



ILLUMINA Q4 and FISCAL YEAR 2014 Financial Results

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Q4 2014 Highlights

Another quarter of record results

- ▶ Q4 revenue growth of 32% YoY
- ▶ Strong operating and tax leverage with 93% YoY non-GAAP EPS growth
- ▶ Strong cash flow from operations of \$141 million (after Syntrix and Sequenom impact of \$51 million)

	Q4 14	Q4 13	Δ
Revenue ¹	\$512	\$387	32%
Gross Margin ²	72.3%	71.4%	90 bps
Operating Margin ²	37.7%	32.3%	540 bps
EPS ³	\$0.87	\$0.45	93%

	2014	2013	Δ
Revenue ¹	\$1,861	\$1,421	31%
Gross Margin ²	71.7%	70.1%	160 bps
Operating Margin ²	36.9%	32.5%	440 bps
EPS ³	\$2.74	\$1.80	52%

1. In millions

2. Adjusted non-GAAP excluding stock based compensation

3. Non-GAAP includes stock based compensation

Q4 2014 Revenue Growth Rates

Instruments fueled Q4 growth

Q4 YoY %	Sequencing	Microarray	Total
Instruments	+93%	N/P ¹	+75%
Consumables	+32%	N/P ¹	+19%
Other	N/P ¹	N/P ¹	+22%
Total	+48%	-11%	+32%

- Consumables accounted for 57% of total revenue

1. N/P items are not provided

Q4 2014 P&L

Revenue growth and gross margin expansion drive Q4 results

<i>\$ in millions, except % and per share data</i>	Q4 14	Q4 13	Δ
Revenue	\$512	\$387	32%
GM% ¹	72.3%	71.4%	90 bps
R&D ¹	15.7%	17.0%	-130 bps
SG&A ¹	18.9%	22.2%	-330 bps
Stock Based Compensation	\$38	\$30	29%
Tax Rate ²	16.2%	32.6%	-1,640 bps
Net Income ²	\$129	\$65	100%
Shares Outstanding ³	149	143	4%
EPS ²	\$0.87	\$0.45	93%

1. Adjusted non-GAAP excluding stock based compensation

2. Non-GAAP, includes stock based compensation

3. Q4'13 excludes impact of double dilution associated with convertible debt and the corresponding call option overlay

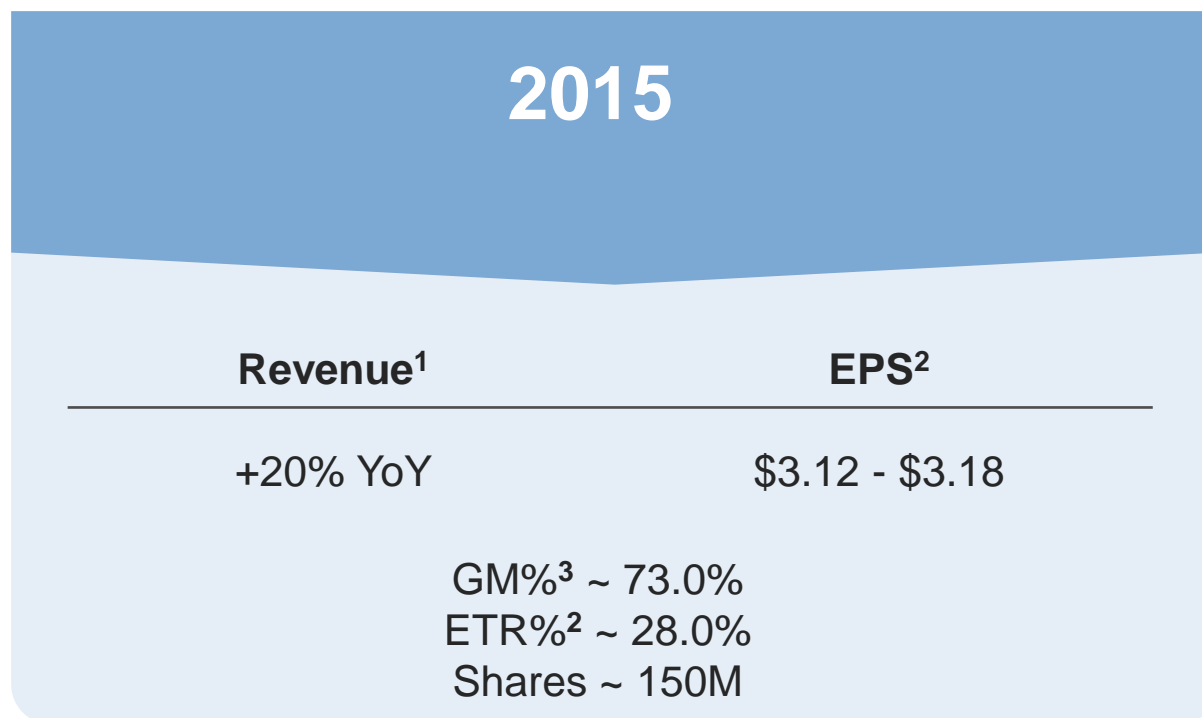
Balance Sheet / Cash Flow

Strong cash generation

<i>\$ in millions, except DSO</i>	Q4 14	Q3 14
Cash & Investments	\$1,338	\$1,271
Inventory	\$191	\$199
Accounts Receivable (DSO)	\$289 (51)	\$277 (52)
Operating Cash Flow	\$141	\$146
Free Cash Flow	\$106	\$117

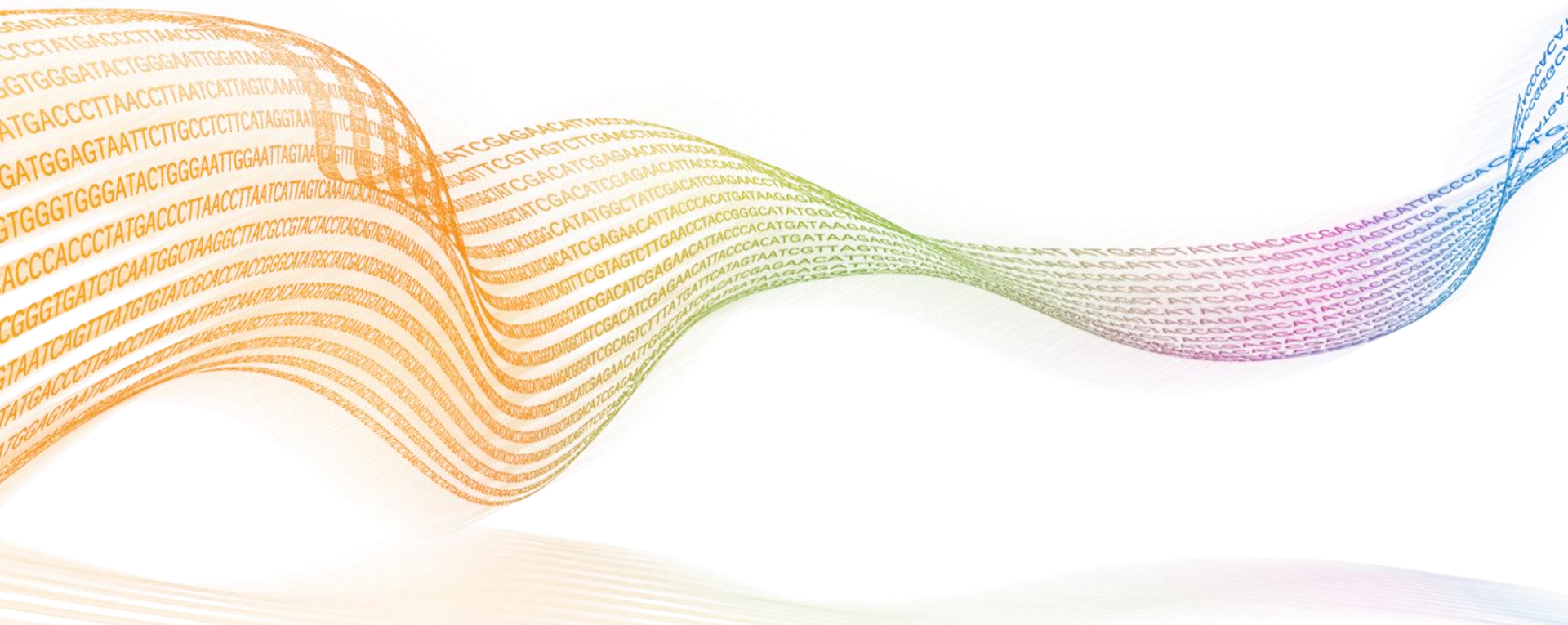
2015 Guidance

Continuing to deliver strong revenue and EPS growth despite FX headwinds



1. Revenue guidance assumes current exchange rates
2. Non-GAAP includes stock based compensation
3. Adjusted non-GAAP excluding stock based compensation

Non-GAAP Reconciliations



Reconciliation Between GAAP and Non-GAAP Net Income Per Share:

	Three Months Ended		Years Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
GAAP net income per share - diluted	\$ 1.03	\$ 0.56	\$ 2.37	\$ 0.90
Pro forma impact of weighted average shares (a)	—	0.01	—	0.01
Adjustments to net income:				
Legal contingencies (b)	(0.40)	0.04	(0.24)	0.96
Amortization of acquired intangible assets	0.08	0.09	0.32	0.32
Non-cash interest expense (c)	0.07	0.06	0.26	0.26
Acquisition related gain, net (d)	(0.02)	(0.04)	(0.02)	(0.08)
Headquarter relocation (e)	0.01	0.02	0.04	0.02
Impairments (f)	—	—	—	0.18
Contingent compensation expense (g)	—	0.04	0.03	0.10
Cost-method investment related gain	—	(0.39)	(0.03)	(0.44)
Loss on extinguishment of debt	—	—	0.21	—
Unsolicited tender offer related expense	—	—	—	0.10
Inventory revaluation adjustment (h)	—	—	—	—
Incremental non-GAAP tax benefit (expense) (i)	0.10	0.06	(0.20)	(0.53)
Non-GAAP net income per share - diluted (j)	\$ 0.87	\$ 0.45	\$ 2.74	\$ 1.80
Shares used in calculating non-GAAP diluted net income per share	148,657	142,815	148,815	138,888

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME:

GAAP net income	\$ 153,280	\$ 80,661	\$ 353,351	\$ 125,308
Legal contingencies (b)	(59,483)	5,921	(35,931)	133,701
Amortization of acquired intangible assets	12,203	12,896	48,165	44,685
Non-cash interest expense (c)	10,099	9,182	38,154	36,403
Acquisition related gain, net (d)	(2,304)	(5,771)	(2,639)	(11,617)
Headquarter relocation (e)	1,281	2,856	5,638	2,624
Impairments (f)	(485)	—	(485)	25,214
Contingent compensation expense (g)	433	5,486	4,265	13,610
Cost-method investment related gain	—	(55,244)	(4,427)	(61,357)
Loss on extinguishment of debt	—	—	31,360	555
Unsolicited tender offer related expense	—	—	—	13,621
Inventory revaluation adjustment (h)	—	—	—	458
Incremental non-GAAP tax benefit (expense) (i)	13,925	8,517	(30,234)	(73,542)
Non-GAAP net income (j)	\$ 128,949	\$ 64,504	\$ 407,217	\$ 249,663

Reconciliation Between GAAP and Non-GAAP Diluted Number of Shares:

	Three Months Ended		Years Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Weighted average shares used in calculation of GAAP diluted net income per share	148,657	143,854	148,977	139,936
Weighted average dilutive potential common shares issuable of redeemable convertible senior notes (a)	—	(1,039)	(162)	(1,048)
Weighted average shares used in calculation of non-GAAP diluted net income per share	148,657	142,815	148,815	138,888

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended				Years Ended			
	December 28, 2014		December 29, 2013		December 28, 2014		December 29, 2013	
GAAP tax provision	\$ 38,781	20.2 %	\$ 39,708	33.0 %	\$ 95,407	21.3 %	\$ 34,006	21.3 %
Incremental tax (benefit) expense (i)	(13,925)	36.4 %	(8,517)	34.5 %	30,234	35.9 %	73,542	37.2 %
Non-GAAP tax provision	\$ 24,856	16.2 %	\$ 31,191	32.6 %	\$ 125,641	23.6 %	\$ 107,548	30.1 %

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

	Three Months Ended				Years Ended			
	December 28, 2014		December 29, 2013		December 28, 2014		December 29, 2013	
GAAP gross profit	\$ 384,937	75.1 %	\$ 259,246	66.9 %	\$ 1,297,710	69.7 %	\$ 911,887	64.2 %
Stock-based compensation expense	2,959	0.6 %	2,046	0.5 %	10,655	0.6 %	7,000	0.5 %
Legal contingencies (b)	(26,240)	(5.1)%	5,921	1.6 %	(10,393)	(0.6)%	18,332	1.2 %
Amortization of acquired intangible assets	10,616	2.1 %	9,206	2.4 %	39,373	2.1 %	33,603	2.4 %
Impairments (f)	(2,000)	(0.4)%	—	—	(2,000)	(0.1)%	25,214	1.8 %
Inventory revaluation adjustment (h)	—	—	—	—	—	—	458	—
Non-GAAP gross profit (i)	<u>\$ 370,272</u>	<u>72.3 %</u>	<u>\$ 276,419</u>	<u>71.4 %</u>	<u>\$ 1,335,345</u>	<u>71.7 %</u>	<u>\$ 996,494</u>	<u>70.1 %</u>
Research and development expense	\$ 142,947	27.9 %	\$ 76,728	19.8 %	\$ 388,055	20.8 %	\$ 276,743	19.5 %
Stock-based compensation expense	(11,837)	(2.3)%	(10,918)	(2.8)%	(50,880)	(2.7)%	(37,439)	(2.7)%
Legal contingencies (b)	(48,800)	(9.5)%	—	—	(48,800)	(2.6)%	—	—
Impairments (f)	(1,515)	(0.3)%	—	—	(1,515)	(0.1)%	—	—
Contingent compensation expense (g)	(433)	(0.1)%	(112)	—	(1,509)	(0.1)%	(544)	—
Non-GAAP research and development expense	<u>\$ 80,362</u>	<u>15.7 %</u>	<u>\$ 65,698</u>	<u>17.0 %</u>	<u>\$ 285,351</u>	<u>15.3 %</u>	<u>\$ 238,760</u>	<u>16.8 %</u>
Selling, general and administrative expense	\$ 122,173	23.8 %	\$ 111,649	28.8 %	\$ 466,283	25.1 %	\$ 381,040	26.8 %
Stock-based compensation expense	(23,666)	(4.6)%	(16,782)	(4.3)%	(91,016)	(4.9)%	(61,387)	(4.3)%
Amortization of acquired intangible assets	(1,587)	(0.3)%	(3,690)	(1.0)%	(8,792)	(0.6)%	(11,082)	(0.8)%
Contingent compensation expense (g)	—	—	(5,374)	(1.3)%	(2,756)	(0.1)%	(13,066)	(0.9)%
Non-GAAP selling, general and administrative expense	<u>\$ 96,920</u>	<u>18.9 %</u>	<u>\$ 85,803</u>	<u>22.2 %</u>	<u>\$ 363,719</u>	<u>19.5 %</u>	<u>\$ 295,505</u>	<u>20.8 %</u>

Reconciliation Between GAAP and Non-GAAP Results of Operations as a Percent of Revenue (con't):

	Three Months Ended				Years Ended			
	December 28, 2014		December 29, 2013		December 28, 2014		December 29, 2013	
GAAP operating profit	\$ 202,883	39.6 %	\$ 73,784	19.0 %	\$ 514,711	27.7 %	\$ 134,107	9.4 %
Stock-based compensation expense	38,462	7.5 %	29,746	7.7 %	152,551	8.2 %	105,826	7.4 %
Legal contingencies (b)	(59,483)	(11.6)%	5,921	1.5 %	(35,931)	(1.9)%	133,701	9.4 %
Amortization of acquired intangible assets	12,203	2.4 %	12,896	3.3 %	48,165	2.6 %	44,685	3.1 %
Acquisition related gain, net (d)	(2,304)	(0.4)%	(5,771)	(1.4)%	(2,639)	(0.1)%	(11,617)	(0.8)%
Headquarter relocation (e)	1,281	0.2 %	2,856	0.8 %	5,638	0.2 %	2,624	0.2 %
Impairments (f)	(485)	(0.1)%	—	—	(485)	—	25,214	1.8 %
Contingent compensation expense (g)	433	0.1 %	5,486	1.4 %	4,265	0.2 %	13,610	1.0 %
Unsolicited tender offer related expense	—	—	—	—	—	—	13,621	1.0 %
Inventory revaluation adjustment (h)	—	—	—	—	—	—	458	—
Non-GAAP operating profit (j)	<u>\$ 192,990</u>	<u>37.7 %</u>	<u>\$ 124,918</u>	<u>32.3 %</u>	<u>\$ 686,275</u>	<u>36.9 %</u>	<u>\$ 462,229</u>	<u>32.5 %</u>
GAAP other (expense) income, net	\$ (10,822)	(2.1)%	\$ 46,585	12.0 %	\$ (65,953)	(3.5)%	\$ 25,207	1.8 %
Non-cash interest expense (c)	10,099	2.0 %	9,182	2.4 %	38,154	2.0 %	36,403	2.6 %
Cost-method investment related gain	—	—	(55,244)	(14.3)%	(4,427)	(0.2)%	(61,357)	(4.3)%
Loss on extinguishment of debt	—	—	—	—	31,360	1.7 %	555	—
Non-GAAP other (expense) income, net (i)	<u>\$ (723)</u>	<u>(0.1)%</u>	<u>\$ 523</u>	<u>0.1 %</u>	<u>\$ (866)</u>	<u>—</u>	<u>\$ 808</u>	<u>0.1 %</u>

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

- (a) Pro forma impact of weighted-average shares includes the impact of double dilution associated with the accounting treatment of the Company's outstanding convertible debt and the corresponding call option overlay.
- (b) Legal contingencies recorded in Q4 and fiscal 2014 primarily represent a gain related to the settlement of our patent litigation with Syntrix Biosystems, Inc., or Syntrix, partially offset by the expenses recorded upon our litigation settlement and pooling of patents with Sequenom, Inc., or Sequenom. The gain associated with the Syntrix settlement was recorded partially as a reversal of cost of sales and partially as a reduction of operating expense. The upfront payments to Sequenom were recorded in research and development expense. Legal contingency charges in 2013 primarily represent estimated damages accrued for our patent litigation with Syntrix.
- (c) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.
- (d) Acquisition related gain, net consists primarily of net gains from changes in fair value of contingent consideration and transaction related costs.
- (e) Headquarter relocation for fiscal 2014 and 2013 consisted of accretion of interest expense on lease exit liability and changes in estimates of such liability.
- (f) Impairments in fiscal 2014 represent a net gain of \$0.5 million, which consisted of a gain on an asset sale associated with a non-core product line discontinued in 2013, partially offset by an intangible asset impairment. Impairments in fiscal 2013 represent asset impairment charges recorded upon the decision to discontinue the non-core product line.
- (g) Contingent compensation expense relates to contingent payments for post-combination services associated with prior period acquisitions.
- (h) The Company recorded \$0.5 million in cost of goods sold in Q1 2013 for the amortization of inventory revaluation costs in conjunction with the acquisition of Verinata Health, Inc.
- (i) Incremental non-GAAP tax benefit (expense) reflects the tax impact related to the non-GAAP adjustments listed above.
- (j) Non-GAAP net income and diluted net income per share exclude the effect of the pro forma adjustments as detailed above. Non-GAAP net income and diluted net income per share are key drivers of the Company's core operating performance and major factors in management's bonus compensation each year. 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 (expense) 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 core operating performance.

Guidance Reconciliation Between GAAP and Non-GAAP Gross Margin and Net Income Per Share:

	Fiscal Year 2015
Gross Margin	
Non-GAAP gross margin	73.0%
Amortization of acquired intangible assets	(2.0)%
Stock-based compensation	(0.5)%
GAAP gross margin	<u>70.5%</u>
Diluted net income per share	
Non-GAAP diluted net income per share	\$3.12 - \$3.18
Amortization of acquired intangible assets	(0.21)
Non-cash interest expense (a)	(0.17)
Headquarter relocation (b)	(0.01)
GAAP diluted net income per share	<u>\$2.73 - \$2.79</u>

(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) Headquarter relocation represents accretion of interest expense on lease exit liability.