



# ILLUMINA Q4 and FISCAL YEAR 2015

## Financial Results

February 2, 2016

© 2015 Illumina, Inc. All rights reserved.

Illumina, 24sure, BaseSpace, BeadArray, BlueFish, BlueFuse, BlueGnome, cBot, CSPPro, CytoChip, DesignStudio, Epicentre, ForenSeq, Genetic Energy, GenomeStudio, GoldenGate, HiScan, HiSeq, HiSeq X, Infinium, iScan, iSelect, MiSeq, MiSeqDX, MiSeq FGx, NeoPrep, NextBio, Nextera, NextSeq, Powered by Illumina, SureMDA, TruGenome, TruSeq, TruSight, Understand Your Genome, UYG, VeraCode, verifi, VeriSeq, the pumpkin orange color, and the streaming bases design are trademarks of Illumina, Inc. and/or its affiliate(s) in the US and/or other countries. All other names, logos, and other trademarks are the property of their respective owners.

**illumina**<sup>®</sup>

# 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) 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; 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.

# Q4 2015 Highlights

*Revenue growth exceeded expectations*

## Q4 highlights:

- ▶ Revenue growth of 15% YoY
- ▶ Constant currency revenue growth of 19% YoY
- ▶ Revenue growth driven by strength from benchtop instruments, sequencing consumables and services
- ▶ Operating margin decline related to lower gross margin, higher headcount and strategic investments
- ▶ Cash flow from operations of \$240 million

	Q4 15	Q4 14	Δ
Revenue <sup>1</sup>	\$592	\$512	15%
Gross Margin <sup>2</sup>	71.7%	72.3%	(60 bps)
Operating Margin <sup>2</sup>	33.4%	37.7%	(430 bps)
EPS <sup>3</sup>	\$0.81	\$0.87	(7%)

	2015	2014	Δ
Revenue <sup>1</sup>	\$2,220	\$1,861	19%
Gross Margin <sup>2</sup>	72.4%	71.7%	70 bps
Operating Margin <sup>2</sup>	36.4%	36.9%	(50 bps)
EPS <sup>3</sup>	\$3.32	\$2.74	21%

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 2015 Revenue Growth Rates

*Sequencing consumables and services fueled Q4 revenue growth*

Q4 YoY %	Sequencing <sup>2</sup>	Microarray <sup>2</sup>	Total
Instruments	(5%)	N/P <sup>1</sup>	(5%)
Consumables	~30%	(7%)	19%
Service and Other	N/P <sup>1</sup>	N/P <sup>1</sup>	~50%
Total	19%	(2%)	15%

- ▶ Consumables accounted for 59% of total revenue
- ▶ Sequencing consumables were approximately \$280M
- ▶ Microarrays were approximately 15% of total revenue

1. N/P items are not provided

2. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other

# 2015 Revenue Growth Rates

*Services and sequencing consumables fueled FY'15 revenue growth*

2015 YoY %	Sequencing <sup>2</sup>	Microarray <sup>2</sup>	Total
Instruments	8%	N/P <sup>1</sup>	6%
Consumables	34%	(10%)	23%
Service and Other	N/P <sup>1</sup>	N/P <sup>1</sup>	36%
Total	26%	(10%)	19%

- ▶ Consumables accounted for 58% of total revenue
- ▶ Sequencing consumables were approximately \$1.03B
- ▶ Microarrays were approximately 14% of total revenue

1. N/P items are not provided

2. Total sequencing and microarray revenue includes consumables, instruments, services, warranty, freight and other

# Sequencing Power for Every Scale

*The broadest portfolio offering available*



MiniSeq

MiSeq

NextSeq

HiSeq

HiSeq X

	MiniSeq	MiSeq	NextSeq	HiSeq		HiSeq X	
				2500	4000	X Five	X Ten
Output per Run:	7.5 Gb	15 Gb	120 Gb	1 Tb	1.5 Tb	1.8 Tb	1.8 Tb
Instrument Price:	\$49.5K	\$99K	\$250K	\$690K	\$900K	\$6M <sup>1</sup>	\$10M <sup>1</sup>
\$ Price/Gb:	\$200	\$93	\$33	\$29	\$20	\$10.5	\$7
Utilization: <sup>2</sup>	\$12K–\$15K	\$40K–\$45K	\$100K–\$125K	\$300K–\$350K		\$650K–\$700K	
Installed Base: <sup>3</sup>	0	>4,300	~1,150	~2,050		~300	

1. Price based on purchase of 5 or 10 units for HiSeq X Five and HiSeq X Ten, respectively
2. Company's projected annual instrument utilization
3. Based on end of fiscal year 2015

# Q4 2015 Non-GAAP P&L

<i>\$ in millions, except % and per share data</i>	Q4 15	Q4 14	Δ
Revenue	\$592	\$512	15%
GM % <sup>1</sup>	71.7%	72.3%	(60 bps)
R&D % <sup>1</sup>	17.5%	15.7%	180 bps
SG&A % <sup>1</sup>	20.9%	18.9%	200 bps
OM % <sup>1</sup>	33.4%	37.7%	(430 bps)
Stock Based Compensation	\$35	\$38	(8%)
Tax Rate	26.5%	16.2%	1,030 bps
Consolidated Net Income <sup>2</sup>	\$119	\$129	(8%)
Add: Net Loss Attributable to Noncontrolling Interests	\$2	-	NA
Net Income Attributable to Illumina Stockholders <sup>3</sup>	\$121	\$129	(6%)
EPS <sup>3</sup> Attributable to Illumina Stockholders	\$0.81	\$0.87	(7%)

# 2015 Non-GAAP P&L

<i>\$ in millions, except % and per share data</i>	2015	2014	Δ
Revenue	\$2,220	\$1,861	19%
GM % <sup>1</sup>	72.4%	71.7%	70 bps
R&D % <sup>1</sup>	16.2%	15.3%	90 bps
SG&A % <sup>1</sup>	19.8%	19.5%	30 bps
OM % <sup>1</sup>	36.4%	36.9%	(50 bps)
Stock Based Compensation	\$133	\$153	(13%)
Tax Rate	27.1%	23.6%	350 bps
Consolidated Net Income <sup>2</sup>	\$491	\$407	21%
Add: Net Loss Attributable to Noncontrolling Interests	\$4	-	NA
Net Income Attributable to Illumina Stockholders <sup>3</sup>	\$495	\$407	22%
EPS <sup>3</sup> Attributable to Illumina Stockholders	\$3.32	\$2.74	21%



# Balance Sheet / Cash Flow

*Strong cash generation*

<i>\$ in millions, except DSO</i>	Q4 15	Q3 15
Cash & Investments	\$1,386	\$1,439
Inventory	\$271	\$234
Accounts Receivable (DSO)	\$386 (64)	\$413 (68)
Operating Cash Flow	\$240	\$181
Free Cash Flow	\$205	\$152

- ▶ In Q4'15, \$29M of the 2016 0.25% convertible bonds were settled
- ▶ Repurchased \$202M of common stock in Q4'15 under share repurchase programs (average price \$151.44)
- ▶ Inventory increase due to a buildup of sequencing instruments and safety stock

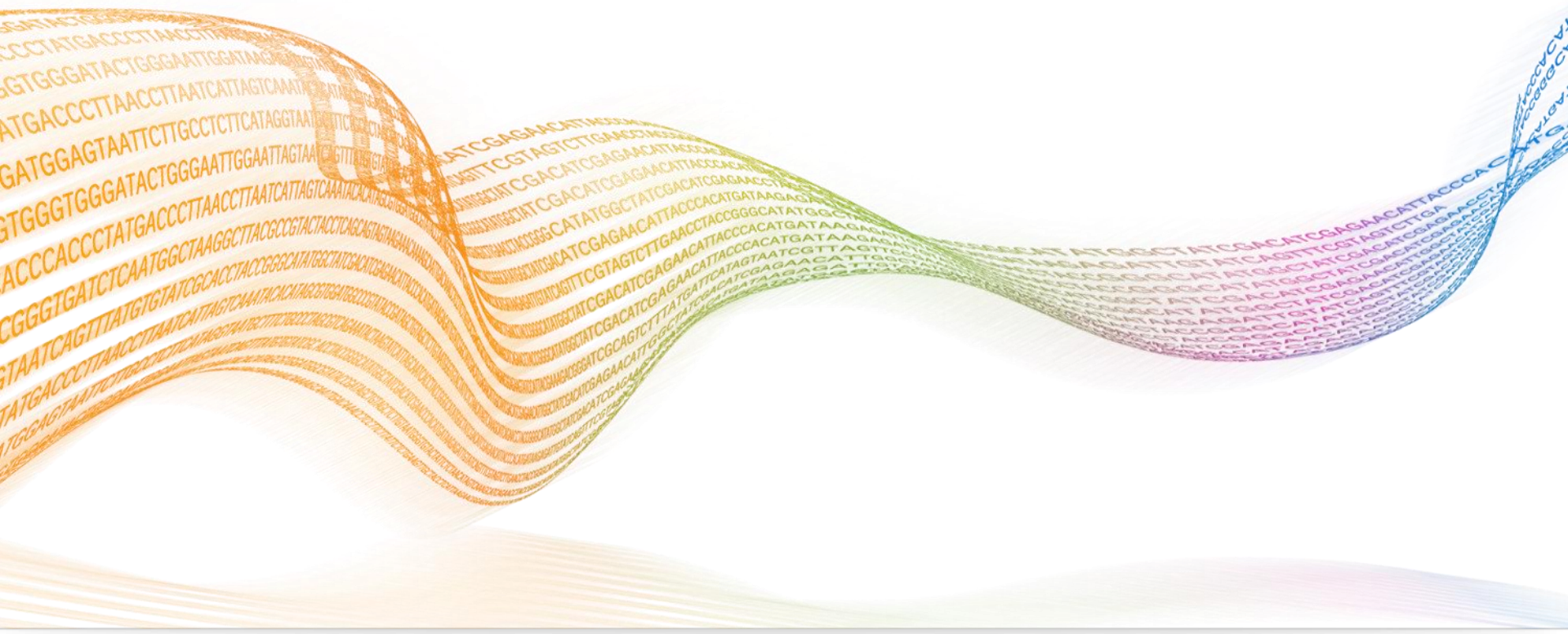
# 2016 Guidance<sup>5</sup>

*Continuing to deliver strong revenue growth*

2016	
<b>Revenue<sup>1</sup></b>	<b>Assumptions</b>
<hr/>	<hr/>
+16% YoY <sup>1</sup>	<b>GM%<sup>3</sup>: ~73%</b>
<b>EPS<sup>2</sup></b>	<b>NCI<sup>4</sup>: \$30M</b>
<hr/>	<b>Shares: 149M</b>
\$3.55 – \$3.65	

1. Revenue guidance assumes constant currency rates from January 29, 2016; a 1% headwind from currency is included in total company revenue guidance
2. Non-GAAP EPS attributable to Illumina stockholders, including stock based compensation expense; Includes \$0.10 and \$0.15 of dilution from Helix and GRAIL, respectively
3. Adjusted non-GAAP excluding stock based compensation expense
4. Non-controlling interest is the portion of net loss associated with Helix and GRAIL that is not attributable to the Illumina shareholders
5. Guidance given by press release and 8-k on February 2, 2016

# Non-GAAP Reconciliations



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

	Three Months Ended		Years Ended	
	January 3, 2016	December 28, 2014	January 3, 2016	December 28, 2014
<b>GAAP earnings per share attributable to Illumina stockholders - diluted</b>	<b>\$ 0.70</b>	<b>\$ 1.03</b>	<b>\$ 3.10</b>	<b>\$ 2.37</b>
Amortization of acquired intangible assets	0.09	0.08	0.35	0.32
Non-cash interest expense (a)	0.06	0.07	0.26	0.26
Legal contingencies (b)	0.03	(0.40)	0.13	(0.24)
Contingent compensation expense (c)	—	—	—	0.03
Headquarter relocation	—	0.01	(0.02)	0.04
Loss on extinguishment of debt	—	—	0.03	0.21
Acquisition related expense (gain), net (d)	—	(0.02)	(0.04)	(0.02)
Cost-method investment gain, net (e)	—	—	(0.10)	(0.03)
Tax benefit related to cost-sharing arrangement (f)	—	—	(0.17)	—
Incremental non-GAAP tax (expense) benefit (g)	(0.07)	0.10	(0.22)	(0.20)
<b>Non-GAAP earnings per share attributable to Illumina stockholders - diluted (h)</b>	<b>\$ 0.81</b>	<b>\$ 0.87</b>	<b>\$ 3.32</b>	<b>\$ 2.74</b>
Shares used in calculating non-GAAP diluted earnings per share attributable to Illumina stockholders	148,952	148,657	149,069	148,815

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

<b>GAAP net income attributable to Illumina stockholders</b>	<b>\$ 104,477</b>	<b>\$ 153,280</b>	<b>\$ 461,559</b>	<b>\$ 353,351</b>
Amortization of acquired intangible assets	12,376	12,203	51,829	48,165
Non-cash interest expense (a)	8,705	10,099	38,589	38,154
Legal contingencies (b)	4,000	(59,483)	19,000	(35,931)
Contingent compensation expense (c)	685	433	934	4,265
Headquarter relocation	436	1,281	(2,611)	5,638
Loss on extinguishment of debt	325	—	4,062	31,360
Acquisition related expense (gain), net (d)	325	(2,304)	(6,124)	(2,639)
Cost-method investment gain, net (e)	(119)	—	(15,601)	(4,427)
Impairments (i)	—	(485)	—	(485)
Tax benefit related to cost-sharing arrangement (f)	(56)	—	(24,813)	—
Incremental non-GAAP tax (expense) benefit (g)	(10,584)	13,925	(31,621)	(30,234)
<b>Non-GAAP net income attributable to Illumina stockholders (h)</b>	<b>\$ 120,570</b>	<b>\$ 128,949</b>	<b>\$ 495,203</b>	<b>\$ 407,217</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 earnings per share	148,952	148,657	149,069	148,977
Weighted average dilutive potential common shares issuable of redeemable convertible senior notes	—	—	—	(162)
<b>Weighted average shares used in calculation of non-GAAP diluted earnings per share attributable to Illumina stockholders</b>	<b>148,952</b>	<b>148,657</b>	<b>149,069</b>	<b>148,815</b>

# Reconciliation Between GAAP and Non-GAAP Tax Provision:

	Three Months Ended				Year Ended			
	January 3, 2016		December 28, 2014		January 3, 2016		December 28, 2014	
<b>GAAP tax provision</b>	<b>\$ 32,143</b>	<b>23.8 %</b>	<b>\$ 38,781</b>	<b>20.2 %</b>	<b>\$ 125,752</b>	<b>21.6 %</b>	<b>\$ 95,407</b>	<b>21.3 %</b>
Incremental tax expense (g)	10,584	39.6 %	(13,925)	36.4 %	31,621	35.1 %	30,234	36.0 %
Tax benefit related to cost-sharing arrangement(f)	56	—	—	—	24,813	—	—	—
Non-GAAP tax provision	<u>\$ 42,783</u>	26.5 %	<u>\$ 24,856</u>	16.2 %	<u>\$ 182,186</u>	27.1 %	<u>\$ 125,641</u>	23.6 %

## 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) Legal contingencies in fiscal 2015 represent charges related to patent litigation. Legal contingencies in fiscal 2014 primarily represent a gain related to the settlement of our patent litigation with Syntrix Biosystems, Inc., partially offset by the expenses recorded upon our litigation settlement and pooling of patents with Sequenom, Inc.

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

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

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

(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) benefit 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 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.

(i) 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.

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

	Three Months Ended				Years Ended			
	January 3, 2016		December 28, 2014		January 3, 2016		December 28, 2014	
<b>GAAP gross profit</b>	<b>\$ 410,359</b>	<b>69.4 %</b>	<b>\$ 384,937</b>	<b>75.1 %</b>	<b>\$ 1,549,290</b>	<b>69.8 %</b>	<b>\$ 1,297,710</b>	<b>69.7 %</b>
Stock-based compensation expense	3,195	0.5 %	2,959	0.6 %	11,450	0.5 %	10,655	0.6 %
Amortization of acquired intangible assets	10,853	1.8 %	10,616	2.1 %	45,810	2.1 %	39,373	2.1 %
Legal contingencies (a)	—	—	(26,240)	(5.1)%	—	—	(10,393)	(0.6)%
Impairments (b)	—	—	(2,000)	(0.4)%	—	—	(2,000)	(0.1)%
<b>Non-GAAP gross profit (c)</b>	<b>\$ 424,407</b>	<b>71.7 %</b>	<b>\$ 370,272</b>	<b>72.3 %</b>	<b>\$ 1,606,550</b>	<b>72.4 %</b>	<b>\$ 1,335,345</b>	<b>71.7 %</b>
<b>GAAP research and development expense</b>	<b>\$ 114,347</b>	<b>19.3 %</b>	<b>\$ 142,947</b>	<b>27.9 %</b>	<b>\$ 401,527</b>	<b>18.1 %</b>	<b>\$ 388,055</b>	<b>20.8 %</b>
Stock-based compensation expense	(10,849)	(1.8)%	(11,837)	(2.3)%	(42,001)	(1.9)%	(50,880)	(2.7)%
Contingent compensation expense (d)	(83)	—	(433)	(0.1)%	(127)	—	(1,509)	(0.1)%
Legal contingencies (a)	—	—	(48,800)	(9.5)%	—	—	(48,800)	(2.6)%
Impairments (b)	—	—	(1,515)	(0.3)%	—	—	(1,515)	(0.1)%
<b>Non-GAAP research and development expense</b>	<b>\$ 103,415</b>	<b>17.5 %</b>	<b>\$ 80,362</b>	<b>15.7 %</b>	<b>\$ 359,399</b>	<b>16.2 %</b>	<b>\$ 285,351</b>	<b>15.3 %</b>
<b>GAAP selling, general and administrative expense</b>	<b>\$ 147,251</b>	<b>24.9 %</b>	<b>\$ 122,173</b>	<b>23.8 %</b>	<b>\$ 524,657</b>	<b>23.6 %</b>	<b>\$ 466,283</b>	<b>25.1 %</b>
Stock-based compensation expense	(21,445)	(3.6)%	(23,666)	(4.6)%	(79,142)	(3.5)%	(91,016)	(4.9)%
Amortization of acquired intangible assets	(1,523)	(0.3)%	(1,587)	(0.3)%	(6,019)	(0.3)%	(8,792)	(0.6)%
Contingent compensation expense (d)	(602)	(0.1)%	—	—	(807)	—	(2,756)	(0.1)%
<b>Non-GAAP selling, general and administrative expense</b>	<b>\$ 123,681</b>	<b>20.9 %</b>	<b>\$ 96,920</b>	<b>18.9 %</b>	<b>\$ 438,689</b>	<b>19.8 %</b>	<b>\$ 363,719</b>	<b>19.5 %</b>
<b>GAAP operating profit</b>	<b>\$ 144,000</b>	<b>24.3 %</b>	<b>\$ 202,883</b>	<b>39.6 %</b>	<b>\$ 612,841</b>	<b>27.6 %</b>	<b>\$ 514,711</b>	<b>27.7 %</b>
Stock-based compensation expense	35,489	6.0 %	38,462	7.5 %	132,593	5.9 %	152,551	8.2 %
Amortization of acquired intangible assets	12,376	2.1 %	12,203	2.4 %	51,829	2.4 %	48,165	2.6 %
Legal contingencies (a)	4,000	0.7 %	(59,483)	(11.6)%	19,000	0.9 %	(35,931)	(1.9)%
Contingent compensation expense (d)	685	0.1 %	433	0.1 %	934	—	4,265	0.2 %
Headquarter relocation	436	0.1 %	1,281	0.2 %	(2,611)	(0.1)%	5,638	0.2 %
Acquisition related expense (gain), net (e)	325	0.1 %	(2,304)	(0.4)%	(6,124)	(0.3)%	(2,639)	(0.1)%
Impairments (b)	—	—	(485)	(0.1)%	—	—	(485)	—
<b>Non-GAAP operating profit (c)</b>	<b>\$ 197,311</b>	<b>33.4 %</b>	<b>\$ 192,990</b>	<b>37.7 %</b>	<b>\$ 808,462</b>	<b>36.4 %</b>	<b>\$ 686,275</b>	<b>36.9 %</b>
<b>GAAP other expense, net</b>	<b>\$ (8,993)</b>	<b>(1.5)%</b>	<b>\$ (10,822)</b>	<b>(2.1)%</b>	<b>\$ (29,699)</b>	<b>(1.3)%</b>	<b>\$ (65,953)</b>	<b>(3.5)%</b>
Non-cash interest expense (f)	8,705	1.5 %	10,099	2.0 %	38,589	1.7 %	38,154	2.0 %
Loss on extinguishment of debt	325	—	—	—	4,062	0.2 %	31,360	1.7 %
Cost-method investment gain, net (g)	(119)	—	—	—	(15,601)	(0.7)%	(4,427)	(0.2)%
<b>Non-GAAP other expense, net (c)</b>	<b>\$ (82)</b>	<b>—</b>	<b>\$ (723)</b>	<b>(0.1)%</b>	<b>\$ (2,649)</b>	<b>(0.1)%</b>	<b>\$ (866)</b>	<b>—</b>

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

**(a)** Legal contingencies in fiscal 2015 represent charges related to patent litigation. Legal contingencies recorded in fiscal 2014 primarily represent a gain related to the settlement of our patent litigation with Syntrix Biosystems, Inc., or Syntrix, partially offset by the expenses recorded upon our litigation settlement and pooling of patents with Sequenom, Inc., or Sequenom. The gain associated with the Syntrix settlement was recorded partially as a reversal of cost of sales and partially as a reduction of operating expense. The upfront payments to Sequenom were recorded in research and development expense.

**(b)** Impairments in fiscal 2014 consisted of a gain recorded in cost of sales on an asset sale associated with a non-core product line discontinued in 2013, partially offset by an intangible asset impairment recorded in research and development expense.

**(c)** 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.

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

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

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

# Reconciliation of Non-GAAP Financial Guidance

	<u>Fiscal Year 2016</u>
<b>Gross margin</b>	
Non-GAAP gross margin	73%
Amortization of acquired intangible assets	<u>(2)%</u>
<b>GAAP gross margin</b>	<u><b>71%</b></u>
<b>Operating margin</b>	
Non-GAAP operating margin <b>(a)</b>	33%
Stock-based compensation expense	(6)%
Amortization of acquired intangible assets	<u>(2)%</u>
<b>GAAP operating margin</b>	<u><b>25%</b></u>
<b>Diluted earnings per share attributable to Illumina stockholders</b>	
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$3.55 - \$3.65
Amortization of acquired intangible assets	(0.32)
Non-cash interest expense <b>(b)</b>	(0.20)
Contingent compensation <b>(c)</b>	(0.02)
Headquarter relocation <b>(d)</b>	(0.01)
Incremental non-GAAP tax expense <b>(e)</b>	0.19
<b>GAAP diluted earnings per share attributable to Illumina stockholders</b>	<u><b>\$3.19 - \$3.29</b></u>

**(a)** Operating margin implied at the mid-point of guidance provided for non-GAAP diluted earnings per share.

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

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

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