Illumina Q2 2015

Financial Results

July 21, 2015

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 develop and commercialize further our sequencing, array, PCR, diagnostics, and consumables technologies and to deploy new products and applications, and expand the markets, for our technology platforms, (ii) our ability to manufacture robust instrumentation and consumables, (iii) significant uncertainty concerning government and academic research funding worldwide as governments in the United States and Europe, in particular, focus on reducing fiscal deficits while at the same time confronting slowing economic growth, and (iv) other factors detailed in our filings with the U.S. Securities and Exchange Commission (“SEC”), 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. Illumina undertakes no obligation, and does not intend, to update these forward-looking statements.

Q2 2015 Highlights

Another quarter of robust growth

- Q2 revenue growth of 21% YoY
- Constant currency revenue growth of 25% YoY
- Strong leverage with 40% YoY non-GAAP EPS growth
- Cash flow from operations of $171 million

	Q2 15	Q2 14	Δ
Revenue[1]	$539	$448	21%
Gross Margin[2]	72.4%	70.9%	150 bps
Operating Margin[2]	37.4%	34.8%	260 bps
EPS[3]	$0.80	$0.57	40%

1. In millions
2. Adjusted non-GAAP as a percentage of revenue excluding stock based compensation
3. Non-GAAP including stock based compensation

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Q2 2015 Revenue Growth Rates

Sequencing consumables and services fueled Q2 growth

Q2 YoY %	Sequencing	Microarray	Total
Instruments	13%	N/P[1]	11%
Consumables	36%	N/P[1]	23%
Service and Other	N/P[1]	N/P[1]	35%
Total	28%	(11%)	21%

- Consumables accounted for 56% of total revenue

1. N/P items are not provided

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Q2 2015 P&L

Revenue growth and leverage drove Q2 results

$ in millions, except % and per share data	Q2 15	Q2 14	Δ
Revenue	$539	$448	21%
GM %[1]	72.4%	70.9%	150 bps
R&D %[1]	15.8%	15.6%	20 bps
SG&A %[1]	19.2%	20.5%	(130 bps)
OM %[1]	37.4%	34.8%	260 bps
Stock Based Compensation	$33	$36	(8%)
Tax Rate[2]	28.9%	29.8%	(90 bps)
Net Income[2]	$120	$85	42%
Shares Outstanding[3]	149	149	(0%)
EPS[2]	$0.80	$0.57	40%

1. Adjusted non-GAAP as a percentage of revenue excluding stock based compensation
2. Non-GAAP including stock based compensation
3. In millions

Balance Sheet / Cash Flow

Strong cash generation

$ in millions, except DSO	**Q2 15**	**Q1 15**
Cash & Investments	$1,510	$1,366
Inventory	$224	$205
Accounts Receivable (DSO)	$369 (62)	$350 (59)
Operating Cash Flow	$171	$67
Free Cash Flow	$130	$30

2015 Guidance[3]

Continuing to deliver strong revenue and EPS growth despite FX headwinds

2015

Revenue[1]	EPS[2]
+20% YoY	$3.39 - $3.45

- Revenue guidance includes 300 bps FX headwind[1]

1. Revenue guidance assumes constant currency rates from July 21, 2015
2. Non-GAAP including stock based compensation
3. Guidance given by press release and 8-k on July 21, 2015

Non-GAAP Reconciliations

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

	Three Months Ended	
	June 28, 2015	June 29, 2014
GAAP net income per share – diluted	**$ 0.69**	**$ 0.31**
Adjustments to net income:		
Amortization of acquired intangible assets	0.08	0.08
Non-cash interest expense **(a)**	0.07	0.06
Acquisition related expense (gain), net **(b)**	0.02	—
Headquarter relocation	0.01	0.02
Loss on extinguishment of debt	—	0.21
Legal contingencies	—	0.03
Contingent compensation expense **(c)**	—	—
Incremental non-GAAP tax expense **(d)**	(0.07)	(0.14)
Non-GAAP net income per share - diluted **(e)**	$ 0.80	$ 0.57
Shares used in calculating non-GAAP diluted net income per share	148,969	149,121
ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME:		
GAAP net income	**$ 102,247**	**$ 46,605**
Amortization of acquired intangible assets	12,772	11,507
Non-cash interest expense **(a)**	10,227	9,143
Acquisition related expense (gain), net **(b)**	2,329	(225)
Headquarter relocation	1,480	2,892
Loss on extinguishment of debt	233	31,360
Legal contingencies	—	4,817
Contingent compensation expense **(c)**	—	496
Incremental non-GAAP tax expense **(d)**	(9,617)	(22,025)
Non-GAAP net income **(e)**	$ 119,671	$ 84,570
Weighted average shares used in calculation of non-GAAP diluted net income per share	148,969	149,121

Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended			
	June 28, 2015		June 29, 2014	
GAAP tax provision	**$ 38,925**	**27.6 %**	**$ 13,861**	**22.9 %**
Incremental tax expense	9,617	35.6 %	22,025	36.7 %
Non-GAAP tax provision	$ 48,542	28.9 %	$ 35,886	29.8 %

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

(c) Contingent compensation expense relates to contingent payments for post-combination services associated with prior period acquisitions.

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

(e) 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. 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			
	June 28, 2015		June 29, 2014	
GAAP gross profit	**$ 376,365**	**69.8 %**	**$ 300,540**	**67.1 %**
Stock-based compensation expense	2,579	0.5 %	2,433	0.6 %
Amortization of acquired intangible assets	11,384	2.1 %	9,545	2.1 %
Legal contingencies	—	—	4,817	1.1 %
Non-GAAP gross profit **(a)**	$ 390,328	72.4 %	$ 317,335	70.9 %
GAAP research and development expense	**$ 96,182**	**17.8 %**	**$ 82,985**	**18.5 %**
Stock-based compensation expense	(10,747)	(2.0)%	(12,785)	(2.8)%
Contingent compensation expense **(b)**	—	—	(496)	(0.1)%
Non-GAAP research and development expense	$ 85,435	15.8 %	$ 69,704	15.6 %
GAAP selling, general and administrative expense	**$ 124,441**	**23.1 %**	**$ 114,649**	**25.6 %**
Stock-based compensation expense	(19,631)	(3.6)%	(20,778)	(4.6)%
Amortization of acquired intangible assets	(1,388)	(0.3)%	(1,962)	(0.5)%
Non-GAAP selling, general and administrative expense	$ 103,422	19.2 %	$ 91,909	20.5 %
GAAP operating profit	**$ 151,933**	**28.2 %**	**$ 100,239**	**22.4 %**
Stock-based compensation expense	32,957	6.1 %	35,996	8.0 %
Amortization of acquired intangible assets	12,772	2.4 %	11,507	2.6 %
Acquisition related expense (gain), net **(c)**	2,329	0.4 %	(225)	(0.1)%
Headquarter relocation	1,480	0.3 %	2,892	0.7 %
Legal contingencies	—	—	4,817	1.1 %
Contingent compensation expense **(b)**	—	—	496	0.1 %
Non-GAAP operating profit **(a)**	$ 201,471	37.4 %	$ 155,722	34.8 %
GAAP other expense, net	**$ (10,761)**	**(2.0)%**	**$ (39,773)**	**(8.9)%**
Non-cash interest expense **(d)**	10,227	1.9 %	9,143	2.1 %
Loss on extinguishment of debt	233	—	31,360	7.0 %
Non-GAAP other (expense) income, net **(a)**	$ (301)	(0.1)%	$ 730	0.2 %

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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) 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.

(b) Contingent compensation expense relates to contingent payments for post-combination services associated with prior period acquisitions.

(c) Acquisition related expense (gain), 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.

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

	Fiscal Year 2015
Diluted net income per share	
Non-GAAP diluted net income per share	\$3.39 - \$3.45
Amortization of acquired intangible assets	(0.21)
Non-cash interest expense **(a)**	(0.17)
Cost-method investment gain, net **(b)**	0.06
Acquisition related gain, net **(c)**	0.03
Headquarter relocation **(d)**	(0.02)
GAAP diluted net income per share	**\$3.08 - \$3.14**

(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.