

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

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

MEMC ELECTRONIC MATERIALS, INC. (WFR: \$19.28*)

St. Peters, MO
September 13, 2005

Market Perform

Price Target \$15.00
Update

STOCK DATA

52 Week Range	\$19.66-\$7.95
ADTV - 3 Month	2.4
Market Cap	\$4,037.2
Shares	224.7
Outstanding (Diluted)	

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	18.1x	16.3x

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: Competitors Raising 300mm ASPs, though Impact of Polysilicon Shortage Still Illusive--Maintain Market Perform**Summary and Recommendation**

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

Key Points

- **Competitors raising 300mm ASPs.** We met with Shin-Etsu (No. 1 wafer supplier) and Komatsu (No. 5 wafer supplier) last week in Japan. Due to 100% capacity utilization, both companies have been able to raise 300mm ASPs.
- **Increasing capacity.** Shin-Etsu is expected to increase 300mm 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 in material costs.
- **Still prefer ATMI over WFR in consumable segment.** Although what we heard in Japan suggests WFR could achieve upside to our current 2H05 estimates, we still prefer ATMI over WFR, given where WFR is currently trading.

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Visiting MEMC's Competitors in Japan

We met with Shin-Etsu, the world's largest supplier of silicon wafers, and Komatsu, the fifth-largest supplier of silicon wafers, two of MEMC's competitors located in Japan. Below we have provided a bullet summary of important takeaways from each meeting. In a nutshell, both companies indicated that 1) 200mm wafer demand has seen an uptick over the past month; 2) 300mm lines (at Shin-Etsu and Komatsu) are fully loaded (driven by continued increase in demand by memory manufacturers, foundries, and select IDMs like Intel and Texas Instrument), helping to raise ASPs; 3) both companies have aggressive plans to increase 300mm capacity next year; 4) both companies have had long-term contracts for the supply of polysilicon (through local vendors or the parent company's subsidiary), and, thus, they are not expected to see a significant impact to their cost structures as a result of increasing material cost; and 5) similar to MEMC, Shin-Etsu is also evaluating opportunities in the solar cell market.

Given the incremental data points on increasing 300mm wafer prices, as well as increased 200mm demand, we now have increased confidence that MEMC could achieve upside to our current estimates for 2H05, which are nearly in line with the consensus. Nonetheless, given where the stock is currently trading, we do not believe the upside to our earnings estimates will be enough to cause our price target to well exceed the current stock price. To that end, we prefer ATMI over MEMC in the consumable segment and remain on the sidelines on MEMC until there is a better entry point.

Shin-Etsu

Shin-Etsu is the largest wafer manufacturer worldwide, with an estimated 30%-35% market share and located in Japan. The company's capacity mix is currently 60% 200mm and 40% 300mm. With internal facilities (200mm and 300mm) fully loaded, the company has recently been able to raise 300mm-related ASPs. Additionally, the company does not see a major change to its cost structure as a result of increased shortages of polysilicon material.

- Shin-Etsu currently has 400,000 wafers per month (wpm) of 300mm wafer capacity (or 40% of the total), but it is expected to increase to 500,000-600,000 wpm (or 45%-50% of total) by mid 2006.
- The company's 200mm wafer capacity is at 1.4 million wpm and fully loaded (100% utilization rate).
- Although demand for 300mm wafers has been strong since early this year, 200mm wafer demand has recently picked up.
- The company is alleviating 200mm capacity constraint by improving yields.
- Due to continuing strength in 300mm wafer demand and a lack of sufficient capacity, the company is raising prices for 300mm wafers.
- Regarding SOI wafers, Shin-Etsu is working with Soitec, located in France, to offer customers wafers.
- Current forecasts indicate continuing improvement in demand beyond Christmas, though seasonality will play a role in March-quarter orders.

- Regarding the growth of solar cells, Shin-Etsu is evaluating investment opportunities in this market, such as offering solar panels/cells.
- Through long-term supply agreements, Shin-Etsu is expected to have no difficulty in getting polysilicon material. Shin-Etsu was actually expecting a polysilicon shortage back in CY02 and, thus, secured a long-term supply agreement then.

Komatsu

Komatsu is the fifth-largest wafer manufacturer worldwide and is located in Japan, with an estimated 10%-15% market share. Komatsu's current revenue mix by wafer size is 200mm, 50%; below 200mm, 40%; 300mm, 10%.

- The company has recently finished increasing capacity at its Japanese facilities to 75,000 wpm, a 300mm equivalent, from the previous 45,000 wpm.
- The company is also building new facilities in Taiwan, with an estimated 300mm capacity of 50,000 wpm.
- Komatsu will make further investment, though it will only use cash from operations on the required capex.
- Demand for 300mm wafers has continued to increase, while it has remained stable for 200mm wafers. As a result, Komatsu's internal capacity has reached 100%.
- Although Komatsu does not have an internal production facility for polysilicon material, it has long-term supply agreements with one of the parent company's subsidiary, Applied Silicon, with the length of the contract well exceeding 12 months.
- Komatsu has also been able to increase its manufacturing yields, thus reducing the amount of polysilicon required to make a wafer. Such yield improvements have been achieved through the recycling of scrap wafers, as well as waste parts.

Risks

MEMC recently extended the useful lives of certain assets to better reflect their economic life. 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 JUN05A SEP05E DEC05E				FY05	MAR06E JUN06E SEP06E DEC06E				FY06
12 Sep 05															
REVENUE	228.8	255.5	275.3	268.4	1028.0	257.9	275.4	286.4	297.9	117.5	283.0	297.1	314.9	318.1	1213.1
% Change Y/Y	215%	33.2%	40.5%	30.9%	31.6%	12.7%	7.8%	4.0%	11.0%	8.7%	9.7%	7.9%	10.0%	6.8%	8.6%
% Change Q/Q	11.6%	11.7%	7.7%	-2.5%	11.6%	-3.9%	6.8%	4.0%	4.0%	-4.0%	-5.0%	5.0%	6.0%	1.0%	
TOTAL COGS	155.4	168.4	164.5	170.2	658.5	164.6	175.0	181.1	186.5	707.1	182.8	188.3	192.0	192.8	755.9
GROSS PROFIT	73.3	87.2	110.7	98.2	369.4	93.3	100.4	105.3	111.3	410.4	100.2	108.8	122.9	125.3	457.2
% Total Revenue	32.1%	34.1%	40.2%	36.6%	35.9%	36.2%	36.5%	36.8%	37.4%	36.7%	35.4%	36.6%	39.0%	39.4%	37.7%
R&D	8.9	9.3	9.4	10.4	38.0	11.4	11.0	11.0	10.5	43.9	10.0	10.5	11.0	11.1	42.7
% Total Revenue	3.9%	3.6%	3.4%	3.9%	3.7%	4.4%	4.0%	3.8%	3.5%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
SG&A	17.2	17.8	17.8	19.2	71.9	18.2	18.3	18.5	20.3	75.3	19.8	21.4	22.7	22.9	86.8
% Total Revenue	7.5%	7.0%	6.5%	7.1%	7.0%	7.0%	6.7%	6.5%	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	71.1	75.8	80.6	291.2	70.4	77.0	89.2	91.3	327.8
% Total Revenue	20.7%	23.5%	30.4%	25.6%	25.2%	24.7%	25.8%	26.5%	27.1%	26.1%	24.9%	25.9%	28.3%	28.7%	27.0%
% Change Y/Y	44.4%	78.2%	128.9%	72.9%	81.9%	34.9%	18.4%	-9.3%	17.4%	12.2%	10.4%	8.3%	17.7%	13.2%	12.6%
% Change Q/Q	19.0%	27.1%	39.2%	-17.9%		-17.2%	11.5%	6.7%	6.3%		-12.7%	9.3%	15.9%	2.3%	
OTHER	6.5	(9.1)	(0.4)	2.4	(0.6)	(1.3)	(1.5)	(1.0)	(1.0)	(4.8)	(1.0)	(0.8)	(0.5)	(0.5)	(2.8)
PRETAX PROFIT	53.7	51.0	83.2	71.1	258.9	62.4	69.6	74.8	79.6	286.4	69.4	76.2	88.7	90.8	325.1
% Total Revenue	23.5%	19.9%	30.2%	26.5%		24.2%	25.3%	26.1%	26.7%	26.8%	24.5%	25.6%	28.2%	28.5%	26.8%
% Change Y/Y	83.2%	47.5%	70.9%	64.0%	66.1%	16.2%	36.5%	-10.0%	12.0%	10.6%	11.1%	9.5%	18.6%	14.0%	13.5%
% Change Q/Q	24.0%	-5.1%	63.1%	-14.6%		-12.1%	11.4%	7.5%	6.4%		-12.8%	9.8%	16.4%	2.3%	
TAXES	13.4	12.7	20.8	10.6	57.6	9.4	8.7	10.2	10.8	39.0	10.4	11.4	13.3	13.6	48.8
Tax Rate	25.0%	25.0%	25.0%	15.0%	22.2%	15.0%	12.4%	13.6%	13.6%	13.6%	15.0%	15.0%	15.0%	15.0%	15.0%
OTHER AFTER TAX	17	(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 - CONT OP:	35.9	43.1	59.7	59.0	197.7	51.3	58.9	62.6	66.8	239.6	57.0	62.8	73.4	75.1	268.3
% Total Revenue	15.7%	16.9%	21.7%	22.0%	19.2%	19.9%	21.4%	21.9%	22.4%	21.4%	20.1%	21.1%	23.3%	23.6%	22.1%
% Change Y/Y	81.9%	57.9%	69.7%	71.4%	69.5%	42.9%	36.8%	4.9%	13.2%	21.2%	11.0%	6.6%	17.2%	12.5%	22.1%
% Change Q/Q	4.4%	20.0%	38.6%	-1.2%		-13.0%	14.8%	6.3%	6.6%		-14.7%	10.2%	16.9%	2.4%	12.0%
NET INCOME - TOTAL	35.9	60.6	59.7	70.0	226.2	76.3	58.9	62.6	66.8	264.6	57.0	62.8	73.4	75.1	268.3
% Total Revenue	15.7%	23.7%	21.7%	26.1%	22.0%	29.8%	21.4%	21.9%	22.4%	23.7%	20.1%	21.1%	23.3%	23.6%	22.1%
% Change Y/Y	81.9%	122.2%	69.7%	103.4%	94.0%	112.5%	-22.8%	4.9%	-4.6%	17.0%	-25.3%	6.6%	17.2%	12.5%	1.4%
% Change Q/Q	4.4%	68.8%	-1.5%	17.2%		9.1%	-22.8%	6.3%	6.6%		-14.7%	10.2%	16.9%	2.4%	
SHARES	222.1	221.0	220.4	222.1	221.4	223.9	224.7	225.1	225.5	224.8	225.9	226.3	226.7	227.1	226.5
EPS - CONT OPS	\$ 0.16	\$ 0.19	\$ 0.27	\$ 0.27	\$ 0.89	\$ 0.23	\$ 0.26	\$ 0.28	\$ 0.30	\$ 1.07	\$ 0.25	\$ 0.28	\$ 0.32	\$ 0.33	\$ 1.18
% Change Y/Y	72.5%	55.6%	72.3%	72.1%	67.5%	41.8%	34.5%	2.7%	11.5%	19.4%	10.1%	5.8%	16.3%	11.8%	11.1%
% Change Q/Q	4.8%	20.6%	39.0%	-2.0%		-13.7%	14.4%	6.2%	6.4%		-14.8%	10.0%	16.7%	2.2%	
EPS - TOTAL	\$ 0.16	\$ 0.27	\$ 0.27	\$ 0.32	\$ 1.02	\$ 0.34	\$ 0.26	\$ 0.28	\$ 0.30	\$ 1.18	\$ 0.25	\$ 0.28	\$ 0.32	\$ 0.33	\$ 1.18
% Change Y/Y	72.5%	118.9%	72.3%	104.2%	91.7%	110.8%	-4.4%	2.7%	-6.0%	15.2%	-26.0%	5.8%	16.3%	11.8%	0.6%
% Change Q/Q	4.8%	69.6%	-1.2%	16.3%		8.2%	-23.1%	6.2%	6.4%		-14.8%	10.0%	16.7%	2.2%	
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WFR Cash Flow Model												
	1Q04A	2Q04A	3Q04A	4Q04	1Q05	2Q05	3Q05E	4Q05E	1Q06E	2Q06E	3Q06E	4Q06E
Net Income from Operations	35.91	60.60	59.72	69.97	76.31	58.91	62.65	66.77	56.97	62.78	73.41	75.14
Depreciation & Amortization	9.92	10.24	11.44	12.53	13.34	14.30	15.00	16.00	16.00	16.00	15.75	15.90
(Incr) Decr in Accounts Receivable	(16.23)	(19.61)	(13.01)	11.15	10.19	(11.57)	(19.13)	(5.65)	7.34	(6.98)	(8.79)	(15.51)
(Incr) Decr in Inventories	(13.56)	10.49	(7.22)	(7.79)	(7.70)	(9.53)	(9.53)	(5.78)	7.51	(7.13)	(8.99)	(15.91)
(Incr) Decr in Other Current Assets	(9.40)	10.10	1.32	(9.61)	1.50	0.96	0.00	0.00	0.00	0.00	0.00	0.00
Incr (Decr) in Current Liab. (Excl. debt)	27.31	11.01	(6.26)	31.86	(20.31)	(23.50)	0.00	0.00	0.00	0.00	0.00	0.00
=Cash from Operations	33.95	82.83	46.00	108.12	73.34	49.51	58.99	71.34	87.82	64.67	71.37	87.91
(Incr) Decr in Other Non-Current Assets	(57.23)	0.01	0.06	0.01	(0.03)	0.82	0.00	0.00	0.00	0.00	0.00	0.00
Capital Spending (Net of sales)	(29.00)	(44.00)	(25.50)	(51.73)	(54.40)	(51.20)	(34.03)	(28.00)	(45.27)	(45.00)	(46.00)	(46.00)
=Cash from Investing	(86.23)	(43.99)	(25.44)	(51.72)	(54.43)	(50.38)	(34.03)	(28.00)	(45.27)	(45.00)	(46.00)	(46.00)
Incr (Decr) in Non-curr Liab. (Excl. debt)	(23.55)	(7.57)	(1.17)	(8.47)	5.05	(2.34)	0.00	0.00	0.00	0.00	0.00	0.00
Additional Debt	83.42	(31.94)	(40.18)	(78.90)	(4.08)	(6.46)	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock/Other Equity	(0.18)	5.78	0.80	18.06	1.31	(15.03)	(0.00)	0.00	0.00	0.00	0.00	0.00
=Cash from Financing	59.68	(33.73)	(40.75)	(69.31)	2.28	(23.83)	(0.00)	0.00	0.00	0.00	0.00	0.00
=Increase/(Decrease) in Cash	7.41	5.10	(20.20)	(12.91)	21.19	(24.70)	24.96	43.34	42.55	19.67	25.37	41.91
+Beginning Cash	130.70	140.62	129.49	103.31	92.31	116.32	101.00	125.96	169.30	211.85	231.52	256.89
+Adjustment	(0.40)	(13.78)	(5.94)	1.91	2.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
=End Cash	137.70	131.93	103.35	92.31	116.32	91.62	125.96	169.30	211.85	231.52	256.89	298.80
FREE CASH FLOW												
Quarterly	4.95	38.83	20.50	56.39	18.94	(1.89)	24.96	43.34	42.55	19.67	25.37	41.91
% YYY	-59%	868%	133%	120%	282%	-104%	22%	-23%	125%	-1266%	2%	-3%
% DYO	-81%	634%	-47%	175%	-66%	-109%	-1581%	74%	-2%	-54%	29%	65%
FY-End	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
FY-End	2%	15%	7%	21%	7%	-1%	9%	15%	15%	7%	8%	13%
FCF Margin												
YE-FCF Margin												
ASSETS												
Cash & equivalents	140.62	129.49	103.31	92.31	116.32	101.00	125.96	169.30	211.85	231.52	256.89	298.80
Accounts receivable, net	119.25	138.86	151.87	140.73	130.53	132.11	141.24	146.89	139.55	146.52	155.31	156.87
Inventories, net	123.05	112.56	119.78	127.56	135.27	134.85	144.38	150.15	142.65	143.78	158.77	160.35
Other current assets	16.44	20.12	29.72	29.72	28.26	27.26	27.26	27.26	27.26	27.26	27.26	27.26
Total Current Assets	414.45	397.36	395.08	390.33	410.34	395.21	438.83	493.60	521.30	555.08	598.23	643.28
PPE	361.55	392.71	387.28	444.67	476.34	503.86	522.89	534.89	564.16	593.16	623.41	653.51
Other non-current assets	76.06	106.74	98.94	147.54	181.29	180.47	180.47	180.47	180.47	180.47	180.47	180.47
Total Assets	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,142.19	1,208.96	1,265.93	1,328.71	1,402.11	1,477.26
LIABILITIES & SHAREHOLDERS' EQUITY												
Short term debt	86.90	57.45	21.87	24.40	23.06	21.71	21.71	21.71	21.71	21.71	21.71	21.71
Other current liabilities	166.88	179.12	167.63	191.23	200.71	177.20	177.20	177.20	177.20	177.20	177.20	177.20
Total Current Liabilities	253.78	236.57	189.50	215.62	223.76	198.91	198.91	198.91	198.91	198.91	198.91	198.91
Long term debt	127.61	125.12	120.51	116.08	113.35	108.23	108.23	108.23	108.23	108.23	108.23	108.23
Other non-current liabilities	241.33	239.40	217.22	208.76	211.15	208.81	208.81	208.81	208.81	208.81	208.81	208.81
Total Liabilities	622.72	601.08	527.24	540.46	548.26	515.96	515.96	515.96	515.96	515.96	515.96	515.96
Total Shareholders' Equity	229.34	295.73	354.05	442.08	519.71	563.59	626.24	693.01	749.98	812.75	886.16	961.30
Total Liabilities & Shareholders' Equity	852.06	896.81	881.29	982.54	1,067.97	1,079.55	1,142.19	1,208.96	1,265.93	1,328.71	1,402.11	1,477.26
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IMPORTANT INFORMATION CONCERNING FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

Company Specific Disclosures

Specific disclosures are applicable to tickers indicated.

MEMC ELECTRONIC MATERIALS, INC. (WFR)

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

General Disclosures

Information about the research analyst responsible for this report:

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Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
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Hold (Market Perform)	44.6 %	6.1 %
Sell (Underperform)	5.9 %	2.4 %

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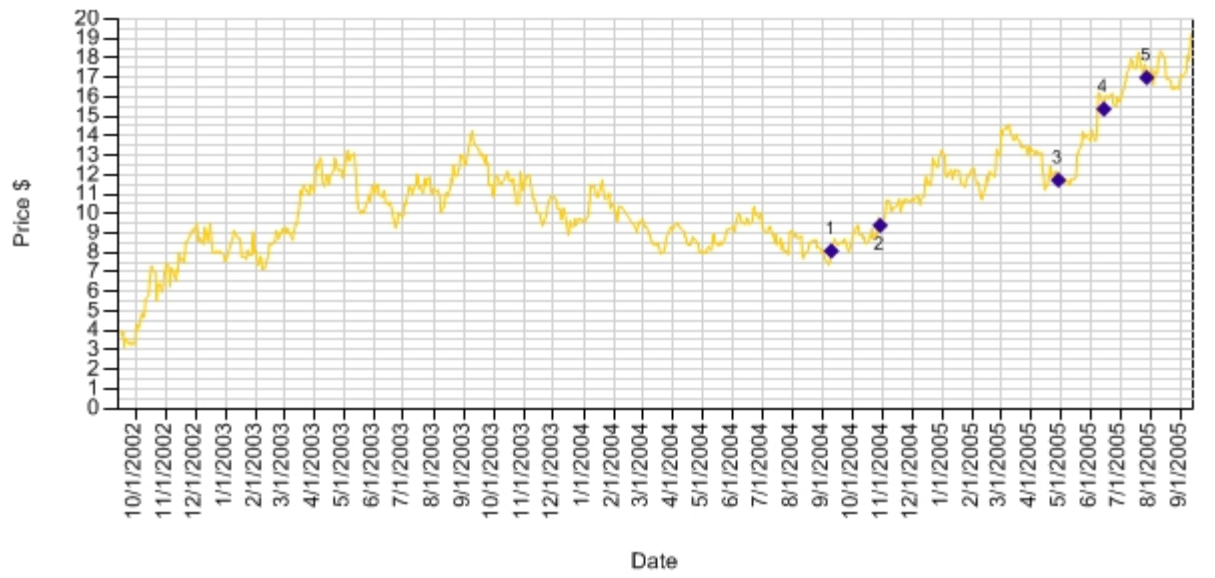
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WFR Performance



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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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