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 (loss) income, non-GAAP non-operating income (expense), net, non-GAAP net (loss) income, non-GAAP diluted (loss) earnings per share from continuing operations 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. Both our GAAP targets and non-GAAP targets do not include any estimated changes in the fair value of our ENNOSTAR (formerly Lextar) investment, which was liquidated earlier this month.

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 Employee Stock Purchase Program. 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 Cree's prior acquisitions and have no direct correlation to the ongoing operating results of Cree's business.

Factory optimization restructuring. In May 2019, the Company started a significant, multi-year factory optimization plan to be anchored by a state-of-the-art, automated 200mm silicon carbide fabrication facility. In September 2019, the Company announced the intent to build the new fabrication facility in Marcy, New York to complement the factory expansion underway 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 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 net losses on sale of assets relating to the restructuring to be reflective of ongoing operating results.

Severance and other restructuring. These costs relate to the Company's realignment of certain resources as part of the Company's transition to a more focused semiconductor company. Cree does not believe these costs are reflective of ongoing operating results.

Project, transformation and transaction costs. The Company has incurred professional services fees and other costs associated with completed and potential acquisitions and divestitures, as well as internal transformation programs focused on optimizing the Company's administrative processes. Cree excludes these items because Cree believes they are not reflective of the ongoing operating results of Cree's 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.

Non-restructuring related executive severance. The Company has incurred costs in conjunction with the termination of key executive personnel. Cree excludes these items because Cree believes they have no direct correlation to the ongoing operating results of Cree's business.

Transition service agreement costs. As a result of the sale of the Lighting Products business unit, the Company is providing certain information technology 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 Cree's business.

Asset impairment. In fiscal 2020, 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 Cree's business.

Net changes in fair value of our ENNOSTAR (formerly Lextar) investment. In January 2021, Lextar Electronics Corporation (Lextar) completed its previously announced restructuring under a holding company named ENNOSTAR Inc. (ENNOSTAR) with EPISTAR Corporation via a share swap pursuant to which the Company received 0.275 shares of common stock of ENNOSTAR for each of share of Lextar common stock. The Company's common stock ownership investment in ENNOSTAR 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 ENNOSTAR investment as Cree does not believe it is reflective of ongoing operating results. From March 29, 2021 to April 16, 2021, the Company liquidated its common stock ownership interest in ENNOSTAR.

Gain on arbitration proceedings. In the third quarter of fiscal 2020, the Company won an arbitration proceeding for which we were awarded damages for a claim by us against a contract manufacturer. The arbitration victory resulted in a cash settlement beyond the legal fees incurred and was recognized as a gain in other income. Cree excludes this item because Cree believes it is not reflective of the ongoing operating results of Cree's business.

Accretion on convertible notes, net of capitalized interest. The issuance of the Company's convertible senior notes in August 2018 and April 2020 results in interest accretion on the convertible notes' issue costs and discount. Cree 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 the Company's past operating performance.

Loss on Wafer Supply Agreement. In connection with the completed sale of the LED Products business unit to SMART, the Company entered into a Wafer Supply and Fabrication Services Agreement (the Wafer Supply Agreement), pursuant to which the Company will supply CreeLED with certain silicon carbide materials and fabrication services for up to four years. Cree excludes the financial impact of this agreement because Cree believes it is not reflective of the ongoing operating results of Cree's business.

Income tax adjustment. This amount reconciles GAAP tax (benefit) expense to a calculated non-GAAP tax (benefit) expense 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 (loss) income to the amount it would be if the calculated non-GAAP tax rate was applied to non-GAAP (loss) income before taxes.

Cree may incur some 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 from continuing operations 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 and strengthen the balance sheet. 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		Nine months ended	
	March 28, 2021	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
GAAP gross profit	$44.0	$41.3	$120.8	$129.4
GAAP gross margin percentage	32 %	36 %	32 %	36 %
Adjustments:				
Stock-based compensation expense	4.1	2.7	11.2	7.1
Factory optimization restructuring	—	—	1.0	—
Non-GAAP gross profit	$48.1	$44.0	$133.0	$136.5
Non-GAAP gross margin percentage	35 %	39 %	35 %	38 %

Non-GAAP Operating Loss

	Three months ended		Nine months ended	
	March 28, 2021	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
GAAP operating loss	($61.4)	($48.0)	($181.2)	($153.6)
GAAP operating loss percentage	(45)%	(42)%	(48)%	(42)%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	4.1	2.7	11.2	7.1
Research and development	2.1	1.9	6.7	6.0
Sales, general and administrative	6.7	5.2	22.4	23.8
Total stock-based compensation expense	12.9	9.8	40.3	36.9
Amortization or impairment of acquisition-related intangibles	3.7	3.7	10.9	10.9
Factory optimization restructuring	3.8	1.1	7.7	3.5
Severance and other restructuring	0.6	—	3.4	0.8
Project, transformation and transaction costs	3.7	1.4	6.7	10.8
Factory optimization start-up costs	1.8	2.1	6.0	5.0
Non-restructuring related executive severance	2.8	0.6	2.8	2.1
Transition service agreement costs	0.1	2.5	5.0	10.7
Asset impairment	—	—	—	0.2
Non-GAAP operating loss	($32.0)	($26.8)	($98.4)	($72.7)
Non-GAAP operating loss percentage	(23)%	(24)%	(26)%	(20)%

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

	Three months ended		Nine months ended	
	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
GAAP non-operating expense, net	($8.1)	($14.7)	($18.9)	($8.1)
Adjustments:				
Net changes in the fair value of ENNOSTAR (formerly Lextar) investment	(1.1)	19.2	(11.3)	8.0
Gain on arbitration proceedings	—	(8.0)	—	(8.0)
Accretion on convertible notes, net of capitalized interest	8.0	5.8	26.1	17.2
Loss on Wafer Supply Agreement	0.1	—	0.1	—
Non-GAAP non-operating (expense) income, net	($1.1)	$2.3	($4.0)	$9.1

Non-GAAP Net Loss

	Three months ended		Nine months ended	
	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
GAAP net loss from continuing operations	($66.5)	($56.2)	($196.1)	($153.4)
Adjustments:				
Stock-based compensation expense	12.9	9.8	40.3	36.9
Amortization or impairment of acquisition-related intangibles	3.7	3.7	10.9	10.9
Factory optimization restructuring	3.8	1.1	7.7	3.5
Severance and other restructuring	0.6	—	3.4	0.8
Project, transformation and transaction costs	3.7	1.4	6.7	10.8
Factory optimization start-up costs	1.8	2.1	6.0	5.0
Non-restructuring related executive severance	2.8	0.6	2.8	2.1
Transition service agreement costs	0.1	2.5	5.0	10.7
Asset impairment	—	—	—	0.2
Net changes in the fair value of ENNOSTAR (formerly Lextar) investment	(1.1)	19.2	(11.3)	8.0
Gain on arbitration proceedings	—	(8.0)	—	(8.0)
Accretion on convertible notes, net of capitalized interest	8.0	5.8	26.1	17.2
Loss on Wafer Supply Agreement	0.1	—	0.1	—
Total adjustments to GAAP net loss from continuing operations before provision for income taxes	36.4	38.2	97.7	98.1
Income tax adjustment - benefit (expense)	5.4	(0.4)	20.6	7.6
Non-GAAP net loss from continuing operations	($24.7)	($18.4)	($77.8)	($47.7)
Non-GAAP diluted loss per share from continuing operations	($0.22)	($0.17)	($0.69)	($0.44)
Non-GAAP weighted average shares (in thousands)	112,891	108,115	112,330	107,718

Free Cash Flow

	Three months ended		Nine months ended	
	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
Net cash used in operating activities from continuing operations	($26.8)	($25.3)	($58.9)	($64.9)
Less: PP&E spending	(136.5)	(66.6)	(394.0)	(166.9)
Less: Patents spending	(1.7)	(1.4)	(3.6)	(2.8)
Total free cash flow	($165.0)	($93.3)	($456.5)	($234.6)

CREE, INC.
Business Outlook Unaudited GAAP to Non-GAAP Reconciliation

(in millions of U.S. Dollars)	Three Months Ended June 27, 2021
GAAP net loss outlook range	($73) to ($68)
Adjustments:	
Stock-based compensation expense	13
Amortization or impairment of acquisition-related intangibles	4
Factory optimization restructuring and start-up costs	5
Accretion on convertible notes, net of capitalized interest	8
Project, transformation, transaction and transition costs	1
Total adjustments to GAAP net loss before provision for income taxes	31
Income tax adjustment	12
Non-GAAP net loss outlook range	($30) to ($25)

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