illumina®

ILMN Q120 Summary of Prepared Remarks

	Q120	Yr/Yr	Qtr/Qtr	Management Commentary
Sequencing Consumables	$553M	+15%	-3%	- Stronger than expected - Less than half of outperformance was associated with COVID-19 related stocking among our clinical customers
Microarrays Consumables	$67M	-11%	-28%	- Consistent with our expectations of the DTC market
Total Consumables	$620M	+12%	-7%	
Sequencing Instruments	$79M	-25%	-44%	- Below expectations driven by COVID-19 disruption - Excluding the COVID-19 impact, would have comfortably exceeded revenue expectation - System shipments down across all families, except NextSeq 2000
Microarrays Instruments	$2M	-67%	-67%	
Total Instruments	$81M	-27%	-45%	
Total Products	$701M	+5%	-14%	
Sequencing Service & Other	$128M	+13%	+3%	- Higher Yr/Yr due to higher licensing revenue
Microarrays Service & Other	$30M	-55%	+76%	- Sequential growth, as expected, given normal DTC seasonality
Total Service & Other	$158M	-12%	+12%	
Total Revenue	$859M	+2%	-10%	- Impacted negatively overall by over $20M, primarily driven by SQ systems, partially offset by modest contribution from COVID-19 related stocking, and broader strength in SQ Cons and SQ Service & other.

	Q120	Yr/Yr	Qtr/Qtr	Management Commentary
Americas	$477M	+1%	-6%	- Beat expectations for Q1 - System shipments lower than expected - Some customers stocking up on SQ Cons
EMEA	$221M	+5%	-21%	- Beat expectations for Q1 - System shipments lower than expected - Some customers stocking up on SQ Cons
Asia Pacific	$77M	+3%	+5%	- Highest total revenue reported for region in ILMN history - Solid SQ Cons growth with record shipments in Japan
Greater China	$84M	-5%	-10%	- Most impacted by COVID-19 in Q1 - SQ systems and SQ Cons were lower than expected

Customer Type

	Management Commentary
Research and Applied Sequencing Runs*	- Ramped well throughout the quarter, peaking during the week ending March 14th - Started to slow week beginning March 15th, especially among academic institutions - Decline rapid in the 2H of March, then stabilized quite quickly, and has been roughly flat since the beginning of April - Volume running at close to 55% of what it was in Q419. - Run volume increased modestly on a sequential basis in the week beginning April 19th, although it is too early to call any kind of trend
Clinical Sequencing Runs*	- Ramped well throughout the quarter, peaking during the week ending March 14th - Reached high point for the quarter during the week ending March 14th - Volume impacted by COVID-19, but somewhat more resilient than research & applied - Volumes started to decline week beginning March 15th, but more slowly than research - Declines extended 4 weeks, started to see stabilization the week beginning April 12th - Volume currently running at just >80% of what it was in Q419 - Run volume increased modestly on a sequential basis in the week beginning April 19th, although it is too early to call any kind of trend

*Not all systems are connected. Runs reported regardless of volume of output and are not directly correlated to revenue

Sequencing Updates

	Management Commentary
High-Throughput (HT): NovaSeq & HiSeq	- NovaSeq pull-through higher than Q119, within guidance range of $1.1 - $1.2M / year - Expect NovaSeq pull-through to step down meaningfully in Q2
Mid-Throughput (MT): NextSeq	- First shipments of NextSeq 2000 were delivered on time on March 9th - Orders for NextSeq 2000 in-line with our internal forecast for Q1, but shipments were lower than expected due to COVID-19 disruption - Initial NextSeq 2000 applications include food safety, genetic disease, cancer, and COVID-19 research - Almost half of NextSeq 2000s shipped were to new-to-Illumina system customers, ahead of our expectations - Pull through for NextSeq 500 and 550s was flat with last quarter
Low-Throughput (LT): MiSeq, MiniSeq & iSeq	- Pull through for MiSeq was flat with last quarter - MiniSeq was below its targeted pull through range

Microarrays Updates

	Management Commentary
Microarrays	In-line with our expectations

Q120 Non-GAAP Financial Highlights

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

	Q120	Yr/Yr	Qtr/Qtr	Management Commentary
Gross margin	73.0%	+280bps	+280bps	- Favorable revenue mix (lower SQ systems and higher SQ Cons and other) - Increased fixed cost leverage as we increased safety stock volumes
Operating expenses	$339M	-$24M	-$33M	- Lower than expected due to delayed project spend, reduced labor-related spend, and reduced travel
Operating margin	33.6%	+640bps	+260bps	- Better than expected
Tax rate	16.1%	+740bps	-240bps	- Lower than expected due to prior year return adjustments and discrete tax benefits related to the release of tax reserves
Net income attributable to Illumina stockholders	$243M	+$6M	-$9M	
EPS attributable to Illumina stockholders (diluted)	$1.64	+2.5%	-3.5%	

	Q120	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$281M	$83M	-$162M	
DSO	50 days	+1 days	-5 days	- Improved Qtr/Qtr due to revenue linearity
Capital expenditures	-$40M	-$16M	-$17M	
Free cash flow	$241M	+$99M	-$145M	
Cash, cash equivalents & short-term Investments	$3.3B	-$283M	-$82M	- Down Qtr/Qtr due to $187M share repurchases, and $132M for the reverse termination fee and continuation advances paid to PacBio

FY20 Guidance

Looking forward, we have withdrawn all our previous guidance due to the uncertainties around the severity and duration of the COVID-19 outbreak. This includes our revenue and EPS guidance, in addition to any other forward-looking comments we have made on NovaSeq or other system pull-through, NextSeq 1000 and 2000 shipments, and popgen expectations for this year.

Q2 2020 Guidance

	Q220 Guidance	Management Commentary
Q220 Revenue	N/A	- We expect revenue to decline sequentially in every region - Smallest dollar decline expected in China, largest in AMR
Q220 Non-GAAP GM	N/A	- Substantially lower revenue will lower our gross margin - Expect a lower gross margin in Q2 - both Qtr/Qtr and Yr/Yr
Q220 Non-GAAP Operating Expenses	N/A	- Expect to be roughly flat on a dollar basis vs Q219

Statement regarding use of non-GAAP financial measures

The company reports non-GAAP results for diluted net income per share, net income, gross margins, operating expenses, operating margins, other income, and free cash flow in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The company's financial measures under GAAP include substantial charges such as amortization of acquired intangible assets, non-cash interest expense associated with the company's convertible debt instruments that may be settled in cash, and others that are listed in the itemized reconciliations between GAAP and non-GAAP financial measures included in this press release. Management has excluded the effects of these items in non-GAAP measures to assist investors in analyzing and assessing past and future operating performance. Additionally, 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.

The company encourages investors to carefully consider its results under GAAP, as well as its supplemental non-GAAP information and the reconciliation between these presentations, to more fully understand its business. Reconciliations between GAAP and non-GAAP results are presented in the tables of this release.

Use of forward-looking statements

This document may contain forward-looking statements that involve risks and uncertainties. Among the important factors to which our business is subject that could cause actual results to differ materially from those in any forward-looking statements are: (i) the impact to our business and operating results of the COVID-19 pandemic; (ii) changes in the rate of growth in the markets we serve; (iii) the volume, timing and mix of customer orders among our products and services; (iv) our ability to adjust our operating expenses to align with our revenue expectations; (v) our ability to manufacture robust instrumentation and consumables; (vi) the success of products and services competitive with our own; (vii) challenges inherent in developing, manufacturing, and launching new products and services, including expanding or modifying manufacturing operations and reliance on third-party suppliers for critical components; (viii) the impact of recently launched or pre-announced products and services on existing products and services; (ix) our ability to further develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and to expand the markets for our technology platforms; (x) our ability to obtain regulatory clearance for our products from government agencies; (xi) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xii) our ability to successfully identify and integrate acquired technologies, products, or businesses; and (xiii) 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.

Illumina, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(unaudited)

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
Net cash provided by operating activities	**$ 281**	$ 198
Net cash (used in) provided by investing activities	**(135)**	988
Net cash used in financing activities	**(191)**	(60)
Effect of exchange rate changes on cash and cash equivalents	**(6)**	—
Net (decrease) increase in cash and cash equivalents	**(51)**	1,126
Cash and cash equivalents, beginning of period	**2,042**	1,144
Cash and cash equivalents, end of period	**$ 1,991**	$ 2,270
Calculation of free cash flow:		
Net cash provided by operating activities	**$ 281**	$ 198
Purchases of property and equipment	**(40)**	(56)
Free cash flow **(a)**	**$ 241**	$ 142

(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)

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

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 1.17**	$ 1.57
Cost of revenue **(b)**	**0.06**	0.06
Research and development costs **(b)**	**(0.01)**	—
Selling, general and administrative costs **(b)**	**0.62**	0.12
Other expense (income), net **(b)**	**0.08**	(0.06)
Incremental non-GAAP tax expense **(c)**	**(0.19)**	(0.03)
Income tax benefit **(d)**	**(0.09)**	(0.06)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(a)**	**$ 1.64**	$ 1.60

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

	Three Months Ended	
	March 29, 2020	**March 31, 2019**
GAAP net income attributable to Illumina stockholders	**$ 173**	$ 233
Cost of revenue **(b)**	**9**	9
Research and development costs **(b)**	**(1)**	—
Selling, general and administrative costs **(b)**	**92**	17
Other expense (income), net **(b)**	**12**	(9)
Incremental non-GAAP tax expense **(c)**	**(29)**	(4)
Income tax benefit **(d)**	**(13)**	(9)
Non-GAAP net income attributable to Illumina stockholders **(a)**	**$ 243**	$ 237

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 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.
(b) Refer to our "Itemized Reconciliation between GAAP and Non-GAAP Results of Operations as a Percent of Revenue," below, for the components of these amounts.
(c) Incremental non-GAAP tax expense reflects the tax impact of the non-GAAP adjustments listed.
(d) Amounts represent 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 RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Three Months Ended			
	March 29, 2020		March 31, 2019	
GAAP gross profit	**$ 619**	**72.1 %**	$ 584	69.1 %
Amortization of acquired intangible assets **(b)**	**7**	**0.8 %**	9	1.1 %
Restructuring **(c)**	**2**	**0.1 %**	—	—
Expenses related to COVID-19 **(d)**	**1**	**0.1 %**	—	—
Income related to COVID-19 **(e)**	**(1)**	**(0.1)%**	—	—
Non-GAAP gross profit **(a)**	**$ 628**	**73.0 %**	$ 593	70.2 %
GAAP research and development expense	**$ 156**	**18.2 %**	$ 169	20.0 %
Income related to COVID-19 **(e)**	**1**	**0.1 %**	—	—
Non-GAAP research and development expense	**$ 157**	**18.3 %**	$ 169	20.0 %
GAAP selling, general and administrative expense	**$ 274**	**31.9 %**	$ 211	24.9 %
Acquisition-related expenses **(f)**	**(92)**	**(10.8)%**	(16)	(1.9)%
Amortization of acquired intangible assets	**—**	**—**	(1)	—
Non-GAAP selling, general and administrative expense	**$ 182**	**21.1 %**	$ 194	23.0 %
GAAP operating profit	**$ 189**	**22.0 %**	$ 204	24.2 %
Cost of revenue	**9**	**0.9 %**	9	1.1 %
Research and development costs	**(1)**	**(0.1)%**	—	—
Selling, general and administrative costs	**92**	**10.8 %**	17	1.9 %
Non-GAAP operating profit **(a)**	**$ 289**	**33.6 %**	$ 230	27.2 %
GAAP other (expense) income, net	**$ (11)**	**(1.3)%**	$ 29	3.4 %
Non-cash interest expense **(g)**	**10**	**1.2 %**	14	1.7 %
Strategic investment related gain, net **(h)**	**(5)**	**(0.6)%**	(8)	(0.9)%
Loss on derivative assets **(i)**	**4**	**0.5 %**	—	—
Loss on contingent value right **(j)**	**3**	**0.3 %**	—	—
Gain on deconsolidation **(k)**	**—**	**—**	(15)	(1.8)%
Non-GAAP other income, net **(a)**	**$ 1**	**0.1 %**	$ 20	2.4 %

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 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.
(b) Amounts are recorded in cost of revenue.

(c) Amount consists primarily of employee costs related to restructuring.
(d) Amount consists of direct and incremental expenses incurred due to the COVID-19 pandemic, primarily premium pay for onsite essential workers.
(e) Amount consists of direct and incremental income due to the COVID-19 pandemic, primarily payroll-related credits earned in Singapore.
(f) Amounts consist of expenses related to the PacBio acquisition, which was terminated on January 2, 2020. In Q1 2020, such expenses consist primarily of the Continuation Advances and Reverse Termination Fee paid to PacBio.
(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) Amounts consist primarily of mark-to-market adjustments and impairments from our strategic investments.
(i) Amount consists of fair value adjustments on our derivative assets related to the terminated acquisition with PacBio.
(j) Amount consists of fair value adjustments related to our contingent value right received from Helix.
(k) Amount consists of the gain recorded in Q1 2019 that resulted from the settlement of a contingency related to the deconsolidation of GRAIL in 2017.

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

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended March 29, 2020	
GAAP tax provision	**$ 5**	**2.5 %**
Incremental non-GAAP tax expense **(a)**	29	
Income tax benefit **(b)**	13	
Non-GAAP tax provision	$ 47	16.1 %

(a) Incremental non-GAAP tax expense reflects the tax impact of the non-GAAP adjustments listed above.
(b) Amount represents tax deductions taken in excess of stock compensation cost.