REFINITIV STREETEVENTS

EDITED TRANSCRIPT

TSEM.OQ - Q2 2024 Tower Semiconductor Ltd Earnings Call

EVENT DATE/TIME: JULY 24, 2024 / 2:00PM GMT

REFINITIV

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

Cody Acree *The Benchmark Company, LLC - Analyst*

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

Mehdi Hosseini *Susquehanna International Group, LLP - Analyst*

Lisa Thompson *Zacks Investment Research, Inc. - Analyst*

PRESENTATION

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

Thank you, and welcome to Tower financial results conference call for the second 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 Form 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 second 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 the 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. Welcome, everyone. Thank you for joining our second quarter 2024 earnings conference call. It was a quarter in which we delivered strong financial performance and in which we received substantial increases in customer forecast, short to midterm, affirming the value of our strategic focus. Revenue for the second quarter reached $351 million with a net profit of approximately $53 million, resulting in a net margin of about 15%.

At the beginning of 2024, we publicly stated a target of sequential quarterly revenue growth throughout the year for which we remain committed. This was achieved in the second quarter of '24 with a $24 million increase in revenue compared to the first quarter, and we are on track for this target in the third quarter with a revenue guidance of $370 million, plus or minus 5%. Moving into the second half of the year, we remain focused on driving innovation, further enhancing our market leadership and delivering sustainable growth.

I will now present a brief overview of our primary growth drivers. For the second quarter, RF infrastructure revenue increased 50% year-over-year and represented 14% of the total quarterly revenue. We anticipate continued infrastructure revenue growth in the foreseeable future as customer forecasts for the next 18 months have increased dramatically.

Silicon photonics is experiencing an even stronger ramp than prior expectations, and we are seeing extremely robust and climbing demand for our SiGe-based technologies. SiGe demand and growth is predominantly from TIA and drivers for optical transceivers, where I believe we hold the number one market position. The expected expansion of AI applications is strongly linked to the robust growth of silicon germanium technology.

As AI applications in various sectors demand higher performance and efficiency, SiGe technology stands out due to its ability to operate at higher frequencies and lower power, making it ideal for AI hardware. In addition to the TIA and drivers, new products are ramping aggressively. For example, active copper cable, please see slide 5, are experiencing an increased adoption for shorter reach data centers to connect driven by the need for lower signal loss at the high speeds required by AI.

We also expect a continued high increase in silicon photonics revenue. This business is targeted to grow from $30 million revenue in 2023 to above $80 million in the present year. And from that point, most recent customer forecast would result in more than doubling this revenue in 2025.

This is driven by the very high demand for 400G and 800G transceivers due to exponential increase in data traffic from AI, cloud computing, streaming services and IoT, alongside the expansion of data centers 5G deployment driving greater need for high-performance computing. These SiPho-based transceivers offer higher efficiency, lower cost and leverage advancements making them essential for network infrastructure upgrades and the growing computational demands of AI applications.

Looking forward, prototyping of 1.6 terabit products continues with several customers, having demonstrated 200 gigabit per second per lane transceivers, we are already very active in 3.2 terabit R&D program in tight collaboration with specific market-leading customers targeting 400G per lane solutions. During the second quarter, we delivered initial samples to a market-leading customer showing breakthrough performance with an advanced architecture and incorporating new material.

Beyond AI and datacom, we continue to make good progress on SiPho engagements with automotive leaders in frequency-modulated continuous wave-based LiDAR, please see slide 6, and with existing and emerging leaders in quantum computing, optical switching and other sensing applications. There is a growing ecosystem of silicon photonics-based differentiated products, where I believe we occupy the number one foundry market position.

Based on the strong demand we are seeing from our SiPho customers, we are additionally qualifying our SiPho platform at our San Antonio 200-millimeter facility. And we have made significant strides in bringing to the market a 300-millimeter version of our SiPho flow with process design kits available and are happy to report that high-performance successful silicon was delivered to lead customers, including some very novel and breakthrough solutions for certain advanced applications.

The 300-millimeter added SiPho capacity, in addition to providing capabilities for these novel applications, combined with the San Antonio SiPho capacity should ensure that we can meet short- and long-term customer demand for this market in which we are very bullish.

For Q2, RF mobile revenue, predominantly RF-SOI, increased approximately 60% year-over-year and represented 31% of the total revenue during the quarter. We are currently fully utilizing our 300-millimeter RF-SOI capacity in Uozu, Japan, and continue transition 300-millimeter RF-SOI customers to Agrate, Italy per plan to support this increased demand.

During the second quarter, we shipped prototypes in Agrate for our most advanced RF-SOI technology, TPS65RSC, which not only exhibits industry-leading [auron CO] high efficiency and power handling but also enables strong scaling for optimum four factors. For Q2, our Power IC business revenue increased 60% from Q1, representing 14% of total revenue during the quarter.

We anticipate continued growth through the remainder of the year. Within this market, we are seeing strong demand for our 300-millimeter technology. To meet this demand, we continue to qualify new capacity in the New Mexico fab and are happy to report good progress at initial customer prototypes already taped out with expected qualification and subsequent ramp in 2025.

Our fab utilization rates for the second quarter one, Fab 1, as previously announced, will be operation consolidated into Fab 2, was about 75%. Fab 2, 8-inch was about 67%, Fab 3, 8-inch at about 55% and expected to show substantial higher utilization in Q3 due to the great demand we are

supplying from that factory for silicon germanium and silicon photonics. Fab 5, 8-inch was at about 45%, continuing to ramp with the recovery within Power. Fab 7, 12-inch was at about 85% fully loaded. Fab 9, 8-inch was about 60%.

Today, we released our updated corporate sustainability, environmental, social and governance ESG report. This report highlights our commitment to environmental stewardship, ethical practices and social responsibility, doing our part towards a sustainable society and world.

We report our achievements with a focus on short-, mid- and long-term measurable milestones and targets to magnify our role as world citizens. We invite you to explore this report, and we welcome any comments as you join us on our journey towards a more sustainable and equitable future.

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

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

Hello, everyone. Earlier today, we released our second quarter 2024 financial results, which I will review. First, by analyzing the P&L highlights, followed by our cash and balance sheet report.

For the second quarter of 2024, we reported revenue of $351 million, up $24 million over the prior quarter, which resulted in $14 million higher gross profit and $21 million higher operating profit over the same period. Gross profit for Q2 was $87 million, $40 million higher as compared to the gross profit of the prior quarter, which totaled $73 million. Operating profit was $55 million and included $6 million in restructuring income due to grant received in relation to the operation reorganization in Japan previously announced and completed last year.

The operating profit is $21 million higher than prior quarter's operating profit. Net profit was $53 million, reflecting $0.48 basic and diluted earnings per share and included $2.5 million of net impact from Japan reorganization noted before. Net profit in the prior quarter was $45 million or $0.40 basic and diluted earnings per share. Moving to balance sheet and future CapEx and cash plan.

As of the end of Q2 '24, our balance sheet assets totaled $2.96 billion compared to $2.5 billion for the same period last year, primarily comprised of $1.2 billion of fixed assets, mostly machinery and equipment, and $1.7 billion of current assets. Current assets ratio, reflecting the multiple by which current assets are larger than short-term liabilities is very strong at 5.9x as compared to 4.8x for the same period last year.

Shareholders' equity reached a total of $2.5 billion at the end of Q2 '24 compared to $2 billion at the end of the same period last year and compared to $2.4 billion as of December 2023. Our strong financial position enabled us to plan the following investments for strategic opportunities that are aligned to our vision. One, approximately $500 million of total aggregate cash was allocated to make investments in equipment and other CapEx items required for the 12-inch factory in Agrate, Italy, following the previously announced STMicro partnership.

As of today, we have already placed purchase orders to all the equipment and other CapEx items required for us towards the CapEx dated plan, of which we have paid $380 million to date and the remaining $120 million are expected to be paid in the coming six quarters, namely until the end of 2025. Two, in addition, as previously announced, we have committed to invest up to $300 million to acquire equipment and other CapEx items that we will own in Intel's fab in New Mexico, enabling us to ramp up fab capacity and capabilities for our customers, which amounts are to be paid during 2024, '25 and until '26.

Furthermore, we expect our maintenance CapEx baseline level to remain at about $200 million to $240 million per annum. And lastly, we are investing in more capability and capacity tools and other assets to expand our technology offering, especially to increase our SiGe and SiPho capacity in our 8-inch and 12-inch wafer fabs and to enhance our global technological offering to enable flexibility, better support our customers from our various sites and change our product mix to a richer mix from a margin perspective.

I wish to note that all the above investments are aligned to our business strategy and contained within our financial model as previously presented by the company in November. In the model, we outlined our revenue target of $2.66 billion per annum that could be achieved by loading our existing facilities and our capacity at the Agrate and New Mexico facilities which could result in $560 million annual operating profit and $500 million of annual net profit.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Cody Acree, Benchmark.

Cody Acree - *The Benchmark Company, LLC - Analyst*

Hey, guys. Thanks for taking my questions and congrats on the progress. Russell, maybe if you could take a step back to your AI exposure. Thanks for all the details with SiPho. Could you maybe give an aggregate number of silicon germanium, SiPho, and then maybe a shot at active copper cables as far as a total AI exposure?

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

A little bit difficult for me to do that. In all honesty, I don't have that type of granularity. We assume that probably somewhat about 50% of what we're shipping right now is really being driven by AI demand. But it's hard to say.

I mean the customers that we ship to, the integrators that we ship to basically supply everything within data center. So for me to specifically say how much is AI-driven and not AI driven, really, it's not something I can give on a granular basis.

Certainly, we know that AI is driving big demand for increased speed and that the acceleration of having gone to 800G this year to such a big extent is an AI drive, and a lot of what we're serving is 800G. So I assume at least 50% of what we're shipping, but excuse the expression, but that's somewhat proctological.

Cody Acree - *The Benchmark Company, LLC - Analyst*

Sure. Well, thank you for the help there. Maybe if you can talk about optical versus active copper cable activity. NVIDIA obviously has a big push with their Spectrum X platform and Ethernet. Are you seeing any impact of NVIDIA's push to copper on your optical activity?

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

It's not necessarily for me to say how much we're shipping to who. Certainly, NVIDIA is a very big buyer. And as stated, the fact that we have the number one position within optical transceivers, one would certainly assume that NVIDIA would be a big end customer for us. But to say how much is for NVIDIA, I'm not saying. Certainly, NVIDIA is using active copper cable. That's, I think, fairly well known. So one would maybe assume that we're shipping into that.

Cody Acree - *The Benchmark Company, LLC - Analyst*

And Russell, I guess your Fab 3 utilization. I think you said that was 65%. Is that right?

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

Let me look. 55%.

Cody Acree - *The Benchmark Company, LLC - Analyst*

It's 55%.

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

I'm showing substantial or will show substantial higher utilization in Q3. So in Q3, we'd expect it's fully utilized for everything that we can be shipping there on that, not constrained on SiPho and SiGe. I mean there might be more photo layers that could be shipped outside of bottlenecks for those two flows, but those two flows are full.

Cody Acree - *The Benchmark Company, LLC - Analyst*

And I guess, the transition to 300-millimeter, how is that progressing?

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

I stated that we released a PDK and shipped samples that are very high performing as well as a very, very unique application that we're doing there with a different material than would typically be being done with SiPho that I don't want to get into at this point. But yeah, so it's going very well at 300-millimeter. The activities there are the Uozu factory in Japan. And as stated, we're qualifying and have had very good progress there as well, additional capacity in San Antonio.

Cody Acree - *The Benchmark Company, LLC - Analyst*

Great. Thank you, guys.

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

Thank you, Cody. Good questions.

Operator

Richard Shannon, Craig-Hallum.

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

Well, hi, Russell and Oren. Thanks for taking my questions. I think I'll start off with one in the RF infrastructure business here. You're talking about some very strong results and forward forecast here in kind of the baseline TIA and driver business. Maybe I just want to get a sense of the degree to which this is market growth versus potentially a Tower semi-share gains. Can you -- do you have a good sense of the drivers there?

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

In the area of silicon photonics, it's all share gain because it didn't exist in the past. And that's not being fictitious, it's just the case, right? It's a new served market of which we're gaining quite a bit of share and shipping a lot of billions of dollars of revenue and continually increasing that to multiple customers.

So there, it's -- if you will, I mean, it's a new market and hence, share gain and something that didn't exist before, which is always a very nice thing to have, right? The best way to have a very strong market share growth is by entering markets that didn't exist. In the area of silicon germanium, is it share gain or not? I am not sure. As stated, we believe for a good number of years to have the number one position in optical transceivers.

So when you're number one, it's a little bit hard to have a lot of share gain. The major thing is to be with strong customers that when the market is strong and has big demand, you're growing with them and you maintain your customers. So I think what's happening there isn't necessarily a share gain, it's demand increase. And again, additional products that are needed now that weren't really driven before. I mean active copper cable, active optical cable has been talked about for a long time and many people have sampled for a long time.

But given the increase, again, AI-driven in data center speeds, the 800G, the 1.6T, the need for re-drivers and in many cases as well, re-timers in the cable, it's very real. And I would have to consider that to be share gain because it was a market that we weren't really serving before.

As far as the TIAs and the drivers sitting within the pluggable itself, I honestly don't know if we're getting any share gain there or just that the market is getting much stronger. Continually, we have new customers, and those customers nominally will always drive some share gains, providing that they're gaining from someone that were not serving. But for the most part, on the core products that we do for optical, we already serve the biggest customers within it. So a little bit difficult to increase in share in that for the TIA and the drivers that are within the pluggable itself.

But the fact of the demand for pluggables having increased, that's a good thing. If you're sitting at 60%, 65% market share, and that market grows, as long as you sustain that market share, you have very good growth. Hopefully, Richard, that answers your question.

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

It does. I appreciate all the perspective there. Thanks, Russell. My second question on silicon photonics. Great to see the opportunities for some really nice growth here. I guess maybe the question I'd like to frame here is thinking about the big picture long term here.

What does this TAM look like in a few years? And to what degree are applications outside the datacom transceivers adding into that? You specially talked about automotive today and in then the past with FMCW. But curious how much of that TAM for silicon photonics exist outside of datacom?

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

If you're looking at long-term TAM, I think it's quite substantial. If you'd be looking at '25, '26, '27, I don't think it's very substantial. For automotive, the activities that we're doing for the LiDAR, very, very advanced activity, but I don't think we would see, going into the automotive market, a very big ramp, at least not starting before 2027 and continuing then in '28 and beyond.

There's other applications that are not conventionally what we would be considering a SiPho chip sitting within the pluggable, for example. Some of those are an active SiPho capability that is looking at an optical switch. So that is sitting within the data center. But it's part of a SAM, a served market that we don't have right now. I mean we don't do deep submicron switches on the digital side.

But there is a lot of activity right now, and we'll see ultimately how successful it is on optical switches. And that's -- again, that's an increase in our SAM within data center, but it's an increase in SAM. We've talked as well about other applications such as silicon photonics for triometers versus big optical cable triometers, specific lead customer there is Anello. And as stated, that's a new served market totally, did not exist before at all that we expect will get very large.

But -- so all of that is part of a big TAM. How much is the TAM outside of data center within data center, I would say that probably, the data center will remain the biggest portion of it. But data center is growing incredibly, especially, as I don't want to overstate it, the drive for AI and the speed needed by AI, the reduced latency needed by AI. So the SiGe that we're doing, the SiPho that we're doing, that TAM is certainly growing. And the growth of that, I think, will always be much bigger than the outside of data center on proportion, but it's not that the outside of data center is insignificant.

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

Okay. Great. Thanks for that detail here. Maybe a quick question for Oren. Your gross margin fall-through is pretty strong here in the second quarter. Can you give us a good sense of why is there some sort of mix shift or other dynamics? And to what degree is that sustainable?

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

Yeah. It relate also to what Russell said about the SiPho and the SiPho margins are very good way above the average, incremental model of 50%, incremental gross profit. So this is why you see that you're correct, that it's a 60%, this quarter came up to be 60% incremental gross profit over the revenue because we had some very nice SiPho and generally speaking, richer mix than previously, not anything special. I mean, very special, but not anything onetime.

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

Okay. Fair enough. One last question -- sorry, Russell.

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

Yeah, it's sustainably special.

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

Sustainably special. Okay. Great. One last question. I will jump out of the line for you, Russell. Just looking at your Power IC business here, you had a nice pick up here in the second quarter from what I would assume is a naturally low level in the first quarter.

And obviously, if you look back a couple of years, you had some very nice revenue levels, obviously driven by some inventory build that pretty much everyone in the Power IC space had seen in the $70 million, $80 million and even in $90 million-plus range per quarter.

Are we through the inventory burn here currently? Are you still affected by that? And then as we look out maybe one to two years with your crystal ball, do you see the ability to get back up to those levels anytime in the, I'll call it, near future? I'll let you define what you see in that timeframe, but I'd love to hear your thoughts there. Thank you.

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

For the total power revenue, yes, I think that we will get beyond previous year's numbers. For the 200-millimeter presently, we still see that there's inventory being built off or burned off, although we are starting to get much more orders there.

We had stated last quarter, we had expected that Q1 would have been low. And certainly, with the numbers this quarter, I think we said it's a 60% increase in the power revenue. But the big growth that we see within power is coming into our more advanced platforms of 300-millimeter.

Although the 200-millimeter, we continue to do advancements on as well. And we see that coming back strongly, but I don't know that the 200-millimeter within '25 will hit the same levels that we had in previous years. But the 300-millimeter will more than makeup for it.

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

Okay. Perfect. That is all for me, guys. Thank you.

Operator

Mehdi Hosseini, SIG.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Yes. Thanks for taking my question. A couple of follow-ups for me. I wanted to better understand the RF-SOI dynamics. So can you help me with how the share gain are tracking? And where are we in the inventory correction? When do you think overall market would pick up. And I'm expecting the market recovery would start with some sort of inventory refresh.

So just to summarize the question, how should I think about your incremental share gain against the end market dynamics, inventory pressure? And when do you expect your customers to start with inventory refresh? Then I have a follow-up.

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

I had stated last quarter that maybe above and beyond what the market was seeing, we were seeing very strong demand for RF-SOI. We continue to see that, in particular, for the advanced platforms of 300-millimeter. So I don't think we're being impacted nor have we been impacted for the past few quarters on inventory correction.

Overall, 2024 is supposed to be a growth year for mobile. So I think from overall analysts, they would believe that for the market itself, the inventory is in pretty good shape. But as stated, and some of that is really market share gains with newer customers, we have seen very strong and robust demand for RF-SOI, in particular, as stated, the advanced platforms of 300-millimeter, which was the big drive for bringing up and qualifying that at the Agrate factory.

And we'll -- my plan be shipping a reasonable amount of product in the fourth quarter on RF-SOI from the Agrate factory in addition to what we have had at a base of 300-millimeter in Japan. So I see the RF-SOI being a very strong business for us. If I look at '24 versus '23, overall year should be a pretty reasonable growth on the RF-SOI. And if I look at '25, I would see growth as well. So I don't see that we're being hit by inventory correction.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Understood. So Russell, quickly, your exposure to smartphone is on both operating system or both platforms --

---

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

I apologize, your voice is very muffled for me. I'm having a little bit difficult time hearing.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Sure. Sorry. Should I assume that your RF-SOI is to both Android and OS?

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

I think that would be a good assumption, yes.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Okay. Great. And as a follow-up for you and Oren, two follow-ups here. Increased mix of silicon photonics, which I assume has a higher than corporate average gross margin help offset the upfront cost and margin dilution from Agrate, especially as you ramp into '25. And then, Oren, was the gross margin that you reported for Q2, that was on a GAAP basis. Is it correct to assume that on the pro forma basis, Q2 gross margin was closer to 25%?

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

Yeah, it is 25% under GAAP. What do you mean pro forma?

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Okay. Because I was just trying to understand there was a $2 million, $3 million of adjustment. Just want to make sure I get that right.

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

This is amortization of ESOP, amortization of employee stock option plan, you mean?

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Yes.

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

Yeah. So you're correct.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Okay. Now could increase mix of RF-SOI help offset the dilution that comes from the ramp-up, the 300-millimeter fab in upgrade?

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

Is your question referring to Q2?

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Looking into '25, as you start production from the new fab, Agrate, could higher margin contribution from infrastructure, specifically silicon photonics, help offset some of the dilution from the ramp of the new fab there?

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

Yeah, definitely, the increased margin from the SiPho should be in the scope that Russell described, the SiPho growth next year in his prepared remarks, should be higher impact than this, you call it dilution from the Agrate factory headwind. And it will start, and it should be much higher impact, yes.

Mehdi Hosseini - *Susquehanna International Group, LLP - Analyst*

Got it. Thank you. So for the mic.

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

Thank you. Good questions.

Operator

Lisa Thompson, Zacks Investment Research.

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

Hey, Lisa.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Hi there. So let me just ask you. I thought last quarter, you said that silicon photonics contributed about 5% of revenues. Is that right?

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

Yes.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

And So what would have been this quarter?

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

What I stated last quarter, I believe, is that we would see it remaining somewhere about 5% throughout the year, but against increased revenue quarter over quarter, so that the SiPho revenue would be increasing quarter over quarter. We haven't put out a specific number for Q4.

So I really don't want to say right now what the percentage would be for the year, I said that it would be -- that we expect over $80 million of SiPho revenue in 2024, that's over $80 million. How much is over $80 million that one can try to figure out for themselves. But I would expect that it will certainly not be below 5% and could be a little bit above.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Okay. And at current, mostly -- I believe it's mostly going into like pluggable optical transceivers, right?

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

I believe almost all of it right now is pluggable optical transceivers.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Okay. And do you have a feel for what speeds the breakdown is, 400, 800?

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

I think some is even going into 100, but the bulk of it is 400 and 800. The specific breakdown between 400 and 800, I could probably find out, but I don't know off the top of my head.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Okay. And you did say something interesting about having a 1.2 terabyte. Is that one customer --

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

I said -- several. No, just joking. Please, go ahead.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Right. So is that just one customer working on that?

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

No.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Okay. And then how far off do you think we get to 1.6?

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

As far as the calendar?

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

A year from now. Yeah.

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

Maybe I'm a bit aggressive here, but I think that we'll be shipping in the fourth quarter of '25.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Really? And that will be one customer or more than one?

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

At least one.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Okay. Great.

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

That will not mean that will be shipping a very high volume in the fourth quarter, but I do think --

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Right.

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

(multiple speakers) in the fourth quarter.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Samples, maybe?

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

Certainly, samples, but I think some of that will actually go into data center, I believe. I could be wrong, but I think it's possible.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

All right. And then given the -- just the way that market is as it shifts to higher speeds, is it possible that your growth accelerates as the prices go higher in the higher-speed products?

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

The growth in absolute dollars, absolutely. And percentages, no, right?

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

Yeah.

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

I think when you're at [80%] and you're going, we said more than double next year, which we're pretty confident in. To continue at those type rates from [30% to 80%] to more than doubling, those are -- that's a very, very high rate. But as far as absolute dollars, I absolutely think that it will continue to accelerate.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

And do you think they'll be beating you down on margins as time progresses to keep it like where it is.

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

I don't think the customer partners we have would ever beat us down on margin. You certainly partner with somebody that the higher the volume is the more that you both benefit from economies of scale and prices come down. But people pay for value. And it costs to produce value. So will some pricing come down over time with lead customers? It must and it should. But while margins remain very strong, yes.

Lisa Thompson - *Zacks Investment Research, Inc. - Analyst*

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

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

Good questions, Lisa. Thank you.

Operator

Richard Shannon, Craig-Hallum.

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

Hi. Thanks. Let me ask a couple of more here. My first one, Russell, is just looking at your capacity, specifically a 300-millimeter capacity, I'm wondering if there's any tightness and when those get relieved. And any comments you can make on by the product area. I think in this call, you've talked about Power and RF-SOI and even silicon photonics on 300-millimeter. Any comments you could help us understand where there's tightness and when it gets relieved, it would be great to hear. Thanks.

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

So presently, there's tightness at 300-millimeter RF-SOI. And I stated that we're fully utilized in that. It's being relieved real-time and stated that we target to have production revenue in the fourth quarter from the Agrate factory, and that's not single digit. So it's -- we're looking at a fair amount of relief there. So that would start to be relieved in the fourth quarter and first, second of next year.

What we had said previously, and it was a good question, I was asked about the margin headwinds by taking on once you start shipping revenue, taking the depreciation of a new incremental tool set, but that we expected a reasonable ramp from the fourth to the first to the second quarter of next year to be able to absorb that.

So within that type of a statement without specific numbers, we expect shipping quite a bit of RF-SOI on a monthly basis by the second quarter of next year out of the Italy factory. As far as the 300-millimeter for power, that is the relief of capacity there is in the Albuquerque activity, where we have the capacity corridor from Intel. And I stated that we're in very advanced stages with customer prototypes going now.

We have very advanced activities there, and we believe that we'll start shipping there qualified parts within probably the first half of 2025. And that's quite a substantial amount of capacity that we can be growing at that factory. So that's the relief on power management.

But it's more than just a relief on the power management, it's really growing an entire new market for us because we did not have a 65-nanometer platform for any reasonable capacity in the past, and now we do. That was one of the big bonuses that we got out of the entire experience with Intel definitive agreement was what we started early on, on an arm's length agreement to develop capacity within one of their factories to meet very large customer demands and end customer demands.

So the Albuquerque capacity corridor is really our road map for increased capacity with the power management and potentially other flows as well that we have some pretty interesting activities on but have not yet publicly announced. We have initial activities without end customer commitments on it, but it will be most likely more there than just power management within that factory.

Did that answer your question, I hope?

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

Yes, it did, Russell. Thank you very much. That's all the questions from me.

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

Thank you.

Operator

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

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

With pleasure, thank you. So thank you for listening. Thank you for really very good questions from everybody. To summarize, we are tracking well and remain committed to our stated target of sequential revenue growth throughout 2024, as evidenced by our second-quarter performance and third-quarter guidance.

In addition to the recovery of mobile and growth in our advanced power platforms, we are experiencing a robust rapidly expanding demand from both existing and new customers within the optical space. Our strong position in optical transceivers coupled with multiple years of first-tier customer partnership in developing both passive and active silicon photonics platforms have uniquely prepared us to be the leading foundry of choice for data transfer within the exploding AI market. We remain focused on innovation and hence, enhancing our market leadership in order to continue to deliver sustainable growth.

On August 27 and 28, we will be participating in the Jefferies Semiconductor IT Hardware and Communications Technology Summit in Chicago. On September 4, we will participate in the Benchmark's 11th Annual Tech Media Telecom One-on-One Conference in New York. And in addition, on September 11, we'll participate in the Jefferies Israel Tech Trek in Tel Aviv. Thank you very, very much. We look forward to see you at any or all of these events or otherwise. Thank you again.