

MEMC ELECTRONIC MATERIALS, INC. (WFR: \$11.62^{*})

St. Peters, MO

Market Perform

Price Target \$11.50

Update

STOCK DATA

52 Week Range	\$14.95-\$7.33
ADTV - 3 Month	2.0
Market Cap	\$2,427.3
Shares	223.9
Outstanding (Diluted)	

EARNINGS DATA

EPS (FD Operating)			
Dec.	2004A	2005E	2006E
1Q	\$0.17	\$0.23A	\$0.26
2Q	0.16	0.25	0.28
3Q	0.27	0.27	0.30
4Q	0.26	0.31	0.30
FY	\$0.86	\$1.05	\$1.14
P/E	15.4x	11.0x	10.2x

FY	2004A	2005E	2006E
Revenue	1,028.0	1,100.3	1,195.8

FINANCIAL DATA

	1Q05
Cash & Equivalents	\$116.32
Accounts Receivable	\$130.53
Inventories	\$135.27
Current Assets	\$410.34
Total Assets	\$1,067.97
Total Current Liabilities	\$223.76
Long-Term Debt	\$113.35
Total Debt	\$136.40
Total Stockholder Equity	\$519.71

Financial Values In Millions

WFR: 1Q Miss; Slower First Half--Raising Price Target**Summary and Recommendation**

Reported 1Q revenue/EPS of \$258M/\$0.23 were below our estimates of \$269M/\$0.24 as well as the company's guidance range, though a lower than expected effective tax rate somewhat minimized the downside to EPS.

Additionally, 2Q revenue guidance range of \$263-\$271M is below our estimate of \$278M. MEMC attributed the 1Q revenue shortfall to a slower than anticipated market recovery, and the lower than expected 2Q revenue guidance, in our view, reflects the sluggish wafer start among customers. Given the slower start in '05, we are lowering our '05 estimates, though a lower tax rate is somewhat limiting the downside. We are introducing our '06 EPS estimate of \$1.14, which is making us increase our PT to \$11.50.

Net/net, we have been on the sidelines on this name since we launched coverage in September due to an uncertain demand environment as well as the ownership structure. Although the ownership structure has improved, marginally positively, we remain on the sidelines due to a lack of conviction on revenue and earnings growth prospects because of uncertainties surrounding: 1) the extent of QOQ wafer-start growth in 2H05; 2) impact of an insufficient supply of polysilicon material).

Key Points

- **Results and guidance below expectations.** 1Q revenue/EPS of \$258M/\$0.23 were below our estimates of \$269M/\$0.24 as well as the company's guidance range. 2Q revenue guidance range of \$263-\$271M is below our estimate of \$278M.
- **Lowering operating profit estimates.** Given the slower start in '05, we are lowering our overall 2005 revenue and EPS estimates to \$1100 M from \$1136M and \$1.05 from \$1.08, respectively; '06 estimates are \$1196M and \$1.14
- **What could make us more aggressive?** Although the ownership structure has improved and FCF growth prospects look brighter, we still require increased conviction that insufficient supply of polysilicon material (which WFR could manufacture internally) will help the company realize higher profits, as well as increased confidence in the overall wafer demand environment for 2H05.

^{*}Closing price of last business day immediately prior to the date of this publication.

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Specific disclosures are applicable to tickers indicated.

MEMC ELECTRONIC MATERIALS, INC. (WFR)

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Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
Buy (Outperform)	49.7 %	21.9 %
Hold (Market Perform)	43.7 %	5.9 %
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⁽¹⁾As of midnight on the business day immediately prior to the date of this publication.

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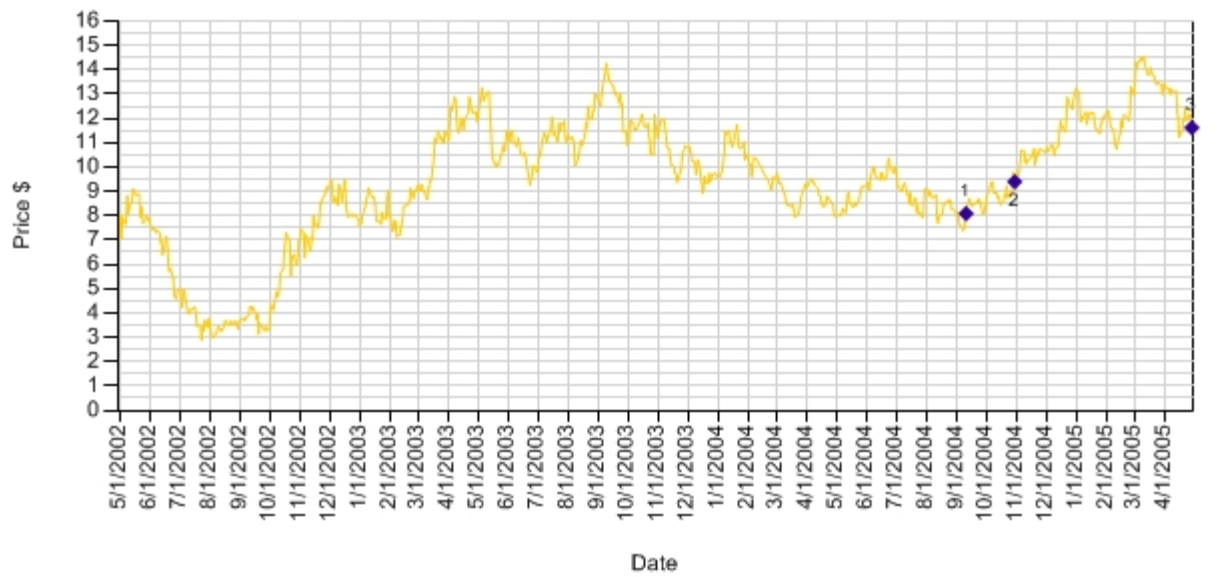
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WFR Performance



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|---------------------------------|------------------------------|-------------------------------|
| ■ Close | ◆ Sell (incl. Underperform) | ◆ 2: \$10.00 p/t H - 10/29/04 |
| ◆ Buy (incl. Outperform, Accum) | ▲ Split | ◆ 3: \$11.50 p/t H - 04/29/05 |
| ◆ Hold (incl. Mkt Perform) | ◆ 1: \$9.00 p/t H - 09/09/04 | |