Zacks Small-Cap Research

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Towerjazz (TSEM-NASDAQ)

TSEM: Leadership has its Privileges

OUTLOOK

Towerjazz is a pure-play semiconductor wafer foundry with two IC plants in Israel and one in California, that manufacture SiGe, MEMS, RF, embedded flash-based memory, analog/mixed-signal, and CMOS image-sensor devices. Over the past year the firm has been building capacity due to accelerated design-win momentum, which have been realized within a large group of diversified, global customers, many of which being market share and technology platform leaders for their respective markets. We see value in the shares and reiterate our outperform rating.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/31/2010
Current Price (04/07/11)	$1.39
Six- Month Target Price	**$4.00**

SUMMARY DATA

52-Week High	**$1.70**
52-Week Low	**$1.21**
One-Year Return (%)	**-13.66**
Beta	**1.58**
Average Daily Volume (sh)	**681,212**
Shares Outstanding (mil)	**277**
Market Capitalization ($mil)	**$386**
Short Interest Ratio (days)	**1.74**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**27.3**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**2.4**
P/E using 2011 Estimate	**2.1**
P/E using 2012 Estimate	**1.8**
Zacks Rank	**5**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Elec Comp-Semic**
Zacks Rank in Industry	**48 of 63**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	58 A	58 A	59 A	77 A	252 A
2009	58 A	61 A	80 A	101 A	297 A
2010	114 A	126 A	135 A	135 A	510 A
2011	124 E	138 E	145 E	149 E	556 E

Earnings per Share
(Non-GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.04 A	$0.08 A	$0.04 A	$0.04 A	$0.12 A
2009	-$0.02 A	$0.03 A	$0.07 A	$0.11 A	$0.19 A
2010	$0.13 E	$0.15 A	$0.15 A	$0.14 A	$0.57 A
2011	$0.13 E	$0.15 E	$0.19 E	$0.21 E	$0.68 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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WHATS NEW

Leadership has its Privileges

We feel it is time Investors sat up and took notice of the strong leadership being shown at TowerJazz by Mr. Russell Ellwanger, Chief Executive Officer (CEO) and Mr. Oren Shirazi , Chief Financial Officer (CFO). Since 2008 the firm has been on a tear, making operating and non-operating gains.

Just a year removed from being the only worldwide foundry with positive year over year growth (2009 vs 2008), Towerjazz completed its goal of $500 million in annual revenue in 2010. During the fourth quarter conference call the number one specialty foundry, obviously not ready to put the bold predictions to rest, predicted $1 billion in annual revenue by 2014.

On Monday (April 4th) they got to work on that $1 Billion number when they signed a non-binding agreement to buy Micron Technology's plant in Nishiwaki City, Japan for $140 million (40 million in cash 20 million of Tower ordinary shares would be issued to Micron Technology) in a deal that would nearly double production capacity. The proposed purchase of the plant, located south of Tokyo, would increase production by 80%, or 60,000 wafers per month. It should also strengthen the company's presence in the Asia-Pacific region. Reading between the lines we feel the deal will help margins eventually as the Micron business looks to be higher than the average margin at TSEM. (the plant was not affected by the earthquake, tsunami, and nuclear scare.) 20 million shares for increasing your revenues by 80% is dilution we can live with.

In September of 2008 the firm merged with Jazz, the owner of the Newport Beach CA 200mm facility. The merger was significant to Tower because the customer base was doubled, it was done at a time when most FAB's were struggling to survive, and Jazz possessed several industry leading technologies such as SiGE, BiCMOS, and MEMS

Mr. Shirazi has been busy as well. On October 25, 2010, Tower Semiconductor successfully completed the institutional stage of a fund raising in Israel, receiving commitments from investors to a new series of long-term bonds it intends to issue. The bonds will mature in two equal installments on December 2015 and December 2016. By October 27th the firm had $100 million in commitments

Looking at the past year this completes a comprehensive debt restructure. This restructure comprised the extension of the $45 million Wells-Fargo credit lines, $80 million Jazz level bonds exchange to bonds due in 2015, $50 million pay down and restructure of the remaining $160 million Israeli banks debt to a long term loan and this deal. Tower has created a new balance sheet with zero bank loans' principal due during the coming 3 years, servable debt ratios and a cash balance which will enable the firm to be flexible if M&A opportunities present themselves.

So why has the stock not soared like the company has? That's harder to answer. It could be that investors are leery of a steep decline while capacity is being added like what happened to the overall industry in 2005 and 2008. Perhaps they feel ramping up to $1 Billion in revenue will require the firm to invest so heavily there will be nothing left on the bottom- line. We won't get in to investor psychology. Trying to read investors minds is best left to the Jim Cramer types. At 2.1x 2011 estimated EPS, you would hard pressed to argue it's expensive and management has put them in a position to outperform.

Foundry Landscape 2008-2010

($M)	2008		2009		2010	
1	TSMC	10,556	TSMC	,8989	TSMC	13,307
2	UMC	3,070	UMC	2,815	UMC	3,965
3	Chartered	1,743	GlobalFoundries*	2,641	GlobalFoundries	3,510
4	SMIC	1,353	SMIC	1,070	SMIC	1,555
5	Vanguard	511	Dongbu	395	**TowerJazz**	**510**
6	Dongbu	490	Vanguard	382	Vanguard	505
7	X-Fab	368	**TowerJazz**	**299**	Dongbu	495
8	SSMC	340	SSMC	280	SSMC	330
9	HHNEC	290	HHNEC	240	X-Fab	320
10	**TowerJazz**	**252**	X-Fab	212	HHNEC	295
11	Grace	230	He Jian	180	Grace	260
12	He Jian	195	Silterra	170	WIN	221
13	Silterra	175	WIN	145	Altis	215
14	ASMC	134	Grace	100	He Jian	205
15	WIN	117	ASMC	94	Silterra	200
16	Mosel-Vitelic	98	XinXin	55	ASMC	150
17	XinXin	20	Mosel-Vitelic	51	Mosel-Vitelic	80
18	Altis	0	Altis	0	XinXin	75
19	-	-	-	-	-	-
20+	Others	148	Others	171	Others	204

INCOME STATEMENT ($ Millions)	Dec-09 Q409	Mar-10 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11 E	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE												
Net Revenue	**100.6**	**113.8**	**125.7**	**134.7**	**135.1**	**124.4**	**187.4**	**230.9**	**251.7**	**298.8**	**509.3**	**556.0**
Sequential Growth		*13%*	*10%*	*7%*	*0%*	*-8%*						
OPERATING EXPENSES												
Cost of Revenues	61.87	64.49	68.78	72.89	78.59	72.50	128.3	147.4	174.2	206.5	284.7	309.0
% of Revenue	*61.5%*	*56.7%*	*54.7%*	*54.1%*	*58.2%*	*58.3%*						
Gross Profit -	**38.7**	**49.3**	**56.9**	**61.8**	**56.5**	**51.9**	**59.1**	**83.5**	**77.5**	**92.3**	**224.5**	**247.0**
Proforma Gross Margin	*38.5%*	*43.3%*	*45.3%*	*45.9%*	*41.8%*	*41.7%*	*31.5%*	*36.2%*	*30.8%*	*30.9%*	*44.1%*	*44.4%*
R&D + Engg	6.69	5.52	6.17	6.59	4.31	7.00	10.6	10.4	13.2	22.2	22.6	25.0
% of Revenue	*6.7%*	*4.9%*	*4.9%*	*4.9%*	*3.2%*	*5.6%*	*5.7%*	*4.5%*	*5.3%*	*7.4%*	*4.4%*	*4.5%*
SG&A	8.71	8.59	9.19	9.65	6.16	8.75	21.9	24.2	28.1	29.0	34	35
% of Revenue	*8.7%*	*7.5%*	*7.3%*	*7.2%*	*4.6%*	*7.0%*	*11.7%*	*10.5%*	*11.2%*	*9.7%*	*6.6%*	*6.3%*
GW Amort, Restructuring, other	-							-	-	-		
% of Revenue												
Total Operating Expenses	15.41	14.11	15.37	16.24	10.47	15.75	32.5	34.6	41.4	51.1	56	60
% of Revenue	*15.3%*	*12.4%*	*12.2%*	*12.1%*	*7.7%*	*12.7%*	*17.3%*	*15.0%*	*16.4%*	*17.1%*	*11%*	*11%*
Operating Income -	**23.34**	**35.20**	**41.5**	**45.6**	**46.1**	**36.2**	**26.6**	**48.9**	**36.1**	**41.2**	**168**	**187**
Operating Margin	*23.2%*	*30.9%*	*33.0%*	*33.8%*	*34.1%*	*29.1%*	*14%*	*21%*	*14%*	*14%*	*33%*	*34%*
NON-OPERATING ITEMS												
Non operating Income/Expense	0.0	-3.6	-2	-6	-8	-8	-34.4	-28.8	-19.4	-22.2	-19	-20
% of Revenue	*0.00%*	*-3.15%*	*-1.93%*	*-4.12%*	*-5.75%*	*-6.03%*	*-18.35%*	*-12.48%*	*-7.72%*	*-7.42%*	*-3.79%*	*-3.60%*
Tax Provision	2.1	2.7	3.5	3.7	3.0	2.0	0.00	0.00	0.58	-5.0	13	15
Effective Tax Rate												
Net Income -	**21.22**	**28.97**	**35.59**	**36.34**	**35.34**	**26.65**	**-7.77**	**20.08**	**16.08**	**24.06**	**136.2**	**152.0**
Net Income Margin	*21.1%*	*25.5%*	*28.3%*	*27.0%*	*26.2%*	*21.4%*	*-4.1%*	*8.7%*	*6.4%*	*8.1%*	*27%*	*27%*
EARNINGS PER SHARE												
EPS - Basic	$0.11	$0.13	$0.15	$0.15	$0.14	$0.13	-$0.09	$0.17	$0.12	$0.19	$0.57	$0.68
EPS - Diluted	$0.11	$0.13	$0.15	$0.15	$0.14	$0.13	-$0.09	$0.17	$0.12	$0.19	$0.57	$0.68

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