

CREE, INC.
UNAUDITED FINANCIAL RESULTS BY OPERATING SEGMENT
(in thousands, except percentages)

The following table reflects the results of the Company's reportable segments as reviewed by the Company's Chief Executive Officer, its Chief Operating Decision Maker or CODM, for the three and six months ended December 30, 2018 and the three and six months ended December 24, 2017. The CODM does not review inter-segment transactions when evaluating segment performance and allocating resources to each segment. As such, total segment revenue is equal to the Company's consolidated revenue.

	Three Months Ended		Change	
	December 30, 2018	December 24, 2017		
Wolfspeed revenue	\$135,331	\$70,572	\$64,759	92 %
<i>Percent of revenue</i>	32.8%	19.2%		
LED Products revenue	145,172	152,682	(7,510)	(5)%
<i>Percent of revenue</i>	35.1%	41.5%		
Lighting Products revenue	132,533	144,616	(12,083)	(8)%
<i>Percent of revenue</i>	32.1%	39.3%		
Total revenue	<u>\$413,036</u>	<u>\$367,870</u>	<u>\$45,166</u>	12 %

	Six Months Ended		Change	
	December 30, 2018	December 24, 2017		
Wolfspeed revenue	\$262,706	\$136,726	\$125,980	92 %
<i>Percent of revenue</i>	32.0%	18.8%		
LED Products revenue	291,974	297,202	(5,228)	(2)%
<i>Percent of revenue</i>	35.6%	40.8%		
Lighting Products revenue	266,623	294,340	(27,717)	(9)%
<i>Percent of revenue</i>	32.5%	40.4%		
Total revenue	<u>\$821,303</u>	<u>\$728,268</u>	<u>\$93,035</u>	13 %

	Three Months Ended		Change	
	December 30, 2018	December 24, 2017		
Wolfspeed gross profit	\$64,681	\$34,133	\$30,548	89 %
<i>Wolfspeed gross margin</i>	47.8%	48.4%		
LED Products gross profit	43,522	38,606	4,916	13 %
<i>LED Products gross margin</i>	30.0%	25.3%		
Lighting Products gross profit	34,069	22,964	11,105	48 %
<i>Lighting Products gross margin</i>	25.7%	15.9%		
Unallocated costs	(7,028)	(3,100)	(3,928)	(127)%
COGS acquisition related costs	(14)	—	(14)	(100)%
Consolidated gross profit	\$135,230	\$92,603	\$42,627	46 %
<i>Consolidated gross margin</i>	32.7%	25.2%		

	Six Months Ended		Change	
	December 30, 2018	December 24, 2017		
Wolfspeed gross profit	\$125,096	\$66,531	\$58,565	88 %
<i>Wolfspeed gross margin</i>	47.6%	48.7%		
LED Products gross profit	84,805	77,416	7,389	10 %
<i>LED Products gross margin</i>	29.0%	26.0%		
Lighting Products gross profit	65,127	54,847	10,280	19 %
<i>Lighting Products gross margin</i>	24.4%	18.6%		
Unallocated costs	(10,404)	(5,859)	(4,545)	(78)%
COGS acquisition related costs	(1,226)	—	(1,226)	(100)%
Consolidated gross profit	\$263,398	\$192,935	\$70,463	37 %
<i>Consolidated gross margin</i>	32.1%	26.5%		

Reportable Segments Description

The Company's Wolfspeed segment's products consists of silicon carbide (SiC) and gallium nitride (GaN) materials, and power devices and RF devices based on silicon (Si) and wide bandgap semiconductor materials. The Company's LED Products segment's products include LED chips and LED components. The Company's Lighting Products segment's products consist of LED lighting systems and lamps.

Financial Results by Reportable Segment

The Company's CODM reviews gross profit as the lowest and only level of segment profit. As such, all items below gross profit in the consolidated statements of loss must be included to reconcile the consolidated gross profit presented in the preceding table to the Company's consolidated loss before taxes.

The Company allocates direct costs and indirect costs to each segment's cost of revenue. The allocation methodology is based on a reasonable measure of utilization considering the specific facts and circumstances of the costs being allocated.

Certain costs are not allocated when evaluating segment performance. These unallocated costs consist primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans, and matching contributions under the Company's 401(k) Plan.

The cost of goods sold (COGS) acquisition related cost adjustment includes RF Power acquisition costs impacting cost of revenue for fiscal 2019. These costs were not allocated to the reportable segments' gross profit for fiscal 2019 because they represent an adjustment which does not provide comparability to the corresponding prior period and therefore were not reviewed by the Company's CODM when evaluating segment performance and allocating resources.

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.