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Semiconductors – Update

# MEMC Electronic Materials, Inc. (2,3)

Raising Target Price and FY06 Estimates; Reiterate Strong Buy

September 23, 2005

**STRONG BUY**

**WFR \$20.18**

Price	\$20.18	<b>FY: Dec</b>		<b>2004A</b>	<b>2005E</b>	<b>2006E</b>
Target Price	\$30.00	Revenue (M)	1Q	\$228.8	\$257.9A	\$306.3
52-Wk Range	\$8.05 - \$21.26		2Q	\$255.5	\$275.4A	\$315.5
Shares Out. (M)	224.7		3Q	\$275.3	\$291.9	\$334.5
Market Cap. (M)	\$4,534.4		4Q	\$268.4	\$309.4	\$357.9
Average Daily Vol. (000)	2,893		<b>FY</b>	<b>\$1,028.0</b>	<b>\$1,134.6</b>	<b>\$1,314.2</b>
Float (M)	188.5			<b>2004A</b>	<b>2005E</b>	<b>2006E</b>
Secular Growth Rate	18%	EPS	1Q	\$0.16	\$0.23A	\$0.31
ROAE	41.8%		2Q	\$0.20	\$0.26A	\$0.34
			3Q	\$0.27	\$0.29	\$0.38
LT Debt (M)	\$108.2		4Q	\$0.26	\$0.32	\$0.42
LT Debt/Total Cap.	16.1%		<b>FY</b>	<b>\$0.90</b>	<b>\$1.10</b>	<b>\$1.45</b>
Book Value/Share	\$2.51		P/E	22.4x	18.3x	13.9x
Cash/Share	\$0.45		Previous FY	--	--	\$1.35
			<b>CY</b>	<b>\$0.90</b>	<b>\$1.10</b>	<b>\$1.45</b>
			P/E	22.4x	18.3x	13.9x

## INVESTMENT HIGHLIGHTS

- Raising Target Price from \$24 to \$30; raising FY06 estimates; reiterate Strong Buy rating.**  
 Our field trip with institutional investors to MEMC on September 20 reinforced our conviction regarding MEMC as a low-cost leader in the consolidating silicon wafer materials industry with global technology capabilities and we continue to rate the stock Strong Buy given its compelling valuation at less than 14x our 2006 EPS estimate of \$1.45 relative to a secular earnings growth rate of 18% per year. We have the following observations after the field trip: 1) MEMC's high margin 300mm wafer production ramp appears to be proceeding rapidly with the company on track to double capacity from 175K/month currently to 350K/month by year-end 2006 and potentially increasing further to 600K/month by year-end 2007 with moderate capital spending; 2) the Taisil (Taiwan) 300mm plant is ramping rapidly and positions the company well to serve strong Asian demand from Samsung, Taiwan foundries, and China semiconductor producers; 3) the polysilicon raw material shortages appear to be worsening with the recent sale of Komatsu's ASMI polysilicon subsidiary to REC (Germany) which will convert all the polysilicon capacity to solar cell use and stop serving the semiconductor wafer market; 4) MEMC is scheduled to negotiate long-term contract pricing in a favorable demand environment with approximately 40% of its customers in the 4Q timeframe. We believe that MEMC is likely to lock in stable favorable long-term pricing while allowing some capacity for upside pricing scenarios in 2006; 5) MEMC is continuing to explore vertical integration strategies for selling finished solar wafers into the solar cell industry in order to achieve higher revenue growth and diversification. Given the accelerating shift to higher margin 300mm wafers, tightening polysilicon raw materials capacity is likely leading to higher wafer prices, and due to the company's good execution in ramping 300mm wafer production, we are raising our FY2006 EPS estimate from \$1.35 to \$1.45 per share, while maintaining our FY05 EPS of \$1.10. For FY06, using higher gross margins, we are raising our revenue and proforma EPS estimates from \$1,293 million and \$1.35 to \$1,314 million and \$1.45. Based on better earnings visibility and consistent execution despite a cyclical industry environment, we are raising our target price from \$24 to \$30 using a 20x P/E multiple (versus our previous 18x multiple) on our \$1.45 EPS estimate for 2006 relative to a 18 to 20% secular earnings growth rate. Shortages of polysilicon raw material, further industry consolidation, and new revenue opportunities in processed solar wafer business would present further upside to our 2006 estimates.
- Semiconductor industry capacity utilization improving; shift to 300mm fabs picking up momentum.** We believe that fundamentals at MEMC continue to be stable, driven by improving industry capacity utilization rates, stable 200mm and 300mm wafer pricing, and good seasonal end demand in key markets such as PC, cellphone, and consumer electronics. Recent updates from key customers such as Samsung, TXN, AMD, INTC, NSM, and other analog customers have been positive, together with improving 3Q capacity utilization and wafer starts at key Taiwan foundries

such as TSM and UMC. We note that electronic grade polysilicon production capacity is growing at 5 to 10% per year; while demand is growing at 10 to 15% for semiconductor wafers and 20 to 30% for the booming solar cell market resulting in potential shortages and firming wafer pricing in 2006. MEMC is slated to negotiate contract pricing with about 40% of its customer base in 4Q under this relatively positive supply-demand environment. Also, the smooth ramp in the Taisil (Taiwan) 300mm wafer factory gives MEMC the ability to double 300mm capacity from 175K/month currently to 350K/month by the end of 2006 and further to 600K/month by year-end 2007.

- **MEMC is a Global technology leader in silicon wafers benefiting from secular positive trends:** Due to the recent improvement in leading-edge and mature semiconductor industry capacity utilization from around 80% in 1Q to 85% in 2Q, we believe downstream unit demand for silicon wafers will likely grow at 8-10% in 2005. This view is consistent with our overall chip industry forecast of 10% revenue growth in 2005 versus 25% in 2004. The 100% increase in electronic grade polysilicon contract pricing from \$35 per kilogram a year ago to \$60 now, and developing shortages due to competing demand from the solar panel industry, will likely lead to further consolidation among smaller silicon wafer suppliers and lead to a stable pricing environment even for mature 200mm and 150mm wafers. We note that WFR is vertically integrated and makes more than 90% of its polysilicon, giving it a 15-20% cost advantage. We believe WFR can still outperform the silicon wafer industry and grow revenues by 10% and 14%, in 2005 and 2006, and earnings by 22% and 23% through a combination of better pricing on specialty 200mm and 300mm wafers, market share gains, and operating efficiencies.
- **Wafer pricing could be stable due to richer mix despite more industry capacity.** Going forward, we believe continuing industry consolidation and rational capacity additions for silicon wafers will likely lead to stable pricing for WFR for both mature 200mm/150mm wafers and leading-edge 300mm wafers. The company continues to efficiently add 200mm and 300mm wafer capacity, improve operations, focus on customer and end-market diversification, and invest in longer-term, higher margin products such as bonded silicon-on-insulator wafers for leading-edge, sub-90nm process technology. As such, we believe the company is likely to continue to improve efficiencies in its operations and gain better operating leverage.
- **We believe wafer industry dynamics and semiconductor demand should lead to multiple expansion and superior stock performance for WFR.** We estimate semiconductor industry wafer materials production capacity utilization is now 80-90% for 200mm and 300mm silicon wafers. Our estimates are based on our belief in the continuation of moderate cyclical demand in the semiconductor industry, with expanding unit volumes growing 8-10% in 2005, tight semiconductor wafer materials production capacity utilization (~90%), and wafer industry consolidation. Longer-term, we believe that WFR can grow revenues at 8-12% per year and earnings at 18% per year. In addition, we believe WFR's highly-focused management team is likely to continue to execute on its strategy of focusing on balanced growth between mature 150mm/200mm silicon wafer products and leading-edge, specialty 200mm/300mm wafer technology, with cost-effective production strategies aimed at a blue-chip, global, customer base. WFR's integration of its Taisil joint venture in Taiwan could place the company in a position to accelerate market share gains in the high-growth Taiwan and mainland China wafer markets. While the company may not be viewed favorably by Wall Street due to the commodity-like nature of the wafer business, we believe a combination of a cyclical silicon wafer upturn and WFR's lean operating structure will lead to gradual P/E multiple expansion and superior stock performance.

## INVESTMENT RISKS

Risks to WFR's stock include exposure to the cyclical nature of semiconductor device manufacturers. Weakness in the PC, server, cell phone, industrial, and other end markets have caused slowdowns in wafer starts and wafer manufacturing in the past. The silicon wafer business tends to be competitive and silicon wafer pricing can be volatile, both of which cause uncertainty for wafer producers. WFR has significant exposure to overseas markets such as Europe and Asia and could therefore be exposed to broader global macro risks.

## COMPANY DESCRIPTION

MEMC Electronic Materials Inc. is engaged in the production of wafers for the semiconductor industry. The company provides wafers in sizes ranging from 100 millimeters to 300 millimeters and in three categories: prime polished, a highly refined, pure wafer with an ultra-flat and ultra-clean surface; epitaxial, a thin, silicon layer grown on the polished surface of the wafer; and test/monitor, which is substantially the same as a prime polished wafer but with some less rigorous specifications. The

company's wafers are used as a starting material for the manufacture of various types of semiconductor devices, including microprocessor, memory, logic, and power devices. In turn, these semiconductor devices are used in computers, cellular phones, and other mobile electronic devices, automobiles, and other products. Its principal customers are semiconductor device manufacturers, including memory, microprocessor, and ASIC manufacturers, as well as foundries.

**FIGURE 1: WFR – Earnings Model (\$MM, except per share data)**

Sept 22, 2005 kshankar											2006E				
FYE: Dec. (\$MM, Except EPS)															
	2004				2004E	2005E									
	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year
<b>Revenues</b>	<b>\$228.8</b>	<b>\$255.5</b>	<b>\$275.3</b>	<b>\$268.4</b>	<b>\$1,028.0</b>	<b>\$257.9</b>	<b>\$275.4</b>	<b>\$291.9</b>	<b>\$309.4</b>	<b>\$1,134.6</b>	<b>\$306.3</b>	<b>\$315.5</b>	<b>\$334.5</b>	<b>\$357.9</b>	<b>\$1,314.2</b>
Cost of Goods Sold	155.4	168.4	164.5	170.2	658.5	164.6	175.0	183.2	191.8	714.6	188.4	190.9	198.2	209.4	786.8
<b>Gross Margin</b>	<b>\$73.3</b>	<b>\$87.2</b>	<b>\$110.7</b>	<b>\$98.2</b>	<b>\$369.4</b>	<b>\$93.3</b>	<b>\$100.4</b>	<b>\$108.7</b>	<b>\$117.6</b>	<b>\$420.0</b>	<b>\$117.9</b>	<b>\$124.6</b>	<b>\$136.3</b>	<b>\$148.5</b>	<b>\$527.4</b>
SG&A expenses	\$17.2	\$17.8	\$17.8	\$19.2	\$71.9	\$18.2	\$18.3	\$18.5	\$18.7	\$73.7	\$18.9	\$19.1	\$19.3	\$19.5	\$76.7
R&D expenses	8.9	9.3	9.4	10.4	38.0	11.4	11.0	11.2	11.5	45.1	11.7	11.9	12.2	12.4	48.1
Restructuring expenses				(1.0)											
<b>Total Operating Expenses</b>	<b>26.1</b>	<b>27.1</b>	<b>27.2</b>	<b>28.5</b>	<b>108.9</b>	<b>29.6</b>	<b>29.4</b>	<b>29.8</b>	<b>30.2</b>	<b>118.8</b>	<b>30.6</b>	<b>31.0</b>	<b>31.4</b>	<b>31.9</b>	<b>124.9</b>
<b>Operating Income</b>	<b>\$47.2</b>	<b>\$60.0</b>	<b>\$83.6</b>	<b>\$69.6</b>	<b>\$260.5</b>	<b>\$63.7</b>	<b>\$71.1</b>	<b>\$79.0</b>	<b>\$87.4</b>	<b>\$301.2</b>	<b>\$87.4</b>	<b>\$93.6</b>	<b>\$104.9</b>	<b>\$116.6</b>	<b>\$402.5</b>
Total Non-Operating Income/(E)	\$6.5	(\$9.1)	(\$0.4)	(\$59.0)	(\$62.0)	(\$1.3)	(\$1.5)	(\$1.5)	(\$1.6)	(\$5.9)	(\$1.6)	(\$1.6)	(\$1.6)	(\$1.6)	(\$6.4)
<b>Pre-Tax Income</b>	<b>53.7</b>	<b>51.0</b>	<b>83.2</b>	<b>10.7</b>	<b>198.5</b>	<b>62.4</b>	<b>69.6</b>	<b>77.5</b>	<b>85.9</b>	<b>295.3</b>	<b>85.8</b>	<b>92.0</b>	<b>103.3</b>	<b>115.0</b>	<b>396.1</b>
Income Taxes	13.4	(12.6)	20.8	(60.9)	(39.3)	(16.5)	8.7	10.8	12.0	15.0	12.9	13.8	15.5	17.3	59.4
Net Income before other items	40.3	63.6	62.4	71.6	237.8	78.9	60.9	66.6	73.8	280.3	72.9	78.2	87.8	97.8	336.7
Equity income/(loss) in joint ver	(1.7)	0.0	0.0	0.0	(1.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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 after other items	35.9	60.6	59.7	69.2	225.4	77.2	58.9	64.6	71.8	272.5	70.9	76.2	85.8	95.8	328.7
Extraordinary items															
Net Income Available for Comn	35.9	60.6	59.7	69.2	225.4	77.2	58.9	64.6	71.8	272.5	70.9	76.2	85.8	95.8	328.7
Average Shares Outst.(primary	207.2	207.7	207.8	208.1	207.7	208.8	209.2	209.6	210.0	209.4	210.5	210.9	211.3	211.7	211.1
<b>GAAP EPS (primary)</b>	<b>\$0.17</b>	<b>\$0.29</b>	<b>\$0.29</b>	<b>\$0.33</b>	<b>\$1.09</b>	<b>\$0.37</b>	<b>\$0.28</b>	<b>\$0.31</b>	<b>\$0.34</b>	<b>\$1.30</b>	<b>\$0.34</b>	<b>\$0.36</b>	<b>\$0.41</b>	<b>\$0.45</b>	<b>\$1.56</b>
Average shares outst. (fully dilt.	222.1	221.0	220.4	221.1	221.1	223.9	224.7	225.1	225.6	224.8	226.0	226.5	226.9	227.4	226.7
<b>GAAP EPS (fully diluted)</b>	<b>\$0.16</b>	<b>\$0.27</b>	<b>\$0.27</b>	<b>\$0.31</b>	<b>\$1.02</b>	<b>\$0.34</b>	<b>\$0.26</b>	<b>\$0.29</b>	<b>\$0.32</b>	<b>\$1.21</b>	<b>\$0.31</b>	<b>\$0.34</b>	<b>\$0.38</b>	<b>\$0.42</b>	<b>\$1.45</b>
<b>Proforma EPS (fully diluted)</b>	<b>\$0.16</b>	<b>\$0.20</b>	<b>\$0.27</b>	<b>\$0.26</b>	<b>\$0.90</b>	<b>\$0.23</b>	<b>\$0.26</b>	<b>\$0.29</b>	<b>\$0.32</b>	<b>\$1.10</b>	<b>\$0.31</b>	<b>\$0.34</b>	<b>\$0.38</b>	<b>\$0.42</b>	<b>\$1.45</b>
<b>Margins (Pct. Rev)</b>															
Gross Margins	32.1%	34.1%	40.2%	36.6%	35.9%	36.2%	36.5%	37.3%	38.0%	37.0%	38.5%	39.5%	40.8%	41.5%	40.1%
R&D	3.9	3.6	3.4	3.9	3.7	4.4	4.0	3.8	3.7	4.0	3.8	3.8	3.6	3.5	3.7
SG&A	7.5	7.0	6.5	7.1	7.0	7.0	6.7	6.3	6.0	6.5	6.2	6.0	5.8	5.4	5.8
Operating Margins	20.7	23.5	30.4	25.9	25.3	24.7	25.8	27.1	28.3	26.5	28.5	29.7	31.4	32.6	30.6
Other Income (Expenses)	2.8	-3.6	-0.1	-22.0	-6.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Pre-tax Margins	23.5	19.9	30.2	4.0	19.3	24.2	25.3	26.5	27.7	26.0	28.0	29.2	30.9	32.1	30.1
Tax Rate (Pct.)	25.0	-24.7	25.0	-571.9	-19.8	-26.4	12.4	14.0	14.0	5.1	15.0	15.0	15.0	15.0	15.0
Net Margin	17.6	24.9	22.7	26.7	23.1	30.6	22.1	22.8	23.9	24.7	23.8	24.8	26.2	27.3	25.6
<b>Yr-to-Yr Pct. Change</b>															
Revenues	21.5%	33.2%	40.5%	30.9%	31.6%	12.7%	7.8%	6.0%	15.3%	10.4%	18.8%	14.6%	14.6%	15.7%	15.8%
Gross Margins	35.3	56.7	89.2	52.4	58.7	27.2	15.2	(1.8)	19.8	13.7	26.4	24.1	25.3	26.3	25.6
Operating Income	44.4	78.2	128.9	75.4	82.6	34.9	18.4	(5.5)	25.5	15.6	37.1	31.7	32.8	33.4	33.6
Pre-Tax Income	83.2	47.5	70.9	(75.4)	27.4	16.2	36.5	(6.9)	705.7	48.8	37.4	32.3	33.3	34.0	34.1
Net Income	90.8	137.1	70.9	107.0	99.8	95.8	(4.1)	6.8	3.1	17.9	(7.6)	28.4	31.8	32.4	20.1
Fully Diluted EPS	72.5	59.6	72.3	70.3	68.0	45.1	31.1	5.9	21.2	23.1	33.8	28.4	31.7	32.3	31.5
<b>Qtr-to-Qtr Pct. Change</b>															
Revenues	11.6%	11.7%	7.7%	(2.5%)	--	(3.9%)	6.8%	6.0%	6.0%	--	(1.0%)	3.0%	6.0%	7.0%	--
Gross Margins	13.9	18.8	27.1	-11.4	--	-5.0	7.7	8.3	8.1	--	0.3	5.7	9.4	9.0	--
Operating Income	19.0	27.1	39.2	-16.7	--	-8.5	11.5	11.1	10.7	--	-0.1	7.2	12.0	11.2	--
Pre-Tax Income	24.0	-5.1	63.1	-87.2	--	485.9	11.4	11.3	10.9	--	-0.1	7.3	12.2	11.4	--
Net Income	16.5	57.7	-1.9	14.8	--	10.2	-22.8	9.3	10.9	--	-1.3	7.3	12.2	11.4	--
Fully Diluted EPS	4.8	69.7	-1.2	15.4	--	10.2	-23.9	9.5	11.0	--	-1.5	7.3	12.3	11.4	--

Source: Company reports and JMP Securities.

**FIGURE 2: WFR – Segment Model**

Sept 22, 2005 kshankar	2004					2005E					2006E				
FYE: Dec. (\$MM, Except EPS)	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year	1Q/Mar A	2Q/Jun A	3Q/Sep	4Q/Dec	Year	1Q/Mar	2Q/Jun	3Q/Sep	4Q/Dec	Year
<b>Segment Model (Million \$)</b>															
150mm/less wafers	\$64	\$66	\$69	\$67	\$266	\$62	\$63	\$64	\$68	\$258	\$64	\$63	\$64	\$68	\$259
200mm wafers	\$142	\$158	\$171	\$164	\$635	\$155	\$165	\$172	\$176	\$669	\$172	\$177	\$184	\$193	\$725
300mm wafers	\$23	\$31	\$36	\$38	\$127	\$41	\$47	\$55	\$65	\$209	\$70	\$76	\$87	\$97	\$330
Segment total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$292	\$309	\$1,135	\$306	\$316	\$334	\$358	\$1,314
Topline model total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$292	\$309	\$1,135	\$306	\$316	\$334	\$358	\$1,314
<b>Segment Model(%)</b>															
150mm/less wafers	28%	26%	25%	25%	26%	24%	23%	22%	22%	23%	21%	20%	19%	19%	20%
200mm wafers	62%	62%	62%	61%	62%	60%	60%	59%	57%	59%	56%	56%	55%	54%	55%
300mm wafers	10%	12%	13%	14%	12%	16%	17%	19%	21%	18%	23%	24%	26%	27%	25%
Segment total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>150mm/less wafers</b>															
Total 150mm/less wafers Rev (	\$64	\$66	\$69	\$67	\$266	\$62	\$63	\$64	\$68	\$258	\$64	\$63	\$64	\$68	\$259
Total 150mm/less wafers Units (Mlr	2.56	2.66	2.75	2.68	10.66	2.81	2.88	2.92	3.09	11.71	3.22	3.16	3.18	3.40	12.95
Blended 150mm/less wafers A:	\$25	\$25	\$25	\$25	\$25	\$22	\$22	\$22	\$22	\$22	\$20	\$20	\$20	\$20	\$20
<b>200mm wafers</b>															
Total 200mm wafers Rev (\$Mlr	\$142	\$158	\$171	\$164	\$635	\$155	\$165	\$172	\$176	\$669	\$172	\$177	\$184	\$193	\$725
Total 200mm wafers Units (Mlr	2.84	3.17	3.41	3.27	12.69	3.44	3.76	3.83	3.92	14.94	4.08	4.21	4.38	4.60	17.27
Blended 200mm wafers ASP (\$	\$50	\$50	\$50	\$50	\$50	\$45	\$44	\$45	\$45	\$45	\$42	\$42	\$42	\$42	\$42
<b>300mm wafers</b>															
Total 300mm wafers Rev (\$Mlr	\$23	\$31	\$36	\$38	\$127	\$41	\$47	\$55	\$65	\$209	\$70	\$76	\$87	\$97	\$330
Total 300mm wafers Units (Mlr	0.08	0.12	0.15	0.17	0.52	0.19	0.23	0.29	0.35	1.07	0.39	0.43	0.53	0.60	1.96
Blended 300mm wafers ASP (\$	\$275	\$260	\$240	\$225	\$245	\$215	\$200	\$190	\$185	\$195	\$180	\$175	\$165	\$160	\$169
<b>Product Type</b>															
Polished/prime wafers	62%	62%	62%	62%	62%	60%	60%	60%	60%	60%	59%	59%	59%	59%	59%
Epitaxial wafers	30%	30%	30%	30%	30%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Test/monitor wafers	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
SOI wafers	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%	2%	2%	2%
Strained Silicon wafers	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Compound Semi/SIC wafers	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Product Type</b>															
Polished/prime wafers	\$142	\$158	\$171	\$166	\$637	\$155	\$165	\$175	\$186	\$681	\$181	\$186	\$197	\$211	\$775
Epitaxial wafers	\$69	\$77	\$83	\$81	\$308	\$83	\$88	\$93	\$99	\$363	\$98	\$101	\$107	\$115	\$421
Test/monitor wafers	\$11	\$13	\$14	\$13	\$51	\$13	\$14	\$15	\$15	\$57	\$15	\$16	\$17	\$18	\$66
SOI wafers	\$2	\$3	\$3	\$3	\$10	\$3	\$3	\$3	\$3	\$11	\$6	\$6	\$7	\$7	\$26
Strained Silicon wafers	\$5	\$5	\$6	\$5	\$21	\$5	\$6	\$6	\$6	\$23	\$6	\$6	\$7	\$7	\$26
Compound Semi/SIC wafers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Segment Total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$292	\$309	\$1,135	\$306	\$316	\$334	\$358	\$1,314
Topline Total	\$229	\$256	\$275	\$268	\$1,028	\$258	\$275	\$292	\$309	\$1,135	\$306	\$316	\$334	\$358	\$1,314

Source: Company reports and JMP Securities.

**FIGURE 3: WFR – Balance Sheet (\$MM, except per share data)**

July 27, 2005 kshankar FYE: Dec. (\$MM, Except EPS)	2003 1Q/Mar	2003 2Q/Jun	2003 3Q/Sep	2003 4Q/Dec	2004 1Q/Mar	2004 2Q/Jun	2004 3Q/Sep	2004 4Q/Dec	2005 1Q/Mar	2005 2Q/Jun
<b>Assets</b>										
Cash & Short-term Investments	\$160.8	\$127.6	\$125.8	\$130.7	\$140.6	\$129.5	\$103.3	\$92.3	\$116.3	\$101.0
Accounts Receivable, Net	88.0	98.1	107.4	103.0	119.2	138.9	151.9	140.7	130.5	132.1
Inventories	90.6	96.2	98.0	109.5	123.0	112.6	119.8	127.6	135.3	134.9
Prepaid Exp. & Other Current Assets	19.1	18.5	25.8	22.1	31.5	16.4	20.1	29.7	28.2	27.3
Deferred Income Taxes										
<b>Total Current Assets</b>	<b>\$358.5</b>	<b>\$340.4</b>	<b>\$356.9</b>	<b>\$365.3</b>	<b>\$414.5</b>	<b>\$397.4</b>	<b>\$395.1</b>	<b>\$390.3</b>	<b>\$410.3</b>	<b>\$395.2</b>
Property, Plant, Equipment, Net	\$191.5	\$203.3	\$253.5	\$270.4	\$361.6	\$392.7	\$387.3	\$444.7	\$476.3	\$503.9
Investments in Joint Ventures	17.9	19.5	22.2	24.2	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill, Net	3.8	3.8	3.8	3.8						
Deferred Tax Asset, Net	32.1	26.1	18.5	15.2	22.4	45.6	43.6	119.8	126.8	127.1
Other Non-Current Assets	30.8	33.9	38.5	42.9	53.7	61.2	55.4	55.1	54.5	53.3
<b>Total Assets</b>	<b>\$634.7</b>	<b>\$627.1</b>	<b>\$693.4</b>	<b>\$721.7</b>	<b>\$852.1</b>	<b>\$896.8</b>	<b>\$881.3</b>	<b>\$1,009.9</b>	<b>\$1,068.0</b>	<b>\$1,079.5</b>
<b>Liabilities</b>										
Current L-T Debt, S-T Borrowing	\$100.3	\$53.4	\$80.6	\$71.8	\$86.9	\$57.5	\$21.9	\$24.4	\$23.1	\$21.7
Accounts Payable	63.9	69.4	82.6	95.2	91.9	101.2	99.0	124.1	133.4	104.6
Accrued Liabilities	30.9	31.1	28.8	34.0	39.2	43.1	32.4	37.7	21.4	23.9
Customer Deposits	14.8	14.5	14.6	15.7	11.5	8.1	5.0	0.0	0.0	0.0
Other Accrued Liabilities	46.1	38.1	36.3	27.4	24.3	26.8	31.2	29.4	45.9	48.8
<b>Total Current Liabilities</b>	<b>\$255.9</b>	<b>\$206.4</b>	<b>\$242.8</b>	<b>\$244.1</b>	<b>\$253.8</b>	<b>\$236.6</b>	<b>\$189.5</b>	<b>\$215.6</b>	<b>\$223.8</b>	<b>\$198.9</b>
Longterm Debt	\$170.4	\$87.4	\$60.0	\$59.3	\$127.6	\$125.1	\$120.5	\$116.1	\$113.3	\$108.2
Pension and Similar liabilities	106.3	107.6	109.4	126.4	130.0	127.5	112.4	116.4	116.2	113.2
Customer Deposits	16.8	14.8	9.7	3.6	3.0	3.1	3.2	0.0	0.0	0.0
Other Liabilities	27.8	29.8	32.3	30.7	41.6	43.8	57.6	72.4	46.7	45.3
<b>Total Liabilities</b>	<b>\$577.1</b>	<b>\$446.0</b>	<b>\$454.3</b>	<b>\$464.0</b>	<b>\$555.9</b>	<b>\$536.1</b>	<b>\$483.2</b>	<b>\$520.6</b>	<b>\$500.0</b>	<b>\$465.7</b>
Minority Interests	\$60.4	\$59.1	\$62.0	\$64.1	\$66.8	\$65.0	\$44.0	\$46.5	\$48.2	\$50.3
Redeemable Preferred Stock										
Common stock	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Additional Paid-In Capital	27.5	123.6	150.6	150.1	151.7	151.6	152.5	154.7	158.4	159.6
Retained earnings	(27.7)	1.0	28.8	45.9	79.8	145.6	203.1	308.4	385.5	434.9
Treasury Stock	(4.7)	(4.7)	(4.4)	(4.4)	(4.2)	(3.6)	(3.6)	(22.3)	(26.3)	(33.0)
<b>Total Stockholders Equity</b>	<b>(\$2.9)</b>	<b>\$121.9</b>	<b>\$177.0</b>	<b>\$193.6</b>	<b>\$229.3</b>	<b>\$295.7</b>	<b>\$354.1</b>	<b>\$442.9</b>	<b>\$519.7</b>	<b>\$563.6</b>
<b>Total Liab. &amp; Stockholders Equity</b>	<b>\$634.7</b>	<b>\$627.1</b>	<b>\$693.4</b>	<b>\$721.7</b>	<b>\$852.1</b>	<b>\$896.8</b>	<b>\$881.3</b>	<b>\$1,009.9</b>	<b>\$1,068.0</b>	<b>\$1,079.5</b>
<b>Key Financial Ratios</b>										
Tangible Book Value/Share, (\$)	(\$0.03)	\$0.54	\$0.77	\$0.85	\$1.03	\$1.34	\$1.61	\$2.00	\$2.32	\$2.51
Cash/Share, (\$)	\$0.76	\$0.59	\$0.56	\$0.59	\$0.63	\$0.59	\$0.47	\$0.42	\$0.52	\$0.45
Working Capital/share, (\$)	\$0.49	\$0.62	\$0.51	\$0.54	\$0.72	\$0.73	\$0.93	\$0.79	\$0.83	\$0.87
Total Assets/share, (\$)	\$3.01	\$2.88	\$3.10	\$3.24	\$3.84	\$4.06	\$4.00	\$4.57	\$4.77	\$4.80
Current Ratio	1.40	1.65	1.47	1.50	1.63	1.68	2.08	1.81	1.83	1.99
Quick Ratio	0.97	1.09	0.96	0.96	1.02	1.13	1.35	1.08	1.10	1.17
LTD/Total Capitalization	101.74%	41.76%	25.32%	23.43%	35.75%	29.73%	25.39%	20.77%	17.90%	16.11%
Return-on-sales (ROS), Qtr	10.48%	14.22%	17.97%	16.78%	15.70%	23.71%	21.69%	25.77%	29.92%	21.39%
Return-on-sales (ROS), TTM	2.13%	4.90%	15.48%	14.93%	16.16%	18.76%	19.76%	21.93%	25.22%	24.60%
Return-on-equity (ROE), Qtr*4	(2708.75%)	89.51%	79.53%	71.07%	62.62%	81.97%	67.47%	62.46%	59.39%	41.81%
Return-on-equity (ROAE), TTM	(51.88%)	378.63%	173.88%	95.27%	73.58%	74.18%	71.08%	68.19%	66.15%	56.36%
Return-on-assets (ROA), Qtr*4	12.44%	17.40%	20.31%	19.07%	16.86%	27.03%	27.10%	27.39%	28.90%	21.83%
Return-on-assets (ROA), TTM	2.58%	5.94%	18.24%	17.43%	18.35%	21.00%	22.75%	24.77%	27.66%	26.24%
Asset Turnover, Qtr*4	1.19	1.22	1.13	1.14	1.07	1.14	1.25	1.06	0.97	1.02
Average asset turnover, TTM	1.21	1.21	1.18	1.17	1.14	1.12	1.15	1.13	1.10	1.07
Accts. Rec. Days Sales Outst. (Qtr)	42	46	49	45	47	49	50	47	46	43
Accts. Rec. Days Sales Outst. (TTM)	47	46	47	46	48	48	49	49	49	47
Inventory turns (Qtr)	5.92	5.66	5.61	5.14	5.05	5.98	5.49	5.34	4.87	5.19
Average inventory turns (TTM)	6.38	6.11	5.84	5.56	5.34	5.43	5.41	5.45	5.39	5.21
Inventory days Outstanding (Qtr)	61	64	64	70	71	60	66	67	74	69
Inventory days Outstanding (TTM)	57	60	63	66	68	67	67	67	68	70
Revenue/employee, (Qtr*4), \$	\$163,778	\$166,808	\$170,345	\$178,286	\$198,922	\$222,208	\$239,377	\$233,370	\$224,221	\$239,468
Average Revenue/employee (TTM), \$	\$158,898	\$163,553	\$165,666	\$169,804	\$178,590	\$192,440	\$209,698	\$223,469	\$229,794	\$234,109
Qtr Revenue, (\$MM)	188.3	191.8	195.9	205.0	228.8	255.5	275.3	268.4	257.9	275.4
Qtr COGS, (\$MM)	134.1	136.2	137.4	140.6	155.4	168.4	164.5	170.2	164.6	175.0
Qtr Net Income, (\$MM)	19.7	27.3	35.2	34.4	35.9	60.6	59.7	69.2	77.2	58.9
Fully Diluted Shares Outstanding (Millions)	210.7	217.7	223.8	223.0	222.1	221.0	220.4	221.1	223.9	224.7
# Of Employees (Actual)	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600
Qtr Capital Expenditures (\$MM)	8.76	28.26	25.21	23.00	26.09	46.40	25.55	51.74	54.40	51.20
Qtr Capital Expenditures/Revenue	4.65%	14.73%	12.87%	11.22%	11.40%	18.16%	9.28%	19.28%	21.10%	18.59%
Qtr Depreciation (\$MM)	15.81	1.28	6.18	7.78	9.92	10.24	11.44	12.53	13.34	14.36
Qtr Depreciation/Revenue	8.40%	0.67%	3.16%	3.79%	4.34%	4.01%	4.16%	4.67%	5.17%	5.22%

Source: Company reports and JMP Securities.

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MEMC Electronic Materials, Inc. (2,3), WFR, \$20.18, Strong Buy.

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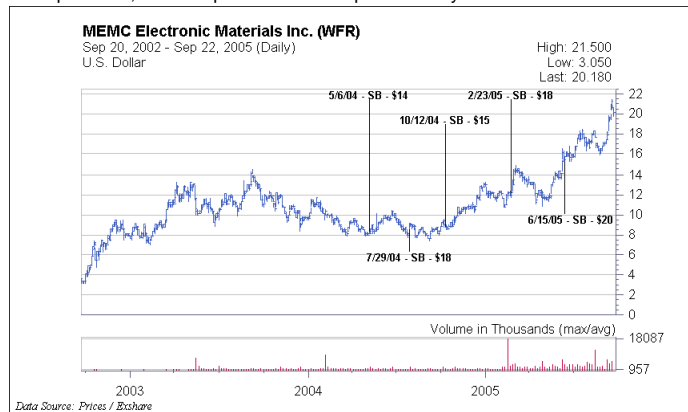
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JMP Rating	Regulatory Equivalent	2 or 3 Disclosure Coverage	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months
Strong Buy	Buy	13	60	24%				
Market Outperform	Buy	17	108	43%	Buy	168	67%	30
Market Perform	Hold	3	71	29%	Hold	71	29%	3
Market Underperform	Sell	0	9	4%	Sell	10	4%	0
Sell	Sell	0	1	0%				
<b>TOTAL:</b>			<b>249</b>	<b>100%</b>		<b>249</b>	<b>100%</b>	<b>33</b>

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. If the latest date is different than the report date, then the price is as of the previous day's close. The action reflected in this note is not annotated in the stock price chart. Source: FactSet and JMP Securities.



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