Expenses (subtotal)	10.61%	11.46%	11.14%	10.66%	(5)	80	48	
Operating Profit	23.50%	24.71%	25.43%	25.81%	231	110	38	
Net Interest Expense	0.82%	0.47%	0.46%	0.54%	28	(8)	(8)	
Earnings Before Taxes/Extras	22.87%	24.50%	25.31%	25.27%	240	77	(5)	
Income Taxes	4.98%	3.69%	3.80%	3.14%	184	55	66	
Net Income Before Extras	16.74%	20.12%	20.85%	21.39%	466	127	54	
Extraordinaries	6.98%	9.80%	0.00%	0.00%	(698)	(980)	0	
Net Income	23.71%	29.92%	20.85%	21.39%	(232)	(853)	54	

Source: Company reports and Needham & Co. estimates.

Income Statement

	12/01	12/02	12/03	12/04	12/05E	12/06E
Revenues	617.9	687.2	781.1	1,028.0	1,134.6	1,365.6
300mm				227.5	479.0	761.2
200mm				559.1	452.2	434.6
<150mm				170.7	113.4	87.9
COGS Ex. Depr./Amort.	494.7	479.6	517.3	621.6	674.9	808.1
Depr./Amort.	174.6	34.2	31.0	37.0	40.7	34.5
Gross Profit	(51.5)	173.5	232.8	369.4	419.0	522.9
SG&A	69.7	65.8	57.2	71.9	72.7	79.9
Research & Development	65.7	27.4	32.9	38.0	47.6	50.4
Operating Income	(186.9)	80.2	142.6	259.5	298.7	392.6
Royalty	0.0	(3.6)	(3.6)	(16.2)	(2.0)	(3.6)
Net Interest Expense	76.3	56.5	4.2	8.5	6.5	(1.0)
Earnings Before Taxes	(263.2)	27.4	142.0	267.2	294.2	397.2
Income Taxes	(48.1)	16.7	33.6	59.1	40.8	59.6
Income Tax Rate	18.3%	61.1%	23.6%	22.1%	13.9%	15.0%
Earnings Before Extras	(196.9)	2.7	106.0	195.7	246.7	331.8
Extraordinaries	(325.7)	(24.8)	10.6	29.7	67.0	0.0
Net Income	(522.7)	(22.1)	116.6	225.4	313.7	331.8
Net Income for Cash EPS (excl.	(196.9)	1.3	103.3	183.0	244.9	328.7
Average Shares	69.6	129.8	218.7	221.0	225.7	227.3
GAAP EPS	(\$2.83)	\$0.02	\$0.48	\$0.89	\$1.09	\$1.46

Growth Rates (Y/Y)

Revenues (Y/Y)	(29.1%)	11.2%	13.7%	31.6%	10.4%	20.4%
Gross Profit	(139.9%)	(436.9%)	34.2%	58.7%	13.4%	24.8%
Operating Income	1411.8%	(142.9%)	77.7%	81.9%	15.1%	31.5%
Net Income Bef. Ex. (Y/Y)	353.9%	(101.4%)	3782.9%	84.6%	26.1%	34.5%
Cash EPS	353.8%	(100.4%)	4513.3%	75.4%	31.0%	33.3%

Percent of Sales

COGS Ex. Depr./Amort.	80.1%	69.8%	66.2%	60.5%	59.5%	59.2%
Depr./Amort.	28.3%	5.0%	4.0%	3.6%	3.6%	2.5%
Gross Profit	(8.3%)	25.2%	29.8%	35.9%	36.9%	38.3%
SG&A	11.3%	9.6%	7.3%	7.0%	6.4%	5.8%
Research & Development	10.6%	4.0%	4.2%	3.7%	4.2%	3.7%
Operating Income	(30.2%)	11.7%	18.3%	25.2%	26.3%	28.8%
Net Interest Expense	12.4%	8.2%	0.5%	0.8%	0.6%	(0.1%)
Earnings Before Taxes	(42.6%)	4.0%	18.2%	26.0%	25.9%	29.1%
Income Taxes	(7.8%)	2.4%	4.3%	5.7%	3.6%	4.4%
Earnings Before Extras	(31.9%)	0.4%	13.6%	19.0%	21.7%	24.3%
Extraordinaries	(52.7%)	(3.6%)	1.4%	2.9%	5.9%	0.0%
Net Income	(84.6%)	(3.2%)	14.9%	21.9%	27.6%	24.3%
Net Income for Cash EPS (excl.	(31.9%)	0.2%	13.2%	17.8%	21.6%	24.1%

Income Statement

	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05	2Q/05	3Q/05	4Q/05E	1Q/06E	2Q/06E	3Q/06E	4Q/06E
Revenues	228.8	255.5	275.3	268.4	257.9	275.4	295.6	305.8	310.2	328.9	353.7	372.7
300mm	26.5	49.8	67.7	83.6	95.1	101.0	130.3	152.5	160.9	176.4	199.1	224.8
200mm	141.7	147.8	144.9	124.7	110.6	120.2	113.9	107.5	105.3	109.2	112.0	108.2
<150mm	45.0	47.9	43.2	34.6	32.9	30.8	25.9	23.8	24.3	22.1	20.3	21.2
COGS Ex. Depr./Amort.	145.5	160.0	158.4	157.7	151.2	160.7	178.8	184.2	186.0	195.5	208.4	218.2
Depr./Amort.	9.9	8.3	6.2	12.5	13.3	14.3	6.2	6.9	7.6	8.3	9.0	9.7
Gross Profit	73.3	87.2	110.7	98.2	93.3	100.4	110.6	114.7	116.7	125.1	136.3	144.8
SG&A	17.2	17.8	17.8	19.2	18.2	18.3	18.1	18.1	18.3	19.3	20.6	21.6
Research & Development	8.9	9.3	9.4	10.4	11.4	11.0	13.9	11.3	11.5	12.1	13.1	13.8
Operating Income	47.2	60.0	83.6	68.6	63.7	71.1	78.5	85.3	86.9	93.7	102.6	109.4
Royalty	(8.3)	(0.5)	(2.5)	(5.0)	(0.6)	(0.3)	(0.2)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Net Interest Expense	1.8	2.1	2.4	2.2	1.2	1.8	2.8	0.7	0.4	(0.1)	(0.5)	(0.8)
Earnings Before Taxes	53.7	58.4	83.6	71.4	63.2	69.6	75.9	85.5	87.4	94.7	104.0	111.1
Income Taxes	13.4	12.7	20.8	12.1	9.5	8.7	11.0	11.6	13.1	14.2	15.6	16.7
Income Tax Rate	25.0%	21.8%	24.9%	17.0%	15.1%	12.4%	14.5%	13.6%	15.0%	15.0%	15.0%	15.0%
Earnings Before Extras	35.9	42.8	60.2	56.8	51.9	58.9	63.5	72.4	72.9	79.0	86.9	93.0
Extraordinaries	0.0	17.8	(0.4)	12.3	25.3	0.0	41.8	0.0	0.0	0.0	0.0	0.0
Net Income	35.9	60.6	59.7	69.2	77.2	58.9	105.2	72.4	72.9	79.0	86.9	93.0
Net Income for Cash EPS (excl.	29.7	42.4	58.3	52.7	51.3	58.7	63.3	71.7	72.1	78.3	86.2	92.2
Average Shares	222.1	221.0	220.4	222.1	223.9	224.7	227.1	227.2	227.2	227.3	227.3	227.4
GAAP EPS	\$0.16	\$0.19	\$0.27	\$0.26	\$0.23	\$0.26	\$0.28	\$0.32	\$0.32	\$0.35	\$0.38	\$0.41
Growth Rates (Y/Y)												
Revenues (Y/Y)	21.5%	33.2%	40.5%	30.9%	12.7%	7.8%	7.4%	13.9%	20.3%	19.4%	19.7%	21.9%
Revenues (Q/Q)	11.6%	11.7%	7.7%	(2.5%)	(3.9%)	6.8%	7.3%	3.5%	1.5%	6.0%	7.5%	5.4%
Gross Profit	35.3%	56.7%	89.2%	52.4%	27.2%	15.2%	(0.1%)	16.8%	25.1%	24.6%	23.2%	26.2%
Operating Income	44.4%	78.2%	128.9%	72.9%	34.9%	18.4%	(6.0%)	24.3%	36.4%	31.8%	30.6%	28.2%
Net Income Bef. Ex. (Y/Y)	81.9%	56.8%	127.0%	74.9%	44.5%	37.7%	5.5%	27.4%	40.4%	34.1%	37.0%	28.4%
Net Income Bef. Ex. (Q/Q)	10.5%	19.1%	40.7%	(5.5%)	(8.7%)	13.5%	7.7%	14.1%	0.6%	8.5%	10.0%	7.0%
Cash EPS	47.6%	57.1%	129.3%	66.5%	71.4%	36.1%	5.3%	33.0%	38.4%	31.9%	36.0%	28.6%
Percent of Sales												
COGS Ex. Depr./Amort.	63.6%	62.6%	57.5%	58.8%	58.7%	58.3%	60.5%	60.2%	59.9%	59.4%	58.9%	58.5%
Depr./Amort.	4.3%	3.3%	2.2%	4.7%	5.2%	5.2%	2.1%	2.3%	2.4%	2.5%	2.5%	2.6%
Gross Profit	32.1%	34.1%	40.2%	36.6%	36.2%	36.5%	37.4%	37.5%	37.6%	38.0%	38.5%	38.9%
SG&A	7.5%	7.0%	6.5%	7.1%	7.0%	6.7%	6.1%	5.9%	5.9%	5.9%	5.8%	5.8%
Research & Development	3.9%	3.6%	3.4%	3.9%	4.4%	4.0%	4.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Operating Income	20.7%	23.5%	30.4%	25.6%	24.7%	25.8%	26.6%	27.9%	28.0%	28.5%	29.0%	29.4%
Net Interest Expense	0.8%	0.8%	0.9%	0.8%	0.5%	0.6%	1.0%	0.2%	0.1%	(0.0%)	(0.1%)	(0.2%)
Earnings Before Taxes	23.5%	22.9%	30.4%	26.6%	24.5%	25.3%	25.7%	28.0%	28.2%	28.8%	29.4%	29.8%
Income Taxes	5.9%	5.0%	7.6%	4.5%	3.7%	3.1%	3.7%	3.8%	4.2%	4.3%	4.4%	4.5%
Earnings Before Extras	15.7%	16.7%	21.9%	21.2%	20.1%	21.4%	21.5%	23.7%	23.5%	24.0%	24.6%	24.9%
Extraordinaries	0.0%	7.0%	(0.2%)	4.6%	9.8%	0.0%	14.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	15.7%	23.7%	21.7%	25.8%	29.9%	21.4%	35.6%	23.7%	23.5%	24.0%	24.6%	24.9%
Net Income for Cash EPS (excl.	13.0%	16.6%	21.2%	19.6%	19.9%	21.3%	21.4%	23.4%	23.2%	23.8%	24.4%	24.7%

Balance Sheet

	12/01	12/02	12/03	12/04	12/05E	12/06E
Assets						
Cash	107.2	165.6	130.7	92.3	145.8	219.8
Receivables	67.4	95.0	103.0	140.7	131.2	159.9
Inventory	69.9	85.1	109.5	127.6	137.0	166.9
Other Current Assets	19.5	17.9	22.1	29.7	38.6	47.0
Total Current Assets	264.0	363.7	365.3	390.3	452.6	593.6
Gross PP&E	290.0	274.2	359.7	534.0	631.1	821.1
Accumulated Depreciation	89.3	89.3	89.3	89.3	95.3	129.9
Net PP&E	200.7	184.9	270.4	444.7	535.7	691.2
Other Assets	84.6	83.1	86.0	147.5	226.5	230.1
Total Assets	549.3	631.7	721.7	982.5	1,214.8	1,515.0
Liabilities & Equity						
Payables	52.1	68.0	95.2	124.1	107.5	131.1
Short-term Debt	75.9	123.6	71.8	24.4	10.4	5.4
Other Current Liabilities	93.7	94.4	77.0	67.1	67.8	82.6
Total Current Liabilities	221.7	286.1	244.1	215.6	185.8	219.1
Long-term Debt	144.7	161.0	59.3	116.1	71.7	6.7
Other Liabilities	203.1	209.3	224.8	208.8	230.3	230.3
Total Liabilities	569.6	656.4	528.1	540.5	487.8	456.2
Equity	(20.2)	(24.7)	193.6	442.1	727.0	1,058.8
Total Liabilities & Equity	549.3	631.7	721.7	982.5	1,214.8	1,515.0

Balance Sheet

	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05	2Q/05	3Q/05	4Q/05E	1Q/06E	2Q/06E	3Q/06E	4Q/06E
Assets												
Cash	140.6	129.5	103.3	92.3	116.3	101.0	143.2	145.8	140.9	146.8	173.7	219.8
Receivables	119.2	138.9	151.9	140.7	130.5	132.1	126.8	131.2	133.1	141.2	151.8	159.9
Inventory	123.0	112.6	119.8	127.6	135.3	134.9	132.4	137.0	139.0	147.3	158.4	166.9
Other Current Assets	31.5	16.4	20.1	29.7	28.2	27.3	37.3	38.6	39.2	41.5	44.6	47.0
Total Current Assets	414.5	397.4	395.1	390.3	410.3	395.2	439.8	452.6	452.2	476.8	528.5	593.6
Gross PP&E	451.7	479.6	475.7	534.0	566.5	590.8	598.9	631.1	678.6	726.1	773.6	821.1
Accumulated Depreciation	90.2	86.9	88.5	89.3	90.2	86.9	88.5	95.3	102.9	111.2	120.2	129.9
Net PP&E	361.6	392.7	387.3	444.7	476.3	503.9	510.5	535.7	575.7	614.9	653.4	691.2
Other Assets	76.1	106.7	98.9	147.5	181.3	180.5	226.3	226.5	227.4	228.3	229.2	230.1
Total Assets	852.1	896.8	881.3	982.5	1,068.0	1,079.5	1,176.5	1,214.8	1,255.2	1,320.0	1,411.1	1,515.0
Liabilities & Equity												
Payables	91.9	101.2	99.0	124.1	133.4	104.6	103.9	107.5	109.1	115.7	124.4	131.1
Short-term Debt	86.9	57.5	21.9	24.4	23.1	21.7	15.4	10.4	5.4	5.4	5.4	5.4
Other Current Liabilities	75.0	78.0	68.6	67.1	67.3	72.6	65.5	67.8	68.8	72.9	78.4	82.6
Total Current Liabilities	253.8	236.6	189.5	215.6	223.8	198.9	184.9	185.8	183.3	194.0	208.2	219.1
Long-term Debt	127.6	125.1	120.5	116.1	113.3	108.2	106.7	71.7	41.7	16.7	6.7	6.7
Other Liabilities	241.3	239.4	217.2	208.8	211.2	208.8	230.3	230.3	230.3	230.3	230.3	230.3
Total Liabilities	622.7	601.1	527.2	540.5	548.3	516.0	521.9	487.8	455.4	441.1	445.3	456.2
Equity	229.3	295.7	354.1	442.1	519.7	563.6	654.6	727.0	799.9	878.9	965.8	1,058.8
Total Liabilities & Equity	852.1	896.8	881.3	982.5	1,068.0	1,079.5	1,176.5	1,214.8	1,255.2	1,320.0	1,411.1	1,515.0

Cash Flow Statement

	12/01	12/02	12/03	12/04	12/05E	12/06E
CF from Operations						
Net Income	(522.7)	(22.1)	116.6	225.4	313.7	331.8
Depreciation & Ammortization	174.6	34.2	31.0	37.0	40.7	34.5
Changes in Assets/Liab.	<u>352.3</u>	<u>(16.9)</u>	<u>(14.2)</u>	<u>(121.9)</u>	<u>(82.0)</u>	<u>(32.4)</u>
Cash Prov. by Operations	4.3	(4.9)	133.5	140.4	272.4	334.0
CF from Investing						
Capital Expenditures	(49.8)	(22.0)	(85.2)	(149.8)	(170.0)	(190.0)
Other Changes in PP&E	<u>772.1</u>	<u>3.6</u>	<u>(31.3)</u>	<u>(61.5)</u>	<u>38.2</u>	<u>(0.0)</u>
Cash (Used) in Investing	722.3	(18.3)	(116.5)	(211.3)	(131.8)	(190.0)
CF from Financing						
Change in ST Debt	(51.9)	47.8	(51.8)	(47.4)	(14.0)	(5.0)
Change in LT Debt	(798.2)	16.3	(101.7)	56.8	(44.4)	(65.0)
Common Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Changes in Equity	<u>136.0</u>	<u>17.7</u>	<u>101.7</u>	<u>23.1</u>	<u>(28.8)</u>	<u>0.0</u>
Cash Prov. by Financing	(714.1)	81.7	(51.9)	32.5	(87.1)	(70.0)
Net Incr./(Decr.) in Cash	12.4	58.5	(34.9)	(38.4)	53.5	74.0
Cash - Beginning	94.8	107.2	165.6	130.7	92.3	145.8
Cash - End	107.2	165.6	130.7	92.3	145.8	219.8

Key Financial Ratios

	12/01	12/02	12/03	12/04	12/05E	12/06E
Liquidity						
Cash & Equivalents (\$ millions)	107.2	165.6	130.7	92.3	145.8	219.8
Working Capital (\$ millions)	42.3	77.6	121.3	174.7	266.8	374.5
Current Ratio	1.2	1.3	1.5	1.8	2.4	2.7
Quick Ratio	0.9	1.0	1.0	1.2	1.7	1.9
Leverage						
Debt/Capital	110.1%	109.5%	40.4%	24.1%	10.2%	1.1%
Times Interest Earned	(2.3)	1.1	11.0	19.2	42.7	174.5
Management						
Sales/Inventory	5.5	6.1	7.0	9.2	10.1	12.2
Sales/Fixed Assets	0.8	0.8	1.0	1.3	1.4	1.7
Sales/Capital	0.7	0.7	0.8	1.1	1.2	1.5
Receivable Days (DSO)	55.8	50.1	44.1	33.5	30.4	25.2
Inventory Days-on-Hand	61.0	79.5	74.5	62.0	57.1	48.5
Inventory Turns	6.0	4.6	4.9	5.9	6.4	7.5
Days' Sales in Cash	63.9	57.5	50.6	38.4	34.8	28.9
Profitability						
Return on Assets	-14.7%	0.1%	7.7%	13.6%	18.2%	24.5%
Return on Capital	-21.1%	0.1%	11.1%	19.6%	26.2%	35.2%
Return on Equity	-325.6%	2.2%	170.7%	302.6%	404.9%	543.4%
Return on Invested Capital	-18.5%	3.8%	13.2%	24.5%	31.1%	40.4%
Per Share Data						
Book Value/Share	(0.29)	(0.19)	0.89	2.00	3.22	4.66
Net Cash/Share	(0.54)	0.04	0.33	(0.11)	0.33	0.94
EPS	(2.83)	0.01	0.47	0.83	1.09	1.45

	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
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Buy	60	20
Hold	27	9
Under Perform	2	0
Rating Suspended	2	0
Restricted	2	67
Under Review	<1	0

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