illumina®

ILMN Q220 Summary of Prepared Remarks

	Q220	Yr/Yr	Qtr/Qtr	Management Commentary
Sequencing Consumables	$387M	-22%	-30%	- Many customers still below pre-COVID levels - Remain correlated with shelter-in-place activities - Customers maintaining lower level of inventory resulting in revenue lagging the run-rate recovery - COVIDSeq EUA from FDA on June 7 and shipped to a few early access customers towards end of Q2
Microarrays Consumables	$49M	-34%	-27%	
Total Consumables	$436M	-24%	-30%	
Sequencing Instruments	$88M	-32%	+11%	- Slightly ahead of our expectations
Microarrays Instruments	$3M	-25%	+50%	
Total Instruments	$91M	-32%	+12%	
Total Products	$527M	-25%	-25%	
Sequencing Service & Other	$91M	-11%	-29%	- Down Qtr/Qtr due to lower licensing revenue, and down Yr/Yr due to lower sequencing service revenue
Microarrays Service & Other	$15M	-53%	-50%	
Total Service & Other	$106M	-21%	-33%	
Total Revenue	$633M	-25%	-26%	- Customers around world impacted by the pandemic - Barring unexpected developments in the course of pandemic, Q2 should represent revenue floor for year

	Q220	Yr/Yr	Qtr/Qtr	Management Commentary
Americas	$335M	-30%	-30%	- Largest Qtr/Qtr $ impact from COVID-19, as expected - Compared to April, more academic and government labs resuming operations, but most still operating well below pre-COVID-19 levels
EMEA	$168M	-19%	-24%	- Largely in line with our expectations - Significant Qtr/Qtr declines in both research and clinical sequencing consumables
Asia Pacific	$51M	-11%	-34%	- Research labs reduced activity
Greater China	$79M	-19%	-6%	- Modest decline Qtr/Qtr, consistent with expectations - COVID-19 headwinds driven by the research market - Clinical showed some resilience with growth both Qtr/Qtr and Yr/Yr driven by reproductive health while onco testing below pre-COVID-19 level but improving

Questions? Contact Illumina Investor Relations – (408) 594-9328

Customer Type

	Management Commentary
Research and Applied Sequencing Runs *	- Q2 run volumes improved to 65% of the Q419 run rate from ~55% at end of April - Remains significantly impacted by the pandemic - Weekly run-rates among research customers are more variable than clinical
Clinical Sequencing Runs *	- Modest recovery trend, with significant variation from week to week - Run volumes in Q2 of this year averaged 84% of the Q419 run-rate vs. 80% end of April - Reproductive health continues to be the most resilient, followed by oncology

* 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 system shipments increased sequentially - Announced enhanced features and more accessible pricing for NovaSeq reagent kits, delivering longer shelf life, extra cycles, and bringing the $600 genome into reach for all our customers
Mid-Throughput (MT): NextSeq	- NextSeq 2000 system shipments increased sequentially and beat our Q2 expectations
Low-Throughput (LT): MiSeq, MiniSeq & iSeq	- MiSeq & MiniSeq shipments increased sequentially

Microarrays Updates

	Management Commentary
Microarrays	- Lower Yr/Yr and Qtr/Qtr in part due to our lower expectations of the DTC market and its normal seasonality in addition to COVID-19 related headwinds

Q220 Non-GAAP Financial Highlights

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

	Q220	Yr/Yr	Qtr/Qtr	Management Commentary
Gross margin	68.6%	-90bps	-440bps	- Lower Yr/Yr and Qtr/Qtr, as expected due to lower revenue generating less fixed cost leverage, and higher freight costs associated with the pandemic
Operating expenses	$334M	-$26M	-$5M	- Lower than expected due to stock-based comp adjustment to account for updated EPS projections
Operating margin	15.8%	-1,080bps	-1,780bps	
Tax rate	18.5%	+120bps	+240bps	- Higher Qtr/Qtr and Yr/Yr due to a higher income mix in jurisdictions with a higher tax rate
Net income attributable to Illumina stockholders	$92M	-$108M	-$151M	
EPS attributable to Illumina stockholders (diluted)	$0.62	-54%	-62%	

	Q220	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$240M	+$97M	-$41M	- Q219 included $84M payment of the accreted debt discount related to the conversion of 2019 Notes
DSO	55 days	+4 days	+5 days	- Less favorable revenue linearity and lower revenue
Capital expenditures	-$38M	-$9M	-$2M	
Free cash flow	$202M	+$106M	-$39M	- Q219 included $84M payment of the accreted debt discount related to the conversion of 2019 Notes
Cash, cash equivalents & short-term Investments	$3.3B	+$95M	-$64M	

FY 20 Guidance

We continue to believe that the uncertainties around the severity and duration of the COVID-19 pandemic, and the impact that has on our research customers in particular, makes it challenging to provide quarterly or full year outlooks at this time.

Q3 2020 Guidance

	Q320 Guidance	Management Commentary
Q320 Revenue	Gradual improvement sequentially	- Expect sequential growth in every region in the third quarter - Expect all regions to be lower Yr/Yr, with the exception of APJ which is expected to be about flat
Q320 Research & Applied Sequencing Run Volume	Modestly improve	- Remain cautious, to improve modestly over 65% reported in Q2
Q320 Clinical Sequencing Run Volume	Modestly improve	- Modestly improve from the 84% reported in Q2
Q3 Sequencing Instrument Revenue	To grow modestly sequentially	- Q220 Sequencing Instrument revenue was $88M
Q320 Microarrays Revenue	Flat to slightly up sequentially	- Q220 Microarray revenue was $67M
Q320 Non-GAAP GM	Decline sequentially	- In part driven by the adjustment to stock-based comp in the Q220 and increased field service activity as labs reopen
Q320 Non-GAAP Operating Expenses	Increase sequentially	- Primarily driven by adjustment to performance-based comp in Q220
Q320 Non-GAAP Diluted EPS	To be modestly higher	- From $0.62 reported in Q220

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 release 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		Six Months Ended	
	June 28, 2020	**June 30, 2019**	**June 28, 2020**	**June 30, 2019**
Net cash provided by operating activities	**$ 240**	$ 143	**$ 521**	$ 341
Net cash (used in) provided by investing activities	**(320)**	79	**(455)**	1,067
Net cash used in financing activities	**(143)**	(549)	**(334)**	(609)
Effect of exchange rate changes on cash and cash equivalents	**2**	—	**(4)**	—
Net (decrease) increase in cash and cash equivalents	**(221)**	(327)	**(272)**	799
Cash and cash equivalents, beginning of period	**1,991**	2,270	**2,042**	1,144
Cash and cash equivalents, end of period	**$ 1,770**	$ 1,943	**$ 1,770**	$ 1,943
Calculation of free cash flow:				
Net cash provided by operating activities **(b)**	**$ 240**	$ 143	**$ 521**	$ 341
Purchases of property and equipment	**(38)**	(47)	**(79)**	(103)
Free cash flow **(a)**	**$ 202**	$ 96	**$ 442**	$ 238

(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.

(b) Net cash provided by operating activities in Q2 2019 and the first half of 2019 included an $84 million payment of the accreted debt discount related to the conversions of our 2019 Notes.

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		Six Months Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 0.32**	$ 1.99	**$ 1.49**	$ 3.56
Cost of revenue **(b)**	**0.04**	0.07	**0.09**	0.13
Research and development costs **(b)**	**(0.01)**	—	**(0.02)**	—
Selling, general and administrative costs **(b)**	**(0.01)**	0.05	**0.62**	0.16
Other income, net **(b)**	**(0.38)**	(0.84)	**(0.29)**	(0.90)
Incremental non-GAAP tax expense **(c)**	**0.07**	0.11	**(0.13)**	0.08
Tax expense related to increase in valuation allowance **(d)**	**0.42**	—	**0.42**	—
Tax expense related to cost-sharing arrangement **(e)**	**0.19**	—	**0.19**	—
Income tax benefit **(f)**	**(0.02)**	(0.03)	**(0.11)**	(0.09)
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(a)**	**$ 0.62**	$ 1.35	**$ 2.26**	$ 2.94

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

	Three Months Ended		Six Months Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
GAAP net income attributable to Illumina stockholders	**$ 47**	$ 296	**$ 220**	$ 529
Cost of revenue **(b)**	**6**	10	**14**	19
Research and development costs **(b)**	**(1)**	—	**(2)**	—
Selling, general and administrative costs **(b)**	**(1)**	8	**92**	24
Other income, net **(b)**	**(56)**	(125)	**(43)**	(134)
Incremental non-GAAP tax expense **(c)**	**10**	16	**(19)**	12
Tax expense related to increase in valuation allowance **(d)**	**62**	—	**62**	—
Tax expense related to cost-sharing arrangement **(e)**	**28**	—	**28**	—
Income tax benefit **(f)**	**(3)**	(5)	**(17)**	(13)
Non-GAAP net income attributable to Illumina stockholders **(a)**	**$ 92**	$ 200	**$ 335**	$ 437

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 discrete tax expense related to the valuation allowance established against the deferred tax asset for California research and development credits.
(e) Amounts represent discrete tax expense related to the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments.
(f) 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				Six Months Ended			
	June 28, 2020		June 30, 2019		June 28, 2020		June 30, 2019	
GAAP gross profit (b)	**$ 428**	**67.7 %**	$ 573	68.4 %	**$1,047**	**70.2 %**	$1,157	68.7 %
Amortization of acquired intangible assets	**7**	**1.0 %**	10	1.1 %	**14**	**0.9 %**	19	1.1 %
Restructuring **(c)**	**—**	**—**	—	—	**1**	**0.1 %**	—	—
Expenses related to COVID-19 **(d)**	**1**	**0.2 %**	—	—	**2**	**0.1 %**	—	—
Income related to COVID-19 **(e)**	**(2)**	**(0.3)%**	—	—	**(3)**	**(0.2)%**	—	—
Non-GAAP gross profit **(a)**	**$ 434**	**68.6 %**	$ 583	69.5 %	**$ 1,061**	**71.1 %**	$1,176	69.8 %
GAAP research and development expense	**$ 155**	**24.5 %**	$ 166	19.8 %	**$ 311**	**20.8 %**	$ 335	19.9 %
Income related to COVID-19 **(e)**	**1**	**0.2 %**	—	—	**2**	**0.1 %**	—	—
Non-GAAP research and development	**$ 156**	**24.7 %**	$ 166	19.8 %	**$ 313**	**20.9 %**	$ 335	19.9 %
GAAP selling, general and administrative expense	**$ 177**	**28.0 %**	$ 202	24.1 %	**$ 451**	**30.3 %**	$ 412	24.5 %
Acquisition-related expenses **(f)**	**(1)**	**(0.2)%**	(8)	(1.0)%	**(93)**	**(6.2)%**	(23)	(1.4)%
Amortization of acquired intangible assets	**—**	**—**	—	—	**(1)**	**(0.1)%**	(1)	(0.1)%
Restructuring **(c)**	**2**	**0.3 %**	—	—	**2**	**0.1 %**	—	—
Expenses related to COVID-19 **(d)**	**(2)**	**(0.3)%**	—	—	**(2)**	**(0.1)%**	—	—
Income related to COVID-19 **(e)**	**2**	**0.3 %**	—	—	**2**	**0.1 %**	—	—
Non-GAAP selling, general and administrative expense	**$ 178**	**28.1 %**	$ 194	23.1 %	**$ 359**	**24.1 %**	$ 388	23.0 %
GAAP operating profit	**$ 96**	**15.2 %**	$ 205	24.5 %	**$ 285**	**19.1 %**	$ 410	24.3 %
Cost of revenue	**6**	**0.9 %**	10	1.1 %	**14**	**0.9 %**	19	1.1 %
Research and development costs	**(1)**	**(0.2)%**	—	—	**(2)**	**(0.1)%**	—	—
Selling, general and administrative costs	**(1)**	**(0.1)%**	8	1.0 %	**92**	**6.2 %**	24	1.5 %
Non-GAAP operating profit **(a)**	**$ 100**	**15.8 %**	$ 223	26.6 %	**$ 389**	**26.1 %**	$ 453	26.9 %
GAAP other income, net	**$ 69**	**10.8 %**	$ 141	16.8 %	**$ 57**	**3.8 %**	$ 170	10.1 %
Non-cash interest expense **(g)**	**10**	**1.7 %**	14	1.7 %	**21**	**1.4 %**	28	1.7 %
Strategic investment related gain, net **(h)**	**(69)**	**(10.8)%**	(103)	(12.3)%	**(74)**	**(5.0)%**	(111)	(6.6)%
Loss on derivative assets **(i)**	**11**	**1.7 %**	—	—	**15**	**1.0 %**	—	—
(Gain) loss on contingent value right **(j)**	**(8)**	**(1.3)%**	3	0.4 %	**(5)**	**(0.3)%**	3	0.2 %
Gain on deconsolidation **(k)**	**—**	**—**	(39)	(4.7)%	**—**	**—**	(54)	(3.2)%
Non-GAAP other income, net **(a)**	**$ 13**	**2.1 %**	$ 16	1.9 %	**$ 14**	**0.9 %**	$ 36	2.2 %

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) Reconciling amounts are recorded in cost of revenue.
(c) Amount consists primarily of employee costs, net of adjustments, related to restructuring.
(d) Amounts consist of direct and incremental expenses incurred due to the COVID-19 pandemic, primarily personal protective equipment and premium pay for onsite essential workers.
(e) Amounts consist of direct and incremental income due to the COVID-19 pandemic, primarily payroll-related credits earned in Singapore.
(f) Amount for Q2 2020 consists primarily of expenses related to the acquisition of BlueBee. Amount for the first half of 2020 consists primarily of expenses related to 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 for Q2 2019 consists of the gain recognized as a result of the Helix deconsolidation. Amount for the first half of 2019 also includes the $15 million 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	
	June 28, 2020	
GAAP tax provision	**$ 118**	**71.6 %**
Incremental non-GAAP tax expense **(a)**	**(10)**	
Tax expense related to increase in valuation allowance **(b)**	**(62)**	
Tax expense related to cost-sharing arrangement **(c)**	**(28)**	
Income tax benefit **(d)**	**3**	
Non-GAAP tax provision	**$ 21**	**18.5 %**

(a) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed in our "Reconciliation Between GAAP and Non-GAAP Net Income and Earnings Per Share Attributable to Illumina Stockholders ".
(b) Amount represents discrete tax expense related to the valuation allowance established against the deferred tax asset for California research and development credits.
(c) Amount represents discrete tax expense related to the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments.
(d) Amount represents tax deductions taken in excess of stock compensation cost.

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