

## UBS Investment Research

# First Read: MEMC Electronic

## Announces a 10Q filing delay

### ■ Delayed Sep-05 10-Q filing is not a surprise

In MEMC's 3Q05 earnings press release and conference call on October 27, 2005, the company had already specifically outlined that it would be restating its Mar-05 and Jun-05 quarterly results. The company's Sep-05, 10Q filing will not be filed until MEMC finalizes these Mar-05 and Jun-05 restatements.

### ■ Filing delay relates to revenue recognition and tax issues

The reasons for the delay are a change in the tax deductibility of an interest payment made in 2004 and revenue recognition related to polysilicon sales. Again, both of these issues were discussed in its press release and corresponding earnings conference call on October 27, 2005 and are not new news.

### ■ Pricing environment remains solid

We continue to expect MEMC to benefit from higher pricing starting in 1Q06 and estimate blended wafer prices will rise by 4% in 2006. Separately, our recent channel checks indicate that spot prices for polysilicon (about 10% of MEMC's sales) are near the \$100/kg level up from the \$80/kg range in 3Q05.

### ■ Valuation: Maintain Buy-2 and \$27PT

Our 12-month price target is based on applying an 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	1,135	1,336	-
EBIT	143	259	299	456	-
Net income (UBS)	117	225	313	374	-
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	26.3	34.1	-
ROIC (EBIT) %	-3.6	58.4	48.0	59.4	-
EV/EBITDA x	18.2	7.3	12.0	8.1	-
PE (UBS) x	-7.3	10.5	17.5	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 10 Nov 2005 10:56 EST

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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

10 November 2005

### Trading data

52-wk. range	US\$23.39-10.09
Market cap.	US\$4.01bn
Shares o/s	209m
Free float	37%
Avg. daily volume ('000)	2,584
Avg. daily value (US\$m)	49.9

### Balance sheet data 12/05E

Shareholders' equity	US\$0.73bn
P/BV (UBS)	5.9x
Net cash (debt)	US\$0.05bn

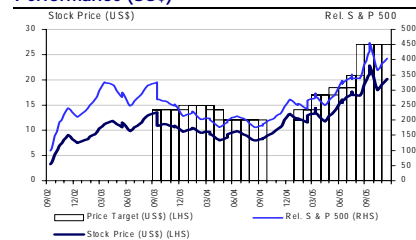
### Forecast returns

Forecast price appreciation	+40.6%
Forecast dividend yield	0.0%
Forecast stock return	+40.6%
Market return assumption	9.5%
Forecast excess return	+31.1%

### EPS (UBS, US\$)

	UBS	12/05E	Cons.	12/04	Actual
Q1	0.23		0.23		0.16
Q2	0.26		0.26		0.20
Q3	0.25		0.25		0.27
Q4E	0.35		0.34		0.27
12/05E	1.10		1.09		
12/06E	1.60		1.38		

### Performance (US\$)



Source: UBS

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This report has been prepared by UBS Securities LLC

## 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.

MEMC shares have low liquidity. Potential share sales by TPG 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 -\$0.03 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

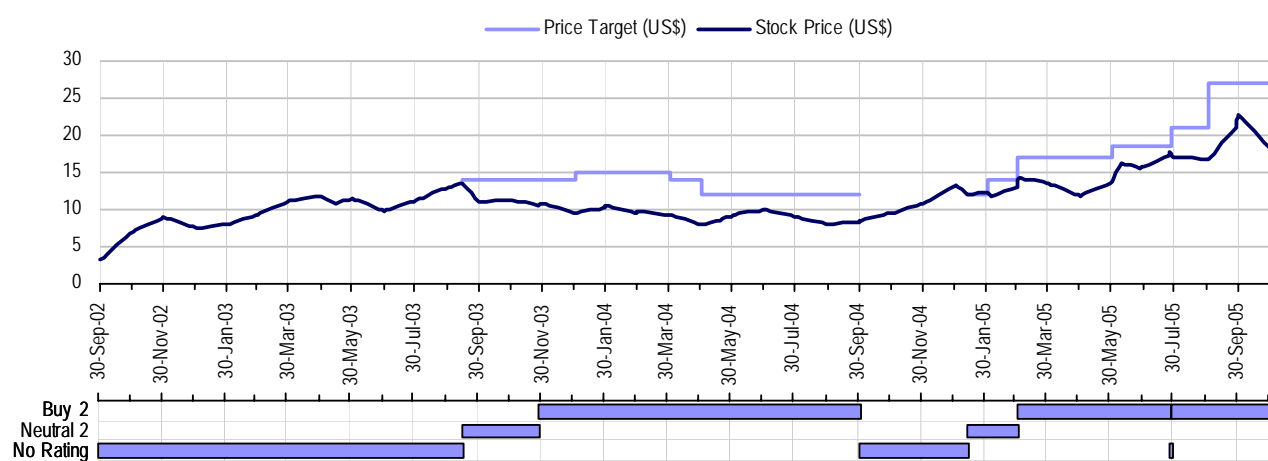
Company Name	Reuters	Rating	Price	Price date/time
<b>MEMC Electronic</b> <sup>2,4,16</sup>	WFR.N	Buy 2	US\$20.11	09 Nov 2005 19:37 EST

Source: UBS. EST: Eastern standard time.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
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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 9 November 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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