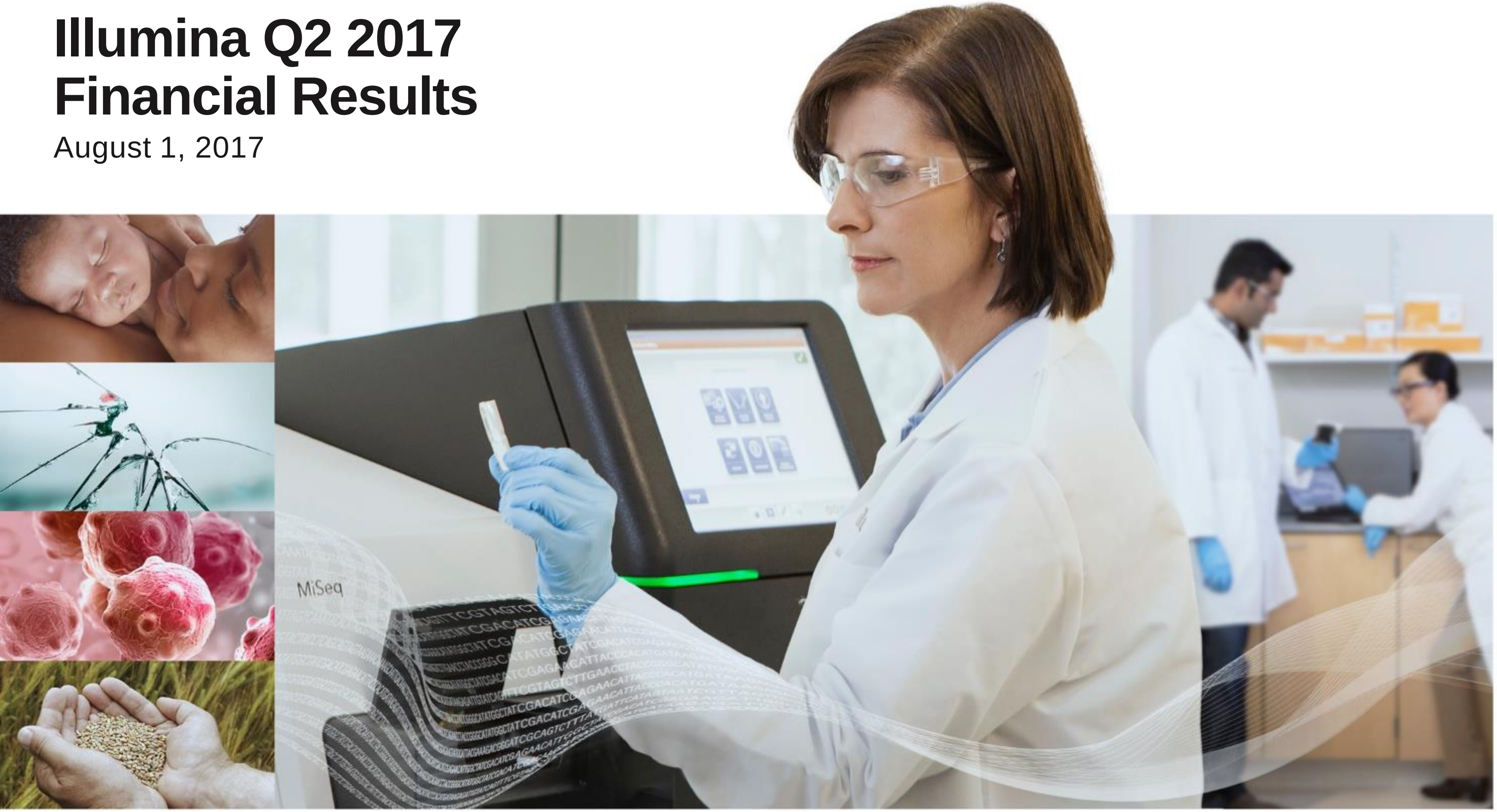
Illumina Q2 2017 Financial Results

August 1, 2017



Safe Harbor Statement

This communication may contain forward-looking statements that involve risks and uncertainties, such as Illumina's expectations regarding its financial outlook and guidance for fiscal 2017 and the launch of any products. 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) our expectations and beliefs regarding 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, including the timing of customer orders and impact on existing 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.

Q2 2017 Overview

Revenue and Non-GAAP EPS exceeded expectations

$ in millions, except % and per share data (non-GAAP)[1]	**Q2'17**	**Q2'16**	**Δ**
Revenue	$662.4	$600.1	10%
Gross Margin	67.0%	72.4%	(540 bps)
Operating Margin[2]	22.1%	27.2%	(510 bps)
EPS[3]	$0.82	$0.86	(5%)

- Sequencing consumables and microarrays drove the outperformance versus guidance
- NovaSeq orders surpassed expectations by 30%; >230 orders to date
- GM% drivers included the NovaSeq introduction, array services mix and inventory reserves
- OM% drivers were the lower GM% and headcount additions

1. Financials include $39.0 million and $32.0 million of stock-based compensation expense in Q2'17 and Q2'16, respectively
2. Excluding GRAIL and Helix, operating margin for Q2'17 was 24.4% compared to 29.8% in Q2'16
3. Non-GAAP attributable to Illumina stockholders

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Q2 2017 Revenue Growth Rates

Growth across the majority of our product portfolio

Q2 YoY%	**Sequencing**[1]	**Microarray**[1]	**Total**
Instruments	9%	N/M[2]	8%
Consumables	9%	(7%)	6%
Service and Other	13%	93%	32%
Total	9%	16%	10%

- Consumables accounted for 61% of total revenue
- Microarray revenue was approximately 17% of total revenue
- Removed ~30 HiSeq instruments from the installed base

1. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other
2. The N/M item is 'not material' as microarray instruments are a very small revenue contributor

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Q2 2017 Consolidated Non-GAAP P&L

$ in millions, except % and per share data (non-GAAP)[1]	Q2'17	Q2'16	Δ
Revenue	$662.4	$600.1	10%
Gross Profit	$443.7	$434.3	2%
R&D Expense	$130.4	$124.5	5%
SG&A Expense	$166.6	$146.4	14%
Operating Income	$146.6	$163.4	(10%)
Tax Rate	25.1%	25.7%	(60 bps)
Consolidated Net Income	$113.4	$123.2	(8%)
Add: Net Loss Attributable to Noncontrolling Interests	$7.9	$4.0	$3.9
Net Income[2]	$121.3	$127.2	(5%)
EPS[2]	$0.82	$0.86	(5%)
Helix and GRAIL EPS Dilution[2,3]	$0.05	$0.08	($0.03)

1. Financials include $39.0 million and $32.0 million of stock-based compensation expense in Q2'17 and Q2'16, respectively
2. Non-GAAP attributable to Illumina stockholders
3. Q2'17 dilution from Helix was $0.05; Q2'16 includes GRAIL and Helix dilution of $0.06 and $0.02, respectively

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Balance Sheet / Cash Flow

Strong cash position

$ in millions, except DSO	**Q2'17**	**Q1'17**
Cash & Investments	$1,893.1	$1,777.8
Inventory	$309.2	$298.8
Accounts Receivable (DSO)	$371.9 (51)	$368.4 (56)
Principal Amount of Convertible Notes Outstanding	$1,150.0	$1,150.0
Operating Cash Flow	$177.6	$168.0
Free Cash Flow	$109.0	$84.6

- Consolidated operating cash flow was lowered by $13 million due to Helix
- DSO lower due to improvement in revenue linearity

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2017 Guidance

Updated FY'17 revenue growth outlook

2017[1]

Revenue[1]

~12%

GAAP EPS[2,3]

$5.36 - $5.46

Non-GAAP EPS[2,3]

$3.60 - $3.70

1. Guidance given via 8-k and press release on August 1, 2017; assumes constant currency rates from August 1, 2017
2. Includes $0.18 of dilution from Helix
3. Attributable to Illumina stockholders

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Appendix

Non-GAAP Reconciliations

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

	Three Months Ended		Six Months Ended	
	July 2, 2017	July 3, 2016	July 2, 2017	July 3, 2016
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 0.87**	**$ 0.82**	**$ 3.35**	**$ 1.43**
Amortization of acquired intangible assets	0.08	0.08	0.16	0.16
Non-cash interest expense **(a)**	0.05	0.05	0.10	0.10
Legal contingencies **(b)**	(0.05)	(0.07)	—	(0.06)
Equity-method investment gain **(c)**	(0.01)	—	(0.02)	—
Gain on deconsolidation of GRAIL **(d)**	—	—	(3.07)	—
Impairment of acquired intangible asset	—	—	0.12	—
Impairment of in-process research and development	—	—	0.03	—
Performance-based compensation related to GRAIL Series B financing **(e)**	—	—	0.03	—
Acquisition related gain **(f)**	—	—	(0.01)	—
Deemed dividend **(g)**	—	(0.01)	—	(0.01)
Incremental non-GAAP tax expense **(h)**	(0.03)	(0.01)	0.91	(0.06)
Excess tax benefit from share-based compensation **(i)**	(0.09)	—	(0.14)	—
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(j)**	$ 0.82	$ 0.86	$ 1.46	$ 1.56
GAAP net income attributable to Illumina stockholders (k)	**$ 128**	**$ 120**	**$ 495**	**$ 210**
Amortization of acquired intangible assets	12	12	24	24
Non-cash interest expense **(a)**	8	7	15	15
Legal contingencies **(b)**	(8)	(11)	—	(9)
Equity-method investment gain **(c)**	(1)	—	(3)	—
Gain on deconsolidation of GRAIL **(d)**	—	—	(453)	—
Impairment of acquired intangible asset	—	—	18	—
Impairment of in-process research and development	—	—	5	—
Performance-based compensation related to GRAIL Series B financing **(e)**	—	—	4	—
Acquisition related gain **(f)**	—	—	(1)	—
Headquarter relocation	—	—	—	1
Contingent compensation expense **(l)**	—	—	—	1
Incremental non-GAAP tax expense **(h)**	(5)	(1)	132	(9)
Excess tax benefit from share-based compensation **(i)**	(13)	—	$ (20)	$ —
Non-GAAP net income attributable to Illumina stockholders **(j)**	$ 121	$ 127	$ 216	$ 233

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	July 2, 2017		July 3, 2016	
GAAP tax provision	**$ 21**	**15.2%**	**$ 41**	**25.9%**
Incremental tax expense **(h)**	5	—	1	—
Excess tax benefit from share-based compensation **(i)**	13	—	—	—
Non-GAAP tax provision	$ 39	25.1%	$ 42	25.7%

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

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) Legal contingencies for 2017 represent amounts related to patent litigation. Legal contingencies for 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

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

(d) The company sold a portion of its interest in GRAIL, resulting in the deconsolidation of GRAIL. The $150 million tax effect of the gain is included in incremental non-GAAP tax expense. Subsequent to the transaction, the company's remaining interest is treated as a cost-method investment.

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

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

(g) 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.

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

(i) 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.

(j) 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.

(k) GAAP net income attributable to Illumina stockholders excludes 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 million and $494 million for the three and six months ended July 2, 2017, respectively, and $122 million and $212 million for the three and six months ended July 3, 2016, respectively.

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

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

	Three Months Ended				Six Months Ended			
	July 2, 2017		July 3, 2016		July 2, 2017		July 3, 2016	
GAAP gross profit	**$ 434**	**65.5 %**	**$ 424**	**70.6 %**	**$ 802**	**63.6 %**	**$ 821**	**70.0 %**
Amortization of acquired intangible asset	10	1.5 %	10	1.8 %	21	1.7 %	21	1.8 %
Impairment of acquired intangible asset	—	—	—	—	18	1.4 %	—	—
Non-GAAP gross profit **(a)**	$ 444	67.0 %	$ 434	72.4 %	$ 841	66.7 %	$ 842	71.8 %
GAAP research and development expense	**$ 130**	**19.7 %**	**$ 125**	**20.7 %**	**$ 275**	**21.8 %**	**$ 249**	**21.2 %**
Impairment of in-process research and development	—	—	—	—	(5)	(0.4)%	—	—
Non-GAAP research and development expense	$ 130	19.7 %	$ 125	20.7 %	$ 270	21.4 %	$ 249	21.2 %
GAAP selling, general and administrative expense	**$ 169**	**25.4 %**	**$ 148**	**24.7 %**	**$ 332**	**26.3 %**	**$ 298**	**25.4 %**
Amortization of acquired intangible assets	(2)	(0.2)%	(2)	(0.3)%	(3)	(0.2)%	(3)	(0.2)%
Performance-based compensation related to GRAIL Series B financing **(b)**	—	—	—	—	(10)	(0.8)%	—	—
Acquisition related gain **(c)**	—	—	—	—	1	0.1 %	—	—
Contingent compensation expense **(d)**	—	—	—	—	—	—	(1)	(0.1)%
Headquarter relocation	—	—	—	—	—	—	(1)	(0.1)%
Non-GAAP selling, general and administrative expense	$ 167	25.2 %	$ 146	24.4 %	$ 320	25.4 %	$ 293	25.0 %
GAAP operating profit	**$ 143**	**21.6 %**	**$ 162**	**27.0 %**	**$ 195**	**15.5 %**	**$ 283**	**24.2 %**
Amortization of acquired intangible assets	12	1.7 %	12	2.0 %	24	1.9 %	24	2.0 %
Legal contingencies **(e)**	(8)	(1.2)%	(11)	(1.8)%	—	—	(9)	(0.7)%
Impairment of acquired intangible asset	—	—	—	—	18	1.4 %	—	—
Performance-based compensation related to GRAIL Series B financing **(b)**	—	—	—	—	10	0.8 %	—	—
Impairment of in-process research and development	—	—	—	—	5	0.4 %	—	—
Acquisition related gain **(c)**	—	—	—	—	(1)	(0.1)%	—	—
Headquarter relocation	—	—	—	—	—	—	1	0.1 %
Contingent compensation expense **(d)**	—	—	—	—	—	—	1	0.1 %
Non-GAAP operating profit **(a)**	$ 147	22.1 %	$ 163	27.2 %	$ 251	19.9 %	$ 300	25.7 %
GAAP other income (expense), net	**$ (2)**	**(0.3)%**	**$ (5)**	**(0.8)%**	**$ 450**	**35.7 %**	**$ (10)**	**(0.9)%**
Non-cash interest expense **(f)**	8	1.2 %	7	1.2 %	15	1.2 %	15	1.3 %
Equity-method investment gain **(g)**	(1)	(0.2)%	—	—	(3)	(0.2)%	—	—
Gain on deconsolidation of GRAIL **(h)**	—	—	—	—	(453)	(36.0)%	—	—
Non-GAAP other income, net **(a)**	$ 5	0.7 %	$ 2	0.4 %	$ 9	0.7 %	$ 5	0.4 %

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.

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Footnotes to the Reconciliation Between GAAP and Non-GAAP Results of Operations:

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

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

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

(e) Legal contingencies for 2017 represent amounts related to patent litigation. Legal contingencies for 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

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

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

(h) The company sold a portion of its interest in GRAIL in Q1 2017, resulting in the deconsolidation of GRAIL. Subsequent to the transaction, the company's remaining interest is treated as 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 1, 2017 filed with the SEC on February 13, 2017, and the company's Form 10-Q for the fiscal quarter ended April 2, 2017. The company assumes no obligation to update any forward-looking statements or information.

	Fiscal Year 2017
GAAP diluted earnings per share attributable to Illumina stockholders	**$5.36 - $5.46**
Gain on deconsolidation of GRAIL **(a)**	(3.07)
Amortization of acquired intangible assets	0.30
Non-cash interest expense **(b)**	0.20
Impairment of acquired intangible asset	0.12
Impairment of in-process research and development	0.03
Performance-based compensation related to Series B financing **(c)**	0.03
Equity-method investment gain, net **(d)**	(0.02)
Acquisition related gain **(e)**	(0.01)
Incremental non-GAAP tax expense **(f)**	0.80
Excess tax benefits from share-based compensation **(g)**	(0.14)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$3.60 - $3.70

(a) The company sold a portion of its interest in GRAIL, resulting in the deconsolidation of GRAIL. The $150 million tax effect of the gain is included in incremental non-GAAP tax expense. Subsequent to the transaction, the company's remaining interest is treated as a cost-method investment.

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

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

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

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