illumina®

ILMN Q4 & FY17 Summary of Prepared Remarks and Key Metrics

30 January 2018

	Q417	Yr/Yr	FY17	Yr/Yr	Management Commentary
Sequencing Consumables	$432M	+31%	$1,468M	+15%	Primary contributor to the more than $100 million year-over-year increase in Q4 was NovaSeq, followed by NextSeq and the HiSeq family, and then other desktop platforms.
Arrays Consumables	$82M	+8%	$285M	+5%	
Total Consumables	$514M	+26%	$1,753M	+14%	For Q4, represented 66% of total revenue.
Sequencing Instruments	$131M	+18%	$484M	+8%	Q4 driven by NovaSeq and offset in part by muted shipments of the HiSeq family, as expected.
Arrays Instruments	$8M	+167%	$31M	+63%	Q4 down as expected from unusually strong Q3.
Total Instruments	$139M	+22%	$515M	+10%	For Q4, represented 18% of total revenue.
Total Products	$659M	+26%	$2,289M	+13%	Includes freight.
Total Service & Other	$119M	+27%	$463M	+27%	Q4 driven by strength in genotyping services due to consumer demand, as well as sequencing services and instrument maintenance contracts.
Total Revenue	$778M	+26%	$2,752M	+15%	

Q417 Revenue by Geography

	Yr/Yr	Management Commentary
Americas	32%	Strong growth in both sequencing instruments and consumables.
EMEA	25%	
Asia Pacific	9%	12% shipment growth in greater China.

NovaSeq System Updates

	Management Commentary
Shipments	- In the high 80s for Q417. - ~285 shipped in FY17. - Most HiSeq X customers have taken at least one NovaSeq, and now that S4 has been launched, expect some of these customers will transition their fleets in 2018. Other HiSeq X customers will transition in 2019 or later, depending on cadence of their clinical, translational and research activities. - Transition plans for ~800 HiSeq customers are staggered across a multi-year horizon.
Orders	- ~1/3 from new-to-Illumina sequencing or previously benchtop customers. - New-to-Illumina included academic and translational labs for clinical testing, whole exome sequencing and whole genome sequencing. - Straight-from-benchtop included diverse set of labs to extend into exomes, methylation analysis, RNA, ctDNA and whole genome sequencing. - Only 15% of ~850 HiSeq or HiSeq X customers have ordered their first NovaSeq as of the end of FY17.

	Management Commentary
Consumables	- Revenue almost tripled sequentially, with strong demand for S4 flow cell, in addition to growing interest in S2. - Excluding a $19 million stocking order, NovaSeq consumables grew >75% sequentially.
S1	- Completed internal validation and started beta testing in anticipation of commercial release later in Q118. - Offers very compelling per sample economics versus HiSeq and the ability for HiSeq customers to easily transition projects due to its lower output. - Delivers fastest run times of all NovaSeq configurations, delivering 500G runs in just over 24 hours.

<u>Other Sequencing Updates</u>

	Management Commentary
HiSeq Family	- Did not ship any HiSeq Xs in Q417. - Shipped just a handful of HiSeqs in Q417. - HiSeq X consumables were up modestly from Q317. - HiSeq consumables were up from Q317, driven by clinical customers. - Continue to expect HiSeq consumables, in aggregate, to start to trend downwards in the coming quarters.
Benchtop Portfolio	- Stable win-rates. - New-to-sequencing customers represented ~60% of MiniSeq and MiSeq shipments in Q417. - NextSeq remains important growth driver for research, translational and clinical applications. NextSeq consumables average pull-through above the high-end of target range, driven by production clinical customers.
Nextera DNA Flex	- Strong start in October with orders from >300 unique customers.
AmpliSeq for Illumina	- Received and shipped first orders.
iSeq	- Beta units are operating very well in the field. - Already received customer orders reflecting strong initial demand. - Will ship a small number of iSeqs towards end of Q118 to be followed by a manufacturing ramp through 2018.
Clinical	- Continued to grow in Q417, notably in oncology and NIPT. - Clinical and translational customers represented ~45% of FY17 shipments, compared to 39% in 2016. - Oncology testing shipments grew ~40% in 2017. - TST 170 now available as both an IUO and RUO.
NextSeqDx	- Launched in mid-November. - Shipped first systems in Q417. - Initial customers plan to use systems for routine Non-Small Cell Lung Cancer liquid biopsy testing and clinical assay development.
VeriSeq NIPT CE-IVD	- Sales expected to more than double in FY18, driven in part by the Dutch national contract, which was awarded in Q417. - Will submit NIPT IVD solutions in many more countries throughout 2018.

Other Updates

	Management Commentary
Microarrays	- Revenue grew 21% from Q416, due to strong growth among direct-to-consumer customers. - FY17 growth was 20% driven by acceleration in the number of consumer samples processed during 2017.
Helix	- Announced partnership with the Healthy Nevada Project, which plans to enroll 40,000 Nevadans and utilize the Helix platform to collect and sequence the samples.

Q417 Non-GAAP Financial Highlights

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

	Q417	Yr/Yr	Qtr/Qtr	Management Commentary
Gross Margin	70.9%	+140bps	+210bps	- Qtr/Qtr improved due to a more favorable sequencing consumables mix as well as improved cost savings from NovaSeq. - Yr/Yr impacted by higher sequencing consumables mix and the favorable impact associated with the lack of product transition reserves that occurred in Q4 of 2016.
Operating expenses	$307M	+$32M	+$8M	- Higher stock-based compensation expense, partially offset by lower Helix expenses.
Operating Margin	31.4%	+630bps	+460bps	- Excluding Helix, operating margin was 33.9% compared to 29.7% in Q317.
Tax Rate	18.0%	-1,050bps	-360bps	- Lower sequentially due to a higher foreign mix of earnings.
Net Income attributable to Illumina stockholders	$212M	+$86M	+$49M	
EPS attributable to Illumina stockholders (diluted)	$1.44	+69%	+30%	- Helix dilution $0.06.

	Q417	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$294M	+$32M	+$59M	
DSO	48 days		-1 day	- Continued reductions in our collections cycle.
Capital expenditures	$76M	-$6M	-$6M	
Free Cash Flow	$218M	+$38M	+$65M	
Cash & Short-term Investments	$2.1B	+$586M	+$104M	
Share Buybacks				- Repurchased ~368K shares under previously announced buyback program at an average price of $204.

Guidance

	Guidance	Management Commentary
FY18 Revenue	13-14% growth in 2018	- Expect to ship between 330 and 350 NovaSeq systems in FY18. - Includes modest revenue contribution from Helix.
FY18 Non-GAAP GM	-	- Expect FY18 to be up slightly from FY17.
FY18 GAAP EPS attributable to Illumina stockholders	$4.14 to $4.24	
FY18 Non-GAAP EPS attributable to Illumina stockholders	$4.50 to $4.60	- Includes ~$0.10 benefit from tax reform. - Includes $0.25 of Helix dilution.

	Management Commentary
Q118 Revenue	- After an exceptional fourth quarter, expect Q118 revenue to be up to $35M lower on a sequential basis. - Expect sequencing system revenue to be down sequentially, in line with normal Q1 seasonality. - Do not expect the $19M stocking order related to NovaSeq to repeat in Q118.

Illumina, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(unaudited)

	Three Months Ended		Years Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Net cash provided by operating activities **(a)**	$ 294	$ 262	$ 875	$ 779
Net cash used in investing activities	(315)	(173)	(214)	(515)
Net cash used in financing activities **(a)**	(109)	(145)	(176)	(296)
Effect of exchange rate changes on cash and cash equivalents	1	(4)	5	(2)
Net (decrease) increase in cash and cash equivalents	(129)	(60)	490	(34)
Cash and cash equivalents, beginning of period	1,354	795	735	769
Cash and cash equivalents, end of period	$ 1,225	$ 735	$ 1,225	$ 735
Calculation of free cash flow:				
Net cash provided by operating activities **(a)**	$ 294	$ 262	$ 875	$ 779
Purchases of property and equipment **(b)**	(76)	(82)	(310)	(260)
Free cash flow **(c)**	$ 218	$ 180	$ 565	$ 519

(a) Excess tax expense of $19 million and tax benefit of $91 million related to stock-based compensation for the three months and year ended January 1, 2017, respectively, was reclassified from cash used in financing activities to cash provided by operating activities as a result of the retrospective application of ASU 2016-09 adopted in Q1 2017.

(b) Excludes property and equipment recorded under build-to-suit lease accounting, which are non-cash expenditures, of $19 million and $79 million for the three months and year ended December 31, 2017, respectively, and $25 million and $193 million for the three months and year ended January 1, 2017, respectively.

(c) 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		Years Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 0.46**	**$ 0.84**	**$ 4.92**	**$ 3.07**
Amortization of acquired intangible assets	0.07	0.08	0.30	0.33
Non-cash interest expense **(a)**	0.05	0.05	0.20	0.20
Restructuring **(b)**	0.03	—	0.03	—
Gain on deconsolidation of GRAIL **(c)**	—	—	(3.07)	—
Impairments **(d)**	—	—	0.15	—
Performance-based compensation related to GRAIL Series B financing **(e)**	—	—	0.03	—
Equity-method investment gain **(f)**	—	—	(0.01)	—
Acquisition related gain **(g)**	—	—	(0.01)	—
Legal contingencies **(h)**	—	—	—	(0.06)
Contingent compensation expense **(i)**	—	—	—	0.01
Headquarter relocation	—	—	—	0.01
Deemed dividend **(j)**	—	—	—	(0.01)
Incremental non-GAAP tax expense **(k)**	(0.05)	(0.07)	0.80	(0.17)
Tax benefit related to cost-sharing arrangement **(l)**	—	(0.05)	—	(0.05)
U.S. Tax Reform **(m)**	1.01	—	1.01	—
Excess tax benefit from share-based	(0.13)	—	(0.35)	—
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(o)**	$ 1.44	$ 0.85	$ 4.00	$ 3.33

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

	Three Months Ended		Years Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
GAAP net income attributable to Illumina	**$ 68**	**$ 124**	**$ 726**	**$ 463**
Amortization of acquired intangible assets	10	12	45	49
Non-cash interest expense **(a)**	8	8	30	30
Restructuring **(b)**	4	—	4	—
Gain on deconsolidation of GRAIL **(c)**	—	—	(453)	—
Impairments **(d)**	—	—	23	—
Performance-based compensation related to GRAIL Series B financing **(e)**	—	—	4	—
Equity-method investment gain **(f)**	—	—	(2)	—
Acquisition related gain **(g)**	—	—	(1)	—
Legal contingencies **(h)**	—	—	—	(9)
Contingent compensation expense **(i)**	—	—	—	2
Headquarter relocation	—	—	—	1

Incremental non-GAAP tax expense **(k)**	(7)	(11)	117	(26)
Tax benefit related to cost-sharing arrangement **(l)**	—	(7)	—	(7)
U.S. Tax Reform **(m)**	150	—	150	—
Excess tax benefit from share-based	(21)	—	(52)	—
Non-GAAP net income attributable to Illumina stockholders **(o)**	$ 212	$ 126	$ 591	$ 503

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 employee costs related to the restructuring that occurred in Q4 2017.

(c) 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. Subsequent to the transaction, our remaining interest is treated as a cost-method investment.

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

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

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

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

(h) Legal contingencies for 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

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

(j) Amount represents the impact of a deemed dividend, net of Illumina's portion of the losses incurred by GRAIL's common stockholders 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.

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

(l) 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.

(m) In accordance with the Tax Cuts and Jobs Act enacted on December 22, 2017 (U.S. Tax Reform), amount primarily consists of a provisional estimate of the one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred.

(n) 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.

(o) 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

	Three Months Ended				Years Ended			
	December 31, 2017		January 1, 2017		December 31, 2017		January 1, 2017	
GAAP gross profit	**$ 542**	**69.7 %**	**$ 419**	**67.7 %**	**$ 1,826**	**66.4 %**	**$ 1,666**	**69.5 %**
Amortization of acquired intangible	9	1.2 %	11	1.8 %	39	1.4 %	43	1.8 %
Impairment of acquired intangible	—	—	—	—	18	0.6 %	—	—
Non-GAAP gross profit **(a)**	$ 551	70.9 %	$ 430	69.5 %	$ 1,883	68.4 %	$ 1,709	71.3 %
GAAP research and development	**$ 137**	**17.7 %**	**$ 130**	**21.0 %**	**$ 546**	**19.8 %**	**$ 504**	**21.0 %**
Restructuring **(b)**	(2)	(0.3)	—	—	(2)	(0.1)	—	—
Impairment of in-process research and development	—	—	—	—	(5)	(0.1)%	—	—
Non-GAAP research and development expense	$ 135	17.4 %	$ 130	21.0 %	$ 539	19.6 %	$ 504	21.0 %
GAAP selling, general and administrative expense	**$ 175**	**22.5 %**	**$ 146**	**23.6 %**	**$ 674**	**24.6 %**	**$ 584**	**24.4 %**
Amortization of acquired intangible	(1)	(0.1)	(1)	(0.2)	(6)	(0.2)	(6)	(0.2)
Restructuring **(b)**	(2)	(0.3)	—	—	(2)	(0.1)	—	—
Performance-based compensation related to GRAIL Series B financing **(c)**	—	—	—	—	(10)	(0.4)%	—	—
Acquisition related gain **(d)**	—	—	—	—	1	—	—	—
Contingent compensation expense **(e)**	—	—	—	—	—	—	(2)	(0.1)
Headquarter relocation	—	—	—	—	—	—	(1)	(0.1)
Non-GAAP selling, general and administrative expense	$ 172	22.1 %	$ 145	23.4 %	$ 657	23.9 %	$ 575	24.0 %
GAAP operating profit	**$ 230**	**29.6 %**	**$ 143**	**23.1 %**	**$ 606**	**22.0 %**	**$ 587**	**24.5 %**
Amortization of acquired intangible	10	1.3 %	12	2.0 %	45	1.6 %	49	2.0 %
Restructuring **(b)**	4	0.5 %	—	—	4	0.1 %	—	— %
Legal contingencies **(f)**	—	—	—	—	—	—	(9)	(0.4)
Impairments	—	—	—	—	23	0.9 %	—	—
Performance-based compensation related to GRAIL Series B financing **(c)**	—	—	—	—	10	0.4 %	—	—
Acquisition related gain **(d)**	—	—	—	—	(1)	—	—	—
Contingent compensation expense **(e)**	—	—	—	—	—	—	2	0.1 %
Headquarter relocation	—	—	—	—	—	—	1	0.1 %
Non-GAAP operating profit **(a)**	$ 244	31.4 %	$ 155	25.1 %	$ 687	25.0 %	$ 630	26.3 %
GAAP other (expense) income, net	**$ (6)**	**(0.8)**	**$ (9)**	**(1.4)**	**$ 437**	**15.9 %**	**$ (26)**	**(1.1)**

Non-cash interest expense **(g)**	8	1.1 %	8	1.2 %	30	1.2 %	30	1.3 %
Equity-method investment gain **(h)**	—	—	—	—	(2)	(0.1)	—	—
Gain on deconsolidation of GRAIL **(i)**	—	—	—	—	(453)	(16.5)	—	—
Non-GAAP other income (expense),	$ 2	0.3 %	$ (1)	(0.2)	$ 12	0.5 %	$ 4	0.2 %

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-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 (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 consists primarily of employee costs related to the restructuring that occurred in Q4 2017.

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

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

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

(f) Legal contingencies for 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

(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

(i) Amount represents the gain recognized as a result of the deconsolidation of GRAIL in Q1 2017. Subsequent to the transaction, our remaining interest is treated as a cost-method investment.

Illumina, Inc.

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 January 1, 2017 filed with the SEC on February 13, 2017, and Form 10-Q for the fiscal quarters ended April 2, 2017, July 2, 2017, and October 1, 2017. We assume no obligation to update any forward-looking statements or information.

	Fiscal Year 2018
GAAP diluted earnings per share attributable to Illumina stockholders	**$4.14 - $4.24**
Amortization of acquired intangible assets	0.24
Non-cash interest expense **(a)**	0.21
Restructuring **(b)**	0.02
Incremental non-GAAP tax expense **(c)**	(0.11)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$4.50 - $4.60

(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 employee severance and retention costs related to the restructuring that occurred in Q4 2017.

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