Illumina Q4 and Fiscal Year 2016 Financial Results

January 31, 2017

illumina®

Safe Harbor Statement

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) achievement and timing of the planned deconsolidation of GRAIL, Inc.'s financial results in our financial statements; (iv) our ability to successfully identify and integrate acquired technologies, products, or businesses; (v) our expectations and beliefs regarding future conduct and growth of the business and the markets in which we operate; (vi) 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 (vii) 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.

Q4 2016 Overview

Revenue exceeded expectations

	Q4'16	Q4'15	Δ
Revenue[1]	$619	$592	5%
Gross Margin[2]	69.9%	71.7%	(180 bps)
Operating Margin[2]	29.5%	33.4%	(390 bps)
EPS[3]	$0.85	$0.81	5%

- Revenue growth driven by sequencing consumables and microarrays
- Increased investments in manufacturing, headcount, GRAIL and Helix led to operating margin contraction versus the prior year
- Q4'16 non-GAAP EPS impact from GRAIL and Helix was $0.05 and $0.03, respectively

1. In millions
2. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
3. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense

Q4 2016 Revenue Growth Rates

Sequencing consumables and microarrays fueled growth

Q4 YoY%	**Sequencing[2]**	**Microarray[2]**	**Total**
Instruments	(23%)	N/P[1]	(23%)
Consumables	20%	9%	18%
Service and Other	N/P[1]	N/P[1]	<1%
Total	3%	14%	5%

- Consumables accounted for 66% of total revenue
- Sequencing consumable revenue was $331 million
- Total microarray revenue was approximately 16% of total revenue

1. N/P items are not provided
2. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other

illumina®

2016 Revenue Growth Rates

Sequencing consumables and microarrays fueled growth

2016 YoY%	Sequencing[2]	Microarray[2]	Total
Instruments	(22%)	N/P[1]	(21%)
Consumables	23%	10%	21%
Service and Other	N/P[1]	N/P[1]	11%
Total	6%	19%	8%

- Consumables accounted for 64% of total revenue
- Sequencing consumable revenue was approximately $1.27 billion
- Total microarray revenue was approximately 16% of total revenue

1. N/P items are not provided
2. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other

illumina®

Q4 2016 Consolidated Non-GAAP P&L

$ in millions, except % and per share data	Q4'16	Q4'15	Δ
Revenue	$619	$592	5%
GM%[1]	69.9%	71.7%	(180 bps)
R&D%[1]	19.5%	17.5%	200 bps
SG&A%[1]	20.9%	20.9%	0 bps
OM%[1,2]	29.5%	33.4%	(390 bps)
Stock Based Compensation	$27	$35	(23%)
Tax Rate[3]	28.5%	26.5%	200 bps
Consolidated Net Income[3]	$110	$119	(8%)
Net Income Attributable to Illumina Stockholders[4]	$126	$121	4%
EPS Attributable to Illumina Stockholders[4]	$0.85	$0.81	5%
GRAIL and Helix EPS Dilution[4,5]	$0.08	$0.01	$0.07

1. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
2. Excluding GRAIL and Helix, core ILMN operating margin for Q4'16 was 33.9%
3. Non-GAAP including stock based compensation expense
4. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense
5. Q4'16 dilution from GRAIL and Helix was $0.05 and $0.03, respectively; Q4'15 includes Helix dilution of $0.01

2016 Consolidated Non-GAAP P&L

$ in millions, except % and per share data	2016	2015	Δ
Revenue	$2,398	$2,220	8%
GM%[1]	71.7%	72.4%	(70 bps)
R&D%[1]	19.3%	16.2%	310 bps
SG&A%[1]	20.8%	19.8%	100 bps
OM%[1,2]	31.6%	36.4%	(480 bps)
Stock Based Compensation	$129	$133	(3%)
Tax Rate[3]	26.1%	27.1%	(100 bps)
Consolidated Net Income[3]	$469	$491	(4%)
Net Income Attributable to Illumina Stockholders[4]	$503	$495	2%
EPS Attributable to Illumina Stockholders[4]	$3.33	$3.32	<1%
GRAIL and Helix EPS Dilution[4,5]	$0.36	$0.03	$0.33

1. Adjusted non-GAAP as a percentage of revenue, excluding stock based compensation expense
2. Excluding GRAIL and Helix, core ILMN operating margin for 2016 was 34.7%
3. Non-GAAP including stock based compensation expense
4. Non-GAAP attributable to Illumina stockholders, including stock based compensation expense
5. 2016 dilution from GRAIL and Helix was $0.27 and $0.09, respectively; 2015 includes Helix dilution of $0.03

Balance Sheet / Cash Flow

Strong cash position

$ in millions, except DSO	**Q4'16**	**Q3'16**
Cash & Investments	$1,559	$1,536
Inventory	$300	$312
Accounts Receivable (DSO)	$381 (56)	$382 (57)
Principal Amount of Convertible Notes Outstanding	$1,150	$1,150
Operating Cash Flow	$280	$150
Free Cash Flow	$199	$93

- Repurchased >1 million shares in Q4 at an average price of $129 under the previously announced buyback programs
- Consolidated operating cash flow in Q4 was lowered by $33 million due to GRAIL and Helix
- Cash and investment total includes $76 million of cash and investments from GRAIL and Helix

2017 Guidance

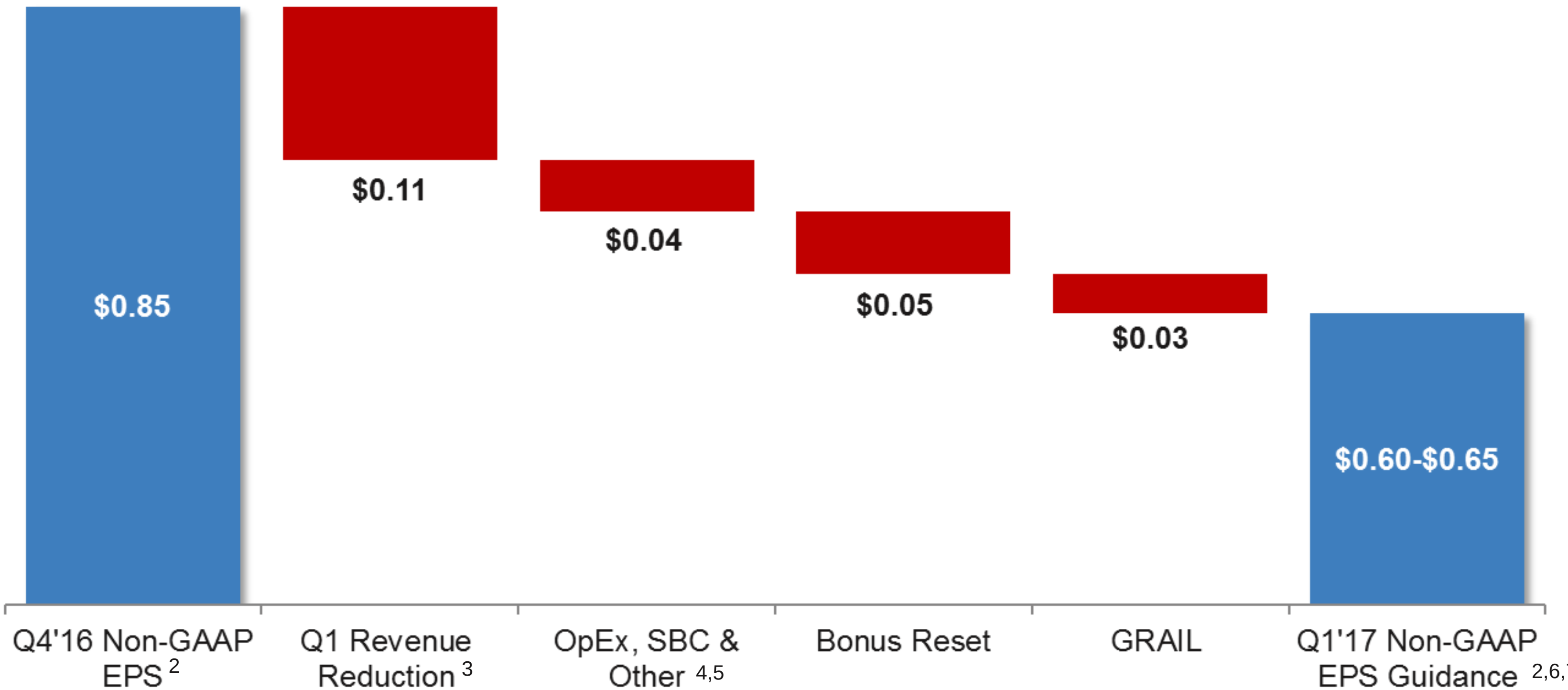
Double-digit revenue growth in FY'17

	Q1'17[1]	2017[1]
Revenue	$580M–$595M	
Revenue[2]		10%–12%
GAAP EPS[4] / **GAAP EPS[3,4]**	$0.51 - $0.56	$3.25 - $3.35
Non-GAAP EPS[4,5] / **Non-GAAP EPS[3,4,5]**	$0.60 - $0.65	$3.60 - $3.70

1. Guidance given via 8-k and press release on January 31, 2017
2. Assumes constant currency rates from January 31, 2017; includes 1% currency headwind for FY'17 revenue guidance
3. Includes $0.18 of dilution from Helix
4. Includes consolidated results of GRAIL in Q1'17 with dilution of $0.08, with the exception of any one-time items associated with the close of the Series B
5. Non-GAAP EPS attributable to Illumina stockholders

Q1 2017 Non-GAAP EPS Guidance

Q1 EPS guidance driven primarily by Q1 revenue given the NovaSeq launch[1]

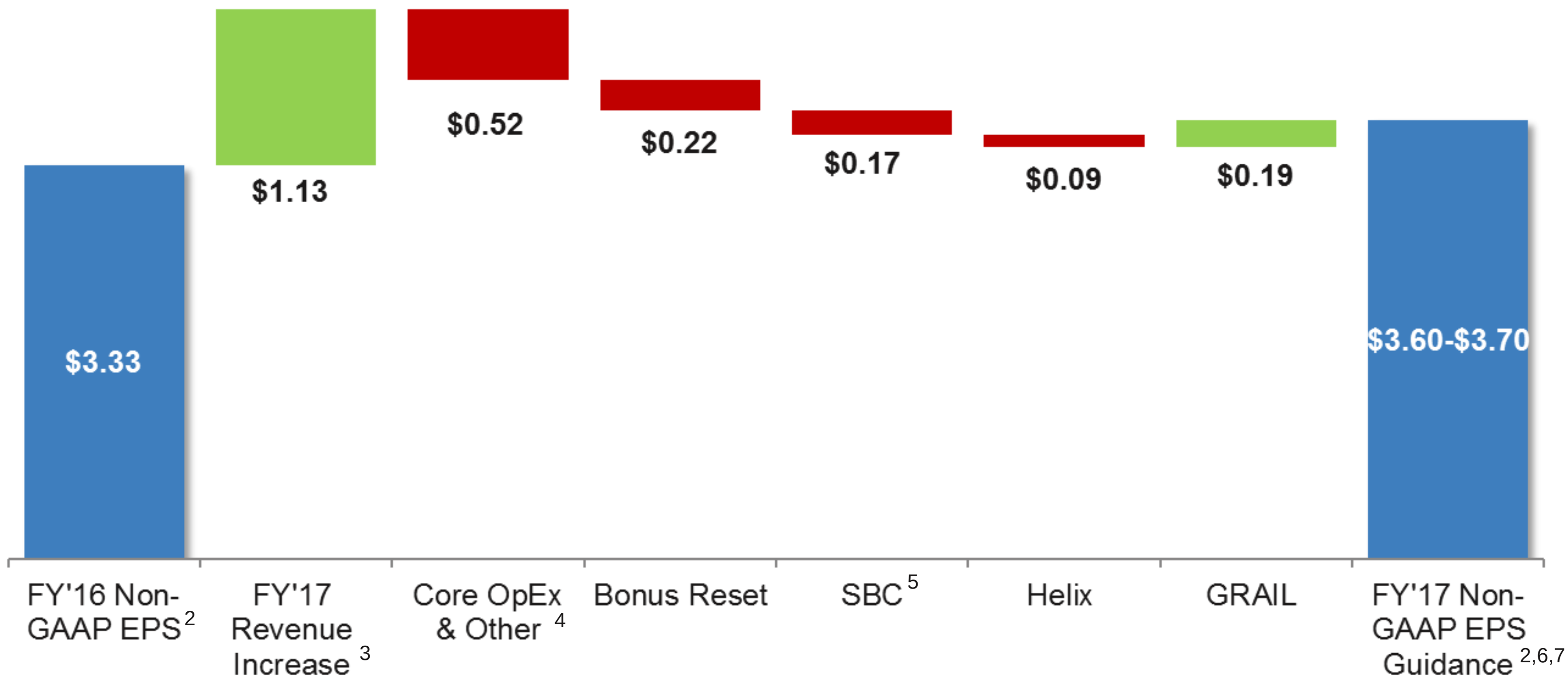


1. The revenue and EPS figures are based on mid-point of the guidance range
2. Non-GAAP EPS attributable to Illumina stockholders
3. Includes gross margin impact
4. SBC is stock based compensation expense
5. “Other” includes small non-material impacts from tax expense and other income (expenses)
6. Includes $0.08 of dilution from GRAIL
7. Guidance given via 8-k and press release on January 31, 2017

illumina

2017 Non-GAAP EPS Guidance

EPS guidance driven by higher FY'17 revenue and expense increases[1]



1. The revenue and EPS figures are based on mid-point of the guidance range
2. Non-GAAP EPS attributable to Illumina stockholders
3. Includes gross margin impact
4. "Other" includes small non-material impacts from tax expense and other income (expenses)
5. SBC is stock based compensation expense
6. Includes $0.18 of dilution from Helix and includes $0.08 of dilution from GRAIL in Q1'17 only
7. Guidance given via 8-k and press release on January 31, 2017

illumina

Appendix

Non-GAAP Reconciliations

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

	Three Months Ended		Years Ended	
	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 0.84**	**$ 0.70**	**$ 3.07**	**$ 3.10**
Amortization of acquired intangible assets	0.08	0.09	0.33	0.35
Non-cash interest expense **(a)**	0.05	0.06	0.20	0.26
Contingent compensation (gain) expense **(b)**	—	—	0.01	—
Legal contingencies **(c)**	—	0.03	(0.06)	0.13
Headquarter relocation	—	—	0.01	(0.02)
Deemed dividend **(d)**	—	—	(0.01)	—
Loss on extinguishment of debt	—	—	—	0.03
Acquisition related expense (gain), net **(e)**	—	—	—	(0.04)
Cost-method investment gain, net **(f)**	—	—	—	(0.10)
Tax benefit related to cost-sharing arrangement **(g)**	(0.05)	—	(0.05)	(0.17)
Incremental non-GAAP tax expense **(h)**	(0.07)	(0.07)	(0.17)	(0.22)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(i)**	$ 0.85	$ 0.81	$ 3.33	$ 3.32

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

	Three Months Ended		Years Ended	
	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
GAAP net income attributable to Illumina stockholders (j)	**$ 123,762**	**$ 104,477**	**$ 462,649**	**$ 461,559**
Amortization of acquired intangible assets	12,423	12,376	48,984	51,829
Non-cash interest expense **(a)**	7,404	8,705	29,786	38,589
Headquarter relocation	417	436	1,486	(2,611)
Contingent compensation (gain) expense **(b)**	(252)	685	1,833	934
Legal contingencies **(c)**	—	4,000	(9,490)	19,000
Loss on extinguishment of debt	—	325	—	4,062
Acquisition related expense (gain), net **(e)**	—	325	—	(6,124)
Cost-method investment gain, net **(f)**	—	(119)	—	(15,601)
Tax benefit related to cost-sharing arrangement **(g)**	(6,696)	(56)	(6,696)	(24,813)
Incremental non-GAAP tax expense **(h)**	(10,625)	(10,584)	(25,320)	(31,621)
Non-GAAP net income attributable to Illumina stockholders **(i)**	$ 126,433	$ 120,570	$ 503,232	$ 495,203

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended				Years Ended			
	January 1, 2017		January 3, 2016		January 1, 2017		January 3, 2016	
GAAP tax provision	**$ 26,701**	**19.9%**	**$ 32,143**	**23.8%**	**$ 133,088**	**23.7%**	**$ 125,752**	**21.6%**
Incremental tax expense **(h)**	10,625	53.1%	10,584	39.6%	25,320	34.9%	31,621	35.1%
Tax benefit related to cost-sharing arrangement **(g)**	6,696	—	56	—	6,696	—	24,813	—
Non-GAAP tax provision	$ 44,022	28.5%	$ 42,783	26.5%	$ 165,104	26.1%	$ 182,186	27.1%

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

(c) Legal contingencies in 2016 represent a reversal of prior year expense related to settlement of patent litigation.

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

(f) Cost-method investment gain, net consists primarily of a gain on the sale of a cost-method investment.

(g) 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.

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

(i) 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.

(j) 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 $123.9 million and $454.1 million for the three months and year ended January 1, 2017, respectively and $104.5 million and $461.5 million for the three months and year ended January 3, 2016, respectively.

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

	Three Months Ended				Years Ended			
	January 1, 2017		January 3, 2016		January 1, 2017		January 3, 2016	
GAAP gross profit	**$ 419,439**	**67.7 %**	**$ 410,359**	**69.4 %**	**$ 1,666,448**	**69.5 %**	**$ 1,549,290**	**69.8 %**
Stock-based compensation expense	2,591	0.4 %	3,195	0.5 %	10,654	0.4 %	11,450	0.5 %
Amortization of acquired intangible assets	10,959	1.8 %	10,853	1.8 %	42,964	1.8 %	45,810	2.1 %
Non-GAAP gross profit **(a)**	$ 432,989	69.9 %	$ 424,407	71.7 %	$ 1,720,066	71.7 %	$ 1,606,550	72.4 %
GAAP research and development expense	**$ 129,915**	**21.0 %**	**$ 114,347**	**19.3 %**	**$ 504,415**	**21.0 %**	**$ 401,527**	**18.1 %**
Stock-based compensation expense	(9,406)	(1.5)%	(10,849)	(1.8)%	(42,295)	(1.7)%	(42,001)	(1.9)%
Contingent compensation gain (expense) **(b)**	12	—	(83)	—	(313)	—	(127)	—
Non-GAAP research and development expense	$ 120,521	19.5 %	$ 103,415	17.5 %	$ 461,807	19.3 %	$ 359,399	16.2 %
GAAP selling, general and administrative expense	**$ 146,091**	**23.6 %**	**$ 147,251**	**24.9 %**	**$ 583,005**	**24.3 %**	**$ 524,657**	**23.6 %**
Stock-based compensation expense	(15,223)	(2.5)%	(21,445)	(3.6)%	(76,116)	(3.2)%	(79,142)	(3.5)%
Amortization of acquired intangible assets	(1,464)	(0.2)%	(1,523)	(0.3)%	(6,020)	(0.2)%	(6,019)	(0.3)%
Contingent compensation gain (expense) **(b)**	240	—	(602)	(0.1)%	(1,520)	(0.1)%	(807)	—
Non-GAAP selling, general and administrative expense	$ 129,644	20.9 %	$ 123,681	20.9 %	$ 499,349	20.8 %	$ 438,689	19.8 %
GAAP operating profit	**$ 143,016**	**23.1 %**	**$ 144,000**	**24.3 %**	**$ 587,032**	**24.5 %**	**$ 612,841**	**27.6 %**
Stock-based compensation expense	27,220	4.4 %	35,489	6.0 %	129,065	5.3 %	132,593	5.9 %
Amortization of acquired intangible assets	12,423	2.0 %	12,376	2.1 %	48,984	2.0 %	51,829	2.4 %
Headquarter relocation	417	—	436	0.1 %	1,486	0.1 %	(2,611)	(0.1)%
Contingent compensation (gain) expense **(b)**	(252)	—	685	0.1 %	1,833	0.1 %	934	—
Legal contingencies **(c)**	—	—	4,000	0.7 %	(9,490)	(0.4)%	19,000	0.9 %
Acquisition related expense (gain), net **(d)**	—	—	325	0.1 %	—	—	(6,124)	(0.3)%
Non-GAAP operating profit **(a)**	$ 182,824	29.5 %	$ 197,311	33.4 %	$ 758,910	31.6 %	$ 808,462	36.4 %
GAAP other expense, net	**$ (8,773)**	**(1.4)%**	**$ (8,993)**	**(1.5)%**	**$ (25,854)**	**(1.1)%**	**$ (29,699)**	**(1.3)%**
Non-cash interest expense **(e)**	7,404	1.2 %	8,705	1.5 %	29,786	1.3 %	38,589	1.7 %
Loss on extinguishment of debt	—	—	325	—	—	—	4,062	0.2 %
Cost-method investment gain, net **(f)**	—	—	(119)	—	—	—	(15,601)	(0.7)%
Non-GAAP other income (expense), net **(a)**	$ (1,369)	(0.2)%	$ (82)	—	$ 3,932	0.2 %	$ (2,649)	(0.1)%

illumina®

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 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 gain/expense relates to contingent payments for post-combination services associated with an acquisition.

(c) Legal contingencies in 2016 represent a reversal of prior year expense related to settlement of patent litigation.

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

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

(f) Cost-method investment gain, net consists primarily of a gain on the sale of 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 3, 2016, and the company's Form 10-Q for the fiscal quarter ended April 3, 2016, July 3, 2016 and October 2, 2016. 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 (a)	**$3.25 - $3.35**
Amortization of acquired intangible assets	0.31
Non-cash interest expense **(b)**	0.20
Incremental non-GAAP tax expense **(c)**	(0.16)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$3.60 - $3.70

	Q1 2017
GAAP diluted earnings per share attributable to Illumina stockholders (a)	**$0.51- $0.56**
Amortization of acquired intangible assets	0.08
Non-cash interest expense **(b)**	0.05
Incremental non-GAAP tax expense **(c)**	(0.04)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$0.60 - $0.65

(a) The company adopted Accounting Standard Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718)* as of January 2, 2017. The impact of such adoption is not included in the GAAP diluted net income per share attributable to Illumina stockholders guidance for fiscal year 2017. The GAAP diluted net income per share attributable to Illumina stockholders guidance for fiscal year 2017 also excludes one-time items related to the close of the GRAIL, Inc. Series B financing, which is expected to occur prior to the end of the first quarter. Such impacts will be recorded as incurred and excluded from non-GAAP diluted net income per share attributable to Illumina stockholders.

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