



ILLUMINA Q3 2015

Financial Results

October 20, 2015

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Q3 2015 Highlights

Another quarter of double-digit growth

- ▶ Q3 revenue growth of 14% YoY
- ▶ Constant currency revenue growth of 18% YoY
- ▶ Revenue growth due to strength from sequencing consumables
- ▶ 4% YoY non-GAAP EPS³ growth despite a significant tax headwind from the prior year period
- ▶ Cash flow from operations of \$181 million

	Q3 15	Q3 14	Δ
Revenue ¹	\$550	\$481	14%
Gross Margin ²	73.2%	73.2%	0 bps
Operating Margin ²	36.0%	39.7%	(370 bps)
EPS ³	\$0.80	\$0.77	4%

1. In millions

2. Adjusted non-GAAP as a percentage of revenue excluding stock based compensation

3. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation

Q3 2015 Revenue Growth Rates

Sequencing consumables and services fueled Q3 growth

Q3 YoY %	Sequencing	Microarray	Total
Instruments	(2%)	N/P ¹	(3%)
Consumables	36%	(18%)	23%
Service and Other	N/P ¹	N/P ¹	23%
Total	21%	(17%)	14%

- ▶ Consumables accounted for 58% of total revenue
- ▶ Sequencing consumables were approximately \$270M
- ▶ Microarrays² were less than 15% of total revenue

1. N/P items are not provided

2. Microarray revenue includes array consumables, instruments, FTS, warranty, freight and other

Q3 2015 Non-GAAP P&L

<i>\$ in millions, except % and per share data</i>	Q3 15	Q3 14	Δ
Revenue	\$550	\$481	14%
GM % ¹	73.2%	73.2%	0 bps
R&D % ¹	16.4%	14.6%	180 bps
SG&A % ¹	20.9%	19.0%	190 bps
OM % ¹	36.0%	39.7%	(370 bps)
Stock Based Compensation	\$32	\$45	(29%)
Tax Rate ²	28.6%	21.3%	730 bps
Consolidated Net Income ²	\$117	\$114	3%
Add: Net Loss Attributable to Noncontrolling Interests	\$3	-	NA
Net Income Attributable to Illumina Stockholders ²	\$120	\$114	5%
EPS ² Attributable to Illumina Stockholders	\$0.80	\$0.77	4%

Balance Sheet / Cash Flow

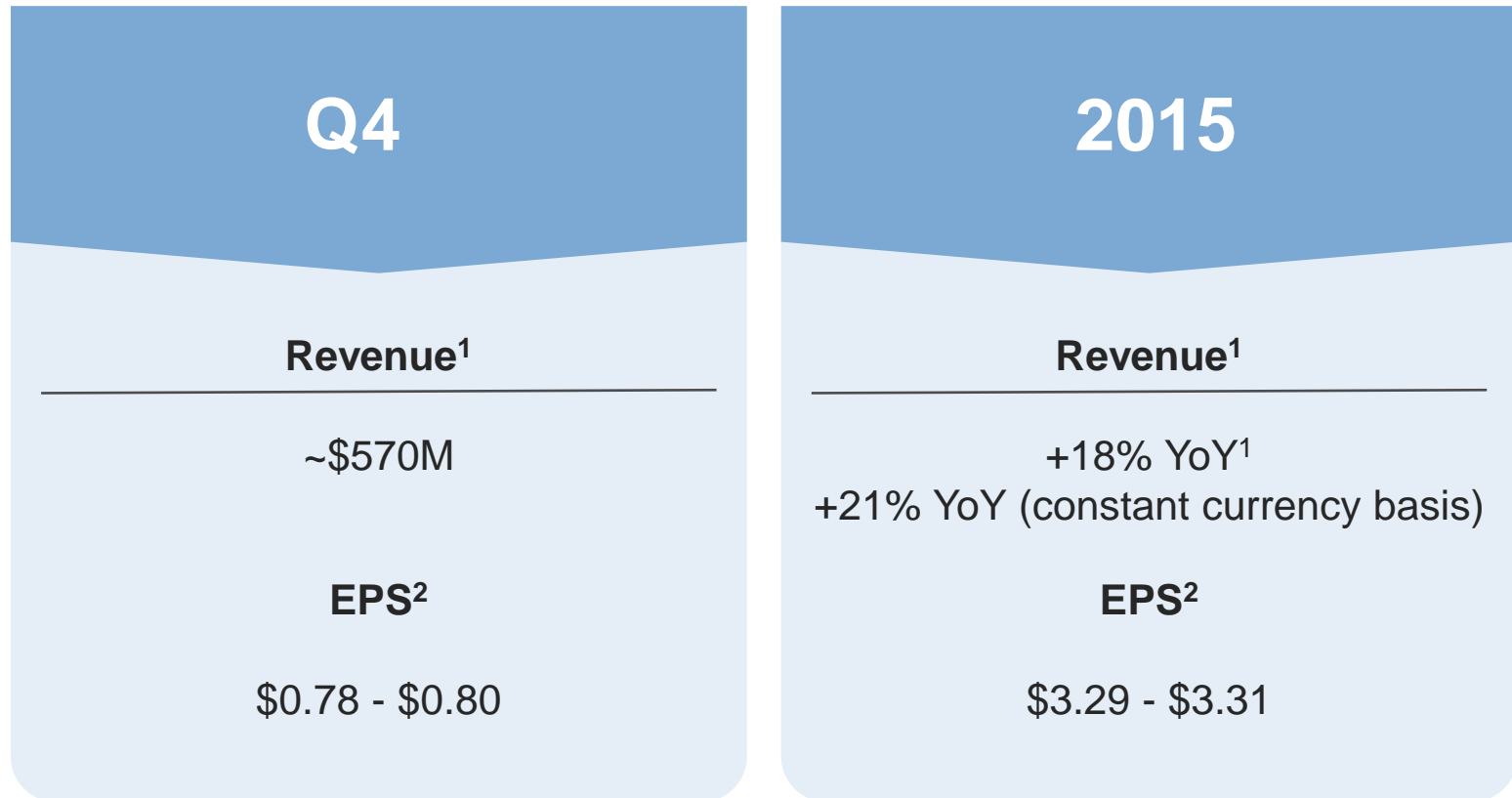
Strong cash generation

<i>\$ in millions, except DSO</i>	Q3 15	Q2 15
Cash & Investments	\$1,439	\$1,510
Inventory	\$234	\$224
Accounts Receivable (DSO)	\$413 (68)	\$369 (62)
Operating Cash Flow	\$181	\$171
Free Cash Flow	\$152	\$130

- ▶ In Q3'15, \$207M of the 2016 0.25% convertible bonds were settled
- ▶ Repurchased 188K shares for \$37M in Q3'15

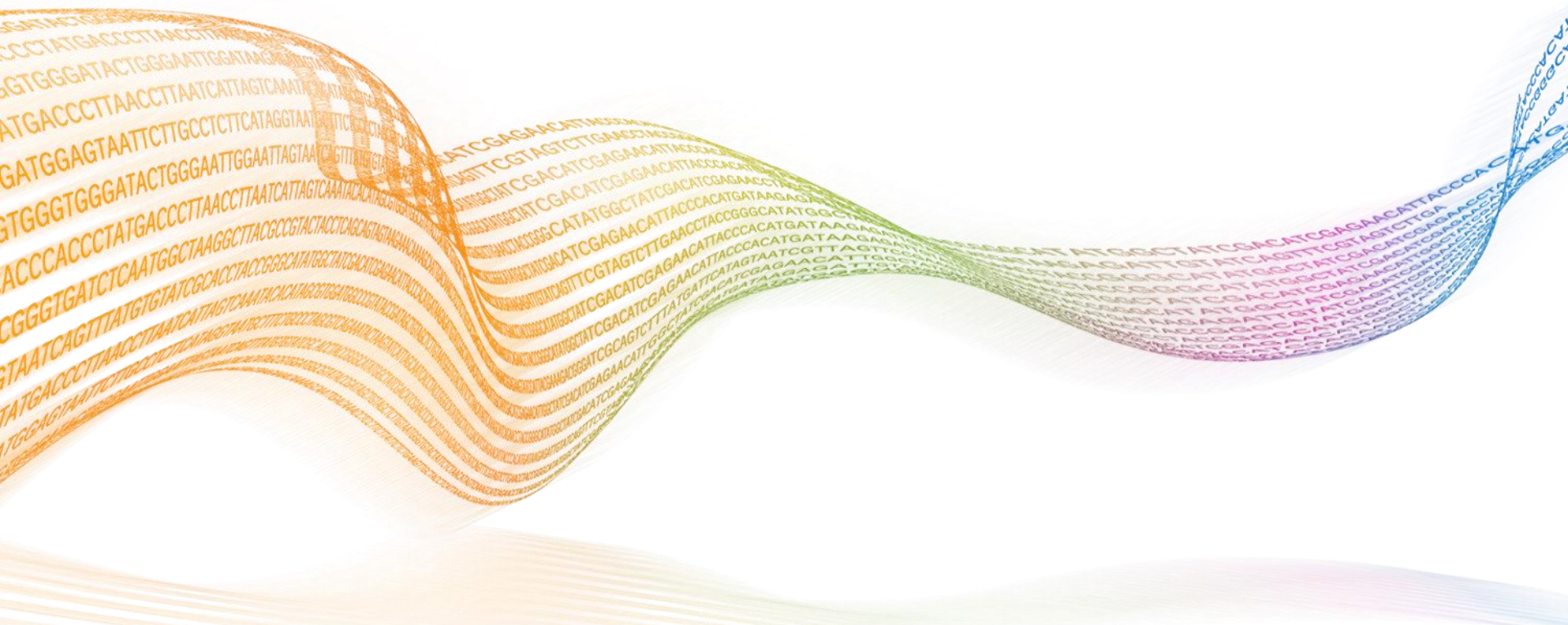
2015 Guidance³

Continuing to deliver strong revenue growth despite FX headwinds



1. Revenue guidance assumes constant currency rates from October 20, 2015
2. Non-GAAP attributable to Illumina stockholders, including stock based compensation
3. Guidance given by press release and 8-k on October 20, 2015

Non-GAAP Reconciliations



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

	Three Months Ended	
	September 27, 2015	September 28, 2014
GAAP earnings per share attributable to Illumina stockholders - diluted	\$ 0.79	\$ 0.63
Amortization of acquired intangible assets	0.09	0.08
Legal contingencies	0.10	0.09
Non-cash interest expense (a)	0.06	0.07
Headquarter relocation	(0.03)	0.01
Loss on extinguishment of debt	0.03	—
Cost-method investment gain, net (b)	(0.02)	(0.03)
Acquisition related expense, net (c)	0.01	0.01
Contingent compensation expense (d)	—	—
Tax benefit related to cost-sharing arrangement (e)	(0.17)	—
Incremental non-GAAP tax expense (f)	(0.06)	(0.09)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted (g)	<u>\$ 0.80</u>	<u>\$ 0.77</u>
Shares used in calculating non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>149,672</u>	<u>147,512</u>

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

GAAP net income attributable to Illumina stockholders	\$ 118,177	\$ 93,489
Amortization of acquired intangible assets	13,794	11,264
Legal contingencies	15,000	12,889
Non-cash interest expense (a)	9,469	9,890
Headquarter relocation	(5,226)	870
Loss on extinguishment of debt	3,504	—
Cost-method investment gain, net (b)	(2,900)	(4,427)
Acquisition related expense, net (c)	1,109	903
Contingent compensation expense (d)	249	496
Tax benefit related to cost-sharing arrangement (e)	(24,757)	—
Incremental non-GAAP tax expense (f)	(8,833)	(11,723)
Non-GAAP net income attributable to Illumina stockholders (g)	<u>\$ 119,586</u>	<u>\$ 113,651</u>
Weighted average shares used in calculation of non-GAAP diluted earnings per share attributable to Illumina stockholders	<u>149,672</u>	<u>147,512</u>

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	September 27, 2015		September 28, 2014	
GAAP tax provision	\$ 13,296	10.3 %	\$ 18,954	16.9 %
Tax benefit related to cost-sharing arrangement (e)	24,757	70.7 %	—	—
Incremental tax expense (f)	8,833	25.2 %	11,723	36.8 %
Non-GAAP tax provision	<u>\$ 46,886</u>	28.6 %	<u>\$ 30,677</u>	21.3 %

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) Cost-method investment gain, net consists primarily of gains on disposition of investments partially offset by impairment charges on other investments.

(c) Acquisition related expense, net consists of changes in fair value of contingent consideration and transaction related costs.

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

(e) 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 recent tax court ruling.

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

(g) 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 drivers of the Company's core operating performance and major factors in management's bonus compensation each year. 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.

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

	Three Months Ended			
	September 27, 2015		September 28, 2014	
GAAP gross profit	\$ 387,539	70.4 %	\$ 333,941	69.5 %
Stock-based compensation expense	3,065	0.6 %	2,883	0.6 %
Amortization of acquired intangible assets	12,188	2.2 %	9,677	2.0 %
Legal contingencies	—	—	5,184	1.1 %
Non-GAAP gross profit (a)	\$ 402,792	73.2 %	\$ 351,685	73.2 %
GAAP research and development expense	\$ 99,226	18.1 %	\$ 85,082	17.7 %
Stock-based compensation expense	(9,098)	(1.7 %)	(14,589)	(3.0 %)
Contingent compensation expense (b)	(44)	—	(496)	(0.1 %)
Non-GAAP research and development expense	\$ 90,084	16.4 %	\$ 69,997	14.6 %
GAAP selling, general and administrative expense	\$ 136,648	24.8 %	\$ 119,888	24.9 %
Stock-based compensation expense	(20,066)	(3.6 %)	(27,197)	(5.7 %)
Amortization of acquired intangible assets	(1,606)	(0.3 %)	(1,587)	(0.2 %)
Contingent compensation expense (b)	(205)	—	—	—
Non-GAAP selling, general and administrative expense	\$ 114,771	20.9 %	\$ 91,104	19.0 %
GAAP operating profit	\$ 140,782	25.6 %	\$ 119,493	24.9 %
Stock-based compensation expense	32,229	5.9 %	44,669	9.3 %
Amortization of acquired intangible assets	13,794	2.5 %	11,264	2.3 %
Legal contingencies	15,000	2.7 %	12,889	2.7 %
Headquarter relocation	(5,226)	(0.9 %)	870	0.2 %
Acquisition related expense, net (c)	1,109	0.2 %	903	0.2 %
Contingent compensation expense (b)	249	—	496	0.1 %
Non-GAAP operating profit (a)	\$ 197,937	36.0 %	\$ 190,584	39.7 %
GAAP other expense, net	\$ (11,865)	(2.2 %)	\$ (7,050)	(1.5 %)
Non-cash interest expense (d)	9,469	1.7 %	9,890	2.1 %
Loss on extinguishment of debt	3,504	0.6 %	—	—
Cost-method investment gain, net (e)	(2,900)	(0.4 %)	(4,427)	(0.9 %)
Non-GAAP other expense, net (a)	\$ (1,792)	(0.3 %)	\$ (1,587)	(0.3 %)

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 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 core operating performance.

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

(c) Acquisition related expense, net consists of changes in fair value of contingent consideration and transaction related costs.

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

(e) Cost-method investment gain, net consists primarily of gains on disposition of investments partially offset by impairment charges on other investments.

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

	Fiscal Year 2015	Q4 2015
Diluted earnings per share attributable to Illumina stockholders		
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$3.29 - \$3.31	\$0.78 - \$0.80
Amortization of acquired intangible assets	(0.34)	(0.08)
Non-cash interest expense (a)	(0.26)	(0.06)
Loss on extinguishment of debt	(0.03)	—
Cost-method investment gain, net (b)	0.10	—
Legal contingencies	(0.10)	—
Acquisition related gain, net (c)	0.04	—
Headquarter relocation (d)	0.02	—
Contingent compensation (e)	(0.01)	(0.01)
Tax benefit related to cost-sharing arrangement (f)	0.17	—
Incremental non-GAAP tax expense (g)	0.19	0.06
GAAP diluted earnings per share attributable to Illumina stockholders	<u>\$3.07 - \$3.09</u>	<u>\$0.69 - \$0.71</u>

Guidance Reconciliation Between GAAP and Non-GAAP Operating Expenses:

(in millions)	Q4 2015
Non-GAAP operating expenses	\$220 - \$225
Stock-based compensation expense	37
Amortization of acquired intangible assets	1
Contingent compensation (e)	1
GAAP operating expenses	\$259 - \$264

(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) Cost-method investment gain, net consists primarily of a gain on the sale of an investment partially offset by impairment charges on other investments.

(c) Acquisition related gain, net consists of changes in fair value of contingent consideration.

(d) Headquarter relocation represents accretion of interest expense on lease exit liability and changes in estimate of such liability.

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

(f) 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 recent tax court ruling.

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