

MEMC ELECTRONIC MATERIALS, INC. (WFR: \$17.88^{*})

St. Peters, MO

Market Perform

Price Target \$15.00

Update

STOCK DATA

52 Week Range	\$18.50-\$7.95
ADTV - 3 Month	2.4
Market Cap	\$3,744.1
Shares	224.7
Outstanding (Diluted)	

WFR: Competitors Raising 300-mm ASPs, Though Impact of Polysilicon Shortage Still Illusive -- Market Perform Rating**Summary and Recommendation****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	16.8x	15.1x

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

We met with MEMC's competitors, Shin-Etsu and Komatsu, last week in Japan. In a nut shell, both companies indicated that: 1) 300-mm wafer demand has continued to improve while 200-mm wafer demand has picked up over the past month, 2) 300-mm lines are fully loaded (driven by continued increase in demand by memory manufacturers, foundries, and select IDMs, like Intel and Texas Instrument), helping raise ASPs, 3) both companies have aggressive plans to increase 300-mm capacity next year, 4) both companies have had long term polysilicon supply contracts (through local vendors or parent company's subsidiary), 5) similar to MEMC, Shin-Etsu is evaluating opportunities in the solar cell market. Given the incremental data points from competitors, it appears to us that MEMC could upside our current estimates for 2H05, which are nearly in line with consensus. Nonetheless, given where the stock is currently trading at, we do not believe the upside to our earnings estimates will be enough to cause our price target to well exceed current stock price. To that end, we prefer ATMI over MEMC in the consumable segment, and remain on the side line on MEMC until there is a better entry point.

Key Points

- **Competitors raising 300-mm ASPs.** We met with Shin-Etsu (#1 wafer supplier) and Komatsu (#4 wafer supplier) last week in Japan. Due to 100% capacity utilization, both companies have been able to raise 300-mm ASPs.
- **Increasing Capacity.** Shin-Etsu is expected to increase 300-mm wafer capacity by 25%-50%, while Komatsu will increase it by 70% by CY06.
- **However, polysilicon shortage is not expected to have an adverse impact.** Through long term supply contracts, both competitors are expected to have a steady supply of raw material, with no significant increases material costs.
- **Still prefer ATMI over MEMC in the consumable segment.** Although what we heard in Japan suggests MEMC could upside our current 2H05 estimates, we still prefer ATMI over WFR, given where WFR is currently trading at.

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

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Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
Buy (Outperform)	49.4 %	19.2 %
Hold (Market Perform)	44.7 %	6.1 %
Sell (Underperform)	5.9 %	2.4 %

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

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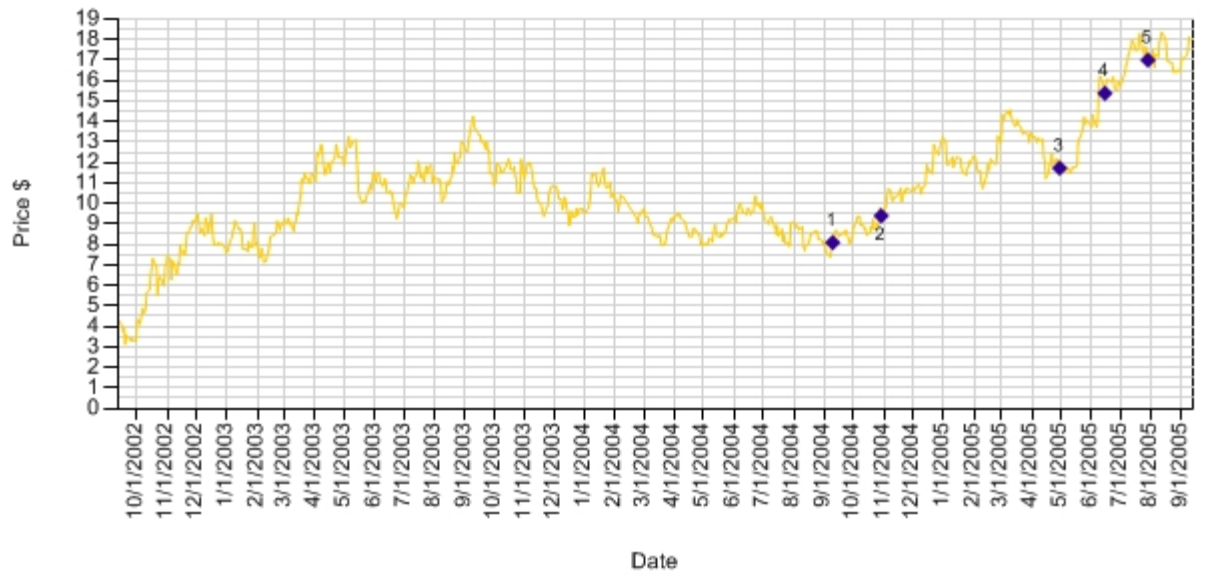
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WFR Performance



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| <ul style="list-style-type: none"> Close Buy (incl. Outperform, Accum) Hold (incl. Mkt Perform) Sell (incl. Underperform) | <ul style="list-style-type: none"> Split 1: \$9.00 p/t H - 09/09/04 2: \$10.00 p/t H - 10/29/04 3: \$11.50 p/t H - 04/29/05 | <ul style="list-style-type: none"> 4: \$14.00 p/t H - 06/14/05 5: \$15.00 p/t H - 07/28/05 |
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