Zacks Small-Cap Research

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Tower Semiconductor (NASDAQ: TSEM)

TSEM: Deal to Be Acquired By Intel is Terminated; Tower will Receive a $353 Million as a Termination Fee Immediately

Based on a peer multiple of 14.3 times 2024 estimated EPS TSEM stock is worth at least $34 per share

Current Price (8/16/2023)	$30.82
Valuation	**$34.00**

OUTLOOK

The deal to be acquired by Intel in an all-cash deal at $53 per share has been terminated because it did not get permission from China. Tower will receive a $353 million break-up fee. It now has $1 billion in net cash. Tower is a pure-play analog semiconductor wafer foundry that manufactures SiGe, MEMS, RF, embedded flash-based memory, analog/mixed-signal, and CMOS image-sensor devices in the US, Israel, and Japan. It is serving markets in mobile such as RF High Position analog, as well as in CMOS image sensors, and power management. It also added a new fab in Italy in partnership with STMicro.

SUMMARY DATA

52-Week High	**47.86**
52-Week Low	**30.00**
One-Year Return (%)	**-30**
Beta	**0.9**
Average Daily Volume (sh)	**1,318,347**
Shares Outstanding (mil)	**110.0**
Market Capitalization ($mil)	**$3,390**
Short Interest Ratio (days)	**1.8**
Institutional Ownership (%)	**56**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**6.7**
Earnings Per Share (%)	**13.4**
Dividend (%)	**N/A**
P/E using TTM EPS	**12.2**
P/E using 2023 Estimate	**13.8**
P/E using 2024 Estimate	**13.1**

Risk Level	**Average**
Type of Stock	**Large Blend**
Industry	**Elec Comp-Semis**

ZACKS ESTIMATES

Revenue
(In millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$347 A	$362 A	$387 A	$393 A	$1,508 A
2022	$421 A	$426 A	$427 A	$403 A	$1,668 A
2023	$356 A	$357 A	$361 E	$361 E	$1,435 E
2024					$1,500 E

Earnings per Share
(non-GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$0.31 A	$0.34 A	$0.41 A	$0.55 A	$1.61 A
2022	$0.55 A	$0.58 A	$0.72 A	$0.69 A	$2.52 A
2023	$0.60 A	$0.52 A	$0.53 E	$0.55 E	$2.21 E
2024					$2.35 E

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WHAT'S NEW

The Acquisition of Tower By Intel Has Been Terminated

The acquisition of Tower by Intel has been terminated Tower will receive $353 million in cash from Intel as a breakup fee. We have adjusted our model accordingly by adding $353 million to other income in the third quarter and upping interest income going forward. We have used 20% as the tax rate for Q3 just as a guess. We do not know what Tower will do with the new cash, but if it were to just buy one month US T-bills, it could generate 5% or $17.6 million a year in interest income. We have also added a 2024 estimate although the company has not yet given no guidance on that year. Between now and its Q3 report, we expect that Tower will hold a catch-up call with analysts to provide historical information that has not been provided since the deal was announced. At that time, we will get further insight into capacity utilization, segment performance, and future plans.

Balance Sheet

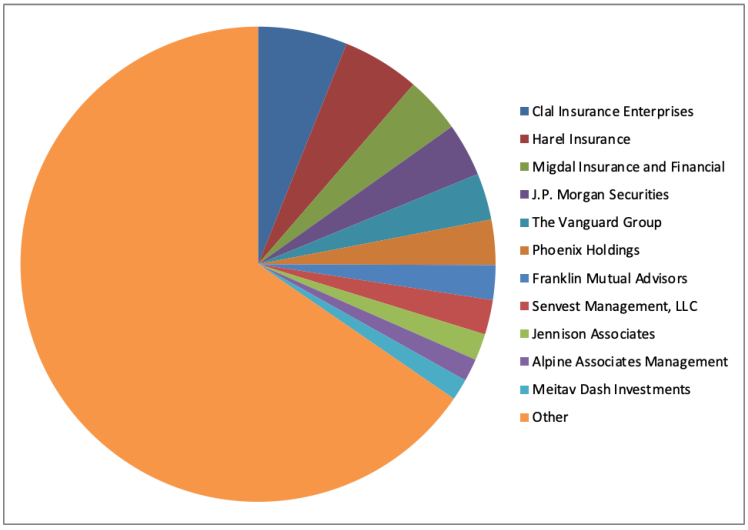
On June 30th, the company had cash, short-term deposits, and marketable securities of $914 million. With the additional $353 million and regular positive cash flow, that is now over $1.27 billion. Debt at the end of June was $220 million. Free cash flow last quarter was $26 million after spending $89 million on cap ex in the quarter, net of machinery and equipment sales from the Arai fab.

VALUATION

With the incremental $353 million, TSEM trades at an enterprise value of $2.4 billion, or 1.7 times EV to estimated sales for 2023 versus its peers who trade at 4.3 times. At 4.3x sales Tower's market cap would be $6.2 billion or $55.50 per share. The average of the two comps trade at a PE of 12.4 times 2023 EPS and 14.3 times 2024 EPS. At that multiple TSEM stock would be worth $34.00 per share.

Foundry Companies	Ticker	EPS 23E	EPS 24E	Price	PE 2023E	PE 2024E	Growth Rate	Sales 2023E	EV/Sales	EV
Company										
Taiwan Semiconductor	TSM	4.95	6.07	92.47	18.7	15.2	22.6%	66.71	6.93	462.0
United Microelectronics	UMC	0.69	0.71	6.80	9.9	9.6	2.9%	7.39	1.73	12.8
Average					14.3	12.4			4.3	

OWNERSHIP



INCOME STATEMENT

	March Q1 22	June Q2 22	Sept Q3 22	Dec Q4 22	March Q1 23	June Q2 23	Sept Q3 23E	Dec Q4 23E	2021	2022	2023E	2024E
REVENUE	421.1	426.2	427.1	403.2	355.6	357.2	360.8	361.0	1,508.2	1,677.6	1,434.6	1,500.0
Yr-to-yr Gr.	21%	18%	10%	-2%	-16%	-16%	-16%	-10%		11%	-14%	5%
OPERATING EXPENSES												
Cost of goods sold	316.5	313.7	302.6	278.5	259.9	270.7	272.3	268.9	1,179.0	1,211.3	1,071.8	1,103.2
Gross Margin	104.6	112.4	124.5	124.7	95.7	86.5	88.5	92.1	329.1	466.3	362.8	396.8
% of Sales	24.8%	26.4%	29.2%	30.9%	26.9%	24.2%	24.5%	25.5%	21.8%	27.8%	25.3%	26.5%
R&D	20.3	20.5	22.4	20.7	19.3	19.5	20.2	20.8	85.4	83.9	79.8	86.0
M, G&A	21.3	21.3	18.9	18.9	18.6	17.4	18.0	18.5	77.2	80.3	72.5	74.0
One-time charges	0.0	0.0	4.0	(13.6)	(31.7)	(0.9)	0.0	0.0	0.0	(9.6)	(32.5)	0.0
Tot Operating Exp.	41.6	41.8	45.3	26.0	6.3	36.0	38.2	39.3	162.6	154.6	119.8	160.0
Operating Income	63.1	70.7	79.2	98.7	89.4	50.5	50.3	52.8	166.5	311.7	243.0	236.8
Operating Margin	15.0%	16.6%	18.5%	24.5%	25.1%	14.1%	13.9%	14.6%	11%	19%	17%	16%
Yr-to-yr Gr.	94%	108%	79%	77%	42%	-29%	-37%	-47%		68%	-9%	-7%
Interest & other non-cash financing	(2.1)	(8.2)	(9.4)	(0.1)	7.0	3.9	4.0	4.0	(11.4)	(19.7)	18.9	24.0
Other income	0.0	0.0	0.0	0.0	0.0	0.0	353.0	0.0	0.0	0.0	353.0	0.0
Gain from acqusiition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	60.9	62.5	69.9	98.7	96.4	54.5	407.3	56.8	155.1	292.0	614.9	260.8
Profit margin	14.5%	14.7%	16.4%	24.5%	27.1%	15.2%	112.9%	15.7%	10.3%	17.4%	42.9%	17.4%
Taxes	(5.2)	(4.3)	(3.2)	(12.8)	(15.0)	(5.7)	(81.5)	(5.1)	(1.0)	(25.5)	(107.4)	(15.6)
Tax Rate	8.5%	6.9%	4.5%	13.0%	15.6%	10.6%	20.0%	9.0%	0.7%	8.7%	17.5%	6.0%
Profit before non-controlling	55.8	58.2	66.7	85.8	81.4	48.7	325.8	51.6	154.1	266.5	507.5	245.1
Minority Income	(1.7)	(0.1)	2.5	(2.5)	(10.0)	2.5	2.5	2.5	(4.1)	(1.9)	(2.5)	(8.0)
GAAP Net income	54.0	58.1	69.1	83.3	71.4	51.2	328.3	54.1	150.0	264.6	505.0	237.1
Yr-to-yr Gr.	91%	88%	77%	61%	32%	-12%	375%	-35%		76%	91%	58%
Non-GAAP Net Income	60.3	64.1	80.2	76.7	62.0	57.9	64.3	61.7	177.1	279.2	245.8	261.1
GAAP primary EPS	$0.50	$0.53	$0.63	$0.76	$0.65	$0.47	$2.98	$0.49	$1.39	$2.42	$4.58	$2.14
Fully diluted GAAP EPS	$0.49	$0.53	$0.62	$0.75	$0.64	$0.46	$2.95	$0.49	$1.37	$2.39	$4.54	$2.13
Adj Non-GAAP EPS-Fully dil.	**$0.55**	**$0.58**	**$0.72**	**$0.69**	**$0.60**	**$0.52**	**$0.53**	**$0.55**	**$1.61**	**$2.52**	**$2.21**	**$2.35**
Yr-to-yr Gr.	78%	70%	76%	25%	10%	-10%	-27%	-20%		56%	-12%	6%
Primary Share Out	108.9	109.1	109.4	109.9	110.0	110.0	110.3	110.6	108.3	109.3	110.2	110.6
Fully Diluted GAAP	110.5	110.6	110.8	110.9	111.1	111.2	111.2	111.2	109.8	110.8	111.2	111.2
EBITDA	**133.6**	**137.6**	**157.6**	**161.5**	**120.7**	**119.2**	**-151.7**	**122.3**	**436.5**	**590.4**	**210.5**	**485.2**
EBITDA Margin	32%	32%	37%	40%	34%	33%	-42%	34%	29%	35%	15%	32%
Yr-to-yr Gr.	41%	39%	39%	24%	-10%	-13%	-196%	-24%		22%	-64%	131%

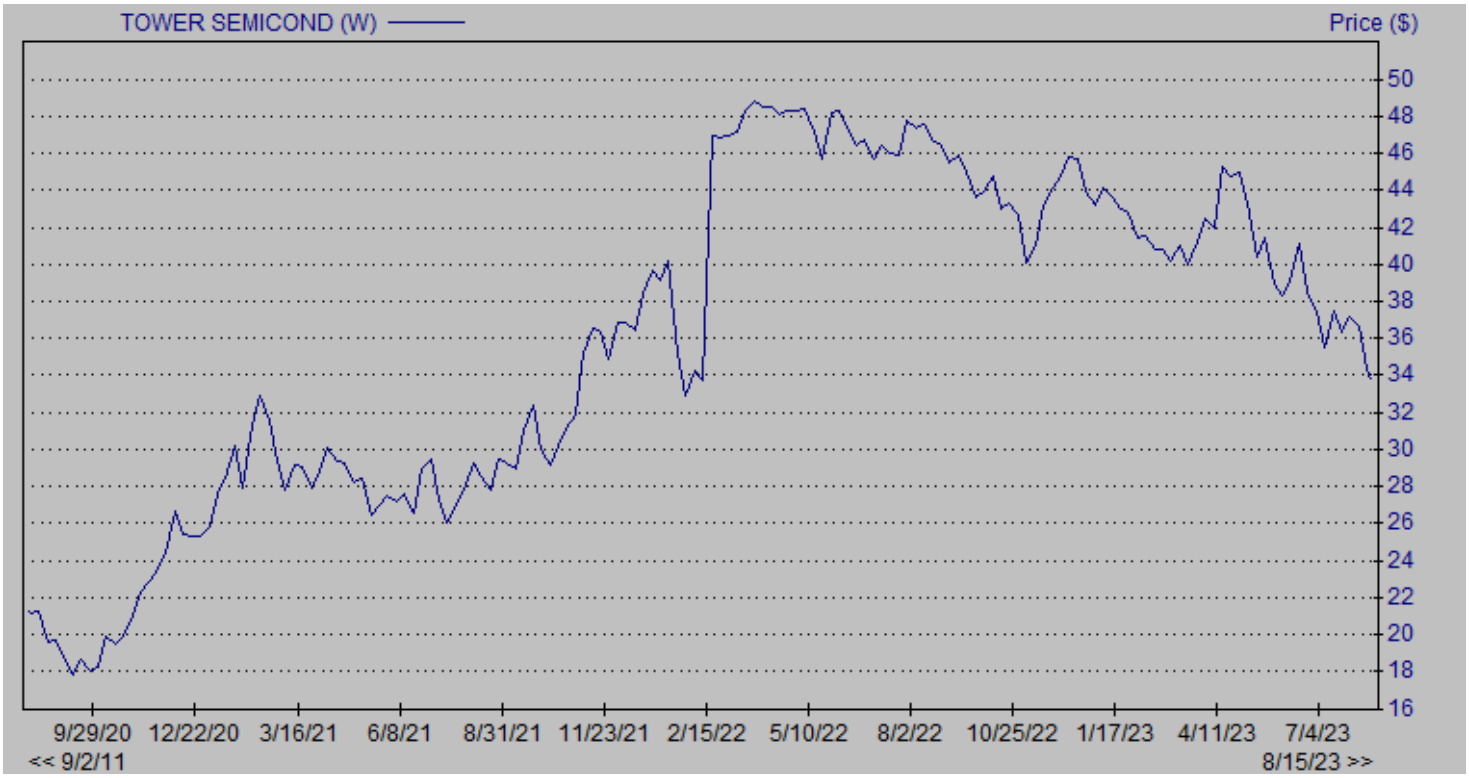
BALANCE SHEET

$ in thousands	June 30, 2023	Mar 31, 2023	Qtr-Qtr % Change	June 30, 2022	Yr-Yr % Change
CURRENT ASSETS					
Cash and cash equivalents	**$318,195**	**$304,934**	4.3%	**$211,177**	50.7%
Short term deposits	**419,520**	**469,284**	-10.6%	**468,298**	-10.4%
Marketable securities	**175,872**	**171,747**	2.4%	**176,487**	-0.3%
Trade accounts receivable	163,293	144,195	13.2%	170,552	-4.3%
Inventories	330,819	358,715	-7.8%	249,038	32.8%
Other current assets	32,396	35,416	-8.5%	43,253	-25.1%
Total current assets	1,440,095	1,484,291	-3.0%	1,318,805	9.2%
LONG-TERM INVESTMENTS	0	0		26,544	-100.0%
PROPERTY AND EQUIPMENT, NET	1,018,636	1,009,632	0.9%	878,991	15.9%
GOODWILL & INTANGIBLE ASSETS, NET	13,049	13,540	-3.6%	16,217	-19.5%
DEFERRED TAX & OTHER ASSETS, NET	62,288	69,623	-10.5%	83,866	-25.7%
TOTAL ASSETS	2,534,068	2,577,086	-1.7%	2,324,423	9.0%
CURRENT LIABILITIES					
Short term debt	**41,300**	**42,224**	-2.2%	**79,535**	-48.1%
Trade accounts payable	154,507	191,006	-19.1%	127,762	20.9%
Deferred revenue	22,402	30,268	-26.0%	38,632	-42.0%
Other current liabilities	83,631	90,637	-7.7%	100,246	-16.6%
Total current liabilities	301,840	354,135	-14.8%	346,175	-12.8%
LONG-TERM DEBT	**178,865**	**201,445**	-11.2%	**200,733**	-10.9%
LONG-TERM CUSTOMERS' ADVANCES	31,209	34,066	-8.4%	60,600	-48.5%
EMPLOYEE RELATED LIABILITIES	0	0	0.0%	13,962	-100.0%
DEFERRED TAX LIABILITY	11,057	11,188	-1.2%	14,403	-23.2%
Total liabilities	522,971	600,834	-13.0%	635,873	-17.8%
SHAREHOLDERS' EQUITY	2,011,105	1,976,252	1.8%	1,688,550	19.1%
TOTAL LIABILITIES AND EQUITY	$2,534,076	$2,577,086	-1.7%	$2,324,423	9.0%
Current Ratio	4.8	4.2	13.8%	3.8	25.2%
Quick Ratio	3.7	3.2	15.6%	3.1	18.9%
Working Capital	1,138,255	1,130,156	0.7%	972,630	17.0%
Debt Percent of Assets	9%	9%	-8.1%	12%	-27.9%
Debt to Equity	0.1	0.1	-11.2%	0.2	-34.0%
Cash and equivalents	913,587	945,965	-3.4%	855,962	6.7%
Cash and equivalents per share	$8.31	$8.60	-3.5%	$7.84	5.9%
Debt	220,165	243,669	-9.6%	280,268	-21.4%
Change in cash	(32,378)	(59,847)	-45.9%	65,066	-149.8%
Change in debt	(23,504)	(28,675)	-18.0%	11,720	-300.5%

CASH FLOW

	Year 2020	Year 2021	3-Mo 31-Mar-22	3-Mo 30-Jun-22	3-Mo 30-Sep-22	3-Mo 31-Dec-22	Year 2022	3-Mo 31-Mar-23	3-Mo 30-Jun-23
CASH FLOWS - OPERATING ACTIVITIES									
Net profit (loss)	$ 83,289	$ 154,075	$ 55,774	$ 58,173	$ 66,682	$ 85,842	$ 266,471	$ 81,368	$ 48,706
Income and non-cash expense items:									
Depreciation and amortization	240,531	270,710	70,780	67,007	74,958	79,893	292,638	62,387	63,579
Effect of fair value measurement on debt	6,645	1,138	(1,330)	2,276	104	9,312	10,362	(926)	3,102
Other expense (income), net	5,215	(1,461)	1,347	560	7,950	(2,923)	6,934	815	(149)
Changes in assets and liabilities:									
Trade accounts receivable	(33,087)	14,335	(35,181)	3,578	3,991	12,380	(15,232)	7,413	(21,241)
Other assets	(7,999)	(26,731)	13,874	(3,355)	527	9,381	20,427	(1,138)	2,114
Inventories	(2,891)	(44,192)	(18,328)	(10,630)	(25,510)	(23,423)	(77,891)	(57,420)	16,315
Trade accounts payable	(18,576)	(25,004)	30,595	22,415	(15,951)	(57,952)	(20,893)	44,542	(24,712)
Deferred revenue and customers' advances	(3,072)	74,524	3,385	(14,031)	(16,906)	(2,517)	(30,069)	(15,470)	(10,723)
Other current liabilities	347	16,850	15,103	10,974	20,725	14,231	61,033	(45,053)	(5,479)
Employee related liabilities	3,936	(2,681)	331	26	(220)	2,819	2,956	371	267
Deferred tax liability, net	2,223	(10,270)	221	1,104	6,052	5,707	13,084	(4,162)	3,715
Net cash provided by operating activities	**276,561**	**421,293**	**136,571**	**138,097**	**122,402**	**132,750**	**529,820**	**72,727**	**75,494**
CASH FLOWS - INVESTING ACTIVITIES									
Investments in property and equipment, net	**(256,539)**	**(279,260)**	**(80,840)**	**(49,377)**	**(45,134)**	**(38,186)**	**(213,537)**	**(105,245)**	**(89,433)**
Interest bearing deposits, including designated deposits	(107,070)	(59,684)	(29,611)	(65,134)	129,257	(150,423)	(115,911)	24,194	42,615
Net cash provided by (used in) investing activities	(363,609)	(338,944)	(110,451)	(114,511)	84,123	(188,609)	(329,448)	(81,051)	(46,818)
CASH FLOWS - FINANCING ACTIVITIES									
Exercise of warrants and options	2,512	458	44	0	5,469	(5,469)	44	0	0
Debt repayment	(63,699)	(77,315)	(30,539)	(8,211)	(28,164)	(11,465)	(78,379)	(28,796)	(10,093)
Proceeds from investment in subsidiary	0	0	0	0	0	11,685	11,685	1,932	0
Net cash used in financing activities	(61,187)	(76,857)	(30,495)	(8,211)	(22,695)	(5,249)	(66,650)	(26,864)	(10,093)
Effect of foreign exchange rate change	4,357	(6,245)	(3,071)	(7,682)	(4,638)	11,498	(3,893)	(637)	(5,322)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(143,878)	(753)	(7,446)	7,693	179,192	(49,610)	129,829	(35,825)	13,261
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	355,561	211,683	210,930	203,484	211,177	390,369	210,930	340,759	304,934
CASH AND CASH EQUIVALENTS - END OF PERIOD	211,683	210,930	203,484	211,177	390,369	340,759	340,759	304,934	318,195
Operating Cash Flow	$ 335,680	$ 424,462	$ 126,571	$ 128,016	$ 149,694	$ 172,124	$ 576,405	$ 143,644	$ 115,238
Free cash flow	$ 79,141	$ 145,202	$ 45,731	$ 78,639	$ 104,560	$ 133,938	$ 362,868	$ 38,399	$ 25,805

HISTORICAL STOCK PRICE



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