Zacks Equity Research

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Towerjazz (TSEM-NASDAQ)

TSEM: Expecting a Solid Quarter- Outperform.

Towerjazz announces a design win and a partnership.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/31/2010
Current Price (05/11/10)	$1.63
Six- Month Target Price	**$3.50**

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. Q1 revenue reached an all time high and June guidance is for 8-12.5% sequential growth on the top-line. For the first time since 2000 the firm had an operating profit on a GAAP basis. TSEM also announced it was in serious talks to acquire an asset for capacity expansion. This could be signed in June. We reiterate our outperform rating on TSEM.

SUMMARY DATA

52-Week High	**$1.84**
52-Week Low	**$0.27**
One-Year Return (%)	**375.86**
Beta	**2.00**
Average Daily Volume (sh)	**852,667**
Shares Outstanding (mil)	**225**
Market Capitalization ($mil)	**$310**
Short Interest Ratio (days)	**1.09**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**25.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**7.3**
P/E using 2010 Estimate	**2.5**
P/E using 2011 Estimate	**2.2**
Zacks Rank	**N/A**

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

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	125 E	130 E	135 E	504 E
2011	138 E	140 E	145 E	150 E	573 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	$0.14 A	$0.16 E	$0.17 E	$0.18 E	$0.65 E
2011	$0.19 E	$0.20 E	$0.21 E	$0.22 E	$0.82 E

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

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1st Quarter Highlights

- **Towerjazz has actually been turning away lower margin business.**
- **Cash Expanded to $83. 4 million from $81.8 million a quarter ago and $40 million in the Q109 quarter.**
- **Solid top-line guidance for Q2 2010 of 8-12.5% growth.**
- **Operating profit on a GAAP basis for the first time since 2000.**
- **Non-GAAP gross margins improved to 43% with $49 million gross profit, as compared with 39 percent in the prior quarter and 21% in Q1 2009, and GAAP gross margin in the quarter was 14%.**

Design Win and a Partnership

- **On April 1, 2010 the firm announced that VectraWave has designed its first 40G high speed coder circuit using a Silicon Germanium (SiGe) BiCMOS process. VectraWave chose TowerJazz's SBC18HX process**
- **On April 14, 2010 TowerJazz, and Tego, a leading provider of high-memory RFID tagging solutions, announced a silicon partnership to manufacture the TegoChipÔ, a high-memory passive Gen2 RFID chip.**

RECENT NEWS

On May 12th 2010 TSEM announced results for the first quarter of fiscal year 2010 ending March 2010. The top and bottom-line exceeded the consensus estimates. Revenue for the period was $113.8 million rising 13.1% sequentially from $100.6 million and up 95.8% year over year.

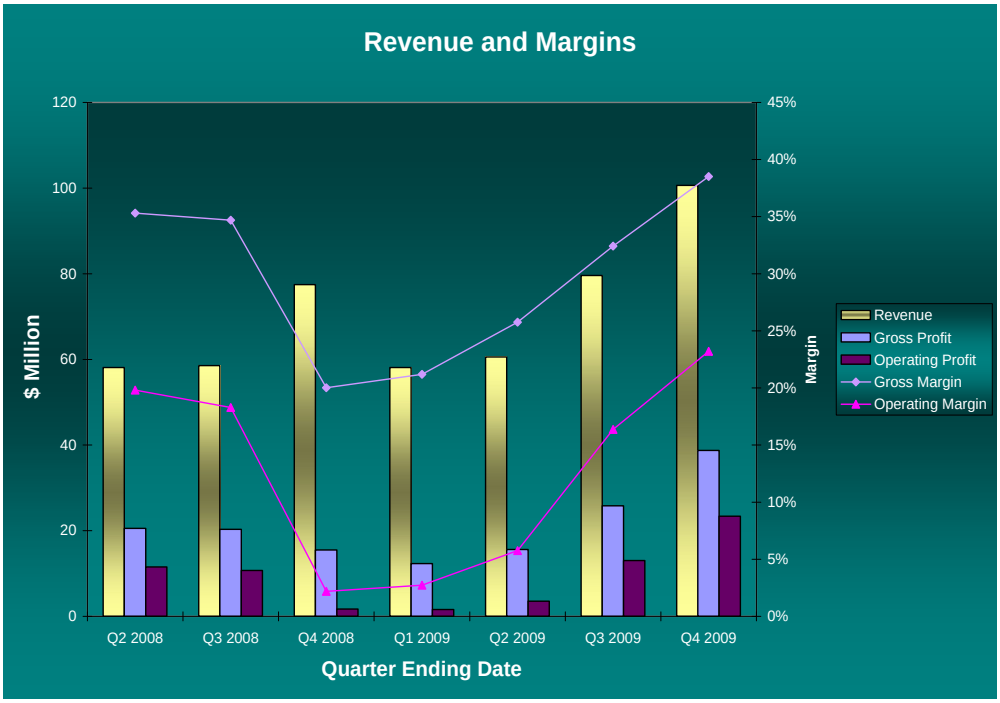
For the first time since 2000, TowerJazz achieved an operating profit on a GAAP basis of $155 thousand. This is compared to a GAAP operating loss of $28 million in the first quarter of 2009, and GAAP operating loss of $11 million in the fourth quarter of 2009. Net profit in the first quarter of 2010 was $29 million on a non-GAAP basis, or $0.14 earnings per share, which is substantially better than the non-GAAP net loss of $3 million or $0.02 per share reported in the first quarter of 2009, and the non-GAAP net profit of $9 million or $0.05 per share achieved in the prior quarter.

TSEM's cash balance, as of March 31, 2010 was $83.4 million, as compared to $81.8 million as of December 2009 and $40 million as of March 2009.

Management forecasts revenue in the second quarter of 2010 to range between $123 and $128 million, representing a sequential revenue growth of 8.1-12.5% and 107% year-over-year growth in revenues.

On February 16, 2010 TowerJazz announced it has accelerated plans for additional capacity expansion to meet customer demand. At Fab2 (located in Israel), capacity will increase by approximately 30,000 wafers per year in order to meet the expanding needs of customers for its wide range of specialty process technologies. At the Newport Beach, CA manufacturing facility, capacity will be increased by 36,000 wafers per year. The total payments to purchase the equipment by TowerJazz are expected to be approximately $15 million, resulting in an increase of approximately 66,000 wafers per year. Based on customer forecasts, management projects this cost-effective investment has a rate of return of two quarters.

On April 1, 2010 the firm announced that VectraWave has designed its first 40G high speed coder circuit using a Silicon Germanium (SiGe) BiCMOS process. VectraWave chose TowerJazz's SBC18HX process over Indium Phosphide (InP), the traditional semiconductor material for choice for 40G circuits, due to its advantage of integrating digital circuits on the same die enabling lower cost, lower power consumption, better temperature compensation and smaller total board area.



On April 14, 2010 TowerJazz, and Tego, a leading provider of high-memory RFID tagging solutions, announced a silicon partnership to manufacture the TegoChipÔ, a high-memory passive Gen2 RFID chip. Tego is utilizing the 180nm process (TS18) from TowerJazz for its TegoChip to tag over 1500 pressurized and non-pressurized parts and components on the Airbus A350 XWB aircraft fleet to improve processes such as maintenance and warehouse logistics.

VALUATION

TSEM is currently trading at 2.5x FY 2010 EPS estimates, while the cash per share stands at approximately $0.31 per share. The firm has seen its current ratio climb to 1.85.

We feel Towerjazz should outpace its foundry competitors as well as the overall semiconductor industry in 2010. Specialty foundry, enjoys higher margins and is less susceptible to industry downturns. In addition the firm is out in front on several industry leading technologies such as HPA, Power, and optical. The Tower and Jazz merger was completed at a time when the rest of the industry was struggling to survive. The balance sheet is a source of strength which likely sets up the firm for further growth activity in the future.

The recent capacity expansion is a clear sign that solid demand from customers has returned. We value the firm based on a price to earnings multiple of 6.3x FY 2010 EPS estimates or an enterprise value/sales ratio of 1.3x. This analysis leads to a price target of $3.50.

Industry Comparables

	Pr Chg YTD	P/E CurrFY	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF
TOWER SEMICOND	42.3			4.8	1.0	4.7
Industry Mean	31.2	47.1	16.9	2.7	5.8	35.8
Industry Median	6.5	17.2	18.8	1.7	1.7	18.8
S&P 500	-0.4	13.9		3.3	2.2	13.0
ACL SEMI INC	6.2			3.2	0.0	4.6
STANDARD MICROS	9.5	34.0	15.0	1.4	1.7	19.2
RAMBUS INC	-8.6	17.2		5.5	10.3	
CONEXANT SYS	17.2	8.9	20.0	33.2	0.9	36.7

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Mar-09 Q109	Jun-09 Q209	Sep-09 Q309	Dec-09 Q409	Mar-10 Q1 10	Mar-10 Q2 10E	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE												
Net Revenue	**58.1**	**60.6**	**79.6**	**100.6**	**113.8**	**125.0**	**187.4**	**230.9**	**251.7**	**354.5**	**504.0**	**573.0**
Sequential Growth		*4%*	*31%*	*26%*	*13%*	*10%*						
OPERATING EXPENSES												
Cost of Revenues	45.75	44.88	53.71	61.87	64.49	70.00	128.3	147.4	174.2	224.9	285.0	315.0
% of Revenue	*78.8%*	*74.1%*	*67.5%*	*61.5%*	*56.7%*	*56.0%*						
Gross Profit -	**12.3**	**15.7**	**25.9**	**38.7**	**49.3**	**55.0**	**59.1**	**83.5**	**77.5**	**129.6**	**219.0**	**258.0**
Proforma Gross Margin	*21.2%*	*25.9%*	*32.5%*	*38.5%*	*43.3%*	*44.0%*	*31.5%*	*36.2%*	*30.8%*	*36.6%*	*43.5%*	*45.0%*
R&D + Engg	3.79	5.93	5.76	6.69	5.52	7.00	10.6	10.4	13.2	23.9	37.0	42.0
% of Revenue	*6.5%*	*9.8%*	*7.2%*	*6.7%*	*4.9%*	*5.6%*	*5.7%*	*4.5%*	*5.3%*	*6.7%*	*7.3%*	*7.3%*
SG&A	6.93	6.25	7.06	8.71	8.59	9.00	21.9	24.2	28.1	30.6	30	33
% of Revenue	*11.9%*	*10.3%*	*8.9%*	*8.7%*	*7.5%*	*7.2%*	*11.7%*	*10.5%*	*11.2%*	*8.6%*	*6.0%*	*5.8%*
GW Amort, Restructuring, other	-	-	-					-	-	-		
% of Revenue												
Total Operating Expenses	10.73	12.18	12.82	15.41	14.11	16.00	32.5	34.6	41.4	54.5	67	75
% of Revenue	*18.5%*	*20.1%*	*16.1%*	*15.3%*	*12.4%*	*12.8%*	*17.3%*	*15.0%*	*16.4%*	*15.4%*	*13%*	*13%*
Operating Income -	**1.58**	**3.50**	**13.04**	**23.34**	**35.2**	**39.0**	**26.6**	**48.9**	**36.1**	**75.1**	**152**	**183**
Operating Margin	*2.7%*	*5.8%*	*16.4%*	*23.2%*	*30.9%*	*31.2%*	*14%*	*21%*	*14%*	*21%*	*30%*	*32%*
NON-OPERATING ITEMS												
Non operating Income/Expense	-5.8	0.2	-6.0	0.0	-4	-3	-34.4	-28.8	-19.4	-9.4	-5	-14
% of Revenue	*-9.97%*	*0.39%*	*-7.54%*	*0.00%*	*-3.15%*	*-2.69%*	*-18.35%*	*-12.48%*	*-7.72%*	*-2.64%*	*-0.99%*	*-2.44%*
Tax Provision	-1.3	-1.6	-4.2	2.1	2.7	2.2	0.00	0.00	0.58	-1.1	12	12
Effective Tax Rate												
Net Income -	**-2.93**	**5.37**	**11.24**	**21.22**	**28.97**	**33.44**	**-7.77**	**20.08**	**16.08**	**66.79**	**135.0**	**157.0**
Net Income Margin	*-5.0%*	*8.9%*	*14.1%*	*21.1%*	*25.5%*	*26.8%*	*-4.1%*	*8.7%*	*6.4%*	*18.8%*	*27%*	*27%*
EARNINGS PER SHARE												
EPS - Basic	-$0.02	$0.03	$0.07	$0.11	$0.14	$0.16	-$0.09	$0.17	$0.12	$0.35	$0.65	$0.82
EPS - Diluted	-$0.02	$0.03	$0.07	$0.11	$0.14	$0.16	-$0.09	$0.17	$0.12	$0.35	$0.65	$0.82

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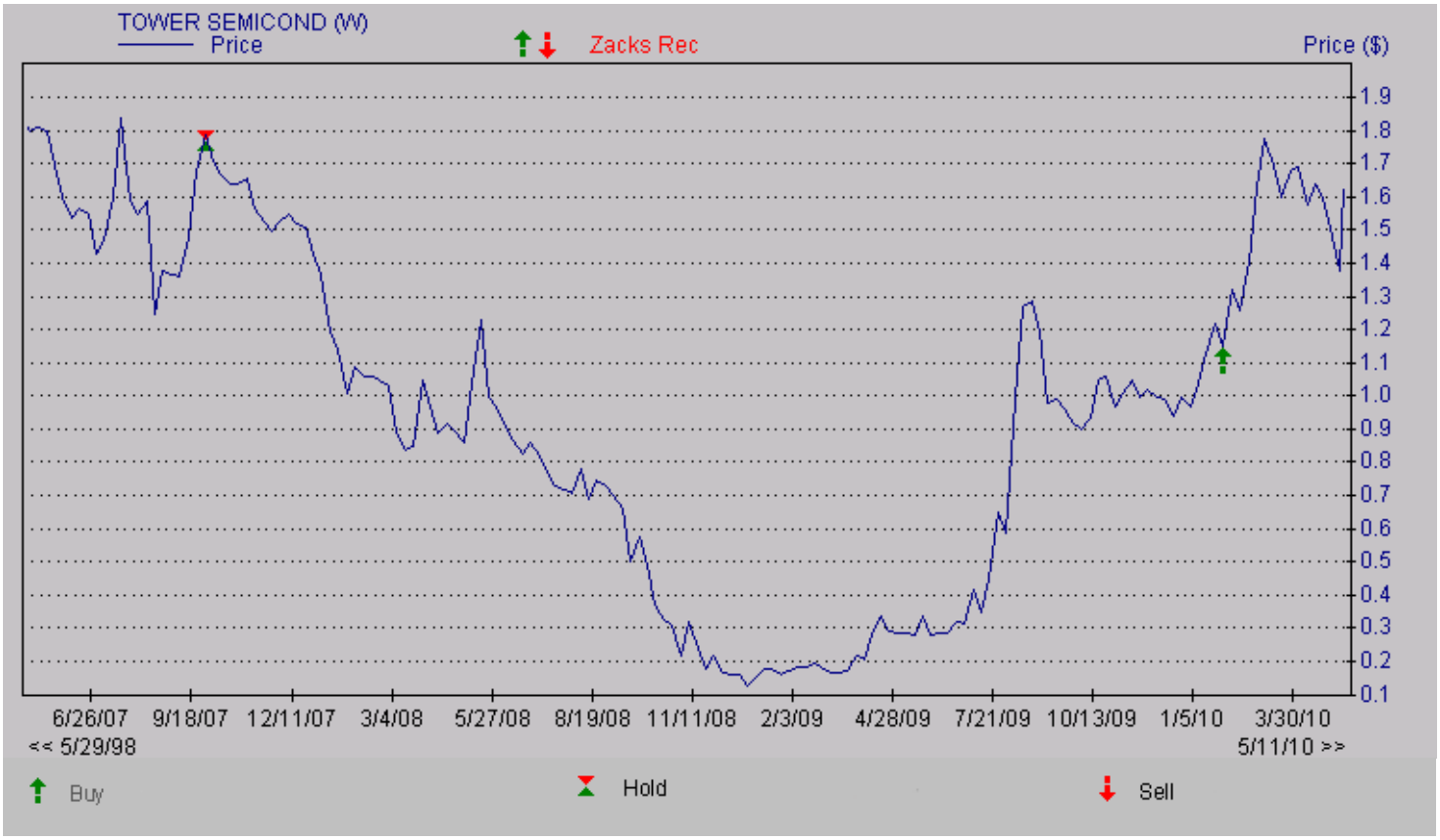
HISTORICAL ZACKS RECOMMENDATIONS



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