Cree, Inc.
Non-GAAP Measures of Financial Performance

To supplement the Companys consolidated financial statement s 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 earnings per diluted 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 Crees results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate Crees 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 managements overall understanding of the Companys current financial performance and the Companys 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 Companys financial reporting.

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

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 Crees prior acquisitions and have no direct correlation to the ongoing operating results of Crees business.

Corporate business restructuring. In April 2018, Cree began the process to restructure and realign the Companys cost base with the long-range business strategy. Activities included the sale or abandonment of certain equipment, facility consolidation, and the 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. This process was completed in the second quarter of fiscal 2019.

Sales restructuring. In June 2019, the Company approved and implemented a sales restructuring plan to restructure and realign the Companys geographical sales team with the skills and experience needed to execute on our business objectives. Because these charges relate to severance costs for eliminated positions, Cree does not believe these charges are reflective of ongoing operating results.

Factory optimization restructuring. In May 2019, the Company started a significant, multi-year factory optimization plan ("factory optimization plan") to be anchored by a state-of-the-art, automated 200mm silicon carbide fabrication facility and a large materials factory at its U.S. campus headquarters in Durham, North Carolina. As part of the plan, the Company will incur restructuring costs associated with the movement of equipment as well as disposals and impairments on certain long-lived assets. Because these charges relate to assets which had been retired prior to the end of their estimated useful lives, Cree does not believe these costs 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.

Project and transaction-related costs. The Company has incurred transaction, transition, and integration costs in conjunction with the acquisition of certain assets of the Infineon Technologies AG RF Power ("RF Power" business) and the sale of the Companys Lighting Products business unit to IDEAL. Cree excludes these items because Cree believes they are not reflective of the ongoing operating results of Crees business.

Executive severance. The Company has incurred costs in conjunction with the termination of key executive personnel. Cree excludes these items because they have no direct correlation to the ongoing operating results of Crees business.

Factory optimization start-up costs. The Company has incurred and will incur start-up costs as part of the factory optimization plan. Cree does not believe these costs are reflective of ongoing operating results.

Asset impairment. The Company incurred impairment charges in conjunction with the sale of the Lighting Products business unit for assets excluded from the purchase agreement. Cree excludes these items because Cree believes they are not reflective of the ongoing operating results of Crees business.

Transition service agreement costs. As a result of the sale of the Lighting Products business unit, the Company is providing certain IT services under a transition services agreement which will not be reimbursed. Cree excludes the costs of these services because Cree believes they are not reflective of the ongoing operating results of Crees busines s.

Net changes in fair value of our Lextar investment. The Companys 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.

Foreign exchange gain on RF Power transaction. The Company incurred foreign exchange gains on hedges purchased for the RF Power business asset purchase. Cree excludes the impact of this gain because it is not considered to be reflective of ongoing operations.

Accretion on convertible notes. 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 Companys cash flows, and therefore has ex cluded such items to facilitate a review of current operating performance and comparisons to our past operating performance.

Income tax adjustment. This amount reconciles GAAP tax expense (benefit) to a calculated non-GAAP tax expense (benefit) utilizing a non-GAAP tax rate. The non-GAAP tax rate estimates an appropriate tax rate if the listed non-GAAP items were excluded. This reconciling item adjusts non-GAAP net income to the amount it would be if the calculated non-GAAP tax rate was applied to non-GAAP income before taxes.

Certain Non-GAAP adjustments relating to restructuring and executive severance costs were stated incorrectly in the Non-GAAP Operating Income and Non-GAAP Net Income (Loss) from Continuing Operations tables in the Companys third quarter press release (Exhibit 99.1 on Form 8-K dated May 1, 2019). When corrected, Non-GAAP Operating Income for the nine months ended March 31, 2019 was $77.4 million and Non-GAAP Net Income from Continuing Operations for the nine months ended March 31, 2019 was $65.4 million. Non-GAAP Operating Income for the three months ended March 31, 2019, Non-GAAP Net Income (Loss) from Continuing Operations for the three months ended

March 31, 2019, Non-GAAP Gross Margin for the three and nine months ended March 31, 2019 and Free Cash Flow for the three and nine months ended March 31, 2019 were not affected.

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 Crees 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.
Reconciliation of GAAP to Non-GAAP Measures
(in millions of U.S. Dollars, except per share amounts and percentages)
(unaudited)

Non-GAAP Gross Margin

	Three Months Ended		Year Ended	
	June 30, 2019	June 24, 2018	June 30, 2019	June 24, 2018
GAAP gross profit	$88.7	$87.6	$391.0	$302.0
GAAP gross margin percentage	35%	33%	36%	33%
Adjustments:				
Stock-based compensation expense	3.2	1.8	8.8	6.5
Project and transaction costs	—	5.3	2.7	5.4
Non-GAAP gross profit	$91.9	$94.7	$402.5	$313.9
Non-GAAP gross margin percentage	37%	36%	37%	34%

Non-GAAP Operating Income

	Three Months Ended		Year Ended	
	June 30, 2019	June 24, 2018	June 30, 2019	June 24, 2018
GAAP operating loss	($25.6)	($7.8)	($15.9)	($28.0)
GAAP operating loss percentage	(10)%	(3)%	(1)%	(3)%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	3.2	1.8	8.8	6.5
Research and development	2.2	1.1	7.7	6.8
Sales, general and administrative	10.3	5.6	33.1	24.6
Total stock-based compensation expense	15.7	8.5	49.6	37.9
Amortization or impairment of acquisition-related intangibles	3.9	3.9	15.6	7.2
Corporate business restructuring	—	3.8	2.6	3.8
Sales restructuring	1.6	—	1.6	—
Factory optimization restructuring	4.1	—	4.1	—
Project and transaction costs	6.2	9.6	19.6	13.9
Executive severance	0.3	—	1.3	4.5
Factory optimization start-up costs	1.5	—	1.5	—
Asset impairment	(0.8)	—	4.3	—
Transition service agreement costs	3.0	—	3.0	—
Total adjustments to GAAP operating loss	35.5	25.8	103.2	67.3
Non-GAAP operating income	$9.9	$18.0	$87.3	$39.3
Non-GAAP operating income percentage	4 %	7 %	8 %	4 %

Non-GAAP Non-Operating Income (Expense), net

	Three Months Ended		Year Ended	
	June 30, 2019	June 24, 2018	June 30, 2019	June 24, 2018
GAAP non-operating (expense) income, net	($5.6)	($4.6)	($29.3)	$10.4
Adjustments:				
Net changes in the fair value of Lextar investment	4.1	2.4	17.5	(7.7)
Foreign exchange gain on RF Power acquisition	—	—	—	(1.9)
Accretion on convertible notes	5.6	—	18.3	—
Non-GAAP non-operating income (expense), net	$4.1	($2.2)	$6.5	$0.8

Non-GAAP Net Income

	Three Months Ended		Year Ended	
	June 30, 2019	June 24, 2018	June 30, 2019	June 24, 2018
GAAP net loss from continuing operations	($34.6)	($28.9)	($57.9)	($16.4)
Adjustments:				
Stock-based compensation expense	15.7	8.5	49.6	37.9
Amortization or impairment of acquisition-related intangibles	3.9	3.9	15.6	7.2
Corporate business restructuring	—	3.8	2.6	3.8
Sales restructuring	1.6	—	1.6	—
Factory optimization restructuring	4.1	—	4.1	—
Project and transaction costs	6.2	9.6	19.6	13.9
Executive severance	0.3	—	1.3	4.5
Factory optimization start-up costs	1.5	—	1.5	—
Asset impairment	(0.8)	—	4.3	—
Transition service agreement costs	3.0	—	3.0	—
Net changes in fair value of the Lextar investment	4.1	2.4	17.5	(7.7)
Foreign exchange gain on RF Power transaction	—	—	—	(1.9)
Accretion on convertible notes	5.6	—	18.3	—
Total adjustments to GAAP net loss from continuing operations before provision for income taxes	45.2	28.2	139.0	57.7
Income tax adjustment - benefit/(expense)	0.9	15.2	(4.2)	(4.4)
Non-GAAP net income from continuing operations	$11.5	$14.5	$76.9	$36.9
Non-GAAP diluted earnings per share from continuing operations	$0.11	$0.14	$0.74	$0.37
Non-GAAP weighted average shares (in thousands)	105,922	100,981	103,576	99,530

Free Cash Flow

	Three Months Ended		Year Ended	
	June 30, 2019	June 24, 2018	June 30, 2019	June 24, 2018
Net cash provided by operating activities	$2.9	$42.2	$202.3	$173.5
Less: PP&E spending	(35.9)	(57.3)	(142.4)	(185.7)
Less: Patents spending	(1.5)	(2.2)	(10.6)	(10.1)
Total free cash flow	($34.5)	($17.3)	$49.3	($22.3)

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

	Three Months Ended September 29, 2019
GAAP net loss outlook range	($42) to ($46)
Adjustments:	
Stock-based compensation expense	16
Amortization or impairment of acquired intangibles	4
Factory optimization restructuring and start-up costs	3
Accretion on convertible notes	6
Project and transaction costs	6
Total adjustments to GAAP net loss before provision for income taxes	35
Income tax adjustment - increase/(decrease)	4
Non-GAAP net loss outlook range	($3) to ($7)

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Source: Cree, Inc.