

MEMC Electronic Materials Inc. (WFR/NYSE)

4Q04 Results Above Expectations. 300 mm Wafer Capacity Expansion on Track. Maintain BUY

Price (1/27/05): \$12.04
52 Week Range: \$13.28 - \$7.33
Recommendation/Target: Buy / \$17.00
Price/LTM Sales: 2.43
Convertible Debt: No

Shares Outstanding (MM): 207.9
Market Cap. (MM): \$2,503
Average Daily Volume (000): 556
Tangible Book Value: \$2.13
Debt/Capital: 24%
Net Cash Value per Share -\$0.23

	12/01A	12/02A		12/04E			12/05E		
				Was	Is	Consensus	Was	New	Consensus
Revenue (MM)	\$617.9	\$687.2	\$781.1	\$1,029.4	\$1,028.0	\$1,023.1	\$1,111.8	\$1,117.3	\$1,111.3
Growth Rate	-29.1%	11.2%	13.7%		31.6%	31.3%		8.7%	8.6%
Op. Margin	-30.2%	11.7%	18.3%		25.2%			26.1%	
EPS: 1Q	(\$0.25)	(\$0.12)	\$0.09		\$0.16A		\$0.27	\$0.25	\$0.23
EPS: 2Q	(\$0.95)	\$0.09	\$0.13		\$0.19A		\$0.28	\$0.26	\$0.25
EPS: 3Q	(\$0.97)	(\$0.20)	\$0.12		\$0.27A		\$0.30	\$0.28	\$0.28
EPS: 4Q	(\$0.66)	\$0.14	\$0.15	\$0.25	\$0.26A	\$0.24	\$0.31	\$0.29	\$0.30
EPS: Year	(\$2.83)	\$0.02	\$0.48	\$0.88	\$0.89A	\$0.86	\$1.16	\$1.08	\$1.07
Growth Rate	NM	NM	NM		82.6%	72.0%		21.7%	24.4%
P/E Ratio	NM	NM	24.8x		13.0x	14.0x		11.2x	11.3x

Disclosures applicable to this security: B, E (disclosure explanation at the end of this report)

INVESTMENT CONCLUSION

We believe MEMC is an attractive investment for the following reasons: 1) Solid financial position that will enable them to be profitable and grow their business unlike several competitors. 2) Favorable market conditions that include recovery of the semiconductor industry; increasing capacity utilization favoring APS; and consolidation in the industry favoring suppliers that are qualified for 300 mm diameter substrates (MEMC being one); 3) New management strategy focusing on profitability, market-share and technology.

SUMMARY

- 4Q04 Results beat expectations and consensus: Pro-forma EPS of \$0.26 on sales of \$268 million beat our expectations by one cent and consensus by two cents EPS. GAAP EPS was \$0.31. The five cent difference was due to a non operating debt extinguishing loss that was more than offset by a reversal of tax allowances against deferred tax assets.
- Revenue decline of 3% Q/Q (in line with previous guidance) was due to lower product volumes driven by temporary inventory issues with non-memory customers.
- Gross margins declined 365 bp Q/Q to 36.6%. The decline was due to unfavorable product mix due to significant inventory correction with non-memory customers. We nevertheless expect MEMC to continue its strategy of cost savings implemented over the last two years that include better yields, productivity and expense management.
- Operating margins declined 478 bp Q/Q to 26% due to higher R&D associated with the development of Silicon on Insulator (SOI) and 300mm.
- Going forward we expect continued increases in blended ASPs driven by supply constraints for 200 mm wafers and increasing product mix towards higher ASP 300 mm wafers.
- MEMC and the industry are at capacity utilization above 90%. Supply constraints for 200 mm wafers remain tight at this utilization level.

- **MEMC is improving its balance sheet with the 107 million operating cash flow it generated during the quarter. During the quarter they fully redeemed their \$67 million 14% annual interest senior subordinated secured note due 2007. Debt now stands at \$140 million and management expects to pay it off by the end of 2005.**
- **MEMC 300 mm wafer production capacity is on track: By 1Q05 MEMC expects to expand to 150,000 wafers per month; by mid 2005 to 200,000/month and by end 2006 to 350,000/month.**
- **We are adjusting our 2005 estimates with sales slightly up and EPS slightly down as we have become a bit more conservative regarding gross margins. Our new 2005 estimate is EPS \$1.08 on sales \$1117 million vs our previous estimate of EPS \$1.16 on sales \$1112 million.**
- **We believe that MEMC's stock price is attractive. Our 12-18-month target price of \$17 is based on 15x our 2005 EPS estimate. It is cheap at 11x our 2005 EPS estimate.**
- **The main risks to the MEMC story are 1) if competitors start building capacity ahead of demand this would have the effect experienced in 1998-1999 of fast decline in ASPs leading to an unprofitable industry. 2) if the semiconductor chip industry starts to decline it will not be able to drive demand for the substrate industry.**

INVESTMENT THESIS

- **We expect MEMC to grow at a rate above the industry.** We are projecting revenue to grow annually 9% (above our projection of 8% growth for the industry) driven by increasing demand for wafer volume, firm ASPs and market-share gains. EPS should be growing at the much faster pace of about 20-25% due to a) absorption of fixed cost driven by higher volume; b) higher productivity; c) lower manufacturing costs and d) lower operating expenses.
- **MEMC is a turnaround story** that has been on track to recovery since its acquisition in November 2001 by the Texas Pacific Group (TPG) and since new management came on board on April 2002. Management is sharply focused on:
 - Rising Productivity: Productivity improved 60% in 2002 vs 2001 as a result of increased volume production with lower headcount. (Headcount was reduced by 33% in 2001, and benefits were realized by 2002 when product volume increased 29% with no additional headcount.)
 - Lowering Production Costs: Cash cost per unit decreased 25% in 2002 vs 2001 as a result of better manufacturing yields, better process refinement, and lower cost of ownership.
 - Improving cycle times: improved more than 25% over last two years as a result of more streamlined materials flows
 - Lowering annual revenue for breakeven operating profit. Today it is at \$500 million, down from \$1 billion at the beginning of 2002
 - Gaining market-share back to historical levels of about 20% (up from 12% in 2001)
 - Maintaining technology leadership
- **Industry conditions in the silicon wafer market are very favorable for MEMC:**
 - We expect the total area of silicon wafers to increase at a rate of 8% per year driven by the recovery of the semiconductor chip industry.
 - The industry is in a consolidation phase. With MEMC as one of the top four players we expect MEMC to gain share as the smaller competitors disappear.
 - We expect ASPs to be flat to slightly down as a result of:
 - The wafer industry is close to full capacity with mid 90% capacity utilization. We expect the trend to higher levels of capacity utilization to continue. We believe that once capacity utilization reaches 95% (which should occur in 2004), customers will experience wafer shortages resulting in firm ASPs.
 - The industry is starting to shift to 300 mm wafers that sell at a premium per unit area (about 100% higher) vs 200mm diameter wafers. This will help overall ASPs as the product mix shifts to 300 mm. Today 5% of the area is from 300mm. By 2007 it should grow to 26% of the area.
 - The increasing demand for smaller line-widths and better yields will increase demand for higher performance wafers that also sell at an ASP premium.

- **MEMC is a competitive player with very strong financial position and a very strong IP position.** We believe this will enable them to continue to gain market-share as the industry consolidates and as new competitors face ever higher barriers to entry. Currently the main barrier to entry is the financial capability to grow capacity for 300mm substrates. Currently there are only four companies that have qualified their 300mm wafers. This is down from 10 producers of 200 mm wafers.

OUTLOOK:

Our 2005 estimate is EPS \$1.08 (down from \$1.16) on sales \$1117 million (up from \$1,112 million).

Guidance for 1Q05 is for sequential flat due to the uncertainty regarding inventory correction in the semiconductor industry. Gross margins are expected to also be flat. Operating expenses are expected to be slightly down.

COMPANY DESCRIPTION

MEMC Inc is a leading worldwide producer of silicon wafers for the semiconductor industry. It is the worlds largest public company solely devoted to the supply of wafers to semiconductor device manufacturers.

VARIANCE

MEMC

Quarter: 4Q04

Year: 12/04

Income Statement	Lst Yr 12/31/2003	Lst Qtr 9/30/2004	Estimate 12/31/2004	Actual 4Q/04A	Growth			Cents
	4Q/03	3Q/04	4Q/04	4Q/04A	Vs. Lst Yr	Vs. Lst Qtr	Vs. Est.	EPS Delta
Revenues	205.0	275.3	269.8	268.4	30.9%	(2.5%)	(0.5%)	(0.179)
COGS Incl. D&A	140.6	164.5	164.8	170.2	21.0%	3.4%	3.3%	(2.057)
Gross Profit	64.4	110.7	105.0	98.2	52.4%	(11.4%)	(6.5%)	(2.236)
R&D	8.6	9.4	9.1	10.4	20.6%	10.3%	13.7%	(0.411)
SG&A	16.1	17.8	17.2	19.2	18.9%	7.8%	11.1%	(0.630)
Operating Expenses (subtotal)	24.7	27.2	26.4	29.5	19.5%	8.6%	12.0%	(1.041)
Operating Profit	39.7	83.6	78.6	68.6	72.9%	(17.9%)	(12.7%)	(3.277)
Net Interest Expense	(0.4)	0.9	0.4	(2.8)	560.7%	(424.6%)	(789.5%)	1.050
Earnings Before Taxes/Extras	41.0	83.6	79.1	71.4	74.1%	(14.6%)	(9.7%)	(2.523)
Income Taxes	8.3	20.8	21.8	12.1	45.7%	(41.6%)	(44.2%)	3.402
Tax Rate	20.3%	24.9%	27.5%	17.0%	(16.3%)	(31.6%)	(38.2%)	0.879
Net Income Before Minority/Convert/Extras	32.7	62.8	57.3	59.3	81.4%	(5.6%)	3.4%	
Minority Interest	0.2	2.7	2.7	2.4	1160.8%	(7.8%)	(7.8%)	0.094
Net Income Before Convert/Extras	32.5	60.2	54.7	56.8	74.9%	(5.5%)	3.9%	
Convertible Interest Add-back	0.0	0.0	0.0					0.000
Net Income Before Extras	32.5	60.2	54.7	56.8	74.9%	(5.5%)	3.9%	0.974
Extraordinaries	1.9	(0.4)	0.0	12.3				5.590
Net Income	34.4	59.7	54.7	69.2	101.0%	15.8%	26.5%	6.563
Average Shares	223.0	220.4	220.4	222.1	(0.4%)	0.8%	0.8%	(0.195)
EPS Before Extras	\$0.15	\$0.27	\$0.25	\$0.26	75.6%	(6.3%)	3.1%	0.778
EPS After Extras	\$0.15	\$0.27	\$0.25	\$0.31	101.8%	14.9%	25.5%	0.778
edlta (b.p.)								
Percent of Sales	4Q/03	3Q/04	4Q/04		Vs. Lst Yr	Vs. Lst Qtr	Vs. Est.	
COGS Incl. D&A	68.58%	59.77%	61.09%	63.42%	516	(365)	(233)	
Gross Profit	31.42%	40.23%	38.91%	36.58%	516	(365)	(233)	
R&D	4.20%	3.42%	3.38%	3.87%	33	(45)	(48)	
SG&A	7.85%	6.45%	6.39%	7.14%	72	(68)	(75)	
Operating Expenses (subtotal)	12.05%	9.87%	9.77%	11.00%	105	(113)	(123)	
Operating Profit	19.36%	30.36%	29.13%	25.57%	621	(478)	(356)	
Net Interest Expense	(0.21%)	0.31%	0.15%	(1.04%)	83	135	119	
Earnings Before Taxes/Extras	20.01%	30.37%	29.32%	26.61%	661	(376)	(271)	
Income Taxes	4.07%	7.55%	8.06%	4.52%	(46)	303	354	
Net Income Before Extras	15.85%	21.85%	20.27%	21.18%	533	(68)	91	
Extraordinaries	0.94%	(0.16%)	0.00%	4.59%	365	475	459	
Net Income	16.78%	21.69%	20.27%	25.77%	899	407	550	

Source: Company reports and Needham & Co. estimates.

Income Statement

	12/00	12/01	12/02	12/03	12/04	12/05E
Revenues	871.6	617.9	687.2	781.1	1,028.0	1,117.3
COGS Ex. Depr./Amort.	569.6	494.7	479.6	517.3	627.5	672.1
Depr./Amort.	173.1	174.6	34.2	31.0	31.0	32.4
Gross Profit	129.0	(51.5)	173.5	232.8	369.4	412.8
SG&A	69.2	69.7	65.8	57.2	71.9	71.6
Research & Development	72.2	65.7	27.4	32.9	38.0	42.7
Operating Income	(12.4)	(186.9)	80.2	142.6	259.5	298.5
Royalty	0.0	0.0	(3.6)	(3.6)	(16.2)	(3.4)
Net Interest Expense	65.5	76.3	56.5	4.2	8.5	1.6
Earnings Before Taxes	(77.8)	(263.2)	27.4	142.0	267.2	300.3
Income Taxes	(21.0)	(48.1)	16.7	33.6	59.1	51.1
Income Tax Rate	27.0%	18.3%	61.1%	23.6%	22.1%	17.0%
Earnings Before Extras	(43.4)	(196.9)	2.7	106.0	195.7	239.5
Extraordinaries	0.0	(325.7)	(24.8)	10.6	29.7	0.0
Net Income	(43.4)	(522.7)	(22.1)	116.6	225.4	239.5
Net Income for Cash EPS (excl.	(43.4)	(196.9)	1.3	103.3	183.0	236.7
Average Shares	69.6	69.6	129.8	218.7	221.0	222.2
Cash EPS	(\$0.62)	(\$2.83)	\$0.01	\$0.47	\$0.83	\$1.06
GAAP EPS	(\$0.62)	(\$2.83)	\$0.02	\$0.48	\$0.89	\$1.08

Growth Rates (Y/Y)

Revenues (Y/Y)	25.7%	(29.1%)	11.2%	13.7%	31.6%	8.7%
Gross Profit	(79.3%)	(139.9%)	(436.9%)	34.2%	58.7%	11.7%
Operating Income	(102.2%)	1411.8%	(142.9%)	77.7%	81.9%	15.0%
Net Income Bef. Ex. (Y/Y)	(107.6%)	353.9%	(101.4%)	3782.9%	84.6%	22.4%
Cash EPS	(102.7%)	353.8%	(100.4%)	4513.3%	75.4%	28.6%

Percent of Sales

COGS Ex. Depr./Amort.	65.3%	80.1%	69.8%	66.2%	61.0%	60.2%
Depr./Amort.	19.9%	28.3%	5.0%	4.0%	3.0%	2.9%
Gross Profit	14.8%	(8.3%)	25.2%	29.8%	35.9%	36.9%
SG&A	7.9%	11.3%	9.6%	7.3%	7.0%	6.4%
Research & Development	8.3%	10.6%	4.0%	4.2%	3.7%	3.8%
Operating Income	(1.4%)	(30.2%)	11.7%	18.3%	25.2%	26.7%
Net Interest Expense	7.5%	12.4%	8.2%	0.5%	0.8%	0.1%
Earnings Before Taxes	(8.9%)	(42.6%)	4.0%	18.2%	26.0%	26.9%
Income Taxes	(2.4%)	(7.8%)	2.4%	4.3%	5.7%	4.6%
Earnings Before Extras	(5.0%)	(31.9%)	0.4%	13.6%	19.0%	21.4%
Extraordinaries	0.0%	(52.7%)	(3.6%)	1.4%	2.9%	0.0%
Net Income	(5.0%)	(84.6%)	(3.2%)	14.9%	21.9%	21.4%
Net Income for Cash EPS (excl.	(5.0%)	(31.9%)	0.2%	13.2%	17.8%	21.2%

Income Statement												
	1Q/03	2Q/03	3Q/03	4Q/03	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05E	2Q/05E	3Q/05E	4Q/05E
Revenues	188.3	191.8	195.9	205.0	228.8	255.5	275.3	268.4	265.7	275.2	286.1	290.3
COGS Ex. Depr./Amort.	125.4	127.9	131.2	132.8	145.5	160.0	158.4	163.6	161.4	166.5	171.4	172.8
Depr./Amort.	8.8	8.3	6.2	7.8	9.9	8.3	6.2	6.6	7.2	7.8	8.4	9.0
Gross Profit	54.2	55.6	58.5	64.4	73.3	87.2	110.7	98.2	97.1	100.9	106.4	108.4
SG&A	14.1	13.4	13.6	16.1	17.2	17.8	17.8	19.2	17.2	17.7	18.2	18.4
Research & Development	7.4	8.5	8.4	8.6	8.9	9.3	9.4	10.4	10.3	10.6	10.9	11.0
Operating Income	32.7	33.7	36.5	39.7	47.2	60.0	83.6	68.6	69.6	72.6	77.3	79.0
Royalty	(0.9)	(0.9)	(0.9)	(0.9)	(8.3)	(0.5)	(2.5)	(5.0)	(0.8)	(0.8)	(0.9)	(0.9)
Net Interest Expense	4.3	0.0	0.3	(0.4)	1.8	2.1	2.4	2.2	0.8	0.7	0.3	(0.2)
Earnings Before Taxes	29.3	34.6	37.1	41.0	53.7	58.4	83.6	71.4	69.6	72.7	77.9	80.1
Income Taxes	8.2	7.8	9.3	8.3	13.4	12.7	20.8	12.1	11.8	12.4	13.2	13.6
Income Tax Rate	28.0%	22.5%	25.0%	20.3%	25.0%	21.8%	24.9%	17.0%	17.0%	17.0%	17.0%	17.0%
Earnings Before Extras	19.7	27.3	26.5	32.5	35.9	42.8	60.2	56.8	55.3	57.9	62.2	64.0
Extraordinaries	0.0	0.0	8.7	1.9	0.0	17.8	(0.4)	12.3	0.0	0.0	0.0	0.0
Net Income	19.7	27.3	35.2	34.4	35.9	60.6	59.7	69.2	55.3	57.9	62.2	64.0
Net Income for Cash EPS (excl.	19.1	26.6	25.8	31.8	29.7	42.4	58.3	52.7	54.6	57.3	61.5	63.3
Average Shares	210.7	217.7	223.8	223.0	222.1	221.0	220.4	222.1	222.2	222.2	222.3	222.3
Cash EPS	\$0.09	\$0.12	\$0.12	\$0.14	\$0.13	\$0.19	\$0.26	\$0.24	\$0.25	\$0.26	\$0.28	\$0.28
GAAP EPS	\$0.09	\$0.13	\$0.12	\$0.15	\$0.16	\$0.19	\$0.27	\$0.26	\$0.25	\$0.26	\$0.28	\$0.29
Growth Rates (Y/Y)												
Revenues (Y/Y)	37.8%	10.1%	3.0%	10.2%	21.5%	33.2%	40.5%	30.9%	16.1%	7.7%	3.9%	8.2%
Revenues (Q/Q)	1.3%	1.8%	2.1%	4.7%	11.6%	11.7%	7.7%	(2.5%)	(1.0%)	3.6%	4.0%	1.4%
Gross Profit	150.2%	24.0%	10.7%	19.1%	35.3%	56.7%	89.2%	52.4%	32.4%	15.8%	(4.0%)	10.5%
Operating Income	#####	63.0%	21.4%	23.7%	44.4%	78.2%	128.9%	72.9%	47.2%	21.0%	(7.5%)	15.2%
Net Income Bef. Ex. (Y/Y)	(346.0%)	43.9%	(172.7%)	15.1%	81.9%	56.8%	127.0%	74.9%	54.0%	35.4%	3.4%	12.7%
Net Income Bef. Ex. (Q/Q)	(30.1%)	38.2%	(2.9%)	22.6%	10.5%	19.1%	40.7%	(5.5%)	(2.7%)	4.7%	7.4%	3.0%
Cash EPS	(169.1%)	37.5%	(156.2%)	8.4%	47.6%	57.1%	129.3%	66.5%	83.9%	34.3%	4.5%	20.0%
Percent of Sales												
COGS Ex. Depr./Amort.	66.6%	66.7%	67.0%	64.8%	63.6%	62.6%	57.5%	61.0%	60.7%	60.5%	59.9%	59.5%
Depr./Amort.	4.6%	4.3%	3.2%	3.8%	4.3%	3.3%	2.2%	2.5%	2.7%	2.8%	2.9%	3.1%
Gross Profit	28.8%	29.0%	29.9%	31.4%	32.1%	34.1%	40.2%	36.6%	36.5%	36.7%	37.2%	37.4%
SG&A	7.5%	7.0%	6.9%	7.9%	7.5%	7.0%	6.5%	7.1%	6.5%	6.4%	6.4%	6.3%
Research & Development	3.9%	4.4%	4.3%	4.2%	3.9%	3.6%	3.4%	3.9%	3.9%	3.8%	3.8%	3.8%
Operating Income	17.4%	17.6%	18.6%	19.4%	20.7%	23.5%	30.4%	25.6%	26.2%	26.4%	27.0%	27.2%
Net Interest Expense	2.3%	0.0%	0.2%	(0.2%)	0.8%	0.8%	0.9%	0.8%	0.3%	0.3%	0.1%	(0.1%)
Earnings Before Taxes	15.6%	18.0%	18.9%	20.0%	23.5%	22.9%	30.4%	26.6%	26.2%	26.4%	27.2%	27.6%
Income Taxes	4.4%	4.0%	4.7%	4.1%	5.9%	5.0%	7.6%	4.5%	4.5%	4.5%	4.6%	4.7%
Earnings Before Extras	10.5%	14.2%	13.5%	15.8%	15.7%	16.7%	21.9%	21.2%	20.8%	21.0%	21.7%	22.1%
Extraordinaries	0.0%	0.0%	4.4%	0.9%	0.0%	7.0%	(0.2%)	4.6%	0.0%	0.0%	0.0%	0.0%
Net Income	10.5%	14.2%	18.0%	16.8%	15.7%	23.7%	21.7%	25.8%	20.8%	21.0%	21.7%	22.1%
Net Income for Cash EPS (excl.	10.1%	13.9%	13.2%	15.5%	13.0%	16.6%	21.2%	19.6%	20.6%	20.8%	21.5%	21.8%

Balance Sheet

	12/00	12/01	12/02	12/03	12/04	12/05E
Assets						
Cash	94.8	107.2	165.6	130.7	92.3	44.0
Receivables	146.0	67.4	95.0	103.0	140.7	152.2
Inventory	131.9	69.9	85.1	109.5	127.6	138.0
Other Current Assets	37.8	19.5	17.9	22.1	29.7	32.1
Total Current Assets	410.4	264.0	363.7	365.3	390.3	366.4
Gross PP&E	1,180.6	290.0	274.2	359.7	534.0	699.0
Accumulated Depreciation	83.0	89.3	89.3	89.3	89.3	121.8
Net PP&E	1,097.6	200.7	184.9	270.4	444.7	577.2
Other Assets	382.6	84.6	83.1	86.0	147.5	155.0
Total Assets	1,890.6	549.3	631.7	721.7	982.5	1,098.6
Liabilities & Equity						
Payables	88.6	52.1	68.0	95.2	124.1	134.2
Short-term Debt	127.8	75.9	123.6	71.8	24.4	0.4
Other Current Liabilities	107.3	93.7	94.4	77.0	67.1	72.6
Total Current Liabilities	323.6	221.7	286.1	244.1	215.6	207.2
Long-term Debt	943.0	144.7	161.0	59.3	116.1	1.1
Other Liabilities	257.6	203.1	209.3	224.8	208.8	208.8
Total Liabilities	1,524.2	569.6	656.4	528.1	540.5	417.1
Equity	366.4	(20.2)	(24.7)	193.6	442.1	681.6
Total Liabilities & Equity	1,890.6	549.3	631.7	721.7	982.5	1,098.6

Balance Sheet

	1Q/03	2Q/03	3Q/03	4Q/03	1Q/04	2Q/04	3Q/04	4Q/04	1Q/05E	2Q/05E	3Q/05E	4Q/05E
Assets												
Cash	160.8	127.6	125.8	130.7	140.6	129.5	103.3	92.3	54.7	39.5	39.8	44.0
Receivables	88.0	98.1	107.4	103.0	119.2	138.9	151.9	140.7	139.3	144.3	150.0	152.2
Inventory	90.6	96.2	98.0	109.5	123.0	112.6	119.8	127.6	126.3	130.8	136.0	138.0
Other Current Assets	19.1	18.5	25.8	22.1	31.5	16.4	20.1	29.7	29.4	30.5	31.7	32.1
Total Current Assets	358.5	340.4	356.9	365.3	414.5	397.4	395.1	390.3	349.7	345.2	357.5	366.4
Gross PP&E	281.7	290.2	341.9	359.7	451.7	479.6	475.7	534.0	575.2	616.5	657.7	699.0
Accumulated Depreciation	90.2	86.9	88.5	89.3	90.2	86.9	88.5	89.3	96.5	104.4	112.8	121.8
Net PP&E	191.5	203.3	253.5	270.4	361.6	392.7	387.3	444.7	478.7	512.1	545.0	577.2
Other Assets	84.6	83.3	83.0	86.0	76.1	106.7	98.9	147.5	152.5	153.3	154.1	155.0
Total Assets	634.7	627.1	693.4	721.7	852.1	896.8	881.3	982.5	980.9	1,010.7	1,056.6	1,098.6
Liabilities & Equity												
Payables	63.9	69.4	82.6	95.2	91.9	101.2	99.0	124.1	122.8	127.3	132.3	134.2
Short-term Debt	111.5	53.4	80.6	71.8	86.9	57.5	21.9	24.4	14.4	4.4	0.4	0.4
Other Current Liabilities	91.8	83.7	79.6	77.0	75.0	78.0	68.6	67.1	66.5	68.9	71.6	72.6
Total Current Liabilities	267.2	206.4	242.8	244.1	253.8	236.6	189.5	215.6	203.7	200.5	204.3	207.2
Long-term Debt	159.1	87.4	60.0	59.3	127.6	125.1	120.5	116.1	71.1	46.1	26.1	1.1
Other Liabilities	211.3	211.3	213.5	224.8	241.3	239.4	217.2	208.8	208.8	208.8	208.8	208.8
Total Liabilities	637.6	505.2	516.3	528.1	622.7	601.1	527.2	540.5	483.5	455.3	439.1	417.1
Equity	(2.9)	121.9	177.0	193.6	229.3	295.7	354.1	442.1	497.4	555.3	617.5	681.6
Total Liabilities & Equity	634.7	627.1	693.4	721.7	852.1	896.8	881.3	982.5	980.9	1,010.7	1,056.6	1,098.6

Cash Flow Statement

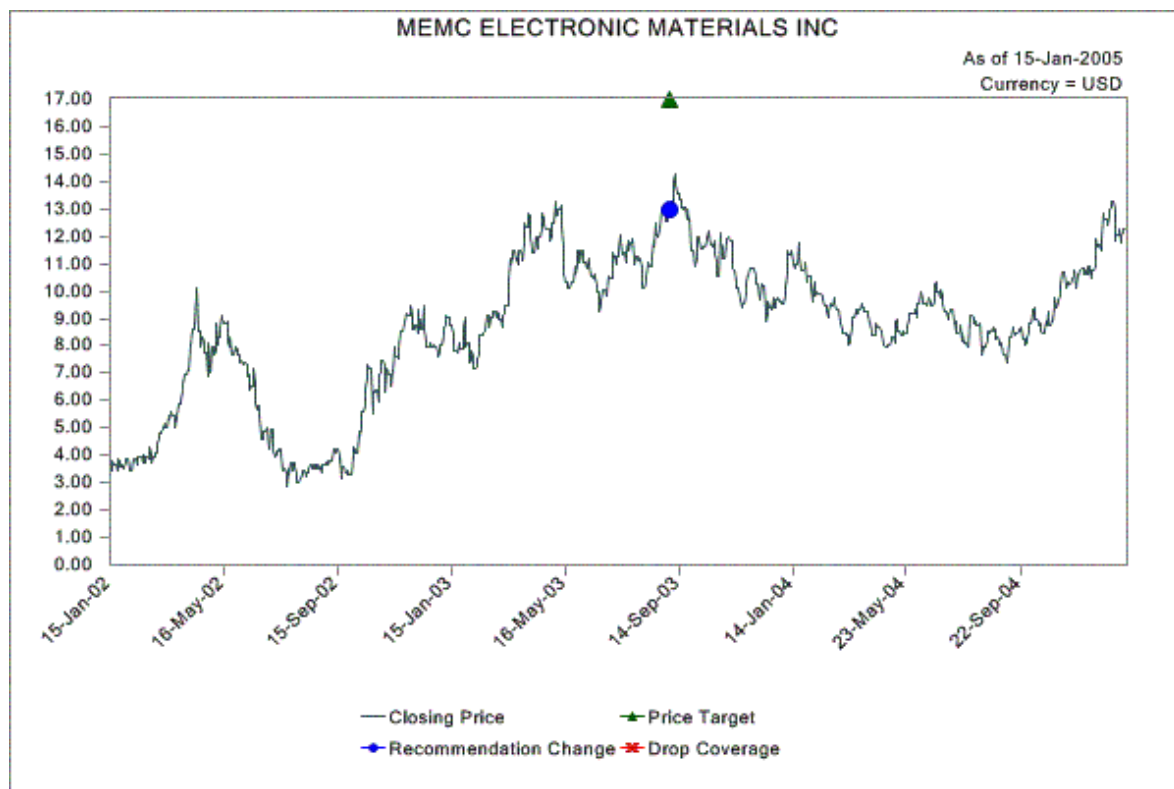
	12/00	12/01	12/02	12/03	12/04	12/05E
CF from Operations						
Net Income	(43.4)	(522.7)	(22.1)	116.6	225.4	239.5
Depreciation & Ammortization	173.1	174.6	34.2	31.0	31.0	32.4
Changes in Assets/Liab.	(213.2)	352.3	(16.9)	(14.2)	(121.9)	(16.2)
Cash Prov. by Operations	(83.5)	4.3	(4.9)	133.5	134.5	255.7
CF from Investing						
Capital Expenditures	(57.8)	(49.8)	(22.0)	(85.2)	(149.8)	(165.0)
Other Changes in PP&E	(1,128.0)	772.1	3.6	(31.3)	(55.6)	(0.0)
Cash (Used) in Investing	(1,185.8)	722.3	(18.3)	(116.5)	(205.4)	(165.0)
CF from Financing						
Change in ST Debt	126.6	(51.9)	47.8	(51.8)	(47.4)	(24.0)
Change in LT Debt	939.9	(798.2)	16.3	(101.7)	56.8	(115.0)
Common Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Changes in Equity	133.2	136.0	17.7	101.7	23.1	0.0
Cash Prov. by Financing	1,199.7	(714.1)	81.7	(51.9)	32.5	(139.0)
Net Incr./((Decr.) in Cash	(69.6)	12.4	58.5	(34.9)	(38.4)	(48.3)
Cash - Beginning	164.3	94.8	107.2	165.6	130.7	92.3
Cash - End	94.8	107.2	165.6	130.7	92.3	44.0

Key Financial Ratios

	12/00	12/01	12/02	12/03	12/04	12/05E
Liquidity						
Cash & Equivalents (\$ millions)	94.8	107.2	165.6	130.7	92.3	44.0
Working Capital (\$ millions)	86.8	42.3	77.6	121.3	174.7	159.1
Current Ratio	1.3	1.2	1.3	1.5	1.8	1.8
Quick Ratio	0.9	0.9	1.0	1.0	1.2	1.1
Leverage						
Debt/Capital	74.5%	110.1%	109.5%	40.4%	24.1%	0.2%
Times Interest Earned	(0.2)	(2.3)	1.1	11.0	19.2	82.8
Management						
Sales/Inventory	7.7	5.5	6.1	7.0	9.2	10.0
Sales/Fixed Assets	0.8	0.8	0.8	1.0	1.3	1.4
Sales/Capital	0.6	0.7	0.7	0.8	1.1	1.2
Receivable Days (DSO)	58.1	55.8	50.1	44.1	33.5	30.8
Inventory Days-on-Hand	55.6	61.0	79.5	74.5	62.0	58.0
Inventory Turns	6.6	6.0	4.6	4.9	5.9	6.3
Days' Sales in Cash	24.5	63.9	57.5	50.6	38.4	35.4
Profitability						
Return on Assets	-2.4%	-14.7%	0.1%	7.7%	13.6%	17.6%
Return on Capital	-3.1%	-21.1%	0.1%	11.1%	19.6%	25.3%
Return on Equity	-11.4%	-325.6%	2.2%	170.7%	302.6%	391.2%
Return on Invested Capital	-0.7%	-18.5%	3.8%	13.2%	24.5%	30.0%
Per Share Data						
Book Value/Share	5.26	(0.29)	(0.19)	0.89	2.00	3.07
Net Cash/Share	(12.19)	(0.54)	0.04	0.33	(0.11)	0.19
EPS	(0.62)	(2.83)	0.01	0.47	0.83	1.06

ANALYST CERTIFICATION

I, Pierre Maccagno, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.



MEMC ELECTRONIC MATERIALS INC

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
04-Sep-2003	12.97	BUY	04-Sep-2003	12.97	17.00

	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
Strong Buy	10%	45%
Buy	53	26
Hold	31	10
Under Perform	2	0
Rating Suspended	0	0
Restricted	2	63
Under Review	<1	0

Needham & Company, Inc. (the Firm) employs a rating system based on the following (Effective July 1, 2003):

Strong Buy: A security, which at the time the rating is instituted, indicates an expectation of a total return of at least 25% over the next 12 months.

Buy: A security, which at the time the rating is instituted, indicates an expectation of a total return between 10% and 25% over the next 12 months.

Hold: A security, which at the time the rating is instituted, indicates an expectation of a total return of +/- 10% over the next 12 months.

Underperform: A security, which at the time the rating is instituted, indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review: Stocks may be placed UR by the analyst, indicating that the stock rating and/or price target are subject to possible change in the near term, usually in response to an event that may effect the investment case or valuation.

Rating Suspended: Needham & Co. has suspended the rating and/or price target, if any, for this stock, because there is not a sufficient fundamental basis for determining a rating or price target. The previous rating and price target, if any, are no longer in effect and should not be relied upon.

Restricted: Needham & Co. policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Needham & Co.'s engagement in an investment banking transaction and in certain other circumstances.

For disclosure purposes (in accordance with NASD requirements), we note that our Strong Buy and Buy ratings most closely correspond to a "Buy" recommendation. When combined, 64% of companies under coverage would have a "Buy" rating and 29% have had investment banking services provided within the past 12 months; Hold mostly correspond to a "Hold/ Neutral" recommendation; while our Underperform rating closely corresponds to the Sell recommendation required by the NASD.

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price appreciation may not correspond to the stated 12-month price target. For valuation methods used to determine our price targets and risks related to our price targets, please contact your Needham & Co. salesperson for a copy of the most recent research report on the company you are interested in.

To review our Rating system prior to July 1, 2003 please refer to the following link:

http://www.needhamco.com/Research_Disclosure.asp

Stock price charts and rating histories for companies under coverage and discussed in this report are available at <http://www.needhamco.com/>. You may also request this information by writing to: Needham & Co., 445 Park Ave, 15th Floor (Attn: Compliance/Research), NY, NY 10022

The following disclosures (as listed by letter on the cover page) apply to the securities discussed in this research report:

- "A" The research analyst and/or research associate (or household member) has a financial interest in the securities of the covered company (i.e., a long position consisting of common stock).
- "B" The research analyst and research associate have received compensation based upon various factors, including quality of research, investor client feedback, and the Firm's overall revenues, which includes investment banking revenues.
- "C" The Firm has managed or co-managed a public offering of securities for the subject company in the past 12 months.
- "D" The Firm and/or its affiliate has received compensation for investment banking services from the subject company in the past 12 months.
- "E" The Firm and/or its affiliate expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
- "F" The analyst or a member of the analyst's household serves as officer, director or advisory board member of the covered company.
- "G" The Firm, at the time of publication, makes a market in the subject company.
- "H" The Firm, and/or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company.
- "I" The analyst has received compensation from the subject company in the last 12 months
- "J" The subject company currently is, or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received investment banking services.
- "J1" The subject company currently is, or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received non-investment banking securities related services
- "J2" The subject company currently is, or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received non-securities related services.
- "K" Our affiliate has received compensation for products and services other than investment banking services from the subject company in the past 12 months

This report is for informational purposes only and does not constitute a solicitation or an offer to buy or sell any securities mentioned herein. Information contained in this report has been obtained from sources believed to be reliable, but Needham & Company, Inc. makes no representation as to its accuracy or completeness, except with respect to the Disclosure Section of the report. Any opinions expressed herein reflect our judgment as of the date of the materials and are subject to change without notice. The securities discussed in this report may not be suitable for all investors and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. Investors must make their own investment decisions based on their financial situations and investment objectives. The value of income from your investment may vary because of changes in interest rates, changes in the financial and operational conditions of the companies and other factors. Investors should be aware that the market price of securities discussed in this report may be volatile. Due to industry, company and overall market risk and volatility, at the securities current price, our investment rating may not correspond to the stated price target. Additional information regarding the securities mentioned in this report is available upon request. (c)

Copyright 2005, Needham & Company, Inc., Member NASD, SIPC.