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.

Lighting Products segment restructuring charges or gains. In April 2018, the Company approved a plan to restructure the Lighting Products segment. In September 2018, the Company revised the plan to include additional cost saving initiatives. The restructuring, completed during the second quarter of fiscal 2019, aimed to realign the Company's cost base with the long-range business strategy that was announced February 26, 2018. The components of the restructuring included the sale or abandonment of certain equipment, facility consolidation, and elimination of certain positions. Because these charges related 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.

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.

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 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		Six Months Ended	
	December 30, 2018	December 24, 2017	December 30, 2018	December 24, 2017
GAAP gross profit	$135,230	$92,603	$263,398	$192,935
GAAP gross margin percentage	32.7%	25.2%	32.1%	26.5%
Adjustment:				
Stock-based compensation expense	2,117	1,898	3,989	3,673
Costs related to the RF Power acquisition	14	—	1,226	—
Total adjustments to GAAP gross profit	$2,131	$1,898	$5,215	$3,673
Non-GAAP gross profit	$137,361	$94,501	$268,613	$196,608
Non-GAAP gross margin percentage	33.3%	25.7%	32.7%	27.0%

Non-GAAP Operating Income

	Three Months Ended		Six Months Ended	
	December 30, 2018	December 24, 2017	December 30, 2018	December 24, 2017
GAAP operating income (loss)	$7,406	($26,303)	$7,931	($40,411)
GAAP operating income (loss) percentage	1.8%	(7.2)%	1.0%	(5.5)%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	2,117	1,898	3,989	3,673
Research and development	2,629	1,999	4,762	4,456
Sales, general and administrative	8,264	8,129	16,311	14,031
Total stock-based compensation expense	13,010	12,026	25,062	22,160
Amortization or impairment of acquisition-related intangibles	6,345	6,792	14,840	13,584
Costs associated with Lighting business restructuring	(497)	—	3,989	—
Costs related to the RF Power acquisition	199	—	1,833	—
Executive Severance	—	4,880	—	4,880
Total adjustments to GAAP operating loss	19,057	23,698	45,724	40,624
Non-GAAP operating income (loss)	$26,463	($2,605)	$53,655	$213
Non-GAAP operating income percentage	6.4%	(0.7)%	6.5%	— %

Non-GAAP Non-Operating Income, net

	Three Months Ended		Six Months Ended	
	December 30, 2018	December 24, 2017	December 30, 2018	December 24, 2017
GAAP non-operating (expense) income, net	($5,464)	$26,729	($14,968)	$25,662
Adjustment:				
Net changes in the fair value of the Lextar investment	1,809	(25,219)	9,083	(22,151)
Accretion on convertible notes	5,411	—	7,197	—
Non-GAAP non-operating income, net	$1,756	$1,510	$1,312	$3,511

Non-GAAP Net Income (Loss)

	Three Months Ended		Six Months Ended	
	December 30, 2018	**December 24, 2017**	**December 30, 2018**	**December 24, 2017**
GAAP net (loss) income	($2,450)	$13,721	($13,517)	($6,136)
Adjustments:				
Stock-based compensation expense	13,010	12,026	25,062	22,160
Amortization or impairment of acquisition-related intangibles	6,345	6,792	14,840	13,584
Costs associated with Lighting business restructuring	(497)	—	3,989	—
Costs related to the RF Power acquisition	199	—	1,833	—
Executive Severance	—	4,880	—	4,880
Net changes in the fair value of the Lextar investment	1,809	(25,219)	9,083	(22,151)
Accretion of convertible notes	5,411	—	7,197	—
Total adjustments to GAAP net loss before provision for income taxes	26,277	(1,521)	62,004	18,473
Income tax effect	(656)	(12,864)	(3,317)	(8,890)
Non-GAAP net income (loss)	$23,171	($664)	$45,170	$3,447
Non-GAAP earnings (loss) per share				
Non-GAAP diluted earnings (loss) per share	$0.23	($0.01)	$0.44	$0.03
Shares used in non-GAAP diluted earnings (loss) per share calculation				
Non-GAAP shares used	102,871	100,763	102,396	98,499

Free Cash Flow

	Three Months Ended		Six Months Ended	
	December 30, 2018	**December 24, 2017**	**December 30, 2018**	**December 24, 2017**
Cash flows from operations	$92,274	$51,689	$126,266	$105,812
Less: PP&E spending	(36,716)	(48,772)	(73,305)	(85,222)
Less: Patents spending	(2,308)	(2,456)	(5,461)	(4,932)
Total free cash flow	$53,250	$461	$47,500	$15,658

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

	Three Months Ended March 31, 2019
GAAP net loss outlook range	($5) to ($13)
Adjustments:	
Stock-based compensation expense	14
Amortization or impairment of acquired intangibles	6
Accretion on convertible notes	6
Executive severance	1
Total adjustments to GAAP net loss before provision for income taxes	27
Income tax effect	2
Non-GAAP net income outlook range	$13 to $19

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