illumina®

ILMN Q317 Summary of Prepared Remarks

	Q317	Yr/Yr	Management Commentary
Sequencing Consumables	$380M	14%	Sequential growth of $42M, the largest ever sequential dollar increase in the sequencing consumables business, driven by growth in installed base and strong NextSeq utilization, in addition to stronger than expected HiSeq consumables.
Arrays Consumables	$71M	13%	
Total Consumables	$451M		Represented 63% of total revenue.
Sequencing Instruments	$128M	21%	Driven primarily by NovaSeq and offset in part by muted shipments of HiSeq family as expected.
Arrays Instruments	$12M		Unusually strong quarter, driven primarily by shipments to our direct-to-consumer customers.
Total Instruments	$140M	24%	Represented 20% of total revenue.
Total Products	$596M	16%	Includes freight.
Total Service & Other	$118M	26%	Strength in genotyping services due to consumer demand and sequencing instrument maintenance contracts.
Total Revenue	$714M	18%	

Revenue by Geography

	Yr/Yr	Management Commentary
Americas	20%	
EMEA	15%	Growth in both sequencing instruments and consumables.
Asia Pacific	15%	Continued weakness in Japan more than offset by >30% shipment growth in China.

NovaSeq System Updates

	Management Commentary
Shipments	- Approximately 200 in first three quarters of 2017, including >80 in Q317. - NovaSeq shipments increased sequentially. - Shipments no longer constrained by manufacturing capacity. - Currently on track to exceed the FY17 forecast we targeted at launch.
Orders	- ~70 orders in the quarter. - Most orders came from existing HiSeq customers. - Confident that most of our 800 HiSeq customers will upgrade to NovaSeq. - Many HiSeq X customers have ordered first NovaSeq to start validations and new projects. As a result, expect to continue to see strong NovaSeq uptake through Q417, into 2018, and beyond. - ~1/3 from new-to-Illumina sequencing or previously benchtop-only customers. - Believe we are still in earliest stages of a multi-year adoption cycle that extends well beyond our HiSeq customer population.

	Management Commentary
Backlog	- Ended Q3 with backlog of more than 100 systems. - Going forward, and as expected, backlog should start to trend downwards now the manufacturing constraints are behind us.
S4	- Delivered to early-access customers as expected. - Feedback on initial runs at seven customer sites has been very positive, with performance exceeding expectations. - S4 enables a lower price per sample compared to HiSeq X for customers in our highest tiers of utilization. Ideally suited for high intensity sequencing applications. - Now commercially available.
NovaSeq Xp Workflow	- Individually addressable lane workflow that we announced back in April. - Enables libraries to be loaded directly into each lane of the flow cell, allowing customers to partition different libraries, projects, samples, and applications. - Expect to begin beta testing in the coming weeks. - Full commercial release expected before the end of the year.
S1	- Expect to bring to market in Q118. - Lowest output flow cell for NovaSeq (1Tb per run, or 500 Gb per flow cell). - Expected to be a very attractive upgrade option for HiSeq 2500 customers, including those who utilize the rapid run option. - Will nicely round out our flow cell portfolio which can now accommodate data yields of between 500 Gb and 6 Tb.
S3	- We have suspended plans for an S3 flow cell, with an output of 4 Tb, given strong customer preference to use S4 for high output applications and either S1 or S2 for lower output applications.
NovaSeq 5000	- Had plans for NovaSeq 5000, a lower output and marginally lower cost NovaSeq that would run just S1 and S2. - Based on customer feedback and experience, we believe the existing 6000 fully meets all our customers' needs, in addition to enabling greater flexibility to scale in the future without an additional capital purchase. - We have therefore decided not to launch NovaSeq 5000, instead focusing on the 6000.

<u>Other Sequencing System and Consumable Updates</u>

	Management Commentary
HiSeq	- HiSeq consumables increased sequentially driven by a few large clinical commercial customers who are seeing growing sample volume. - Excluding this group, HiSeq consumables declined. - Expectations remain that HiSeq consumables will trend lower going forward, given the transition to NovaSeq and NextSeq.
HiSeq X	- HiSeq X consumables increased sequentially driven by translational studies and growth in China. - Expect HiSeq X consumables to follow a similar trend to HiSeq consumables, with the decline to begin sometime in the coming quarters.
Benchtop Portfolio	- System shipments were essentially flat from Q217. - Win-rates remain stable. - New to sequencing customers represented over half of NextSeq, MiniSeq and MiSeq placements in Q317.

	- Utilization was within each instrument's respective guidance range except for record NextSeq performance that exceeded upper end of our range and was once again driven by production clinical customers.
Clinical	- Shipments to clinical customers grew 35% yr/yr, largely driven by liquid biopsy customers. - Oncology testing shipment growth accelerated from last quarter.
VeriSeq NIPT CE-IVD	- First full quarter of availability. - Number of shipped samples and revenue almost doubled sequentially. - Added a sizeable German customer during quarter that will start ramping around end of the year.

Other Updates

	Management Commentary
Microarrays	- Revenue grew 27% to $121 million, with continued momentum among our direct-to-consumer customers.
Helix	- Formally launched in July. - Helix added 6 new apps from 4 new partners, bringing total available to 26. - Helix exploring new commercial avenues, with some products now available on amazon.com. - Teamed up with Illumina Accelerator to support start-up companies working to create breakthrough DNA-driven products for consumers.

Q317 Non-GAAP Financial Highlights

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

	Q317	**Yr/Yr**	**Qtr/Qtr**	**Management Commentary**
Gross Margin	68.8%	-320bps	+180bps	- Qtr/Qtr improved with more favorable sequencing consumables mix with growth in NovaSeq and NextSeq. - Yr/Yr impacted by increase in array services mix and lower instrument margin due to NovaSeq introduction.
Operating expenses	$299M		+$2M	- Higher Helix launch expenses and increased headcount offset in part by lower stock-based compensation expense.
Operating Margin	26.8%	-190bps	+470bps	- Excluding Helix, operating margin was 29.7% compared to 24.4% in Q217.
Tax Rate	21.6%			- Lower than expected, with a one-time benefit associated with the increase in income attributable to overseas manufacturing compared to what we forecasted earlier this year. - Saw additional benefit with R&D credits and foreign tax credits on prior year returns filed in third quarter.
Net Income attributable to Illumina stockholders	$163M			

EPS attributable to Illumina stockholders (diluted)	$1.11			- Helix dilution $0.07.

	Q317	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$235M			
DSO	49 days		-2 days	- Improved revenue linearity and continued reductions in our collections cycle.
Capital expenditures	$82M			
Free Cash Flow	$153M			
Cash & Short-term Investments	$2.0B			
Share Buybacks				- Repurchased ~385K shares under previously announced buyback program at an average price of $195.

Guidance

	Q317 Update	Management Commentary
FY17 Revenue	~13% Growth from 2016 (previously ~12%)	See Q417 comment below.
FY17 GAAP EPS attributable to Illumina stockholders	$5.56 to $5.61	See Q417 comment below.
FY17 Non-GAAP EPS attributable to Illumina stockholders	$3.73 to $3.78	See Q417 comment below.

	Management Commentary
Q417 Revenue	Expect more typical, sequential increase in sequencing consumables.
Q417 Non-GAAP GM	Expected to be slightly up from Q317.
Q417 Non-GAAP Operating expenses	Expected to be flat to slightly up on dollar basis from Q317.
Q417 Non-GAAP Tax Rate	Expect more normalized tax rate in Q417.

Illumina, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2017	**October 2, 2016**	**October 1, 2017**	**October 2, 2016**
Net cash provided by operating activities **(a)**	$ 235	$ 176	$ 581	$ 517
Net cash (used in) provided by investing activities	(97)	(341)	101	(341)
Net cash (used in) provided by financing activities **(a)**	(5)	9	(67)	(151)
Effect of exchange rate changes on cash and cash equivalents	2	(1)	4	1
Net increase (decrease) in cash and cash equivalents	135	(157)	619	26
Cash and cash equivalents, beginning of period	1,219	952	735	769
Cash and cash equivalents, end of period	$ 1,354	$ 795	$ 1,354	$ 795
Calculation of free cash flow:				
Net cash provided by operating activities **(a)**	$ 235	$ 176	$ 581	$ 517
Purchases of property and equipment **(b)**	(82)	(57)	(234)	(178)
Free cash flow **(c)**	$ 153	$ 119	$ 347	$ 339

(a) Excess tax benefit related to stock-based compensation of $26 million and $110 million for the three and nine months ended October 2, 2016, respectively, was reclassified from cash used in financing activities to cash provided by operating activities as a result of the Company's retrospective application of ASU 2016-09 adopted in Q1 2017.

(b) Excludes property and equipment recorded under build-to-suit lease accounting, which are non-cash expenditures, of $1 million and $60 million for the three and nine months ended October 1, 2017, respectively, and $84 million and $169 million for the three and nine months ended October 2, 2016, respectively.

(c) 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		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 1.11**	**$ 0.87**	**$ 4.45**	**$ 2.27**
Amortization of acquired intangible assets	0.07	0.08	0.24	0.25
Non-cash interest expense **(a)**	0.05	0.05	0.15	0.15
Equity-method investment loss (gain) **(b)**	0.01	—	(0.01)	—
Legal contingencies **(c)**	—	—	—	(0.06)
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)	—
Contingent compensation expense **(g)**	—	0.01	—	0.01
Headquarter relocation	—	—	—	0.01
Deemed dividend **(h)**	—	—	—	(0.01)
Incremental non-GAAP tax expense **(i)**	(0.05)	(0.04)	0.84	(0.10)
Excess tax benefit from share-based compensation **(j)**	(0.08)	—	(0.21)	—
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(k)**	$ 1.11	$ 0.97	$ 2.56	$ 2.52

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

	Three Months Ended		Nine Months Ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
GAAP net income attributable to Illumina stockholders (l)	**$ 163**	**$ 129**	**$ 658**	**$ 339**
Amortization of acquired intangible assets	11	12	35	36
Non-cash interest expense **(a)**	8	8	22	22
Equity-method investment loss (gain) **(b)**	1	—	(2)	—
Legal contingencies **(c)**	—	—	—	(9)
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)	—
Contingent compensation expense **(g)**	—	1	—	2
Headquarter relocation	—	—	—	1
Incremental non-GAAP tax expense **(i)**	(8)	(6)	124	(14)
Excess tax benefit from share-based compensation **(j)**	(12)	—	(31)	—
Non-GAAP net income attributable to Illumina stockholders **(k)**	$ 163	$ 144	$ 379	$ 377

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

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

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

(h) 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.

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

(j) 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.

(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.

(l) 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 $163 million and $657 million for the three and nine months ended October 1, 2017, respectively, and $129 million and $336 million for the three and nine months ended October 2, 2016, respectively.

Illumina, Inc.
Results of Operations - Non-GAAP (continued)
(Dollars in millions)
(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended			
	October 1, 2017		October 2, 2016	
GAAP tax provision	**$ 23**	**12.9%**	**$ 37**	**24.2%**
Incremental tax expense **(a)**	8		6	
Excess tax benefit from share-based compensation **(b)**	12		—	
Non-GAAP tax provision	$ 43	21.6%	$ 43	24.6%

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

(b) 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.

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				Nine Months Ended			
	October 1, 2017		October 2, 2016		October 1, 2017		October 2, 2016	
GAAP gross profit	**$ 482**	**67.5 %**	**$ 426**	**70.2 %**	**$ 1,284**	**65.0 %**	**$ 1,247**	**70.1 %**
Amortization of acquired intangible asset	9	1.3 %	11	1.8 %	30	1.6 %	32	1.8 %
Impairment of acquired intangible asset	—	—	—	—	18	0.9 %	—	—
Non-GAAP gross profit **(a)**	$ 491	68.8 %	$ 437	72.0 %	$ 1,332	67.5 %	$ 1,279	71.9 %
GAAP research and development expense	**$ 134**	**18.7 %**	**$ 126**	**20.7 %**	**$ 409**	**20.7 %**	**$ 374**	**21.0 %**
Impairment of in-process research and development	—	—	—	—	(5)	(0.3)%	—	—
Non-GAAP research and development expense	$ 134	18.7 %	$ 126	20.7 %	$ 404	20.4 %	$ 374	21.0 %
GAAP selling, general and administrative expense	**$ 167**	**23.5 %**	**$ 139**	**23.0 %**	**$ 499**	**25.3 %**	**$ 438**	**24.6 %**
Amortization of acquired intangible assets	(2)	(0.3)%	(1)	(0.2)%	(5)	(0.3)%	(4)	(0.2)%
Performance-based compensation related to GRAIL Series B financing **(b)**	—	—	—	—	(10)	(0.5)%	—	—
Acquisition related gain **(c)**	—	—	—	—	1	0.1 %	—	—
Contingent compensation expense **(d)**	—	—	(1)	(0.2)%	—	—	(2)	(0.1)%
Headquarter relocation	—	—	—	—	—	—	(1)	(0.1)%
Non-GAAP selling, general and administrative expense	$ 165	23.2 %	$ 137	22.6 %	$ 485	24.6 %	$ 431	24.2 %
GAAP operating profit	**$ 181**	**25.3 %**	**$ 161**	**26.5 %**	**$ 376**	**19.0 %**	**$ 444**	**25.0 %**
Amortization of acquired intangible assets	11	1.5 %	12	2.0 %	35	1.8 %	36	2.0 %
Legal contingencies **(e)**	—	—	—	—	—	—	(9)	(0.5)%
Impairment of acquired intangible asset	—	—	—	—	18	0.9 %	—	—
Performance-based compensation related to GRAIL Series B financing **(b)**	—	—	—	—	10	0.5 %	—	—
Impairment of in-process research and development	—	—	—	—	5	0.3 %	—	—
Acquisition related gain **(c)**	—	—	—	—	(1)	(0.1)%	—	—
Contingent compensation expense **(d)**	—	—	1	0.2 %	—	—	2	0.1 %
Headquarter relocation	—	—	—	—	—	—	1	0.1 %
Non-GAAP operating profit **(a)**	$ 192	26.8 %	$ 174	28.7 %	$ 443	22.4 %	$ 474	26.7 %
GAAP other (expense) income, net	**$ (6)**	**(0.8)%**	**$ (7)**	**(1.0)%**	**$ 444**	**22.5 %**	**$ (17)**	**(1.0)%**
Non-cash interest expense **(f)**	8	1.1 %	8	1.2 %	22	1.0 %	22	1.3 %
Equity-method investment loss (gain) **(g)**	1	0.1 %	—	—	(2)	(0.1)%	—	—
Gain on deconsolidation of GRAIL **(h)**	—	—	—	—	(453)	(22.9)%	—	—
Non-GAAP other income, net **(a)**	$ 3	0.4 %	$ 1	0.2 %	$ 11	0.5 %	$ 5	0.3 %

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, 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 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 loss (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.

Illumina, Inc.

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. Some of the factors that could affect the company's financial results are stated above in this press release. 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 and July 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	**\$5.56 - \$5.61**
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)**	(0.01)
Acquisition related gain **(e)**	(0.01)
Incremental non-GAAP tax expense **(f)**	0.79
Excess tax benefits from share-based compensation **(g)**	(0.21)
Non-GAAP diluted earnings per share attributable to Illumina stockholders	\$3.73 - \$3.78

(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.

(g) 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.