

**Technology, Media & Telecom: Semiconductor Manufacturing**

Important disclosures may be found on the last two pages of the report.

MEMC ELECTRONIC MATERIALS, INC. (WFR: \$17.16*)St. Peters, MO
July 26, 2005**Market Perform**Price Target \$14.00
Update**STOCK DATA**

| | |
|------------------------------|----------------|
| 52 Week Range | \$18.50-\$7.33 |
| ADTV - 3 Month | 2.0 |
| Market Cap | \$3,588.5 |
| Shares Outstanding (Diluted) | 223.9 |

EARNINGS DATA

| EPS (FD Operating) | | | |
|--------------------|--------|---------|--------|
| Dec. | 2004A | 2005E | 2006E |
| 1Q | \$0.16 | \$0.23A | \$0.27 |
| 2Q | 0.19 | 0.25 | 0.29 |
| 3Q | 0.27 | 0.29 | 0.31 |
| 4Q | 0.27 | 0.32 | 0.32 |
| FY | \$0.89 | \$1.09 | \$1.19 |
| P/E | 14.8x | 15.7x | 14.4x |

| FY | 2004A | 2005E | 2006E |
|---------|---------|---------|---------|
| Revenue | 1,028.0 | 1,122.9 | 1,223.9 |

FINANCIAL DATA

| | 1Q05 |
|---------------------------|---------|
| Cash & Equivalents | 116.3 |
| Accounts Receivable | 130.5 |
| Inventories | 135.3 |
| Current Assets | 410.3 |
| Total Assets | 1,068.0 |
| Total Current Liabilities | 223.8 |
| Long-Term Debt | 113.3 |
| Total Debt | 136.4 |
| Total Stockholder Equity | 519.7 |

Financial Values In Millions

WFR: MEMC 2Q Preview; Limited ASP Growth Going Forward--Maintaining Market Perform**Summary and Recommendation**

We expect MEMC to meet or exceed our 2Q estimates when it reports results on July 27, after the close of the market. Although the wafer starts for mature technologies began to improve in early 2Q05, prompting us to increase our estimates and price target, we believe there is still a period of time before the company could increase wafer prices significantly. MEMC's competitors are building out their 300mm capabilities (with a mix of 300mm wafers much higher than MEMC's) to meet the growing demand for wafers, thus limiting any share gains or rapid wafer ASP appreciation that the company may anticipate. Additionally, we believe that the polysilicon shortage has thus far, and will continue to be, more hype than a provider of significant leverage in increasing wafer prices as well as gross margin expansions for the company. We therefore do not anticipate that MEMC's quarterly revenues will grow at a rate higher than the QOQ wafer starts in the coming quarters, but rather they will grow more in line. We maintain our Market Perform rating.

Key Points

- **Expect 2Q results to meet or exceed our estimates.** We expect MEMC to meet or exceed our 2Q revenue/EPS estimates of \$270M/\$0.25 when it reports results on Wednesday, after the close, although a better-than-expected improvement in operating margin could provide upside to our estimate.
- **Polysilicon pricing impact overblown.** We do not expect the increase in the market "blended" polysilicon price to impact the price of semiconductor-grade wafers, as there is a significant price differential between solar-grade and semiconductor-grade wafers. We also note that a majority of MEMC's revenues are obtained from the semiconductor industry.
- **Valuation.** Given our current estimates and forecast of limited ASP appreciation, we are maintaining our price target at \$14, or 13x our 2005 EPS estimate and 9x our 2005 EV/EBITDA. We do not believe the company's top line will grow at a rate that justifies a higher valuation multiple.

MEMC 2Q Preview

We expect MEMC to meet or exceed our 2Q estimates, when it reports results on July 27, after the close of the market. As is widely known, wafer demand improved sequentially (particularly at the trailing edge, which is comprised of 180-250nm) during the second quarter, particularly at foundries. Therefore, we expect MEMC to report 2Q revenues at the high end of its guidance range of \$263 million to \$271 million, compared to our revenue estimate of \$270 million, which is also in line with the consensus. Our estimated earnings of \$0.25 are a penny below the consensus estimate of \$0.26, although a better-than-expected improvement in operating margin could provide upside to our below-consensus estimate.

Table 1: Guidance versus Consensus for Revenue, GM%, OM%, and EPS

| | JUN05E | | | Compares | | SEP05E | | |
|------------|---------|-------------|-----------|----------|---------|---------|----------|-----------|
| | Est | Guidance | Consensus | MAR05A | JUN04A | Est | Guidance | Consensus |
| Rev (\$M) | \$270 | \$263-\$271 | \$270 | \$258 | \$256 | \$290 | | \$289 |
| % Y/Y | 6% | | | 13% | 33% | 5% | | |
| % Q/Q | 5% | 2-5% | | (4%) | 12% | 7% | | |
| GM | 36% | 36% | | 36% | 34% | 38% | | |
| OM | 26% | 26% | | 25% | 23% | 28% | | |
| Tax Rate | 15% | | | 15% | 25% | 15% | | |
| Shares (M) | 224 | | | 224 | 221 | 225 | | |
| OP EPS | \$ 0.25 | N/A | \$ 0.26 | \$ 0.23 | \$ 0.19 | \$ 0.29 | | \$ 0.30 |

Source: Company reports, FBR Research, First Call

Pricing Environment--Can MEMC Grow Revenues at a Significantly Higher Rate Than the Wafer-Start Growth Rate?

Although the wafer starts for the mature technology began to improve in early 2Q05, prompting us to increase our estimates and price target, we believe there is still a period of time before the company could increase wafer prices. Additionally, we believe that the polysilicon shortage has thus far proven to be more hype than a provider of significant leverage in increasing wafer prices for the company.

As was noted by Cypress Semiconductor during its 2Q conference call last week, semiconductor companies typically pay (on average) six times more for a semiconductor wafer compared to a solar wafer. Our view is that a majority of the polysilicon price increase that the market has seen to date has been for solar-grade silicon rather than the grade used by the semiconductor industry; we expect this trend to continue until adequate poly capacity is brought online to meet expanding demand. We do not expect the increase in the market "blended" polysilicon price to impact the availability of semiconductor wafers, or the price of semiconductor-grade wafers, as there is a significant price differential between the two types of wafers. We also note that we do not expect the firming of poly pricing to benefit MEMC significantly in the near term, as a majority of its revenues are obtained from the semiconductor industry.

We also note that internal utilization rates at wafer suppliers are currently ranging between 80% and 90% (200mm at the low end, while 300mm is at the high end); and, for ASPs to improve significantly from here, the internal utilization rate would need to increase well above 90%. Although the wafer-demand environment has improved, as explained above, we note that MEMC, along with its top competitors, has been increasing its 300mm capacity. This, according to our estimates, will result in 6%, 8%, and 3% sequential increases in total capacity at MEMC from 2Q05 to 4Q05, respectively. Therefore, for MEMC's internal capacity utilization to improve well above 90%, sequential wafer demand would need to improve well above the rate at which capacity is coming online at MEMC. Our current sequential wafer start estimates for 2Q05 through 4Q05 are 5%, 8%, and 4%, sequentially, and therefore, we do not anticipate demand to outstrip supply in the near term, somewhat limiting ASP growth.

Admittedly, an increasing 300mm mix will help the company's overall blended ASP, but, as we note above,

MEMC's competitors are also building out their 300mm capabilities (with a mix of 300mm wafers much higher than that of MEMC) to meet the growing demand for wafers, thus limiting any share gains or rapid wafer ASP appreciation that the company may see. We estimate that the mix of 300mm wafer capacity at MEMC will remain in the 30% to 35% range in the near future, which is well below that of such competitors as Shin-Etsu Handotai.

We therefore do not anticipate that MEMC's quarterly revenues will grow at a rate much higher than the sequential wafer starts in the coming quarters, but rather will grow in line with the sequential wafer-start growth rate (with a bias toward lower-ASP, 200mm or lower wafer sizes, or lagging technology nodes), therefore limiting the multiple that should be assigned to the company's shares. Given our current estimates and forecast of limited ASP appreciation, we are maintaining our price target at \$14, or about 13x our 2005 EPS estimate and 9x our 2005 EV/EBITDA. We do not believe the company's top line will grow at a rate that justifies a higher valuation multiple. The above factors, combined with the recent runup in the share price of MEMC, have continued to keep us on the sidelines. Although the company is a great unit play, and management has continued to execute and improve operating efficiencies, we would wait for a better entry point to become aggressive on the name.

Risks

MEMC recently extended the useful lives of certain assets to reflect their economic lives better. This reevaluation resulted in a 2% favorable impact on gross profit, which somewhat affects comparisons. We, thus, would look for ongoing improvement in gross margin through better asset utilization and turnover to determine management's effectiveness.

Although Texas Pacific Group's (TPG) ownership in MEMC has been reduced from 64% to its current level of about 40%, we believe that this is still an overhang on the stock that has nothing to do with fundamentals. We expect further reduction in TPG's ownership going forward.

Although the industry has consolidated, mitigating the risk of wafer supply overcapacity, we believe that the risk of overcapacity remains as Japan-based competitors, with deep pockets, could flood the market with 300mm capacity aimed at increasing market share.

Given MEMC's facility loans and the indenture for its senior subordinated secured notes, the company is required to fulfill a number of restrictive covenants. In the event of violation, the loan commitments under the revolving credit facility may terminate, and, thus, the loan and accrued interest outstanding would be lost.

Company Profile

Incorporated in 1984, MEMC Electronic Materials, Inc. is engaged in the design, manufacture, and sale of electronic-grade wafers for the semiconductor industry. The company provides wafers in sizes ranging from 100 millimeters (4 inches) to 300 millimeters (12 inches), including three general categories of wafer: prime polished, epitaxial, and test/monitor. Its principal customers are semiconductor device manufacturers, including major memory, microprocessor, and application-specific integrated circuit (ASIC) manufacturers and foundries. MEMC's wafers are used as a starting material for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices. The company operates manufacturing facilities in Europe, Malaysia, Japan, South Korea, the United States, and Taiwan.

| (FY DEC) | MAR04A | JUN04A | SEP04A | DEC04A | FY04 | MAR05A | JUN05E | SEP05E | DEC05E | FY05 | MAR06E | JUN06E | SEP06E | DEC06E | FY06 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 26 Jul 05 | | | | | | | | | | | | | | | |
| REVENUE | 228.8 | 255.5 | 275.3 | 268.4 | 1028.0 | 257.9 | 270.0 | 290.0 | 305.0 | 1122.9 | 289.8 | 304.2 | 313.4 | 316.5 | 1223.9 |
| % Change Y/Y | 21.5% | 33.2% | 40.5% | 30.9% | 31.6% | 12.7% | 5.7% | 5.3% | 13.6% | 9.2% | 12.4% | 12.7% | 8.1% | 3.8% | 9.0% |
| % Change Q/Q | 11.6% | 11.7% | 7.7% | -2.5% | | -3.9% | 4.7% | 7.4% | 5.2% | | -5.0% | 5.0% | 3.0% | 1.0% | |
| TOTAL COGS | 155.4 | 168.4 | 164.5 | 170.2 | 658.5 | 164.6 | 172.0 | 180.6 | 186.0 | 703.2 | 180.0 | 186.3 | 189.1 | 189.9 | 745.2 |
| GROSS PROFIT | 73.3 | 87.2 | 110.7 | 98.2 | 369.4 | 93.3 | 98.0 | 109.4 | 119.0 | 419.7 | 109.8 | 117.9 | 124.3 | 126.6 | 478.6 |
| % Total Revenue | 32.1% | 34.1% | 40.2% | 36.6% | 35.9% | 36.2% | 36.3% | 37.7% | 39.0% | 37.4% | 37.9% | 38.8% | 39.7% | 40.0% | 39.1% |
| R&D | 8.9 | 9.3 | 9.4 | 10.4 | 38.0 | 11.4 | 10.5 | 10.5 | 10.5 | 42.9 | 10.0 | 10.5 | 11.0 | 11.1 | 42.5 |
| % Total Revenue | 3.9% | 3.6% | 3.4% | 3.9% | 3.7% | 4.4% | 3.9% | 3.6% | 3.4% | 3.8% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| SG&A | 17.2 | 17.8 | 17.8 | 19.2 | 71.9 | 18.2 | 18.2 | 18.5 | 20.7 | 75.6 | 20.3 | 21.9 | 22.6 | 22.8 | 87.5 |
| % Total Revenue | 7.5% | 7.0% | 6.5% | 7.1% | 7.0% | 7.0% | 6.7% | 6.4% | 6.8% | 6.7% | 7.0% | 7.2% | 7.2% | 7.2% | 7.2% |
| OPERATING PROFIT | 47.2 | 60.0 | 83.6 | 68.6 | 259.5 | 63.7 | 69.3 | 80.4 | 87.7 | 301.2 | 79.5 | 85.5 | 90.7 | 92.8 | 348.5 |
| % Total Revenue | 20.7% | 23.5% | 30.4% | 25.6% | 25.2% | 24.7% | 25.7% | 27.7% | 28.8% | 26.8% | 27.4% | 28.1% | 29.0% | 29.3% | 28.5% |
| % Change Y/Y | 44.4% | 78.2% | 128.9% | 72.9% | 81.9% | 34.9% | 15.4% | -3.8% | 27.8% | 16.1% | 24.7% | 23.4% | 12.9% | 5.7% | 15.7% |
| % Change Q/Q | 19.0% | 27.1% | 39.2% | -17.9% | | -7.2% | 8.7% | 16.0% | 9.1% | | -9.4% | 7.6% | 6.1% | 2.3% | |
| OTHER | 6.5 | (9.1) | (0.4) | 2.4 | (0.6) | (1.3) | (0.5) | (0.5) | (0.5) | (2.8) | (0.5) | (0.5) | (0.5) | (0.5) | (2.0) |
| PRETAX PROFIT | 53.7 | 51.0 | 83.2 | 71.1 | 258.9 | 62.4 | 68.8 | 79.9 | 87.2 | 298.4 | 79.0 | 85.0 | 90.2 | 92.3 | 346.5 |
| % Total Revenue | 23.5% | 19.9% | 30.2% | 26.5% | 25.2% | 24.2% | 25.5% | 27.6% | 28.6% | 26.6% | 27.3% | 27.9% | 28.8% | 29.2% | 28.3% |
| % Change Y/Y | 83.2% | 47.5% | 70.9% | 64.0% | 66.1% | 16.2% | 35.0% | -3.9% | 22.8% | 15.2% | 26.5% | 23.6% | 12.9% | 5.8% | 16.1% |
| % Change Q/Q | 24.0% | -5.1% | 63.1% | -14.6% | | -12.1% | 10.2% | 16.1% | 9.2% | | -9.5% | 7.7% | 6.1% | 2.3% | |
| TAXES | 13.4 | 12.7 | 20.8 | 10.6 | 57.6 | 9.4 | 10.3 | 12.0 | 13.1 | 44.8 | 15.8 | 17.0 | 18.0 | 18.5 | 69.3 |
| Tax Rate | 25.0% | 25.0% | 25.0% | 15.0% | 22.2% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| OTHER AFTER TAX | 1.7 | (17.5) | - | (11.0) | (26.8) | (25.0) | - | - | - | (25.0) | - | - | - | - | - |
| MINORITY INTERESTS | 2.7 | 3.0 | 2.7 | 2.4 | 10.7 | 1.8 | 2.0 | 2.0 | 2.0 | 7.8 | 2.0 | 2.0 | 2.0 | 2.0 | 8.0 |
| NET INCOME - COMT OPS | 35.9 | 43.1 | 59.7 | 59.0 | 197.7 | 51.3 | 56.5 | 65.9 | 72.2 | 245.9 | 61.2 | 66.0 | 70.2 | 71.8 | 269.2 |
| % Total Revenue | 15.7% | 16.9% | 21.7% | 22.0% | 19.2% | 19.9% | 20.9% | 22.7% | 23.7% | 21.9% | 21.1% | 21.7% | 22.4% | 22.7% | 22.0% |
| % Change Y/Y | 81.9% | 57.9% | 69.7% | 71.4% | 69.5% | 42.9% | 31.1% | 10.4% | 22.4% | 24.4% | 19.2% | 16.9% | 6.5% | -0.5% | 9.5% |
| % Change Q/Q | 4.4% | 20.0% | 38.6% | -1.2% | | -13.0% | 10.1% | 16.7% | 9.5% | | -15.2% | 7.9% | 6.3% | 2.3% | |
| NET INCOME - TOTAL | 35.9 | 60.6 | 59.7 | 70.0 | 226.2 | 76.3 | 56.5 | 65.9 | 72.2 | 270.9 | 61.2 | 66.0 | 70.2 | 71.8 | 269.2 |
| % Total Revenue | 15.7% | 23.7% | 21.7% | 26.1% | 22.0% | 29.6% | 20.9% | 22.7% | 23.7% | 24.1% | 21.1% | 21.7% | 22.4% | 22.7% | 22.0% |
| % Change Y/Y | 81.9% | 122.2% | 69.7% | 103.4% | 94.0% | 112.5% | -6.8% | 10.4% | 3.1% | 19.7% | -15.2% | 16.9% | 6.5% | -0.5% | -0.6% |
| % Change Q/Q | 4.4% | 68.8% | -1.5% | 17.2% | | 9.1% | -26.0% | 16.7% | 9.5% | | -15.2% | 7.9% | 6.3% | 2.3% | |
| SHARES | 222.1 | 221.0 | 220.4 | 222.1 | 221.4 | 223.9 | 224.3 | 224.7 | 225.1 | 224.5 | 225.5 | 225.9 | 226.3 | 226.1 | 226.1 |
| EPS - COMT OPS | \$ 0.16 | \$ 0.19 | \$ 0.27 | \$ 0.27 | \$ 0.89 | \$ 0.23 | \$ 0.25 | \$ 0.29 | \$ 0.32 | \$ 1.09 | \$ 0.27 | \$ 0.29 | \$ 0.31 | \$ 0.32 | \$ 1.19 |
| % Change Y/Y | 72.5% | 55.6% | 72.3% | 72.1% | 67.5% | 41.8% | 29.2% | 8.2% | 20.7% | 22.6% | 18.4% | 16.1% | 5.7% | -1.2% | 8.7% |
| % Change Q/Q | 4.8% | 20.8% | 39.0% | -2.0% | | -13.7% | 9.9% | 16.5% | 9.3% | | -15.4% | 7.7% | 6.1% | 2.1% | |
| EPS - TOTAL | \$ 0.16 | \$ 0.27 | \$ 0.27 | \$ 0.32 | \$ 1.02 | \$ 0.34 | \$ 0.25 | \$ 0.29 | \$ 0.32 | \$ 1.21 | \$ 0.27 | \$ 0.29 | \$ 0.31 | \$ 0.32 | \$ 1.19 |
| % Change Y/Y | 72.5% | 118.9% | 72.3% | 104.2% | 91.7% | 110.8% | -8.2% | 8.2% | 1.7% | 18.1% | -20.4% | 16.1% | 5.7% | -1.2% | -1.3% |
| % Change Q/Q | 4.8% | 69.6% | -1.2% | 16.3% | | 8.2% | -26.1% | 16.5% | 9.3% | | -15.4% | 7.7% | 6.1% | 2.1% | |
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MEMC ELECTRONIC MATERIALS, INC. (WFR)

<http://www.fbrcorp.com/d.asp?GVKEY=060992&IID=01>

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| Rating | FBRC Research Distribution ¹ | FBRC Banking Services in the past 12 months ¹ |
|-----------------------|---|--|
| Buy (Outperform) | 49.6 % | 19.6 % |
| Hold (Market Perform) | 43.9 % | 5.7 % |
| Sell (Underperform) | 6.5 % | 0.0 % |

⁽¹⁾As of midnight on the business day immediately prior to the date of this publication.

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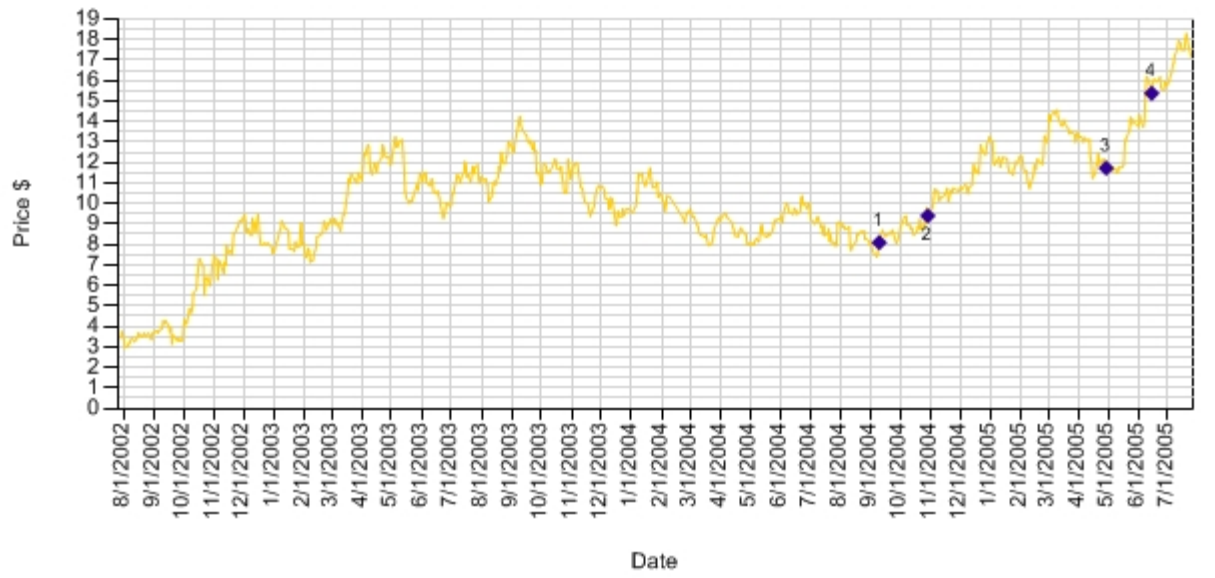
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* Closing price of last business day immediately prior to the date of this publication.

WFR Performance



- | | | |
|-------------------------------|----------------------------|-----------------------------|
| 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 | 4: \$14.00 p/t H - 06/14/05 |