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TSEM.OQ - Q1 2024 Tower Semiconductor Ltd Earnings Call

EVENT DATE/TIME: MAY 09, 2024 / 2:00PM GMT

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PRESENTATION

Operator

Thank you, and welcome to Tower financial results conference call for the first quarter of 2024.

Before we begin, I would like to remind you that some statements made during this call maybe forward-looking and are subject to uncertainties and risk factors that could cause actual results to be different from those currently expected. These uncertainties and risk factors are fully disclosed in our Forms 20-F and 6-K, filed with the Securities and Exchange Commission, as well as filings with the Israeli Securities Authority. They are also available on our website. Tower assumes no obligation to update any such forward-looking statements.

Please note that the first quarter of 2024 financial results have been prepared in accordance with US GAAP. The financial tables and data in today's earnings release and in this earnings call also include certain adjusted financial information that may be considered non-GAAP financial measures under Regulation G and related reporting requirements as established with the Securities and Exchange Commission. The financial tables include a full explanation of these measures and the reconciliation of these non-GAAP measures to the GAAP financial measures.

We have a supporting slide deck that complements today's conference call. This presentation is accessible on our company's website and is also integrated in today's webcast for your convenience.

Now, I'd like to turn the call to our CEO, Mr. Russell Ellwanger. Russell, please go ahead.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Welcome, everyone. Thank you for joining our first quarter of 2024 earnings conference call. I have been looking forward to this opportunity to discuss our performance and positive outlook.

Revenue for the first quarter was in the upper half of our guidance at \$327 million. We delivered a net profit of \$45 million, representing a net margin of 14%. For the remainder of 2024, our target is to achieve quarter-over-quarter revenue and margin increases. Our guidance for the second quarter is for revenue to be \$350 million, plus minus 5%.

I'll now provide a breakdown of Q1 revenue per major technology group. For reference, please see slide 3. I'll refer to the business momentum we see for each group and highlight significant achievements.

RF Mobile, predominantly RF SOI, represented 37% of revenue in the first quarter of 2024, a strong increase against the 2023 run rate. We continue to experience strong demand from RF SOI customers. Our 300-millimeter RF SOI capacity at Uoizu is fully utilized. We are addressing excess demand

by transitioning some production to Agrate, where we are currently working through final steps of production qualification towards production ramp, which remains on track with the planned schedule. This transition and capacity expansion will extend through 2024 into 2025 to meet the forecasted growth in customer demand.

Wrapping up the new facility in Agrate will bring, as previously communicated, some expected reduction to margins in the short term due to added depreciation and startup costs, but will be offset and become accretive with the ship volumes we expect to achieve within the first half of 2025. This is enabled by an accelerated corridor for profitability through having partnered with ST. We continue developments in 200-millimeter and 300-millimeter RF SOI technologies, setting industry benchmarks in efficiency and power handling, having customer-demonstrated sub-60 femtosecond Ron-Coff, enhancing battery life and signal receptions in handsets.

Please see slide 4. The increasing RF content in 5G handsets drives market growth, and our technological advancements have captured increased market share. This momentum is expected to be strong throughout all of 2024 and expected to be so for 2025 as well.

RF Infrastructure business represented 14% of revenue this quarter, an increase from 10% in the fourth quarter of 2023. During the past quarter, we experienced strong performance in our RF Infrastructure business, where we provide optical transceiver components such as Silicon Germanium and Silicon Photonics for AI infrastructure, data centers, and data comm markets. This performance is a testament to our strategic initiatives and technological advancements in this sector. The growth was attributed to several factors, expanded market opportunities driven by substantial investments in AI, the introduction of new products for higher data rates spurred by AI developments, and the unexpected rapid adoption of Silicon Photonics for 800G with an increased interest in lower latency and lower power architectures like linear pluggable optics, LPO.

Additionally, we've seen a recovery in legacy product orders after the previous quarters of inventory adjustments. Our achievements in Silicon Photonics were marked by a technology award from Coherent and a partnership with InnoLight, the top two worldwide optical integrators. We're advancing in 400G and 800G products, and pioneering with select customers on 200G per lane technologies for future 1.6 T systems. Including InnoLight and Coherent, the top two, we have active Silicon Photonics programs with six of the top 10 optical integrators.

Validating these achievements, the Optical Fiber Conference, March 25 to 29 in San Diego, felt much more like a family reunion than a conference. It's gratifying to see our vision of creating an open Silicon Photonics Foundry coming to fruition.

Beyond datacom, our engagement with automotive leaders in frequency-modulated continuous wave based LiDAR and other sensors, including SiPhO-based positioning gyros with Anello, confirm the broad-based need and usage for advanced photonics.

Please see slide 5. Please note, we have over 50 SiPhO customers, most of which in active silicon phases. Silicon Photonics currently represents 5% of our revenue, greatly accelerated by the adoption of AI, with momentum that is extremely strong and promises to be long lasting.

In the silicon germanium segment, we are experiencing renewed demand, thanks to new high data rate products, active cable and LPO technologies. LPO is enhancing the silicon germanium market by integrating equalizers in receivers and transmitters, eliminating the need for the DSP in the pluggable module, hence reducing costs, power consumption and latency, all crucial for AI and data center applications.

Please see slide 6. Momentum is strong through the year and expected to be so beyond as well. Sensors and Displays represented 15% of the total revenue in Q1. We continue with all development and manufacturing activities as detailed last quarter.

Please see slide 7 for a review. We expect a notable increase in imaging revenue from Q1 to Q2, and to maintain that strong level throughout the year. Power IC business, excluding power discrete, represented 10% in the first quarter of our corporate revenue.

Present POs show substantial increase in Q2 revenue, with further increases throughout the year. We view Q1 as the low point in revenue for our power business and expect long-term growth thereafter.

We are progressing with power management platforms qualification in Albuquerque, under our capacity agreement with Intel, with on-target initial silicon results. We anticipate starting customer prototyping in the second half of 2024, leading to qualification and production ramp start in 2025.

Please see slide 8, showing our power offerings over a large voltage range. Power discrete business was 14% of revenue and expected to be stable at this revenue level throughout 2024. Mixed Digital CMOS business was 8% of revenue and about 2% was miscellaneous for this period.

Our fab utilizations for the quarter, Fab 1, which as announced will be operationally consolidated into Fab 2, was about 65%. Fab 2 8 inch was about 75%. Fab 3 8 inch at about 45%, presently at a very high ramp. Fab 5 8 inch was about 40%, impacted by the earthquake in Japan and is presently ramping. Fab 7 12 inch was about 75% due to earthquake impact and since recovery from the earthquake, it has been fully loaded, which to remind per our model is 85% utilization. Fab 9 8 inch was about 60%, related to the worldwide decreased demand for power management.

With that, I'll turn the call to our CFO, Mr. Oren Shirazi. Oren, please?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Hello, everyone. Earlier today, we released our first-quarter financial results. For the first quarter of 2024, we reported revenue of \$327 million, gross profit of \$73 million and net profit of \$45 million, reflecting 14% net profit margins. I will now begin a more detailed review of our results, first analyzing the P&L highlights, followed by our balance sheet.

Revenue for the first quarter of 2024 was \$327 million in the upper range of our guidance, compared to \$352 million in the fourth quarter of 2023.

Gross profit and operating profit for Q1 were \$73 million and \$34 million, respectively, aligned to our financial model, compared to \$84 million and \$45 million, respectively, in the prior quarter.

Net profit was \$45 million, reflecting 14% net profit margins or \$0.40 diluted earnings per share, compared to net profit of \$54 million, reflecting 15% net margins or \$0.48 diluted per share in the prior quarter.

Moving to balance sheet and future CapEx and cash plans. As of end of Q1 2024, our balance sheet assets totaled \$2.98 billion, compared to \$2.58 billion in the same period last year, primarily comprised of \$1.18 billion of fixed assets mostly machinery and equipment and \$1.74 billion of current assets.

Last week, we were very happy to receive an updated corporate credit rating from Standard & Poor's. Following their annual review, our rating has been reaffirmed at iAA, including a stable outlook for the company. This reflects the robustness of our financial position and underscores our ongoing commitment to maintaining a strong financial foundation.

Current assets ratio, reflecting the multiple by which current assets are larger than short-term liabilities, is very strong at 5.4x. Shareholder's equity reached a total of \$2.5 billion at the end of Q1, further increasing from \$2.4 billion at the end of December 2023 -- 2023 and from \$2.0 billion as of the end of March 2023.

Our strong financial position enables us to plan the following investments in strategic opportunities that are aligned to our vision. Approximately \$500 million of total aggregate cash was allocated to make investments in equipment and other CapEx items required for the 12-inch factory in Agrate, Italy, following the previously announced ST Micro Partnership Agreement signed in 2021. We have already invested \$340 million to date, while \$160 million are to be paid from Q2 2024 to the end of 2025.

In addition, as previously announced, we will invest up to \$300 million in the coming two and a half years to buy equipment and other CapEx items that we will own in Intel Fab in New Mexico, enabling us to ramp up Fab capacity and capabilities for our customers. These payments will commence in Q2 2024. In addition, we expect our maintenance CapEx baseline level to remain as previously announced at about \$200 million per annum. And lastly, we expect to invest additional cash to acquire more capability CapEx tools and other assets to expand our technology offerings, including

increasing our 5G and SiPho capacity and technological offerings, to enhance our flexibility and support our customers from our various sides, as well as change our product mix to a richer mix from a margins perspective.

In summary, the above investments are aligned to our business strategy, as well as financial model as previously presented by the company this past November. In the model, we outline a revenue target of \$2.66 billion per annum that could be achieved by loading our existing facilities at 85% utilization, which would result in \$500 million annual net profit.

Now, I'd like to turn this call back to our CEO, Mr. Ellwanger.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Thank you, Oren. We'd like to go ahead at this point with whatever questions you might have, at which time, at the end of which I will come in and give some summary and conclusion statements. Please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Cody Acree, Benchmark.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Hey, Cody.

Cody Acree - *The Benchmark Company LLC - Analyst*

Hey, guys. Thanks for taking my questions and congrats on the progress. Oren, if I can maybe start real quickly on a point of clarification or further color on your CapEx expectations. You've mentioned increasing your -- I guess, your maintenance level, but increasing some of your core CapEx on your fabs to, what did you say, further expand some of your leadership products and shift your mix to those areas. Can you just add some specification to what you're expecting to spend?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Yeah. We did not mention -- I mean, I mentioned the \$500 million Agrate of which we are left with \$160 million to pay from Q2 until the end of 2025, plus the Intel's 11X \$300 million that will start to be paid this quarter and the maintenance CapEx \$200 million a year.

In regards to the additional machines that we wanted to buy for 5G and SiPho and others, we are still evaluating now the plans. We didn't yet come up with final numbers. It will be in the order of many, many tens of millions, but of course, we have the cash to support it from our balance sheet.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. And any swath at what that might do to your \$2.66 billion of revenue potential suppose --?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

No. This is already included. Meaning, when we presented the model in November with the \$2.66 billion revenue, all these CapEx that I'm saying here are already included. The fact that we don't yet know exactly how much they will cost and didn't finalize the plan. It's still our multi-year plan that's reached the \$2.66 billion, include revenue from those machines that will improve the mix and this is already built into the model. It's not an addition.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. Very good. Thank you for that clarification. And Russell, I guess, for you, your comments in the prepared remarks and in the press release were very encouraging. You talked about gaining some visibility from customer forecasts. Has that also translated to improving customer orders or is that more of a longer term outlook?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Good question. The orders that we have is very much related into the optimistic forecast we have for this year of quarter-over-quarter growth. What I was referring to was, inputs from customers, forecasts from customers specific around data center that would show that the inventory has been burnt off in the legacy data center in addition to the orders that we're getting for acceleration of 800G.

And then we've also begun to start seeing some increases both in PO then in forecast for power management. But power management, as I stated, Q1, we see it as having been the low in our business. If I look really very closely at our plan for 2024, but the power management specific, the automotive is still, I think, burning off inventory, but with signs right now that there will be new buys.

But the overall power management market, I think, is still weak. If we look at our own numbers for 2024 versus 2023, it is deficient for 2023 total. But the growth that we have within our plans is really dependent on POs and pretty vetted forecasts, not what I'm talking about the trend of the market itself recovering. So --

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. And Russell, thank you. I am sorry. Yeah. I am sorry. Go ahead.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Should the market recover within some short-term, which I don't know, that would be accretive to the targets that we have right now. But it's not that clear. What I stated was really signs of recovery.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. And specifically, in power management, just to be clear, you are still seeing inventory excesses pressure that market, but you are expecting Q2 to be a low point for that market?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

No. Q1 already passed was a low point.

Cody Acree - *The Benchmark Company LLC - Analyst*

Q1, sorry.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Okay, great. Thank you for that, Russell, are you I guess just two quick ones. Are you seeing any impact in March or June from the end-of-life pull-ins from Fab one shutdown and not material.

Yeah. We have substantial increase in power management from Q1 to Q2, which you might see reflected in the increased guidance. But -- and then we would see also growth in power management throughout the year, but not having recovered to highs of previous years.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. That's very helpful. Thank you very much. I guess, if you could handicap your in-market either order rates or forecast visibility improvements, where do you think you're going to get the best growth recovery from through the second half?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

The growth is very strongly related to data center, a lot with AI, I think. And then also with RF SOI. Those are the two bigger growth markets. As well, against the Q1 baseline, is 300-millimeter power management.

Cody Acree - *The Benchmark Company LLC - Analyst*

Thank you very much, Russell, for that. I guess just on the AI business, I think, I've asked this in the past, but maybe we can revisit it. Just have you had a chance to parse out your business that is AI levered, whether that be on the data center, piece of business or even as we're looking at AI shifting more toward consumer end devices, as such as smartphones. Can you talk about your overall AI leverage?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I think the bulk of it right now is pluggables going into data center. I don't think there's an awful lot going into a mobile phone at this point, if any. But certainly, the movement within AI and the pluggable to move away from discrete indium phosphide detector and modulator to a monolithic SiPho with an integrated modulator and silicon detector, then the passes within the guide being part of the pluggable, that's where we see the growth right now.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. Great. Thank you for that, Russell. Are you -- I guess, just two quick ones, are you seeing any impact in March or June from the end of life pull-ins from Fab 1 shutdown?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Not material. If we were to look at Fab 1, I would say, probably, the revenue levels in Fab 1 are higher for the year because of end of life than they would be otherwise and that's why we decided to consolidate certain flows into Fab 2, and to end of life those that were really by customer demand going to be end of life in general. But it's not an appreciable increase against previous year run rates. If anything, it brings it back almost to previous year run rates.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. Thank you for that. And then lastly, just any impact on pricing, wafer pricing, as the business is recovering as you're looking at the rest of the year?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I'm not exactly sure what you mean by recovery. We've not had a decrease in pricing. We're not seeing huge increases in pricing, but what we do have always is the newer the platform, the higher the prices for the platform.

So I expect as with most years that our ASP will, this year maybe especially, will probably increase if we look at for all of the silicon layers that were sold versus the silicon layers last year, because of a much richer mix with Silicon Photonics, which is a new platform that has a different price point on a price per layer and other platforms and probably is the highest price per layer that we offer.

Cody Acree - *The Benchmark Company LLC - Analyst*

Okay. Great. Thank you guys. I really appreciate all that color.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Appreciate your question. Thank you.

Operator

Richard Shannon, Craig-Hallum.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Hey, Richard.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Russell, hi. How are you?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Very good. Thank you. Yourself?

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Excellent. I can't complain. It's a nice spring day here. Thanks for asking.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I'm sorry, I couldn't hear you before, right? Got a little jumbled, Richard.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Sorry, I lost my headset. So I'm doing the speaker phone. Hopefully this is good enough.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Now it's better, okay?

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. Let's hear a couple of questions here. You mentioned an RF SOI, which are gaining share. Maybe you can discuss this a little bit here. I think you've talked about having a subset of the customer base out there. Are you gaining new customers or getting more share from them? And any way to think about the magnitude of the increase you're expecting to see in the next generation?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

We certainly have new customers that had been supplied by other foundries prior to us serving them now. So there I am quite convinced that we're gaining share. We also have existing customers whose demand last year was much lower than it is presently. So nominally, they've gained share and potentially gained share against people that maybe weren't using us.

As far as giving a specific quantitative measurement at this point as to how many points of share we've gained, I wouldn't feel very comfortable to give that as I've not really seen the overall numbers for RF SOI. But as the reports get out talking about the amount of modules having been sold and the amount of SOI wafers having been sold, when that data is available, I'll be happy to make comments on it. But I really don't know what the overall market is at this point.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. Fair enough for those comments. Let's jump over to Silicon Photonics. Did I hear correctly that this was 5% of sales in the first quarter?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Yes, sir.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

An excellent number here, obviously in the early stages of growth here. I guess a few questions around this here. Do you have any sense of what kind of share Silicon Photonics has in the 800-gig generation and any thought process about how that changes? I assume it increases as you go to 1.6 T.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

A qualitative feel, certainly. At the 800-gig, it's basically a 4 by 200, right? So the cost of doing the discrete detectors and as compared to doing the monolithic SiPho becomes substantial, as well as the form factor. If you go to the 1.6 T, it's an 8 by 200, in which case form factor becomes very critical as well as cost. So how much SiPho is right now at 800G? I don't know. I really don't. That's where I think our biggest cutting is and I believe that the bulk of all the 5% of the corporate revenue of Q1 was into 800G.

What percentage that is, I don't think that it's the major percentage of 800G at this point. But 800G itself is surprisingly quickly being adopted. According to reports of two years ago, there'll be very little 800G now and I would think 800G is probably 40%, 50% in the market at this point. But -- and 1.6 T is probably already going to be cutting in at the end of 2024, certainly in 2025. But I couldn't tell you exactly at 800 what the SiPho percent of sales will be. But I think at 1.6 T, it'll be very substantial.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. That sounds great here. And you also called out in Silicon Photonics having six of the top 10 pluggable module suppliers as customers here. I get two questions around this. Do you see it --

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

What I said, I said is SiPho engagements. There might be more that are customers, but not with SiPho. What I talked about specifically was six of the 10 top players that were engaged with SiPho and not that all 10 are engaged with SiPho themselves. But six of the top 10 were engaged with SiPho. I didn't say how many are our customers specifically. But at least six of 10 are our customers. Maybe more are our customers outside of SiPho.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. And it gets to that point here. Do you see the potential for seeing that number increase here as you go to 1.6?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Yes, sir.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay, excellent. Great to hear.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I actually think it's already increased.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay, great.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I wasn't sure, so I didn't say it. Whereas to say six was a sure bet.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. All right. Fair enough. Wonderful. I guess a quick question here as we think about your overall revenue profile with 300-millimeter versus 200-millimeter. You've talked about, I think even today here, about expecting some increase in 300-millimeter power management. I know you're

trying to drive 300-millimeter into more of your product lines here. So can you give me a general sense of where you sit in terms of revenue exposure at 300-millimeter and then how does that progress over the next one to two years?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Right now it's a bit over 20% of our revenue, and it is, obviously, if you look at the fact that the capacity that we're growing is in Agrate that's 300-millimeter and in Albuquerque that's 300-millimeter, it'll be substantially higher. So a good portion of our plan of the \$2.6 billion is 300-millimeter growth. So I would say that --(technical difficulty) by the target of the \$2.6 billion then the majority of our business will be 300-millimeter.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay, excellent. Last question for you, I'll jump out of line, Russell. I want to get your sense here of thinking about the revenues for the year. I think you've characterized this call as in the last call, where you can see sequential growth throughout the rest of the year. I guess two questions to that end. How do we think about the growth profile in the next two quarters of the year, kind of qualitatively? Would you expect the third quarter to be similar or higher sequential growth? And then as we've seen in your normal patterns in the past, the fourth quarter tends to be more flat or at least a lot more growth than the third. Is that still a revenue profile that we should count on?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Well, I'm not sure I want to commit to that question, but what I said at the previous call is that there'd be notable growth in the quarters. I still feel that we'll have notable growth in the quarters. Will it be a continuum of a 7% or an 8% or a 9%? No, I'm not committing to that. But I do believe that Q2 to Q3 will be a notable growth.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. Maybe I'll ask the question in a slightly different way, which is to ask you a question I asked you on the last call, which is do you expect to grow this year? I think you said be disappointed if you did not. Is that still your expectation?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I'd still be disappointed if we don't.

Richard Shannon - *Craig-Hallum Capital Group LLC - Analyst*

Okay. Excellent. That is all my questions. I'll jump in the line.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Thank you, Richard. Appreciate you. Thank you.

Operator

Mehdi Hosseini, UCL.

Mehdi Hosseini - UCL - Analyst

Yes. Thanks for taking my question. I have a couple of follow-ups from my end. Russell, if Silicon Photonics is going to profit some of your revenue in Q1, how should we think about the contribution, either in terms of revenue or sequential growth by Q4 of this year? And I understand, I'm not asking for the year end guide, but I just want to see how these new wins and new markets are helping you with the overall revenue trajectory?

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

The level of revenue of Q1, we would see it in Q4 being higher, but the level of revenue for the company will be higher in Q4 as well. So I don't think that we'll necessarily have higher than 5% of the corporate revenue being Silicon Photonics. But staying at the 4.5% to 5.5% level would be a higher Silicon Photonics revenue baseline for that 4.5% to 5% contribution, if that answers your question.

Mehdi Hosseini - UCL - Analyst

Yes. Absolutely. And then, is there like a kind of synergy between Silicon Photonics and Silicon Germanium? And is that what's enabling you to be that basically you're the first on the Silicon Photonics revenue? Is that simply Germanium enabling you to do that?

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

Certainly, there is -- it's both at this point going into the pluggable. So it's more or less the same ecosystem of customers and end customers. Also within the cycle platform that we have, we're doing a Germanium modulator. So we have experience with 5G to be depositing and dealing with Germanium. So, yeah, there's certainly overlap both in the space, in the customers, in the knowledge. And then specifically, and I'm not trying to sound overly arrogant, but I think that our RF technology team is pretty much the best in the world. So it's all within the frame of what they serve and what they know.

And just (technical difficulty) the advancements that we're continuing on the platform, looking at new modulator materials, et cetera, I think that that will keep us in a very strong leadership position and it's based on having incredibly capable people. President of the company, Marco Racanelli is an RF expert. The person running this activity is Ed Preisler is, I think, the best of the best.

So (technical difficulty) really having his whole team. I mean, I could give you several handfuls of people, but I'd be fearful of them getting recruited. But really excellent, excellent people. And that's -- but it is related to our Silicon Germanium, but as well, it's related to the capabilities of the people that are doing Silicon Germanium. I know that RF space so well.

Mehdi Hosseini - UCL - Analyst

Okay.

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

And I want to play this. We have extremely good customers that are very good partners within that. Now, we've done several press releases with Anello in the past. The CEO of Anello, Mario Paniccia, has been an amazing partner that, in general, has been very helpful for us. So the customer base that we have and the way we work with our customers are also tremendous enablers in technical advancement.

Mehdi Hosseini - UCL - Analyst

Just on that note, given how sophisticated the Anello design is and the characterization of silicon, even if competition catches up, these wins are sticky. And I shouldn't be concerned with any pricing pressure looking to next year because competition is catching up. You could be a single source for some time. Is that the right way of thinking about these new wins?

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

If it's the right way, it's the way I'd like to look at it.

Mehdi Hosseini - UCL - Analyst

Okay.

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

I think it's predominantly correct. It's very sticky. And pricing pressure, you always have to work with your customers very closely on prices that allow them to win as well. Pricing pressure, if you have a good customer, it's not that you're being leveraged against A, B or C competitor. It's that you're working together to make sure that they're successful in the market.

So pricing pressure, I see it, honestly, in many cases, as being a partner to help each other be successful and win. But the way that one mitigates any pricing pressure is by having technological advancements to where you're either decreasing form factor and hence increasing the amount of devices per silicon aerial unit or you're increasing performance to where the value becomes higher of the silicon that you're selling.

So, but the pricing pressure, I am not -- I don't think that that's such a big problem. The fact of having a sole supplier relationship is really where we try to work with all of our customers and that's off of having a partnership and trust.

Mehdi Hosseini - UCL - Analyst

And in that context, combined with Silicon Photonics, Germanium, and combined with certain RF SOIs, are these going to be margin accretive or margin neutral? Hopefully it's not margin to do this.

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

The Silicon Photonics is definitely margin accretive and Silicon Germanium has always been at the upper end of our margin spectrum in general.

Mehdi Hosseini - UCL - Analyst

And RF SOI?

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

RF SOI itself is very, very good margin. What dilutes RF SOI margin to some extent is that the SOI substrate itself is very expensive. So RF SOI has a very good revenue contribution, but the margin that you get on the RF SOI is really off of the silicon that you're processing. You're not doing a big uplift on the substrate and the substrate's expensive. So if you look at the total margin of an RF SOI wafer, it's not going to be a very good margin. It's not the highest margin that we sell. If you look at the margin per layer of silicon manufacturing, it's very, very good.

Mehdi Hosseini - UCL - Analyst

Okay. And then lastly, OpEx sold \$33.5 million for Q1.

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

I couldn't hear the beginning of the question. If you could repeat it.

Mehdi Hosseini - UCL - Analyst

I'm shifting to OpEx. You did \$33.5 million for Q1. How should we model this for the rest of the year?

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

Our OpEx are pretty much flat. I mean, despite the revenue increase that Russell is talking about, we do not expect to increase those OpEx because they are fixed cost. So I think current level is the level that we'll take.

Mehdi Hosseini - UCL - Analyst

So just the model's kind of sluggish going forward.

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

Yeah. Yeah.

Mehdi Hosseini - UCL - Analyst

Okay. Got it. Thank you for that.

Russell Ellwanger - Tower Semiconductor Ltd - Chief Executive Officer

Thank you for the questions. Appreciate your coverage as well.

Operator

Lisa Thompson, Zacks Investment Research.

Lisa Thompson - Zacks Investment Research - Analyst

Hi, there. I do have a couple of questions for you. I was wondering, could you talk a little bit about the electronic market of how your products go into that and what you're seeing as to what's going on there?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I'm sorry. I really couldn't make out the question. Could you answer it again or question it again, please?

Lisa Thompson - *Zacks Investment Research - Analyst*

Sure. Could you talk a little bit about the electronic vehicle market and what you're seeing for your products there?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Sure. Thank you. So the biggest market that we serve and have served within the EV is the battery management, which was right now is not as strong as it had been as the overall automotive is not. But that is an area that we serve.

We have a new platform, which is a research platform that is gaining a lot of traction for designs for battery management. I think the first protos on that will be happening in the fourth quarter and first quarter, fourth quarter of this year and first quarter of 2025, according to recent customer interactions that I had asked. So the biggest area on the EV that we have is within battery management.

Within automotive in general, we have a variety of other activities that we do. We have another that had been press released over the years. We do radar, Silicon Germanium based radar that was with Denso, Toyota. We have a variety of activities with automatic door openings, spinning mirrors, certain amount of activities with cameras and right now, a lot of activities, be it with electric vehicle or not, dealing with LiDAR. I think I mentioned that in the script.

With dealing with Silicon Photonics for FMCW based LiDAR, which has not gone into mass manufacturing yet, but promises to really be that which will take over on autonomous driving for the LiDAR market. So those are the major activities that we have with automotive and specific with electric vehicles.

Now, there's many other products that we serve within automotive as well that comes from having purchased the Maxim facility where the bulk of the long-term contract we have is serving automotive. That's very captive within Maxim and the specific applications that are served within there, I really shouldn't get into because that's Maxim's business and not mine. But we serve Maxim on a contract, well, ADI at this point, and that's predominantly automotive.

Lisa Thompson - *Zacks Investment Research - Analyst*

So are you seeing demand up, down, or sideways?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I said initially that the automotive demand is weak right now and I reiterated that for battery management, that it's also down right now.

Lisa Thompson - *Zacks Investment Research - Analyst*

Okay. And then a question for Oren, could you explain what happened with the taxes this quarter and whether we should still expect it to be about 14% for the full year?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Yeah. The model should be that you should expect, I mean, all in effective rate, whatever you want. The Israeli operations create 7.5%, our taxable at 7.5%, the U.S. at 20%, the Japan at 30%, so you can assume 14% or whatever.

For this, from Q2 and beyond, for this quarter, as you see, there was a one-time benefit, which is the base for your question, instead of having an expensive, we had a benefit from some historical accrual reduction. But of course, this cannot be the baseline assumption for the future that we'll have tax benefits when we have pre-tax income, like in this quarter. So for the future, the assumption should remain the same.

Lisa Thompson - *Zacks Investment Research - Analyst*

And then just to ask you about the interest and other, at \$4 million, that was significantly lower than I was guesstimating just based on interest income. So what do we think about that going forward?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

So usually it's between \$4 million per quarter to \$7 million per quarter. Last quarter, we had a one-time benefit there in that line from -- usually in this line, it's not only interest, it's also gains from some sale of machinery or other specific transactions in that line and gains from exchange rate. So this line is not something that is like the OpEx, which I could answer before so that it's a fixed amount. Usually it's between \$4 million to \$7 million. Obviously Q4 of 2023 last quarter, I mean, previous quarter was exceptionally good, but you see that it's coming back to this level of \$4 million to million \$7.

Lisa Thompson - *Zacks Investment Research - Analyst*

Okay. I think, did you have -- you had kind of a big exchange rate hit there, didn't you, this quarter, according to the cash flow?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

No. Not exchange rate hit, no.

Lisa Thompson - *Zacks Investment Research - Analyst*

No. That wasn't it. Okay. All right.

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Actually cash flow it is -- we have a cylinder hedging transaction that hedge against any material change in the exchange rate, and actually the exchange rate this quarter, the Israeli exchange rate and the Japanese exchange rate didn't make any impact, if at all it was a little bit positive. So there was no significance of any material or anything.

Lisa Thompson - *Zacks Investment Research - Analyst*

Okay. Great. Thank you. That's all my questions.

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Thank you.

Operator

David Dooley, Steelhead Securities.

David Duley - *Steelhead Advisors LLC - Analyst*

Congratulations on nice execution and --

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

Thank you, David.

David Duley - *Steelhead Advisors LLC - Analyst*

Sure. I just had a couple of questions. I guess, they're more housekeeping. Oren, you gave us a bunch of CapEx numbers, but they seem to kind of be over a multiyear period. I was wondering if you'd give us your best guess as to what CapEx is going to be in 2024?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

So, I mean, it's pretty straightforward from what I said. I mean, \$200 million a year maintenance CapEx. So it's \$50 million a quarter, plus we said \$160 million is remained this year and next year. You can assume about \$30 million, \$40 million a quarter for Agrate, and you saw it in Q1 that the CapEx is \$98 million, which means that on top of the \$50 million baseline, there was probably \$40 million to \$50 million for Agrate. So you can assume this will be also for the next quarter.

David Duley - *Steelhead Advisors LLC - Analyst*

So \$40 million or \$50 million a quarter for Agrate?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Yeah. Yeah.

David Duley - *Steelhead Advisors LLC - Analyst*

Okay.

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Now for Intel Fab 11X, I don't want to speak about it. It's also related to Intel business CapEx that we buy from them and that they buy from Pentos [ph] and sell to us. And I don't want to enter into the number. I just said that it's a \$300 million that will start this quarter, Q2 2024, for the coming two and a half years. If you want, you can divide the \$300 million by 10 quarters, which is two and a half years, and reach \$30 million, but everybody can make it assumption. I don't want to enter into specific numbers. And that's all.

David Duley - *Steelhead Advisors LLC - Analyst*

And then you will spend some more on SiPho and 5G, right?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Yeah. SiPho, 5G capability tools. I said it's multiple dozens of, multiple tens of millions of dollars. This year, if you average it over a few quarters, it's almost a quarter of that, but it will not be material amounts this year, because we are now ordering those tools for capability and most of the payments will not be this year.

David Duley - *Steelhead Advisors LLC - Analyst*

So that sounds like it adds up to somewhere like around \$125 million a quarter, CapEx?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

It could be. We don't give a guidance for that. It's a reasonable calculation. Although it's not something that is linear, but.

David Duley - *Steelhead Advisors LLC - Analyst*

Just along the same lines, I'm looking at your cash flow statement and your press release. The depreciation expense was down like \$6 million quarter-over-quarter. First of all, why was this depreciation down so much with you ramping up CapEx? And then if you could help us understand what that depreciation number is going to do on a quarterly basis for the balance of the year, I'd appreciate it?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

Yeah. On the depreciation, as you can see in the -- you're looking at the appendix to the cash flow, it's a \$60 million average per quarter. So a year ago it was \$62 million, a quarter ago it was \$65 million, now it's \$60 million, so it's pretty much the same numbers. The fact that it was down is not attributed to new CapEx, of course, that you are justifiably pointing out that it's going up. It's a result of tools that finished their depreciation 15 years ago. So, yeah, so, I didn't say 15 years ago?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

From 15 years ago.

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

I think, yeah. So --

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

\$40 million to \$50 million

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

Anyway, it's probably tools that were purchased in 2009 and finished their depreciation, but that the -- that \$60 million is the baseline and you're right that you should add to that whatever amount of new CapEx that should be now depreciated. Will not change a lot.

David Duley - Steelhead Advisors LLC - Analyst

But what do you think that will be for the balance of the year, because it's kind of important for your gross margin, so --

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

Yeah. So I don't think it will go up much above the \$60 million, maybe \$65 million maximum, because one reason is that, as I mentioned, both, I mean, the Intel CapEx index, for Fab 11 CapEx, this is, will not be starting to be depreciated this year, right, until it will start production. And the other tools, until we start to be in play, also, it's not that we are paying and immediately start depreciation.

First, you're paying. Unfortunately, you get the tools after a few quarters, until it's qualified, and then start depreciation. It's usually sometimes a year delay. There will be an impact from the aggressive tools that will start depreciation, right? And the Russell refer to that as one of the reasons for the headwind. So I would assume \$65 million the new level.

David Duley - Steelhead Advisors LLC - Analyst

Okay. And then just final question from me and it has a lot to do with these depreciation questions, is going forward you're ramping up your CapEx, and obviously, depreciation's going to be going up and during that timeframe, I'm kind of wondering what you think the drop rate of the business is going to be. You've always given us a target drop rate, but that's not when you're spending \$125 million a quarter in CapEx. So I'm kind of wondering, when we're at these elevated CapEx levels, what the drop rate to gross margin is you expect with revenue growth through the balance of the year? Thank you.

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

So we believe strongly in our financial model that we published in November and it already included, baked into that all those CapEx of Agrate for sure, 11X for sure, and also the additional capability tool. And the margins are outlined there very clear. I mean, that we expect to be \$500 million at \$2.66 billion, so it's almost 20% net profit margin and you have the growth and operating, so.

David Duley - Steelhead Advisors LLC - Analyst

I don't -- I can't see that right now, so what -- could you just please articulate what you think the gross margins drop rate is going to be this year?

Oren Shirazi - Tower Semiconductor Ltd - Vice President, Finance & CFO

This year? We didn't give a guidance for this year.

David Duley - Steelhead Advisors LLC - Analyst

Okay. So longer term, you think the drop rate's going to be what again?

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

According exactly to the slide, which is publicly filed with the financial model.

David Duley - *Steelhead Advisors LLC - Analyst*

Yeah. I can't see the slides right now, Oren, that's why I'm just asking.

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

We can have it in front of us either, but we'll pick it up.

David Duley - *Steelhead Advisors LLC - Analyst*

Okay. One second. All right. That's great. Thank you.

Oren Shirazi - *Tower Semiconductor Ltd - Vice President, Finance & CFO*

So the financial model clearly states, I'm just reading the publicly filed document, that the gross profit's supposed to go up from \$347 million baseline that was in the end of last year to \$740 million a year gross profit out of \$2.66 billion, which is 32% incremental margin. Operating profit to go from less than \$200 million to \$560 million a year, which is 30% incremental. And net profit from \$200 million to \$500 million, which is a \$2.4 billion growth, which is 24% incremental margin.

Operator

There are no further questions at this time. Mr. Ellwanger, would you like to make your concluding statement?

Russell Ellwanger - *Tower Semiconductor Ltd - Chief Executive Officer*

I would, indeed. Thank you. So to summarize, as we move through the year, remain focused on and confident about continuous growth, driven by the performance of several of our differentiated technologies, being critical to present market needs and that having partnered with market leader customers who really are true partners. This growth is against the landscape of a not yet robust market. Recent customer forecasts give us reason to believe the market recovery is forthcoming.

We greatly appreciate your continued support and confidence in our vision. Our team is eager, fully prepared to continue to capitalize on opportunities, targeting substantial value for our customers and shareholders.

As far as activities going on within the next month to two and conferences where we really hope that we'll have opportunity to see you, on May 20th and 21st, we'll participate in the 52nd Annual JPMorgan Global Technology, Media and Communication Conference in Boston. On May 26th, we'll participate in the 25th Annual Israeli Oppenheimer Conference in Tel Aviv. And on May 29th and 30th, we will be attending the 52nd Annual TD Cowen Technology, Media & Telecom Conference in New York. As many as you would have opportunity to come, we would look forward to meeting, talking with you and explaining where we're at, where we're going and why we're confident where we will be.

So thank you very much again and have a wonderful day and following week. Bye-bye.

Operator

Thank you. This concludes the Tower Semiconductor conference call. Thank you for your participation. You may go ahead and disconnect.

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