Zacks Equity Research

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Towerjazz (TSEM-NASDAQ)

TSEM: Q4 Results, Solid Quarter- Outperform.

For more information please refer to our full report dated 2/23/10

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/31/2010
Current Price (03/01/10)	$1.61
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. Q4 revenue reached an all time high and March guidance is for 9-14% sequential growth on the top-line against a flat industry average. We have expanded our 2010 and 2011 top and bottom-line figures to account for the firm's capacity expansion as well as an improving outlook. We reiterate our outperform rating on TSEM.

SUMMARY DATA

52-Week High	**$1.62**
52-Week Low	**$0.16**
One-Year Return (%)	**835.88**
Beta	**1.97**
Average Daily Volume (sh)	**3,500,000**
Shares Outstanding (mil)	**194**
Market Capitalization ($mil)	**$315**
Short Interest Ratio (days)	**1.04**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**24.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**-1.8**
P/E using 2011 Estimate	**-8.1**
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	112 E	120 E	127 E	134 E	493 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 E	$0.19 A
2010	$0.13 E	$0.14 E	$0.14 E	$0.15 E	$0.56 E
2011	$0.15 E	$0.15 E	$0.16 E	$0.17 E	$0.63 E

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

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4th Quarter Highlights

- **Major improvement in Gross Margins. (Up to 38.5% from 32.5%)**
- **Capacity Expansion in Israel (fab2) and California (Newport Beach), which has a rate of return of two quarters.**
- **Cash Expanded to $81. 8 million from $51.7 million a quarter ago and $34.9 in the Q409 quarter.**
- **Share count expands to 194 million shares from 160 million.**
- **Solid top-line guidance for Q1 2010 of 9-14% growth.**

RECENT NEWS

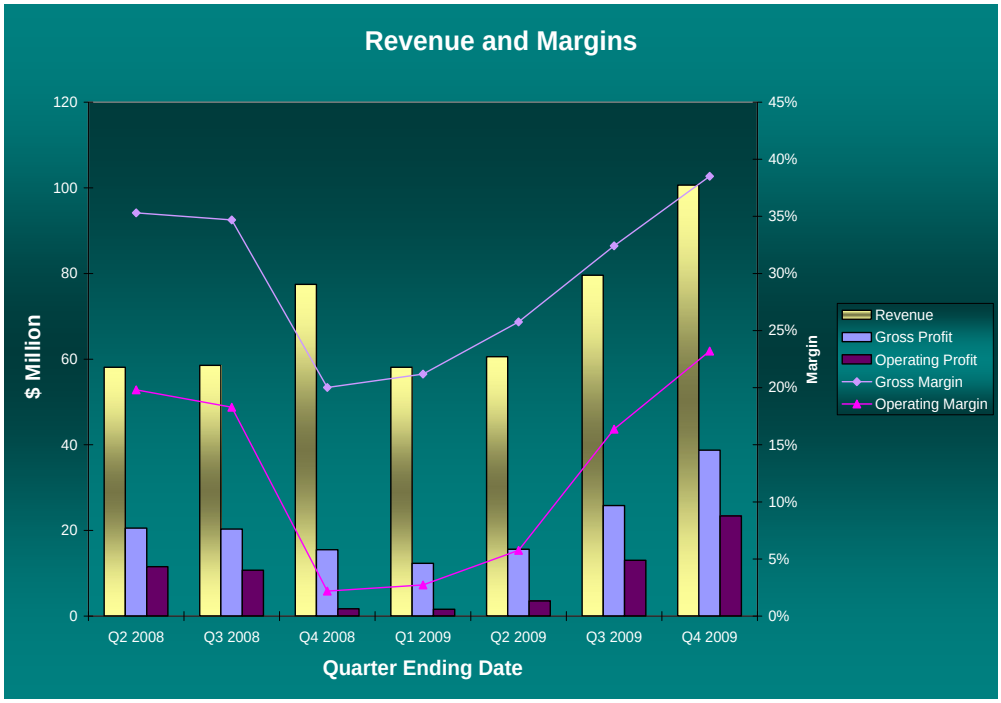
On February 24th 2010 TSEM announced results for the fourth quarter of fiscal year 2009 ending December 2009. The top and bottom-line exceeded the consensus estimates. Revenue for the period was $100.6 million rising 26.5% sequentially from $79.6 million and up 29.9% year over year.

TSEM achieved fourth quarter 2009 gross profit for the first time since 2000 of $6.6 million, as compared to gross loss of $5.3 million and gross loss of $10.8 million in the third quarter 2009 and fourth quarter 2008, respectively. Net loss for the fourth quarter 2009 was $31.4 million as compared to $30.2 million for the previous quarter, or $0.16 and $0.18 per share, respectively, including for the fourth quarter of 2009 GAAP financing expenses of $18.7 million, resulting mainly from non-cash GAAP financing expenses due to the significant increase in market and fair value of the Company's tradable securities.

TSEM's cash balance, as of December 31, 2009 was $81.8 million, as compared to $34.9 million as of December 2008 and $51.7 million as of September 2009.

Management forecasts revenue in the first quarter of 2010 to range between $110 and $115 million, representing a sequential revenue growth of 9-14% and 89-98% 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.



VALUATION

TSEM is currently trading at 2.8x FY 2010 EPS estimates, while the cash per share stands at approximately $0.31 per share. The firm has a heavy debt load but could find quick relief with grants from the government and tax incentives.

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 is slightly more conservative than the industry median because of Tower's high debt load. That said, the firm could quickly shed this debt with grants from the government. 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	66.0	3.2	NA	5.5	1.1	8.0
Industry Mean	12.0	33.7	16.4	2.5	4.6	37.8
Industry Median	4.1	24.4	18.5	1.5	1.8	20.6
S&P 500	0.1	14.7		3.8	2.3	12.6
CABOT MICROELEC	9.8	18.3	13.0	1.7	2.6	22.9
CHIPMOS TEC LTD	1.4			0.2	0.2	7.4
STANDARD MICROS	-2.1	38.4	15.0	1.2	1.6	5.3
ACL SEMI INC	25.0	NA	NA	4.9	0.1	414.7

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Dec-08 Q408	Mar-09 Q109	Jun-09 Q209	Sep-09 Q309	Dec-09 Q409	Mar-10 Q110E	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE												
Net Revenue	**77.5**	**58.1**	**60.6**	**79.6**	**100.6**	**112.0**	**187.4**	**230.9**	**251.7**	**298.8**	**493.0**	**573.0**
Sequential Growth		*-25%*	*4%*	*31%*	*26%*	*11%*						
OPERATING EXPENSES												
Cost of Revenues	61.89	45.75	44.88	53.71	61.87	68.00	128.3	147.4	174.2	206.2	295.8	341.0
% of Revenue	*79.9%*	*78.8%*	*74.1%*	*67.5%*	*61.5%*	*60.7%*						
Gross Profit -	**15.6**	**12.3**	**15.7**	**25.9**	**38.7**	**44.0**	**59.1**	**83.5**	**77.5**	**92.6**	**197.2**	**232.0**
Proforma Gross Margin	*20.1%*	*21.2%*	*25.9%*	*32.5%*	*38.5%*	*39.3%*	*31.5%*	*36.2%*	*30.8%*	*31.0%*	*40.0%*	*40.5%*
R&D + Engg	4.63	3.79	5.93	5.76	6.69	7.50	10.6	10.4	13.2	22.2	37.0	44.0
% of Revenue	*6.7%*	*6.5%*	*9.8%*	*7.2%*	*6.7%*	*6.7%*	*5.7%*	*4.5%*	*5.3%*	*7.4%*	*7.5%*	*7.7%*
SG&A	9.19	6.93	6.25	7.06	8.71	9.25	21.9	24.2	28.1	29.0	30	35
% of Revenue	*11.9%*	*11.9%*	*10.3%*	*8.9%*	*8.7%*	*8.3%*	*11.7%*	*10.5%*	*11.2%*	*9.7%*	*6.1%*	*6.1%*
GW Amort, Restructuring, other	-	-	-	-				-	-	-		
% of Revenue												
Total Operating Expenses	13.81	10.73	12.18	12.82	15.41	16.75	32.5	34.6	41.4	51.1	67	79
% of Revenue	*17.8%*	*18.5%*	*20.1%*	*16.1%*	*15.3%*	*15.0%*	*17.3%*	*15.0%*	*16.4%*	*17.1%*	*14%*	*14%*
Operating Income -	**1.75**	**1.58**	**3.50**	**13.04**	**23.34**	**27.3**	**26.6**	**48.9**	**36.1**	**41.5**	**130**	**153**
Operating Margin	*2.3%*	*2.7%*	*5.8%*	*16.4%*	*23.2%*	*24.3%*	*14%*	*21%*	*14%*	*14%*	*26%*	*27%*
NON-OPERATING ITEMS												
Non operating Income/Expense	-5.9	-5.8	0.2	-6.0	0.0	0	-34.4	-28.8	-19.4	-11.6	-5	-14
% of Revenue	*-7.68%*	*-9.97%*	*0.39%*	*-7.54%*	*0.00%*	*0.00%*	*-18.35%*	*-12.48%*	*-7.72%*	*-3.87%*	*-1.01%*	*-2.44%*
Tax Provision	0.6	-1.3	-1.6	-4.2	2.1	2.2	0.00	0.00	0.58	-5.0	12	12
Effective Tax Rate												
Net Income -	**-4.77**	**-2.93**	**5.37**	**11.24**	**21.22**	**25.05**	**-7.77**	**20.08**	**16.08**	**34.89**	**113.2**	**127.0**
Net Income Margin	*-6.2%*	*-5.0%*	*8.9%*	*14.1%*	*21.1%*	*22.4%*	*-4.1%*	*8.7%*	*6.4%*	*11.7%*	*23%*	*22%*
EARNINGS PER SHARE												
EPS - Basic	$0.03	-$0.02	$0.03	$0.07	$0.11	$0.13	-$0.09	$0.17	$0.12	$0.19	$0.56	$0.63
EPS - Diluted	$0.03	-$0.02	$0.03	$0.07	$0.11	$0.13	-$0.09	$0.17	$0.12	$0.19	$0.56	$0.63
EPS - (GAAP)	-$0.15	-$0.17	-$0.19	-$0.19	-$0.16	-$0.09	-$2.03	-$1.13	-$0.79	-$0.71	-$0.20	$0.21

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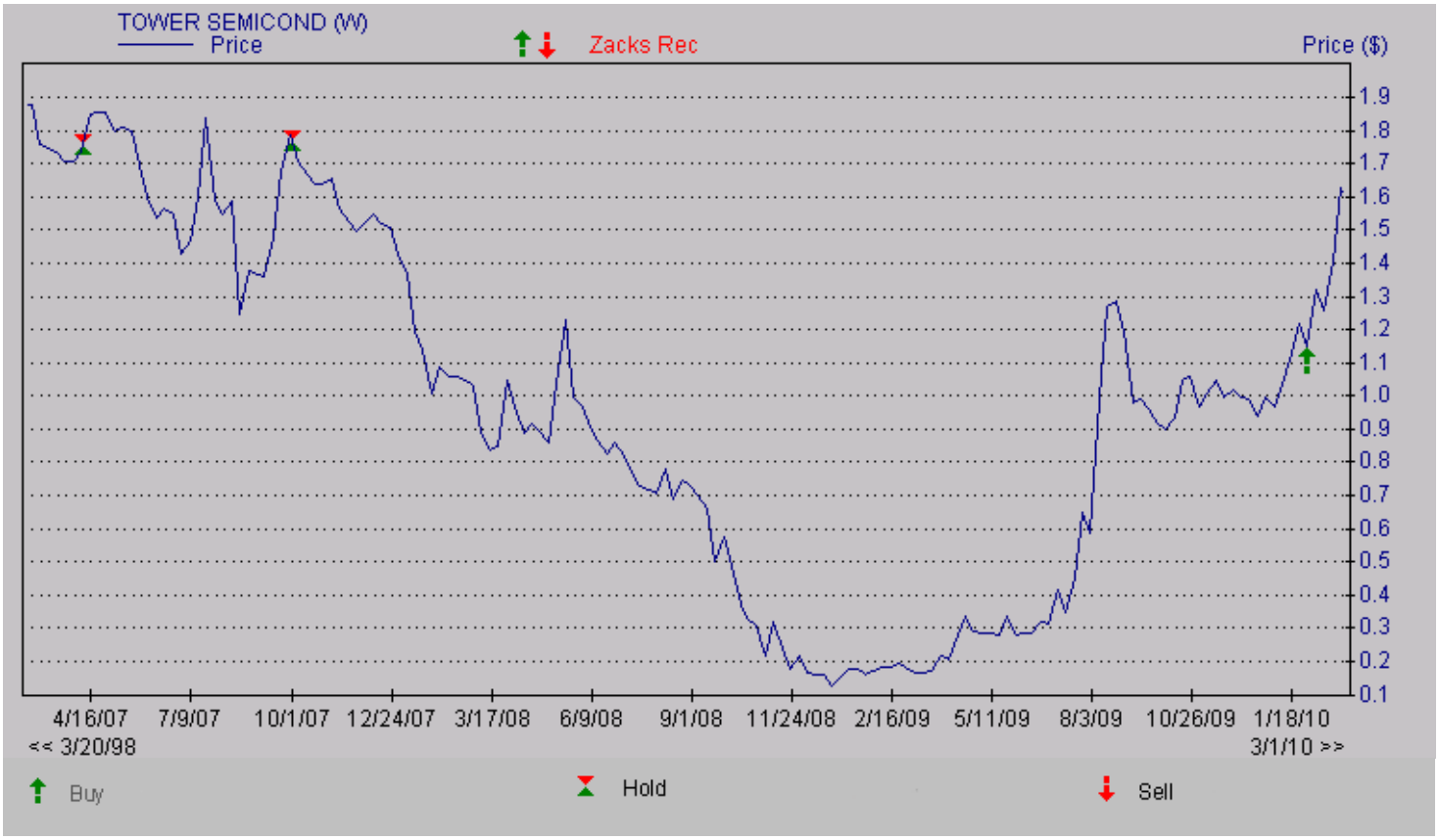
HISTORICAL ZACKS RECOMMENDATIONS



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