

MEMC Electronic Materials Inc. (WFR/NYSE)

MEMC Uniquely Positioned to Benefit from Polysilicon (Poly) Raw Material Price Increases Driven by Strong Demand from the Solar Cell Industry. Stock Undervalued. Maintain BUY

Price (5/25/05): \$13.87
52 Week Range: \$14.95 - \$7.33
Recommendation/Target: Buy / \$17.00
Price/LTM Sales: 2.74
Convertible Debt: No

Shares Outstanding (MM): 209.1
Market Cap. (MM): \$2,901
Average Daily Volume (000): 1,622
Tangible Book Value: \$2.49
Debt/Capital: 21%
Net Cash Value per Share -\$0.10

	12/02A	12/03A	12/04A	12/05E			12/06E	
				Was	New	Consensus	New	Consensus
Revenue (MM)	\$687.2	\$781.1	\$1,028.0	\$1,117.3	\$1,077	\$1,121	\$1,328	\$1,257
Growth Rate	11.2%	13.7%	31.6%		4.7%	9%	23.3%	12%
Op. Margin	11.7%	18.3%	25.2%		26.0%		28.3%	
EPS: 1Q	(\$0.12)	\$0.09	\$0.16A	\$0.25	\$0.23A		\$0.29	\$0.30
EPS: 2Q	\$0.09	\$0.13	\$0.19A	\$0.26	\$0.23	\$0.25	\$0.32	\$0.31
EPS: 3Q	(\$0.20)	\$0.12	\$0.27A	\$0.28	\$0.27	\$0.30	\$0.35	\$0.34
EPS: 4Q	\$0.14	\$0.15	\$0.26A	\$0.29	\$0.30	\$0.32	\$0.37	\$0.35
EPS: Year	\$0.02	\$0.48	\$0.89A	\$1.08	\$1.03	\$1.10	\$1.33	\$1.27
Growth Rate	NM	NM	82.6%		16.2%	24%	29.3%	15.0%
P/E Ratio	NM	28.6x	15.7x		13.5x	12.3x	10.4x	10.7x

Disclosures applicable to this security: B, C, D, E, J (disclosure explanation at the end of this report)

INVESTMENT CONCLUSION

We believe MEMC is an attractive investment for the following reasons: 1) Solid financial position that will enable them to be profitable and grow their business unlike several competitors. 2) Favorable market conditions that include recovery of the semiconductor industry; increasing capacity utilization favoring APS; and consolidation in the industry favoring suppliers that are qualified for 300 mm diameter substrates (MEMC being one); 3) New management strategy focusing on profitability, market-share and technology.

SUMMARY

- We believe MEMC will benefit immensely starting the end 2005 through 2007 from the short supply of poly (raw material to manufacture silicon wafers). The price of poly has been increasing sharply (from \$9/Kg in 2000, \$25/Kg in 2004, \$35/Kg at the beginning 2005 to \$50-\$55/Kg this month) driven by growing demand from the solar cell industry while supply is limited. We expect this condition to start to benefit MEMC by the end of 2005 as follows:
 - Revenue growth driven by increases in silicon wafer ASPs as supply of poly and silicon wafers becomes scarce
 - Gross margin expansion. MEMC produces internally 95% of their poly raw material unlike its competitors, resulting in very limited exposure to price increases and short supply of poly.
 - Market-share expansion possibilities into the solar cell industry driven by MEMC's unique vertically integrated competitive position within the silicon wafer industry.
- We expect that the pricing of poly will continue to increase into 2007 as demand outstrips supply. The industry is increasing its poly production capacity, which should result in supply-demand equilibrium by the end 2007.
- We believe the silicon wafer manufacturers will pass on the incremental cost of the raw poly (at least partially) to its semiconductor chip customers by increasing the pricing of silicon wafers benefiting sales for the overall silicon wafer market.

- We are adjusting our 2005 estimates down to EPS \$1.03 on sales \$1077 million vs our previous estimate of EPS \$1.08 on sales \$1117 due to worse than expected inventory correction in the semiconductor industry during 1H05. We are seeing signs of recovery for 2H05.
- We are introducing our 2006 estimate equal to EPS \$1.33 on sales \$1328 million. We are conservative in projecting flat ASPs for silicon wafers during this year due to the short supply of poly. Sensitivity analysis would take us to EPS \$1.38-\$1.40 on sales 1.4 billion assuming a 10% YoY wafer ASP increase.
- We believe that MEMC's stock price is attractive. Our 12-18-month target price of \$17 is based on 13x our 2006 EPS. The stock is undervalued at 10x our 2006 EPS estimate.
- The main risks to the MEMC story are 1) if competitors start building capacity ahead of demand this would have the effect experienced in 1998-1999 of fast decline in ASPs leading to an unprofitable industry. 2) if the semiconductor chip industry starts to decline it will not be able to drive demand for the substrate industry.

INVESTMENT THESIS

- **We expect MEMC to grow at a rate above the industry.** We are projecting revenue to grow annually in the low double digit range driven by increasing demand for wafer volume, firm ASPs and market-share gains. EPS should be growing at the much faster pace of about 20-30% due to a) absorption of fixed cost driven by higher volume; b) higher productivity; c) lower manufacturing costs and d) lower operating expenses.
- **MEMC is a turnaround story** that has been on track to recovery since its acquisition in November 2001 by the Texas Pacific Group (TPG) and since new management came on board on April 2002. Management is sharply focused on:
 - Rising Productivity: Productivity improved 60% in 2001 –2002; 15% 2002-2003 and 18% 2003-2004 as a result of increased volume production with lower headcount. (Headcount was reduced by 33% in 2001, and benefits were realized by 2002 when product volume increased 29% with no additional headcount.)
 - Lowering Production Costs: Cash cost per unit decreased 25% in 2001- 2002; 18% 2002-2003 and 14% 2003-2004 as a result of better manufacturing yields, better process refinement, and lower cost of ownership.
 - Improving cycle times: improved more than 25% over last two years as a result of more streamlined materials flows
 - Lowering annual revenue for breakeven operating profit. Today it is at \$500 million, down from \$1 billion at the beginning of 2002
 - Gaining market-share back to historical levels of about 15%-20% (up from 10% in 2001)
 - Maintaining technology leadership
- **Industry conditions in the silicon wafer market are very favorable for MEMC:**
 - We expect the total area of silicon wafers to increase at a rate of 8% per year driven by the recovery of the semiconductor chip industry.
 - The industry is in a consolidation phase. With MEMC as one of the top four players we expect MEMC to gain share as the smaller competitors disappear.
 - We expect ASPs to be flat to up into 2007 as a result of:
 - The wafer industry is close to full capacity with mid 90% capacity utilization. We expect the trend to higher levels of capacity utilization to continue. We believe that once capacity utilization reaches 95% (which should occur by 2H2005), customers will experience wafer shortages resulting in firm ASPs.
 - The industry is starting to shift to 300 mm wafers that sell at a premium per unit area (about 100% higher) vs 200mm diameter wafers. This will help overall ASPs as the product mix shifts to 300 mm. Today 15% of the area is from 300mm. By 2007 it should grow to 40% of the area.
 - Increase pricing of poly-silicon raw material driven by strong demand from the solar cell industry will result in wafer manufacturers passing along at least partially the incremental cost to semiconductor chip customers.
 - The increasing demand for smaller line-widths and better yields will increase demand for higher performance wafers that also sell at an ASP premium.

- **MEMC is a competitive player with very strong financial position and a very strong IP position.** We believe this will enable them to continue to gain market-share as the industry consolidates and as new competitors face ever higher barriers to entry. Currently the main barrier to entry is the financial capability to grow capacity for 300mm substrates. Currently there are only four companies that have qualified their 300mm wafers. This is down from 10 producers of 200 mm wafers.

OUTLOOK:

Our 2005 estimate is EPS \$1.03 (down from \$1.08) on sales \$1077 million (up from \$1,117 million).

Guidance for 2Q05 is for sequential down 2%-5% due to the uncertainty regarding inventory correction in the semiconductor industry. Gross margins are expected to be flat to slightly up as cost reductions at MEMC offset price declines driven by customers working through the remainder of the inventory correction. Operating expenses are expected to decline slightly in dollar terms.

Our new estimate for 2006 is EPS \$1.33 on sales \$1328 million.

1Q05 Results

- 1Q05 Results came in below our expectations and consensus: Pro-forma EPS of \$0.23 on sales of \$258 million was a penny below consensus and two pennies below our estimate. GAAP EPS was \$0.34. The eleven cent difference was due to favorable tax adjustments.
- The revenue decline of 4% Q/Q (below previous guidance for flat Q/Q) was due to lower product volumes and ASP declines driven by slower than expected market recovery in the semi industry in addition to two customer related issues (already solved) that slowed shipments during March.
- We expect further ASP declines in the 2Q05 to be more than offset by increases in volume.
- During 2H05 we expect ASP stability driven by increasing chip unit growth after recovery from the semi industry inventory correction
- Gross margins declined only 40 bp Q/Q in 1Q05 to 36.2% in spite of the unfavorable market conditions. MEMC was able to maintain margins by continued cost reductions including better yields, productivity and expense management.
- Operating margins declined 86 bp Q/Q to 24% due to slightly higher R&D associated with the development of Silicon on Insulator (SOI) and 300mm.
- During the quarter MEMC announced the successful completion of a 65 million share secondary offering on behalf of TPG, resulting in alleviating past investor concerns as TPG reduced its ownership to 34% from 63%.
- MEMC continued improving its balance sheet with the 73 million operating cash flow it generated during the quarter. Cash increased by \$24 million to \$116 million. We expect MEMC will repay their debt balance of \$136 million by 1Q06.
- MEMC 300 mm wafer production capacity is on track: During 1Q05 MEMC expand to 150,000 wafers per month; by mid 2005 to 200,000/ month and by end 2006 to 350,000/month.

COMPANY DESCRIPTION

MEMC Inc is a leading worldwide producer of silicon wafers for the semiconductor industry. It is the worlds largest public company solely devoted to the supply of wafers to semiconductor device manufacturers.

Income Statement

	12/01	12/02	12/03	12/04	12/05E	12/06E
Revenues	617.9	687.2	781.1	1,028.0	1,076.5	1,327.7
300mm			66.9	227.5	489.7	807.7
200mm			540.9	617.0	469.2	443.6
<150mm			172.8	183.6	117.6	76.4
COGS Ex. Depr./Amort.	494.7	479.6	517.3	621.6	621.3	749.9
Depr./Amort.	174.6	34.2	31.0	37.0	57.6	68.8
Gross Profit	(51.5)	173.5	232.8	369.4	397.7	509.0
SG&A	69.7	65.8	57.2	71.9	72.5	82.2
Research & Development	65.7	27.4	32.9	38.0	45.3	51.5
Operating Income	(186.9)	80.2	142.6	259.5	279.9	375.3
Royalty	0.0	(3.6)	(3.6)	(16.2)	(3.3)	(3.6)
Net Interest Expense	76.3	56.5	4.2	8.5	3.7	(2.8)
Earnings Before Taxes	(263.2)	27.4	142.0	267.2	279.5	381.7
Income Taxes	(48.1)	16.7	33.6	59.1	42.0	76.3
Income Tax Rate	18.3%	61.1%	23.6%	22.1%	15.0%	20.0%
Earnings Before Extras	(196.9)	2.7	106.0	195.7	230.5	298.3
Extraordinaries	(325.7)	(24.8)	10.6	29.7	25.3	0.0
Net Income	(522.7)	(22.1)	116.6	225.4	255.8	298.3
Net Income for Cash EPS (excl.	(196.9)	1.3	103.3	183.0	227.6	295.4
Average Shares	69.6	129.8	218.7	221.0	224.0	224.2
Cash EPS	(\$2.83)	\$0.01	\$0.47	\$0.83	\$1.02	\$1.32
GAAP EPS	(\$2.83)	\$0.02	\$0.48	\$0.89	\$1.03	\$1.33

Growth Rates (Y/Y)

Revenues (Y/Y)	(29.1%)	11.2%	13.7%	31.6%	4.7%	23.3%
Gross Profit	(139.9%)	(436.9%)	34.2%	58.7%	7.6%	28.0%
Operating Income	1411.8%	(142.9%)	77.7%	81.9%	7.9%	34.1%
Net Income Bef. Ex. (Y/Y)	353.9%	(101.4%)	3782.9%	84.6%	17.8%	29.4%
Cash EPS	353.8%	(100.4%)	4513.3%	75.4%	22.7%	29.7%

Percent of Sales

COGS Ex. Depr./Amort.	80.1%	69.8%	66.2%	60.5%	57.7%	56.5%
Depr./Amort.	28.3%	5.0%	4.0%	3.6%	5.3%	5.2%
Gross Profit	(8.3%)	25.2%	29.8%	35.9%	36.9%	38.3%
SG&A	11.3%	9.6%	7.3%	7.0%	6.7%	6.2%
Research & Development	10.6%	4.0%	4.2%	3.7%	4.2%	3.9%
Operating Income	(30.2%)	11.7%	18.3%	25.2%	26.0%	28.3%
Net Interest Expense	12.4%	8.2%	0.5%	0.8%	0.3%	(0.2%)
Earnings Before Taxes	(42.6%)	4.0%	18.2%	26.0%	26.0%	28.8%
Income Taxes	(7.8%)	2.4%	4.3%	5.7%	3.9%	5.8%
Earnings Before Extras	(31.9%)	0.4%	13.6%	19.0%	21.4%	22.5%
Extraordinaries	(52.7%)	(3.6%)	1.4%	2.9%	2.3%	0.0%
Net Income	(84.6%)	(3.2%)	14.9%	21.9%	23.8%	22.5%
Net Income for Cash EPS (excl.	(31.9%)	0.2%	13.2%	17.8%	21.1%	22.3%

Income Statement

	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05	2Q/05E	3Q/05E	4Q/05E	1Q/06E	2Q/06E	3Q/06E	4Q/06E
Revenues	228.8	255.5	275.3	268.4	257.9	252.2	273.1	293.4	297.7	318.7	346.0	365.2
300mm	26.5	49.8	67.7	83.6	95.1	102.0	136.7	155.8	166.9	189.4	215.0	236.4
200mm	157.6	158.3	161.0	140.1	126.5	118.6	110.0	114.1	106.3	111.3	115.4	110.6
<150mm	44.9	47.4	46.5	44.8	36.2	31.5	26.3	23.5	24.5	18.0	15.6	18.3
COGS Ex. Depr./Amort.	145.5	160.0	158.4	157.7	151.2	146.0	156.8	167.3	169.0	180.3	195.1	205.4
Depr./Amort.	9.9	8.3	6.2	12.5	13.3	14.0	14.7	15.4	16.1	16.8	17.5	18.2
Gross Profit	73.3	87.2	110.7	98.2	93.3	92.1	101.5	110.7	112.5	121.6	133.3	141.6
SG&A	17.2	17.8	17.8	19.2	18.2	17.8	18.1	18.4	18.6	19.8	21.4	22.4
Research & Development	8.9	9.3	9.4	10.4	11.4	11.2	11.3	11.4	11.5	12.4	13.4	14.2
Operating Income	47.2	60.0	83.6	68.6	63.7	63.1	72.1	80.9	82.4	89.4	98.5	105.0
Royalty	(8.3)	(0.5)	(2.5)	(5.0)	(0.6)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Net Interest Expense	1.8	2.1	2.4	2.2	1.2	1.2	1.0	0.3	(0.3)	(0.6)	(0.8)	(1.0)
Earnings Before Taxes	53.7	58.4	83.6	71.4	63.2	62.8	72.0	81.5	83.6	90.9	100.3	107.0
Income Taxes	13.4	12.7	20.8	12.1	9.5	9.4	10.8	12.2	16.7	18.2	20.1	21.4
Income Tax Rate	25.0%	21.8%	24.9%	17.0%	15.1%	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%	20.0%
Earnings Before Extras	35.9	42.8	60.2	56.8	51.9	51.6	59.5	67.5	65.1	71.0	78.5	83.8
Extraordinaries	0.0	17.8	(0.4)	12.3	25.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	35.9	60.6	59.7	69.2	77.2	51.6	59.5	67.5	65.1	71.0	78.5	83.8
Net Income for Cash EPS (excl.	29.7	42.4	58.3	52.7	51.3	50.8	58.7	66.7	64.4	70.3	77.7	83.1
Average Shares	222.1	221.0	220.4	222.1	223.9	224.0	224.0	224.1	224.1	224.2	224.2	224.3
Cash EPS	\$0.13	\$0.19	\$0.26	\$0.24	\$0.23	\$0.23	\$0.26	\$0.30	\$0.29	\$0.31	\$0.35	\$0.37
GAAP EPS	\$0.16	\$0.19	\$0.27	\$0.26	\$0.23	\$0.23	\$0.27	\$0.30	\$0.29	\$0.32	\$0.35	\$0.37
Growth Rates (Y/Y)												
Revenues (Y/Y)	21.5%	33.2%	40.5%	30.9%	12.7%	(1.3%)	(0.8%)	9.3%	15.5%	26.4%	26.7%	24.5%
Revenues (Q/Q)	11.6%	11.7%	7.7%	(2.5%)	(3.9%)	(2.2%)	8.3%	7.5%	1.5%	7.1%	8.6%	5.6%
Gross Profit	35.3%	56.7%	89.2%	52.4%	27.2%	5.7%	(8.3%)	12.8%	20.7%	31.9%	31.3%	27.9%
Operating Income	44.4%	78.2%	128.9%	72.9%	34.9%	5.1%	(13.7%)	17.9%	29.2%	41.7%	36.6%	29.7%
Net Income Bef. Ex. (Y/Y)	81.9%	56.8%	127.0%	74.9%	44.5%	20.7%	(1.1%)	18.8%	25.4%	37.5%	31.9%	24.1%
Net Income Bef. Ex. (Q/Q)	10.5%	19.1%	40.7%	(5.5%)	(8.7%)	(0.5%)	15.2%	13.5%	(3.6%)	9.1%	10.5%	6.8%
Cash EPS	47.6%	57.1%	129.3%	66.5%	71.4%	18.3%	(0.9%)	25.6%	25.2%	38.1%	32.3%	24.4%
Percent of Sales												
COGS Ex. Depr./Amort.	63.6%	62.6%	57.5%	58.8%	58.7%	57.9%	57.4%	57.0%	56.8%	56.6%	56.4%	56.2%
Depr./Amort.	4.3%	3.3%	2.2%	4.7%	5.2%	5.6%	5.4%	5.3%	5.4%	5.3%	5.1%	5.0%
Gross Profit	32.1%	34.1%	40.2%	36.6%	36.2%	36.5%	37.2%	37.7%	37.8%	38.1%	38.5%	38.8%
SG&A	7.5%	7.0%	6.5%	7.1%	7.0%	7.1%	6.6%	6.3%	6.3%	6.2%	6.2%	6.1%
Research & Development	3.9%	3.6%	3.4%	3.9%	4.4%	4.4%	4.1%	3.9%	3.9%	3.9%	3.9%	3.9%
Operating Income	20.7%	23.5%	30.4%	25.6%	24.7%	25.0%	26.4%	27.6%	27.7%	28.1%	28.5%	28.8%
Net Interest Expense	0.8%	0.8%	0.9%	0.8%	0.5%	0.5%	0.4%	0.1%	(0.1%)	(0.2%)	(0.2%)	(0.3%)
Earnings Before Taxes	23.5%	22.9%	30.4%	26.6%	24.5%	24.9%	26.4%	27.8%	28.1%	28.5%	29.0%	29.3%
Income Taxes	5.9%	5.0%	7.6%	4.5%	3.7%	3.7%	4.0%	4.2%	5.6%	5.7%	5.8%	5.9%
Earnings Before Extras	15.7%	16.7%	21.9%	21.2%	20.1%	20.5%	21.8%	23.0%	21.9%	22.3%	22.7%	22.9%
Extraordinaries	0.0%	7.0%	(0.2%)	4.6%	9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	15.7%	23.7%	21.7%	25.8%	29.9%	20.5%	21.8%	23.0%	21.9%	22.3%	22.7%	22.9%
Net Income for Cash EPS (excl.	13.0%	16.6%	21.2%	19.6%	19.9%	20.2%	21.5%	22.7%	21.6%	22.0%	22.5%	22.7%

Balance Sheet

	12/01	12/02	12/03	12/04	12/05E	12/06E
Assets						
Cash	107.2	165.6	130.7	92.3	105.2	234.7
Receivables	67.4	95.0	103.0	140.7	148.5	184.9
Inventory	69.9	85.1	109.5	127.6	153.9	191.6
Other Current Assets	19.5	17.9	22.1	29.7	32.1	40.0
Total Current Assets	264.0	363.7	365.3	390.3	439.8	651.2
Gross PP&E	290.0	274.2	359.7	534.0	677.1	857.1
Accumulated Depreciation	89.3	89.3	89.3	89.3	134.4	203.1
Net PP&E	200.7	184.9	270.4	444.7	542.7	653.9
Other Assets	84.6	83.1	86.0	147.5	183.7	187.3
Total Assets	549.3	631.7	721.7	982.5	1,166.3	1,492.5
Liabilities & Equity						
Payables	52.1	68.0	95.2	124.1	151.8	188.9
Short-term Debt	75.9	123.6	71.8	24.4	0.1	0.1
Other Current Liabilities	93.7	94.4	77.0	67.1	76.6	95.4
Total Current Liabilities	221.7	286.1	244.1	215.6	228.5	284.4
Long-term Debt	144.7	161.0	59.3	116.1	28.3	0.3
Other Liabilities	203.1	209.3	224.8	208.8	211.2	211.2
Total Liabilities	569.6	656.4	528.1	540.5	468.0	495.9
Equity	(20.2)	(24.7)	193.6	442.1	698.3	996.6
Total Liabilities & Equity	549.3	631.7	721.7	982.5	1,166.3	1,492.5

Balance Sheet

	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05	2Q/05E	3Q/05E	4Q/05E	1Q/06E	2Q/06E	3Q/06E	4Q/06E
Assets												
Cash	140.6	129.5	103.3	92.3	116.3	107.1	98.6	105.2	111.0	145.3	185.6	234.7
Receivables	119.2	138.9	151.9	140.7	130.5	127.7	138.2	148.5	150.7	161.3	175.2	184.9
Inventory	123.0	112.6	119.8	127.6	135.3	132.3	143.2	153.9	156.2	167.2	181.5	191.6
Other Current Assets	31.5	16.4	20.1	29.7	28.2	27.6	29.9	32.1	32.6	34.9	37.9	40.0
Total Current Assets	414.5	397.4	395.1	390.3	410.3	394.7	410.0	439.8	450.5	508.8	580.1	651.2
Gross PP&E	451.7	479.6	475.7	534.0	566.5	607.7	649.0	677.1	722.1	767.1	812.1	857.1
Accumulated Depreciation	90.2	86.9	88.5	89.3	90.2	104.2	118.9	134.4	150.5	167.3	184.9	203.1
Net PP&E	361.6	392.7	387.3	444.7	476.3	503.5	530.1	542.7	571.6	599.7	627.2	653.9
Other Assets	76.1	106.7	98.9	147.5	181.3	181.9	182.8	183.7	184.6	185.5	186.4	187.3
Total Assets	852.1	896.8	881.3	982.5	1,068.0	1,080.2	1,122.9	1,166.3	1,206.7	1,294.0	1,393.7	1,492.5
Liabilities & Equity												
Payables	91.9	101.2	99.0	124.1	133.4	130.4	141.2	151.8	154.0	164.9	179.0	188.9
Short-term Debt	86.9	57.5	21.9	24.4	23.1	13.1	5.1	0.1	0.1	0.1	0.1	0.1
Other Current Liabilities	75.0	78.0	68.6	67.1	67.3	65.8	71.3	76.6	77.7	83.2	90.3	95.4
Total Current Liabilities	253.8	236.6	189.5	215.6	223.8	209.3	217.6	228.5	231.8	248.1	269.4	284.4
Long-term Debt	127.6	125.1	120.5	116.1	113.3	88.3	63.3	28.3	0.3	0.3	0.3	0.3
Other Liabilities	241.3	239.4	217.2	208.8	211.2	211.2	211.2	211.2	211.2	211.2	211.2	211.2
Total Liabilities	622.7	601.1	527.2	540.5	548.3	508.8	492.1	468.0	443.3	459.6	480.9	495.9
Equity	229.3	295.7	354.1	442.1	519.7	571.3	630.8	698.3	763.4	834.4	912.8	996.6
Total Liabilities & Equity	852.1	896.8	881.3	982.5	1,068.0	1,080.2	1,122.9	1,166.3	1,206.7	1,294.0	1,393.7	1,492.5

Cash Flow Statement

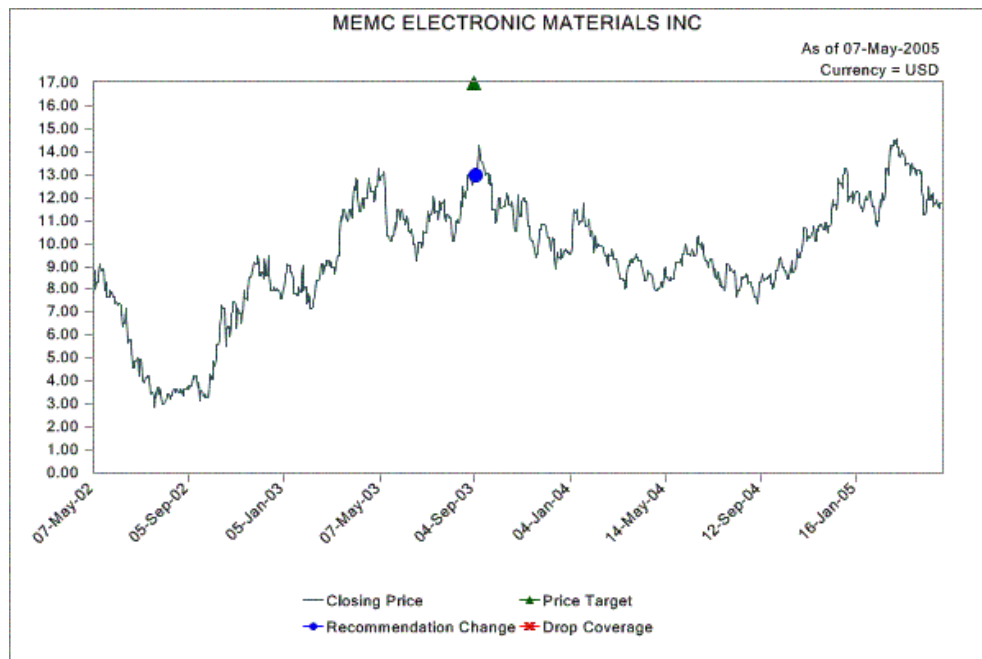
	12/01	12/02	12/03	12/04	12/05E	12/06E
CF from Operations						
Net Income	(522.7)	(22.1)	116.6	225.4	255.8	298.3
Depreciation & Ammortization	174.6	34.2	31.0	37.0	57.6	68.8
Changes in Assets/Liab.	<u>352.3</u>	<u>(16.9)</u>	<u>(14.2)</u>	<u>(121.9)</u>	<u>(33.2)</u>	<u>(29.6)</u>
Cash Prov. by Operations	4.3	(4.9)	133.5	140.4	280.1	337.5
CF from Investing						
Capital Expenditures	(49.8)	(22.0)	(85.2)	(149.8)	(165.0)	(180.0)
Other Changes in PP&E	<u>772.1</u>	<u>3.6</u>	<u>(31.3)</u>	<u>(61.5)</u>	<u>9.4</u>	<u>0.0</u>
Cash (Used) in Investing	722.3	(18.3)	(116.5)	(211.3)	(155.6)	(180.0)
CF from Financing						
Change in ST Debt	(51.9)	47.8	(51.8)	(47.4)	(24.3)	0.0
Change in LT Debt	(798.2)	16.3	(101.7)	56.8	(87.7)	(28.0)
Common Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Changes in Equity	<u>136.0</u>	<u>17.7</u>	<u>101.7</u>	<u>23.1</u>	<u>0.5</u>	<u>0.0</u>
Cash Prov. by Financing	(714.1)	81.7	(51.9)	32.5	(111.6)	(28.0)
Net Incr./((Decr.) in Cash	12.4	58.5	(34.9)	(38.4)	12.9	129.5
Cash - Beginning	94.8	107.2	165.6	130.7	92.3	105.2
Cash - End	107.2	165.6	130.7	92.3	105.2	234.7

Key Financial Ratios

	12/01	12/02	12/03	12/04	12/05E	12/06E
Liquidity						
Cash & Equivalents (\$ millions)	107.2	165.6	130.7	92.3	105.2	234.7
Working Capital (\$ millions)	42.3	77.6	121.3	174.7	211.4	366.8
Current Ratio	1.2	1.3	1.5	1.8	1.9	2.3
Quick Ratio	0.9	1.0	1.0	1.2	1.3	1.6
Leverage						
Debt/Capital	110.1%	109.5%	40.4%	24.1%	3.9%	0.0%
Times Interest Earned	(2.3)	1.1	11.0	19.2	46.5	1,374.5
Management						
Sales/Inventory	5.5	6.1	7.0	9.2	9.6	11.9
Sales/Fixed Assets	0.8	0.8	1.0	1.3	1.3	1.6
Sales/Capital	0.7	0.7	0.8	1.1	1.2	1.4
Receivable Days (DSO)	55.8	50.1	44.1	33.5	32.0	26.0
Inventory Days-on-Hand	61.0	79.5	74.5	62.0	60.2	49.9
Inventory Turns	6.0	4.6	4.9	5.9	6.1	7.3
Days' Sales in Cash	63.9	57.5	50.6	38.4	36.7	29.8
Profitability						
Return on Assets	-14.7%	0.1%	7.7%	13.6%	17.0%	22.0%
Return on Capital	-21.1%	0.1%	11.1%	19.6%	24.4%	31.6%
Return on Equity	-325.6%	2.2%	170.7%	302.6%	376.3%	488.4%
Return on Invested Capital	-18.5%	3.8%	13.2%	24.5%	28.8%	36.3%
Per Share Data						
Book Value/Share	(0.29)	(0.19)	0.89	2.00	3.12	4.45
Net Cash/Share	(0.54)	0.04	0.33	(0.11)	0.34	1.05
EPS	(2.83)	0.01	0.47	0.83	1.02	1.32

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MEMC ELECTRONIC MATERIALS INC

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
04-Sep-2003	12.97	BUY	04-Sep-2003	12.97	17.00

	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
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Buy	59	23
Hold	32	15
Underperform	2	17
Rating Suspended	0	0
Restricted	1	60
Under Review	<1	0

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