



# Third Quarter 2016 Financial Report

# OVERVIEW

## COMPANY HIGHLIGHTS

- Third quarter revenue increased 10% year-over-year
- Year-over-year sequencing consumables and microarrays up 24% and >35%, respectively
- Variable compensation impact of \$16 million benefited gross and operating margins, as well as earnings
- GRAIL and Helix third quarter non-GAAP EPS impact of \$0.05 and \$0.02, respectively
- Ended third quarter with \$1.54 billion in cash and short-term investments, including \$104 million from GRAIL and Helix

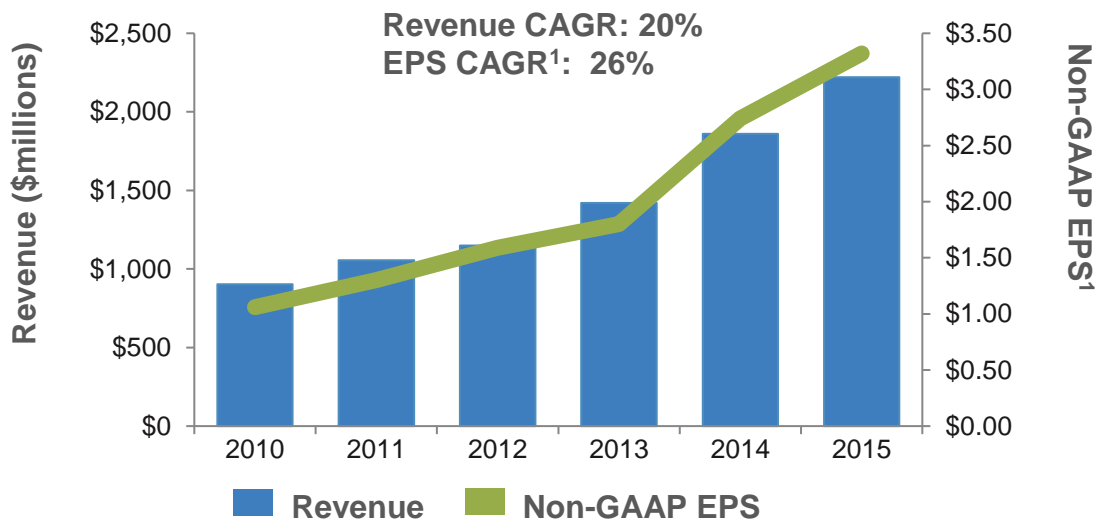
## MARKET INFORMATION

As of November 7, 2016

|                            |                     |
|----------------------------|---------------------|
| Exchange/Symbol            | NASDAQ:ILMN         |
| Price                      | \$137.08            |
| 52-Week Range              | \$127.10 – \$196.47 |
| Forward P/E Ratio (FY'17)* | 36X                 |
| Book Value per Share       | \$15.3              |
| Price to Book Value        | 9X                  |
| Price to Sales (TTM)       | 8X                  |
| Market Capitalization      | \$20.1 billion      |
| Average Daily Volume       | 1.3 million         |

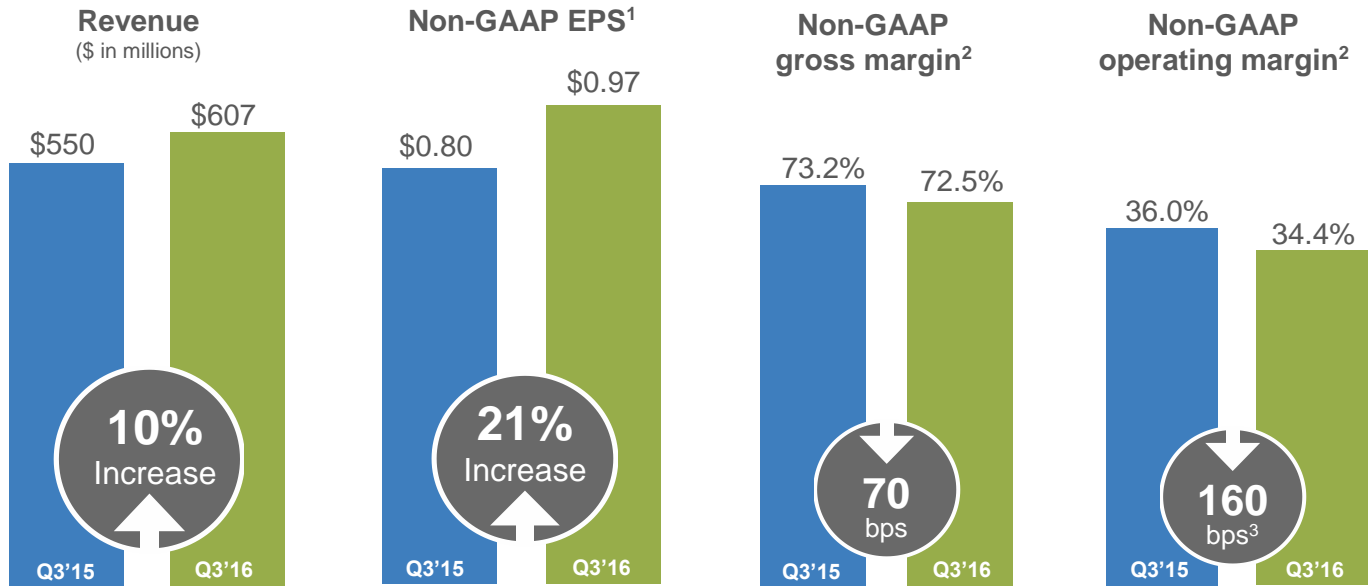
\*Based on non-GAAP EPS attributable to Illumina stockholders and on stock price as of 11/7/16

## STRONG RECORD OF OUTPERFORMANCE



1. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense

## Q3 PERFORMANCE

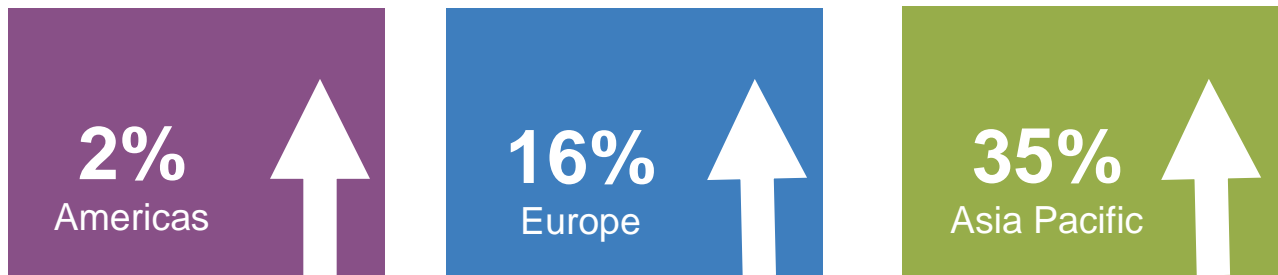


1. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense

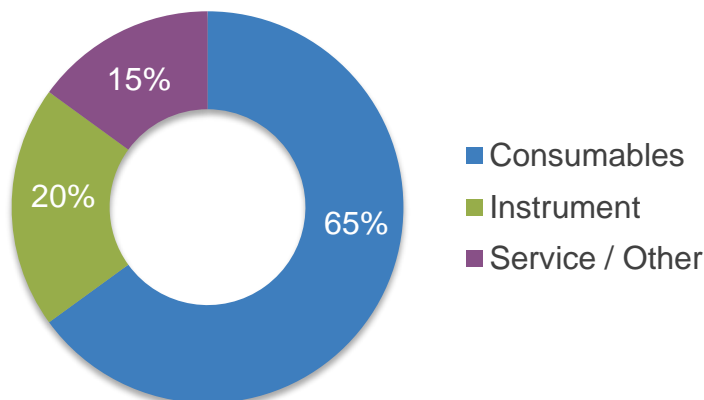
2. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense

3. Contraction due to additional headcount, as well as investments in GRAIL and Helix

## Q3 REVENUE GROWTH



## Q3 REVENUE BY PRODUCT/SERVICE



# 2016 GUIDANCE<sup>4</sup>

## Q4 Revenue Growth<sup>1</sup>

**Flat to  
slightly up  
sequentially**

## 2016 GAAP EPS<sup>2</sup>

**\$2.92-\$2.97**

## 2016 Non-GAAP EPS<sup>2,3</sup>

**\$3.27-\$3.32**

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 by press release and 8-k on November 1, 2016

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## **View Recent Results**

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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.

# NON-GAAP RECONCILIATIONS

## Results of Operations - Non-GAAP (In thousands, except per share amounts) (unaudited)

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

|  | Years Ended        |                      |                      |                      |                    |                    |
|--|--------------------|----------------------|----------------------|----------------------|--------------------|--------------------|
|  | January 3,<br>2016 | December 28,<br>2014 | December 29,<br>2013 | December 30,<br>2012 | January 1,<br>2012 | January 2,<br>2011 |
| <b>GAAP earnings per share attributable to Illumina stockholders - diluted</b>                       | <b>\$ 3.10</b>     | <b>\$ 2.37</b>       | <b>\$ 0.90</b>       | <b>\$ 1.13</b>       | <b>\$ 0.62</b>     | <b>\$ 0.87</b>     |
| Pro forma impact of weighted average shares (a)  | —                  | —                    | 0.01                 | 0.02                 | 0.03               | 0.06               |
| Adjustments to net income:   |                    |                      |                      |                      |                    |                    |
| Amortization of acquired intangible assets   | 0.35               | 0.32                 | 0.32                 | 0.12                 | 0.09               | 0.06               |
| Non-cash interest expense (b)  | 0.26               | 0.26                 | 0.26                 | 0.27                 | 0.24               | 0.16               |
| Legal contingencies (c)  | 0.13               | (0.24)               | 0.96                 | 0.02                 | (0.02)             | —                  |
| Cost-method investment (gain) loss, net (d)  | (0.10)             | (0.03)               | (0.44)               | (0.35)               | —                  | 0.10               |
| Acquisition related (gain) expense, net (e)  | (0.04)             | (0.02)               | (0.08)               | 0.02                 | 0.01               | (0.09)             |
| Loss on extinguishment of debt   | 0.03               | 0.21                 | —                    | —                    | 0.28               | —                  |
| Headquarter relocation (f)   | (0.02)             | 0.04                 | 0.02                 | 0.20                 | 0.31               | —                  |
| Contingent compensation expense (g)  | —                  | 0.03                 | 0.10                 | 0.07                 | 0.04               | 0.03               |
| Impairments (h)  | —                  | —                    | 0.18                 | 0.16                 | —                  | —                  |
| Unsolicited tender offer related expense   | —                  | —                    | 0.10                 | 0.17                 | —                  | —                  |
| Inventory revaluation adjustment (i)   | —                  | —                    | —                    | 0.01                 | —                  | —                  |
| Recovery of previously impaired note receivable  | —                  | —                    | —                    | (0.05)               | —                  | —                  |
| Restructuring  | —                  | —                    | —                    | 0.03                 | 0.06               | —                  |
| Tax benefit related to cost-sharing arrangement (j)  | (0.17)             | —                    | —                    | —                    | —                  | —                  |
| Incremental non-GAAP tax expense (k)   | (0.22)             | (0.20)               | (0.53)               | (0.23)               | (0.36)             | (0.13)             |
| <b>Non-GAAP earnings per share attributable to Illumina stockholders— diluted (l)</b>                | <b>\$ 3.32</b>     | <b>\$ 2.74</b>       | <b>\$ 1.80</b>       | <b>\$ 1.59</b>       | <b>\$ 1.30</b>     | <b>\$ 1.06</b>     |
| Shares used in calculating non-GAAP diluted earnings per share attributable to Illumina stockholders | 149,069            | 148,815              | 138,888              | 132,725              | 135,154            | 134,375            |

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

|  |                   |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>GAAP net income attributable to Illumina stockholders</b>         | <b>\$ 461,559</b> | <b>\$ 353,351</b> | <b>\$ 125,308</b> | <b>\$ 151,254</b> | <b>\$ 86,628</b>  | <b>\$ 124,891</b> |
| Amortization of acquired intangible assets                           | 51,829            | 48,165            | 44,685            | 15,541            | 12,689            | 7,805             |
| Non-cash interest expense (b)  | 38,589            | 38,154            | 36,403            | 35,180            | 32,495            | 20,832            |
| Legal contingencies (c)  | 19,000            | (35,931)          | 133,701           | 3,021             | (2,300)           | —                 |
| Cost-method investment (gain) loss, net (d)                          | (15,601)          | (4,427)           | (61,357)          | (45,911)          | —                 | 13,223            |
| Acquisition related (gain) expense, net (e)                          | (6,124)           | (2,639)           | (11,617)          | 2,774             | 919               | (11,429)          |
| Loss on extinguishment of debt                                       | 4,062             | 31,360            | 555               | —                 | 37,611            | —                 |
| Headquarter relocation (f)   | (2,611)           | 5,638             | 2,624             | 26,328            | 41,826            | —                 |
| Contingent compensation expense (g)                                  | 934               | 4,265             | 13,610            | 9,151             | 6,057             | 3,675             |
| Impairments (h)  | —                 | (485)             | 25,214            | 21,438            | —                 | —                 |
| Unsolicited tender offer related expense                             | —                 | —                 | 13,621            | 23,136            | —                 | —                 |
| Inventory revaluation adjustment (i)                                 | —                 | —                 | 458               | 1,458             | —                 | —                 |
| Recovery of previously impaired note receivable                      | —                 | —                 | —                 | (6,000)           | —                 | —                 |
| Restructuring  | —                 | —                 | —                 | 3,522             | 8,136             | —                 |
| Tax benefit related to cost-sharing arrangement (j)                  | (24,813)          | —                 | —                 | —                 | —                 | —                 |
| Incremental non-GAAP tax expense (k)                                 | (31,621)          | (30,234)          | (73,542)          | (30,464)          | (48,053)          | (16,813)          |
| <b>Non-GAAP net income attributable to Illumina stockholders (l)</b> | <b>\$ 495,203</b> | <b>\$ 407,217</b> | <b>\$ 249,663</b> | <b>\$ 210,428</b> | <b>\$ 176,008</b> | <b>\$ 142,184</b> |

### ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP DILUTED NUMBER OF SHARES ATTRIBUTABLE TO ILLUMINA STOCKHOLDERS:

|  |                |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Weighted average shares used in calculation of GAAP diluted net income per share                                   | 149,069        | 148,977        | 139,936        | 133,693        | 138,937        | 143,433        |
| Weighted average dilutive potential common shares issuable of redeemable convertible senior notes (a)              | —              | (162)          | (1,048)        | (968)          | (3,783)        | (9,058)        |
| <b>Weighted average shares used in calculation of non-GAAP diluted earnings per share attributable to Illumina</b> | <b>149,069</b> | <b>148,815</b> | <b>138,888</b> | <b>132,725</b> | <b>135,154</b> | <b>134,375</b> |

- (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)** Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.
- (c)** Legal contingencies primarily represent charges and settlements related to patent litigation.
- (d)** Cost-method investment (gain) loss, net consists primarily of gains on disposition of investments offset by impairment charges on other investments.
- (e)** Acquisition related (gain) expense, net in fiscal 2015, 2014, 2013, and 2012 consists primarily of net gains and expense from changes in fair value of contingent consideration and transaction related costs. Acquisition related (gain) expense, net in fiscal 2011 consisted of an acquired in-process research and development charge related to a milestone payment for a prior acquisition, offset by changes in the fair value of contingent consideration. Acquisition related (gain) expense, net in fiscal 2010 consists of an acquired in-process research and development charge related to a milestone payment for a prior acquisition, acquisition expenses, offset by a gain recorded for the difference between the carrying value of a cost-method investment prior to acquisition and the fair value of that investment at the time of acquisition and gains from changes in fair value of contingent consideration.
- (f)** The company relocated its headquarters to a new facility in San Diego, California, in 2011. Headquarter relocation for fiscal 2015, 2014, and 2013 consisted of accretion of interest expense on lease exit liability and changes in related costs. Headquarter relocation for fiscal 2012 and fiscal 2011 consisted of cease-use loss, double rent expense during the transition to the new facility, accretion of interest expense on lease exit liability, and moving costs.
- (g)** Contingent compensation expense relates to contingent payments for post-combination services associated with acquisitions.
- (h)** Impairments in fiscal 2014 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. Impairments in fiscal 2012 related to an in-process research and development intangible asset.
- (i)** Inventory revaluation adjustments represent additional cost of goods sold recognized from inventories revalued upon acquisitions of Verinata Health, Inc. in 2013 and BlueGnome Ltd in 2012.
- (j)** 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.
- (k)** Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
- (l)** 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**  
(In thousands, except per share amounts)  
(unaudited)

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

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

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

|  |                   |                   |
|--|-------------------|-------------------|
| <b>GAAP net income attributable to Illumina stockholders (i)</b>     | <b>\$ 128,888</b> | <b>\$ 118,177</b> |
| Amortization of acquired intangible assets                           | 12,423            | 13,794            |
| Non-cash interest expense (a)  | 7,346             | 9,469             |
| Contingent compensation expense (b)                                  | 691               | 249               |
| Headquarter relocation   | 385               | (5,226)           |
| Legal contingencies (c)  | —                 | 15,000            |
| Loss on extinguishment of debt                                       | —                 | 3,504             |
| Acquisition related expense (gain), net (d)                          | —                 | 1,109             |
| Cost-method investment gain, net (e)                                 | —                 | (2,900)           |
| Tax benefit related to cost-sharing arrangement (f)                  | —                 | (24,757)          |
| Incremental non-GAAP tax expense (g)                                 | (5,675)           | (8,833)           |
| <b>Non-GAAP net income attributable to Illumina stockholders (h)</b> | <b>\$ 144,058</b> | <b>\$ 119,586</b> |

- (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)** Acquisition related expense (gain), net consists of changes in fair value of contingent consideration.
- (e)** Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.
- (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 tax court ruling.
- (g)** Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
- (h)** 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.
- (i)** 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.



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

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

|   | Three Months Ended |               |                       |               |
|---|--------------------|---------------|-----------------------|---------------|
|   | October 2,<br>2016 |               | September 27,<br>2015 |               |
| <b>GAAP gross profit</b>                    | <b>\$ 426,150</b>  | <b>70.2 %</b> | <b>\$ 387,539</b>     | <b>70.4 %</b> |
| Stock-based compensation expense            | 3,060              | 0.5 %         | 3,065                 | 0.6 %         |
| Amortization of acquired intangible assets  | 10,960             | 1.8 %         | 12,188                | 2.2 %         |
| <b>Non-GAAP gross profit (a)</b>            | <b>\$ 440,170</b>  | <b>72.5 %</b> | <b>\$ 402,792</b>     | <b>73.2 %</b> |
| <b>GAAP operating profit</b>                | <b>\$ 160,702</b>  | <b>26.5 %</b> | <b>\$ 140,782</b>     | <b>25.6 %</b> |
| Stock-based compensation expense            | 34,583             | 5.7 %         | 32,229                | 5.9 %         |
| Amortization of acquired intangible assets  | 12,423             | 2.0 %         | 13,794                | 2.5 %         |
| Contingent compensation expense (b)         | 691                | 0.1 %         | 249                   | —             |
| Headquarter relocation                      | 385                | 0.1 %         | (5,226)               | (0.9)%        |
| Legal contingencies (c)                     | —                  | —             | 15,000                | 2.7 %         |
| Acquisition related expense (gain), net (d) | —                  | —             | 1,109                 | 0.2 %         |
| <b>Non-GAAP operating profit (a)</b>        | <b>\$ 208,784</b>  | <b>34.4 %</b> | <b>\$ 197,937</b>     | <b>36.0 %</b> |

(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.

**Illumina, Inc.**  
**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 quarters ended April 3, 2016 and July 3, 2016. The company assumes no obligation to update any forward-looking statements or information.

|  | <b>Fiscal Year 2016</b>       |
|--|-------------------------------|
| <b>Diluted earnings per share attributable to Illumina stockholders</b>      |                               |
| <b>GAAP diluted earnings per share attributable to Illumina stockholders</b> | <b>\$2.92 - \$2.97</b>        |
| Amortization of acquired intangible assets                                   | 0.33                          |
| Non-cash interest expense <b>(a)</b>   | 0.20                          |
| Legal contingencies <b>(b)</b>   | (0.06)                        |
| Contingent compensation <b>(c)</b>   | 0.02                          |
| Headquarter relocation   | 0.01                          |
| Deemed dividend <b>(d)</b>   | (0.01)                        |
| Incremental non-GAAP tax expense <b>(e)</b>                                  | (0.14)                        |
| Non-GAAP diluted earnings per share attributable to Illumina stockholders    | <u>\$3.27 - \$3.32</u>        |
| <b>Q4 2016</b>   |                               |
| <b>Diluted earnings per share attributable to Illumina stockholders</b>      |                               |
| GAAP diluted earnings per share attributable to Illumina stockholders        | \$0.71 - \$0.76               |
| Amortization of acquired intangible assets                                   | 0.08                          |
| Non-cash interest expense <b>(a)</b>   | 0.05                          |
| Incremental non-GAAP tax expense <b>(e)</b>                                  | (0.03)                        |
| Non-GAAP diluted earnings per share attributable to Illumina stockholders    | <u><u>\$0.81 - \$0.86</u></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)** 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.