

3 February 2005

MEMC Electronic Materials

Reuters: WFR.N Exchange: NYSE Ticker: WFR

TPG offers 52 million shares of MEMC in secondary offering

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TPG selling 23% stake, still retains 40% ownership

Late yesterday, MEMC announced its registration filing with the SEC noting that TPG Wafer Holdings LLC, its largest shareholder, is offering 52 million shares in a secondary offering, with up to 7.8 million shares (3.5%) for any over-allotments. With this sale TPG's equity ownership in MEMC is reduced to 40% from 63% earlier.

TPG sale expected; will likely create a near-term overhang

A sale by TPG was widely expected, and we view the current offering as part of a structured plan to reduce the stake in an orderly process. However, the current offering adds an additional supply of possibly 60 million shares; boosts the float from 41% to 67% on a ~225 million share base, and likely create a near-term overhang on the stock.

Near-term weakness provides a long-term buying opportunity

We believe MEMC fundamentals in terms of share gains, efficient build-out of capacity, and strong operating model remain intact. We would view any meaningful price decline arising out of increased supply of stock as a buying opportunity given solid operating performance by MEMC with room for margin expansion and upside to our earnings estimates as industry inventory correction runs its course, and a more favorable mix emerges.

Fundamentals on track, reiterate Buy rating

With vastly improved operations pointing towards a debt-free balance sheet by end-2005, WFR can benefit from multiple expansion on operational stability and business expansion opportunities. Our \$14 target price translates to ~13.3x our 2005 EPS estimate of \$1.05 and ~9.7x our 2006 EPS estimate of \$1.24.

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

Deutsche Bank

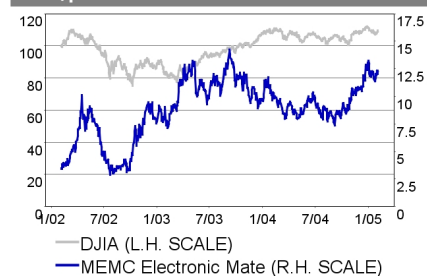


Secondary Offering

Buy

Price at 1 February 2005 (US\$)	12.25
Price target (US\$)	14
52-week range (US\$)	13-7

Price/price relative



Performance(%)	1m	3m	12m
Absolute	-7.3%	22.7%	19.7%
DJIA	-1.3%	4.5%	.8%

Stock data

Market cap (US\$)	2,691.7
Shares outstanding (m)	219.7
Free float	37%
Avg. daily volume ('000)	732
DJIA	10593.1

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Investors should consider this report as only a single factor in making their investment decision.

DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1.

Background:

Investor group led by Texas Pacific Group that includes TPG Wafer Holdings LLC and funds managed by Leonard Green & Partners, L.P. and TCW/Crescent Mezzanine Management LLC (collectively, TPG) acquired 72% of MEMC common stock and approximately \$910 million of debt from E.ON AG in November 2001. After a series of conversions to stock and stock sales in 2002, 2003, and 2004, TPG ownership currently stands at 63% of MEMC stock. Following the latest offering, TPG ownership will be reduced to 40% (assuming no exercise of the over-allotment option). As it is a sale by an existing shareholder, MEMC will not receive any proceeds from the sale of shares by TPG Wafer Holdings LLC.

Valuation & Risks

Our \$14 target price translates to ~13.3x our 2005 EPS estimate of \$1.05 and ~9.7x our 2006 EPS estimate of \$1.24. We consider PE to be the most appropriate valuation methodology because this is a consumables supplier, which is therefore less subject to industry cycles.

Risks include but are not limited to: (1) a weaker business environment than our present projections, (2) competitive pressures, (3) operational execution missteps, (4) delayed adoption of 300mm wafers, 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	12.05 (USD)	1, 7, 9, 13

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public offering for this company, for which it received fees.
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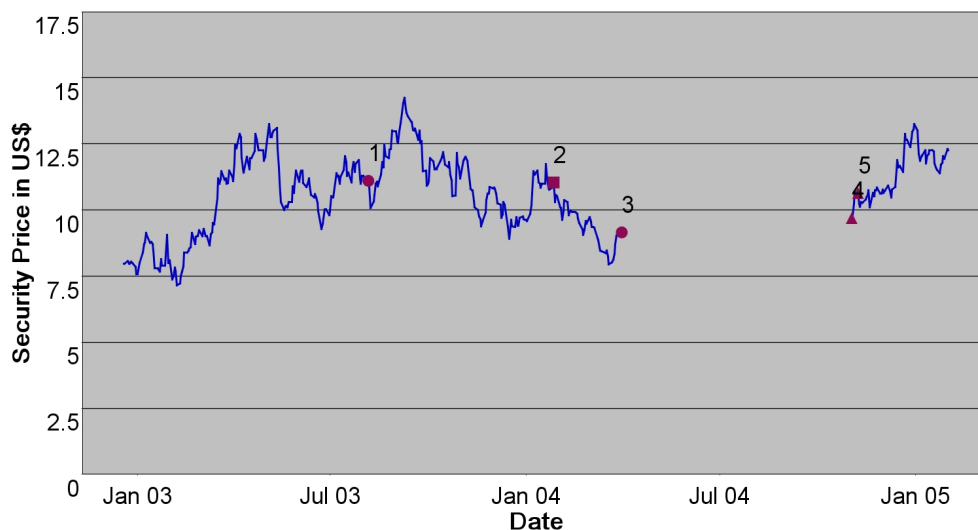
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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Stephen O'Rourke

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

(as of 2/1/2005)

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 | 4. 11/2/2004: Rating Initiated Hold |
| 2. 1/27/2004: Buy, Target Price Change US\$ 14 | 5. 11/8/2004: Upgrade to Buy, Target Price Change US\$ 14 |
| 3. 3/31/2004: Suspended Rating | |

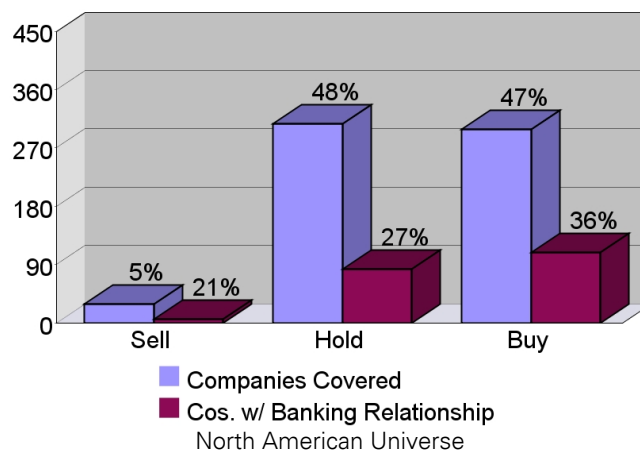
Rating key

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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