

Illumina Q2 2016

Financial Results
July 26, 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) the 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.

Q2 2016

Revenue and non-GAAP EPS exceeded expectations

	Q2'16	Q2'15	Δ
Revenue ¹	\$600	\$539	11%
Gross Margin ²	72.8%	72.4%	40 bps
Operating Margin ²	32.6%	37.4%	(480 bps)
EPS ³	\$0.86	\$0.80	8%

- Revenue growth driven by strength in sequencing consumables and microarray portfolio
- Increased investments in headcount, GRAIL and Helix led to operating margin contraction versus the prior year
- Q2 non-GAAP EPS better than expected given higher revenue and lower operating expenses compared to forecast; impact from GRAIL and Helix was \$0.06 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

Q2 2016 Revenue Growth Rates

Sequencing consumables and microarrays fueled revenue growth

Q2 YoY%	Sequencing ²	Microarray ²	Total
Instruments	(21%)	N/P ¹	(19%)
Consumables	25%	24%	25%
Service and Other	N/P ¹	N/P ¹	18%
Total	8%	30%	11%

- Consumables accounted for 63% of total revenue
- Sequencing consumables were approximately \$310 million
- Total microarray revenue accounted for approximately 16% of revenue
- Instrument revenue declined due to a challenging HiSeq comparison

1. N/P items are not provided

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

Q2 2016 Non-GAAP P&L

Dilution from GRAIL and Helix was \$0.06 and \$0.02, respectively

<i>\$ in millions, except % and per share data</i>	Q2'16	Q2'15	Δ
Revenue	\$600	\$539	11%
GM% ¹	72.8%	72.4%	40 bps
R&D% ¹	19.0%	15.8%	320 bps
SG&A% ¹	21.2%	19.2%	200 bps
OM% ^{1,2}	32.6%	37.4%	(480 bps)
Stock Based Compensation	\$32	\$33	(3%)
Tax Rate	25.7%	28.9%	(320 bps)
Consolidated Net Income ³	\$123	\$120	3%
Net Income Attributable to Illumina Stockholders ⁴	\$127	\$120	6%
EPS Attributable to Illumina Stockholders ⁴	\$0.86	\$0.80	8%

1. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
2. Excluding GRAIL and Helix, core ILMN operating margin for Q2'16 was approximately 35%
3. Non-GAAP including stock based compensation expense
4. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense

Balance Sheet / Cash Flow

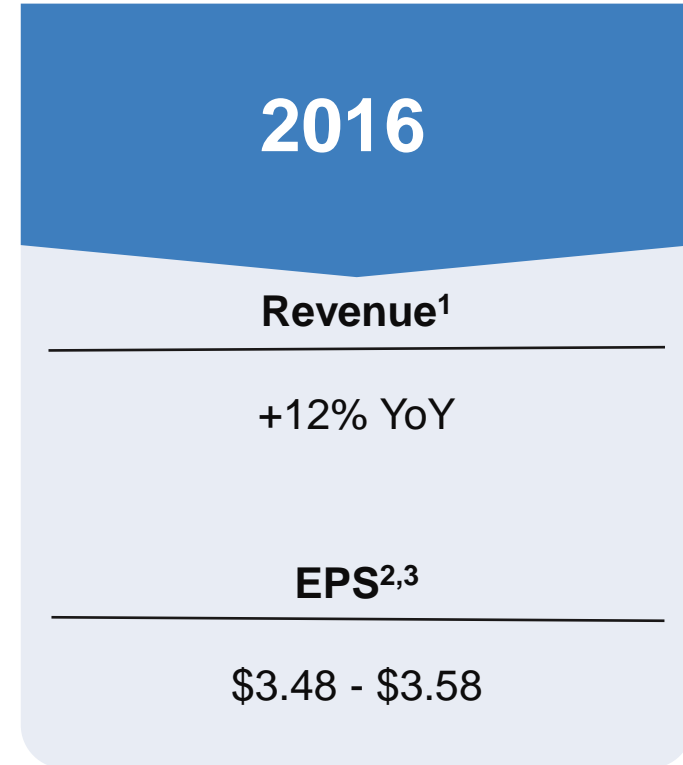
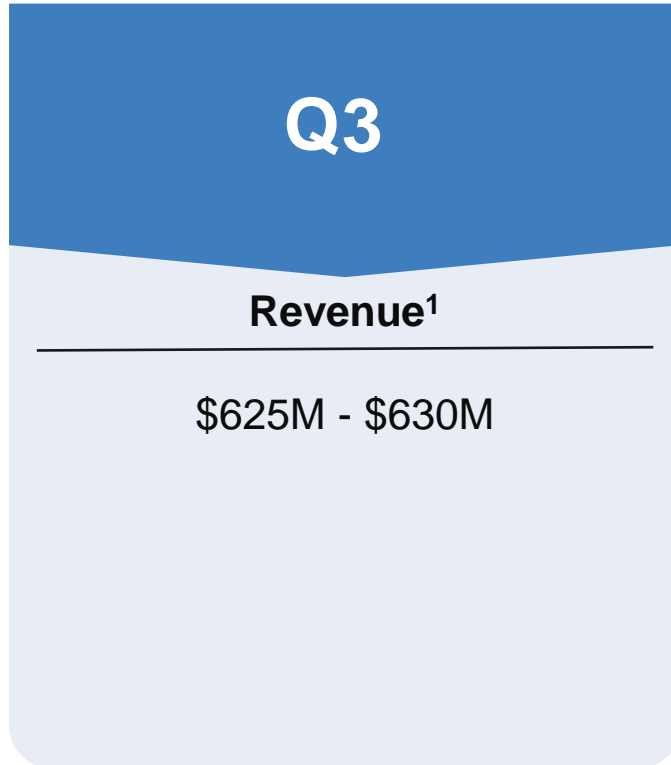
Strong cash generation

<i>\$ in millions, except DSO</i>	Q2'16	Q1'16
Cash & Investments	\$1,425	\$1,343
Inventory	\$311	\$288
Accounts Receivable (DSO)	\$372 (56)	\$403 (64)
Principal Amount of Convertible Notes Outstanding	\$1,150	\$1,150
Operating Cash Flow	\$217	\$40
Free Cash Flow	\$149	(\$14)

- Repurchased \$100 million of common stock under the previously announced discretionary program
- Balance sheet includes the consolidated amounts from GRAIL and Helix

2016 Guidance⁴

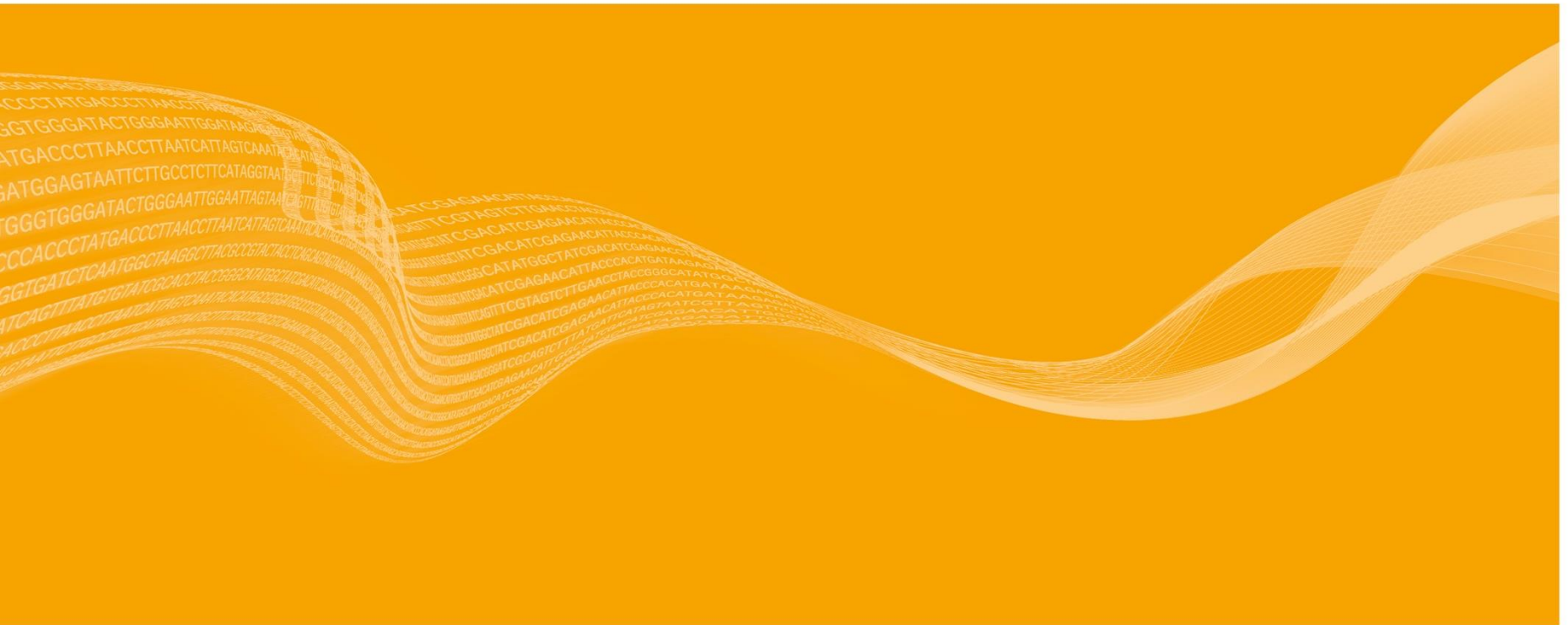
Increased Non-GAAP EPS Guidance



1. Revenue guidance assumes constant currency rates from July 26, 2016
2. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense
3. Includes \$0.10 and \$0.20 of dilution from Helix and GRAIL, respectively
4. Guidance given via 8-k and press release on July 26, 2016

Appendix

Non-GAAP Reconciliations



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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
GAAP earnings per share attributable to Illumina stockholders - diluted	\$ 0.82	\$ 0.69	\$ 1.43	\$ 1.61
Amortization of acquired intangible assets	0.08	0.08	0.16	0.17
Legal contingencies (a)	(0.07)	—	(0.06)	—
Non-cash interest expense (b)	0.05	0.07	0.10	0.14
Deemed dividend, net of tax (c)	(0.01)	—	(0.01)	—
Headquarter relocation	—	0.01	—	0.01
Acquisition related expense (gain), net (d)	—	0.02	—	(0.05)
Cost-method investment gain, net (e)	—	—	—	(0.09)
Incremental non-GAAP tax expense (f)	(0.01)	(0.07)	(0.06)	(0.08)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted (g)	\$ 0.86	\$ 0.80	\$ 1.56	\$ 1.71
Shares used in calculating non-GAAP diluted earnings per share attributable to Illumina stockholders	147,889	148,969	148,123	148,826

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

	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
GAAP net income attributable to Illumina stockholders (h)	\$ 120,412	\$ 102,247	\$ 209,999	\$ 238,905
Amortization of acquired intangible assets	12,112	12,772	24,138	25,659
Legal contingencies (a)	(11,490)	—	(9,490)	—
Non-cash interest expense (b)	7,290	10,227	15,036	20,415
Contingent compensation expense (i)	694	—	1,394	—
Headquarter relocation	302	1,480	684	2,179
Loss on extinguishment of debt	—	233	—	233
Acquisition related expense (gain), net (d)	—	2,329	—	(7,558)
Cost-method investment gain, net (e)	—	—	—	(12,582)
Incremental non-GAAP tax expense (f)	(2,116)	(9,617)	(9,020)	(12,204)
Non-GAAP net income attributable to Illumina stockholders (g)	\$ 127,204	\$ 119,671	\$ 232,741	\$ 255,047

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended		Six Months Ended					
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015				
GAAP tax provision	\$ 40,581	25.9%	\$ 38,925	27.6%	\$ 68,958	25.3%	\$ 80,313	25.2%
Incremental tax expense	2,116	23.8%	9,617	35.6%	9,020	28.4%	12,204	43.1%
Non-GAAP tax provision	\$ 42,697	25.7%	\$ 48,542	28.9%	\$ 77,978	25.6%	\$ 92,517	26.6%

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

- (a) Legal contingencies represent a reversal of previously recorded expense related to the settlement of patent litigation.
- (b) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.
- (c) Amount reflects the net impact of a deemed dividend from the company's common to preferred share exchange with GRAIL offset by resulting additional losses attributable to the common shareholders of GRAIL for earnings per share purposes.
- (d) Acquisition related expense (gain), net consists of changes in fair value of contingent consideration.
- (e) Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.
- (f) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
- (g) 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 components of the financial metrics utilized by the company's board of directors to measure, in part, management's performance and determine significant elements of management's compensation. 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.
- (h) GAAP net income attributable to Illumina stockholders excludes the net impact of the deemed dividend as detailed in (c) above, which is included in GAAP net income attributable to Illumina stockholders for earnings per share of \$121,971 and \$211,558 for the three and six months ended July 3, 2016, respectively. The net impact of the deemed dividend was recorded through equity.
- (i) 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				Six Months Ended			
	July 3, 2016		June 28, 2015		July 3, 2016		June 28, 2015	
GAAP gross profit	\$ 423,805	70.6 %	\$ 376,365	69.8 %	\$ 820,859	70.0 %	\$ 751,392	69.7 %
Stock-based compensation expense	2,379	0.4 %	2,579	0.5 %	5,003	0.5 %	5,190	0.5 %
Amortization of acquired intangible assets	10,549	1.8 %	11,384	2.1 %	21,045	1.8 %	22,769	2.1 %
Non-GAAP gross profit (a)	\$ 436,733	72.8 %	\$ 390,328	72.4 %	\$ 846,907	72.3 %	\$ 779,351	72.3 %
GAAP research and development expense	\$ 124,589	20.8 %	\$ 96,182	17.8 %	\$ 248,583	21.2 %	\$ 187,954	17.4 %
Stock-based compensation expense	(10,693)	(1.8)%	(10,747)	(2.0)%	(21,374)	(1.8)%	(22,054)	(2.0)%
Contingent compensation expense (b)	(109)	—	—	—	(217)	—	—	—
Non-GAAP research and development expense	\$ 113,787	19.0 %	\$ 85,435	15.8 %	\$ 226,992	19.4 %	\$ 165,900	15.4 %
GAAP selling, general and administrative expense	\$ 148,535	24.8 %	\$ 124,441	23.1 %	\$ 297,768	25.4 %	\$ 240,758	22.3 %
Stock-based compensation expense	(18,898)	(3.2)%	(19,631)	(3.6)%	(40,885)	(3.4)%	(37,631)	(3.5)%
Amortization of acquired intangible assets	(1,563)	(0.3)%	(1,388)	(0.3)%	(3,093)	(0.3)%	(2,890)	(0.2)%
Contingent compensation expense (b)	(585)	(0.1)%	—	—	(1,177)	(0.1)%	—	—
Non-GAAP selling, general and administrative expense	\$ 127,489	21.2 %	\$ 103,422	19.2 %	\$ 252,613	21.6 %	\$ 200,237	18.6 %
GAAP operating profit	\$ 161,869	27.0 %	\$ 151,933	28.2 %	\$ 283,314	24.2 %	\$ 328,059	30.4 %
Stock-based compensation expense	31,970	5.3 %	32,957	6.1 %	67,262	5.6 %	64,875	6.0 %
Amortization of acquired intangible assets	12,112	2.0 %	12,772	2.4 %	24,138	2.1 %	25,659	2.4 %
Legal contingencies (c)	(11,490)	(1.9)%	—	—	(9,490)	(0.8)%	—	—
Contingent compensation expense (b)	694	0.1 %	—	—	1,394	0.1 %	—	—
Headquarter relocation	302	0.1 %	1,480	0.3 %	684	0.1 %	2,179	0.2 %
Acquisition related expense (gain), net (d)	—	—	2,329	0.4 %	—	—	(7,558)	(0.7)%
Non-GAAP operating profit (a)	\$ 195,457	32.6 %	\$ 201,471	37.4 %	\$ 367,302	31.3 %	\$ 413,214	38.3 %
GAAP other expense, net	\$ (4,894)	(0.8)%	\$ (10,761)	(2.0)%	\$ (10,743)	(0.9)%	\$ (8,841)	(0.8)%
Non-cash interest expense (e)	7,290	1.2 %	10,227	1.9 %	15,036	1.3 %	20,415	1.9 %
Loss on extinguishment of debt	—	—	233	—	—	—	233	—
Cost-method investment gain, net (f)	—	—	—	—	—	—	(12,582)	(1.2)%
Non-GAAP other income (expense), net (a)	\$ 2,396	0.4 %	\$ (301)	(0.1)%	\$ 4,293	0.4 %	\$ (775)	(0.1)%

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 a reversal of previously recorded expense related to the settlement of patent litigation.

(d) Acquisition related expense (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, and the company's Form 10-Q for the fiscal quarter ended April 3, 2016. The company assumes no obligation to update any forward-looking statements or information.

	<u>Fiscal Year 2016</u>
Diluted earnings per share attributable to Illumina stockholders	
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$3.48 - \$3.58
Amortization of acquired intangible assets	(0.33)
Non-cash interest expense (a)	(0.20)
Legal contingencies (b)	0.06
Contingent compensation (c)	(0.02)
Headquarter relocation	(0.01)
Deemed dividend, net of tax (d)	0.01
Incremental non-GAAP tax expense (e)	0.14
GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$3.13 - \$3.23</u>

Footnotes to the Reconciliation of Non-GAAP Financial Guidance:

(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 a reversal of previously recorded expense related to the settlement of patent litigation.

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

(d) Amount reflects the net impact of a deemed dividend from the company's common to preferred share exchange with GRAIL offset by resulting additional losses attributable to the common shareholders of GRAIL for earnings per share purposes.

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