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ILMN Q118 Summary of Prepared Remarks

	Q118	Yr/Yr	Management Commentary
Sequencing Consumables	$417M	31%	Driven by consumable growth across sequencing portfolio, with notable strength in high throughput family which grew 34%.
Microarrays Consumables	$87M	26%	
Total Consumables	$504M	30%	Represented 65% of total revenue in Q118.
Sequencing Instruments	$112M	18%	Q1 driven by NovaSeq and offset in part by lower shipments of the HiSeq family of instruments, as expected.
Microarrays Instruments	$6M	10%	
Total Instruments	$118M	18%	Represented 15% of total revenue in Q118.
Total Products	$628M	28%	Includes freight.
Total Service & Other	$154M	44%	Q1 driven by strength in genotyping services due to consumer demand, as well as sequencing services and instrument maintenance contracts; represented 20% of total revenue in Q118.
Total Revenue	$782M	31%	Benefit from FX contributed 3% to the year-over-year growth.

	Yr/Yr	Management Commentary
Americas	27%	Strong growth in both sequencing instruments and consumables.
EMEA	50%	Broad strength across the sequencing business.
Asia Pacific	21%	Includes Greater China.
Greater China	38%	Includes China, Taiwan, and Hong Kong.

NovaSeq Updates

	Management Commentary
Systems	- Q118 NovaSeq shipments were down sequentially as expected, with order and shipment volumes consistent with belief that the NovaSeq upgrade cycle will span multiple years. - Continue to see good uptake from new-to-Illumina or straight-from-benchtop customers with ~25% of NovaSeq orders coming from this group in Q118.
Consumables	- Excluding the $19M stocking order in Q417, NovaSeq consumables grew approximately 60% sequentially, with strong performance from both the S2 and S4 flow cells. - The S1 flow cell (launched at AGBT in mid-February) has received great customer feedback and is expected to ramp throughout 2018.

Other Sequencing System and Consumable Updates

	Management Commentary
HiSeq	- HiSeq consumables were down about $20M sequentially, primarily among HiSeq X customers.
Benchtop Portfolio	- Saw another quarter of strong adoption by new-to-sequencing customers across benchtop platforms, who represented ~50% of benchtop shipments in Q118. - NextSeq consumables up about 40% from last year, and an average pull-through rate at the high-end of the $100,000 to $150,000 range. - MiniSeq and MiSeq consumable pull-through within their expected ranges.
iSeq	- Launched platform in Q118 and shipped units to customers for beta testing; during the beta tests, we identified some opportunities to improve cartridge filling and shipping processes that will enhance product robustness and reliability. - Currently in the process of validating these improvements and expect to scale shipments mid-year. - Continue to see strong interest in iSeq, and are approaching 100 orders.
Library Prep	- Grew 20% from Q117, and represents more than 10% of sequencing consumable business.
Oncology	- Partnering with Loxo Oncology to gain approval for our TruSight Tumor 170 test as a companion diagnostic for two of their pan-cancer drug candidates: larotrectinib and Loxo-292. - Collaborating with BMS on a companion diagnostic version of our TruSight Oncology 500 to measure biomarkers, including TMB, that may predict whether patients will respond to their immunotherapy checkpoint inhibitors.
NIPT	- Grew both sequentially and year over year, driven by VeriSeq CE-IVD product which continues to gain traction outside the U.S.; the Netherlands program is in the earliest stages of ramp, and is expected to contribute to sales more than doubling in 2018.

Other Updates

	Management Commentary
Microarrays	- Revenue grew 48% from Q117, due to strong growth among direct-to-consumer customers. - Microarray service revenue doubled to $58M from Q117, and grew 81% sequentially. - Microarray consumables grew 26% from Q117 to $87M, which was higher than expected.

Q118 Non-GAAP Financial Highlights

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	Q118	Yr/Yr	Qtr/Qtr	Management Commentary
Gross Margin	69.8%	+3.4%	-1.1%	- Qtr/Qtr lower, primarily due to mix, with microarrays contributing 19% of overall revenue compared to 16% last quarter. - Yr/Yr improved due to favorable mix; also did not see the negative impact associated with the one-time inventory transition reserves experienced in the prior year period.
Operating expenses	$316M	+$24M	+$9M	- Lower than expected due to the timing of headcount additions and associated benefits, as well as the timing of certain investments and a favorable judgment on a patent suit. - Qtr/Qtr increase largely reflects higher stock based compensation and expected increase in payroll taxes.
Operating Margin	29.5%	+12.0%	-1.9%	- Excluding Helix, operating margin was 31.9% compared to 33.9% in Q417.
Tax Rate	12.9%	-11.5%	-5.1%	- Q1 benefitted from the tax reform and the recognition of Helix losses attributable to Illumina following our cash investment of $68M during the quarter; excluding this one-time Helix benefit, the non-GAAP tax rate was 18.4%.
Net Income attributable to Illumina stockholders	$214M	+$120M	+$2M	
EPS attributable to Illumina stockholders (diluted)	$1.45	+127%	+1%	- Impact of FX increased Q1 non-GAAP EPS by approximately $0.07 relative to last year. - As a result of our first cash investment in Helix, we recognized a one-time $12.7M – or $0.09 per share - tax benefit for prior year Helix losses. - Excluding the tax benefit, first quarter Helix dilution was about 6 cents, flat with last quarter.

	Q118	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$255M	+$87M	-$39M	
DSO	47 days		-1 day	- Continued reductions in our collections cycle and improved revenue linearity.
Capital expenditures	$90M	+$7M	+$14M	
Free Cash Flow	$165M	+$80M	-$53M	
Cash & Short-term Investments	$2.4B	+$595M	+$228M	

Guidance

	Q118 Update	Management Commentary
FY18 Revenue	15-16% growth in 2018 (was 13-14%)	- An increase of $55M at the midpoint, compared to the midpoint of previous guidance. - Expect an increase in sequencing consumables throughout the rest of 2018 vs prior forecast. - Includes milestone payments associated with recently announced oncology collaborations. - Expect to ship between 330 and 350 NovaSeq systems in FY18.
FY18 Non-GAAP GM	-	- Continue to expect FY18 to be up modestly from FY17.
FY18 Non-GAAP Operating Expenses	-	- Expect FY18 to be flat to slightly up on a percentage of revenue basis from FY17. - Planning some incremental R&D and commercial projects to capitalize on the momentum in the business to drive future growth.
FY18 Non-GAAP Tax Rate	~18%	- Factors in the Helix benefit, a more favorable impact from tax reform, and a more favorable geographic mix.
FY18 GAAP EPS attributable to Illumina stockholders	$4.45 to $4.55 (was $4.14 to $4.24)	
FY18 Non-GAAP EPS attributable to Illumina stockholders	$4.75 to $4.85 (was $4.50 to $4.60)	- Continue to expect ~$0.25 of Helix dilution. - Expect share count for 2018 to be ~148M.

	Management Commentary
Q218 Revenue	- Expect modest sequential growth. - Expect continued growth in sequencing consumable and system businesses to be partially offset by a seasonal decline in microarray business.
Q218 Non-GAAP GM	- Expect GM to decline about 100bps sequentially, due to mix and higher costs associated with pharma collaborations.
Q218 Non-GAAP Operating Expenses	- Expect operating expenses to be more in line with 2017 levels on a percentage of revenue basis, given expected hiring and investment plans.

Illumina, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(unaudited)

	Three Months Ended	
	April 1, 2018	**April 2, 2017**
Net cash provided by operating activities	$ 255	$ 168
Net cash provided by investing activities	12	163
Net cash provided by (used in) financing activities	67	(86)
Effect of exchange rate changes on cash and cash equivalents	1	1
Net increase in cash and cash equivalents	335	246
Cash and cash equivalents, beginning of period	1,225	735
Cash and cash equivalents, end of period	$ 1,560	$ 981
Calculation of free cash flow:		
Net cash provided by operating activities	$ 255	$ 168
Purchases of property and equipment	(90)	(83)
Free cash flow **(a)**	$ 165	$ 85

(a) Free cash flow, which is a non-GAAP financial measure, is calculated as net cash provided by operating activities reduced by purchases of property and equipment. Free cash flow is useful to management as it is one of the metrics used to evaluate our performance and to compare us with other companies in our industry. However, our calculation of free cash flow may not be comparable to similar measures used by other companies.

Illumina, Inc.
Results of Operations - Non-GAAP
(In millions, except per share amounts)
(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP EARNINGS PER SHARE ATTRIBUTABLE TO ILLUMINA STOCKHOLDERS:

	Three Months Ended	
	April 1, 2018	**April 2, 2017**
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 1.41**	**$ 2.48**
Amortization of acquired intangible assets	0.06	0.09
Non-cash interest expense **(a)**	0.05	0.05
Strategic investment related gains **(b)**	(0.05)	(0.01)
Restructuring **(c)**	0.02	—
Gain on deconsolidation of GRAIL **(d)**	—	(3.07)
Impairments **(e)**	—	0.15
Legal contingencies **(f)**	—	0.05
Performance-based compensation related to GRAIL Series B financing **(g)**	—	0.03
Acquisition related gain **(h)**	—	(0.01)
Incremental non-GAAP tax expense **(i)**	(0.02)	0.93
Excess tax benefit from share-based compensation **(j)**	(0.02)	(0.05)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(k)**	$ 1.45	$ 0.64

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

GAAP net income attributable to Illumina stockholders	**$ 208**	**$ 367**
Amortization of acquired intangible assets	9	13
Non-cash interest expense **(a)**	8	7
Strategic investment related gains **(b)**	(8)	(2)
Restructuring **(c)**	3	—
Gain on deconsolidation of GRAIL **(d)**	—	(453)
Impairments **(e)**	—	23
Legal contingencies **(f)**	—	8
Performance-based compensation related to GRAIL Series B financing **(g)**	—	4
Acquisition related gain **(h)**	—	(1)
Incremental non-GAAP tax expense **(i)**	(3)	136
Excess tax benefit from share-based compensation **(j)**	(3)	(8)
Non-GAAP net income attributable to Illumina stockholders **(k)**	$ 214	$ 94

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

(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) Amount consists primarily of mark-to-market adjustments from our strategic investments.

(c) Amount consists primarily of employee costs related to restructuring that occurred in Q1 2018 and Q4 2017.

(d) Amount represents the gain recognized as a result of the deconsolidation of GRAIL in Q1 2017. The $150 million tax effect of the gain is included in incremental non-GAAP tax expense.

(e) Amount for 2017 represents impairment of an acquired intangible asset and in-process research and development of $18 million and $5 million, respectively.

(f) Legal contingencies for 2017 represent charges related to patent litigation.

(g) Amount represents performance-based stock which vested as a result of the financing in Q1 2017, net of attribution to noncontrolling interest.

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

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

(j) Amount represents tax deductions taken in excess of stock compensation cost.

(k) 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.

Illumina, Inc.

Results of Operations - Non-GAAP (continued)

(Dollars in millions)

(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Three Months Ended			
	April 1, 2018		April 2, 2017	
GAAP gross profit	**$ 538**	**68.8 %**	**$ 368**	**61.5 %**
Amortization of acquired intangible assets	8	1.0 %	11	1.9 %
Impairment **(a)**	—	—	18	3.0 %
Non-GAAP gross profit **(b)**	$ 546	69.8 %	$ 397	66.4 %
GAAP research and development expense	**$ 137**	**17.5 %**	**$ 145**	**24.2 %**
Impairment **(a)**	—	—	(5)	(0.9)%
Non-GAAP research and development expense	$ 137	17.5 %	$ 140	23.3 %
GAAP selling, general and administrative expense	**$ 183**	**23.5 %**	**$ 171**	**28.6 %**
Restructuring **(c)**	(3)	(0.5)%	—	—
Amortization of acquired intangible assets	(1)	(0.1)%	(2)	(0.2)%
Performance-based compensation related to GRAIL Series B financing **(d)**	—	—	(10)	(1.7)%
Legal contingencies **(e)**	—	—	(8)	(1.3)%
Acquisition related gain **(f)**	—	—	1	0.2 %
Non-GAAP selling, general and administrative expense	$ 179	22.9 %	$ 152	25.6 %
GAAP operating profit	**$ 218**	**27.8 %**	**$ 52**	**8.7 %**
Amortization of acquired intangible assets	9	1.2 %	13	2.1 %
Restructuring **(c)**	3	0.5 %	—	—
Impairments **(a)**	—	—	23	3.9 %
Performance-based compensation related to GRAIL Series B financing **(d)**	—	—	10	1.7 %
Legal contingencies **(e)**	—	—	8	1.3 %
Acquisition related gain **(f)**	—	—	(1)	(0.2)%
Non-GAAP operating profit **(b)**	$ 230	29.5 %	$ 105	17.5 %
GAAP other income, net	**$ 3**	**0.4 %**	**$ 451**	**75.4 %**
Non-cash interest expense **(g)**	8	1.0 %	7	1.2 %
Strategic investment related gains **(h)**	(8)	(1.0)%	(2)	(0.2)%
Gain on deconsolidation of GRAIL **(i)**	—	—	(453)	(75.9)%
Non-GAAP other income, net **(b)**	$ 3	0.4 %	$ 3	0.5 %

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

(a) Impairments for 2017 include $18 million impairment of an acquired intangible asset and $5 million in-process research and development.

(b) 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 our products and services. Non-GAAP operating profit, and non-GAAP other income, 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.

(c) Amount consists primarily of employee costs related to restructuring that occurred in Q1 2018 and Q4 2017.

(d) Amount represents performance-based stock which vested as a result of the financing in Q1 2017.

(e) Legal contingencies for 2017 represent charges related to patent litigation.

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

(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) Amount consists primarily of mark-to-market adjustments from our strategic investments.

(i) Amount represents the gain recognized as a result of the deconsolidation of GRAIL in Q1 2017.

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Reconciliation of Non-GAAP Financial Guidance

Our future performance and financial results are subject to risks and uncertainties, and actual results could differ materially from the guidance set forth below. Some of the factors that could affect our financial results are stated above in this press release. More information on potential factors that could affect our financial results is included from time to time in the public reports filed with the Securities and Exchange Commission, including Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 12, 2018. We assume no obligation to update any forward-looking statements or information.

	Fiscal Year 2018
GAAP diluted earnings per share attributable to Illumina stockholders	**$4.45 - $4.55**
Amortization of acquired intangible assets	0.24
Non-cash interest expense **(a)**	0.21
Strategic investment related gains **(b)**	(0.05)
Restructuring **(c)**	0.03
Incremental non-GAAP tax expense **(d)**	(0.11)
Excess tax benefits from share-based compensation **(e)**	(0.02)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$4.75 - $4.85

(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) Amount consists primarily of mark-to-market adjustments from our strategic investments.

(c) Amount consists primarily of employee severance and retention costs related to the restructuring that occurred in Q1 2018 and Q4 2017.

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

(e) Amount represents tax deductions taken in excess of stock compensation cost.

Illumina, Inc.
Results of Operations - Non-GAAP (continued)
(Dollars in millions)
(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended April 1, 2018		
GAAP tax provision	**$**	**24**	**10.6%**
Incremental non-GAAP tax expense **(a)**		3	
Excess tax benefit from share-based compensation **(b)**		3	
Non-GAAP tax provision	$	30	12.9%

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

(b) Amount represents tax deductions taken in excess of stock compensation cost.