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Tower Semiconductor (NASDAQ: TSEM)

TSEM: Tower Semiconductor Becomes Noticed as a Play in AI Data Center Infrastructure

Using 8.5 times EV to Sales, we believe TSEM stock is worth $130 per share using 2026 revenues as growth returns and margins expand. The company is flush with $1.2 billion in cash, with which it is increasing capacity.

Current Price (11/10/2025)	$98.10
Valuation	**$130.0**

OUTLOOK

Tower is a pure-play analog semiconductor wafer foundry that manufactures SiGe, Silicon Photonics, MEMS, RF, embedded flash-based memory, analog/mixed-signal, and CMOS image-sensor devices in the US, Israel, Japan and Italy. It is serving markets in mobile such as RF High Position analog, as well as in CMOS image sensors, and power management. Its new fab in Italy in partnership with STMicro is shipping product and its capacity will continue to ramp over the next two years. The company's new Silicon Photonics products are seeing strong demand in optical transceivers used in AI data centers. The company is flush with $1.2 billion in cash (or $10.91 per share), is free cash flow positive while increasing capacity.

SUMMARY DATA

52-Week High	**98.10**
52-Week Low	**29.65**
One-Year Return (%)	**110.3**
Beta	**0.9**
Average Daily Volume (sh)	**1,389,109**
Shares Outstanding (mil)	**112**
Market Capitalization ($mil)	**$11,000**
Short Interest Ratio (days)	**1.2**
Institutional Ownership (%)	**71**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.6**
Earnings Per Share (%)	**20.1**
Dividend (%)	**N/A**
P/E using TTM EPS	**47.0**
P/E using 2025 Estimate	**45.6**
P/E using 2026 Estimate	**38.0**

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)
2023	$356 A	$357 A	$358 A	$352 A	$1,423 A
2024	$327 A	$351 A	$371 A	$387 A	$1,436 A
2025	$358 A	$372 A	$396 A	$440 E	$1,566 E
2026					$1,750 E

Earnings per Share
(non-GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023	$0.60 A	$0.52 A	$0.54 A	$0.55 A	$2.17 A
2024	$0.46 A	$0.53 A	$0.57 A	$0.59 A	$2.15 A
2025	$0.45 A	$0.50 A	$0.55 A	$0.69 E	$2.15 E
2025					$2.58 E

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WHAT'S NEW

Tower Can Sell As Much Silicon Photonics Product as it Can Produce

Tower continued year-over-year and sequential revenue growth in its just-reported Q3 2025, (growing 7%) i, but what has investors excited is that they now see Tower as a play on data centers for AI. The company produces Silicon Photonics products used in optical transceivers, which transmit data in data centers at light speed. This technology is being produced for 400G, 800G, and increasingly 1.6T speeds as data centers seek to reduce costs and power consumption while increasing throughput. While still a small part of overall revenues, Silicon Photonics (SiPh) is ramping quickly as new capacity comes onstream. This product line currently has excess demand, and sales are gated only by Tower's ability to produce. To increase capacity, yesterday Tower pledged to spend an additional $300 million to speed up capacity expansion and next-generation capabilities in its Fab 3, Fab 9, Fab 2, and Fab 7. This investment is targeted to achieve full volume in wafer starts in the second half of 2026. The resultant capacity should increase its SiPh shipment by over 3X against its targeted Q4 2025 qualified utilized capacity. SiPh contributed $105 million in revenues in 2024, and management now expects it to more than double in 2025. By the end of 2026, it expects to have tripled its capacity for SiPh, which will result in higher revenues primarily in 2027.

For Q4, Tower guided to revenues of $440 million plus or minus 5%, which results in accelerating year-over-year growth. Despite much discussion, the company has seen no effect on business due to current or pending US or reciprocal tariffs. Very little, if any, of Tower's revenues comes from products shipped into the US; most are shipped elsewhere in Asia for final assembly into end-user devices. In the meantime, Tower is increasing capacity in its US fabs.

As of last night's closing, price, the company trades at an enterprise value of $9.9 billion, or 5.7 EV to estimated sales for 2026. Since its low at $28.54 on April 4, 2025, the stock has rocketed 244%.

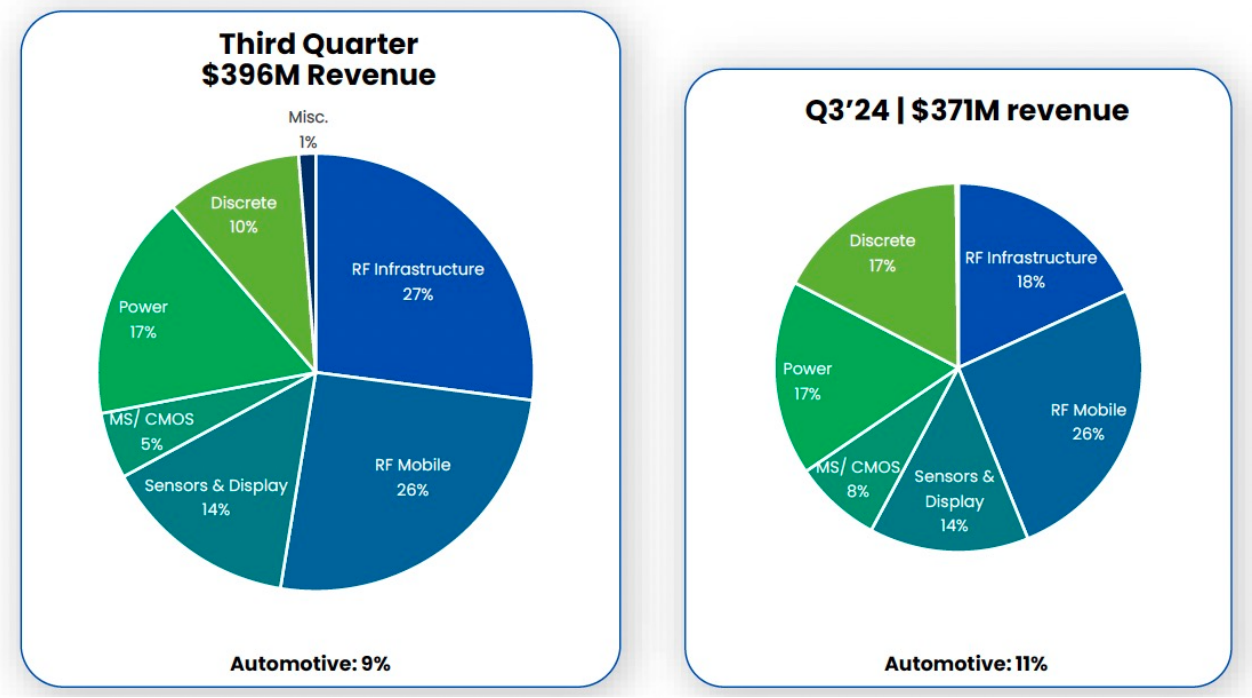
Q3 2025 Results

The biggest revenue contribution in the quarter came from RF infrastructure, surpassing RF Mobile. In Q3, RF Infrastructure grew 60% to $107 million and is expected to show growth of 75% for the year. SiPh was $52 million of that and grew 70% over last year. While these are big growth rates, the dollar amount is still small compared to overall revenues. As they become a bigger portion of total revenues, growth should accelerate.

Table 1. Dollars of Revenue by Technology in Millions

	Q3 2024	Q3 2025	Yr -Yr % Change	$ Change
Total	370.5	395.7	6.8%	25.2
RF Infrastructure	66.7	106.8	60.2%	40.1
RF Mobile	96.3	102.9	6.8%	6.5
Power	63.0	67.3	6.8%	4.3
Sensors and Displays	51.9	55.4	6.8%	3.5
Discrete	63.0	39.6	-37.2%	-23.4
MS/CMOS	29.6	19.8	-33.3%	-9.9

Chart 1. Q3 Revenue Breakdown by Technology



Source: Tower Semiconductor

Fab utilization is improving. There is a gap in our table below as the company did not report numbers right before and during the acquisition attempt by Intel. Tower has now shut down Fab 1 and moved the remaining production to Fab 2. Fabs 2 and 9 are being repurposed for SiPho. Fab 3 capacity is being expanded. Revenues began at the Agrate fab in Q4 2024 and will continue to ramp up for the next two years. It has not reported utilization.

Table 1. Fab Capacity Utilization

		Q1 2021	NA	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Fab 1	Migdal Haemek, Israel 6"	70%		70%	55%	60%	65%	75%	85%	70%	65%	0%	0%
Fab 2	Migdal Haemek, Israel 8"	80%		75%	75%	75%	75%	67%	60%	55%	80%	60%	65%
Fab 3	Newport Beach, CA 8" TPSCo factories	75%		40%	40%	40%	45%	55%	65%	70%	70%	85%	85%
Fab 5	Japan 8"	70%		70%	60%	40%	40%	45%	60%	60%	65%	75%	75%
Fab 7	Uozo Japan 12"	90%		75%	60%	70%	75%	85%	85%	90%	90%	90%	90%
Fab 9	San Antonio, 8"	70%		65%	65%	70%	60%	60%	60%	55%	70%	60%	60%
	Quarterly Average Utilization	76%		66%	59%	59%	60%	65%	69%	67%	73%	62%	63%

Q3 2025 Results

Revenues in Q3 2025 were $396 million versus $371 million in Q3 2024 and were up 7% year over year. The gross margin in Q3 2025 decreased to 23.5%, from 25.1% a year earlier, but was up from 21.5% in Q2 2025. During the fourth quarter of 2024, the company first took on its portion of the incremental costs of the greenfield Agrate facility, and that is again reflected in the decline in gross margin this quarter. The lengthened lease in Newport Beach will also slightly affect gross margin going forward. Gross margin dollars were almost flat with last year.

Operating expenses were up $5.2 million year over year. The operating margin was 12.8% and operating income declined $5.2 million. Other income was $10.5 million compared to $6.1 million in last year's quarter. The company expects it to typically fluctuate between $8 million and $10 million per quarter.

Pretax profit was $61.1 million versus $61.9 million a year ago. Taxes were $7.6 million in the quarter, or a tax rate of 12.5%. GAAP net income was $53.6 million versus $54.6 million last year, while non-GAAP net income was $62.7 million versus $63.7 million a year ago, down 1.6%.

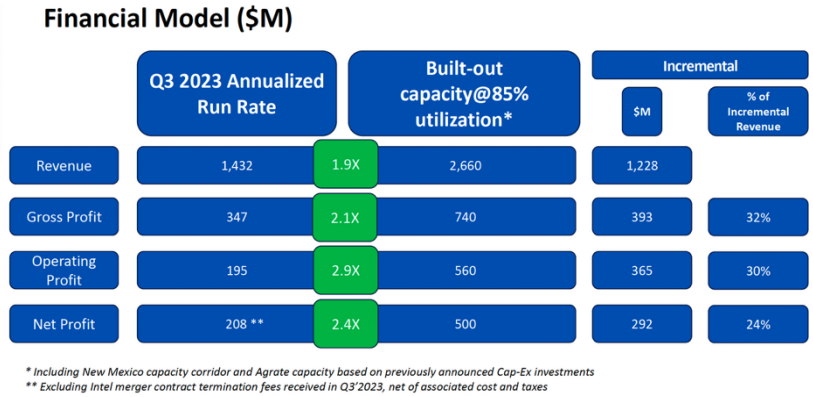
Diluted GAAP EPS was $0.47 per share, compared with $0.49 last year. Adjusted non-GAAP diluted EPS was $0.55, down from $0.57 a year ago. The average diluted shares for the quarter were 113.8 million, up from 112.5 million last year. EBITDA for the third quarter of 2025 was $127.0 million compared to $120.8 million a year ago, and up sequentially from $114.5 million in Q2 2025.

Balance Sheet

As of September 30th, the company had cash and short-term deposits of $1.2 billion, or $10.91 in cash per share. We estimate it is earning between 4.0% and 4.5% on about $800 million of that amount. Total debt decreased by $12 million to $164 million from the last quarter. Its quick ratio was flat at 5.5, and it has $1.5 billion in working capital. Operating cash flow, excluding changes in working capital, was $130 million for the quarter. Free cash flow was $26 million for the quarter after spending a net $103 million on capex in the quarter. Capex expenditures are expected to increase. Maintenance Capex is $200-$240 million per year; Tower is spending another $100 million on Agrate this year and $255 million in New Mexico, spread in installments through 2026. In addition, the company announced it will spend another $300 million to expand capacity for SiPho and SiGe in Israel, Texas, and Japan until the end of 2026. Also, Tower is extending its Newport Beach, California (Fab 3) site lease and will invest to expand capacity there while maintaining full utilization. This heavy spending could put the company in negative free cash flow territory for the next year or two, although so far, that has not happened.

Target Business Model

During the Q3 2023 conference call, management showed a business model reflecting investments in new capacity, which it still deems valid. Incremental revenues come in at above 50% gross margin. Through operating leverage, this incremental gross margin should translate into 24% net margins. So, as shown at 85% capacity utilization, revenues would increase by 86% to $2.66 billion and net income by 140% to $500 million. During the company's Q3 2025 earnings call, the company announced an additional investment of $300 million to accelerate reaching the target model shown below.



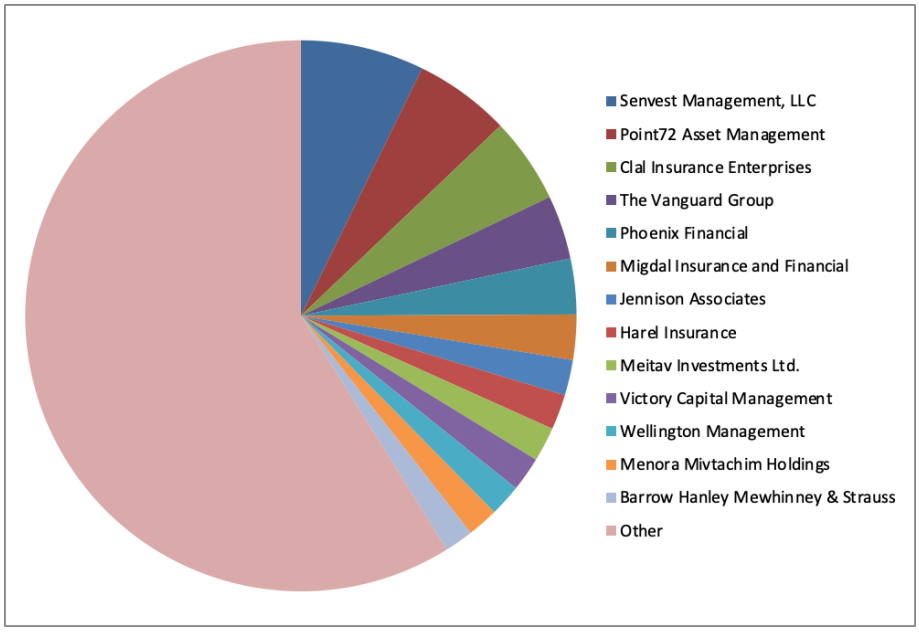
Source: Tower Semiconductor

VALUATION

TSEM trades at an enterprise value of $9.9 billion, or 5.7 EV to estimated sales for 2026, less than its peers, who trade at an average of 5.3x. However, if we look at the components of that average, we see they diverge, with SMIC and Taiwan Semiconductor averaging 8.5x, while slower-growing Global Foundries and United Microelectronics are under 3.0x. At 8.5xs, TSEM stock would be worth approximately $130 per share using 2026 revenues.

Foundry Companies	Ticker	EPS 25E	EPS 26E	Price	PE 2025E	PE 2026E	Growth Rate	PE/Growth	Sales 2026E	EV/Sales	EV
Company											
GLOBALFOUNDRIES	GFS	1.62	2.02	34.62	21.4	17.1	24.7%	0.9	7.3	2.4	18
SMIC	0981.HK	0.09	0.13	9.35	106.0	74.4	42.4%	2.5	11.0	9.0	99
Taiwan Semiconductor	TSM	10.35	12.44	295.27	28.5	23.7	20.2%	1.4	150.0	7.9	1,180
United Microelectronics	UMC	0.54	0.53	7.43	13.8	14.0	-1.9%	-	7.4	9.0	1.9	17
Average					42.4	32.3		-0.7	44.3	5.3	328

OWNERSHIP



INCOME STATEMENT

	March Q1 24	June Q2 24	Sept Q3 24	Dec Q4 24	March Q1 25	June Q2 25	Sept Q3 25	Dec Q4 25E	2023	2024	2025E	2026E
REVENUE	327.2	351.2	370.5	387.2	358.2	372.1	395.7	440.0	1,422.7	1,436.1	1,565.9	1,750.0
Yr-to-yr Gr.	-8%	-2%	3%	10%	9%	6%	7%	14%	-15%	1%	9%	12%
OPERATING EXPENSES												
Cost of goods sold	254.6	264.3	277.5	300.3	285.0	292.0	302.6	323.5	1,069.2	1,096.7	1,203.1	1,295.2
Gross Margin	72.6	86.9	93.1	86.9	73.2	80.0	93.0	116.5	353.5	339.4	362.8	454.8
% of Sales	22.2%	24.8%	25.1%	22.4%	20.4%	21.5%	23.5%	26.5%	24.8%	23.6%	23.2%	26.0%
R&D	20.0	19.0	19.9	20.6	20.2	19.4	22.1	22.1	79.8	79.4	83.7	88.2
M, G&A	18.7	19.1	17.4	19.8	20.1	20.7	20.4	21.0	72.5	75.0	82.3	84.0
One-time charges	0.0	(6.3)	0.0	0.0	0.0	0.0	0.0	0.0	(346.0)	(6.3)	0.0	0.0
Tot Operating Exp.	38.6	31.8	37.3	40.4	40.3	40.2	42.5	43.1	(193.7)	148.1	166.0	172.2
Operating Income	34.0	55.1	55.8	46.4	32.9	39.9	50.6	73.5	547.3	191.3	196.8	282.6
Operating Margin	10.4%	15.7%	15.0%	12.0%	9.2%	10.7%	12.8%	16.7%	38%	13%	13%	16%
Yr-to-yr Gr.	-59%	11%	-85%	-7%	-12%	-32%	-15%	39%	107%	-65%	-6%	28%
Interest & other non-cash financing	4.0	7.7	6.1	8.3	10.6	14.4	10.5	10.6	37.6	26.1	46.1	32.0
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	38.0	62.9	61.9	54.7	43.5	54.3	61.1	84.1	584.8	217.4	242.9	314.6
Profit margin	11.6%	17.9%	16.7%	14.1%	12.1%	14.6%	15.4%	19.1%	41.1%	15.1%	14.0%	14.0%
Taxes	5.1	(6.1)	(7.0)	(2.1)	(3.8)	(8.7)	(7.6)	(13.9)	(65.3)	(10.2)	(33.9)	(56.6)
Tax Rate	-13.4%	9.7%	11.4%	3.9%	8.7%	16.0%	12.5%	16.5%	11.2%	4.7%	14.0%	18.0%
Profit before non-controlling	43.0	56.8	54.8	52.6	39.7	45.6	53.4	70.2	519.5	207.2	209.0	258.0
Minority Income	1.6	(3.3)	(0.2)	2.6	0.4	1.0	0.2	(1.0)	(1.0)	0.6	0.0	0.0
GAAP Net income	44.6	53.4	54.6	55.1	40.1	46.6	53.6	69.2	518.5	207.9	209.0	258.0
Yr-to-yr Gr.	-37%	4%	-84%	2%	-10%	-13%	-2%	26%	96%	-60%	1%	23%
Non-GAAP Net Income	51.8	59.0	63.7	66.4	50.5	57.1	62.7	78.3	241.3	241.0	243.6	294.3
Yr-to-yr Gr.	-16%	2%	5%	9%	-3%	-3%	-2%	18%	-14%	0%	1%	21%
GAAP primary EPS	$0.40	$0.48	$0.49	$0.49	$0.36	$0.42	$0.48	$0.62	$4.70	$1.87	$1.87	$2.30
Fully diluted GAAP EPS	$0.40	$0.48	$0.49	$0.49	$0.35	$0.41	$0.47	$0.61	$4.66	$1.85	$1.85	$2.26
Adj Non-GAAP EPS-Fully dil.	**$0.46**	**$0.53**	**$0.57**	**$0.59**	**$0.45**	**$0.50**	**$0.55**	**$0.69**	**$2.17**	**$2.15**	**$2.15**	**$2.58**
Yr-to-yr Gr.	-23%	1%	4%	7%	-4%	-4%	-3%	17%	-14%	-1%	0%	20%
Primary Share Out	110.8	111.0	111.2	111.5	111.6	111.8	112.1	112.3	110.3	111.2	111.8	112.0
Fully Diluted GAAP	111.6	112.0	112.5	113.0	113.2	113.3	113.8	114.3	111.2	112.3	113.1	114.0
EBITDA	**100.7**	**126.3**	**120.8**	**122.4**	**107.1**	**114.5**	**127.0**	**148.5**	**508.7**	**448.8**	**497.1**	**582.6**
EBITDA Margin	31%	36%	33%	32%	30%	31%	32%	34%	36%	31%	32%	33%
Yr-to-yr Gr.	-9%	4%	-21%	-5%	-3%	-14%	-1%	7%	-14%	-12%	11%	17%

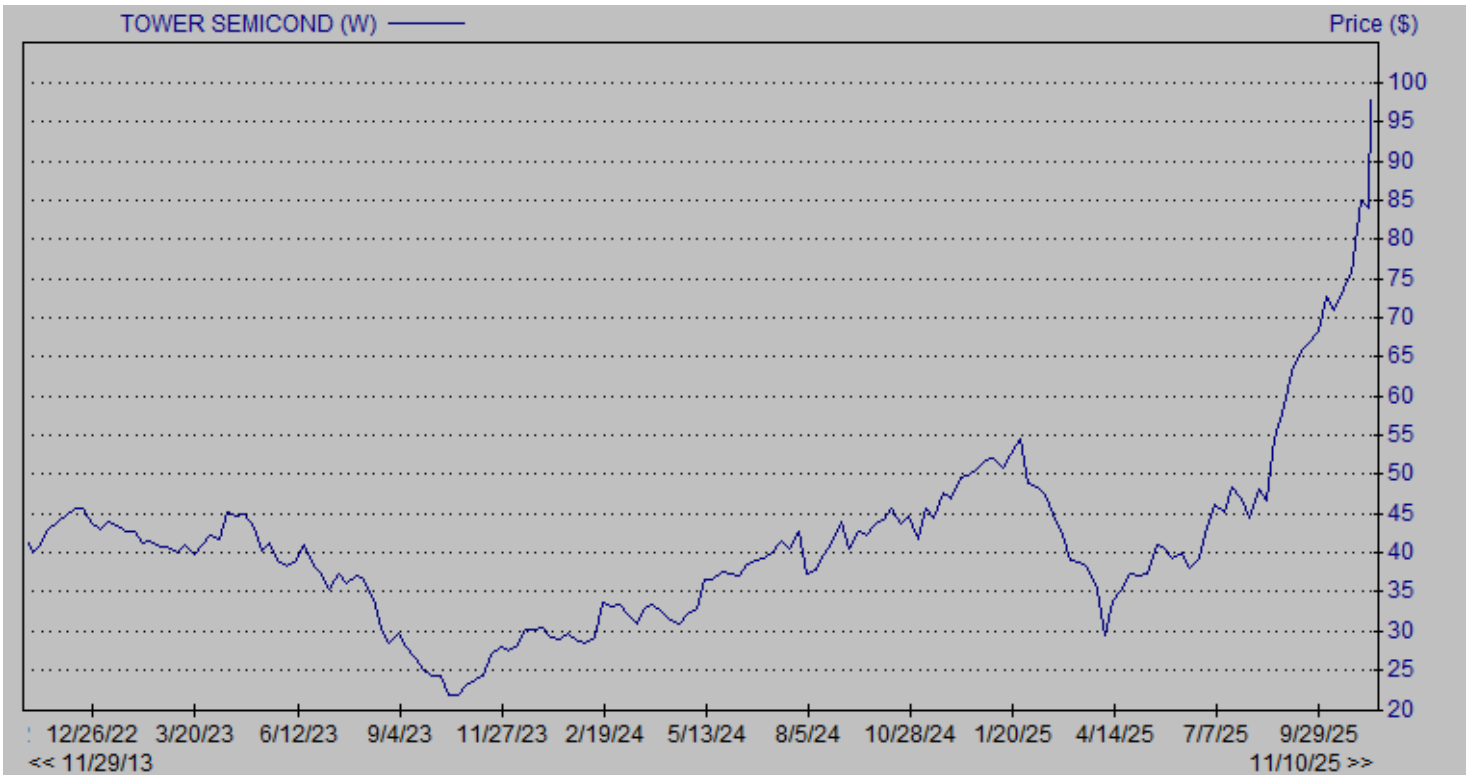
BALANCE SHEET

$ in thousands	Sept 30, 2025	June 30, 2025	Qtr-Qtr % Change	Sept 30, 2024	Yr-Yr % Change
CURRENT ASSETS					
Cash and cash equivalents	**$272,742**	**$265,293**	2.8%	**$270,979**	0.7%
Short term deposits	**950,560**	**942,310**	0.9%	**893,899**	6.3%
Marketable securities	**0**	**0**	0.0%	**40,137**	-100.0%
Trade accounts receivable	213,013	215,316	-1.1%	195,794	8.8%
Inventories	286,682	286,747	0.0%	272,377	5.3%
Other current assets	56,564	53,652	5.4%	41,104	37.6%
Total current assets	1,779,561	1,763,318	0.9%	1,714,290	3.8%
PROPERTY AND EQUIPMENT, NET	1,440,238	1,402,715	2.7%	1,295,243	11.2%
Other long-term assets	32,803	37,377	-12.2%	50,296	-34.8%
TOTAL ASSETS	3,252,602	3,203,410	1.5%	3,009,533	8.1%
CURRENT LIABILITIES					
Short term debt	**33,204**	**33,079**	0.4%	**61,694**	-46.2%
Trade accounts payable	131,906	135,686	-2.8%	129,703	1.7%
Deferred revenue	19,926	15,592	27.8%	27,935	-28.7%
Other current liabilities	84,206	83,964	0.3%	75,239	11.9%
Total current liabilities	269,242	268,321	0.3%	294,571	-8.6%
LONG-TERM DEBT	**130,883**	**143,018**	-8.5%	**131,614**	-0.6%
OTHER LONG-TERM LIABILITIES	19,895	17,634	12.8%	25,984	-23.4%
Total liabilities	420,020	428,973	-2.1%	452,169	-7.1%
SHAREHOLDERS' EQUITY	2,832,582	2,774,437	2.1%	2,607,660	8.6%
TOTAL LIABILITIES AND EQUITY	$3,252,602	$3,203,410	1.5%	$3,059,829	6.3%
Current Ratio	6.6	6.6	0.6%	5.8	13.6%
Quick Ratio	5.5	5.5	0.8%	4.9	13.3%
Working Capital	1,510,319	1,494,997	1.0%	1,419,719	6.4%
Debt Percent of Assets	5.0%	5.5%	-8.2%	6.4%	-21.5%
Debt to Equity	0.1	0.1	-8.7%	0.1	-21.9%
Cash and equivalents	1,223,302	1,207,603	1.3%	1,205,015	1.5%
Cash and equivalents per share	$10.91	$10.80	1.0%	$10.83	0.7%
Debt	164,087	176,097	-6.8%	193,308	-15.1%
Change in cash	15,699	26,339	-40.4%	(29,030)	-154.1%
Change in debt	(12,010)	13,772	-187.2%	5,228	-329.7%

CASH FLOW

	Year 2022	Year 2023	3-Mo 3/31/24	3-Mo 6/30/24	3-Mo 9/30/24	3-Mo 12/31/24	Year 2024	3-Mo 3/31/25	3-Mo 6/30/25	3-Mo 9/30/25
CASH FLOWS - OPERATING ACTIVITIES										
Net profit (loss)	$ 266,471	$ 519,530	$ 43,047	$ 56,750	$ 54,840	$ 52,585	$ 207,222	$ 39,717	$ 45,592	$ 53,446
Income and non-cash expense items:										
Depreciation and amortization	292,638	258,021	59,544	65,567	65,348	75,820	266,279	74,228	74,636	76,456
Effect of fair value measurement on debt	10,362	(1,632)	227	625	(425)	(294)	133	0	0	0
Other expense (income), net	6,934	(7,047)	5,993	0	6,289	12,439	24,721	558	3,559	(122)
Changes in assets and liabilities:										
Trade accounts receivable	(15,232)	(3,160)	(6,716)	(7,227)	(27,486)	(18,740)	(60,169)	(6,354)	4,972	1,853
Other assets	20,427	(9,541)	(13,454)	3,141	12,785	(36,464)	(33,992)	5,622	(5,002)	6,770
Inventories	(77,891)	8,682	(23,703)	17,744	14,093	(3,356)	4,778	(4,128)	(7,745)	(1,983)
Trade accounts payable	(20,893)	(8,254)	32,559	(19,741)	4,646	18,320	35,784	(11,114)	8,218	(6,516)
Deferred revenue and customers' advances	(30,069)	(35,676)	(1,931)	(2,091)	(2,049)	(8,712)	(14,783)	(4,432)	(7,297)	4,223
Other current liabilities	61,033	(70,163)	16,868	274	(2,178)	7,057	22,021	3,718	5,580	2,958
Employee related liabilities	2,956	(1,210)	0	0	0	0	0	0	0	0
Deferred tax liability, net	13,084	27,011	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	(2,396)	(1,957)	(1,120)	2,161	(3,312)	(3,893)	86	2,338
Net cash provided by operating activities	**529,820**	**676,561**	**110,038**	**113,085**	**124,743**	**100,816**	**448,682**	**93,922**	**122,599**	**139,423**
CASH FLOWS - INVESTING ACTIVITIES										
Investments in property and equipment, net	**(213,537)**	**(432,184)**	**(98,018)**	**(112,615)**	**(127,624)**	**(93,396)**	**(431,653)**	**(111,411)**	**(110,682)**	**(103,490)**
Interest bearing deposits, including designated deposits	(115,911)	(288,663)	(1,113)	17,443	19,412	(4,328)	31,414	44,470	(28,000)	(20,000)
Net cash provided by (used in) investing activities	(329,448)	(720,847)	(99,131)	(95,172)	(108,212)	(97,724)	(400,239)	(66,941)	(138,682)	(123,490)
CASH FLOWS - FINANCING ACTIVITIES										
Exercise of warrants and options	44	0	0	0	0	0	0	0	0	0
Debt repayment	(78,379)	(32,346)	(8,409)	(10,439)	(16,402)	2,795	(32,455)	(26,874)	5,104	(6,875)
Proceeds from investment in subsidiary	11,685	1,932	0	0	0	0	0	0	0	0
Net cash used in financing activities	(66,650)	(30,414)	(8,409)	(10,439)	(16,402)	2,795	(32,455)	(26,874)	5,104	(6,875)
Effect of foreign exchange rate change	(3,893)	(5,395)	(2,665)	(2,658)	5,537	(4,972)	(4,758)	2,817	1,454	(1,609)
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	129,829	(80,095)	(167)	4,816	5,666	915	11,230	2,924	(9,525)	7,449
CASH & CASH EQTS - BEGINNING OF PERIOD	210,930	340,759	260,664	260,497	265,313	270,979	260,664	271,894	274,818	265,293
CASH & CASH EQUIVALENTS - END OF PERIOD	340,759	260,664	260,497	265,313	270,979	271,894	271,894	274,818	265,293	272,742
Operating Cash Flow	$ 576,405	$ 768,872	$ 108,811	$ 122,942	$ 126,052	$ 140,550	$ 498,355	$ 114,503	$ 123,787	$ 129,780
Free cash flow	$ 362,868	$ 336,688	$ 10,793	$ 10,327	$ (1,572)	$ 47,154	$ 66,702	$ 3,092	$ 13,105	$ 26,290

HISTORICAL STOCK PRICE



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