



Rating
Hold

North America
United States

TMT
Semiconductors

Company
Cree

Reuters CREE.OQ Bloomberg CREE US Exchange NSM Ticker CREE

Date
12 October 2018

Results

Price at 12 Oct 2018 (USD)	34.56
Price target	47.00
52-week range	51.25 - 29.21

F1Q Preview: Expect in-line print, but uncertainties around tariffs

CREE will report F1Q19 (Sep-18) results after the market close on Tuesday, October 16. A conference call to discuss results will be held on the same day at 5:00 pm ET. The dial-in number is 877-383-7419, ID: 1783509.

Expect in-line F1Q results

We expect F1Q (Sep) revenues of \$405m, at the mid-point of guidance of \$395-415m and slightly below the Street's \$417m. By segment, we model Wolfsped revs up +13% q/q at \$124m with GM of 48.2% (up +30bps q/q), LED revs down -6% q/q at \$146m with GM at 25.6% (down -180bps q/q due to negative impact of tariffs), and Lighting revs down -6% q/q at \$135m with GM at 20.5% (up +20bps q/q). The favorable segment mix should lead to higher overall GM at 30.6%, up from 29.7% in F4Q. Assuming opex at \$108m and a tax rate at 17%, we model non-GAAP EPS of \$0.11, vs. guidance of \$0.10-0.14 and the Street's \$0.12. In late August, CREE issued \$500m of \$0.875% convertible senior notes due 2023, with a portion of the proceeds used to repay the borrowings under its revolving credit facility and the remaining proceeds to fund Wolfsped's capacity expansion of ~\$180m in FY19.

New tariffs likely a further headwind

We currently model F2Q (Dec) revenues to increase +3% q/q to \$418m, vs. Street's estimate at \$420m. We expect all segments to grow, with Wolfsped up +4% q/q, LED up +4% q/q and Lighting up +2% q/q. We also expect GM to increase 10-50bps q/q for each segment, leading to further expansion of overall GM to 31.0% (up +40bps q/q). However, we expect the new U.S. tariffs on imported goods from China effective Sep 24 will have incremental negative impact on GM on top of what was communicated previously. CREE may pass along the higher costs to customers through price increases, but that could lead to demand reduction for its products. Assuming opex increases +3% q/q to \$111m and tax rate at 17%, our model assumes non-GAAP EPS of \$0.13, in line with the Street. Our current model only includes the ~\$0.03 EPS negative impact based on the first round of tariffs.

Maintain Hold

Cree continues to make progress with its strategic objectives by focusing on the fast-growing and more profitable Wolfsped business, while improving the profitability of its LED and Lighting businesses. However, the U.S. tariffs remain an overhang, noting that we currently estimate non-Wolfsped businesses generate ~\$0.15 of non-GAAP EPS in FY19. While we have seen a pullback of ~20% in the share price over the last month, we maintain our Hold rating. The

Valuation & Risks

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pullback is likely a reflection of the uncertainties around tariffs, and we prefer to stay on the sideline until we get more clarity on the impact.

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Cree	CREE.OQ	33.72 (USD) 11 Oct 2018	2, 8

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Historical recommendations and target price. Cree (CREE.OQ)

(as of 10/11/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/17/2015	Hold, Target Price Change USD 27.00 Vish Shah**	7.	08/23/2017	Hold, Target Price Change USD 22.00 Vish Shah**
2.	04/06/2016	Hold, Target Price Change USD 23.00 Vish Shah**	8.	10/17/2017	Hold, Target Price Change USD 26.00 Vish Shah**
3.	07/15/2016	Hold, Target Price Change USD 26.00 Vish Shah**	9.	11/06/2017	Upgraded to Buy, Target Price Change USD 45.00 Vish Shah**
4.	10/19/2016	Hold, Target Price Change USD 22.00 Vish Shah**	10.	03/19/2018	Buy, Target Price Change USD 52.00 Vish Shah**
5.	01/25/2017	Hold, Target Price Change USD 28.00 Vish Shah**	11.	08/27/2018	Downgraded to Hold, Target Price Change USD 47.00 Sidney Ho
6.	04/26/2017	Hold, Target Price Change USD 24.00 Vish Shah**			

Equity Rating Key

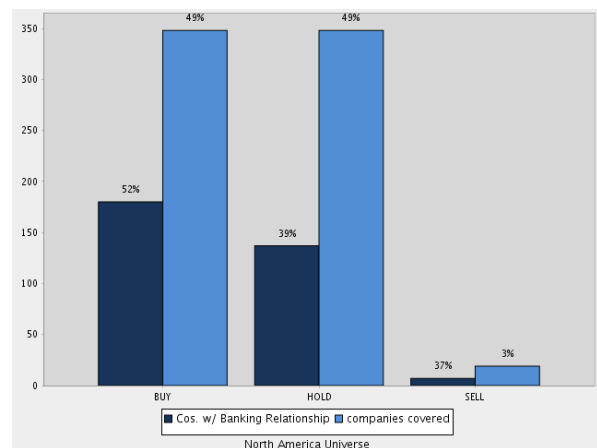
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Equity rating dispersion and banking relationships



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