

# Mossberg's Investor Digest

## Best Idea Profile:

## Tower Semiconductor Ltd. (NASDAQ:TSEM)

### DESCRIPTION:

Tower Semiconductor Ltd. operates collectively with its subsidiaries under the brand name TowerJazz. It manufactures integrated circuits for customers worldwide in markets including RF, high-performance analog, power, imaging, consumer, automotive, medical, industrial, and aerospace and defense. It operates seven manufacturing facilities on three continents. It owns two of these in Israel, one in California and one in Japan. Three additional facilities are in Japan and are a joint venture with Panasonic Corporation. Tower Semiconductor began in 1993 by acquiring a wafer fabrication facility in Israel from National Semiconductor. It went public in 1994, and is headquartered in Israel.

### KEY INVESTMENT CONSIDERATIONS:

**Benefiting from Megatrends** – TowerJazz is benefiting from major megatrends: green everything, wireless everything and smart everything. Emphasis on energy efficiency, seamless connectivity and embedded systems favors its leading edge RF and analog mixed signal technologies. Analog and RF chipsets also tend to have long life cycles and provide a more defensible competitive position. (Versus digital)

**Superior Joint Venture** – The April 2014 joint venture with Panasonic Corporation was a brilliant move. It gives the company expanded offerings, and state-of-the-art facilities that can sustain its rapid organic growth. The joint venture, of which TowerJazz holds 51%, includes three semiconductor factories in Japan, and manufacturing of Panasonic and additional products. Panasonic has committed to acquire its products from the joint venture for a minimum of five years. The deal cost TowerJazz 800,000 shares, or less than \$10 million, generating incremental revenues of \$400 million annually, with substantial capacity for additional foundry business growth. In addition, it will allow Tower to consolidate its Japanese operations that will result in savings to the company of \$130 million per year. Results from the venture will be included for the first time in second quarter earnings.

**Growth Exceeding Industry** – Pure play foundry revenues in the first quarter grew 10% for the pure play foundry industry. Tower's year-over-year growth was 18%, with organic growth of 27%. EBITDA is growing even faster at 84% year over year.

**Large Customer Base** – Tower's 200 customers include an impressive list of companies: DMB Technologies, Entropic Communications, eSilicon, Fairchild Semiconductor, Ikanos, Marvell, Medigus, Micron, Mindspeed, NXP, On Semiconductor, Panavision, Raytheon, RF Micro Devices, Samsung, Semtech, Skyworks, Teledyne Scientific and Imaging, Texas Instruments. Only two customers exceeded 4% of total revenue.

### VALUATION:

Tower Semiconductor's earnings power, estimated at approximately \$3 per share, makes it an attractive investment, despite the fact that its shares have doubled year to date. It is trading at six times 2014 earnings and less than 10 times analysts' 2015 earnings projection of \$2.46 per share. The stock has recently risen in anticipation of a positive earnings release set for August 4.

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Investment Data (as of 7/23/14)

<b>Recent Price</b>	<b>\$11.07</b>
52-Week Range	\$3.85 - \$11.78
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	48 M
Average Trading Volume (3 mos)	367k
Market Capitalization	\$532 M
Cash	\$183 M
Long-term Debt	\$433 M
Enterprise Value (EV)	\$791 M
Book Value	\$4.16
TTM Revenue	\$525 M
P/ Revenue	1.0x
TTM EPS	\$(0.54)
P/ EPS	NA
TTM EBITDA	\$118 M
EV/ EBITDA	6.7x