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ILMN Q218 Summary of Prepared Remarks

	Q218	Yr/Yr	Management Commentary
Sequencing Consumables	$455M	35%	- Reflects stronger than expected demand. - Saw broad-based growth with customers in research, translational and clinical settings. - Growth across high-throughput (HT), mid-throughput (MT) and low-throughput (LT) sequencing system categories. - Includes ~$13M of stocking associated with buying in China ahead of potential tariffs; excluding this, growth was 31%.
Microarrays Consumables	$85M	33%	
Total Consumables	$540M	34%	- Represented 65% of total revenue in Q218.
Sequencing Instruments	$123M	-5%	- Grew 10% Qtr/Qtr, up as expected from a seasonally lighter first quarter. - Continue to be pleased with the broad appeal of NovaSeq. - >200 labs have received NovaSeq; driven by capacity expansion, HiSeq conversions and new-to-HT customers.
Microarrays Instruments	$4M	-33%	
Total Instruments	$127M	-7%	- Represented 15% of total revenue in Q218.
Total Products	$673M	24%	- Includes freight.
Sequencing Service & Other	$106M	38%	- Roughly half of revenue from maintenance contracts. - The rest is primarily from our sequencing services labs, along with contributions from our oncology partners.
Microarray Service & Other	$51M	21%	
Total Service & Other	$157M	32%	- Represented 19% of total revenue in Q218.
Total Revenue	$830M	25%	- Benefit from FX contributed 2% to the Yr/Yr growth.

	Yr/Yr	Management Commentary
Americas	19%	- Driven by growth in sequencing consumables and microarrays.
EMEA	36%	- Strong contribution associated with Genomics England program, and initial NovaSeq purchases from the Wellcome Sanger Institute as part of the UK BioBank program.
Asia Pacific	32%	- Driven by increasing volumes at service provider customers and ramping ahead of precision medicine initiatives.
Greater China	42%	- Excluding $13M stocking order, China reported record shipments in Q2. - Strong sequencing service provider partners, with growth in NIPT and research-based areas, including oncology and reproductive health.

Sequencing Updates

	Management Commentary
High-Throughput (HT): NovaSeq & HiSeq	- HT consumables grew >35% Yr/Yr; now approaching a billion-dollar annual run-rate. - NovaSeq consumables grew $40M Qtr/Qtr, with continued strong adoption of S4 and S2, and a healthy ramp in the S1 flow cell launched in February. - Lower HiSeq consumables, although HiSeq 4000 consumables remained strong. - Sizable majority of HiSeq customers who have added at least one NovaSeq system have increased their total spend on consumables.
Mid-Throughput (MT): NextSeq	- MT consumables grew >50% Yr/Yr. - Pull-through exceeded the high end of the $100,000 to $150,000 guidance range. - MT instrument shipments grew Qtr/Qtr; good mix of capacity expansion and new-to-NextSeq customers.
Low-Throughput (LT): MiSeq, MiniSeq & iSeq	- Saw sequential and Yr/Yr growth in LT sequencing consumables. - MiniSeq and MiSeq consumable pull-through within their expected ranges. - Consumables for these systems represent >10% of sequencing consumable business. - System placements increased Qtr/Qtr and Yr/Yr; new-to-sequencing customers represented >50% in Q218. - Started shipping to iSeq customers in late Q218.
Library Prep	- Grew 25% from Q217; now approaching 15% of sequencing consumable business.
Oncology	- Both Bristol Myers Squibb and Loxo Oncology programs completed first full quarter of work and are progressing well. - Encouraged by positive feedback from key opinion leaders on an early version of the TruSight Oncology 500 assay.

Microarray Updates

	Management Commentary
Microarrays	- Revenue grew 25% from Q217, with growth not only in DTC but also in global research applications spanning genotyping and epigenetics. - Growth was strong in all regions. - Secured our largest single order for the Infinium MethylationEPIC Beadchip. - Sequentially, microarray revenue was down, associated with DTC seasonality.

Q218 Non-GAAP Financial Highlights

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	Q218	Yr/Yr	Qtr/Qtr	Management Commentary
Gross Margin	70.3%	+3.3%	+0.5%	- Experienced higher mix of sequencing consumables (55% in Q218 vs. 53% in Q118 and 51% in Q217).
Operating expenses	$348M	+$51M	+$32M	- Qtr/Qtr largely due to higher R&D investments, headcount additions and increased variable compensation expense.
Operating Margin	28.4%	+6.3%	-1.1%	- Excluding Helix, OM% was 30.6% vs. 31.9% in Q118.
Tax Rate	15.9%	-9.2%	+3.0%	- Saw additional benefit related to Helix investment and favorable 2017 foreign tax return adjustment. - Excluding Helix benefit, tax rate would have been 16.9%.
Net Income attributable to Illumina stockholders	$212M	+$91M	-$2M	
EPS attributable to Illumina stockholders (diluted)	$1.43	+74%	-1%	- Impact of FX increased Q2 EPS by ~$0.03 vs. last year.

	Q218	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$295M	+$117M	+$40M	
DSO	43 days		-4 days	- Driven by improved revenue linearity.
Capital expenditures	$77M	+$8M	-$13M	
Free Cash Flow	$218M	+$109M	+$53M	
Cash & Short-term Investments	$2.5B	+$619M	+$139M	

Guidance

	Q218 Update	Management Commentary
FY18 Revenue	Approximately 20% growth in 2018 (was 15-16%)	- Up $124M vs. the midpoint of previous guidance. - Compared to previous guidance, reflects higher sequencing consumables reported in the first half. - Expect increase in sequencing consumables vs. prior FY18 forecast, notably associated with NovaSeq. - Expect NovaSeq shipments in the 330 to 350 unit range for this year.
FY18 Non-GAAP GM	-	- Continue to expect GM to be up modestly from FY17.
FY18 Non-GAAP Operating Expenses	-	- As a % of revenue, expected to be slightly lower in FY18 vs. the 43.5% of revenue reported in FY17. - Driven by a higher revenue outlook and slower growth in headcount than anticipated.
FY18 Non-GAAP Tax Rate	16-17% (was ~18%)	- Reflects modest Helix benefit in Q218 and the favorable tax return adjustment. - On go-forward basis, expect tax rate of ~19%.
FY18 GAAP EPS attributable to Illumina stockholders	$5.10 to $5.20 (was $4.45 to $4.55)	
FY18 Non-GAAP EPS attributable to Illumina stockholders	$5.35 to $5.45 (was $4.75 to $4.85)	- Continue to expect ~$0.25 of Helix dilution. - Expect share count for 2018 to be ~148M.

	Management Commentary
Q318 Revenue	- Expect revenue to be flat to slightly up from Q218. - Expect a more modest sequential increase in sequencing consumables, as the $13M stocking order in Q218 effectively pulled revenue from later periods. - Expect sequencing system revenue growth. - Expect arrays to be down meaningfully on a sequential basis reflecting seasonality in DTC. - Expect FX to be less of an impact in the back-half of 2018.
Q318 Non-GAAP GM	- Expect GM to be down modestly on a sequential basis reflecting mix.
Q318 Non-GAAP Operating Expenses	- Expect operating expenses to increase sequentially on a percentage of revenue basis, given expected hiring and investment plans.

Illumina, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2018	**July 2, 2017**	**July 1, 2018**	**July 2, 2017**
Net cash provided by operating activities	$ 295	$ 178	$ 550	$ 346
Net cash (used in) provided by investing activities	(536)	36	(525)	198
Net cash provided by (used in) financing activities	30	23	97	(62)
Effect of exchange rate changes on cash and cash equivalents	(5)	1	(3)	2
Net (decrease) increase in cash and cash equivalents	(216)	238	119	484
Cash and cash equivalents, beginning of period	1,560	981	1,225	735
Cash and cash equivalents, end of period	$ 1,344	$ 1,219	$ 1,344	$ 1,219
Calculation of free cash flow:				
Net cash provided by operating activities	$ 295	$ 178	$ 550	$ 346
Purchases of property and equipment	(77)	(69)	(167)	(152)
Free cash flow **(a)**	$ 218	$ 109	$ 383	$ 194

(a) Free cash flow, which is a non-GAAP financial measure, is calculated as net cash provided by operating activities reduced by purchases of property and equipment. Free cash flow is useful to management as it is one of the metrics used to evaluate our performance and to compare us with other companies in our industry. However, our calculation of free cash flow may not be comparable to similar measures used by other companies.

Illumina, Inc.
Results of Operations - Non-GAAP
(In millions, except per share amounts)
(unaudited)

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

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 1.41**	**$ 0.87**	**$ 2.82**	**$ 3.35**
Amortization of acquired intangible assets	0.06	0.08	0.12	0.16
Non-cash interest expense **(a)**	0.05	0.05	0.10	0.10
Strategic investment related gains **(b)**	(0.05)	(0.01)	(0.10)	(0.02)
Restructuring **(c)**	—	—	0.03	—
Legal contingencies **(d)**	—	(0.05)	—	—
Gain on deconsolidation of GRAIL **(e)**	—	—	—	(3.07)
Impairments **(f)**	—	—	—	0.15
Performance-based compensation related to GRAIL Series B financing **(g)**	—	—	—	0.03
Acquisition related gain **(h)**	—	—	—	(0.01)
Incremental non-GAAP tax expense **(i)**	(0.02)	(0.03)	(0.04)	0.91
Excess tax benefit from share-based compensation **(j)**	(0.02)	(0.09)	(0.05)	(0.14)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(k)**	$ 1.43	$ 0.82	$ 2.88	$ 1.46

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

	Three Months Ended July 1, 2018	Three Months Ended July 2, 2017	Six Months Ended July 1, 2018	Six Months Ended July 2, 2017
GAAP net income attributable to Illumina stockholders	**$ 209**	**$ 128**	**$ 417**	**$ 495**
Amortization of acquired intangible assets	9	12	18	24
Non-cash interest expense **(a)**	7	8	15	15
Strategic investment related gains **(b)**	(7)	(1)	(15)	(3)
Restructuring **(c)**	—	—	4	—
Legal contingencies **(d)**	—	(8)	—	—
Gain on deconsolidation of GRAIL **(e)**	—	—	—	(453)
Impairments **(f)**	—	—	—	23
Performance-based compensation related to GRAIL Series B financing **(g)**	—	—	—	4
Acquisition related gain **(h)**	—	—	—	(1)
Incremental non-GAAP tax expense **(i)**	(3)	(5)	(6)	132
Excess tax benefit from share-based compensation **(j)**	(3)	(13)	(7)	(20)
Non-GAAP net income attributable to Illumina stockholders **(k)**	$ 212	$ 121	$ 426	$ 216

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) Amount consists primarily of mark-to-market adjustments from our strategic investments.
(c) Amount consists primarily of employee costs related to restructuring that occurred in Q1 2018 and Q4 2017.
(d) Legal contingencies for 2017 represent charges related to patent litigation.
(e) Amount represents the gain recognized as a result of the deconsolidation of GRAIL in Q1 2017. The $150 million tax effect of the gain is included in incremental non-GAAP tax expense.
(f) Amount for 2017 represents impairment of an acquired intangible asset and in-process research and development of $18 million and $5 million, respectively.
(g) Amount represents performance-based stock which vested as a result of the financing in Q1 2017, net of attribution to noncontrolling interest.
(h) Acquisition related gain consists of change in fair value of contingent consideration.
(i) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
(j) Amount represents tax deductions taken in excess of stock compensation cost.
(k) 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 (continued)

(Dollars in millions)

(unaudited)

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

	Three Months Ended				Six Months Ended			
	July 1, 2018		July 2, 2017		July 1, 2018		July 2, 2017	
GAAP gross profit	**$ 575**	**69.3 %**	**$ 434**	**65.5 %**	**$ 1,113**	**69.0 %**	**$ 802**	**63.6 %**
Amortization of acquired intangible assets	9	1.0 %	10	1.5 %	17	1.1 %	21	1.7 %
Impairment **(a)**	—	—	—	—	—	—	18	1.4 %
Non-GAAP gross profit **(b)**	$ 584	70.3 %	$ 444	67.0 %	$ 1,130	70.1 %	$ 841	66.7 %
GAAP research and development expense	**$ 151**	**18.2 %**	**$ 130**	**19.7 %**	**$ 288**	**17.9 %**	**$ 275**	**21.8 %**
Restructuring **(c)**	—	—	—	—	(1)	(0.1)%	—	—
Impairment **(a)**	—	—	—	—	—	—	(5)	(0.4)%
Non-GAAP research and development expense	$ 151	18.2 %	$ 130	19.7 %	$ 287	17.8 %	$ 270	21.4 %
GAAP selling, general and administrative expense	**$ 197**	**23.7 %**	**$ 161**	**24.2 %**	**$ 380**	**23.5 %**	**$ 332**	**26.3 %**
Amortization of acquired intangible assets	—	—	(2)	(0.2)%	(1)	(0.1)%	(3)	(0.2)%
Restructuring **(c)**	—	—	—	—	(3)	(0.1)%	—	—
Performance-based compensation related to GRAIL Series B financing **(d)**	—	—	—	—	—	—	(10)	(0.8)%
Legal contingencies **(e)**	—	—	8	1.2 %	—	—	—	—
Acquisition related gain **(f)**	—	—	—	—	—	—	1	0.1 %
Non-GAAP selling, general and administrative expense	$ 197	23.7 %	$ 167	25.2 %	$ 376	23.3 %	$ 320	25.4 %
GAAP operating profit	**$ 227**	**27.4 %**	**$ 143**	**21.6 %**	**$ 445**	**27.6 %**	**$ 195**	**15.5 %**
Amortization of acquired intangible assets	9	1.0 %	12	1.7 %	18	1.1 %	24	1.9 %
Restructuring **(c)**	—	—	—	—	4	0.2 %	—	—
Impairments **(a)**	—	—	—	—	—	—	23	1.8 %
Performance-based compensation related to GRAIL Series B financing **(d)**	—	—	—	—	—	—	10	0.8 %
Legal contingencies **(e)**	—	—	(8)	(1.2)%	—	—	—	—
Acquisition related gain **(f)**	—	—	—	—	—	—	(1)	(0.1)%
Non-GAAP operating profit **(b)**	$ 236	28.4 %	$ 147	22.1 %	$ 467	28.9 %	$ 251	19.9 %
GAAP other income (expense), net	**$ 5**	**0.6 %**	**$ (2)**	**(0.3)%**	**$ 8**	**0.5 %**	**$ 450**	**35.7 %**
Non-cash interest expense **(g)**	7	0.8 %	8	1.2 %	15	0.9 %	15	1.2 %
Strategic investment related gains **(h)**	(7)	(0.8)%	(1)	(0.2)%	(15)	(0.9)%	(3)	(0.2)%
Gain on deconsolidation of GRAIL **(i)**	—	—	—	—	—	—	(453)	(36.0)%
Non-GAAP other income, net **(b)**	$ 5	0.6 %	$ 5	0.7 %	$ 8	0.5 %	$ 9	0.7 %

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) Impairments for 2017 include $18 million impairment of an acquired intangible asset and $5 million in-process research and development.

(b) 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 our products and services. Non-GAAP operating profit, and non-GAAP other 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 operating performance.

(c) Amount consists primarily of employee costs related to restructuring that occurred in Q1 2018 and Q4 2017.

(d) Amount represents performance-based stock which vested as a result of the financing in Q1 2017.

(e) Legal contingencies for 2017 represent charges related to patent litigation.

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

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

(h) Amount consists primarily of mark-to-market adjustments from our strategic investments.

(i) Amount represents the gain recognized as a result of the deconsolidation of GRAIL in Q1 2017.

Illumina, Inc.
Reconciliation of Non-GAAP Financial Guidance

Our future performance and financial results are subject to risks and uncertainties, and actual results could differ materially from the guidance set forth below. Information on potential factors that could affect our financial results is included from time to time in the public reports filed with the Securities and Exchange Commission, including Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 12, 2018, and Form 10-Q for the fiscal quarter ended April 1, 2018. We assume no obligation to update any forward-looking statements or information.

	Fiscal Year 2018
GAAP diluted earnings per share attributable to Illumina stockholders (a)	**$5.10 - $5.20**
Amortization of acquired intangible assets	0.25
Non-cash interest expense **(b)**	0.21
Strategic investment related gains **(c)**	(0.10)
Restructuring **(d)**	0.03
Incremental non-GAAP tax expense **(e)**	(0.09)
Excess tax benefits from share-based compensation **(f)**	(0.05)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	$5.35 - $5.45

(a) Amount excludes the potential tax expense as a result of the Ninth Circuit decision on July 24, 2018 to overturn a tax court opinion that stock compensation should be excluded from cost sharing charges.
(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 consists primarily of mark-to-market adjustments from our strategic investments.
(d) Amount consists primarily of employee severance and retention costs related to the restructuring that occurred in Q1 2018 and Q4 2017.
(e) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed above.
(f) Amount represents tax deductions taken in excess of stock compensation cost.

Illumina, Inc.

Results of Operations - Non-GAAP (continued)

(Dollars in millions)

(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended July 1, 2018		
GAAP tax provision	**$**	**32**	**13.9%**
Incremental non-GAAP tax expense **(a)**		3	
Excess tax benefit from share-based compensation **(b)**		3	
Non-GAAP tax provision	$	38	15.9%

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

(b) Amount represents tax deductions taken in excess of stock compensation cost.