

ILLUMINA Q1 2017 Financial Results

April 25, 2017



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, including the timing of customer orders and impact on existing 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 2017 Overview

Revenue exceeded expectations

<i>\$ in millions, except % and per share data¹</i>	Q1'17	Q1'16	Δ
Revenue	\$598	\$572	5%
Gross Margin ²	66.4%	71.3%	(490 bps)
Operating Margin ²	17.5%	23.9%	(640 bps)
EPS ³	\$0.64	\$0.71	(10%)

- Revenue growth driven by consumables and services
- Lower gross margin and increased investments in headcount, GRAIL and Helix led to operating margin contraction versus the prior year
- Q1'17 non-GAAP EPS impact from GRAIL and Helix was \$0.03 and \$0.04, respectively

1. Financials include \$40 million and \$35 million of non-GAAP stock based compensation expense in Q1'17 and Q1'16, respectively

2. Non-GAAP as a percentage of revenue

3. Non-GAAP attributable to Illumina stockholders

Q1 2017 Revenue Growth Rates

Consumables and services fueled growth

Q1 YoY%	Sequencing ¹	Microarray ¹	Total
Instruments	(17%)	N/P ²	(15%)
Consumables	7%	6%	7%
Service and Other	N/P ²	N/P ²	20%
Total	2%	17%	5%

- Consumables accounted for 65% of total revenue
- Sequencing consumable revenue was approximately \$320 million
- Total microarray revenue was approximately 17% of total revenue

Q1 2017 Consolidated Non-GAAP P&L

<i>\$ in millions, except % and per share data¹</i>	Q1'17	Q1'16	Δ
Revenue	\$598	\$572	5%
GM% ²	66.4%	71.3%	(490 bps)
R&D% ²	23.3%	21.7%	160 bps
SG&A% ²	25.6%	25.7%	(10 bps)
OM% ^{2,3}	17.5%	23.9%	(640 bps)
Tax Rate	24.4%	25.5%	(110 bps)
Consolidated Net Income	\$81	\$103	(21%)
Add: Net Loss Attributable to Noncontrolling Interests	\$13	\$2	\$11
Net Income Attributable to Illumina Stockholders ⁴	\$94	\$106	(11%)
EPS Attributable to Illumina Stockholders ⁴	\$0.64	\$0.71	(10%)
GRAIL and Helix EPS Dilution ^{4,5}	\$0.07	\$0.06	\$0.01

1. Financials include \$40 million and \$35 million of non-GAAP stock based compensation expense in Q1'17 and Q1'16, respectively

2. Non-GAAP as a percentage of revenue

3. Excluding GRAIL and Helix, core ILMN operating margin for Q1'17 was 21.1% compared to 25.4% in Q1'16

4. Non-GAAP attributable to Illumina stockholders

5. Q1'17 dilution from GRAIL and Helix was \$0.03 and \$0.04, respectively; Q1'16 includes GRAIL and Helix dilution of \$0.04 and \$0.02, respectively

Balance Sheet / Cash Flow

Strong cash position

<i>\$ in millions, except DSO</i>	Q1'17	Q4'16
Cash & Investments	\$1,778	\$1,559
Inventory	\$299	\$300
Accounts Receivable (DSO)	\$368 (56)	\$381 (56)
Principal Amount of Convertible Notes Outstanding	\$1,150	\$1,150
Operating Cash Flow	\$168	\$262
Free Cash Flow	\$85	\$180

- Repurchased \$101 million of stock at ~\$162 under previously announced buyback programs thereby completing the authorization
- Consolidated operating cash flow was lowered by \$30 million due to GRAIL and Helix
- Generated gross proceeds of \$278 million from GRAIL's Series B raise

2017 Guidance

Double-digit revenue growth in FY'17

Q2'17 ¹
Revenue²
~7% YoY
GAAP EPS
\$0.56 - \$0.61
Non-GAAP EPS⁴
\$0.65 - \$0.70

2017 ¹
Revenue²
10%–12% YoY
GAAP EPS³
\$5.26 - \$5.36
Non-GAAP EPS^{3,4}
\$3.60 - \$3.70

1. Guidance given via 8-k and press release on April 25, 2017

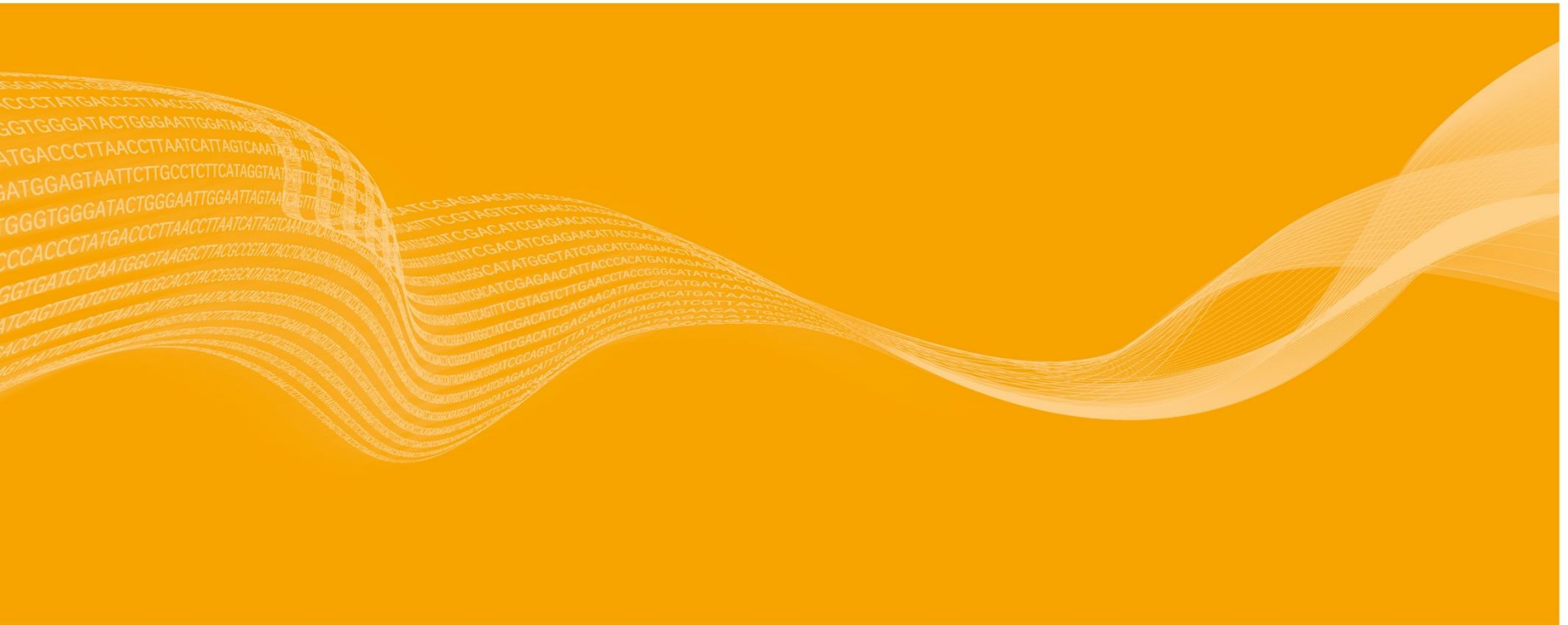
2. Assumes constant currency rates from April 25, 2017; includes 1% currency headwind for FY'17 revenue guidance

3. Includes \$0.18 of dilution from Helix

4. Non-GAAP EPS attributable to Illumina stockholders

Appendix

Non-GAAP Reconciliations



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

	Three Months Ended	
	April 2, 2017	April 3, 2016
GAAP earnings per share attributable to Illumina stockholders - diluted	\$ 2.52	\$ 0.60
Gain on deconsolidation of GRAIL (a)	(3.07)	—
Impairment of acquired intangible asset	0.12	—
Amortization of acquired intangible assets	0.09	0.09
Non-cash interest expense (b)	0.05	0.05
Impairment of in-process research and development	0.03	—
Performance-based compensation related to GRAIL Series B financing (c)	0.03	—
Equity-method investment gain (d)	(0.01)	—
Acquisition related gain (e)	(0.01)	—
Legal contingencies (f)	—	0.01
Incremental non-GAAP tax expense (g)	0.94	(0.04)
Excess tax benefit from share-based compensation (h)	(0.05)	—
Non-GAAP earnings per share attributable to Illumina stockholders - diluted (i)	\$ 0.64	\$ 0.71
GAAP net income attributable to Illumina stockholders (j)	\$ 373	\$ 90
Gain on deconsolidation of GRAIL (a)	(453)	—
Impairment of acquired intangible asset	18	—
Amortization of acquired intangible assets	13	12
Non-cash interest expense (b)	7	8
Impairment of in-process research and development	5	—
Performance-based compensation related to GRAIL Series B financing (c)	4	—
Equity-method investment gain (d)	(2)	—
Acquisition related gain (e)	(1)	—
Legal contingencies (f)	—	2
Contingent compensation expense (k)	—	1
Incremental non-GAAP tax expense (g)	138	(7)
Excess tax benefit from share-based compensation (h)	(8)	—
Non-GAAP net income attributable to Illumina stockholders (i)	\$ 94	\$ 106

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	April 2, 2017		April 3, 2016	
GAAP tax provision	\$ 157	30.7%	\$ 28	24.5%
Incremental tax expense (g)	(138)	33.7%	7	30.2%
Excess tax benefit from share-based compensation (h)	8	—	—	—
Non-GAAP tax provision	\$ 27	24.4%	\$ 35	25.5%

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

(a) The company sold a portion of its interest in GRAIL, resulting in the deconsolidation of GRAIL. The \$150 million tax effect of the gain is included in incremental non-GAAP tax expense. Subsequent to the transaction, the company's remaining interest will be treated as a cost-method investment.

(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 represents performance-based stock which vested as a result of the financing, net of attribution to noncontrolling interest.

(d) Equity-method investment gain represents mark-to-market adjustments from our investment in Illumina Innovations Fund I, L.P.

(e) Acquisition related gain consists of change in fair value of contingent consideration.

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

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

(h) Excess tax benefits from share-based compensation are recorded as a discrete item within the provision for income taxes on the consolidated statement of income pursuant to ASU 2016-09, which was previously recognized in additional paid-in capital on the consolidated statement of stockholders' equity.

(i) 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.

(j) GAAP net income attributable to Illumina stockholders excludes the additional losses attributable to common shareholders of GRAIL and Helix for earnings per share purposes. These amounts are included in GAAP net income attributable to Illumina stockholders for earnings per share of \$372 million for the three months ended April 2, 2017.

(k) 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 2, 2017		April 3, 2016	
GAAP gross profit	\$ 368	61.5 %	\$ 397	69.4 %
Impairment of acquired intangible asset	18	3.0 %	—	—
Amortization of acquired intangible asset	11	1.9 %	10	1.9 %
Non-GAAP gross profit (a)	<u>\$ 397</u>	<u>66.4 %</u>	<u>\$ 407</u>	<u>71.3 %</u>
GAAP research and development expense	\$ 145	24.2 %	\$ 124	21.7 %
Impairment of in-process research and development	(5)	(0.9)%	—	—
Non-GAAP research and development expense	<u>\$ 140</u>	<u>23.3 %</u>	<u>\$ 124</u>	<u>21.7 %</u>
GAAP selling, general and administrative expense	\$ 163	27.3 %	\$ 150	26.2 %
Performance-based compensation related to GRAIL Series B financing (b)	(10)	(1.7)%	—	—
Acquisition related gain (c)	1	0.2 %	—	—
Amortization of acquired intangible assets	(2)	(0.2)%	(2)	(0.3)%
Contingent compensation expense (d)	—	—	(1)	(0.2)%
Non-GAAP selling, general and administrative expense	<u>\$ 152</u>	<u>25.6 %</u>	<u>\$ 147</u>	<u>25.7 %</u>
GAAP operating profit	\$ 60	10.0 %	\$ 121	21.2 %
Impairment of acquired intangible asset	18	3.0 %	—	—
Amortization of acquired intangible assets	13	2.1 %	12	2.2 %
Impairment of in-process research and development	5	0.9 %	—	—
Performance-based compensation related to GRAIL Series B financing (b)	10	1.7 %	—	—
Acquisition related gain (c)	(1)	(0.2)%	—	—
Legal contingencies (e)	—	—	2	0.3 %
Contingent compensation expense (e)	—	—	1	0.2 %
Non-GAAP operating profit (a)	<u>\$ 105</u>	<u>17.5 %</u>	<u>\$ 136</u>	<u>23.9 %</u>
GAAP other income (expense), net	\$ 451	75.4 %	\$ (5)	(1.0)%
Gain on deconsolidation of GRAIL (f)	(453)	(75.9)%	—	—
Non-cash interest expense (g)	7	1.2 %	8	1.3 %
Equity-method investment gain (h)	(2)	(0.2)%	—	—
Non-GAAP other income, net (a)	<u>\$ 3</u>	<u>0.5 %</u>	<u>\$ 3</u>	<u>0.3 %</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 operating performance.

(b) Amount represents performance-based stock which vested as a result of the financing.

(c) Acquisition related gain consists of change in fair value of contingent consideration.

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

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

(f) The company sold a portion of its interest in GRAIL, resulting in the deconsolidation of GRAIL. Subsequent to the transaction, the company's remaining interest will be treated as a cost-method investment.

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

(h) Equity-method investment gain represents mark-to-market adjustments from our investment in Illumina Innovations Fund I, L.P.

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 1, 2017 filed with the SEC on February 13, 2017. The company assumes no obligation to update any forward-looking statements or information.

	Fiscal Year 2017
GAAP diluted earnings per share attributable to Illumina stockholders	\$5.26 - \$5.36
Gain on deconsolidation of GRAIL (a)	(3.07)
Amortization of acquired intangible assets	0.30
Non-cash interest expense (b)	0.20
Impairment of acquired intangible asset	0.12
Impairment of in-process research and development	0.03
Performance-based compensation related to Series B financing (c)	0.03
Equity-method investment gain, net (d)	(0.01)
Acquisition related gain (e)	(0.01)
Incremental non-GAAP tax expense (f)	0.80
Excess tax benefits from share-based compensation (g)	(0.05)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$3.60 - \$3.70</u>
	Q2 2017
GAAP diluted earnings per share attributable to Illumina stockholders	\$0.56 - \$0.61
Amortization of acquired intangible assets	0.08
Non-cash interest expense (b)	0.05
Incremental non-GAAP tax expense (f)	(0.04)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$0.65 - \$0.70</u>

(a) The company sold a portion of its interest in GRAIL, resulting in the deconsolidation of GRAIL. The \$150 million tax effect of the gain is included in incremental non-GAAP tax expense. Subsequent to the transaction, the company's remaining interest will be treated as a cost-method investment.

(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 represents performance-based stock which vested as a result of the financing, net of attribution to noncontrolling interest.

(d) Equity-method investment gain represents mark-to-market adjustments from our investment in Illumina Innovations Fund I, L.P.

(e) Acquisition related gain consists of change in fair value of contingent consideration.

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

(g) Excess tax benefits from share-based compensation are recorded as a discrete item within the provision for income taxes on the consolidated statement of income pursuant to ASU 2016-09, which was previously recognized in additional paid-in capital on the consolidated statement of stockholders' equity.