

Illumina Q1 2016

Financial Results
May 3, 2016



Safe Harbor Statement

This communication may contain statements that are forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are (i) our ability to further develop and commercialize our instruments and consumables and to deploy new products, services, and applications, and expand the markets, for our technology platforms; (ii) our ability to manufacture robust instrumentation and consumables; (iii) our ability to successfully identify and integrate acquired technologies, products, or businesses; (iv) our expectations and beliefs regarding future conduct and growth of the business and the markets in which we operate; (v) challenges inherent in developing, manufacturing, and launching new products and services; and (vi) the application of generally accepted accounting principles, which are highly complex and involve many subjective assumptions, estimates, and judgments, together with other factors detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We undertake no obligation, and do not intend, to update these forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of the current quarter.

Q1 2016

Slower start to the year than expected

	Q1'16	Q1'15	Δ
Revenue ¹	\$572	\$539	6%
Gross Margin ²	71.7%	72.2%	(50 bps)
Operating Margin ²	30.1%	39.3%	(920 bps)
EPS ³	\$0.71	\$0.91	(22%)

- Majority of the shortfall due to orders received that did not translate to revenue (timing of order, execution, deal complexity, manufacturing capacity)
- \$9M of HiSeq orders expected but not received in quarter (customer-specific situations, see next slide)
- Additional headcount, as well as investments in Project Firefly, GRAIL and Helix led to OM% contraction versus the prior year
- Q1 non-GAAP EPS impact from GRAIL and Helix was \$0.04 and \$0.02, respectively

1. In millions

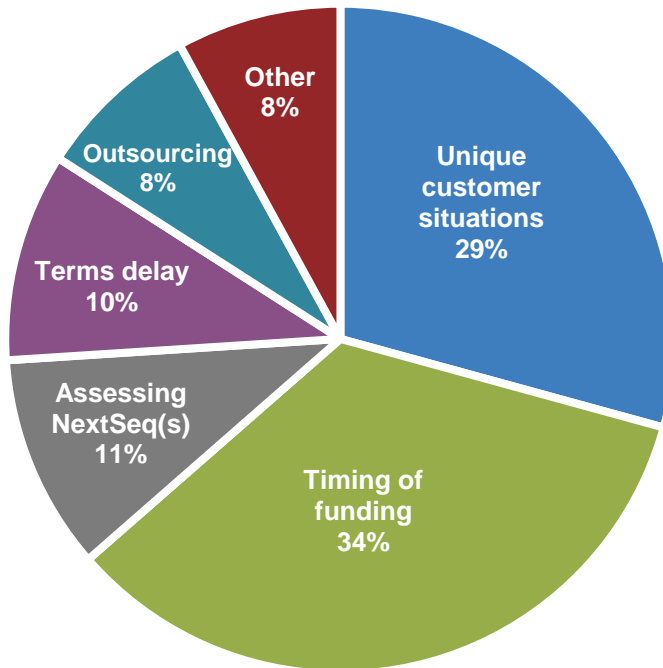
2. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense

3. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense

Underlying Drivers of HiSeq Miss

No dominant customer themes

Drivers Cited by Customer
(% of response)



What Customers are Saying

Waiting for internal approvals

Company re-organization

Contemplating lease versus purchase

Purchase decision moved into late Q2'16 or Q3'16

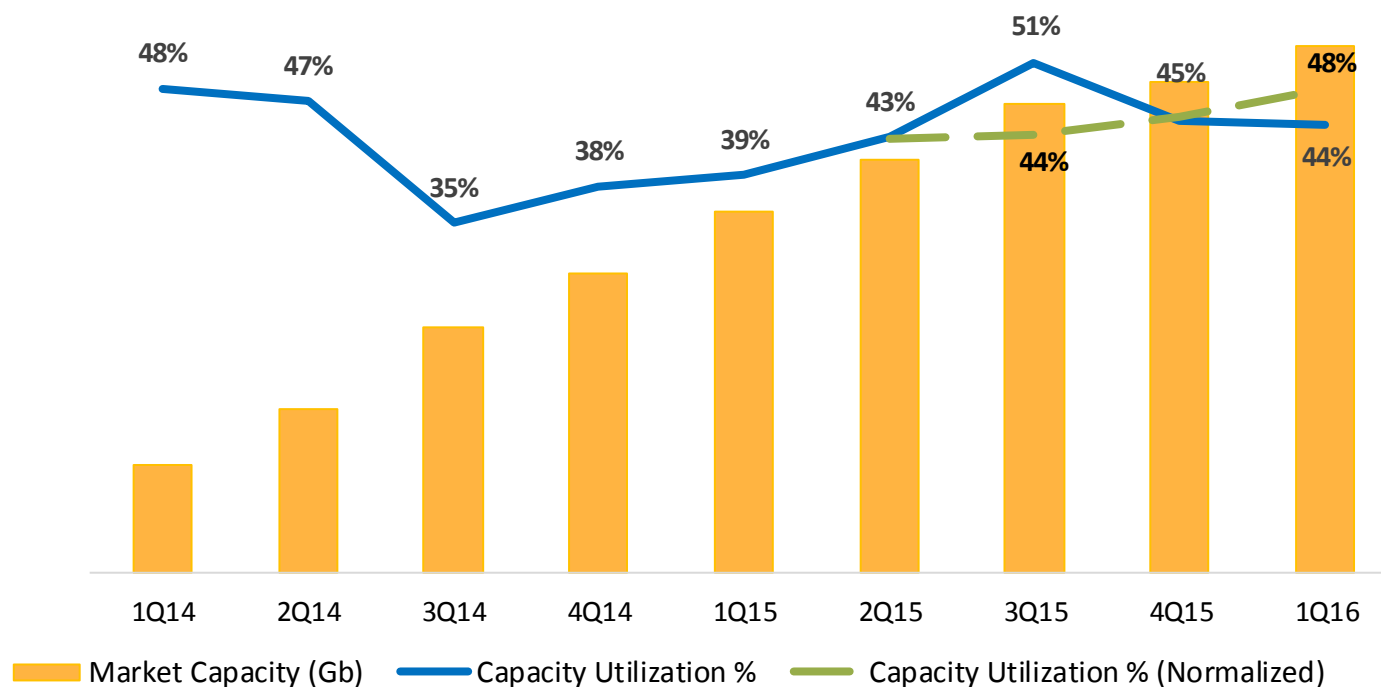
Currently outsourcing samples

Looking to purchase a few NextSeqs

Utilization of High-Throughput Instruments

Market capacity¹ not impacting HiSeq demand

Quarterly Capacity Utilization



Normalized capacity utilization reflects the consumables from the large Q3 shipment being run over the course of Q3'15 – Q1'16

1. Market capacity is the total throughput of the HiSeq and HiSeq X installed base, as defined by the mix of reagent kits sold in a given quarter

Q1 2016 Revenue Growth Rates

Sequencing consumables and services fueled revenue growth

Q1 YoY %	Sequencing ²	Microarray ²	Total
Instruments	(21%)	N/P ¹	(20%)
Consumables	24%	(7%)	17%
Service and Other	N/P ¹	N/P ¹	12%
Total	7%	1%	6%

- Consumables accounted for 63% of total revenue
- Sequencing consumables were approximately \$300M
- Total microarray revenue accounted for approximately 15% of total revenue including instruments, consumables, service and other

1. N/P items are not provided

2. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other

Q1 2016 Non-GAAP P&L

Dilution from GRAIL and Helix was \$0.04 and \$0.02, respectively

<i>\$ in millions, except % and per share data</i>	Q1'16	Q1'15	Δ
Revenue	\$572	\$539	6%
GM % ¹	71.7%	72.2%	(50 bps)
R&D % ¹	19.8%	14.9%	490 bps
SG&A % ¹	21.9%	18.0%	390 bps
OM % ^{1,2}	30.1%	39.3%	(920 bps)
Stock Based Compensation	\$35	\$32	9%
Tax Rate	25.5%	24.5%	100 bps
Consolidated Net Income ³	\$103	\$135	(24%)
Net Income Attributable to Illumina Stockholders ⁴	\$106	\$135	(22%)
EPS ⁴ Attributable to Illumina Stockholders	\$0.71	\$0.91	(22%)

1. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
2. Excluding GRAIL and Helix, core ILMN operating margin for Q1'16 was 31.6%
3. Non-GAAP including stock based compensation expense
4. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense

Balance Sheet / Cash Flow

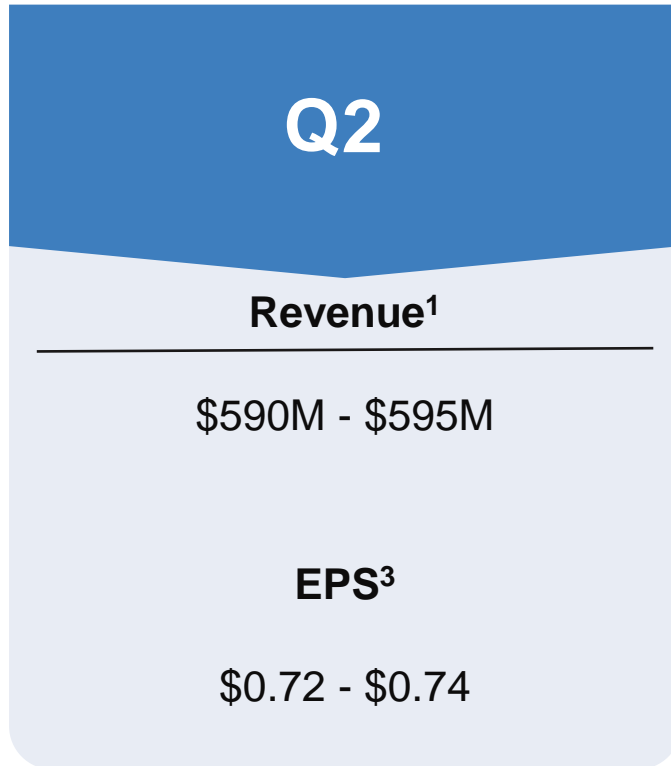
Strong cash position

<i>\$ in millions, except DSO</i>	Q1'16	Q4'15
Cash & Investments	\$1,343	\$1,386
Inventory	\$288	\$271
Accounts Receivable (DSO)	\$403 (64)	\$386 (64)
Principal Amount of Convertible Notes Outstanding	\$1,150	\$1,226
Operating Cash Flow	\$40	\$240
Free Cash Flow	(\$14)	\$205

- Retired the remaining \$76M of 0.25% 2016 convertible bonds in Q1
- FCF was lower sequentially due to the payout of previously accrued payroll expenses, a decline in the tax benefit related to share-based compensation and higher CapEx
- Balance sheet includes the consolidated amounts from GRAIL and Helix

2016 Guidance⁵

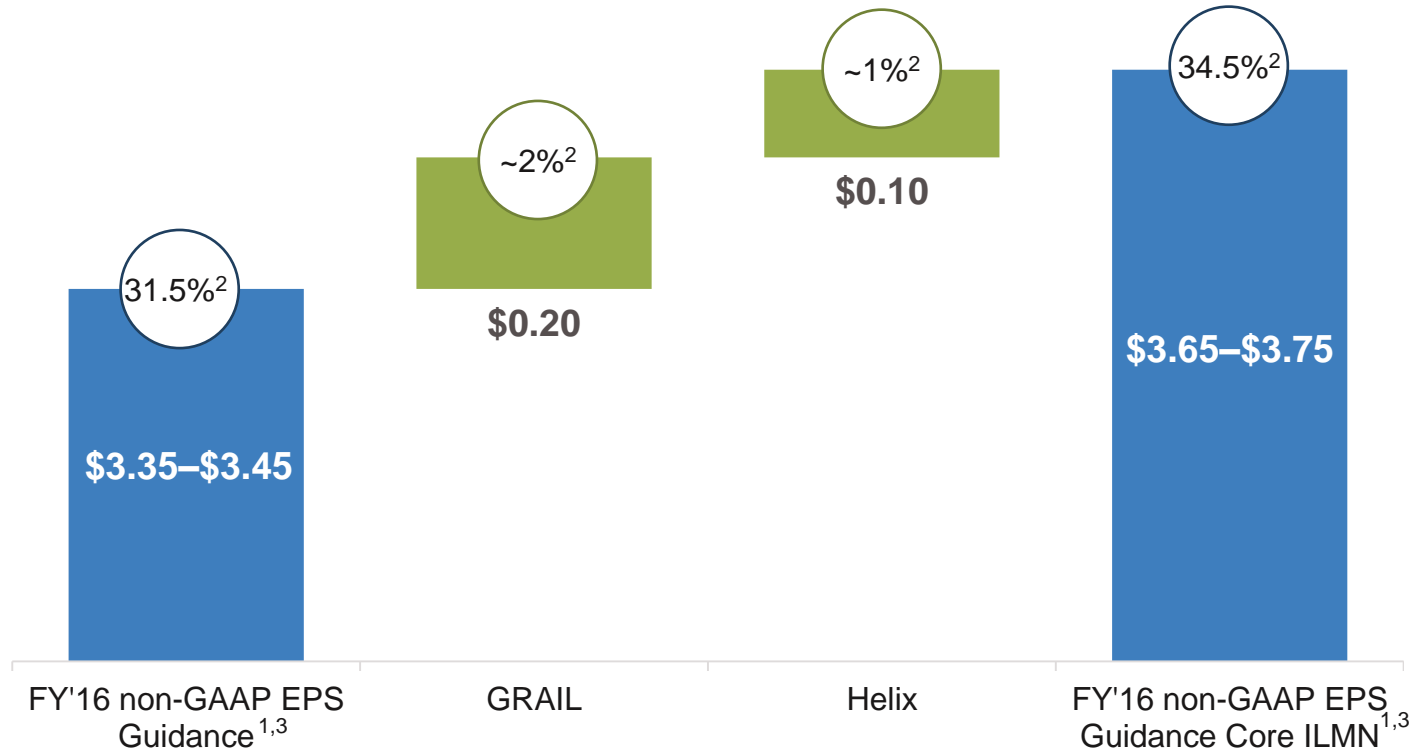
Updated revenue growth of 12% YoY



1. Revenue guidance assumes constant currency rates from May 3, 2016
2. The impact of foreign exchange is expected to be neutral assuming constant currency rates from May 3, 2016
3. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense
4. Includes \$0.10 and \$0.20 of dilution from Helix and GRAIL, respectively
5. Guidance given by press release and 8-k on May 3, 2016

Investing for Long-Term Growth

GRAIL and Helix account for 300 basis points of operating margin dilution



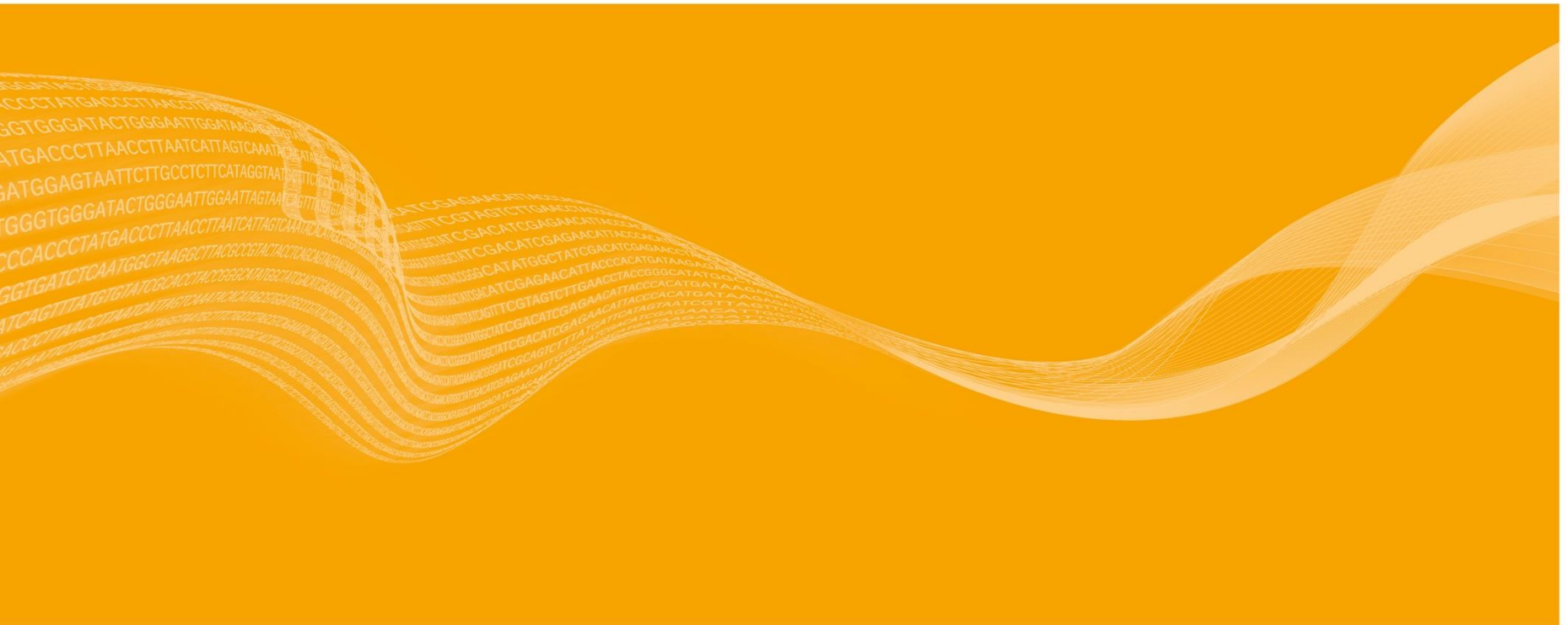
1. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense

2. Adjusted non-GAAP operating margin implied at mid-point of guidance, excluding stock based compensation expense

3. Guidance given by press release and 8-k on May 3, 2016

Appendix

Non-GAAP Reconciliations



Reconciliation Between GAAP and Non-GAAP Earnings Per Share Attributable to Illumina Stockholders:

	Three Months Ended	
	April 3, 2016	March 29, 2015
GAAP earnings per share attributable to Illumina stockholders - diluted	\$ 0.60	\$ 0.92
Amortization of acquired intangible assets	0.09	0.09
Non-cash interest expense (a)	0.05	0.07
Legal contingencies (b)	0.01	—
Acquisition related gain, net (c)	—	(0.07)
Cost-method investment gain, net (d)	—	(0.08)
Incremental non-GAAP tax expense (e)	(0.04)	(0.02)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted (f)	\$ 0.71	\$ 0.91
Shares used in calculating non-GAAP diluted earnings per share attributable to Illumina stockholders	148,357	148,683

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME ATTRIBUTABLE TO ILLUMINA STOCKHOLDERS:

GAAP net income attributable to Illumina stockholders	\$ 89,587	\$ 136,658
Amortization of acquired intangible assets	12,026	12,887
Non-cash interest expense (a)	7,746	10,188
Legal contingencies (b)	2,000	—
Contingent compensation expense (g)	700	—
Headquarter relocation	382	699
Acquisition related gain, net (c)	—	(9,887)
Cost-method investment gain, net (d)	—	(12,582)
Incremental non-GAAP tax expense (e)	(6,904)	(2,587)
Non-GAAP net income attributable to Illumina stockholders (f)	\$ 105,537	\$ 135,376

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	April 3, 2016		March 29, 2015	
GAAP tax provision	\$ 28,377	24.5 %	\$ 41,388	23.2 %
Incremental tax expense	6,904	30.2 %	2,587	198.2 %
Non-GAAP tax provision	\$ 35,281	25.5 %	\$ 43,975	24.5 %

Footnotes to the Reconciliation Between GAAP and Non-GAAP Measures:

(a) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.

(b) Legal contingencies represent charges related to patent litigation.

(c) Acquisition related gain, net consists of changes in fair value of contingent consideration.

(d) Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.

(e) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.

(f) Non-GAAP net income attributable to Illumina stockholders and diluted earnings per share attributable to Illumina stockholders exclude the effect of the pro forma adjustments as detailed above. Non-GAAP net income attributable to Illumina stockholders and diluted earnings per share attributable to Illumina stockholders are key drivers of the company's core operating performance and major factors in management's bonus compensation each year. Management has excluded the effects of these items in these measures to assist investors in analyzing and assessing our past and future core operating performance.

(g) Contingent compensation expense relates to contingent payments for post-combination services associated with an acquisition.

Reconciliation Between GAAP and Non-GAAP Results of Operations as a Percent of Revenue:

	Three Months Ended			
	April 3, 2016		March 29, 2015	
GAAP gross profit	\$ 397,054	69.4 %	\$ 375,027	69.6 %
Stock-based compensation expense	2,624	0.5 %	2,611	0.5 %
Amortization of acquired intangible assets	10,496	1.8 %	11,385	2.1 %
Non-GAAP gross profit (a)	<u>\$ 410,174</u>	<u>71.7 %</u>	<u>\$ 389,023</u>	<u>72.2 %</u>
GAAP research and development expense	\$ 123,994	21.7 %	\$ 91,772	17.0 %
Stock-based compensation expense	(10,681)	(1.9)%	(11,307)	(2.1)%
Contingent compensation expense (b)	(108)	—	—	—
Non-GAAP research and development expense	<u>\$ 113,205</u>	<u>19.8 %</u>	<u>\$ 80,465</u>	<u>14.9 %</u>
GAAP selling, general and administrative expense	\$ 149,233	26.1 %	\$ 116,317	21.6 %
Stock-based compensation expense	(21,987)	(3.8)%	(18,000)	(3.3)%
Amortization of acquired intangible assets	(1,530)	(0.3)%	(1,502)	(0.3)%
Contingent compensation expense (b)	(592)	(0.1)%	—	—
Non-GAAP selling, general and administrative expense	<u>\$ 125,124</u>	<u>21.9 %</u>	<u>\$ 96,815</u>	<u>18.0 %</u>
GAAP operating profit	\$ 121,445	21.2 %	\$ 176,126	32.7 %
Stock-based compensation expense	35,292	6.3 %	31,918	5.9 %
Amortization of acquired intangible assets	12,026	2.1 %	12,887	2.4 %
Legal contingencies (c)	2,000	0.3 %	—	—
Contingent compensation expense (b)	700	0.1 %	—	—
Headquarter relocation	382	0.1 %	699	0.1 %
Acquisition related gain, net (d)	—	—	(9,887)	(1.8)%
Non-GAAP operating profit (a)	<u>\$ 171,845</u>	<u>30.1 %</u>	<u>\$ 211,743</u>	<u>39.3 %</u>
GAAP other (expense) income, net	\$ (5,849)	(1.0)%	\$ 1,920	0.4 %
Non-cash interest expense (e)	7,746	1.3 %	10,188	1.9 %
Cost-method investment gain, net (f)	—	—	(12,582)	(2.4)%
Non-GAAP other income (expense), net (a)	<u>\$ 1,897</u>	<u>0.3 %</u>	<u>\$ (474)</u>	<u>(0.1)%</u>

Footnotes to the Reconciliation Between GAAP and Non-GAAP Results of Operations:

(a) Non-GAAP gross profit, included within non-GAAP operating profit, is a key measure of the effectiveness and efficiency of manufacturing processes, product mix and the average selling prices of the company's products and services. Non-GAAP operating profit, and non-GAAP other income (expense), net, exclude the effects of the pro forma adjustments as detailed above. Management has excluded the effects of these items in these measures to assist investors in analyzing and assessing past and future core operating performance.

(b) Contingent compensation expense relates to contingent payments for post-combination services associated with an acquisition.

(c) Legal contingencies represent charges related to patent litigation.

(d) Acquisition related gain, net consists of changes in fair value of contingent consideration.

(e) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.

(f) Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.

Reconciliation of Non-GAAP Financial Guidance

The company's future performance and financial results are subject to risks and uncertainties, and actual results could differ materially from the guidance set forth below. More information on potential factors that could affect the company's financial results is included from time to time in the company's public reports filed with the Securities and Exchange Commission, including the company's Form 10-K for the fiscal year ended January 3, 2016 filed with the SEC on March 2, 2016. The company assumes no obligation to update any forward-looking statements or information.

	Fiscal Year 2016
Operating margin	
Non-GAAP operating margin (a)	31.5%
Stock-based compensation expense	(5.9)%
Amortization of acquired intangible assets	(1.9)%
Legal contingencies (b)	(0.1)%
Contingent compensation (c)	(0.1)%
Headquarter relocation (d)	(0.1)%
GAAP operating margin	23.4%
Diluted earnings per share attributable to Illumina stockholders	
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$3.35 - \$3.45
Amortization of acquired intangible assets	(0.32)
Non-cash interest expense (d)	(0.20)
Contingent compensation (c)	(0.02)
Legal contingencies (b)	(0.01)
Headquarter relocation (d)	(0.01)
Incremental non-GAAP tax expense (f)	0.18
GAAP diluted earnings per share attributable to Illumina stockholders	\$2.97 - \$3.07
Q2 2016	
Diluted earnings per share attributable to Illumina stockholders	
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$0.72 - \$0.74
Amortization of acquired intangible assets	(0.08)
Non-cash interest expense (e)	(0.05)
Incremental non-GAAP tax expense (f)	0.04
GAAP diluted earnings per share attributable to Illumina stockholders	\$0.63 - \$0.65

Footnotes to the Reconciliation of Non-GAAP Financial Guidance:

- (a)** Operating margin implied at the mid-point of guidance provided for non-GAAP diluted earnings per share.
- (b)** Legal contingencies represent charges related to patent litigation.
- (c)** Contingent compensation expense relates to contingent payments for post-combination services associated with an acquisition.
- (d)** Headquarter relocation represents accretion of interest expense on lease exit liability and changes in estimate of such liability.
- (e)** Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.
- (f)** Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.