

**MEMC ELECTRONIC MATERIALS, INC. (WFR: \$17.50<sup>\*</sup>)**

St. Peters, MO

**Market Perform**

Price Target \$15.00

Update

**STOCK DATA**

52 Week Range	\$18.50-\$7.33
ADTV - 3 Month	2.0
Market Cap	\$3,659.6
Shares Outstanding (Diluted)	224.7

**EARNINGS DATA**

EPS (FD Operating)			
Dec.	2004A	2005E	2006E
1Q	\$0.16	\$0.23A	\$0.25
2Q	0.19	0.26A	0.28
3Q	0.27	0.28	0.32
4Q	0.27	0.30	0.33
FY	\$0.89	\$1.07	\$1.18
P/E	14.8x	16.4x	14.8x

FY	2004A	2005E	2006E
Revenue	1,028.0	1,117.5	1,213.1

**FINANCIAL DATA**

	2Q05
Cash & Equivalents	101.0
Accounts Receivable	132.1
Inventories	134.9
Current Assets	395.2
Total Assets	1,079.5
Total Current Liabilities	199.9
Long-Term Debt	108.2
Total Debt	129.9
Total Stockholder Equity	563.6

Financial Values In Millions

**WFR: 2Q Results and Guidance Suggest That Our Thesis Is Playing Out--Raising Price Target****Summary and Recommendation**

Although MEMC's 2Q reported revenue exceeded our estimate as well as its guidance range, ASP pressure caused the reported operating margin to come in line with our estimates. However, a lower than expected tax rate caused a penny upside to our EPS estimate of \$0.25. The continued ASP pressure into 3Q, in our view, caused guidance to come in below expectations, although a lower tax rate (or \$0.01/share) offset some of the shortfall due to the ASP declines. We believe our thesis is playing out and, although guidance may have caught some of the bulls off guard, we actually believe that fundamentals are bottoming. To that end, although we are raising our price target from \$14 to \$15, driven by a modest increase in multiples, we remain on the sidelines until: 1) we have increased confidence in ASP improvement in 1H06; and/or 2) there is a better entry point. We reiterate our Market Perform rating.

**Key Points**

- **2Q results.** MEMC reported 2Q revenue of \$275M and EPS of \$0.26; revenues and EPS came in above our estimate of \$270M (which was in line with consensus) and \$0.25 (which was a penny below consensus). A lower tax rate helped the company to meet consensus. Guidance for revenues to improve 3%-5% QOQ was below our growth estimate.
- **Overall raw wafer demand at MEMC appears to be stabilizing.** Although MEMC is guiding to 3%-5% QOQ growth in revenues, we actually believe the unit growth is higher, and it is the ASP pressure (driven by the discounts given during 2Q05) that has limited the guidance. We believe there is possible upside if demand remains strong into the month of September.
- **We need proof of higher ASPs to get off the sidelines.** The jury is still out on the polysilicon issue: we need evidence of its impact on wafer prices. Also, industry utilization rates need to rise to levels that allow wafer suppliers to raise prices. We believe the earliest MEMC could see improvement in ASPs is in 1H06.

\*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 <sup>1</sup>	FBRC Banking Services in the past 12 months <sup>1</sup>
Buy (Outperform)	49.1 %	19.2 %
Hold (Market Perform)	44.1 %	6.4 %
Sell (Underperform)	6.8 %	0.0 %

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

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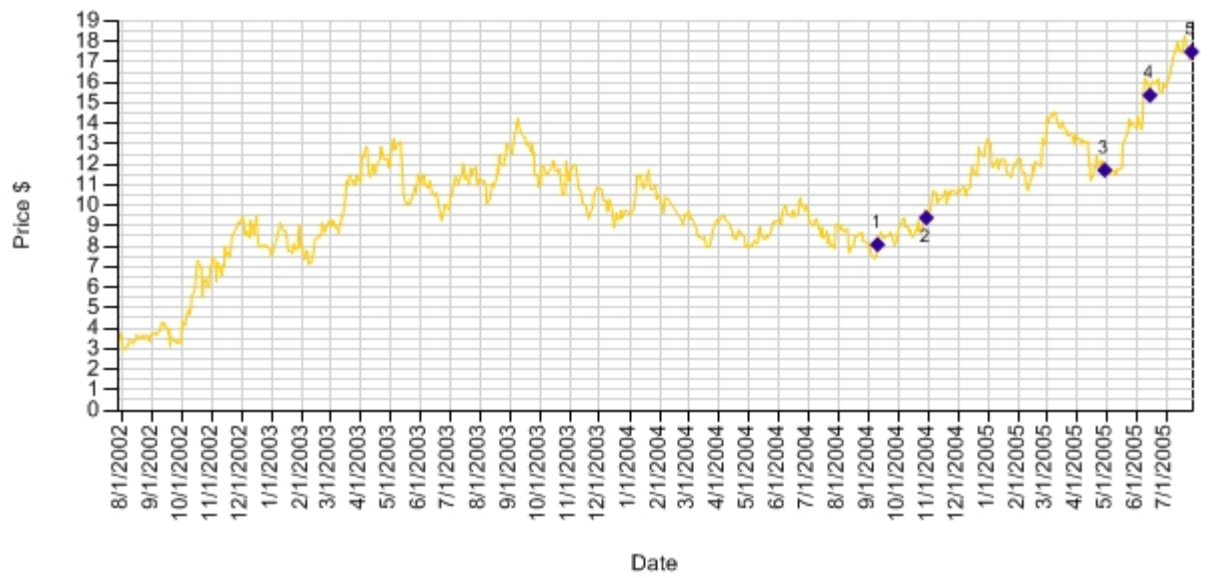
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# WFR Performance



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|-------------------------------|-----------------------------|-----------------------------|
| Close                         | Split                       | 4: \$14.00 p/t H - 06/14/05 |
| Buy (incl. Outperform, Accum) | 1: \$9.00 p/t H - 09/09/04  | 5: \$15.00 p/t H - 07/28/05 |
| Hold (incl. Mkt Perform)      | 2: \$10.00 p/t H - 10/29/04 |                             |
| Sell (incl. Underperform)     | 3: \$11.50 p/t H - 04/29/05 |                             |