

# Tower Semiconductor Ltd.

May 5, 2026

## Research Update

### Outlook Revised to Positive On Improved Operating Performance; 'iIAA' Rating Affirmed

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## Rating Action Overview

- Tower Semiconductor Ltd. ("Tower" or the "Company") posted strong operating performance in 2025, underpinned by strong demand driven by artificial intelligence (AI), in particular for SiPho and SiGe chips.
- Tower recently presented a new financial model under which, over the next three years, it intends to increase its revenue by about \$1.3 billion to about \$2.84 billion, and increase its gross profit 3.1 times, its operating profit 4.6 times, and its net profit 3.4 times compared to its 2025 financial results.
- We believe that the Company will continue posting strong operating performance in the coming fiscal years, owing to significantly larger production capacity at its plants following the capital investment plan for 2026. This is combined with tailwinds in the data center optical communications segment, in particular SiPho chips, collaborations with customers in this segment, and commitments from strategic customers in the form of advance payments that guarantee the sale of about 70% of SiPho and SiGe production capacity in the Company's plants in the coming years. We believe that these will significantly expand the Company's operations while increasing profitability in the medium term.
- Therefore, on May 5, 2026, we revised the rating outlook for Tower Semiconductor Ltd. to positive from stable. At the same time, we affirmed our 'iIAA' rating on the Company.
- The positive outlook reflects our assessment that over the next 12-24 months, Tower will increase its utilization rate and production capacity, leading to a significant increase in operations, and will post significantly higher profitability than the industry average. We also expect the Company will maintain its competitive position in the analog chip market alongside strong liquidity. The positive outlook also reflects our expectation that Tower will post an adjusted debt-to-EBITDA ratio below 1.5x in the medium term.

## Rating Action Rationale

We revised the rating outlook to positive from stable due to the improvement in Tower's operating performance and our expectation of further substantial improvement in the medium term in light of the new financial model the Company presented.

**Tower posted strong growth in 2025, owing to higher demand for AI in the industry.** Tower's revenue growth of about 9% in 2025 reflects the growing demand for its specialty chips, particularly SiPho and SiGe, driven by the rapid adoption of AI. The growing need for greater bandwidth in data

centers and among hyperscalers is accelerating the use of silicon photonics, and Tower is a major supplier of the silicon used in high-speed switching transceivers, including 800G and 1.6T modules. This trend led to a 75% increase in RF infrastructure revenues, with SiPho chip revenues doubling to \$228 million and SiGe chip revenues growing by 43% in 2025.

**Significant capacity expansion and strong industry demand are expected to support strong operating performance over the next two years.** The Company is making significant capital investments of \$900 million - \$1,000 million in 2025-2026, in order to meet the growing demand from its customers and ensure compliance with production commitments in the coming years. These investments will expand capacity at the Company's 8-inch plants in Israel, Newport Beach and Texas and at its 12-inch plant in Japan, enabling a significant expansion of high-value technology platforms, in particular SiPho chips. Production capacity is set to increase fivefold in the short to medium term. In addition, Tower entered into collaborations with customers in the data center power management segment, a market with substantial growth potential from about \$2.5 billion to about \$5 billion by 2028. Accordingly, we expect a sharp annual increase of 15%-25% in revenues in 2026-2027. We also estimate that the Company's adjusted EBITDA margin may increase to about 40% in the next two years, compared to about 35% today, due to increased focus on high-margin products.

Our base case scenario includes receiving advances from some of the Company's key customers to secure high capacity reservation (about 70%) until 2028, which increases revenue and cash flow visibility in the short to medium term.

We believe that Tower may issue debt to finance the large investments expected in 2026 and possible investments to further increase production capacity. However, given its large cash balance of at least \$1.2 billion, we expect the Company to display an adjusted debt-to-EBITDA ratio below 1.5x in the next 12-24 months. We also expect no acquisitions to be made and no dividends to be distributed in the short to medium term.

## **Outlook**

The positive outlook reflects our assessment that over the next 12-24 months, Tower will increase its utilization rate and production capacity, leading to a significant increase in operations, and will post significantly higher profitability than the industry average. We also expect the Company will maintain its competitive position in the analog chip market and strong liquidity. The positive outlook also reflects our expectation that Tower will post an adjusted debt-to-EBITDA ratio below 1.5x in the medium term.

### **Upside Scenario**

We will consider an upgrade if Tower significantly expands its operations, including production capacity, and post higher profitability, significantly stronger financial performance, and positive free cash flow (FOCF) over time.

### **Downside Scenario**

We will consider changing the outlook to stable if we see stagnation or decline in the Company's scope of operations. This may occur if market conditions deteriorate, e.g. if demand for chips decreases, leading a lower utilization rate at the Company's plants and lower SiGe and SiPho chip prices.

## **Company Description**

Tower Semiconductor Ltd. is an Israeli company engaged in the processing and production of silicon wafers as a pure play foundry according to the design specifications of its customers, which are used in a wide variety of products in different markets, including personal consumer, communication, automotive, industrial and medical products. Tower also provides engineering support services and ancillary manufacturing services. The Company produces in six facilities located in US, Israel, Japan and Italy.

## **Base Case Scenario**

**Our base case scenario is underpinned by the following assumptions:**

- A sharp revenue increase of about 15% in 2026 and about 20%-25% in 2027. This growth is underpinned by the expansion of production capacity in order to meet increasing demand for high-speed transceivers supported by SiPho chips, as well as by growth in the electric vehicle segment.
- Adjusted EBITDA margin of about 40% in 2026 owing to increased utilization rates, high-margin product mix, and revenue growth.
- High capital expenditures of \$900 million - \$1,000 million to increase SiPho and SiGe chip production capacity, the bulk of which will be paid in 2026.
- Avoiding acquisitions in the short to medium term.
- Avoiding dividend distribution.

**Under our base case scenario, the expected adjusted ratios in 2026-2027 are as follows:**

- Adjusted debt to EBITDA below 1.5x.

## **Liquidity**

According to our criteria, the Company's liquidity is "strong". We estimate that the ratio between the Company's sources and uses will exceed 1.5x in the next 12-24 months. This assessment mainly

reflects expected strong operating cash flow and the Company's cash and liquid investment balance, which are sufficient to support its investment and working capital needs. We note that the Company has a large amount of liquid and available assets to finance its debt maturities in the next two years. In addition, the Company intends to avoid distributing dividends in the medium term in accordance with its organic-growth-oriented strategy.

We estimate the Company's main sources and uses in the 12 months starting January 1, 2026, to be as follows:

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>Cash and liquid investments of about \$1.15 billion.</li> <li>Cash FFO (funds from operations) of about \$930 million - \$980 million.</li> </ul>	<ul style="list-style-type: none"> <li>Working capital needs of about \$50 million</li> <li>Capital expenditure (capex) of about \$900 million - \$1,000 million.</li> </ul>

## Modifiers

Diversification/portfolio effect: Neutral (no impact)

Capital structure: Neutral (no impact)

Liquidity: Strong (no impact)

Financial policy: Neutral (no impact)

Management and governance: Neutral (no impact)

Comparative analysis assessment: Neutral (no impact)

## Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit analysis of Tower Semiconductor Ltd.

## Related Criteria And Research

- [Principles Of Credit Ratings](#), February 16, 2011
- [Methodology: Industry Risk](#), November 19, 2013
- [Country Risk Assessment Methodology And Assumptions](#), November 19, 2013
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), December 16, 2014
- [Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Group Rating Methodology](#), July 1, 2019
- [Environmental, Social, And Governance Principles In Credit Ratings](#), October 10, 2021
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023

- [Corporate Methodology](#), January 7, 2024
- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), January 7, 2024
- [Sector-Specific Corporate Methodology](#), April 4, 2024
- [S&P Global Ratings Definitions](#), December 16, 2025

## Ratings List

Tower Semiconductor Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
<b>Issuer rating(s)</b> Long term	iiAA/Positive	09/05/2016	07/05/2025
<b>Issuer Credit Rating history</b>			
<u>Long term</u>			
May 05, 2026	iiAA/Positive		
May 03, 2022	iiAA/Stable		
April 30, 2018	iiAA-/Stable		
May 10, 2017	iiA+/Stable		
May 09, 2016	iiA/Stable		

Additional details	
Time of the event	05/05/2026 09:00
Time when the event was learned of	05/05/2026 09:00
Rating requested by	Issuer

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