

## MEMC Electronic Materials Inc. (WFR/NYSE)

**Our Confidence Level for 2Q05 Rises based on Positive Quarterly Results at Shin\_Etsu. Stock Continues to be Undervalued at 13x our 2006 EPS Estimate. Increasing Price Target to \$18 and Reiterate BUY rating**

Price (7/11/05):	\$17.60	Shares Outstanding (MM):	209.1
52 Week Range:	\$17.68 - \$7.33	Market Cap. (MM):	\$3,681
Recommendation/Target:	Buy / \$21.00	Was (\$17)	Average Daily Volume (000): 1,539
Price/LTM Sales:	3.48		Tangible Book Value: \$2.49
Convertible Debt:	No		Debt/Capital: 21%
			Net Cash Value per Share -\$0.10

	12/02A	12/03A	12/04A	12/05E			12/06E		
				Was	New	Consensus	Was	New	Consensus
Revenue (MM)	\$687.2	\$781.1	\$1,028.0	\$1,076.5	\$1,095.7	\$1,134.0	\$1,327.7	\$1,327.7	\$1,301.0
Growth Rate	11.2%	13.7%	31.6%		6.6%	10.3%		21.2%	14.7%
Op. Margin	11.7%	18.3%	25.2%		26.3%			28.5%	
EPS: 1Q	(\$0.12)	\$0.09	\$0.16A		\$0.23A		\$0.29	\$0.29	\$0.31
EPS: 2Q	\$0.09	\$0.13	\$0.19A	\$0.23	\$0.25	\$0.25	\$0.32	\$0.32	\$0.32
EPS: 3Q	(\$0.20)	\$0.12	\$0.27A	\$0.27	\$0.28	\$0.30	\$0.35	\$0.35	\$0.35
EPS: 4Q	\$0.14	\$0.15	\$0.26A	\$0.30	\$0.30	\$0.33	\$0.37	\$0.38	\$0.36
EPS: Year	\$0.02	\$0.48	\$0.89A	\$1.03	\$1.06	\$1.10	\$1.33	\$1.34	\$1.34
Growth Rate	NM	NM	82.6%		19.9%	27.9%		26.5%	21.8%
P/E Ratio	NM	36.3x	19.9x		16.6x	16.0x		13.1x	13.1x

**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 that we are fast approaching the tail end of the silicon wafer inventory correction and that silicon wafer volumes will begin ramping strongly starting with the June quarter.
- Although we still expect wafer ASPs to continue to decline Q/Q during the June quarter due to the 85% capacity utilization in the industry, we believe sales will be up Q/Q as the volume increases more than outweigh the decline in wafer pricing.
- We believe that volume shipment of silicon wafers will continue to increase at a fast pace, resulting in capacity utilizations hovering around 95% by the end of 2005, which is when we expect wafer ASPs to start firming up.
- Shin-Etsu's quarterly results ending June 2005 confirm our thesis. Volume shipments of 300 mm wafers increased as chipmakers continued transitioning from 200 mm. In addition volume shipment of 200 mm wafers remained strong driven by recovery in the PC market and the expansion of digital appliance products. This resulted in sales of Shin-Etsu's electronic materials segment (composed of about 85% silicon wafers) increasing 4% Q/Q
- We believe that MEMC will be able to perform as well as Shin-Etsu during the June quarter and as a result believe that MEMC will at the very least reach consensus estimates equal to EPS \$0.25 on sales \$268 million which is at the upper end of their previous guidance given during their 1Q05 conference call.

- We were somewhat conservative in our estimates for the 2Q05 and are updating estimates to reflect our more positive view for 2Q05.
- We are increasing our 2005 estimates to EPS \$1.06 on sales \$1096 million vs our previous estimate of EPS \$1.03 on sales \$1077 million.
- We are tweaking our 2006 estimate slightly up to EPS \$1.34 on sales \$1328 million. We are conservative in projecting flat ASPs for silicon wafers during 2006. 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 \$21 is based on 16x our 2006 EPS. We believe the stock is undervalued at 13x 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 \$1.06 (up from \$1.03) on sales \$1096 million (up from \$1,077 million).

Guidance for 2Q05 is for sequential up 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 estimate for 2006 is EPS \$1.34 on sales \$1328 million.

## **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	1,095.7	1,327.7
COGS Ex. Depr./Amort.	494.7	479.6	517.3	621.6	631.0	746.1
Depr./Amort.	174.6	34.2	31.0	37.0	57.6	68.8
Gross Profit	(51.5)	173.5	232.8	369.4	407.2	512.9
SG&A	69.7	65.8	57.2	71.9	73.0	82.3
Research & Development	65.7	27.4	32.9	38.0	45.8	52.0
Operating Income	(186.9)	80.2	142.6	259.5	288.5	378.5
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	(3.0)
Earnings Before Taxes	(263.2)	27.4	142.0	267.2	288.1	385.1
Income Taxes	(48.1)	16.7	33.6	59.1	43.3	77.0
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	237.8	301.0
Extraordinaries	(325.7)	(24.8)	10.6	29.7	25.3	0.0
Net Income	(522.7)	(22.1)	116.6	225.4	263.1	301.0
Net Income for Cash EPS (excl.	(196.9)	1.3	103.3	183.0	235.0	298.1
Average Shares	69.6	129.8	218.7	221.0	224.0	224.2
Cash EPS	(\$2.83)	\$0.01	\$0.47	\$0.83	\$1.05	\$1.33
GAAP EPS	(\$2.83)	\$0.02	\$0.48	\$0.89	\$1.06	\$1.34

**Growth Rates (Y/Y)**

Revenues (Y/Y)	(29.1%)	11.2%	13.7%	31.6%	6.6%	21.2%
Gross Profit	(139.9%)	(436.9%)	34.2%	58.7%	10.2%	25.9%
Operating Income	1411.8%	(142.9%)	77.7%	81.9%	11.2%	31.2%
Net Income Bef. Ex. (Y/Y)	353.9%	(101.4%)	3782.9%	84.6%	21.5%	26.6%
Cash EPS	353.8%	(100.4%)	4513.3%	75.4%	26.7%	26.8%

**Percent of Sales**

COGS Ex. Depr./Amort.	80.1%	69.8%	66.2%	60.5%	57.6%	56.2%
Depr./Amort.	28.3%	5.0%	4.0%	3.6%	5.3%	5.2%
Gross Profit	(8.3%)	25.2%	29.8%	35.9%	37.2%	38.6%
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%	26.3%	28.5%
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%	26.3%	29.0%
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%	21.7%	22.7%
Extraordinaries	(52.7%)	(3.6%)	1.4%	2.9%	2.3%	0.0%
Net Income	(84.6%)	(3.2%)	14.9%	21.9%	24.0%	22.7%
Net Income for Cash EPS (excl.	(31.9%)	0.2%	13.2%	17.8%	21.4%	22.5%

**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	265.6	278.9	293.4	297.7	318.7	346.0	365.2
COGS Ex. Depr./Amort.	145.5	160.0	158.4	157.7	151.2	154.4	159.0	166.3	168.1	179.3	194.2	204.5
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	97.1	105.1	111.7	113.5	122.5	134.3	142.5
SG&A	17.2	17.8	17.8	19.2	18.2	18.2	18.2	18.4	18.7	19.8	21.4	22.4
Research & Development	8.9	9.3	9.4	10.4	11.4	11.4	11.4	11.5	11.7	12.5	13.6	14.3
Operating Income	47.2	60.0	83.6	68.6	63.7	67.6	75.4	81.7	83.2	90.2	99.3	105.8
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)	(0.7)	(0.9)	(1.1)
Earnings Before Taxes	53.7	58.4	83.6	71.4	63.2	67.2	75.4	82.3	84.4	91.8	101.1	107.8
Income Taxes	13.4	12.7	20.8	12.1	9.5	10.1	11.3	12.4	16.9	18.4	20.2	21.6
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	55.4	62.3	68.2	65.8	71.7	79.1	84.5
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	55.4	62.3	68.2	65.8	71.7	79.1	84.5
Net Income for Cash EPS (excl.	29.7	42.4	58.3	52.7	51.3	54.6	61.5	67.5	65.0	70.9	78.4	83.7
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	\$0.24	\$0.27	\$0.30	\$0.29	\$0.32	\$0.35	\$0.37
GAAP EPS	\$0.16	\$0.19	\$0.27	\$0.26	\$0.23	\$0.25	\$0.28	\$0.30	\$0.29	\$0.32	\$0.35	\$0.38

**Growth Rates (Y/Y)**

Revenues (Y/Y)	21.5%	33.2%	40.5%	30.9%	12.7%	3.9%	1.3%	9.3%	15.5%	20.0%	24.1%	24.5%
Revenues (Q/Q)	11.6%	11.7%	7.7%	(2.5%)	(3.9%)	3.0%	5.0%	5.2%	1.5%	7.1%	8.6%	5.6%
Gross Profit	35.3%	56.7%	89.2%	52.4%	27.2%	11.5%	(5.1%)	13.7%	21.7%	26.1%	27.7%	27.7%
Operating Income	44.4%	78.2%	128.9%	72.9%	34.9%	12.5%	(9.7%)	19.1%	30.5%	33.5%	31.7%	29.4%
Net Income Bef. Ex. (Y/Y)	81.9%	56.8%	127.0%	74.9%	44.5%	29.5%	3.6%	20.0%	26.7%	29.4%	27.0%	23.8%
Net Income Bef. Ex. (Q/Q)	10.5%	19.1%	40.7%	(5.5%)	(8.7%)	6.7%	12.5%	9.5%	(3.6%)	9.0%	10.4%	6.8%
Cash EPS	47.6%	57.1%	129.3%	66.5%	71.4%	27.1%	3.8%	26.9%	26.6%	29.8%	27.3%	24.0%

**Percent of Sales**

COGS Ex. Depr./Amort.	63.6%	62.6%	57.5%	58.8%	58.7%	58.1%	57.0%	56.7%	56.5%	56.3%	56.1%	56.0%
Depr./Amort.	4.3%	3.3%	2.2%	4.7%	5.2%	5.3%	5.3%	5.3%	5.4%	5.3%	5.1%	5.0%
Gross Profit	32.1%	34.1%	40.2%	36.6%	36.2%	36.6%	37.7%	38.1%	38.1%	38.4%	38.8%	39.0%
SG&A	7.5%	7.0%	6.5%	7.1%	7.0%	6.8%	6.5%	6.3%	6.3%	6.2%	6.2%	6.1%
Research & Development	3.9%	3.6%	3.4%	3.9%	4.4%	4.3%	4.1%	3.9%	3.9%	3.9%	3.9%	3.9%
Operating Income	20.7%	23.5%	30.4%	25.6%	24.7%	25.4%	27.1%	27.9%	27.9%	28.3%	28.7%	29.0%
Net Interest Expense	0.8%	0.8%	0.9%	0.8%	0.5%	0.5%	0.3%	0.1%	(0.1%)	(0.2%)	(0.3%)	(0.3%)
Earnings Before Taxes	23.5%	22.9%	30.4%	26.6%	24.5%	25.3%	27.0%	28.1%	28.4%	28.8%	29.2%	29.5%
Income Taxes	5.9%	5.0%	7.6%	4.5%	3.7%	3.8%	4.1%	4.2%	5.7%	5.8%	5.8%	5.9%
Earnings Before Extras	15.7%	16.7%	21.9%	21.2%	20.1%	20.9%	22.3%	23.3%	22.1%	22.5%	22.9%	23.1%
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%	20.9%	22.3%	23.3%	22.1%	22.5%	22.9%	23.1%
Net Income for Cash EPS (excl.	13.0%	16.6%	21.2%	19.6%	19.9%	20.6%	22.1%	23.0%	21.8%	22.3%	22.7%	22.9%

**Balance Sheet**

	12/01	12/02	12/03	12/04	12/05E	12/06E
<b>Assets</b>						
Cash	107.2	165.6	130.7	92.3	112.6	244.7
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	447.1	661.2
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	1,173.6	1,502.5
<b>Liabilities &amp; Equity</b>						
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	705.6	1,006.6
Total Liabilities & Equity	549.3	631.7	721.7	982.5	1,173.6	1,502.5

**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
<b>Assets</b>												
Cash	140.6	129.5	103.3	92.3	116.3	106.0	103.1	112.6	119.0	154.0	194.9	244.7
Receivables	119.2	138.9	151.9	140.7	130.5	134.5	141.2	148.5	150.7	161.3	175.2	184.9
Inventory	123.0	112.6	119.8	127.6	135.3	139.3	146.3	153.9	156.2	167.2	181.5	191.6
Other Current Assets	31.5	16.4	20.1	29.7	28.2	29.1	30.5	32.1	32.6	34.9	37.9	40.0
Total Current Assets	414.5	397.4	395.1	390.3	410.3	408.9	421.1	447.1	458.5	517.4	589.4	661.2
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	1,094.4	1,134.0	1,173.6	1,214.7	1,302.7	1,403.0	1,502.5
<b>Liabilities &amp; Equity</b>												
Payables	91.9	101.2	99.0	124.1	133.4	137.4	144.3	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	69.3	72.8	76.6	77.7	83.2	90.3	95.4
Total Current Liabilities	253.8	236.6	189.5	215.6	223.8	219.8	222.1	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	519.3	496.6	468.0	443.3	459.6	480.9	495.9
Equity	229.3	295.7	354.1	442.1	519.7	575.1	637.4	705.6	771.4	843.0	922.2	1,006.6
Total Liabilities & Equity	852.1	896.8	881.3	982.5	1,068.0	1,094.4	1,134.0	1,173.6	1,214.7	1,302.7	1,403.0	1,502.5

**Cash Flow Statement**

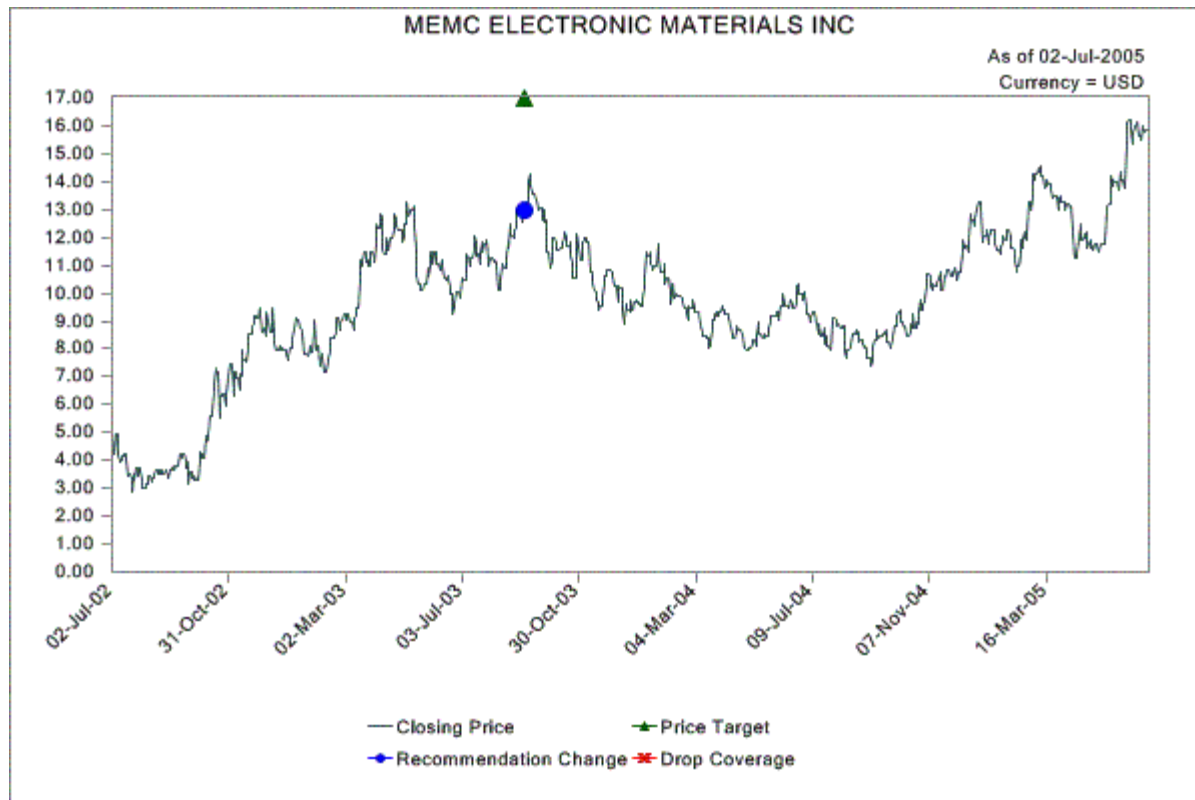
	12/01	12/02	12/03	12/04	12/05E	12/06E
<b>CF from Operations</b>						
Net Income	(522.7)	(22.1)	116.6	225.4	263.1	301.0
Depreciation & Ammortization	174.6	34.2	31.0	37.0	57.6	68.8
Changes in Assets/Liab.	<u>352.3</u>	<u>(16.9)</u>	<u>(14.2)</u>	<u>(121.9)</u>	<u>(33.2)</u>	<u>(29.6)</u>
Cash Prov. by Operations	4.3	(4.9)	133.5	140.4	287.4	340.2
<b>CF from Investing</b>						
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)
<b>CF from Financing</b>						
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)	20.2	132.2
Cash - Beginning	94.8	107.2	165.6	130.7	92.3	112.6
Cash - End	107.2	165.6	130.7	92.3	112.6	244.7

**Key Financial Ratios**

	12/01	12/02	12/03	12/04	12/05E	12/06E
<b>Liquidity</b>						
Cash & Equivalents (\$ millions)	107.2	165.6	130.7	92.3	112.6	244.7
Working Capital (\$ millions)	42.3	77.6	121.3	174.7	218.7	376.8
Current Ratio	1.2	1.3	1.5	1.8	2.0	2.3
Quick Ratio	0.9	1.0	1.0	1.2	1.3	1.7
<b>Leverage</b>						
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	47.9	1,386.1
<b>Management</b>						
Sales/Inventory	5.5	6.1	7.0	9.2	9.8	11.9
Sales/Fixed Assets	0.8	0.8	1.0	1.3	1.4	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	31.4	26.0
Inventory Days-on-Hand	61.0	79.5	74.5	62.0	59.3	50.1
Inventory Turns	6.0	4.6	4.9	5.9	6.2	7.3
Days' Sales in Cash	63.9	57.5	50.6	38.4	36.1	29.8
<b>Profitability</b>						
Return on Assets	-14.7%	0.1%	7.7%	13.6%	17.5%	22.2%
Return on Capital	-21.1%	0.1%	11.1%	19.6%	25.1%	31.9%
Return on Equity	-325.6%	2.2%	170.7%	302.6%	388.4%	492.8%
Return on Invested Capital	-18.5%	3.8%	13.2%	24.5%	29.7%	36.7%
<b>Per Share Data</b>						
Book Value/Share	(0.29)	(0.19)	0.89	2.00	3.15	4.49
Net Cash/Share	(0.54)	0.04	0.33	(0.11)	0.38	1.09
EPS	(2.83)	0.01	0.47	0.83	1.05	1.33

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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
Strong Buy	7%	35%
Buy	59	20
Hold	29	3
Under perform	2	0
Rating Suspended	1	0
Restricted	2	71
Under Review	<1	0

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