CREE, INC.
Non-GAAP Measures of Financial Performance

To supplement the Company's consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, Cree uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP gross margin, non-GAAP operating income, non-GAAP non-operating income, net, non-GAAP net income, non-GAAP diluted earnings per share and free cash flow.

Reconciliation to the nearest GAAP measure of all historical non-GAAP measures included in this press release can be found in the tables included with this press release. In this press release, Cree also presents its target for non-GAAP expenses, which are expenses less expenses in the various categories described below. Both our GAAP targets and non-GAAP targets do not include any estimated changes in the fair value of our Lextar investment.

Non-GAAP measures presented in this press release are not in accordance with or an alternative to measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Cree's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate Cree's results of operations in conjunction with the corresponding GAAP measures.

Cree believes that these non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, enhance investors' and management's overall understanding of the Company's current financial performance and the Company's prospects for the future, including cash flows available to pursue opportunities to enhance shareholder value. In addition, because Cree has historically reported certain non-GAAP results to investors, the Company believes the inclusion of non-GAAP measures provides consistency in the Company's financial reporting.

For its internal budgeting process, and as discussed further below, Cree's management uses financial statements that do not include the items listed below and the income tax effects associated with the foregoing. Cree's management also uses non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the Company's financial results.

Cree excludes the following items from one or more of its non-GAAP measures when applicable:

Stock-based compensation expense. This expense consists of expenses for stock options, restricted stock, performance stock awards and employee stock purchases through its ESPP. Cree excludes stock-based compensation expenses from its non-GAAP measures because they are non-cash expenses that Cree does not believe are reflective of ongoing operating results.

Costs related to the RF Power acquisition. The Company incurred transaction, transition and integration costs in fiscal 2018 and 2019 in conjunction with the purchase of certain assets of the Infineon Technologies AG RF Power ("RF Power") business. Cree excludes these items because they have no direct correlation to the ongoing operating results of Cree's business.

Amortization or impairment of acquisition-related intangibles. Cree incurs amortization or impairment of acquisition-related intangibles in connection with acquisitions. Cree excludes these items because they arise from Cree's prior acquisitions and have no direct correlation to the ongoing operating results of Cree's business.

Corporate restructuring charges or gains. In April 2018, Cree began the process of consolidating operations and expanding its production footprint to support the expected growth of the Wolfspeed business. The components of this plan include the sale or abandonment of certain equipment, facility consolidation, and elimination of certain positions. Because these charges relate to assets which had been retired prior to the end of their estimated useful lives and severance costs for eliminated positions, Cree does not believe these charges are reflective of ongoing operating results. Similarly, Cree does not consider the realized losses on sale of assets relating to the restructuring to be reflective of ongoing operating results.

Severance pay associated with termination of executive personnel. The Company incurred costs in fiscal 2018 and fiscal 2019 in conjunction with the termination of certain executive personnel. Cree excludes these items because they have no direct correlation to the ongoing operating results of Cree's business.

Transaction-related costs. The Company has incurred transaction and transition costs in conjunction with the proposed sale of the Lighting Products business unit and other assets. Cree excludes these items because Cree believes they are not reflective of the ongoing operating results of Cree's business.

Asset impairment. The Company incurred impairment charges in conjunction with the proposed sale of the Lighting Products business unit and other assets. Cree excludes these items because Cree believes they are not reflective of the ongoing operating results of Cree's business.

Changes in the fair value of our Lextar investment. The Company's common stock ownership investment in Lextar Electronics Corporation is accounted for utilizing the fair value option. As such, changes in fair value are recognized in income, including fluctuations due to the exchange rate between the New Taiwan Dollar and the United States Dollar. Cree excludes the impact of these gains or losses from its non-GAAP measures because they are non-cash impacts that Cree does not believe are reflective of ongoing operating results. Additionally, Cree excludes the impact of dividends received on its Lextar investment as Cree does not believe it is reflective of ongoing operating results.

Amortization of debt issuance costs and discount. In August 2018, the Company issued $575 million in convertible notes resulting in interest accretion on the convertible notes' issue costs and fair value adjustments. Management considers these items as either limited in term or having no impact on the Company's cash flows, and therefore has excluded such items to facilitate a review of current operating performance and comparisons to our past operating performance.

Income tax effects of the foregoing non-GAAP items. This amount is used to present each of the amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income. Non-GAAP net income is presented using a non-GAAP tax rate. The Company's non-GAAP tax rate represents a recalculation of the GAAP tax rate reflecting the exclusion of the non-GAAP items.

Cree expects to incur many of these same expenses, including income taxes associated with these expenses, in future periods. In addition to the non-GAAP measures discussed above, Cree also uses free cash flow as a measure of operating performance and liquidity. Free cash flow represents operating cash flows less net purchases of property and equipment and patent and licensing rights. Cree considers free cash flow to be an operating performance and a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of property and equipment, a portion of which can then be used to, among other things, invest in Cree's business, make strategic acquisitions, strengthen the balance sheet and repurchase stock. A limitation of the utility of free cash flow as a measure of operating performance and liquidity is that it does not represent the residual cash flow available to the company for discretionary expenditures, as it excludes certain mandatory expenditures such as debt service.

CREE, INC.
Unaudited Reconciliation of GAAP to Non-GAAP Measures
(in thousands, except per share amounts and percentages)

Non-GAAP Gross Margin

	Three Months Ended		Nine Months Ended	
	March 31, 2019	**March 25, 2018**	**March 31, 2019**	**March 25, 2018**
GAAP gross profit	$100,454	$74,863	$302,285	$213,930
GAAP gross margin percentage	36.7%	33.2%	36.5%	32.5%
Adjustment:				
Stock-based compensation expense	2,084	1,519	5,559	4,737
Costs related to the RF Power acquisition	1,441	128	2,667	128
Total adjustments to GAAP gross profit	3,525	1,647	8,226	4,865
Non-GAAP gross profit	$103,979	$76,510	$310,511	$218,795
Non-GAAP gross margin percentage	37.9%	34.0%	37.5%	33.2%

Non-GAAP Operating Income

	Three Months Ended		Nine Months Ended	
	March 31, 2019	**March 25, 2018**	**March 31, 2019**	**March 25, 2018**
GAAP operating (loss) income	($11,086)	($5,540)	$9,688	($20,161)
GAAP operating (loss) income percentage	(4.0)%	(2.5)%	1.2%	(3.1)%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	2,084	1,519	5,559	4,737
Research and development	1,883	1,959	5,582	5,620
Sales, general and administrative	9,411	6,372	23,319	19,043
Total stock-based compensation expense	13,378	9,850	34,460	29,400
Amortization or impairment of acquisition-related intangibles	3,906	1,516	11,717	3,224
Costs associated with corporate restructuring	—	—	3,904	—
Costs related to the RF Power acquisition	1,583	4,327	3,416	4,327
Transaction-related costs	9,410	—	9,966	—
Asset impairment	4,960	—	4,960	—
Executive severance	1,390	565	3,907	4,528
Total adjustments to GAAP operating income	34,627	16,258	72,330	41,479
Non-GAAP operating income	$23,541	$10,718	$82,018	$21,318
Non-GAAP operating income percentage	8.6 %	4.8 %	9.9%	3.2 %

Non-GAAP Non-Operating Income, net

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
GAAP non-operating (expense) income, net	($8,440)	($10,000)	($23,695)	$14,942
Adjustment:				
Net changes in the fair value of the Lextar investment	4,309	12,096	13,392	(10,055)
Amortization of debt issuance costs and discount	5,490	—	12,687	—
Foreign exchange gain on RF Power acquisition	—	(1,941)	—	(1,941)
Non-GAAP non-operating income, net	$1,359	$155	$2,384	$2,946

Non-GAAP Net Income (Loss) from Continuing Operations

	Three Months Ended		Nine Months Ended	
	March 31, 2019	**March 25, 2018**	**March 31, 2019**	**March 25, 2018**
GAAP net (loss) income from continuing operations	($22,311)	($10,163)	($23,259)	$12,414
Adjustments:				
Stock-based compensation expense	13,378	9,850	34,460	29,400
Amortization or impairment of acquisition-related intangibles	3,906	1,516	11,717	3,224
Costs associated with corporate restructuring	—	—	3,904	—
Costs related to the RF Power acquisition	1,583	4,327	3,416	4,327
Transaction-related costs	9,410	—	9,966	—
Executive severance	1,390	565	3,907	4,528
Asset impairment	4,960	—	4,960	—
Net changes in the fair value of the Lextar investment	4,309	12,096	13,392	(10,055)
Amortization of debt issuance costs and discount	5,490	—	12,687	—
Foreign exchange gain on RF Power acquisition	—	(1,941)	—	(1,941)
Total adjustments to GAAP net loss before provision for income taxes	44,426	26,413	98,409	29,483
Income tax effect	(1,697)	499	(5,939)	(15,228)
Non-GAAP net income (loss) from continuing operations	$20,418	$16,749	$69,211	$26,669
Non-GAAP earnings per share from continuing operations				
Non-GAAP diluted earnings (loss) per share from continuing operations	$0.20	$0.17	$0.67	$0.26
Shares used in non-GAAP diluted earnings per share calculation				
Non-GAAP shares used	103,659	100,140	102,807	100,672

Free Cash Flow

	Three Months Ended		Nine Months Ended	
	March 31, 2019	**March 25, 2018**	**March 31, 2019**	**March 25, 2018**
Cash flows from operations	$60,703	$19,609	$186,969	$125,423
Less: PP&E spending	(33,217)	(43,211)	(106,522)	(128,433)
Less: Patents spending	(3,687)	(2,981)	(9,148)	(7,913)
Total free cash flow	$23,799	($26,583)	$71,299	($10,923)

CREE, INC.
Business Outlook Unaudited GAAP to Non-GAAP Reconciliation
(in millions)

	Three Months Ended June 30, 2019
GAAP net loss from continuing operations outlook range	(\$19) to (\$24)
Adjustments:	
Stock-based compensation expense	11
Amortization or impairment of acquired intangibles	4
Corporate restructuring charges or gains	7
Amortization of debt issuance costs and discount	6
Transaction-related costs	11
Total adjustments to GAAP net loss before provision for income taxes	39
Income tax effect	3
Non-GAAP net income from continuing operations outlook range	\$12 to \$17

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