

Tower Semiconductor (Q1 2026)

May 13, 2026

Corporate Speakers:

- Noit Levy; Tower Semiconductor; Senior Vice President of Human Resources, Investor Relations & Corporate Communications
- Russel Ellwanger; Tower Semiconductor; Chief Executive Officer
- Oren Shirazi; Tower Semiconductor; Chief Financial Officer

Participants:

- Mehdi Hosseini; Susquehanna Financial Group; Analyst
- Cody Acree; The Benchmark Company; Analyst
- Richard Shannon; Craig-Hallum; Analyst
- Lisa Thompson; Zacks Investment Research; Analyst
- Sreekrishnan Sankarnarayanan; TD Cowen; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Tower Semiconductor First Quarter 2026 Results Conference Call. (Operator Instructions)

Please be advised that this conference is being recorded.

I would now like to hand the conference over to your first speaker today Noit Levy.

Please go ahead.

Noit Levy^ Thank you. Hi everyone. And thank you for joining us today. Welcome to Tower Semiconductor's first quarter of 2026 financial results conference call.

With us today are Mr. Russell Ellwanger, our Chief Executive Officer; and Mr. Oren Shirazi, our Chief Financial Officer.

Before we begin, please note that certain statements made during today's call may be forward-looking and are subject to risks and uncertainties that could cause actual results to differ materially.

These risks are detailed in our SEC filings, Form 20-F and 6-K as well as filings with the Israeli securities authority, all available on our website.

Tower assumes no obligation to update any such forward-looking statements.

Our first quarter 2026 results are prepared in accordance with U.S. GAAP.

Some that are presented may include non-GAAP financial measures as defined under SEC Regulation G.

Reconciliations to GAAP figures and full explanations are provided in today's press release and financial tables.

For your reference, a supporting slide deck is available on our website and integrated into this webcast.

With that, I'd like to turn the call over to our CEO, Mr. Russell Ellwanger.

Russell?

Russell Ellwanger^ Thank you, Noit. Hello, everybody. Thank you for joining our call today. The first quarter of 2026 was solid, providing a strong foundation for the high growth we expect this year.

We maintained strong financial performance with continued execution of our strategic priorities.

Our first quarter 2026 revenue was \$414 million, 15% year-over-year growth.

First quarter net profit was \$65 million, 62% year-over-year growth, yielding 16% net margin, up from 11% in the first quarter of 2025.

Looking ahead, we guide the second quarter of 2026 to be the highest revenue in the company's history with a mid-range revenue guidance of \$455 million, plus or minus 5%, representing a 22% increase as compared to the second quarter of 2025 and a 10% growth quarter-over-quarter.

We strongly reiterate our target of quarter-over-quarter revenue and margin growth throughout 2026.

We continue to strengthen our alignment and partnerships with our photonics customers through the execution of long-term customer commitments, contractually representing \$1.3 billion revenue in 2027 with significantly larger valued contracts for 2028, backed by approximately \$290 million in prepayments already received from our largest SiPho customers. This reflects the strength of our offerings and our customer partners' confidence in our ability to meet the continued growing demand of next-generation AI data center architectures.

Importantly, these reservations do not represent the entire expressed demand of these customers nor the extent of our planned shipment to these customers, and do not include additional wafer shipments to our broader base of more than 50 active SiPho customers serving various end market applications. These commitments, together with our continued technology leadership and strategic expansion of 300-millimeter and global

manufacturing capacity, provide us with enhanced revenue visibility and confidence in sustained profitable growth.

Our recently announced restructuring deal in Japan in TPSCo marks the significant milestone in advancing our long-term 300-millimeter strategy.

By transitioning to full ownership of the 300-millimeter factory Fab seven in Uozu, we are creating a more focused and scalable platform to support growing customer demand, particularly in our differentiated optical photonics technologies. Full ownership allows us to expand and build upon a facility that is running multiple fully qualified, high-volume application flows and importantly, at present volumes is already profitable.

The 300-millimeter expansion tied to the approval of METI grants is designed to be strategic, operational and capital efficient.

With access to adjacent land, we expect to further build out and scale up to 4x current levels, generating a meaningful long-term growth engine anchored in high-value technologies. This approach leverages existing customer qualifications with increasing demand, allowing incremental capacity to translate into revenue and cash flow almost immediately as new tools are installed.

This positions our 300-millimeter platforms not only as a key driver of future growth, but also as a structurally stronger contributor to profitability, reinforcing our overall financial model and long-term value creation.

Additionally, we have entered into a long-term supply agreement with Nuvoton for Fab five Tonami. This will ensure manufacturing continuity for our 200-millimeter customers under terms that are mutually beneficial.

Moving specifically to first quarter of 2026 performance. This year has begun in a very strong fashion, led by Silicon Photonics with a revenue growth of 3x year-over-year, all major technology offerings demonstrated year-over-year growth with imagers up 9%, RFSOI up 12%, power management up 10% and silicon germanium up 24% year-over-year.

Please see Slide 4 as reference for Q1 revenue breakdown by technology.

Focusing on RF infrastructure, last quarter was truly amazing, both in our team's execution of aggressive capacity expansion as well as in demonstrating new breakthrough technology milestones.

First, we continued a strong ramp of 200 gigabit per second products for multiple customers while continuing to support strong demand in older products by taking full advantage of new capacity coming online.

We are in the midst of a SiPho production ramp in each of Fab two Migdal Haemek, Fab three Newport Beach, Fab nine San Antonio and Fab seven Uozu Japan 300-millimeter. Among this, we successfully achieved in Q1 first flow cycle revenue shipments from both Fab two and Fab 7, the latter having achieved impressive 95% yield for the first SiPho wafers leaving the factory.

Our expansion remains on track to grow SiPho capacity 5x from the base of our Q4 '25 wafer revenue shipments by the end of this year 2026.

In 2027, we anticipate our focus will turn primarily to additional 300-millimeter capacity expansion in the Uozu factory supported by the expected full factory ownership.

Next, we achieved a number of next-generation technology breakthroughs working with several of our key customers. This quarter, we announced the demonstration of an all-silicon 400-gigabit per lane Mach-Zehnder Modulator with our strong partner and optical industry leader Coherent. Coherent being one of our customers having signed a high-volume, long-term contract.

With OpenLight, we recently announced a heterogeneously integrated 400-gigabit per lane indium phosphide electro-absorption modulator on our silicon PH18DA platform.

In addition, we made strong strides towards bringing thin-film lithium niobate to high-volume manufacturing and announced our partnerships with Lightwave Logic and NLM Photonics to bring organic polymers to high-volume production for next-generation compact modulators.

Just prior to the Optical Fiber Conference, we announced our partnerships with Saliency Labs and Oriole Networks to manufacture advanced silicon photonics-based optical circuit switches, both using our PH18DA platform with heterogeneous integrated indium phosphide optical amplifiers to achieve high bandwidth and ultra low-latency optical switch solutions for AI data center scaling.

Last but certainly not least, our partner, SCINTIL Photonics announced availability of the world's first heterogeneous integrated dense wavelength division multiplier, DWDM laser sources, designed for near-package optics and CPO-based AI infrastructures. Most market analysts forecast that pluggable optical transceivers will remain the dominant format through the end of this decade.

We do see extra dense pluggable optics, XPO being led by Arista with the aim to extend the served generations of pluggables and highlighted by Andy Bechtolsheim in his Optical Fiber Conference Executive Forum panel presentation and near-package optics, eventually also co-package optics, emerging and coexisting with pluggables for the next several years and are thus preparing to ramp these technologies as well.

At this year's OFC, Tower Silicon Photonics was on display in leading XPO and near-package optics demonstrations.

We are already seeing strong demand for MPO products in 2027.

Given the strong customer traction, it's our expectation that Tower SiPho will continue to lead in these new optical form factors. NPO is likely to ramp over the next several years and precede a significant ramp in CPO for our primary customers.

However we are investing heavily in several CPO technologies, namely in-house 200-millimeter and 300-millimeter hybrid bonding with Through-Silicon Vias to seamlessly attach SiPho to electrical ICs, laser sources for both more traditional as well as DWDM architectures for use in CPO implementations and reduced size high-performance modulators for use in space-challenged CPO form factors.

In addition to SiPho, our silicon germanium platform is experiencing unprecedented demand for use in drivers and transimpedance amplifiers for optical transceivers and also for active copper cables that can be an attractive alternative to optical for short distance scale-up architecture.

Additionally, our RF silicon germanium technology is in the midst of a strong ramp for LNAs in a Tier one mobile platform.

In silicon germanium, we recently announced our partnership to produce high-power U.S.-made silicon germanium beam-forming ICs designed for defense radar and satellite communication applications. Fabricated at our U.S. sites, these chips aim to secure domestic supply chains, offering superior performance for critical next-generation defense systems.

As our sites turn to space, whether for data centers or for global satellite connectivity, we see our silicon germanium platform being well suited to support these growing applications.

Looking at RF mobile, we continue to move our RFSOI 200-millimeter technologies to 300-millimeter to take advantage of finer line and other enhanced capabilities offered at 300-millimeter, whilst repurposing this 200-millimeter capacity for higher-margin SiPho and SiGe capabilities.

Substantial improvements of our Ron-Coff relative to competitors and reduced layer count is creating a strong design win momentum that positions our 300-millimeter RFSOI platform for sustained growth over the next multiple years.

In power management, we have seen year-to-year revenue growth in both our 200-millimeter and 300-millimeter BCD offerings.

In the last quarter, we announced the release of our latest power platform, Gen3, achieving on-resistance below 1.5 milli-ohm millimeter squared for key devices with operating voltages above 10 volts.

Such low on-resistance enable high power conversion efficiency in a variety of applications and places our offering at a very competitive position relative to other foundry offerings.

Using our technology, our lead customers have demonstrated a 15% reduction in power conversion losses, quite significant as compared to the highest efficiency alternatives.

Some of the end markets where we have seen revenue growth have included consumer mobile and automotive.

In addition, as the AI data center power delivery market transitions to 800 volts DC bus at the rack level, we see a significant growth opportunity ahead in smart power stages and point-of-load converters designed with our BCD offerings. Lastly, in consideration of the value we are offering, our 200-millimeter BCD pricing has increased by 13%.

Image sensors, the fastest-growing CIS segments are automotive, industrial, machine vision and high-end video cameras. Growth in each of these areas is concentrated in the high-end portion for high-resolution, high dynamic range with sensitivity to low light and global shutter technology are required. Tower's global shutter technology, combined with its wafer-to-wafer hybrid bonding provides best-in-class performance in terms of low noise and high sensitivity and allows high resolution.

Additionally, we are developing an ultra-high-density in-pixel capacitor to provide best-in-class dynamic range, especially for the automotive market.

We won a second high-performance automotive product this past quarter.

Significantly, we are fully qualified with the next-generation high-end video sensor with a leading high-end photography camera maker awaiting their product launch.

Turning to utilization.

For the first quarter, utilization rates for Fab two at around 60% utilization as SiPho and SiGe qualifications continue. Fab three operated at 80% utilization. Utilization was slightly constrained due to adding newer SiPho and SiGe processes.

We expect utilization and output to increase back in the second quarter. Fab five was at 75% utilization. Fab seven continues to be fully utilized, well above our 85% utilization model. Fab nine utilization was at 80%.

With that, I'd now like to turn the call over to our CFO, Mr.

Oren Shirazi.

Oren, please?

Oren Shirazi^ Hello, everyone. Earlier today we released our financial results for the first quarter of 2026.

I will now review the highlights of these results as well as the balance sheet and CapEx investments.

Looking into the P&L. Revenue for the first quarter of 2026 was \$414 million, representing 15% year-over-year growth compared to \$358 million in the first quarter of 2025. Gross profit for the first quarter of 2026 was \$111 million, an increase of 52% compared to the first quarter of 2025. And operating profit was \$65 million, 96% higher year-over-year.

Income tax expense line of \$6.5 million in the P&L reflects an all-in 9% effective tax rate which is better compared to our model for which we estimate all-in tax rate to be above 15% following Pillar Two regulations. The reason for it is the inclusion of a nonrecurring income tax benefit recorded for the first quarter of 2026 in relation to TPSCo, our Japanese affiliate.

Net profit for the first quarter of 2026 was \$65 million, an increase of 62% or \$25 million compared to net profit of \$40 million in the first quarter of 2025, reflecting 16% net margins compared to 11% net margins for the first quarter of 2025.

Earnings per share for the first quarter of 2026 were \$0.58 basic and \$0.57 diluted which is 61% and 63% higher year-over-year, respectively.

As we announced, we received \$290 million of SiPho customer prepayments towards 2027 capacity reservation. These customers prepayments are included in the balance sheet as of the end of March 2026 as short- and long-term customer advances and are included in the cash flow report for Q1 '26 cash from operating activities.

Continuing on the balance sheet, our balance sheet continues to be strong, evidenced by the following indicators and financial ratios.

As of the end of March 2026, our assets totaled \$3.7 billion, primarily comprised of \$1.5 billion in fixed assets net, predominantly comprised of fab machinery and \$2 billion of current assets. Current assets ratio is very strong at about 5.6x, while shareholders' equity reached a record of \$3 billion at the end of March 2026.

Additional evidence of the strong balance sheet and financial position is the Standard & Poor's Maalot, an S&P Global Ratings fully owned company which on May 5, 2026, completed its annual rating review for the company, reaffirming its i1AA rating and raising its outlook for the company from a stable outlook to a positive outlook.

I would like now to describe our hedging activities.

In relation to the Japanese yen, since the majority of TPSCo's revenue is denominated in yen and the vast majority of TPSCo's costs are in yen, we have a natural hedge over most of our Japanese business and operations. To mitigate part of the remaining yen exposure, we are executing 0 cost cylinder transactions to hedge currency fluctuations. Hence, while the yen rate against the U.S. dollar may fluctuate, there is limited impact on our margins.

In relation to the Israeli shekel currency, while we have no revenue in this currency, since a portion of our cost in Israel is denominated in shekel, we also hedge a large portion of such currency risk by engaging 0 cost cylinder transactions to mitigate this exposure. Hence, while the Israeli currency rate against the U.S. dollar may fluctuate, there is a limited impact on our margins as indeed, we have experienced over the past few quarters in which period the Israeli currency appreciated strongly compared to the U.S. dollar.

Now moving into the CapEx investment plan.

As we announced in recent quarters, in order to support the increasing SiPho and SiGe demand, we are executing a \$920 million investment plan in capacity and capability of SiGe and SiPho in our 8-inch fabs in Israel, Newport Beach, Texas and also in our 12-inch Uozu fab in Japan. This investment is on track in terms of purchase orders issued, technology and process qualification and the ramp plan.

Approximately 40% of the above-mentioned \$920 million CapEx has already been paid and is included in our cash flow for investing activities for past reported periods, while the remaining 60% are expected to be paid throughout 2026 and 2027.

All these CapEx, current and future investments, are fully reflected in the model we presented in February 2026. Under this model, we target \$2.8 billion in annual revenue, \$1.12 billion in annual gross profit, \$900 million in annual operating profit and \$750 million in annual net profit.

That concludes my prepared remarks.

Now I'd like to turn the call back to the operator so we can take your questions.

Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Now we're going to take our first question and it comes from the line of Mehdi Hosseini from Susquehanna Financial Group.

Mehdi Hosseini^ Yes. A couple for me. Russell if you just think about the big picture and the longer-term trends, is there any way you can help us understand how opportunities for Tower as it relates to Silicon Photonics and Silicon Germanium changes as we migrate from a pluggable transceiver to optical? In other words, how does your

content change as you make this transition from a traditional pluggable transceiver to optical?

Russell Ellwanger^ As stated as we go forward, as far as content itself, I mean certainly, you'll still need lasers.

We're driving integrated lasers.

We're driving different material modulators for higher speeds. And as well driving, as I had mentioned, Through-Silicon Via to be able to do some 3D packaging and tie the silicon photonics to the electrical ICs. And as far as XPO, there's just many more channels that are being done. And as far as MPO, again many more channels being done, so greater modulation.

Mehdi Hosseini^ Sure.

I asked the question because the way we, in the investment community, see the optical transceiver manufacturing evolving, there are several different solutions by different foundries. And I was just trying to understand if Tower has become a leading foundry, a partner for transceiver manufacturing for pluggable, how does that change as we move into optical where there are alternative technologies?

Russell Ellwanger^ As stated, we expect that what we have with pluggables will transfer nicely into NPO and will extend as well into CPO which will be several years down the road.

If you look at the SiPho ports itself, it's very interesting. From 2025, the amount of SiPho ports, and this is according to a report by LightCounting, the amount of SiPho ports was \$30 million, driving to 2028 SiPho ports to \$137 million.

Now at the same time the total ports goes from \$90 million to \$205 million.

So this is a function of the data center buildup, build-out, et cetera, but the amount of ports becomes much, much greater.

Pluggables are not going away at all. Pluggables will stay extremely strong at least through the 2030.

As stated in the script, we expect that the first things to come on at a higher rate is the near-package optics where we have multiple design wins presently and stated that we have a reasonable volume that we'll be shipping in 2026, 2027. And we have as well I think a very, very strong position in the XPO that was highlighted by Andy at the OFC, as I mentioned, having had two strong demonstrators at OFC using our SiPho.

So if you just look again the growth of SiPho ports is 4.5x from '25 to '28. And that entire amount of port growth is added from '28 to 2030.

So a lot of room for a tremendous amount of SiPho growth.

We are, I believe, by far, the leader in pluggables.

I don't see any reason that, that should change. And in the short term, the XPO and the MPO form factors should transition nicely with Tower maintaining leadership.

Mehdi Hosseini^ Great. And just a quick follow-up.

I understand investment communities focused on silicon photonic. And thank you for identifying revenue opportunities, especially what you have contracted for '27.

Is there any way to think about the ratio between SiPho and silicon germanium because silicon germanium is also using transceiver.

So if you have extended visibility on the SiPho, would that give you a visibility on the SiGe? And is there a ratio that we could use to understand opportunities that you have focusing on SiGe?

Russell Ellwanger^ Yes. You're correct.

It's very much hand in hand.

So as the ports increase and the movement to SiPho increases, that obviously the SiPho grows.

As the ports increase as well the need for TIAs and drivers increases pretty much at the same ratio. The difference between the two comes into the advancement of the SiPho technology and the fact that although they both demand very good margins, SiPho is demanding a higher margin than the SiGe.

So the SiGe revenue growth is lower than the SiPho revenue growth.

But as far as the amount of units, they pretty much go hand in hand.

Operator^ Now we're going to take our next question, and the question comes from the line of Cody Acree from Benchmark.

Cody Acree^ Congrats on just a stellar quarter in guidance. Russell maybe could you just give a quick clarification on the \$1.3 billion commitment, excuse me, is that for wafers to be delivered in fiscal '27? Or is that wafer started that then would extend delivery to '28? Just trying to get my model correct.

Russell Ellwanger^ Wafers delivered in '27 and the -- what I stated about a higher volume for '28 is wafers delivered in '28.

But again and I think it's very important to note, although I did say it in the script, the \$1.3 billion is a contractual commitment.

It is not even with those customers that we have that contractual commitment from and with, it is not their full volume demand.

So the \$1.3 billion, if you look at it, what were we in 2025, I think somewhere about \$230 million.

So it's a 2-year from a \$230 million to \$1.3 billion, but that \$1.3 billion is not what we're forecasting for SiPho in 2027, meaning we're just forecasting substantially higher.

But yes, to answer your question directly, that is for wafer shipments.

Cody Acree^ I guess that then just begs the next question.

With that level of visibility, what degree of visibility would you have to have to feel comfortable increasing your recently increased long-term model?

Russell Ellwanger^ It's a very good question, Cody. And when you say long-term model, it was a 2028 model which in my mind is somewhat of a midterm model.

But I talked about our focus for 2027 will be increasing 300-millimeter SiPho capacity, the strategic focus and hand-in-hand comes the SiGe capacity as well the 300-millimeter.

But that is not included in any model right now.

So the visibility, I think will be fairly short term. The timing of updating a model to higher numbers, I would believe, will be within the next quarters.

Cody Acree^ Well that's excellent, Russell. And a correction, it's long term versus midterm. And then one last question, if I may.

What is your view on integration of indium phosphide lasers? I know there's been a lot of industry concern about the reliability of the integrated laser as we move towards CPO versus an externally sourced laser alternative.

I know that, that's a strength of yours.

Can you maybe just talk about the reliability steps that you've been able to make?

Russell Ellwanger^ We see no reason that the integrated laser is any less reliable -- nor any more reliable than a discrete laser.

As far as reliability, the major thing that we're focused on is just the integration -- a strong integration of the laser into the silicon photonics IC. And hence, that there is no potential downside of integrating the two. And I think that is pretty seamless at this moment. The activities there was with OpenLight and the OpenLight platform, and it's going very well.

So I would say that from our standpoint, we're very bullish about the integrated laser and additionally about an indium phosphide integrated modulator for 400 gig.

But our platforms can allow both, right? If whatever customer wants a form factor with external lasers, great.

If they want to go with us on the integrated laser, equally great. That as far as their direction that they wish to go, we're somewhat agnostic other than the fact that we're really pushing very strong on very advanced 400G modulation. And if you look at advanced modulators, the indium phosphide has tremendous advantages on form factor.

Cody Acree^ And Russell if I may since you brought it up, I guess I'll just sneak one last one in here. And then with the modulation schemes that you mentioned in the subsequent press release to your earnings release, you mentioned a wide variety of modulation technologies that you're pursuing. Would you handicap or prioritize any one of those over the other as being a better fit for Tower in the intermediate to long term?

Russell Ellwanger^ No. I think we're equally confident in all.

It's -- the thin-film lithium niobate has multiple different ways to architect it. You can do -- I'm not saying it's simple, but you can do a separate lithium niobate modulator that's its own wafer and have that side-by-side to the PIC or you integrate it as a chiplet onto the PIC. And we're pursuing both form factors there with different customers.

As far as the indium phosphide, obviously that's an integrated onto the PIC.

But we're somewhat agnostic as to which one a customer would use.

However as you get to many channels, the indium phosphide really has a benefit on form factor.

Operator^ And now we're going to take our next question, and the question comes from the line of Richard Shannon from Craig-Hallum Capital Group.

Richard Shannon^ Apologies for the ambient noise here, I'm just about ready to board a plane here.

So if it's too loud, I'll try to call in later.

But I guess I just have two basic questions here. The first one is regarding your capacity expansion in Japan. Kind of a two-parter here. The first part here is how do we think about the potential revenue capacity scale for silicon photonics as you get at least the first part of the tranche, the tranches I'm sure you're building there. And then do you have any worries about being short of capacity in silicon photonics before that Japan capacity expansion has started?

Russell Ellwanger^ Excellent question.

We're looking and hoping and believing that we'll, in the very short term, receive the METI approval. And we've already obviously begun with contractors to get planning done, to get everything done.

Once we have the METI approval, we'll most likely put in for the permits.

But that is probably 1.5 years type of a timeframe between breaking ground and having a facility that can be accepting tools and starting ramping the tools.

So where does that put us? That puts us in best case in the first half of 2028 for that capacity.

And then when you say worries -- I mean worry is an interesting question. Worries are also excitement depending on how you turn it around. The excitement right now is increasing within existing footprint, our capability with silicon photonics in Fab seven which is the existing factory. And we have approved capital spending for that for the first phase of it which we've not publicly announced.

I don't want to get into the numbers at this point.

We probably will within two, three quarters in line with what Cody asked about updating a financial model.

But -- and then we have an ability to go further before the shell is completed by taking advantage of an existing factory within the TPSCo complex.

It was one that we announced a couple of years ago that we had shut down, and that was the RI factory which is under the ownership of Nuvoton Winbond.

But to put a certain amount of tools and a very specific set of tools within that factory to grow capacity relatively quickly within existing footprint, if you will.

So our plans is not to miss out on any upside or not to be able -- our plan is certainly to meet customers' demand within '27 while developing. Developing meaning building the shell that is substantially big.

So it would be an interim step. The beauty of the interim step is that any of the tools that we buy is applicable to the entire build. Even things that we would put initially into another factory would over time come back into the existing geography, meaning -- or not the existing, but the existing and built out geography. Hopefully, that was not too obtuse of an answer, a lot of playing parts on it.

But does that make sense, Richard?

Richard Shannon^ It does.

I'll revisit your comments and look at it more closely, but that was very detailed and helpful. My second question, and I'm going to go on mute after this one and listen to your response is on your announcement on the 400-gig per lane silicon modulator for Silicon Photonics, you announced it with Coherent. Two-part question.

First of all, can you use this technology or something similar with other customers? And then as you look across the 400-gig per lane generation, how much of your business will be silicon versus TFLN versus indium phosphide versus any other modulator technology?

Russell Ellwanger^ On the first question, certainly, the 400G modulator that we had press released with Coherent was off of a Coherent design.

What we know and our know-how and our IP is available for any customer. This specific modulator performance was because of Coherent's design tied to our platform.

So if that makes sense, it's not something that we can give to anyone else, it's Coherent's IP.

But Coherent on having designed it to our platform, other customers that would have or potentially could get the same capability as Coherent would be able to design something on our platform.

As it stood, it was Coherent that did it and Coherent that had the design capability to do so. That's number one.

Number two, I think you're asking me for what I think would be the first technologies to be utilized. My personal view, and this is my view, and I'm certainly not a market analyst.

I think the lithium niobate will come in fairly strong for one generation.

I don't think it will last for many generations, I think it will go to an indium phosphide.

Operator^ Now we're going to take our next question, and it comes from the line of Lisa Thompson from Zacks Investment Research.

Lisa Thompson^ I was wondering if you could talk a little bit about gross margins.

It seems surprising how much they increased in the first quarter given revenues were sequentially down.

Can you talk a little bit about how the margins went up? Was it more product, product mix, higher prices? How does that turn out?

Oren Shirazi^ Yes. Basically, it's consistent with our model that we published last quarter.

In our model, you'll see that we assumed incremental revenue coming at 59% to the gross profit over a baseline which was 20% a year ago.

So last year, as you see in this report, Q1 '25 gross profit was 20%. And in our model, we assumed the incremental would come at 59%. And the fully built-out model will reach to 39%. This quarter, we already achieved 27%.

So like you said, it's very nice that we already are up from the 20% to 27%. And that's the linear progression that we expect towards the 39% when we achieve the \$2.8 billion.

Lisa Thompson^ So it's really just selling more newer, higher-margin products?

Oren Shirazi^ Yes.

Lisa Thompson^ Okay. And then just going back to the technology.

Is there anything that you're concerned about as opposed to your capacity, maybe being able to get parts or be constrained? I know indium phosphate is hard to get and is constrained.

Is that going to change anything? Or do customers just switch to something else?

Russell Ellwanger^ You are correct that indium phosphide right now is constrained.

In our case, not necessarily the end laser product is the constraint, the starting material is the constraint.

But no, I think we have good plans and good supply chain activities so that whatever constraint issues there might be, we're working through. And as these products ramp which they should be ramping on the indium phosphide integrated laser, it should be ramping this year.

I believe that we'll be in good position to meet the demand.

Operator^ Now we're going to take our next question, and the question comes from the line of Krish Sankar from TD Cowen.

Sreekrishnan Sankarnarayanan^ I had two of them, Russell.

One is I'm just kind of curious where you think your silicon photonics market share is today and where you think it will be in the next couple of years given your longer-term contractual contracts from your customers? I'm asking in light of the fact that GlobalFoundries is ramping scale and TSM is ramping the COUPE platform.

So I'm just curious where you think your market share could head from today through the next two years? And then I have a follow-up.

Russell Ellwanger^ That's a very, very interesting question. There's other people that claim very high market shares, I don't see how it's possible at all.

I'm not going to give a percentage market share at present, but I think that we're certainly the leading market share and by far, the leading market share in silicon photonics presently. And I see no reason why that should change.

Sreekrishnan Sankarnarayanan^ Got it, Russell. And then just to follow up on the technology side of advanced packaging. Clearly, you do have experience with hybrid bonding and CMOS image sensors. When do you think that ports over to the silicon photonics side? And is that a real advantage in the short term? Or is this something more of a longer-term story?

Russell Ellwanger^ I think it's a very strong advantage, mid- to long-term, not so important for this year.

Operator^ Now we're going to take our next question, and the question comes from the line of Mehdi Hosseini from Susquehanna Financial Group.

Mehdi Hosseini^ Just a couple of follow-ups. RF mobile was down almost 36% Q-over-Q.

Obviously it sets up a low base, and I expect growth for the remaining of the year.

But how should I think about the RF mobile in 2026 versus '25? And I have a follow-up.

Oren Shirazi^ Yes.

I just know that indeed, Q4 '25 was an exceptional growth in SOI compared to previous quarters.

So year-over-year, it was not reduced, it just really was a specific ramp in Q4 '25.

But Russell will address '26.

Russell Ellwanger^ As stated, we're moving away from our 200-millimeter RFSOI and customers as well and transitioning to newer 300-millimeter design wins. The design win cycle is extremely strong. And if we look at the multiyear forecast, I see the RFSOI increasing as a total on the 200 [plus] 300, but the 200 is almost gone.

In the very short term, not everything has transitioned to 300 yet.

So you are correct, it was down. And if I look at the full year -- let me just see to be more accurate. Yes. I would see the whole year being down against the previous year even at 300-millimeter.

But then I would expect that in '27 and '28, it will be record growth for the RFSOI at 300-millimeter.

We have multiple design wins that have been awarded, but they're for phone models that first come out in '28.

I mean that's how the industry works which means that they would start needing to be bought in the third quarter of '27.

Mehdi Hosseini^ Got it.

Okay. And then one follow-up. When I look at the overall industry and analog foundry and outside of RF infrastructure, it seems like the overall utilization rate for the industry is improving.

Some of your peers have actually talked about higher prices -- higher wafer prices like-for-like. And what I wanted to ask you a better understand is how should we separate the mix, obviously RF infrastructure, higher growth rate, higher margin.

But outside of RF infrastructure, should we also assume that there is some pricing power that is coming to you?

Russell Ellwanger^ Pricing power is particularly done by having best-in-class platforms in my mind.

So if you have something that allows the customer to gain advantages by using your platform, you pay -- you can charge a premium for it.

We are not a company that likes to indiscriminately raise prices because of the capacity constraint.

I think that, that's honestly not a partnership model. There's times that potentially customers might have to go on allocation because there's too much demand.

But I think that it's not necessarily a good practice as far as relationship and integrity to raise prices just because there's a demand constraint.

So in general, our pricing benefits are with new generation platforms for new technologies. And every time that we put out a new platform, the starting price point is certainly higher than the platform that's being sold for that technology presently.

I did mention that at the 200-millimeter power management, it did realize a 13% price increase for -- starting, I think this quarter or throughout this year. That was really in evaluating what is the value of the platform itself as compared to potential price reductions that have been given over the past years and that just truly needed a reset.

But it wasn't based upon looking at a capacity constraint and forcing a customer because they have no other choice, it was basically just reevaluating what is the value of what we're selling and what should the pricing be.

Operator^ And now we're going to take our last question for today and it comes from the line of Cody Acree from Benchmark.

Cody Acree^ Just a couple of quick ones. Russell maybe thematically, can you talk about the move to CPO and the industry's larger integrated player in the market of Taiwan Semi and their CMOS integration of the SiPho side of things and their leverage of being a one-stop shop for somebody like an NVIDIA long term? And how does Tower compete with that on a long-term basis with your hybrid strategy?

Russell Ellwanger^ I think for part of your question, you want me to do a marketing for TSMC, and that's really not my job, but -- on a serious basis.

As I stated, the NPO, XPO, pluggable will stay the primary demand at least into the beginning of the next decade as CPO starts to get greater traction.

On the CPO side, I believe that the big benefit that we will add is by having PICs that are extremely beneficial because of the performance of the PIC itself.

I mean there's -- in theory, there's no reason that TSMC wouldn't be buying our PIC for their COUPE if our PIC was much superior to everything else.

So now there is one thing -- well multiple things you said, that's 100% accurate.

I mean TSMC as a one-stop shop, I think there's nobody that can compete with TSMC with what they're doing on the extreme deep digital content. That is not something we have.

So that's not something we could take them on or try to work at or look at.

But as far as having modulation with 3, five and other material that's much better than anyone else could have, that's where we would add value in that. And that's one of the big things I mentioned on our CPO roadmap is really a very strong focus on modulation.

Cody Acree^ All right. Great. And then maybe lastly for Oren.

Can you help us out with any thoughts on future tax rate, interest income, noncontrolling interest lines, any of the ancillary items of the income statement?

Oren Shirazi^ Yes.

Financing and other income line which is about \$10 million a quarter, I would expect will remain the same. Tax line, so like I said in my prepared remarks, should be on a run rate - - I mean on a regular model, at least 15% because of Pillar Two which is applicable to all regions and up to maybe 18% because we have some regions that are higher than 15% like U.S. 21%, Japan, Italy.

So I would assume between 15% to 18% on the tax.

Cody Acree^ And the noncontrolling interest line?

Oren Shirazi^ That should be pretty much like it is now.

I mean this quarter, we had a specific upside there which I mentioned because of the Japan related income tax benefit which is nonrecurring item.

But excluding that, it should be like the previous period.

So it was about very small amount, right? It's not impacting in there.

Russell Ellwanger^ Yes. Cody, I just wanted, if I could, to clarify what I said. When I refer to there's nothing that would prevent TSMC from buying our PICs.

What I'm including in that is that we become the reference design for the major integrators, and that would be part of what they'd be using with TSMC.

Cody Acree^ And Russell maybe can you expand on that with your relationship -- your recent relationship with NVIDIA at 1.6T. And obviously they have been using Taiwan Semi for their history, but they are also partnering with you going forward.

Russell Ellwanger^ Yes. Cody, I really honestly wish that I could.

I don't have freedom to talk about specific programs with customers other than the PR that we did with NVIDIA.

It was fairly clear that he talked about us as a development partner.

Operator^ Dear speakers, I have no further questions for today.

I would now like to hand the conference over to Russell Ellwanger for any closing remarks.

Russell Ellwanger^ Yes. Thank you very much.

So really appreciate your continued trust and support.

I want to thank our teams, the Tower teams around the world whose dedication has made the progress that we reported possible and the progress that we expect to have over the next year and years possible.

It's a very exciting thing.

Success begets success. And the more success we have with our customers, the more excited they are, the more that inspires our own people, and it becomes a partnership that is an incredible partnership. Had mentioned Coherent as one, but we have extremely good relationships with multiple of the optical customers, I would think with all of them. And it's a very exciting thing to have because when the customer is really happy with you and your performance, the interactions become very inspiring for next-generation to generation of developments.

So I thank our teams, and I really thank our customers.

As far as the equity stakeholders, I truly appreciate your continued trust and support. And we would look forward to seeing you over a variety of events that we have planned for the coming months.

On May 18, we'll participate in the 27th Annual Oppenheimer Israeli Conference in Tel Aviv.

On May 27, we'll attend the 54th Annual TD Cowen Technology, Media and Telecom Conference in New York.

On May 28, we'll participate in the 23rd Annual Craig-Hallum Institutional Investor Conference in Minneapolis.

On June 9, we'll attend the 2026 Mizuho Global Tech Conference in New York.

If you have availability to be at any of these, we'd certainly love to meet with you. And as well as always, our Investor Relations is very open to accepting calls and setting up video calls with anyone that would wish further updates and understandings about what we think is an extremely exciting activity and a very, very rich roadmap. Thank you very, very much.

Operator^ This concludes today's conference call. Thank you for participating.

You may now all disconnect.

Have a nice day.