

15 February 2005

MEMC Electronic Materials

Reuters: WFR.N Exchange: NYSE Ticker: WFR

Sometimes vertical integration helps

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Komatsu to sell polysilicon business to Renewable Energy Cop. (REC)

Komatsu, parent of Komatsu Electronics, announced its intent to sell ASiMI to REC. REC's stated intent is to direct more of ASiMI's polysilicon capacity to solar panel production, which we believe could contribute to periods of tight supply in wafer production, and may create pricing issues for those without captive or adequately supply.

A business of incremental advantages

We do not view this as a significant change in the industry, but believe that MEMC, which has control over its polysilicon destiny, could realize an advantage over some competitors in periods of tight polysilicon supply. (We note that Komatsu is the fifth largest wafer supplier.) We believe this can make MEMC more cost competitive, and less susceptible to materials pricing fluctuations. In a commodity-like business we believe such incremental advantages can help drive upside to numbers.

Valuation

With a strong operating structure, incremental share gains from weaker competitors, and anticipating a debt free balance sheet by the end of 2005, we believe fundamentals align favorably for WFR. We reiterate our Buy rating and \$14 price target, or ~13x our 2005 EPS estimate of \$1.05 and ~11x our 2006 EPS estimate of \$1.24. We believe any near term weakness from an anticipated offering of TPG owned shares presents a good buying opportunity.

| Forecasts and ratios | | | |
|----------------------|-------|-------|-------|
| Year end December 31 | 2004A | 2005E | 2006E |
| 1Q EPS (US\$) | 0.16 | 0.25 | 0.28 |
| 2Q EPS (US\$) | 0.20 | 0.25 | 0.30 |
| 3Q EPS (US\$) | 0.27 | 0.27 | 0.32 |
| 4Q EPS (US\$) | 0.26 | 0.28 | 0.34 |
| FY EPS (US\$) | 0.89 | 1.05 | 1.24 |
| Rev (US\$) | 1,028 | 1,103 | 1,202 |

Source: Deutsche Bank estimate

Deutsche Bank

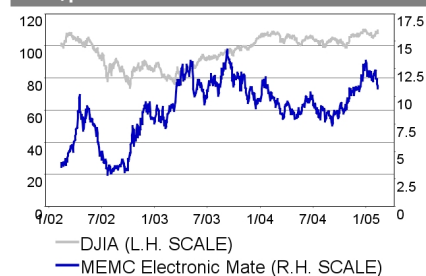


Current Events

Buy

| | |
|----------------------------------|-------|
| Price at 14 February 2005 (US\$) | 11.39 |
| Price target (US\$) | 14 |
| 52-week range (US\$) | 13-7 |

Price/price relative



| Performance(%) | 1m | 3m | 12m |
|----------------|-------|------|-------|
| Absolute | -6.9% | 6.3% | 10.7% |
| DJIA | 2.3% | 3.1% | .5% |

Stock data

| | |
|--------------------------|---------|
| Market cap (US\$) | 2,529.8 |
| Shares outstanding (m) | 219.7 |
| Avg. daily volume ('000) | 937 |

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1.

Valuation

WFR trades at a discount to peers based upon an historical perception of the company and the wafer manufacturing segment of the industry, and an overhang from Texas Pacific Group (TPG) ownership. We believe that with the unwinding of TPG's ownership stake, the continuation of consistent strong operational performance, the efficient build-out of 300mm capacity, and incremental market share gains, WFR's valuation discount should lift through the year. We anticipate potential upside to numbers as we progress through 2005 and into 2006.

Risks

Primary risks include (1) potential pricing pressures, (2) slower wafer starts growth rate than presently forecast, (3) market share shifts, (4) operational execution missteps, and (5) general economic risk.

Appendix 1

Important disclosures

Additional information available upon request

Disclosure checklist

| Company | Ticker | Recent price | Disclosure |
|---------------------------|--------|--------------|------------|
| MEMC Electronic Materials | WFR.N | 10.96 (USD) | 7, 9 |

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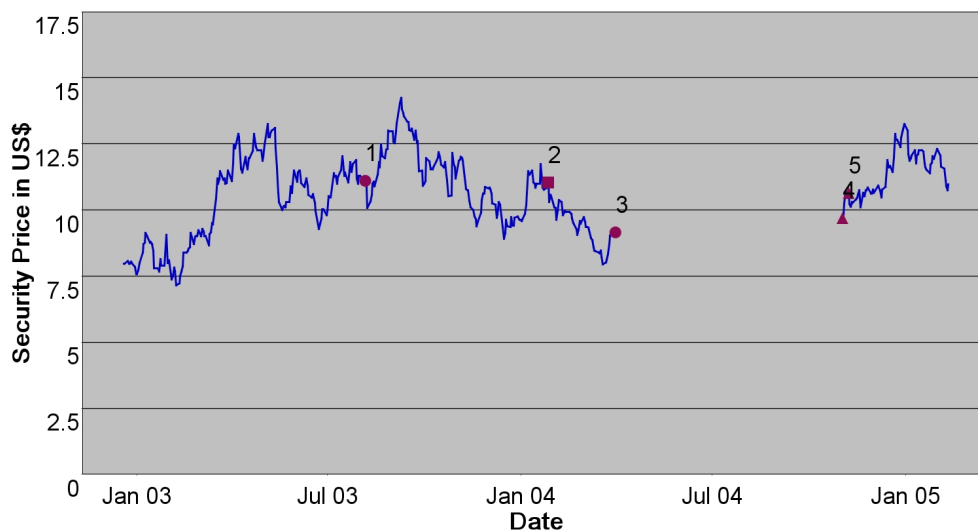
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Historical recommendations and target price: MEMC Electronic Materials, Inc. (WFR.N)

(as of 2/11/2005)

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. 8/6/2003: Buy, US\$ 15

2. 1/27/2004: Buy, Target Price Change US\$ 14

3. 3/31/2004: Suspended Rating

4. 11/2/2004: Rating Initiated Hold

5. 11/8/2004: Upgrade to Buy, Target Price Change US\$ 14

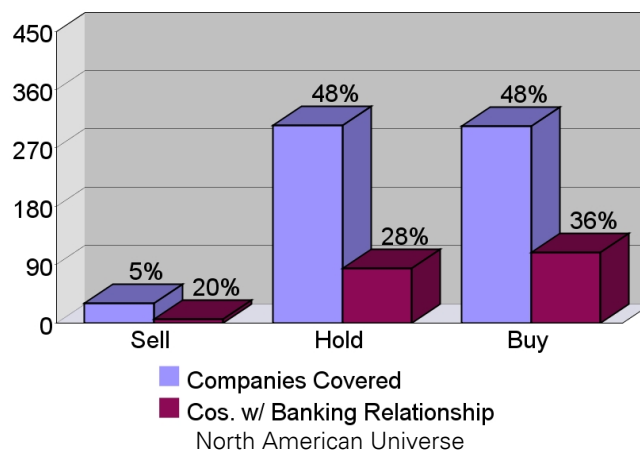
Rating key

Buy: Total return expected to appreciate 10% or more over a 12-month period.

Hold: Total return expected to be between 10% to -10% over a 12-month period.

Sell: Total return expected to depreciate 10% or more over a 12-month period.

The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the new notes will have priority.

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