illumina®

ILMN Q320 Summary of Prepared Remarks

	Q320	Yr/Yr	Qtr/Qtr	Management Commentary
Sequencing Consumables	$500M	-5%	+29%	- Strength across high, mid, and low-throughput - Mid throughput grew both Qtr/Qtr and Yr/Yr
Microarrays Consumables	$62M	-17%	+27%	
Total Consumables	$562M	-6%	+29%	
Sequencing Instruments	$109M	-23%	+24%	- Outperformed expectations - Qtr/Qtr primarily driven by NovaSeq and NextSeq
Microarrays Instruments	$5M	25%	+67%	
Total Instruments	$114M	-22%	+25%	
Total Products	$676M	-9%	+28%	
Sequencing Service & Other	$99M	-28%	+9%	- Lower Yr/Yr due to one-time, IVD licensing and development revenue of >$30M in Q319
Microarrays Service & Other	$19M	-17%	+27%	
Total Service & Other	$118M	-27%	+11%	
Total Revenue	$794M	-12%	+26%	

	Q320	Yr/Yr	Qtr/Qtr	Management Commentary
Americas	$436M	-15%	+30%	- Qtr/Qtr growth driven by both research and clinical customers as labs continued to reopen and clinical activity increased - Clinical SQ Cons grew modestly Yr/Yr as demand started to recover after delays in testing in Q220
EMEA	$213M	-9%	+27%	- SQ Cons grew Yr/Yr driven by strong rebound in both clinical and research customers
Asia Pacific	$62M	-2%	+22%	- Roughly flat Yr/Yr; NIPT growth Qtr/Qtr and Yr/Yr
Greater China	$83M	-13%	+5%	- Qtr/Qtr driven by strength in instrument placements

Customer Type

	Management Commentary
Research and Applied Sequencing Runs *	- Average increased to 82% in Q320 compared to pre-pandemic run volume levels. - Expect to continue to improve modestly in Q420
Clinical Sequencing Runs *	- Average increased to 96% in Q320 compared to pre-pandemic run volume levels. - Expect to continue to improve modestly in Q420

* 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 purchases rebounded from Q1; Qtr/Qtr growth each quarter since Q1 - NovaSeq pull through returning to over $1 million per system per year - Expect sequential NovaSeq instrument growth in Q4
Mid-Throughput (MT): NextSeq	- NextSeq 2000 and NextSeq 550 systems exceeded expectations - Record MT system shipments in Q3 - MT SQ Cons grew Qtr/Qtr and Yr/Yr - NextSeq Dx shipments represented over 40% of NextSeq 550 shipments year-to-date
Low-Throughput (LT): MiSeq, MiniSeq & iSeq	

Microarrays Updates

	Management Commentary
Microarrays	- Up 28% Qtr/Qtr as direct-to-consumer customers and other applications began recovering from pandemic-related headwinds - Lower 16% Yr/Yr primarily driven by COVID-19 related headwinds.

Q320 Non-GAAP Financial Highlights

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

	Q320	Yr/Yr	Qtr/Qtr	Management Commentary
Gross margin	67.4%	-510bps	-120bps	- Lower Yr/Yr and Qtr/Qtr as expected - Yr/Yr decline driven by IVD partnership revenue in Q319 not repeating, and lower volume and higher freight costs associated with the pandemic
Operating expenses	$365M	+$35M	+$31M	- Qtr/Qtr increase as expected, increase in R&D project spend, and higher compensation expenses - Higher Yr/Yr primarily due to compensation related expenses, and increased project spend, partially offset by decreased travel
Operating margin	21.4%	-1,470bps	+560bps	
Tax rate	14.8%	-100bps	-370bps	- Lower Qtr/Qtr and Yr/Yr due to discrete tax benefits related to prior year return adjustments and release of tax reserves
Net income attributable to Illumina stockholders	$150M	-$136M	+$58M	
EPS attributable to Illumina stockholders (diluted)	$1.02	-47%	+65%	

	Q320	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$153M	-$114M	-$87M	
DSO	53 days	-1 days	-2 days	- Lower in part, due to increased collections
Capital expenditures	-$48M	-$1M	+$10M	
Free cash flow	$105M	-$113M	-$97M	
Cash, cash equivalents & short-term Investments	$3.3B	+$158M	+$56M	

As we continue to navigate this pandemic, there are still uncertainties around the virus resurgence and rate of recovery, and, therefore, we will not provide guidance for the remainder of the year.

<u>Guidance</u>

	Q420 Guidance	Management Commentary
Q420 Revenue	Continued sequential improvement	
Q420 Sequencing Consumables	Up modestly sequentially	- As clinical and research activity continues to gradually improve
Q420 Sequencing Instruments	Increasing sequentially	- Q4 to be strongest quarter of year for instrument placements
Q420 Sequencing Service and Other	Flat sequentially	-
Q420 Microarrays Revenue	Up modestly on a sequential basis	- Gradual recovery in DTC and genotyping applications
Q420 Non-GAAP GM	Sequential decline	- Driven in part by mix with higher contribution from instruments
Q420 Non-GAAP Operating Expenses	Sequential increase	- Primarily driven by R&D project-related expenses, compensation related expenses, and extra week in Q4
Q420 Non-GAAP Diluted EPS	To be roughly flat sequentially	- From $1.02 reported in Q320

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) the outcome of the pending acquisition of GRAIL, Inc.; (vi) our ability to manufacture robust instrumentation and consumables; (vii) the success of products and services competitive with our own; (viii) 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; (ix) the impact of recently launched or pre-announced products and services on existing products and services; (x) 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; (xi) our ability to obtain regulatory clearance for our products from government agencies; (xii) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xiii) our ability to successfully identify and integrate acquired technologies, products, or businesses; and (xiv) 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		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Net cash provided by operating activities	**$ 153**	$ 267	**$ 674**	$ 608
Net cash (used in) provided by investing activities	**(65)**	(219)	**(520)**	849
Net cash used in financing activities	**(101)**	(172)	**(435)**	(782)
Effect of exchange rate changes on cash and cash equivalents	**4**	(4)	**—**	(4)
Net (decrease) increase in cash and cash equivalents	**(9)**	(128)	**(281)**	671
Cash and cash equivalents, beginning of period	**1,770**	1,943	**2,042**	1,144
Cash and cash equivalents, end of period	**$ 1,761**	$ 1,815	**$ 1,761**	$ 1,815
Calculation of free cash flow:				
Net cash provided by operating activities **(b)**	**$ 153**	$ 267	**$ 674**	$ 608
Purchases of property and equipment	**(48)**	(49)	**(127)**	(152)
Free cash flow **(a)**	**$ 105**	$ 218	**$ 547**	$ 456

(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 for the nine months ended September 29, 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		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
GAAP earnings per share attributable to Illumina stockholders - diluted	**$ 1.21**	$ 1.58	**$ 2.70**	$ 5.13
Cost of revenue **(b)**	**0.06**	0.06	**0.16**	0.19
Research and development costs **(b)**	**0.03**	0.01	**0.01**	0.01
Selling, general and administrative costs **(b)**	**(0.03)**	0.05	**0.58**	0.22
Other (income) expense, net **(b)**	**(0.31)**	0.34	**(0.61)**	(0.56)
Incremental non-GAAP tax expense **(c)**	**0.07**	(0.09)	**(0.05)**	(0.01)
Income tax benefit **(d)**	**(0.01)**	(0.02)	**(0.12)**	(0.11)
Tax expense related to increase in valuation allowance **(e)**	**—**	—	**0.42**	—
Tax expense related to cost-sharing arrangement **(f)**	**—**	—	**0.19**	—
Non-GAAP earnings per share attributable to Illumina stockholders - diluted **(a)**	**$ 1.02**	$ 1.93	**$ 3.28**	$ 4.87

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

	Three Months Ended		Nine Months Ended	
	September 27, 2020	**September 29, 2019**	**September 27, 2020**	**September 29, 2019**
GAAP net income attributable to Illumina stockholders	**$ 179**	$ 234	**$ 399**	$ 763
Cost of revenue **(b)**	**9**	9	**24**	28
Research and development costs **(b)**	**3**	2	**1**	2
Selling, general and administrative costs **(b)**	**(4)**	8	**87**	33
Other (income) expense, net **(b)**	**(46)**	51	**(90)**	(83)
Incremental non-GAAP tax expense **(c)**	**11**	(15)	**(8)**	(2)
Income tax benefit **(d)**	**(2)**	(3)	**(18)**	(17)
Tax expense related to increase in valuation allowance **(e)**	**—**	—	**62**	—
Tax expense related to cost-sharing arrangement **(f)**	**—**	—	**28**	—
Non-GAAP net income attributable to Illumina stockholders **(a)**	**$ 150**	$ 286	**$ 485**	$ 724

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.

(e) Amount represents discrete tax expense recorded in Q2 2020 related to the valuation allowance established against the deferred tax asset for California research and development credits.
(f) Amount represents discrete tax expense recorded in Q2 2020 related to the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments.

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			
	September 27, 2020		September 29, 2019		September 27, 2020		September 29, 2019	
GAAP gross profit (b)	**$ 526**	**66.2 %**	$ 648	71.5 %	**$1,573**	**68.8 %**	$1,805	69.7 %
Amortization of acquired intangible assets	**7**	**0.9 %**	9	1.0 %	**21**	**0.9 %**	28	1.0 %
Expenses related to COVID-19 **(c)**	**3**	**0.4 %**	—	—	**5**	**0.2 %**	—	—
Income related to COVID-19 **(d)**	**(1)**	**(0.1)%**	—	—	**(4)**	**(0.2)%**	—	—
Restructuring **(e)**	**—**	**—**	—	—	**2**	**0.1 %**	—	—
Non-GAAP gross profit **(a)**	**$ 535**	**67.4 %**	$ 657	72.5 %	**$1,597**	**69.8 %**	$1,833	70.7 %
GAAP research and development expense	**$ 172**	**21.6 %**	$ 151	16.7 %	**$ 483**	**21.1 %**	$ 486	18.8 %
Expenses related to COVID-19 **(c)**	**(3)**	**(0.4)%**	—	—	**(3)**	**(0.1)%**	—	—
Income related to COVID-19 **(d)**	**—**	**—**	—	—	**2**	**0.1 %**	—	—
Restructuring **(e)**	**—**	**—**	(2)	(0.3)%	**—**	**—**	(2)	(0.1)%
Non-GAAP research and development	**$ 169**	**21.2 %**	$ 149	16.4 %	**$ 482**	**21.1 %**	$ 484	18.7 %
GAAP selling, general and administrative expense	**$ 192**	**24.2 %**	$ 189	20.9 %	**$ 643**	**28.1 %**	$ 602	23.2 %
Amortization of acquired intangible assets	**(1)**	**(0.1)%**	—	—	**(1)**	**—**	(1)	—
Gain on litigation **(f)**	**25**	**3.1 %**	—	—	**25**	**1.1 %**	—	—
Acquisition-related expenses **(g)**	**(13)**	**(1.5)%**	(7)	(0.8)%	**(106)**	**(4.6)%**	(31)	(1.2)%
Expenses related to COVID-19 **(c)**	**(7)**	**(0.9)%**	—	—	**(9)**	**(0.5)%**	—	—
Income related to COVID-19 **(d)**	**—**	**—**	—	—	**2**	**0.1 %**	—	—
Restructuring **(e)**	**—**	**—**	(1)	(0.1)%	**2**	**0.1 %**	(1)	—
Non-GAAP selling, general and administrative expense	**$ 196**	**24.8 %**	$ 181	20.0 %	**$ 556**	**24.3 %**	$ 569	22.0 %
GAAP operating profit	**$ 162**	**20.4 %**	$ 308	33.9 %	**$ 447**	**19.6 %**	$ 717	27.7 %
Cost of revenue	**9**	**1.2 %**	9	1.0 %	**24**	**1.0 %**	28	1.0 %
Research and development costs	**3**	**0.4 %**	2	0.3 %	**1**	**—**	2	0.1 %
Selling, general and administrative costs	**(4)**	**(0.6)%**	8	0.9 %	**87**	**3.8 %**	33	1.3 %
Non-GAAP operating profit **(a)**	**$ 170**	**21.4 %**	$ 327	36.1 %	**$ 559**	**24.4 %**	$ 780	30.1 %
GAAP other income (expense), net	**$ 53**	**6.6 %**	$ (38)	(4.2)%	**$ 110**	**4.8 %**	$ 132	5.1 %
Non-cash interest expense **(h)**	**11**	**1.4 %**	10	1.1 %	**31**	**1.4 %**	38	1.5 %
Strategic investment related (gain) loss, net **(i)**	**(67)**	**(8.4)%**	43	4.7 %	**(141)**	**(6.2)%**	(68)	(2.6)%
Loss on derivative assets **(j)**	**10**	**1.3 %**	—	—	**25**	**1.1 %**	—	—
(Gain) loss on contingent value right **(k)**	**—**	**—**	(2)	(0.2)%	**(5)**	**(0.2)%**	1	—
Gains on deconsolidation **(l)**	**—**	**—**	—	—	**—**	**—**	(54)	(2.1)%
Non-GAAP other income, net **(a)**	**$ 7**	**0.9 %**	$ 13	1.4 %	**$ 20**	**0.9 %**	$ 49	1.9 %

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) Amounts consist of direct and incremental expenses incurred due to the COVID-19 pandemic, primarily a one-time allowance paid to employees working remotely in Q3 2020 to help with additional expenses, premium pay for onsite essential workers, and personal protective equipment.
(d) Amounts consist of direct and incremental income due to the COVID-19 pandemic, primarily payroll-related credits earned in Singapore.
(e) Amounts consist primarily of employee costs, net of adjustments, related to restructuring.
(f) Amount consists of a gain related to a patent litigation judgement.
(g) Amount for Q3 2020 consists primarily of acquisition-related expenses related to the pending acquisition of GRAIL, Inc. Amount for the first three quarters of 2020 consists primarily of expenses related to the Continuation Advances and Reverse Termination Fee paid to PacBio.
(h) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash.
(i) Amounts consist primarily of mark-to-market adjustments and impairments from our strategic investments.
(j) Amounts consist of fair value adjustments on our derivative assets related to the terminated acquisition with PacBio.
(k) Amounts consist of fair value adjustments related to our contingent value right received from Helix.
(l) Amount consists of the $39 million gain recognized in Q2 2019 as a result of the Helix deconsolidation and the $15 million gain recorded in Q1 2019 that resulted from the settlement of a contingency related to the deconsolidation of GRAIL, Inc. in 2017.

(Dollar in millions)
(unaudited)

ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months September 27, 2020	
GAAP tax provision	$ 36	16.8 %
Incremental non-GAAP tax expense **(a)**	(11)	
Income tax benefit **(b)**	2	
Non-GAAP tax provision	$ 27	14.8 %

(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 tax deductions taken in excess of stock compensation cost.