

Tower Semiconductor (Q2 2026 Earnings)
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Corporate Speakers:

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

Participants:

- Cody Acree; The Benchmark Company; Analyst
- Mehdi Hosseini; Susquehanna; Analyst
- Richard Shannon; Craig-Hallum Capital Group; Analyst
- Lisa Thompson; Zacks Investment Research; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Tower Semiconductor Second Quarter 2026 Earnings Conference Call and Webcast. (Operator Instructions) Please be advised that today's 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. Hello everyone. Thank you for joining us. Welcome to Tower Semiconductor's Second Quarter of 2026 Financial Results Conference Call. With us today are Mr. Russell Ellwanger, Chief Executive Officer; and Mr. Oren Shirazi, 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 forward-looking statements.

Our second quarter 2026 results are prepared in accordance with U.S. GAAP. Some data presented may include non-GAAP financial measures as defined under SEC Regulation G. Reconciliation 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^ Hello, everyone. Thank you for joining our call today. I'm truly excited to share with you the status, progress, and future outlook potentials for Tower. The second quarter was quite significant, setting substantial company records across all key metrics. These results continue to validate the growing value of our technology portfolio and the powerful operating leverage embedded in our business model. Our revenue is on a fervent growth trajectory with an accelerated flow through into earnings.

Second quarter revenue was \$460 million, with a particularly positive profitability, 30% gross margin, 20% operating margin and 20% net margin, all being company records, excluding nonrecurring accounting items, and representing, respectively, 58%, 55% and 55% quarter-over-quarter contribution from the increased revenue. These results stand as the first step of continual margin expansion we expect over the next years, driven by market-leading customer partnerships which dictate a very rich product mix backed by strong operational execution. Looking ahead, we guide the third quarter of 2026 midrange revenue to be \$520 million, representing an annualized revenue run rate of above \$2 billion.

We began the year stating that Tower will have a very strong second half as the previously announced capacity investments become qualified and converted into shipments. Beginning the second half of 2026 with a \$2 billion run rate turns the page into multiple new exciting chapters for the company. The strength of our customer demand, our growing partnerships, our proven execution capabilities, and the strategic investments that we have and still continue to announce provide a powerful catalyst to accelerate our short, mid- and long-term growth. Due to direct and growing customer demand representing the scale of the market opportunity and more importantly, our ability to capture it, we have updated our 2028 model to be \$3.6 billion in revenues, \$1.63 billion in gross profit or 45% gross profit margin, and \$1.2 billion in net profit or 33% net profit margin.

Please see Slides 4 and 5. Very important, the profitability gains we delivered in the second quarter are not a one-time achievement, but rather just an initial step towards profitability expansion and cash generation as represented in our updated 2028 model. Equally important, as can be seen in Slides 4 and 5, this growth is accompanied by even greater efficiency. Today we operate at about a 10-percentage point difference between gross margin and operating margin, a highly efficient structure for a company investing strongly in future growth.

As revenue expands, we drive greater efficiency with operating expenses as a percentage of revenue lowering to approximately 7%, 30% lower than current levels. This improvement is not the result of limiting investment in R&D to the exact opposite. The model includes an increase of R&D investment by over 40% against present levels. Rather, this improvement reflects the enhanced efficiency achieved through our support functions as we grow scale.

Speed and execution are one of the primary differentiators for high-tech success. We must continue to invest in R&D. This is a core capability. But as well there must be a

focus to streamline context, all of the SG&A functions. We are doing this and likely with numbers that rival or exceed the otherwise best in the industry. Efficiency, driving the speed of execution, of course yields strong margins. But more importantly, it enables sustained business success through the speed of execution. Three weeks ago, we announced a dual-track 300-millimeter capacity strategic expansion in Japan for our silicon photonics, silicon germanium and advanced optical packaging capabilities, having gained the support of the Government of Japan through the Ministry of Economics Trade and Industry, METI.

By combining Tower's specialized technology leadership and our best of the best worldwide workforce into Japan's unparalleled manufacturing expertise and quality output, its world-class research institutions and deeply committed workforce, we are building a strategic platform that will drive innovation, economic growth and semiconductor leadership for decades to come.

Track 1 of this dual track add significant new 300-millimeter silicon photonics capacity with full production readiness expected during the fourth quarter of 2027. It consists of repurposing the Arai facility, formerly Fab 6, for 300-millimeter silicon photonics capacity and advanced packaging capabilities and as well as maximizing the company's Fab seven 300-millimeter output in Uozu. This Track 1 is the driver for updating the 2028 business model.

Track 2 will commence in parallel with the first track and consists of constructing an additional 300-millimeter manufacturing facility adjacent to Fab 7. This facility is expected to provide a 4x increase in our Japanese 300-millimeter manufacturing output, focusing on silicon photonics, silicon germanium and related advanced optical packaging, positioning Tower to continue to support our accelerating customer demand for emerging AI and data center applications, driving next-generation optical connectivity requirements and is planned to provide a seamless path for Tower and our customers for continued growth post 2028.

Moving to our businesses. Please refer to Slide 6 as referenced for Q2 revenue breakdown. Our RF infrastructure revenues for the second quarter represented 49% of corporate revenue with approximately 43% of quarter-over-quarter growth and over 140% year-over-year growth. Silicon photonics revenue itself increased by over 60% quarter-over-quarter and over 270% year-over-year, hitting a Q2 annualized run rate of over \$680 million, targeting a \$1 billion run rate in Q4 '26 as the previously announced capacity expansion continues to be qualified.

The full ramp of wafer starts in these investments is anticipated to occur within the fourth quarter of 2026, creating a wafer start capacity over 3x higher than the second quarter silicon photonics revenue shipments with full financial effect anticipated to be in the second quarter of 2027. After kicking off the year with several breakthrough technology milestones, the second quarter was about further propelling Tower's leadership position in silicon photonics as an added foundation to the next phase of growth.

We focus on expanding capacity, advancing our technology capabilities and deepening our engagements with strategic customers aligned to their long-term roadmaps. The data center industry is undergoing a fundamental transformation as AI performance is no longer defined solely by compute. It is increasingly determined by how efficiently data moves between processors. High bandwidth, low latency, energy-efficient optical connects have become a critical enabler of AI infrastructure. While geographically distributed deployment has become equally important to hyperscalers and the communities, these trends align directly with Tower's core strengths.

As AI clusters scale from thousands to hundreds of thousands of XPU's, electrical interconnects are rapidly approaching their practical limits. Silicon photonics has emerged as a leading platform for 800G and 1.6T pluggable optical interconnects which have, for the most part, already replaced copper for scale-out connections outside the rack.

The next frontier is enabling optical interconnects for scale up, either within a single rack or across multiple racks and once again silicon photonics with Tower is well positioned to lead this transition with several near package optics, NPO deployments planned over the next year and many more in design. NPO delivers much greater bandwidth density and reduced energy per bit compared to pluggable optics, and yet it leverages the same established ecosystem as pluggable, overcoming the reservation from hyperscalers and data center operators about reliability, serviceability or multisource flexibility.

We announced customer contracts representing approximately \$1.3 billion of silicon photonics revenue for 2027 with even higher growth for 2028. With what we've stated about Track 1 investment, substantial additional 300-millimeter capacity will be added throughout 2027. This added 300-millimeter capacity is already requested by and committed to several lead customers, reflecting their confidence in Tower's ability not only to scale manufacturing capacity rapidly but to continue to execute on highly differentiated technology roadmaps required for future networking architectures.

To support the long-term growing demand, we announced the Track 2, a most significant expansion of our manufacturing footprint in Japan which is expected to more than quadruple its 300-millimeter capacity, positioning Tower well to support not only today's [workhorse] pluggable optics and our rapidly growing near package optics, but also the additional future market for co-packaged optics.

Capacity alone, however is not enough. Our future growth will also be driven by the next generation of enabling technologies that are already moving through development pipeline. Over the next 1 to 2 years, we expect several of these technologies to transition into high-volume manufacturing including and especially heterogeneous integration of [35] materials on silicon photonics for integrated lasers, advanced modulators and optical signal processing.

In support of this roadmap, we entered into a multiyear epitaxial wafer supply agreement with IQE securing a strategic supply of [35] epitaxial material while continuing to

internalize key manufacturing steps that enhance both performance and supply chain control. Our long-standing collaboration with Marvell reached an important milestone as the number of SiPho-based coherent optical modules crossed over into multimillion. This achievement demonstrates Tower's ability to manufacture some of the industry's most complex silicon photonics [ICs] at high-volume production scale.

Looking ahead, coherent photonics is expected to play an increasingly important role in scale across AI architectures where multiple data center campuses operate as a single AI factory while distributing power, cooling and infrastructure requirements across geographically diverse locations. Our silicon germanium business continues to benefit from growing demand for low latency, low power efficient analog drivers and transimpedance amplifiers across traditional pluggables as well as linear pluggable optics and linear (inaudible) optics architectures.

Our 100G per lane and 200G per lane products are in high-volume production across all 3, 200-millimeter fabs as we advance towards near package optics as well as 400G per lane solutions requiring tighter electrical IC, photonics IC integration and codesign. We're also seeing strong customer pull for our next-generation 300-millimeter silicon germanium platforms. Our RF mobile revenue represented 12% of our second quarter corporate revenues.

As we discussed last quarter, our RFSOI business is undergoing a strategic transition from 200-millimeter to 300-millimeter manufacturing, enabling higher performance, greater integration and stronger value for our customers. In addition, we are consolidating 300-millimeter RFSOI manufacturing to Fab 7, freeing up -- I'm sorry, to Fab 10, freeing up Fab seven capacity for a rapidly growing SiPho and silicon germanium business. These factors resulted in a 14% decrease in our 300-millimeter year-over-year RFSOI revenues.

Looking forward, we have realized a very strong design win momentum for our 300-millimeter platform, particularly for premium smartphones. A roadmap repeat with best-in-industry figures of merit has gained market excitement and engagement, driving an expected 3x RFSOI increase and 300-millimeter wafer starts by mid-2027 against the Q2 '26 shipments.

Power management revenue for the second quarter represented 14% of corporate revenues with year-over-year revenue growth and strong demand for both our 200-millimeter and 300-millimeter BCD offerings. Our technology focus on power delivery for high-performance computing, gives us a leadership position in load gate charge and low Rdson, LDMOS devices. Our latest generation power technology enables our customers to develop high frequency, high efficiency, DC to DC converters for a variety of growth segments.

During this quarter, we experienced increased demand from existing customers and also saw very strong new customer acquisitions across our power portfolio. This momentum is primarily driven by growth sectors where power density and thermal efficiency are

mission-critical. Through close collaboration with our lead customers, we continue to advance our next-generation power management roadmap.

Sensor display for the second quarter represented 12% of our corporate revenue. In our image sensor business year-over-year revenue is predominantly flat. However we're seeing a sharp surge in demand, particularly in the machine vision market for high-end, high-resolution sensors used in semiconductor inspection, driven by the accelerated build-out of DDR and HBM memory assembly lines. And as well in the automotive industry, especially for EV battery inspection.

This strong demand is expected to continue to grow over the next 2 years. We are well positioned to support it with a range of products our lead customers have developed on our state-of-the-art global (inaudible) 300-millimeter platform.

Looking at utilization. During a period of high capacity ramp, Fab 2, Fab three and Fab 9, 200-millimeter Fabs operated utilization rates between 80% and 85%. Fab five in Japan was at 75% utilization. Fab seven continues to be fully utilized, well above our 85% utilization model.

Now I'd like to turn the call to our CFO, Mr. Oren Shirazi. Please, Oren. Thank you.

Oren Shirazi^ Thank you. Hello, everyone. Earlier today we released our financial results for the second quarter of 2026. I will now review the highlights of these results as well as the balance sheet CapEx investments and our updated business model. First, looking into the P&L. Revenue for the second quarter of 2026 was \$460 million, a record in the company's history, representing 11% quarter-over-quarter growth compared to \$414 million in the first quarter of 2026 and 24% year-over-year growth compared to \$372 million in the second quarter of 2025. Gross profit for the second quarter of 2026 was a record \$138 million, reflecting a 30% gross margin and an increase of 72% compared to \$80 million in the second quarter of 2025.

Operating profit for the second quarter of 2026 was \$90 million, 2.26x the operating profit in the second quarter of 2025. Net profit for the second quarter of 2026 was \$91 million, reflecting a 20% net margin, and an increase of 95% or \$44 million compared to a net profit of \$47 million in the second quarter of 2025. Earnings per share for the second quarter of 2026 were \$0.80 per share basic and \$0.79 diluted, almost double the \$0.49 basic and \$0.41 diluted in the second quarter of 2025.

Moving to our balance sheet. As we previously announced, we received \$290 million in prepayments from SiPho customers in the first quarter of 2026, mostly towards 2027 capacity reservation. These customer prepayments are included in the balance sheet as of the end of June 2026 as liabilities under short- and long-term customer advances and are included in the cash flow report for Q1 '26 and for H1 '26 as cash from operating activities.

Our balance sheet continues to be strong, evidenced by the following indicators and financial ratio. As of the end of June 2026, our assets totaled \$3.8 billion, primarily comprised of \$1.3 billion in net fixed assets, predominantly fair machinery and \$2 billion of current assets. Our current ratio remains very strong at about 4.9x, while shareholders' equity reached a record of \$3.1 billion at the end of June 2026.

Hedging. I would like now to describe our currency hedging activities. Regarding the Japanese yen, since the majority of TPSCo's revenue is denominated in yen, and the vast majority of TPSCo's cost are also in yen, we have a natural hedge over most of our Japanese business and operations. To mitigate part of the remaining yen exposure, we execute 0 cost cylinder transactions to hedge currency fluctuations. While the yen exchange rate against the dollar may fluctuate, there is limited impact on our margin.

Regarding the Israel shekel, while we have no revenue in this currency, a portion of our cost in Israel is denominated in shekel. So we also hedge a large portion of that currency risk by entering into 0 cost cylinder transactions to mitigate this exposure. While the shekel exchange rate against the U.S. dollar may fluctuate, the impact on our margin is limited as seen over the past few quarters, during which the shekel appreciated strongly against the U.S. dollar.

Now moving to our CapEx investment plan. As previously announced, in order to support the increasing SiPho and SiGe demand, we are executing a \$920 million investment plan to expand capacity and capability of SiGe and SiPho equipment across our 8-inch plants in Israel, Newport Beach and Texas as well as our 12-inch Uozu fab in Japan. This investment is on track in terms of purchase orders issued, technology and process qualification, equipment arrivals and ramp plans. Approximately 50% of this \$20 million CapEx investment has been paid to date, and this is included in our cash flow for investing activities for the reporting period through the second quarter of 2026, while the remaining 50% is expected to be paid during H2 '26 and full year 2027.

Business model. As recently announced and presented earlier today by Russell the company updated its business model which now includes the planned investment in the Arai facility, formerly Fab 6, to repurpose it for 12-inch SiPho wafer manufacturing, thereby maximizing the company's 12-inch wafer output in Japan supported by METI, Japan's Ministry of Economic Trade and Industry.

The additive model is based on forward-looking operational business and financial assumptions including the assumption that all fabs will operate at 85% utilization post the full installation and qualification of the \$920 million in SiPho and SiPho CapEx investment. We continue to execute to ramp up SiPho and SiGe capacity and capability in our Fab 2, 3, 5 and 7, and post the planned repurposing of the Arai facilities and qualification of the new equipment tools to be installed there.

Another assumption is the assumption regarding forward-looking wafer selling prices for existing and future products and flow. And an assumption, forward-looking assumptions regarding cost and completion date for the successful qualification of tools to be installed,

process technologies to be qualified and customer products to be qualified and ordered from the company.

Under the updated model, we target \$3.6 billion in annual revenue which is \$760 million higher than the February model target, reflecting 27% revenue increase. \$1.63 billion annual gross profit, resulting in a 45% gross margin as compared to 39% in the prior model. This annual gross profit is \$510 million higher than the prior February 2026 model, representing 67% incremental gross profit derived from the incremental \$760 million revenue, reflecting our enhanced product mix. \$1.38 billion of annual operating profit, resulting in a 38% operating margin as compared to 32% in the prior model. This annual operating profit is \$480 million higher than the prior February 2026 model, representing 63% incremental operating profit derived from the incremental \$760 million revenue, again reflecting our enhanced product mix.

And lastly, \$1.2 billion in annual net profit, resulting in a 33% net margin as compared to 26% in the prior model and as compared to 20% in the second quarter of 2026. The final net profit is \$450 million higher than the prior February 2026 model, representing 59% incremental net profit derived from the incremental \$760 million of additional revenue, reflecting our enhanced product mix.

That concludes my prepared remarks. Now I'd like to turn the call back to the operator so we can take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And now we're going to take our first question, and it comes from the line of Cody Acree from Benchmark/StoneX.

Cody Acree^ Congrats on another great quarter and just great execution. Congrats, everybody. Just a point of clarification and then a couple of quick questions. Did you update the SiPho bookings number for '27, the \$1.3 billion? Would you give a new version of that?

Russell Ellwanger^ No. No, I did not. I stated in the script that the Q4 start rate, which would be fully realized in Q2 '27 revenue, was 3x higher than the Q2 shipment. So that number is --

Oren Shirazi^ Yes. This can be [680 times 3], but this is capacity. While the \$1.3 billion is on customer committed prepayments or on customer committed contracts.

Russell Ellwanger^ As stated additionally, the capacity growth is spoken for. Is it all booked? No, but it's spoken for.

Cody Acree^ Is it fair to -- sorry, (inaudible)

Russell Ellwanger^ No. I was just going to state that I think there was no update given on the contracts and the bookings, but there was an update given pretty much on what is started or will be started for shipments.

Cody Acree^ Okay. Excellent. Then just with that level of visibility, you've been able to put up some record sequential and annual growth rates both on a percentage and on a dollar basis, it's been pretty impressive. With this level of visibility, can you maybe just handicap the likelihood of being able to sustain this kind of growth rates or even accelerate from here?

Russell Ellwanger^ Well we gave the 2028 financial model and stated that it is our expectation to reach those numbers at a minimum by run rate nominally in the full year in 2028. So I think you could estimate what the growth rate is off of a \$3.6 billion 2028 revenue level.

Cody Acree^ Okay. Then lastly, Russell. Maybe, if you can just help me to get a scale on the Japanese projects, the Track 1 and Track 2. I'm trying to understand the wafer volumes or the revenue support that ultimately will be available out of Japan, not so much Track 1. I think that's clear in your fiscal '28 model that that is assuming full utilization of that Track 1 build-out. Is that the right way to think about it?

Russell Ellwanger^ Yes, at 85% utilization, correct.

Cody Acree^ Okay. So then how do we think about the scale of Track 2?

Russell Ellwanger^ We stated that the Track 2 would quadruple the 300-millimeter capacity and that is predominantly for SiPho and SiGe. We didn't give specific numbers. Part of the reason for not giving numbers is that we're in final negotiations, strong negotiations, not on the pricing part of it, just on the timing part, to complete the facility and complete the facilitization of the facility and then the negotiations with the suppliers on the equipment itself. So budgets, everything is approved, everything is there. We're focused on covering everything with internal cash creation. So it sits nicely in our hands. We're not looking at anything being gated or leveraged by a fundraising event or anything of that sort. There's no dilution within the plans.

But we don't yet, at this point, have the final schedule of tool installations and tool qualification. Our target is that everything is installed and functioning by Q4 2028. And as stated in the script, that it then provides a seamless growth trajectory into 2029, having reached the full potential of the Track 1 development in 2028. So our target would be to have that grow from there. The exact numbers of how much we would get from that, that we haven't said, and it's not necessarily our desire to give quarterly updates and financial models. But you could expect that within the first quarters as we get into 2027 that we'll update our long-term financial model, depending upon how it actually turns out on the final build-out of the factory and the amount of tools that we can fit into the built-out factory. So some of that, even some of the building plan is not yet finalized.

Cody Acree^ Okay. Excellent. Then just to be clear, the 4x quadrupling of the capacity of Track 2, that is just the Uozu facility? Or is that quadrupling accounting Fab 6?

Russell Ellwanger^ We're including Fab 6 in that 4x number. So whatever we would be doing incrementally in Fab six which predominantly we'll be using as an epicenter and also for specialty packaging tools. But yes, the Fab six incremental that you see in Track 1 is included into the 4x.

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

Mehdi Hosseini^ Yes. I do have a couple. Russell I just wanted to better understand the evolving end market demand. As we look into next year, and NPO becomes material, does that give you ability to increase your content per given transceiver?

Russell Ellwanger^ To the extent I understand your question, I would say no. It basically would be -- we would be selling an NPO in those cases rather than selling pluggable, and in many instances, most likely be selling both. But the content itself, no, at least to the extent that I understand your question.

Mehdi Hosseini^ Sure. I'm trying to better understand if there is synergy here, especially as you -- I'm under assumption that at some point, the [PIC] itself will require a stacking of SiGe and SiPho. That's where the question is originating from, if we have more of a heterogeneous structure, a PIC-based structure, would that -- I imagine that would be more positive for you. And I just want to see if I'm in the right frame of mind.

Russell Ellwanger^ I think you're in the correct frame of mind, and I think the answer is yes. But I believe that, that focus is more not on NPL, but on next generation. So when we talked about the advanced packaging, a good amount of the advanced packaging that we're putting in place is die to wafer and wafer to wafer bonding.

Mehdi Hosseini^ Okay. I imagine that would also require you to increase SiGe capacity and that's already embedded in the Phase one of the capacity expansion, right?

Russell Ellwanger^ To some extent, it's mainly embedded into the Phase 2. I'm sorry, Phase 1 is focused very, very strong directly on SiPho expansion where we, as stated, all of that growth that we're doing in Phase one is already spoken for.

Mehdi Hosseini^ Okay. Great. Then second question, regarding your manufacturing footprint, given your emphasis in Japan and how you have this Phase I and Phase 2. Should I assume that majority of your U.S.-based customers would be supported through facilities in Japan or U.S. would -- or is there another area where you eventually have to increase capacity?

Russell Ellwanger^ We have and we continue to increase capacity in both Newport Beach and in San Antonio, and we're still planning to increase further capacity in both

sites. But one of the reasons for having chosen Japan, sorry, is its geopolitical neutrality. There's no issues for somebody to be supplied out of Japan. So it's a very good place to grow. I mean there's multiple reasons to one that we chose Japan. We have truly a remarkable workforce there. Most of the R&D that we have in Japan was a derivative of Panasonic hires back when Panasonic was the creme de la creme. I mean a top three Japanese company and hiring their choice of people, predominantly from Tokyo University.

So we still have an extremely, extremely capable core workforce as far as R&D. Additionally, anybody in the world that's ever been around Japanese manufacturing, the quality of it is just outstanding. It's part of a Japanese mentality. I mean ancillary here, but we lived in Japan for a number of years when our youngest daughter was going through kindergarten. It's a very, very interesting thing. Already at 3.5, four years of age, when a kindergarten student goes to school, part of their uniform is a plastic container with a wash cloth in it called an oshibori, and the school day starts by taking out that washout and wiping down their desk.

The school day ends by taking out that wash cloth and wiping down their desk. The honoring of the workplace is a very, very big, big thing in Japan. That culture when you started 3.5, four years of age, learning to honor the workplace, that stays with you forever. I mean I did a film once, so it's kind of funny, just about the procedure of returning your tray and dishes after lunch.

The activities in Japan, it's more or less of an assembly line. There's absolutely no degradation of a quality mentality versus when they're in the regular factory. So when it deals with very, very high-quality manufacturing, I think Japan is really the best of the best. So those are multiple reasons for going there. It was the taxonomy that we have of workforce is fantastic. Quality culture in Japan is fantastic. Education in Japan is amazingly good. It's geopolitically neutral.

Mehdi Hosseini^ Got it. And just a very quick follow-up. When should RF mobile revenue stabilize? Your prepared remarks suggest that you're continuing to consolidate move manufacturing to 300-millimeter. Would those changes in your manufacturing footprint stabilize into the second half? Or is this something that is going to carry on into '27?

Russell Ellwanger^ I wouldn't use the term stabilize, stabilize would mean going into an area where you're not having incremental growth. But I believe I had stated that from the tape-outs activity, the design activity that we've already won that we would see Q2, Q3 of next year, having the largest 300-millimeter manufacturing that we've ever done for RFSOI. But I wouldn't say stabilizing, it's just getting to a point of continued growth and then additional plans, how do we grow it beyond that. But yes, I would think that for the Fab 10 factory where we're manufacturing, it will be very, very full come second, third quarter of next year.

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 LLC.

Richard Shannon^ Excellent. Congratulations on wonderful results. Keep up the good work here. My first question is going to be a follow-on from a couple of Cody's questions here and trying to think about the ultimate silicon photonics and SiGe 300-millimeter capacity after you finish Track 2 and you use the statements of 4x increase in capacity, I think at least 4x capacity. So it seems like we need to understand and characterize how much of the capacity to that point is 200 millimeter versus 300 millimeter. So I was wondering if you could answer that quantitatively or at least qualitatively to help us think about that more specifically.

Russell Ellwanger^ Honestly, I'm not sure I understand the question. Could you just restate it, please?

Richard Shannon^ Sure. You've said that after Track 2, you're going to -- it's going to increase your 300-millimeter silicon photonics and SiGe 5G capacity by -- or quadruple. So in order for us to quantify this, I think we need to understand what that position -- what that mix of capacity between 200 millimeter and 300 millimeter would be at that point before starting that capacity increase. So trying to figure out -- I wonder if you could answer what that split of capacity is at that point, so we can try to calculate that.

Russell Ellwanger^ Yes. I just have to (inaudible) real quick, sorry. I'll be right back. Sorry, one second, sorry. Sorry, Richard. I would say that, to begin with, after I would say '27 mid '28, all of the growth that we have in SiGe and SiPho, and definitely in SiPho, will be in 300 millimeter. The ForEx increase in capacity in Japan, the agreement with METI is really focused on optics and it's on the silicon photonics and silicon germanium. So as a minimum, we would intend to be adding 20,000, 25,000 wafer per month silicon photonics capacity, that can go much, much higher than that. That's the desire of the company -- I mean of the country. So if you multiply that by 2.25, you're dealing with very, very big amount of wafer capacity versus 200-millimeter.

So although I'm not sure why it's so important for you to know that ratio to model something. The growth in silicon photonics is quite big and the predominant portion coming out of Track 1, almost 100% of it will be silicon photonics. You have the delta numbers in revenue from the previous model to the present model. Then when we go into the 300-millimeter facility, the actual split, we've not yet announced, but the predominant portion of everything of that 4x growth will be in silicon photonics. On the next biggest portion of it will be in silicon germanium.

Richard Shannon^ Okay. I'll just state also, I think everyone is trying to figure out what the next update on the business model looks like. I think you said you'll update us kind of earlier or some point next year here. So we're all trying to do that work ahead of time. So we'll look forward to more detail when you're able to give it. My follow-on -- one of my follow-on questions here is on NPL. I'd love to get a sense of the degree to which this

will be a meaningful contributor in SiPho revenues in 2027. Is this going to be -- how would you characterize the size either quantitatively or qualitatively, please?

Russell Ellwanger^ I think it will be significant. The exact percent, I don't yet know. But I would think it will be in the -- not in the single digits, but in the tens of the percentage of what we'll be shipping, especially in the second half of the year.

Richard Shannon^ Okay. Great. That's very helpful. Then my last question is on advanced packaging here. I think there's a little bit of contribution in the Track 1 investments in Japan, but I think a bigger part of Track 2. So I'm going to ask a little bit longer term question here, Russell which is I think in the fulsome of time here, after everything is built and how you think the market is going to evolve, how much of your silicon photonics revenues are going to be packaging related?

Russell Ellwanger^ That's a very good question. I'm not sure how much of it necessarily is packaging related versus being packaging enabled. So even right now for the integrated laser, for an indium phosphide laser, we would see next year several tens of millions of revenue from integrated laser. The integrated laser is a chip to wafer bonding. That's packaging. It's right now outsourced, but we'll be bringing that in-house.

So it's not that we're getting paid per se for packaging, and we're not trying to compete with packaging houses. We're bringing more capability in-house that we have control over the end result and certainly much more control over the start to ship time of wafers rather than to depend on the supplier no matter how good they are. But we are not looking at per se competing in packaging. We're looking at packaging being an enabler to grow our core business at the highest quality, best speed to production of any supplier that there would be. Hopefully, that answers your question, Richard. We're not going to separate a packaging revenue. We're not focused on it as a packaging revenue rather than as an enabler for our silicon photonics platform.

Operator^ And now we'll go and take our next question, and the question comes from of Cody Acree from Benchmark/StoneX.

Cody Acree^ Quick follow-up, guys. Russell with all the capacity additions that have been happening around the industry from some of your peers at the GLOBALFOUNDRIES.

Russell Ellwanger^ Can you pick up on the first part? I apologize. Could you start again?

Cody Acree^ It's fine. With all the capacity additions around the industry from some of your peers, GLOBALFOUNDRIES, STMicro, Samsung have all made announcements about planned capacity additions. If you can look out 12, 18, 24 months, can you maybe just frame your opinion of the supply/demand health of the industry with all of these different tranches coming in line?

Russell Ellwanger^ Supply is certainly increasing. We have a definite benefits of anyone right now and that we're qualified at the lead customers worldwide with very strong contracts lasting through '28. And at this point, given additional capacity coming online, strong interactions and discussions to maintain contracts well beyond that, I don't necessarily have too good of a feeling for how much added capacity will be coming into the market.

I've honestly not followed up on that so strongly. Our focus has really just been how we maintain full share or majority share of our lead customers, and we're in very good shape there. The most important thing is something I talked about within the script, and that is speed. So as long as -- we have programs going on for not just next generation, but generation plus two in many cases, generation plus 3. Those programs always enable you to come to the market faster, stronger than anyone else.

Tied to that, what's very, very real from a business standpoint, if we're working with a very large customer, and we're putting substantial resources into next-generation or multiple generation of future developments, there's typically exclusivity agreements on both sides. We would enable a lead customer to have a head start, especially for any module that's joint developed and we would request 100% market share.

So I don't -- again for part of your question, I can't -- I don't really have a good feel for how much capacity is additionally coming into the market. What I think we have a much better feel on is the market share that we'll be maintaining with our lead customers and we believe that will stay extremely high.

Cody Acree^ And Russell is there -- just for my own edification, a figure of merit stratification, I guess that you can point us to that would be a good reference point so we can just keep an eye on your continued leadership in the industry?

Russell Ellwanger^ The figure of merit that you're referring to is what? I mean typically, a figure of merit is a technical achievement. What are you looking for? You're looking for something to measure our leadership?

Cody Acree^ No. I guess I'm just trying to gauge some of the industry rhetoric about differing capabilities from your different competitors around the industry. I'm just trying to see if there's something you can help us with to help us better understand where it is that Tower really differentiates.

Russell Ellwanger^ Sorry, I don't want this to sound facetious, but we differentiate in figure of merit. Insertion loss is probably one of the biggest things that one could look for. If you have at this point a best-in-breed insertion loss, you really help the integrator, number one, by not needing to buy more expensive CW lasers because of greater output, but also the ability to reduce the amount of lasers that's in the package.

We have press released before. It was a press release with InnoLight about our insertion loss being an enabler to have the amount of [CW] lasers that they need in the package. So

those are -- I believe was having it. I have to go back to the PRs a couple of years ago. But that becomes really the biggest differentiator that we can have is to lead the industry a figure of merit. If you're looking at next-generation modulators at the OFC conference, we did a joint PR with Coherent about being able to have done a 400G modulator in silicon.

There is no secret that we and maybe some others are working with thin film lithium niobate. We also are working with indium phosphide for a modulator. So the best way that one could be looking at maintaining market share is, how close are you in working with the next generation and/or two generations out? And how is your performance in those areas.

So does that answer your question, Cody? Hopefully, it does.

Cody Acree^ It does. That was very helpful. Then lastly, you did mention InnoLight. I don't know if you've had a chance, I know you're busy this morning, but to see some of the press reports that the administration is maybe looking to limit exports of Chinese technology into the U.S. from an optical standpoint. Just wondering if you have any thoughts there?

Russell Ellwanger^ Many thoughts but nothing that I would want to say publicly.

Operator^ And we're going to take our final question for today and the question comes line of Lisa Thompson from Zacks Investment Research.

Lisa Thompson^ I just have a couple of -- two questions. First off, are you experiencing any shortages or supply chain issues for your own production? I know you were worked on the indium phosphate issue.

Russell Ellwanger^ Big picture, no. We're in very good position on across the board with starting materials and with what we would call variable materials that are needed to manufacture. We were under somewhat of a crunch for indium phosphide starting material. We believe that we have addressed that very nicely with the contract with IQE. But other than indium phosphide which we had several ways that we went after to increase the amount of substrates during a difficult period. I think that that we've gotten resolved as well. No, we're in very good shape on supply.

Lisa Thompson^ Okay. Then my last question is if we're going to do, say an error analysis on your business model, where do you think the most variability of outcomes is? Is it going to be expenses or timing or the prices you forecast you'll get for your products? Where is the risk?

Oren Shirazi^ Yes. I think I addressed it in my prepared remarks that we are based on a few assumptions which are important. One of them is the selling price per wafer. The second is the cost assumptions, the time of installation and qualification. The third one is that we will utilize 85% of the Fab. This is the basic assumptions for the model, I can say.

Lisa Thompson^ Which has the biggest range of outcome which has the biggest range of outcome that could be the most or to look at?

Oren Shirazi^ Per wafer because if you have more or less quantity, so you have more or less variable costs associated with that. But if the price goes up, it goes all the way to the bottom line and vice versa. So maybe usually, but it's a general statement. So usually, the selling price is just 100% reflection over the margin.

Operator^ Dear speakers, there are no further questions for today. I would now like to hand the conference over to Russell Ellwanger for any closing remarks.

Russell Ellwanger^ Firstly, as I started the call I'll end it with the same statement. I am extremely excited with where we're at, what we're doing our future prospects, enjoyed being able to share them with you. One of the most exciting things about being involved in high-tech business and maybe in particular, being in management or the CEO is the fact that in high-tech, normally, your interfacing, interacting with groupings of people that are from any statistical standpoint in the upper end of intelligence.

That's a wonderful thing, a wonderful place to be dealing with. When you couple that with people a very high character, it becomes fantastic, and it's wonderful, wonderful interaction. I can really state that if I look at across the board in business, but right now specifically on silicon photonics, every one of our customers that we have there with really out exception are just outstanding people that we deal with. And every interaction, it's more than joyful, it's a partnership to where you have open communication, you work with each other.

Off of that, you go into the next generation. We've had a very good call the other day with a big customer with regard to having now announced -- well not announced, but having a very strong additional 300-millimeter capability. The partnership feeling the way that we're growing together, it's really an amazing place to be.

One of my really greatest joys about leading Tower is the ability that I have daily inside the company to be dealing with very smart people that are of high character and being able to interact with customers that are very smart, of high character and seeing the integration of both together towards making new things. We've talked multiple times and it was in the script as well not just of Tower's growth, but of Tower and our customers' growth. and looking at things in that regard in that respect, it's a fantastic way to be.

So I truly -- if we look at the financial model, if we look at achieving a 33% net profit, just very, very thrilled about where we're at, where we're going. And all of these opportunities in front of us. The really an extremely wonderful adventure that we're entering into Japan to build out hub of optical excellence for the SiPho, for the silicon germanium. We're really at an amazing place that everyone, not that we haven't in the past, but people come to work now even more excited than they did before. There's so much happening. That's an amazing place to be.

So in stating that, my invitation to everyone that's an investor, reach out, we'd love to talk to you. We'd love to have as much interaction as we can, help you better understand what we're doing, where we're at, and be able to share with you the strong results that we're having in the company. That being said, we look forward to engaging with the investment community at the upcoming Jefferies conference. August 25, 26 in Chicago, and at the Benchmark/StoneX Annual Conference in New York on September 10. The invitation for interactions with investors, it's real. The better you understand our story, the better you understand where we're at, where we're going, we think the best for everybody.

So with that, I'd like to close and just thank you for your interest and for your support. Thank you. Bye bye.

Operator^ This concludes today's conference call. Thank you for participating. You may now all disconnect. Have a nice day.