

illumina Q3 2016 Financial Results

November 1, 2016



© 2016 Illumina, Inc. All rights reserved.

Illumina, 24sure, BaseSpace, BeadArray, BlueFish, BlueFuse, BlueGnome, cBot, CSPro, CytoChip, DesignStudio, Epicentre, ForenSeq, Genetic Energy, GenomeStudio, GoldenGate, HiScan, HiSeq, HiSeq X, Infinium, iScan, iSelect, MiniSeq, MiSeq, MiSeqDX, MiSeq FGx, NeoPrep, NextBio, Nextera, NextSeq, Powered by Illumina, SureMDA, TruGenome, TruSeq, TruSight, Understand Your Genome, UYG, VeraCode, veriFi, VeriSeq, the pumpkin orange color, and the streaming bases design are trademarks of Illumina, Inc. and/or its affiliate(s) in the US and/or other countries. All other names, logos, and other trademarks are the property of their respective owners.

illumina®

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.

Q3 2016 Overview

Revenue miss driven by lower than forecasted sequencing instruments

	Q3'16	Q3'15	Δ
Revenue ¹	\$607	\$550	10%
Gross Margin ²	72.5%	73.2%	(70 bps)
Operating Margin ²	34.4%	36.0%	(160 bps)
EPS ³	\$0.97	\$0.80	21%

- Revenue growth driven by sequencing consumables and microarrays
- Increased investments in headcount, GRAIL and Helix led to operating margin contraction versus the prior year
- Variable compensation impact of \$16 million benefitted gross and operating margins, as well as earnings

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

Q3 2016 Revenue Growth Rates

Sequencing consumables and microarrays fueled growth

Q3 YoY% ¹	Sequencing ²	Microarray ²	Total
Instruments	(26%)	N/P ¹	(23%)
Consumables	24%	21%	23%
Service and Other	N/P ¹	N/P ¹	18%
Total	7%	>35%	10%

- Consumables accounted for 65% of total revenue
- Sequencing consumable revenue was \$333 million
- Total microarray revenue was approximately 16% of total revenue
- Instrument revenue was lower than expected due to the miss in high throughput instruments

1. N/P items are not provided

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

Q3 2016 Consolidated Non-GAAP P&L

Variable compensation adjustment drove earnings result

<i>\$ in millions, except % and per share data</i>	Q3'16	Q3'15	Δ
Revenue	\$607	\$550	10%
GM% ¹	72.5%	73.2%	(70 bps)
R&D% ¹	18.8%	16.4%	240 bps
SG&A% ¹	19.3%	20.9%	(160 bps)
OM% ^{1,2}	34.4%	36.0%	(160 bps)
Stock Based Compensation	\$35	\$32	9%
Tax Rate ³	24.6%	28.6%	(400 bps)
Consolidated Net Income ³	\$132	\$117	13%
Net Income Attributable to Illumina Stockholders ⁴	\$144	\$120	20%
EPS Attributable to Illumina Stockholders ⁴	\$0.97	\$0.80	21%
GRAIL and Helix EPS Dilution ^{4,5}	\$0.07	\$0.02	250%

1. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
2. Excluding GRAIL and Helix, core ILMN operating margin for Q3'16 was approximately 38%
3. Non-GAAP including stock based compensation expense
4. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense
5. Q3'16 dilution from GRAIL and Helix was \$0.05 and \$0.02, respectively; Q3'15 only includes Helix dilution

Balance Sheet / Cash Flow

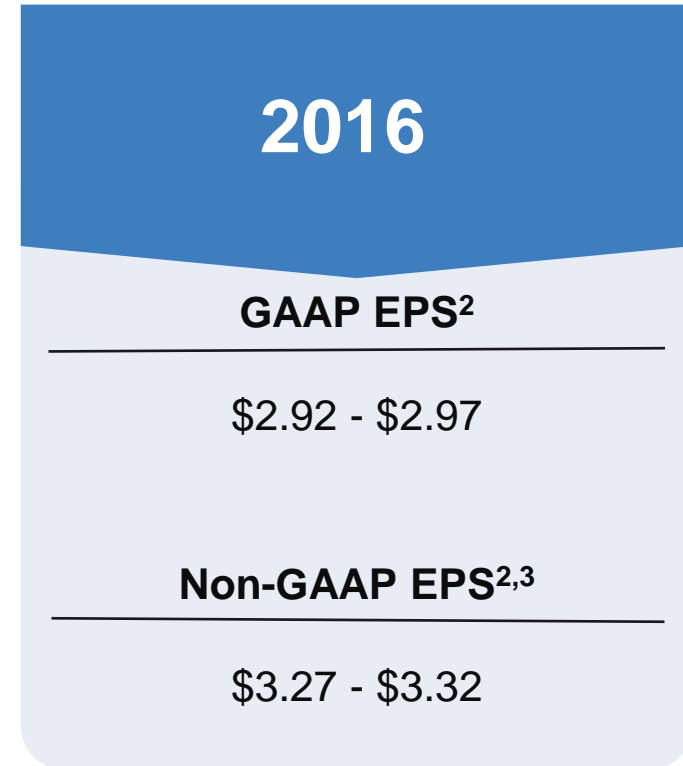
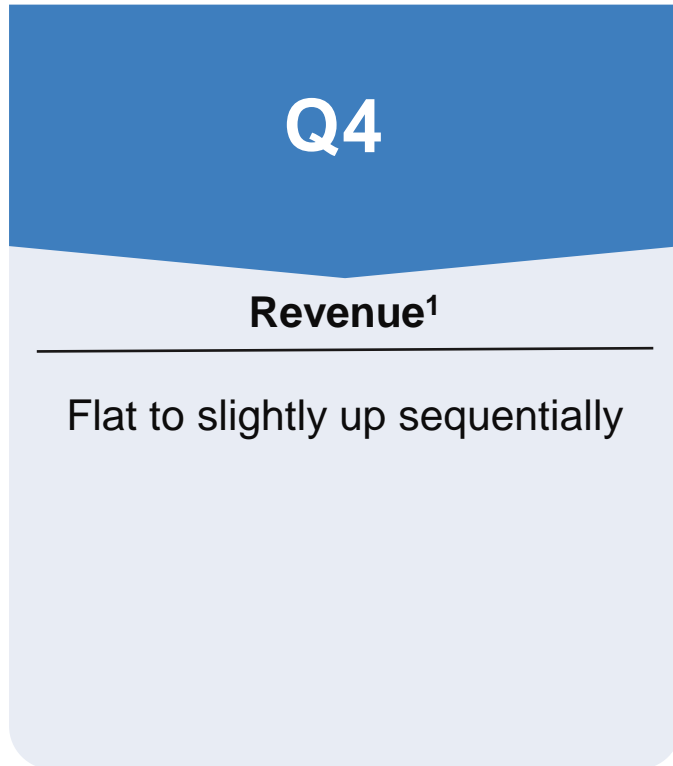
Strong cash position

<i>\$ in millions, except DSO</i>	Q3'16	Q2'16
Cash & Investments	\$1,536	\$1,425
Inventory	\$312	\$311
Accounts Receivable (DSO)	\$382 (57)	\$372 (56)
Principal Amount of Convertible Notes Outstanding	\$1,150	\$1,150
Operating Cash Flow	\$150	\$217
Free Cash Flow	\$93	\$149

- New stock repurchase authorization of \$250 million, of which \$237 million remains after \$13 million of Q3 repurchases
- Consolidated operating cash flow was lowered by \$20 million due to GRAIL and Helix
- Consolidated \$104 million of cash and investments from GRAIL and Helix

2016 Guidance⁴

Updated revenue and EPS guidance



1. Revenue guidance assumes constant currency rates from November 1, 2016
2. Includes \$0.10 and \$0.30 of dilution from Helix and GRAIL, respectively
3. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense
4. Guidance given via 8-k and press release on November 1, 2016

2016 Non-GAAP EPS¹ Review

GRAIL share count impacts Illumina's FY'16 EPS by \$0.08

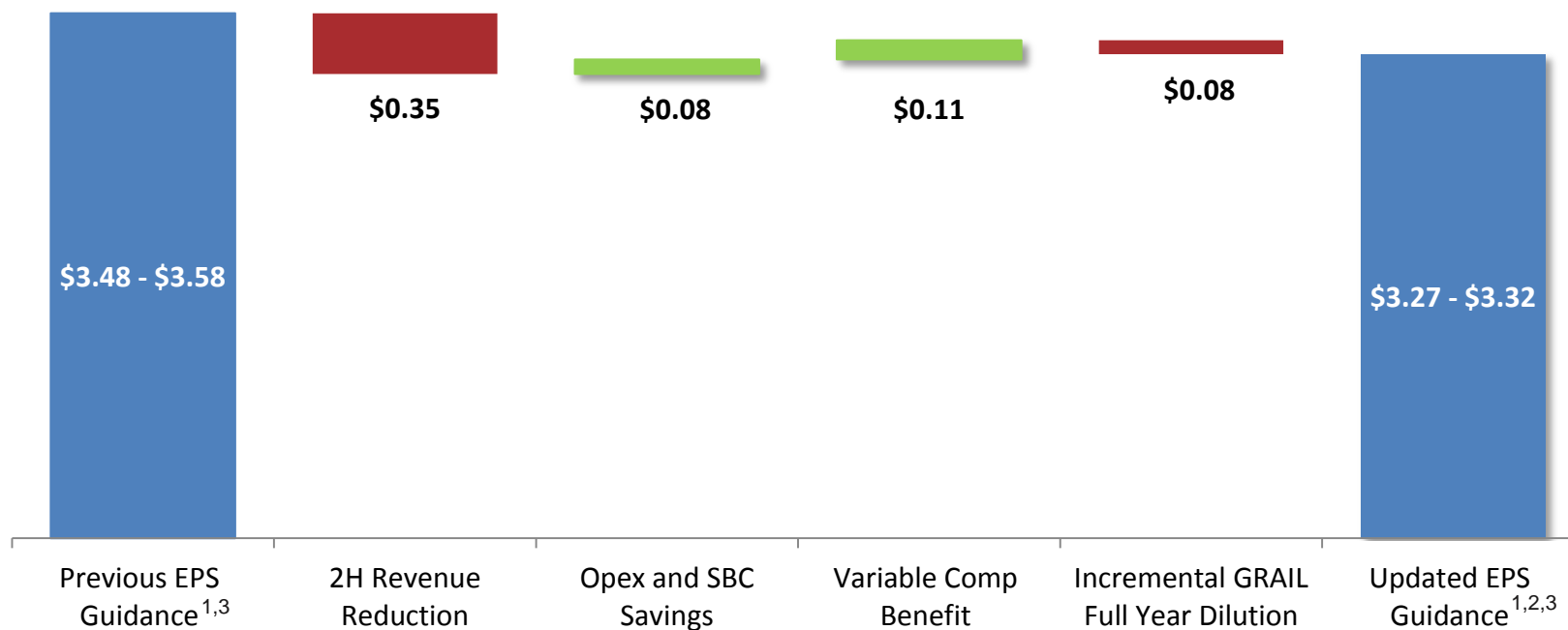
<i>Quarterly breakdown</i>	Non-GAAP EPS¹	GAAP EPS
Q1'16	\$0.71	\$0.60
Q2'16	\$0.86	\$0.82
Q3'16	\$0.97	\$0.87
Q4'16 Assumption ²	\$0.81 - \$0.86	\$0.71 - \$0.76
2H'16 GRAIL Dilution Adjustment ³	(\$0.08)	(\$0.08)
FY'16 Guidance ⁴	\$3.27 - \$3.32	\$2.92 - \$2.97

- 2H'16 adjustment is the result of the weight of GRAIL common shares in 1H'16 compared to 2H'16, driving an inflated full year share calculation

1. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense
2. Implied Q4'16 assumption
3. Q3'16 and Q4'16 adjustments are \$0.03 and \$0.05, respectively
4. Guidance given via 8-k and press release on November 1, 2016

2016 Non-GAAP EPS Guidance Update

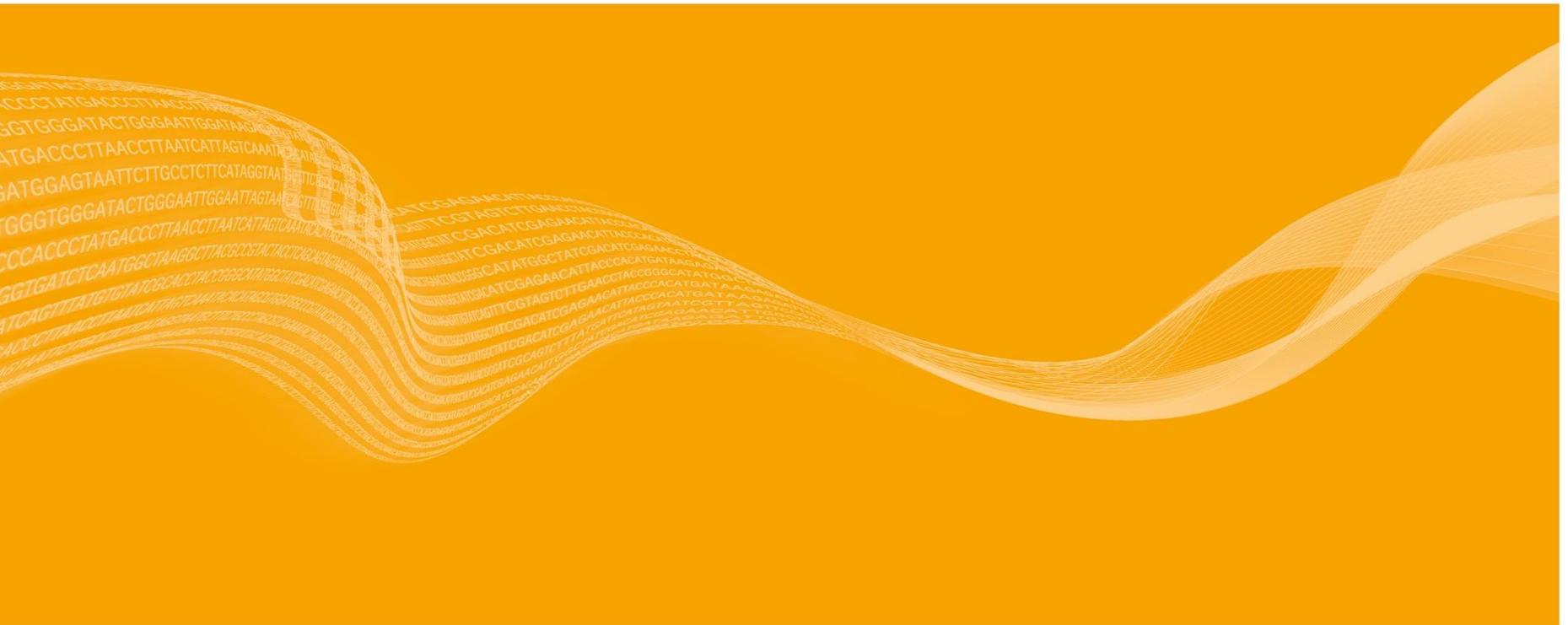
Updated guidance largely driven by lower FY'16 revenue



1. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense
2. Includes \$0.10 and \$0.30 of dilution from Helix and GRAIL, respectively
3. Guidance given via 8-k and press release on July 26, 2016 and November 1, 2016, respectively

Appendix

Non-GAAP Reconciliations



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

	Three Months Ended		Nine Months Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
GAAP earnings per share attributable to Illumina stockholders - diluted	\$ 0.87	\$ 0.79	\$ 2.27	\$ 2.39
Amortization of acquired intangible assets	0.08	0.09	0.25	0.26
Non-cash interest expense (a)	0.05	0.06	0.15	0.20
Contingent compensation expense (b)	0.01	—	0.01	—
Legal contingencies (c)	—	0.10	(0.06)	0.10
Headquarter relocation	—	(0.03)	0.01	(0.02)
Deemed dividend (d)	—	—	(0.01)	—
Loss on extinguishment of debt	—	0.03	—	0.03
Acquisition related expense (gain), net (e)	—	0.01	—	(0.04)
Cost-method investment gain, net (f)	—	(0.02)	—	(0.10)
Tax benefit related to cost-sharing arrangement (g)	—	(0.17)	—	(0.17)
Incremental non-GAAP tax expense (h)	(0.04)	(0.06)	(0.10)	(0.14)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted (i)	\$ 0.97	\$ 0.80	\$ 2.52	\$ 2.51

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

GAAP net income attributable to Illumina stockholders (j)	\$ 128,888	\$ 118,177	\$ 338,887	\$ 357,082
Amortization of acquired intangible assets	12,423	13,794	36,561	39,453
Non-cash interest expense (a)	7,346	9,469	22,382	29,884
Contingent compensation expense (b)	691	249	2,085	249
Headquarter relocation	385	(5,226)	1,069	(3,047)
Legal contingencies (c)	—	15,000	(9,490)	15,000
Loss on extinguishment of debt	—	3,504	—	3,737
Acquisition related expense (gain), net (e)	—	1,109	—	(6,449)
Cost-method investment gain, net (f)	—	(2,900)	—	(15,482)
Tax benefit related to cost-sharing arrangement (g)	—	(24,757)	—	(24,757)
Incremental non-GAAP tax expense (h)	(5,675)	(8,833)	(14,695)	(21,037)
Non-GAAP net income attributable to Illumina stockholders (i)	\$ 144,058	\$ 119,586	\$ 376,799	\$ 374,633

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	October 2, 2016		September 27, 2015	
GAAP tax provision	\$ 37,429	24.2%	\$ 13,296	10.3%
Incremental tax expense	5,675	27.2%	8,833	25.2%
Tax benefit related to cost-sharing arrangement	—	—	24,757	70.7%
Non-GAAP tax provision	\$ 43,104	24.6%	\$ 46,886	28.6%

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)** Contingent compensation expense relates to contingent payments for post-combination services associated with an acquisition.
- (c)** Legal contingencies in 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation. Legal contingencies in 2015 represent charges related to patent litigation.
- (d)** Amount represents the impact of a deemed dividend, net of Illumina's portion of the losses incurred by GRAIL's common shareholders resulting from the company's common to preferred share exchange with GRAIL. The amount was added to net income attributable to Illumina stockholders for purposes of calculating Illumina's consolidated earnings per share. The deemed dividend, net of tax, was recorded through equity.
- (e)** Acquisition related expense (gain), net consists of changes in fair value of contingent consideration.
- (f)** Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.
- (g)** Tax benefit related to cost-sharing arrangement refers to the exclusion of stock compensation from prior period cost-sharing charges as a result of a tax court ruling.
- (h)** Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
- (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 net impact of the deemed dividend as detailed in **(d)** above and 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 \$128.7 million and \$335.6 million for the three and nine months ended October 2, 2016, respectively and \$118.1 million and \$357.0 million for the three and nine months ended September 27, 2015, respectively.

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

	Three Months Ended				Nine Months Ended			
	October 2, 2016		September 27, 2015		October 2, 2016		September 27, 2015	
GAAP gross profit	\$ 426,150	70.2 %	\$ 387,539	70.4 %	\$ 1,247,009	70.1 %	\$ 1,138,931	69.9 %
Stock-based compensation expense	3,060	0.5 %	3,065	0.6 %	8,063	0.4 %	8,255	0.5 %
Amortization of acquired intangible assets	10,960	1.8 %	12,188	2.2 %	32,005	1.8 %	34,957	2.2 %
Non-GAAP gross profit (a)	\$ 440,170	72.5 %	\$ 402,792	73.2 %	\$ 1,287,077	72.3 %	\$ 1,182,143	72.6 %
GAAP research and development expense	\$ 125,917	20.7 %	\$ 99,226	18.1 %	\$ 374,500	21.1 %	\$ 287,180	17.6 %
Stock-based compensation expense	(11,515)	(1.9)%	(9,098)	(1.7)%	(32,889)	(1.9)%	(31,152)	(1.9)%
Contingent compensation expense (b)	(108)	—	(44)	—	(325)	—	(44)	—
Non-GAAP research and development expense	\$ 114,294	18.8 %	\$ 90,084	16.4 %	\$ 341,286	19.2 %	\$ 255,984	15.7 %
GAAP selling, general and administrative expense	\$ 139,146	22.9 %	\$ 136,648	24.8 %	\$ 436,914	24.6 %	\$ 377,406	23.2 %
Stock-based compensation expense	(20,008)	(3.3)%	(20,066)	(3.6)%	(60,893)	(3.4)%	(57,697)	(3.5)%
Amortization of acquired intangible assets	(1,463)	(0.2)%	(1,606)	(0.3)%	(4,556)	(0.3)%	(4,496)	(0.4)%
Contingent compensation expense (b)	(583)	(0.1)%	(205)	—	(1,760)	(0.1)%	(205)	—
Non-GAAP selling, general and administrative expense	\$ 117,092	19.3 %	\$ 114,771	20.9 %	\$ 369,705	20.8 %	\$ 315,008	19.3 %
GAAP operating profit	\$ 160,702	26.5 %	\$ 140,782	25.6 %	\$ 444,016	25.0 %	\$ 468,841	28.8 %
Stock-based compensation expense	34,583	5.7 %	32,229	5.9 %	101,845	5.7 %	97,104	6.0 %
Amortization of acquired intangible assets	12,423	2.0 %	13,794	2.5 %	36,561	2.1 %	39,453	2.4 %
Contingent compensation expense (b)	691	0.1 %	249	—	2,085	0.1 %	249	—
Headquarter relocation	385	0.1 %	(5,226)	(0.9)%	1,069	0.1 %	(3,047)	(0.2)%
Legal contingencies (c)	—	—	15,000	2.7 %	(9,490)	(0.6)%	15,000	0.9 %
Acquisition related expense (gain), net (d)	—	—	1,109	0.2 %	—	—	(6,449)	(0.4)%
Non-GAAP operating profit (a)	\$ 208,784	34.4 %	\$ 197,937	36.0 %	\$ 576,086	32.4 %	\$ 611,151	37.5 %
GAAP other expense, net	\$ (6,338)	(1.0)%	\$ (11,865)	(2.2)%	\$ (17,081)	(1.0)%	\$ (20,706)	(1.3)%
Non-cash interest expense (e)	7,346	1.2 %	9,469	1.7 %	22,382	1.3 %	29,884	1.8 %
Loss on extinguishment of debt	—	—	3,504	0.6 %	—	—	3,737	0.2 %
Cost-method investment gain, net (f)	—	—	(2,900)	(0.4)%	—	—	(15,482)	(0.9)%
Non-GAAP other income (expense), net (a)	\$ 1,008	0.2 %	\$ (1,792)	(0.3)%	\$ 5,301	0.3 %	\$ (2,567)	(0.2)%

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

(c) Legal contingencies in 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation. Legal contingencies in 2015 represent charges related to 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 and July 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	
GAAP diluted earnings per share attributable to Illumina stockholders	\$2.92 - \$2.97
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 (d)	(0.01)
Incremental non-GAAP tax expense (e)	(0.14)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$3.27 - \$3.32</u>
	<u>Q4 2016</u>
Diluted earnings per share attributable to Illumina stockholders	
GAAP diluted earnings per share attributable to Illumina stockholders	\$0.71 - \$0.76
Amortization of acquired intangible assets	0.08
Non-cash interest expense (a)	0.05
Incremental non-GAAP tax expense (e)	(0.03)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$0.81 - \$0.86</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 represents the impact of a deemed dividend, net of Illumina's portion of the losses incurred by GRAIL's common shareholders resulting from the company's common to preferred share exchange with GRAIL. The amount was added to net income attributable to Illumina stockholders for purposes of calculating Illumina's consolidated earnings per share. The deemed dividend, net of tax, was recorded through equity.

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