



LSEG STREETEVENTS

EDITED TRANSCRIPT

Q3 2024 TOWER SEMICONDUCTOR LTD EARNINGS CALL

EVENT DATE/TIME: November 13, 2024 / 3:00PM UTC



An LSEG Business



CORPORATE PARTICIPANTS

- **Noit Levy-Karoubi** *Tower Semiconductor Ltd - Senior Vice President - Investor Relations and Corporate Communications*
- **Russell Ellwanger** *Tower Semiconductor Ltd - Chief Executive Officer, Director*
- **Oren Shirazi** *Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Mehdi Hosseini** *Susquehanna International Group - Analyst*
- **Cody Grant Acree** *Benchmark - Analyst*
- **Richard Shannon** *Craig Hallum - Analyst*
- **Nicolas Doyle** *Needham & Company - Analyst*
- **Lisa Thompson** *Zacks Small-Cap Research - Analyst*

PRESENTATION

Noit Levy-Karoubi *Tower Semiconductor Ltd - Senior Vice President - Investor Relations and Corporate Communications*

Welcome to Tower financial results conference call for the third quarter of 2024.

Before we begin, I would like to remind you that some statements made during this call may be 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 third 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 into 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, Director*

Thank you, Noit. And welcome, everybody. Thank you for joining our third quarter 2024 earnings conference call, a quarter in which we delivered a strong financial performance. During this quarter, our high-speed data center offerings reached a record revenue. We've seen an increase in our customers' short-term and midterm demand for this offering that should result in an incremental dollar growth, unprecedented as compared to any other product offering in our history, mainly driven by our unique offerings fulfilling AI requirements.

Revenue for the third quarter reached \$371 million, a 6% quarter over quarter and 3.5% year-over-year growth with a net profit of approximately \$55 million representing net margin of about 15%. At year's begin, we stated a target of sequential quarterly growth, which we have achieved through the third quarter.

We're pleased to guide the fourth quarter to continue this trend with a mid-range guidance of \$387 million and a range of plus/minus 5%. Such midpoint represents about 10% Q4 versus Q4 year-over-year growth and 18% within the year growth.

We continue to experience very strong growth in our RF infrastructure business, representing approximately 18% of our corporate revenues in the third quarter and close to doubling in Q3 '24 over Q3 '23 revenue, primarily driven by the increase in optical transceiver demand used in high-speed data communication for AI and other data center applications.

We serve this market with both silicon germanium for electrical amplifiers, such as trans-impedance amplifiers and drivers and with SiPho for integrated optical components, such as modulators and photodiodes. Silicon photonics continues to see rapid adoption at the higher data rates.

Today, we are shipping 800G products in high volume, resulting in a 2024 expected revenue of approximately \$100 million for silicon photonics. This being a new growth market where Tower will have over 3x revenue growth, 2024 over 2023 with a forecasted annualized Q4 '24 run rate of over \$150 million.

As of this quarter, we've begun a production ramp of 1.6-terabit products for several lead customers. 800G products are built with eight parallel lanes of 100 gigabit per second while 1.6T products are built with 8 parallel lanes, each operating at 200 gigabit per second on our latest technology that doubled the operating speed of each component.

While the component count remains similar for 800 gigabit eight-lane versus 1.6T -- terabit 8-lane, the needed performance requires continuous innovation and process technology and integration teams to support the demanding modulation bandwidth. We believe today, Tower is the number one foundry by volume in silicon photonics and to our knowledge, also the first in production with 1.6T silicon photonics-based products.

Looking forward, we continue a strong R&D partnership with lead customers towards introducing technology for 3.2 terabit that will rely again on technical innovation, enabling a doubling of speeds to 400 gigabit per second per lane.

Our silicon germanium business is growing not only due to the factors mentioned above that are growing the optical transceiver market as both silicon germanium and silicon photonic components are built into an advanced optical transceiver, but also due to strong demand for active copper cables for short-reach interconnects.

Active copper cables typically use a silicon germanium driver or retimer to improve signal integrity at high speeds, currently 800G to enable copper cables to be used in many short-reach applications for both performance and cost benefits as compared to optical cables.

Based on the strong demand we are seeing from both our silicon germanium and SiPho customers, we are qualifying both families of platforms, serving optical transceivers in our San Antonio and Migdal Haemek 200-millimeter factories, where we are optimizing existing fab space and adding substantial additional cleanroom for further growth.

We have also released 300-millimeter PDKs using a 65-nanometer CMOS, which for silicon germanium, enables customers to integrate higher density, lower power and lower noise CMOS, supporting higher precision analog circuit application, phased array RFICs and increasingly complex modulation schemes for communication and for silicon photonics for lower loss components.

In the RF mobile market predominantly RFSOI, which represented approximately 26% of our corporate revenues in the third quarter of 2024. We continue to transition customers to new 300-millimeter capacity in Agrate as our demand outpaces RFSOI capacity in our Uozu 300-millimeter factory.

We expect to deliver our first production revenue in Q4 to the order of a couple of tens of millions of dollars from the Agrate factory with further ramp expected in 2025 to support the growth we are seeing in this market.

In addition, we continue to prototype with customers on our most advanced platform, TPS65RSC now available directly from Agrate as well with customer acknowledged, industry best Ron-Coff and power handling for next-generation RF mobile products.

Our newly announced triple-play RFSOI platform, for WiFi front-end modules, finisher grades, the power amplifier, low-noise amplifier and switch on a single die, which we press release with Broadcom is a mass production and receiving strong interest from additional market leaders.

Our power business, which represented 17% of our corporate revenues in the third quarter of 2024 continues to see strong growth opportunities in our 300-millimeter 65-nanometer BCD platform, which as we have discussed in prior quarters, enables us to enter lower voltage and higher volume markets in handsets and other consumer devices, in addition to our higher voltage, industrial and automotive segments.

We are pleased to report that we have ramped certain handset products to high volumes in this technology in our Japan factory and now are qualifying our Albuquerque facility to enable further growth. We anticipate beginning production in Albuquerque in 2025. And given the large capacity available, anticipate this to provide strong growth for our power business for years to come.

Moving to sensors and displays, which represented 14% of our corporate revenues in the third quarter. At year's begin, we expected second half growth, in particular, from customers serving machine vision. This has not happened but rather the imaging business remained stable through the year as of Q2 run rate.

Our customers are optimistic about 2025 growth based upon new wins, particularly based upon wins with our 300-millimeter 65-nanometer CIS platform. Among these wins is a stacked BSI global shutter, ultra-high resolution sensor, 100 and 325 megapixels showcased by one of our leading customers in last month's VISION show in Stuttgart.

In the display front, we are engaged with two very large customers in the AR and VR market with OLED and silicon displays expected to tape out our products next year on our new 5-volt with extensions to 8-volt transistors, lean 300-millimeter platform with state-of-the-art low leakage currents and high-density capacitors.

Our fab utilization rates for the third quarter were Fab 1, as previously announced, will be operationally consolidated in the Fab 2 and was at about 85% entering into last time buys. Fab 2, 8-inch as well as Fab 9, 8-inch for about 60% each with concurrent capacity repurposing and cleanroom build-out to meet the continually growing forecasted demand for silicon germanium and silicon photonics products.

Fab 3, 8-inch was at 65% currently at full silicon germanium silicon photonics capacity with real-time activities reducing certain bottlenecks, targeting a 20% increase in the fab utilization. Fab 5, 8-inch was at about 60%. Fab 7, 12-inch was about 85% fully loaded to our operational model.

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

Oren Shirazi Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance

Thank you, Russell. Hello, everyone. Earlier today, we released our quarterly financial results and balance sheet. For the third quarter of 2024, we reported revenue of \$371 million, gross profit of \$93 million, operating profit of \$56 million and net profit of \$55 million, reflecting 15% net margin.

Revenue for the third quarter of 2024 were \$371 million compared to \$351 million in the second quarter of 2024. I'm pleased to report that we achieved our stated 2024 target of quarter-over-quarter revenue growth considering our reported revenue for the past quarter and today's fourth quarter midrange revenue guidance of \$387 million.

Gross profit for the third quarter of 2024 was \$93 million compared to \$87 million in the prior quarter. Operating profit was \$56 million compared to \$55 million in the prior quarter, which included \$6 million restructuring income in relation to Japan operations reorganization.

Net profit was \$55 million, reflecting 15% net margin, or \$0.49 basic and diluted earnings per share compared to a net profit of \$53 million, reflecting \$0.48 basic and diluted earnings per share in the second quarter of 2024, which included \$2.6 million of net income from our Japan operations reorganization.

Moving to balance sheet and future CapEx and cash plan. As of the end of September 2024, our balance sheet assets totaled \$3.1 billion as compared to \$2.9 billion at the end of 2023, primarily comprised of \$1.3 billion of fixed assets net of depreciation, predominantly comprised of fab equipment and \$1.7 billion of current assets.

Current asset ratio, reflecting the multiple by which current assets are larger than short-term liabilities is very strong at about 6x and shareholders' equity reached a record of \$2.6 billion at the end of September 2024. Our strong financial position enables us to plan the following investments in strategic opportunities that are aligned to our corporate vision.

Approximately \$500 million of total aggregate cash has been allocated to make investments in equipment that Tower will own and own in the 12-inch fab in Agrate, Italy, following the previously announced STMicro partnership. To date, we have already invested \$400 million of this amount and have placed purchase orders for all of the equipment and other CapEx items required. The remaining \$100 million are expected to be paid in the coming four quarters.

In addition, as previously announced, we have committed to invest up to \$300 million to acquire equipment and other CapEx items that Tower will own in Intel's New Mexico fab, enabling us to ramp up fab capacity and capabilities for our customers.

This \$300 million of CapEx is forecasted to be paid in installments until the end of 2026. Furthermore, as we announced today, we are executing the \$350 million investment plan to expand SiPho and SiGe capacity and capabilities for the qualification and ramp-up of these technologies in our 200-millimeter and 300-millimeter fabs to serve our growing customer demand. Payments towards this \$350 million plan are expected in installments until the end of 2026.

I wish to note that all the above investments, including today's announced SiPho and SiGe CapEx investments are within and steps towards achieving our business strategy and financial model as previously presented by the company in November 1 year ago.

In the model, we outlined a revenue target of \$2.66 billion per annum that could be achieved by fully loading our existing facilities and our newly built and to-be-built capacity at the Agrate and New Mexico facility, which could result in \$560 million annual operating profit and \$500 million annual net profit.

Now I'd like to turn the call back to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mehdi Hosseini, Susquehanna International Group.

Mehdi Hosseini Susquehanna International Group - Analyst

Two follow-ups here. I want to go to slide number 6 and better understand revenue and gross profit opportunities, especially with 400 gig and plus. Should we assume that because of the ASP premium, the revenue mix is much higher than the wafer mix? And I have a follow-up.

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

I'm sorry, I didn't quite understand the question. The what mix is higher than the what mix?

Mehdi Hosseini Susquehanna International Group - Analyst

On the slide number 6, you have the wafer mix between 400 gig -- less than 400 gig and more than 400 gig. I'm under assumption that for applications above 400, wafer ASP is higher. And therefore, the same slide but presented with the revenue mix would have a significantly higher mix of higher than 400 gig? Is that a fair assumption?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

It's a fair assumption, but I'm not sure that you're seeing the slide properly. This is only for active copper cable. The slide is not the overall silicon germanium mix. So certainly, the SiGe platforms itself that we are using for 800G or a more advanced platform higher

Ft and Fmax than we would be doing at a 400 or 100G.

For cables, it also ties to an extent, but most of the cables that we're selling are already going for above 400G or as I stated in the script, mainly for 800G. So yes, the cables that we're selling are at a very good ASP, but it's because of the higher-end platform. But most of what we're doing is for advanced speeds.

Mehdi Hosseini *Susquehanna International Group - Analyst*

Okay. All right. And then just looking at the overall silicon photonics market. In the past, you have highlighted \$80 million revenue opportunity in '24 and doubling to \$160 million in '25. It seems like you are tracking above those targets. Can you give us an update here?

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

Yes. I don't mean this tongue and cheek, but I think I did. Yes, the revenue is expected to hit about \$100 million this year. So certainly as -- sorry, as I stated at the beginning, short term, midterm, we're seeing ever-increasing customer demand and for the midterm, ever-increasing customer forecast. So we'll be leaving the year providing we go according to forecast in our ship plan with about \$150 million silicon photonics run rate already leaving 2024.

Without giving anything about the 2025 guidance or targets, one could expect that if I had -- I think I said more than doubling, but that the -- from \$80 million to above \$160 million, if already Q4 is at a \$150 million run rate, then I think it's very safe to say that we're tracking above the forecast we have given a quarter ago. Very good question, though. Thank you.

Operator

Cody Acree, The Benchmark Company.

Cody Grant Acree *Benchmark - Analyst*

Congrats, guys, on the progress. Extremely impressive guidance. Glad to see it. Maybe, Oren, can we just get one clarification. You said the \$350 million would start when in installment payments and when -- did say '26 or '28 .

Oren Shirazi *Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance*

End of '26. It will be spread, you may assume pretty linearly between now and the end of 2026.

Cody Grant Acree *Benchmark - Analyst*

Great. I just tailed off a little bit when you were making that comment. Can you maybe talk about the level of revenue that, that \$350 million is expected to support if you just add incrementally to your slide, your \$2.66 billion, what is the \$350 million represent?

Oren Shirazi *Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance*

No, that's included in the model. Like I said in my closing remarks, this is within the model and towards achieving the model, we needed to do that investment.

By the way, also the CapEx is included in that model. So there is no additional depreciation because of that. These are the steps that we needed to do in order to achieve this long-term \$2.66 billion. So it's in the numbers.

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

I think Cody, the big point within it is that the model obviously was reliant upon certain technologies that customers would be needing and wanting that were aligned to road map activities that we have with them and the fact that the investment steps are going and the important part is to say that it's all was foreseen in the model, but it was aligned to long-term road map partnership and that -- in going forward on it shows that what we had expected to happen is truly indeed occurring.

Cody Grant Acree Benchmark - Analyst

Okay. Great. So just more detail then to the \$2.66 billion. Maybe if you can talk about the types of agreements that you have with your customers for your SOI capacity. Obviously, that's getting ready to ramp and you've got a significant amount of capacity out there to fill.

What kind of customer agreements or if not contracts, what kind of assurances do you have that they're going to be there for you to support that capacity?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

Within the area of the RFSOI, at present, I don't think there's a single take-or-pay agreement. There are very, very strong relationships and track records that we see customers having performed to. Is there a take-or-pay involved? No.

But I think in many areas, take-or-pays are not a good thing to have. In bad times, trying to hold somebody to buy things that they don't need is not good.

But our assurance is really off of seeing how -- I mean you cover many people within the space, the specific front-end module market at this moment is not overly strong. But the fact that we're seeing very big growth. I believe in Q3 over Q3, we had very good double-digit 300-millimeter RFSOI for advanced platforms. Probably if we look at the fourth quarter forecast, versus the fourth quarter a year ago for the 300-millimeter platforms, it will be well above the 50% year-over-year growth.

So the point being that customers that we're working with themselves are gaining market share in a market that doesn't have the type of growth that we're seeing. So as long as we're tied with people on multi-generation road map and serve them well, we're quite convinced that they stay with us.

In the short to midterm, very difficult to qualify someone else in form fit and function for a front-end module. In the long term, the assurance is simply, if we perform well and they perform well in the short to midterm, then we stay together in the long term.

But the biggest thing is having PDKs that really match the output performance. So customers are more or less guaranteed first-time success. And to work very closely to go through any issues real time during the initial design prototyping cycle so that they come to market quick and that we both benefit from that.

Hopefully, that answers the question, Cody. But if you're asking if we have long-term take-or-pay agreements that we do not.

Cody Grant Acree Benchmark - Analyst

Okay. That's very helpful. And then lastly, we've been hearing some grumbings in the market regarding the potential uptake for active copper cables with some changes that are speculated in their NVL 36x2 platform at NVIDIA. Are you seeing any volatility in your wafer activity? Obviously, you're seeing a lot of strength given what you've been saying today, but just any color might help.

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

Very perceptive of you and we have some wafers in line that indeed have been put on hold at a certain level to allow for a mask change.

Cody Grant Acree Benchmark - Analyst

What does that entail Russell, as far as your volume output?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

I think it's not going to make much difference at all. It's just a question of keeping wafers at a certain inventory point waiting for a new mask.

Cody Grant Acree Benchmark - Analyst

So changes at the mask level would change how the copper cables are going to be deployed? Is that the way to think about it?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

They'll change the output parameters.

Cody Grant Acree Benchmark - Analyst

Any other color there, Russell?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

No, I think that's pretty good color, actually.

Operator

Richard Shannon, Craig-Hallum Capital Group.

Richard Shannon Craig Hallum - Analyst

Great results. Great to see the RF infrastructure doing so well here. I guess my first question is on the silicon germanium side here, talking about 1.6T. I guess wondering if that's going to be a material contributor, noticeable contributor revenues by the end of next year. Is that timing that you expect to be material? Or is it still growing from a small base at that point, do you think?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

I honestly think it will be material. If you look at analyst reports for 2024 from two years ago, they all really had 100G being 80% of the market where probably 800G is 85%, 90% of the market for this year. So I think the fact that we have good working samples, of course, the end data center maker, the hyperscaler has to be willing to implement.

But I do think the road map on speed is very, very fast now. So yes, I believe it will be a material amount of revenue in the second half of next year and maybe starting in the second quarter.

Richard Shannon Craig Hallum - Analyst

Okay, perfect. That's very helpful, Russell. Maybe a question for Oren on gross margins here. Just looking at the fall-through quarter -on-quarter.

I know it's probably not great to look at it just on that short-term basis here. But last quarter, you saw a very nice fall-through margin. This quarter was a bit less here, 30% -- I calculated about 31% or so.

Last quarter, you said the benefit was coming from silicon photonics, yet it seems like silicon photonics is doing very well. So I can't resolve those two that seem to contradict each other. Can you help us understand why the big difference here.

Oren Shirazi Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance

Yes. I think Russell related to that in his remarks, he mentioned that the CIS, the image sensor was not like we expected. And the CIS, as you know, is also high margin like the SiPho. So the increase in SiPho which is very nice. Impact on margin in Q3 was somehow offset by the image sensors.

Okay, sorry.

Richard Shannon Craig Hallum - Analyst

I didn't mean to interrupt you, Oren.

Oren Shirazi Tower Semiconductor Ltd - Chief Financial Officer, Senior Vice President - Finance

No, no.

Richard Shannon Craig Hallum - Analyst

Okay. Russell, maybe looking forward here, trying to help people think about their growth expectations kind of linearity through next year. I know you probably won't get anything quantitative, but just kind of a framework to think about here. Generally, your first quarter is seasonally down. Wondering if you expect normal seasonality here?

And then how do we think about growth going into next year. I mean the RF infrastructure looks utterly fantastic. Tower is doing pretty well, and it sounds like your sensor and image businesses is poised to inflect here. And I guess we can all project what RFSOI can do -- or excuse me, in RF mobile, but it seems like a pretty good growth year here. How would you help us think about these dynamics as we put our models together?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

So I certainly believe that the infrastructure market served by the SiGe and the SiPho will grow and grow very strong. Oren mentioned that the SiPho realizes very high margins. It actually comes in substantially higher than the imaging, which is also extremely high margin. So I think as far as the contributions of the SiPho growth, it will be quite substantial and SiGe will continue to grow throughout the year as well from everything that we see and customers are forecasting.

On the imaging, we had mentioned earlier that Q1 was a low for us. Q2 is a substantial increase over Q1, and we stated at the Q2 level, but we had expected a very good growth forecasted by our customers, particularly for machine vision in the third and fourth quarter, which did not happen.

I'm not going to give a target or a guidance in the third quarter for 2025. We'll certainly be giving good color on that when we release the fourth quarter. But that being said, for our plans right now, we're not putting into any of our plans, the believed forecasted customer demand increases for the imaging, but our plans would have imaging staying at the same level as they were as they are now as we hit in Q2. And within our own plans, if imaging comes up at 25% or 50% increase, that would be fantastic, but it's not what we're counting on.

On the RFSOI, the market itself has stated is not overly strong. Our customers are gaining market share. We would expect that there will be growth in RFSOI. There will certainly be growth in 300-millimeter versus 300-millimeter. 200-millimeter that we're doing, I'm not sure that, that will be growing.

And I don't know how much the overall market will grow next year. I expect that we'll have growth, but some of it really depends on the mobile market itself, what's happening in handsets. And I don't think that 2 of the big players in that market that gave releases

recently, we're not overly optimistic about 2025.

So the RF mobile market, I think, will outperform the market because serving customers that are gaining market share in addition to other customers. And even with some of existing customers, we're gaining additional SKUs and for new capabilities. So I'm not sure how much that will grow. I don't know how much color I can give there. And that's one reason that before we give a target for the next year, we really like to be closer to the year as possible.

And when we release Q4, we'll be within the year. So I think we'll be able to give good flavor. But from what lead suppliers to front-end module are saying right now, it doesn't look like the mobile market is extremely strong in '25 or at least for the first half of it.

In the power market, that's a place that we really do always have opportunity to grow. And it's really because whether the market itself is growing or not, we're starting from not a very high market share position. And the 300-millimeter platforms are strong platforms, growing, getting qualified where we have now free capacity in Albuquerque. So we'd expect to see growth in that in 2025.

To what extent? I'm not sure. I don't want to say that at this point. But certainly, it's a good business for us where we entered into additional markets that we weren't serving in the past. And I think the easiest way to grow share of market is by increasing your served market, which we've certainly done within the BCD 65-nanometer BCD and potentially going beyond that.

But I'm not sure if that answered your question well, but it's as much as I think I can say at this point.

Richard Shannon Craig Hallum - Analyst

That is helpful Russell. We understand it's early, but your best perspective is always helpful.

My final question, I'll jump out of the line here is just looking at the balance sheet and noting there's a very strong cash position and obviously, you've been growing cash and expect to by all measures here going forward here. So I'm wondering what you're thinking about for cash usage going forward here?

And I guess maybe I'll also turn this to more of a strategic thought process with your company, do you see any potential for M&A in any way, either operations or technology or anything to augment certain areas that you have silicon photonics, power, et cetera, to realize that.

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

I'll start with the second part of your question, then Oren could talk to the first because I think he ended his portion talking about a lot of cash needs in the company to fulfill this circa \$2.7 billion plan.

But as far as M&As, we're always truly actively engaged in betting multiple M&As. Now there are a lot of speculations about us going into a foreign country and building a big factory, et cetera, et cetera. We're engaged all the time at looking at opportunities, some opportunities appear at first swipe to be extremely positive.

But always, I think there's an honest risk/reward look that has to be done. And as soon as we see things that make sense and are truly accretive to the company, meaning very few capacity acquisitions that you would do.

Certainly, no greenfield builds that a person would do, however, cash accretive for the first years, and it takes multiple years to get to net profit positive within any greenfield.

So the conditions of doing one of a greenfield activity, which could make sense in different geographies, has to have certain conditions with either the government or with certain customers or with a partner that would not have our shareholders suffer from the cash loss of the first seven, eight years. And that takes a lot of consideration and activities. That's why for such large capacity increases, it's always smarter to take over a going concern than it is to do a greenfield on a pure financial basis.

As far as looking at technology acquisitions, again, we're very engaged in those and to say what we're engaged in right now maybe sets false expectations and to release anything, before one is required to release, which means before it becomes material, it then can come off and look like one was ineffective at closing on a deal, which is not the case. It's very good to always be open and look at deals.

And I would say there's rarely a time when there aren't at least four to eight activities that we're pursuing and engaged in. But before closing them, they really have to be something that is accretive to shareholders and is accretive to our road map and hence to our

customers or would contain customers that our other products can help grow on top of what you're buying.

But that's a long answer, and I apologize that it's so long. It's just -- it's not an easy digital yes or no. It's a lot of qualifications in it. But we are actively looking. We have been actively looking.

We were very close to maybe doing something within the past month that ultimately, we could not come to agreements that would be viable for shareholders and hence, for the company. And I think that no matter how excited one is about something, you must always be grounded in the numbers. And if something doesn't pencil, it doesn't pencil.

Richard Shannon Craig Hallum - Analyst

I appreciate all that detail, Russell as always. Congratulations on the great results.

Operator

Nicolas Doyle, Needham.

Nicolas Doyle Needham & Company - Analyst

Also a question on ACCs. So you're seeing the short-term and midterm strength in your silicon germanium business enough to invest significantly for new capacity and some of that, not all is related to ACCs. And I think the answer you gave to Cody earlier was related to this, rack-to-rack or horizontal opportunity.

But I'm assuming the strong demand and the CapEx decisions can go beyond would mean that this demand would go beyond one application at one customer. So we've heard applications using [NIC to TOR] or a vertical use case and also a newer inner rack use case at higher speeds.

So can you give any color on what the other applications could be?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

To begin with, the bulk of our silicon germanium is not for ACC, right? It's for the TIAs and drivers. So that's the bulk. ACC is incremental revenue. Now the lead customers that we have for the optical transceivers itself are also those that are doing the active copper cables.

Within that incremental revenue that they have demand for the ACC I cannot exactly say what application they're going after within rack, within the pizza box itself, rack-to-rack many cases, rack-to-rack active copper cable is not sufficient. But I don't think I'm in a position to give real good color as to what our lead customers that are using SiGe at very high volumes for the transceivers and are also now buying SiGe for the ACC. What is their entire gamut of applications that they're serving with the ACC, I couldn't really state that with tremendous granularity.

Nicolas Doyle Needham & Company - Analyst

Okay. Still helpful. And then the next one, just a basic question on utilization. Fab 3 is at 65%, I believe, you mentioned. And that is, I guess, full SiGe and SiPho capacity with a 20% target increase.

So just a little explanation on 20 points. Just an explanation on how that is going to happen. I guess you're taking out certain capacity and refilling it with this SiGe and SiPho demand, and that's contemplated in the \$350 million, and that's how you'll increase this utilization?

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

A very good question. There's bottlenecks that we have. There are other mixes that were done in that factory previously. There's bottleneck specific from having moved from silicon germanium to doing a certain amount of silicon photonics. And by adding and qualifying certain processing chambers, you're relieving the bottlenecks, enabled them to move up to use the full photo capacity.

The Fab, we always present utilization against Max photo capacity of the factory. Processing tools can gate for a certain flow of the photo capacity what you have in any fab is processing tools that are unique to certain flows that are capped at whatever the volume is, plus some certain percent. Otherwise, you have tools that are utilized and using fab space ineffectively.

In this case, as we've moved to having such a demand for the SiGe and the SiPho, we're doing very little in that factory other than SiGe and SiPho to maximize that output, but we've come into bottlenecks on certain steps, which you could maybe say certain niche steps, et cetera or maybe certain deposition steps.

So we've added chambers or adding chambers or repurposing some chambers in order to be specific to the SiGe and SiPho. And hence, relieving the bottlenecks to get closer to the full photo capacity, which, over time, will get to the full photo capacity, which in our model is an 85% operation.

So 85% of the full photo allows a fab to still be moving at good cycle times, and that's what our target is. We also are using some capabilities in other factories, and that's part of the \$350 million to enable further usage of any given factory.

We have the ability to be transferring to start doing a deposition early on in the line in one factory. And if that deposition is a deposition that's constrained elsewhere to free up the constraint in the other factory by doing the early deposition in one. So that's part of the \$350 million as well is relieving bottlenecks through optimizing the fleet.

Nicolas Doyle *Needham & Company* - Analyst

Sounds like a rather good decision.

Operator

Lisa Thompson, Zacks Small-Cap Research.

Lisa Thompson *Zacks Small-Cap Research* - Analyst

And I want to welcome you back to revenue growth.

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

Thank you.

Oren Shirazi *Tower Semiconductor Ltd* - Chief Financial Officer, Senior Vice President - Finance

Thank you.

Lisa Thompson *Zacks Small-Cap Research* - Analyst

I have one financial question, Oren. This year, we were supposedly thinking that your tax rate was going to be 15% -- 14% for the year. But unless you pay a really big chunk in Q4 that's not going to happen. What do we think about Q4 taxes? And also, what you're thinking about next year's tax rate given all your varied activity in different countries.

Oren Shirazi *Tower Semiconductor Ltd* - Chief Financial Officer, Senior Vice President - Finance

Yes. No, there is no any expectation to a big chunk of payment for tax. I mean our tax model, first, our tax regime is that the parent company in Israel, that's a 7.5% tax because we are in a what's called in Israel, a preferred zone. Because of the location of the factory. So this is a preferred tax rate of only 7.5%.

In US, it's 21%; in Japan, it's 30%. In Italy, it's 24%, but I wouldn't expect because of those headwinds that Russell even spoke about in previous calls, headwinds that we will start to have when we will start to operate Agrate. So we expect not to have profits in Agrate in the coming quarter for sure and in the coming year also.

So we will not pay those 24%. And so we are left with the 7.5% in the parent company, 21% in US, and 30% in Japan.

As you can see in our financials, we're very efficient, I believe, modestly that our average tax rate is usually 10% and between 8% to 14% depends on the quarter, depends on which region is the income. So we manage it and succeed to have it at around 10% usually.

For this year, there was a onetime in Q1 that we had a tax benefit from a settlement that we reached with respect to one audit that we had, which was very successful results. So we had a onetime benefit in Q1 '24, which was a onetime Q2 and Q3 tax rate are already, as you see, reasonable.

For example, this quarter was about 12%. The previous quarter was about 10%. So that's exactly what I said. So bottom line, if you just exclude Q1, which has a onetime benefit, we are at the 10% to 12%, and I think it's good to model that 10%, 12%, 14% for the coming year. Very reasonable.

Operator

This concludes our Q&A session. I will now turn the conference back to Mr. Russell Ellwanger for his closing remarks.

Russell Ellwanger Tower Semiconductor Ltd - Chief Executive Officer, Director

Thank you, and thank, everyone, for participating. I thank all of the analysts for really a very good group of questions. To conclude today's call, 2024 has been and promises to end as a strong performance year for the company, both in our financials and in extreme strategic customer activities, securing the future.

We are confident to continue to execute on the exciting growth opportunities before us. Our unique capabilities in silicon photonics and silicon germanium paired with deep first-year customer collaboration, enable us to maintain leadership as a trusted foundry partner. As the demand for higher data speeds intensifies, our innovations and investments are setting a strong foundation for future expansion, especially in advanced RF and power management segments.

Our strong balance sheet puts us in a position to act quickly on a variety of accretive investments, be it capacity or capability CapEx or partnerships. We're excited about our future and remain committed to driving exceptional value for our stakeholders.

Moving into the holiday season. We wish everyone peace, happiness and security. We thank our employees worldwide for their continual capability-based and passionate efforts and our customers worldwide for their faith in us in placing their success in a partnership with us. Thank you all very much.

On January 14 and 15, 2025, we'll will participate at the 27th Annual Needham Growth Conference in New York. It will be our pleasure to meet you at this conference. Again, thank you for your support and for joining us today.

Operator

That does conclude our conference for today. Thank you for participating. You may now all disconnect. Thank you.

DISCLAIMER

THE LONDON STOCK EXCHANGE GROUP AND ITS AFFILIATES (COLLECTIVELY, "LSEG") RESERVES THE RIGHT TO MAKE CHANGES TO DOCUMENTS, CONTENT, OR OTHER INFORMATION ON THIS WEB SITE WITHOUT OBLIGATION TO NOTIFY ANY PERSON OF SUCH CHANGES. NO CONTENT MAY BE MODIFIED, REVERSE ENGINEERED, REPRODUCED, OR DISTRIBUTED IN ANY FORM BY ANY MEANS, OR STORED IN A DATABASE OR RETRIEVAL SYSTEM, WITHOUT THE PRIOR WRITTEN PERMISSION OF LSEG. THE CONTENT SHALL NOT BE USED FOR ANY UNLAWFUL OR UNAUTHORIZED PURPOSES. LSEG DOES NOT GUARANTEE THE ACCURACY, COMPLETENESS, TIMELINESS, OR AVAILABILITY OF THE CONTENT. LSEG IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS, REGARDLESS OF THE CAUSE, FOR THE RESULTS OBTAINED FROM THE USE OF THE CONTENT. IN NO EVENT SHALL LSEG BE LIABLE TO ANY PARTY FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL, OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING, WITHOUT LIMITATION, LOST INCOME OR LOST PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THE CONTENT EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

Copyright ©2024 LSEG. All Rights Reserved.