

# TSMC: Global Semiconductor Leadership and Strategic Market Positioning

Report generated for  
Hiswai Customer

July 11, 2025

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# Executive Summary

## Key Findings and Market Position

Taiwan Semiconductor Manufacturing Company (TSMC) has established itself as the dominant force in the global semiconductor industry, with record-breaking financial performance driven by artificial intelligence demand. The company's strategic importance extends beyond commercial success, functioning as a critical component of both Taiwan's economic security and the global technology ecosystem. Recent quarters have shown exceptional growth in revenue and profitability, positioning TSMC at the center of geopolitical considerations between the United States and China while simultaneously expanding its global manufacturing footprint through significant investments in America, Europe, and Japan.

### Financial Performance Highlights

TSMC has demonstrated remarkable financial resilience and growth, posting a record net income of \$10.12 billion in Q3 2024, representing a 54% year-over-year increase. Revenue for the quarter reached \$26.3 billion, with the high-performance computing segment—primarily driven by AI applications—accounting for over 51% of this total. The company's gross margin hasted 57.8%, exceeding its own high-end guidance of 55.5%, with projections suggesting further improvement to the 59-60% range in 2025. This performance is underpinned by TSMC's pricing power in advanced nodes, with the company implementing price increases of 6-10% for processes below 5nm, particularly targeting AI-related high-performance computing products where demand significantly outstrips supply. The company's capital expenditure is projected to increase from approximately \$30 billion in 2024 to around \$40 billion in 2025, primarily directed toward expanding 2nm capacity and advanced packaging technologies like CoWoS.

### Strategic Importance in Global Tech Ecosystem

TSMC's position in the global technology landscape transcends mere commercial significance, with the company often described as Taiwan's 'silicon shield' or 'sacred mountain' due to its critical role in the global semiconductor supply chain. The company manufactures approximately 90% of the world's most advanced chips, serving as the primary production partner for technology giants including Apple, Nvidia, AMD, and Qualcomm. This dominance has placed TSMC at the center of geopolitical tensions, with the Trump administration pushing for increased U.S. manufacturing through both tariff threats and incentives, resulting in TSMC committing to invest \$165 billion in American facilities. The company's strategic expansion includes plans for 24 new factories globally, with facilities in Arizona expected to produce some of the world's most advanced AI chips by the end of the decade. Beyond manufacturing, TSMC is advancing semiconductor technology through innovations in 2nm, 1.6nm, and upcoming 1.4nm processes, which promise significant improvements in performance and energy efficiency crucial for next-generation AI applications.

## Critical Business Drivers and Growth Catalysts

The semiconductor industry is experiencing transformative growth driven by artificial intelligence, geopolitical dynamics, and technological innovation. TSMC stands at the epicenter of this evolution as the world's largest contract chipmaker, commanding over 60% market share and playing a pivotal role in powering everything from smartphones to advanced AI systems. This section examines the critical factors accelerating industry growth and reshaping competitive dynamics, with particular focus on how AI-driven demand is creating unprecedented opportunities and how geopolitical

positioning is becoming increasingly crucial for semiconductor companies navigating a complex global landscape.

### AI-Driven Demand Acceleration

Artificial intelligence has emerged as the primary catalyst propelling semiconductor industry growth toward a projected \$1 trillion market by 2030. TSMC's high-performance computing segment, which includes AI chips, now constitutes over 50% of its revenue, with AI-related server and processor revenue expected to triple annually. This surge is driving unprecedented demand for advanced manufacturing processes, with TSMC reporting that orders for its next-generation 2nm technology are exceeding those of previous nodes at comparable development stages. The company is responding by aggressively expanding its advanced packaging capabilities, particularly its chip-on-wafer-on-substrate (CoWoS) technology, which is critical for AI accelerators. Industry analysts project this will enable TSMC to increase its gross margins to approximately 59% in 2025, up from 56% in 2024, as the company implements strategic price increases of 6-10% for its most advanced nodes to capitalize on the AI boom.

The extraordinary demand for AI chips has transformed TSMC's business landscape, creating what company executives describe as a "hockey stick" growth trajectory. This demand-supply imbalance has placed TSMC in an enviable position as a price-setter rather than a price-taker in the market. With limited alternatives for cutting-edge semiconductor manufacturing, customers have little choice but to accept TSMC's price adjustments, particularly for the advanced nodes essential to AI applications. The company's strategic pricing approach differentiates between customer segments, with HPC and AI customers facing increases of 8-10%, while mobile communication clients will see approximately 6% higher costs.

TSMC's dominance in the foundry space is further reinforced by the struggles of competitors Samsung and Intel to achieve comparable yields and technological advancement. Samsung's foundry business reportedly faces yields below 20% for advanced nodes, while Intel has encountered significant delays in its process technology roadmap. This competitive landscape has allowed TSMC to command premium pricing while maintaining its technological leadership position, with the company now accounting for approximately 67% of global foundry market share by revenue.

To meet surging demand, TSMC is undertaking an unprecedented global expansion, with plans for 24 new manufacturing facilities across multiple continents. Nine of these plants are scheduled to be operational by 2025, including eight for chip manufacturing and one dedicated to advanced packaging technologies. This expansion represents a strategic pivot for TSMC, which historically concentrated its manufacturing capabilities in Taiwan. The company's workforce has grown from 51,000 employees in 2019 to over 83,000 by late 2024, with projections to exceed 100,000 by 2026.

The company's investment in advanced packaging technologies is particularly noteworthy, as it addresses a critical bottleneck in AI chip production. TSMC plans to double its CoWoS capacity in 2025 after significant expansion in 2024, enabling the integration of multiple chips into high-performance computing modules. This packaging technology is essential for AI accelerators that require massive parallel processing capabilities and high-bandwidth memory integration. The scarcity of CoWoS capacity has created a production constraint that even exceeds the limitations of advanced node manufacturing itself.

Beyond the immediate AI boom, TSMC is positioning itself for long-term industry leadership through innovation. The company has unveiled its roadmap for 1.6nm (A16) and 1.4nm process technologies, which promise 8-10% performance improvements or 15-20% power reduction compared to previous nodes. These advancements will incorporate sophisticated backside power delivery networks and gate-all-around transistor architectures, pushing the boundaries of Moore's Law despite increasing physical challenges. TSMC's research into quantum computing applications for chip design represents another frontier that could revolutionize semiconductor capabilities for AI and big data analytics.

The geopolitical dimension of TSMC's expansion cannot be overlooked. The company's strategic importance has earned it the nickname "sacred mountain" in Taiwan, reflecting its role as a deterrent against potential Chinese aggression. However, this concentration of critical technology in a geopolitical hotspot has prompted diversification efforts, with significant investments in the United States, Japan, and Europe. The Biden administration awarded TSMC \$6.6 billion in CHIPS Act funding to support its Arizona facilities, while the Trump administration has signaled support for domestic semiconductor manufacturing through tariff policies that encourage onshoring.

TSMC's financial trajectory reflects its strategic positioning at the nexus of the AI revolution. The company reported record quarterly net profit of \$10.12 billion in Q3 2024, exceeding market expectations with gross margins reaching 57.8%. This performance has translated into strong investor confidence, with TSMC's stock price reaching all-time highs. Goldman Sachs projects 26.8% revenue growth for TSMC in 2025, following 29.4% growth in 2024, driven primarily by strength in advanced nodes and AI applications.

As TSMC navigates this period of extraordinary growth, it faces several strategic challenges. Managing the complex global expansion while maintaining its technological edge requires significant capital expenditure, projected at \$40 billion for 2025 alone. The company must also balance the interests of various stakeholders, including the Taiwanese government, which has expressed concerns about technology transfer to other countries, and major customers who depend on TSMC's manufacturing capabilities for their competitive advantage. Nevertheless, TSMC's position at the heart of the AI revolution positions it as a cornerstone of the semiconductor industry's transformation toward the trillion-dollar milestone.

### Geopolitical Positioning

The semiconductor industry is increasingly shaped by geopolitical considerations, with TSMC navigating complex tensions between the United States, Taiwan, and China. Often referred to as Taiwan's "silicon shield" or "holy mountain," TSMC's strategic importance extends beyond commercial interests to national security concerns. The company is executing a global diversification strategy with planned investments of \$165 billion in the United States, including \$100 billion for five new facilities in Arizona, while also expanding into Japan and Germany. This geographic diversification serves multiple purposes: mitigating supply chain risks, addressing U.S. concerns about Taiwan's vulnerability to Chinese aggression, and positioning the company to avoid potential tariffs that could reach 100% under the Trump administration's trade policies. The delicate balancing act extends to export controls as well, with TSMC implementing stricter regulations than U.S. requirements by prohibiting direct export of 16nm and more advanced chips to China, while acknowledging the inherent limitations in fully controlling downstream chip distribution in the complex semiconductor supply chain.

## Strategic Outlook and Investment Thesis

TSMC stands at the forefront of the global semiconductor industry with unparalleled manufacturing capabilities that position it as the cornerstone of the AI revolution and broader technological advancement. The company's strategic dominance is built upon three key pillars: technological leadership, geographic expansion, and financial strength—creating a compelling investment case despite geopolitical headwinds.

TSMC's technological moat continues to widen as it advances its manufacturing processes beyond competitors. The company is progressing from its current 3nm technology toward 2nm (expected in 2025) and has already unveiled plans for 1.6nm and 1.4nm nodes by 2028. These advancements promise significant performance gains—the 1.4nm process is projected to deliver 15% faster speeds and 30% power reduction compared to 2nm technology. This relentless innovation cycle ensures TSMC maintains its manufacturing edge over competitors like Samsung and Intel, who continue to struggle with yield issues in advanced nodes. The company's pricing power is evident in reports suggesting TSMC will increase quotations for processes below 5nm by up to 10% in 2025, with AI-related chips seeing 8-10% price hikes—a testament to its indispensable position in the supply chain.

TSMC's manufacturing excellence extends beyond mere node advancement. The company has pioneered advanced packaging technologies like Chip-on-Wafer-on-Substrate (CoWoS), which are critical for AI accelerators. Industry analysts note that TSMC plans to double its CoWoS capacity by 2025 to meet surging demand, with capacity expected to reach 130,000 monthly output by 2026. This advanced packaging capability creates another competitive moat, as it allows for the integration of multiple chiplets into powerful computing solutions required for next-generation AI applications. The company's recently announced System on Wafer-X technology will enable the integration of at least 16 large computing chips along with memory and optical interconnections—far surpassing current capabilities in the market.

Geographic diversification represents TSMC's strategic response to both market opportunities and geopolitical pressures. The company's recent commitment to invest an additional \$100 billion in U.S. manufacturing facilities brings its total American investment to approximately \$165 billion. This expansion includes plans for five chip fabrication plants and two advanced packaging facilities in Arizona, creating thousands of high-paying jobs. President Trump, who previously threatened tariffs on Taiwanese semiconductors, welcomed this investment as ensuring "the most powerful AI chips in the world will be made right here in America." Beyond the U.S., TSMC is expanding its global footprint with facilities in Japan and Germany, with Taiwan's Science and Technology Council Minister Wu Cheng-wen indicating plans for additional European fabs focused on AI chips. This global manufacturing network serves as both a hedge against geopolitical risks and a strategic alignment with major markets.

The company's global expansion strategy is carefully calibrated to balance political considerations with business imperatives. While TSMC is building manufacturing capacity worldwide, it has maintained Taiwan as its research and development hub. This approach allows the company to satisfy demands for local production in key markets while protecting its intellectual property and core technological capabilities. The first Arizona fab is already producing chips with yields reportedly matching or exceeding those of similar facilities in Taiwan—a significant achievement given the challenges of establishing advanced manufacturing in new locations. The company's expansion plans now include a total of 24 new factories globally, reflecting both confidence in future demand and recognition of the need for geographic diversification.

Financially, TSMC continues to demonstrate exceptional performance driven by AI-related demand. The company reported record quarterly results with net profit surging 54% year-over-year to \$10.12 billion in Q3 2024, exceeding market consensus with gross margins reaching 57.8%. Revenue from high-performance computing, which includes AI chips, now constitutes 51% of overall revenue. Goldman Sachs projects TSMC's revenue will grow by 26.8% in 2025, following 29.4% growth in 2024, with gross margins expected to rise to 59.3% in 2025 from 56.1% in 2024. This financial strength enables investment in capacity expansion and next-generation technologies.

The company's capital expenditure strategy reflects both confidence and prudence. After spending approximately \$30 billion annually in 2023 and 2024, TSMC has announced plans to increase capital expenditure to \$40 billion in 2025. This significant investment will primarily target expansion of 2nm capacity and CoWoS advanced packaging capabilities. Despite these substantial investments, the company maintains strong cash flow generation and has consistently delivered shareholder returns. Monthly revenue figures continue to show robust growth, with May 2024 revenue surging nearly 40% year-over-year to NT\$320.52 billion (\$10.7 billion), underscoring the sustained demand for TSMC's advanced manufacturing capabilities.

However, investors must weigh several risk factors. U.S.-China tensions create uncertainty around export controls and market access, with recent reports suggesting the U.S. Department of Commerce is investigating whether TSMC made advanced chips for China's Huawei. TSMC has responded by stating it is "a law-abiding company" committed to complying with export regulations. Additionally, the company faces increasing pressure to balance its manufacturing presence across geographies while maintaining Taiwan as its R&D center. Competition is also intensifying, with Intel's new leadership potentially exploring collaboration with TSMC, as suggested by Intel CEO Lip-Bu Tan's recent meeting with TSMC leadership.

TSMC's role in the global semiconductor ecosystem extends beyond manufacturing. The company has become a strategic asset in international relations, particularly between the United States, Taiwan, and China. Often referred to as Taiwan's "silicon shield" or "sacred mountain," TSMC's critical importance to global technology supply chains has geopolitical implications. Former TSMC chairman Mark Liu once noted that "China will not invade Taiwan because of semiconductors. China will not not invade Taiwan because of semiconductors," highlighting the complex role the company plays in cross-strait relations. This geopolitical dimension adds another layer of consideration for investors assessing TSMC's long-term prospects.

The investment thesis for TSMC centers on its irreplaceable position in the semiconductor ecosystem and exposure to secular growth trends in AI, high-performance computing, and advanced electronics. With projected semiconductor industry revenue potentially reaching \$1 trillion by 2030 (up from \$600 billion in 2024) according to TSMC's VP of pathfinding and corporate research, the company is strategically positioned to capture a significant portion of this growth. Its manufacturing excellence, expanding global footprint, and strong financial performance create a compelling case for long-term investors seeking exposure to technological advancement and the AI revolution.

Looking ahead, TSMC's innovation in manufacturing processes, expansion of advanced packaging capabilities, and strategic geographic diversification position it to maintain its leadership in the semiconductor industry. The company's ability to navigate geopolitical challenges while delivering technological breakthroughs and strong financial results demonstrates the resilience of its business model. As AI and high-performance computing drive increasing demand for advanced semiconductors, TSMC's foundational role in enabling these technologies suggests sustained growth potential for years to come.