

16 November 2005

MEMC Electronic Materials

Reuters: **WFR.N** Bloomberg: **WFR UN** Exchange: **NYSE** Ticker:

Financial restatements cause unease

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Polysilicon revenue recognition issued clarified

Following up on previous announcements relating to revenue recognition adjustments surrounding polysilicon sales, MEMC this morning provided restated financials. The net impact of the restatement is a shift of \$13.3M in revenue from the first three quarters of C2005 to 4Q05, and a negative EPS impact of \$0.06 that is offset only partially by \$0.01 in 4Q05. Fundamentals of the company and industry remain unchanged, and there are no changes to our C2006 estimates. We reiterate our Buy rating on the stock.

Financials untangled; no changes for C2006

MEMC's \$13.3M revenue shift covers \$7.3M in raw polysilicon sales and \$6.0M in polysilicon ingot sales. The company noted that all associated costs relating to the sales shift remain in previously reported quarters. Accordingly, 4Q05 gross margin is expected to track ~40%, with operating costs having \$1M in incremental expense due to financial restatements and the delay in filing 10-Q. Also, the tax rate is now expected to be at 18% versus 14.5% guidance earlier. No further restatements or adjustments are expected for C2006.

Trimming C2005 EPS by \$0.05 due to incremental costs, higher taxes

Adjusting for financial restatements, we believe MEMC's ~40% gross margin guidance for 4Q05 is conservative or may involve incremental expense drag relating to the \$13.3M revenue shift. We estimate the gross margin drag (at ~40% now versus ~42% from full revenue shift drop through) hurts 4Q05 EPS by \$0.02. Further, incremental \$1M in additional expenses and higher taxes impact EPS negatively by ~\$0.03. Accordingly, we are trimming our C2005 EPS by \$0.05 to \$1.03. Our new 4Q05 revenue and EPS are \$318M and \$0.35, respectively.

Maintaining Buy rating and \$24 price target

At \$21.04 WFR trades at 15x our C2006 EPS estimate of \$1.40, and at the low end of the 15x-21x range we use for semiconductor equipment and materials companies. As a commodity supplier offset by strong operational performance and positively converging industry fundamentals, we believe a modest discount can be justified; our price target of \$24 equates to ~17x our C2006 EPS estimate.

Forecasts and ratios

Year End Dec 31	2004A	2005E	2006E
1Q EPS (USD)	0.16	0.22	0.32
2Q EPS (USD)	0.20	0.24	0.33
3Q EPS (USD)	0.27	0.23	0.36
4Q EPS (USD)	0.25	0.35	0.39
FY EPS (USD)	0.89	1.03	1.40
P/E (x)	10.6	20.4	15.0
Revenue (USDm)	1,028.0	1,125.3	1,306.5

Source: Company, Deutsche Securities

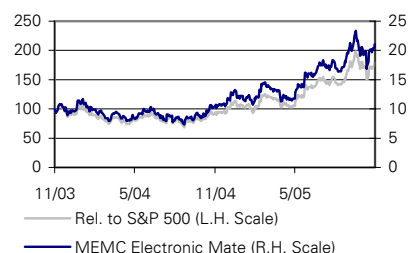
Company Announcement

Buy

Price at 16 Nov 2005 (USD)	21.04
Price target	24.00
52-week range	23.39 - 10.09

Key changes

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.6	16.6	102.3
S&P 500	3.6	-0.4	3.8

Stock data

Market Cap (USDm)	4,433.9
Shares outstanding (m)	210.7
Volume	4,446,000
S&P 500	1,229.01

Key indicators

Deutsche Bank Securities Inc.

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Risks

Risk factors include, but are not limited to, (1) a high degree of industry cyclicality, (2) competitive pressures and market share shifts, (3) delayed adoption of new technologies, (4) operational execution missteps, (5) rapid technology changes and product cycles, and (6) general economic risk.

Figure 1: MEMC Electronic Materials' income statement

Fiscal year ending December

Updated on Nov 16, 2005	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05E	2005E	1Q06E	2Q06E	3Q06E	4Q06E	2006E
Total Sales	\$781.1	\$228.8	\$255.5	\$275.3	\$268.4	\$1,028.0	\$252.6	\$274.0	\$280.8	\$318.0	\$1,125.3	\$310.0	\$317.0	\$332.8	\$346.6	\$1,306.5
Cost of Goods	548.3	155.4	168.4	164.5	170.2	658.5	163.1	175.8	187.1	190.0	716.0	194.5	197.3	204.7	210.6	807.1
Gross Income	232.8	73.3	87.2	110.7	98.2	369.4	89.5	98.2	93.7	128.0	409.3	115.5	119.7	128.1	136.1	499.3
R&D	32.9	8.9	9.3	9.4	10.4	38.0	11.7	13.2	12.7	11.4	49.1	11.2	11.4	11.5	11.6	45.7
SG&A	57.2	17.2	17.8	17.8	19.2	71.9	17.8	18.3	18.2	18.4	72.7	18.3	18.7	19.1	19.8	75.9
Operating Income	142.6	47.2	60.0	83.6	68.6	259.5	60.0	66.6	62.8	98.1	287.5	86.0	89.5	97.5	104.7	377.7
Other Income (Exp)	9.2	6.4	(1.6)	(0.4)	2.4	6.8	(1.3)	(1.5)	(1.5)	0.1	(4.2)	0.2	0.3	0.4	0.5	1.4
JV Royalty Income	4.1	0.1				0.1										
Pretax Income	155.9	53.7	58.4	83.2	71.1	266.4	58.7	65.1	61.2	98.2	283.3	86.2	89.8	97.9	105.2	379.1
Taxes	36.9	13.4	11.7	20.8	12.1	58.0	8.8	10.3	8.3	17.7	45.0	12.9	13.5	14.7	15.8	56.9
Equity in (loss)/income of JVs	6.2	(1.7)				(1.7)										
Minority Interest	(8.6)	(2.7)	(3.0)	(2.7)	(2.4)	(10.7)	(1.8)	(2.0)	(1.5)	(1.5)	(6.7)	(1.5)	(1.2)	(1.0)	(0.8)	(4.5)
Extraordinary Item			(16.8)		(13.4)	(30.2)	(12.6)		(38.2)		(50.8)					
Net Income	116.6	35.9	60.6	59.7	70.0	226.2	60.8	52.9	89.8	79.0	282.4	71.8	75.2	82.2	88.6	317.8
Net Income-Continuing Operations	116.6	35.9	43.8	59.7	56.5	196.0	48.2	52.9	51.523	79.0	231.6	71.8	75.2	82.2	88.6	317.8
Avg. Shares Outstanding - Basic	202.4	207.2	207.7	207.8	208.1	207.7	208.8	209.2	214.7	210.2	210.7	211.2	211.7	212.2	212.7	212.0
Basic EPS	\$0.57	\$0.17	\$0.29	\$0.29	\$0.34	\$1.09	\$0.29	\$0.25	\$0.42	\$0.38	\$1.34	\$0.34	\$0.36	\$0.39	\$0.42	\$1.50
Avg. Shares Outstanding - Diluted	218.8	222.1	221.0	220.4	222.1	221.4	223.9	224.7	227.1	225.7	225.4	226.7	226.4	227.7	227.4	227.0
Diluted EPS	\$0.53	\$0.16	\$0.27	\$0.27	\$0.32	\$1.02	\$0.27	\$0.24	\$0.40	\$0.35	\$1.25	\$0.32	\$0.33	\$0.36	\$0.39	\$1.40
Avg. Shares Outstanding - Diluted	218.8	222.1	221.0	220.4	222.1	221.4	223.9	224.7	227.1	225.7	225.4	226.7	226.4	227.7	227.4	227.0
Diluted EPS (Excl. Charges)	\$0.53	\$0.16	\$0.20	\$0.27	\$0.25	\$0.89	\$0.22	\$0.24	\$0.23	\$0.35	\$1.03	\$0.32	\$0.33	\$0.36	\$0.39	\$1.40

Margin Structure*	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05E	2005E	1Q06E	2Q06E	3Q06E	4Q06E	2006E
Cost of Goods Sold	70.2%	67.9%	65.9%	59.8%	63.4%	64.1%	64.6%	64.2%	66.6%	59.8%	63.6%	62.8%	62.3%	61.5%	60.8%	61.8%
Gross Margin	29.8%	32.1%	34.1%	40.2%	36.6%	35.9%	35.4%	35.8%	33.4%	40.3%	36.4%	37.3%	37.8%	38.5%	39.3%	38.2%
R&D	4.2%	3.9%	3.6%	3.4%	3.9%	3.7%	4.6%	4.8%	4.5%	3.6%	4.4%	3.6%	3.6%	3.5%	3.4%	3.5%
SG&A Expenses	7.3%	7.5%	7.0%	6.5%	7.1%	7.0%	7.0%	6.7%	6.5%	5.8%	6.5%	5.9%	5.9%	5.8%	5.7%	5.8%
Operating Margin	18.3%	20.7%	23.5%	30.4%	25.6%	25.2%	23.8%	24.3%	22.4%	30.9%	25.6%	27.7%	28.3%	29.3%	30.2%	28.9%
EBITDA Margin	22.2%	25.0%	27.5%	34.5%	30.2%	29.5%	29.0%	29.6%	27.6%	35.5%	30.6%	32.8%	33.2%	34.0%	34.7%	33.7%
Tax Rate	23.6%	25.0%	20.0%	25.0%	17.0%	21.8%	15.0%	15.7%	13.5%	18.0%	15.9%	15.0%	15.0%	15.0%	15.0%	15.0%
Net Margin	14.9%	15.7%	17.1%	21.7%	21.1%	19.1%	19.1%	19.3%	18.3%	24.9%	20.6%	23.1%	23.7%	24.7%	25.6%	24.3%

Source: Company reports and Deutsche Bank estimates

Appendix 1

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Additional information available upon request

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Company	Ticker	Recent price	Disclosure
MEMC Electronic Materials	WFR.N	20.53 (USD) 13 Nov 05	6,13

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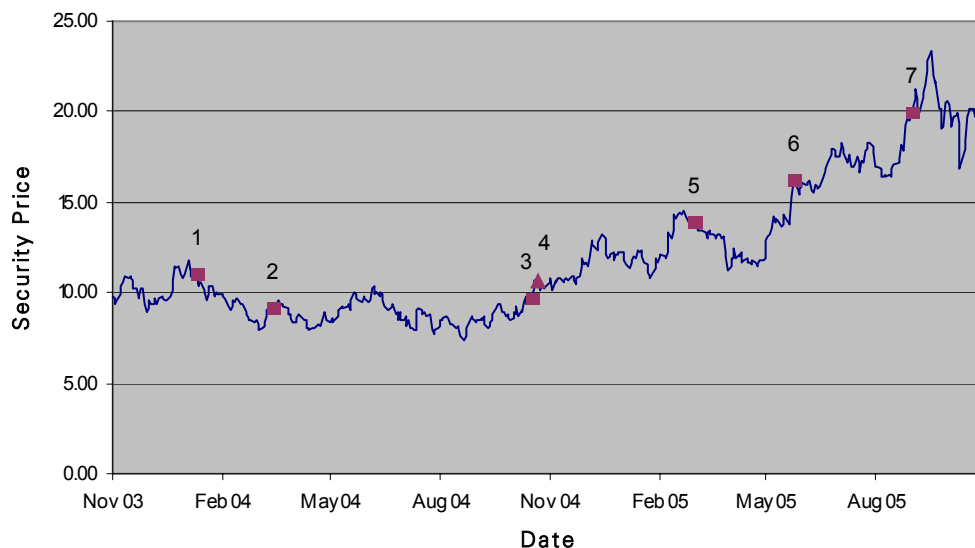
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Historical recommendations and target price: MEMC Electronic Materials (WFR.N)

(as of 11/15/2005)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

- | | |
|--|---|
| 1. 1/27/2004: Buy, Target Price Change USD14.00 | 5. 3/18/2005: Buy, Target Price Change USD16.00 |
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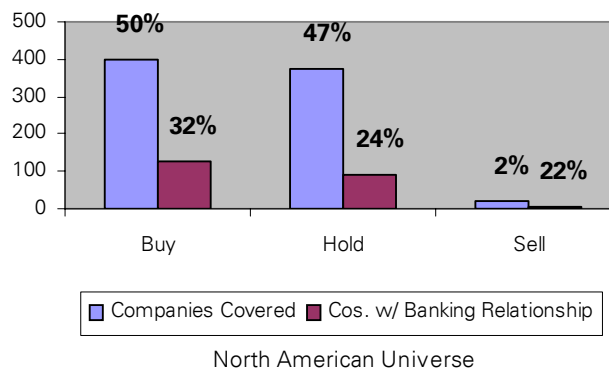
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