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Illumina Reports Financial Results for Second Quarter of Fiscal Year 2020

San Diego -- (BUSINESS WIRE) - August 6, 2020 - Illumina, Inc. (NASDAQ: ILMN) today announced its financial results for the second quarter of fiscal year 2020.

Second quarter 2020 results reflect the impact of the global COVID-19 pandemic:

- Revenue of \$633 million, a 25% decrease compared to \$838 million in the second quarter of 2019
- GAAP net income attributable to Illumina stockholders for the quarter of \$47 million, or \$0.32 per diluted share, compared to \$296 million, or \$1.99 per diluted share, for the second quarter of 2019
- Non-GAAP net income attributable to Illumina stockholders for the quarter of \$92 million, or \$0.62 per diluted share, compared to \$200 million, or \$1.35 per diluted share, for the second quarter of 2019. Non-GAAP net income excludes discrete tax expenses and net gains from mark-to-market adjustments on our strategic investments, primarily from our marketable equity securities (see the “Reconciliation Between GAAP and Non-GAAP Net Income Attributable to Illumina Stockholders” table for a reconciliation of these GAAP and non-GAAP financial measures)
- Cash flow from operations of \$240 million compared to \$143 million in the second quarter of 2019. Cash flow from operations for the second quarter of 2019 included an \$84 million payment of the accreted debt discount related to the conversion of our 2019 Notes
- Free cash flow (cash flow from operations less capital expenditures) of \$202 million for the quarter compared to \$96 million in the second quarter of 2019. Free cash flow for the second quarter of 2019 included the convertible notes payment, referenced above

Gross margin in the second quarter of 2020 was 67.7% compared to 68.4% in the prior year period. Excluding amortization of acquired intangible assets and the net impact from payroll credits and expenses related to COVID-19, non-GAAP gross margin was 68.6% for the second quarter of 2020 compared to 69.5% in the prior year period.

Research and development (R&D) expenses for the second quarter of 2020 were \$155 million compared to \$166 million in the prior year period. Excluding payroll credits related to COVID-19, non-GAAP R&D expenses as a percentage of revenue were 24.7% compared to 19.8% in the prior year period.

Selling, general and administrative (SG&A) expenses for the second quarter of 2020 were \$177 million compared to \$202 million in the prior year period. Excluding acquisition-related expenses, restructuring charges, and the net impact from payroll credits and expenses related to COVID-19, non-GAAP SG&A expenses as a percentage of revenue were 28.1% compared to 23.1% in the prior year period.

Depreciation and amortization expenses were \$46 million and capital expenditures for free cash flow purposes were \$38 million during the second quarter of 2020. At the close of the quarter, the company held \$3.3 billion in cash, cash equivalents and short-term investments, compared to \$3.4 billion as of December 29, 2019.

“As expected, the second quarter was significantly impacted by pandemic-related disruption in our customers’ operations and was particularly challenging for many of our research customers who remain closed or operating at limited scale,” said Francis deSouza, President and CEO. “It is clear that the role of genomics in infectious disease will continue to grow through and beyond this pandemic.”

Updates since our last earnings release:

- Launched TruSight™ software to accelerate the identification of rare genetic diseases through whole genome sequencing
- Received an Emergency Use Authorization from the US FDA for COVIDSeq™, the first sequencing-based COVID-19 diagnostic test
- Acquired BlueBee and Enancio to lower data storage costs and accelerate data interpretation
- Accepted seven genomic startups to Illumina Accelerator’s first global cohort, with 3 in Cambridge, UK and 4 in San Francisco, to build breakthrough genomic technologies
- Repurchased approximately \$143 million of common stock in the second quarter and \$420 million remains available for repurchase under our current plan
- Welcomed Dr. Alex Aravanis to lead research and development efforts as CTO and appointed Mostafa Ronaghi to lead entrepreneurial development

Financial outlook and guidance

As previously announced, Illumina has withdrawn its fiscal 2020 full year revenue and earnings per share guidance due to the uncertainties around the severity and duration of the COVID-19 pandemic.

Quarterly conference call information

The conference call will begin at 2:00 pm Pacific Time (5:00 pm Eastern Time) on Thursday, August 6, 2020. Interested parties may access the live teleconference through the Investor Info section of Illumina’s website under the “Company” tab at www.illumina.com. Alternatively, individuals can access the call by dialing 1 (866) 211-4597 or 1 (647) 689-6853 outside North America, both with conference ID 4194447.

A replay of the conference call will be posted on Illumina’s website after the event and will be available for at least 30 days following.

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.

About Illumina

Illumina is improving human health by unlocking the power of the genome. Our focus on innovation has established us as the global leader in DNA sequencing and array-based technologies, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments. To learn more, visit www.illumina.com and follow @illumina.

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Illumina, Inc.
Condensed Consolidated Balance Sheets
(In millions)

| | June 28, 2020 | December 29, 2019 |
|---|------------------|----------------------|
| ASSETS | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,770 | \$ 2,042 |
| Short-term investments | 1,498 | 1,372 |
| Accounts receivable, net | 385 | 573 |
| Inventory | 435 | 359 |
| Prepaid expenses and other current assets | 106 | 105 |
| Total current assets | 4,194 | 4,451 |
| Property and equipment, net | 890 | 889 |
| Operating lease right-of-use assets | 549 | 555 |
| Goodwill | 894 | 824 |
| Intangible assets, net | 156 | 145 |
| Deferred tax assets, net | 13 | 64 |
| Other assets | 552 | 388 |
| Total assets | \$ 7,248 | \$ 7,316 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 135 | \$ 149 |
| Accrued liabilities | 477 | 516 |
| Long-term debt, current portion | 503 | — |
| Total current liabilities | 1,115 | 665 |
| Operating lease liabilities | 681 | 695 |
| Long-term debt | 659 | 1,141 |
| Other long-term liabilities | 230 | 202 |
| Stockholders' equity | 4,563 | 4,613 |
| Total liabilities and stockholders' equity | \$ 7,248 | \$ 7,316 |

illumina, Inc.
Condensed Consolidated Statements of Income
(In millions, except per share amounts)
(unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Revenue: | | | | |
| Product revenue | \$ 527 | \$ 704 | \$ 1,228 | \$ 1,372 |
| Service and other revenue | 106 | 134 | 264 | 312 |
| Total revenue | 633 | 838 | 1,492 | 1,684 |
| Cost of revenue: | | | | |
| Cost of product revenue (a) | 152 | 196 | 326 | 378 |
| Cost of service and other revenue (a) | 46 | 59 | 105 | 130 |
| Amortization of acquired intangible assets | 7 | 10 | 14 | 19 |
| Total cost of revenue | 205 | 265 | 445 | 527 |
| Gross profit | 428 | 573 | 1,047 | 1,157 |
| Operating expense: | | | | |
| Research and development (a) | 155 | 166 | 311 | 335 |
| Selling, general and administrative (a) | 177 | 202 | 451 | 412 |
| Total operating expense | 332 | 368 | 762 | 747 |
| Income from operations | 96 | 205 | 285 | 410 |
| Other income, net | 69 | 141 | 57 | 170 |
| Income before income taxes | 165 | 346 | 342 | 580 |
| Provision for income taxes | 118 | 53 | 122 | 63 |
| Consolidated net income | 47 | 293 | 220 | 517 |
| Add: Net loss attributable to noncontrolling interests | — | 3 | — | 12 |
| Net income attributable to Illumina stockholders | \$ 47 | \$ 296 | \$ 220 | \$ 529 |
| Earnings per share attributable to Illumina stockholders: | | | | |
| Basic | \$ 0.32 | \$ 2.01 | \$ 1.50 | \$ 3.60 |
| Diluted | \$ 0.32 | \$ 1.99 | \$ 1.49 | \$ 3.56 |
| Shares used in computing earnings per common share: | | | | |
| Basic | 147 | 147 | 147 | 147 |
| Diluted | 148 | 149 | 148 | 149 |

(a) Includes stock-based compensation expense for stock-based awards:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 28, 2020 | June 30, 2019 | June 28, 2020 | June 30, 2019 |
| Cost of product revenue | \$ 3 | \$ 5 | \$ 7 | \$ 10 |
| Cost of service and other revenue | 1 | 1 | 2 | 2 |
| Research and development | 12 | 16 | 27 | 34 |
| Selling, general and administrative | 1 | 26 | 19 | 53 |
| Stock-based compensation expense before taxes (1) | \$ 17 | \$ 48 | \$ 55 | \$ 99 |

(1) Includes stock-based compensation of \$0.4 million and \$1.5 million for Helix for Q2 2019 and YTD 2019, respectively.

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 | <u>\$ 1,770</u> | <u>\$ 1,943</u> | <u>\$ 1,770</u> | <u>\$ 1,943</u> |

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) | <u>\$ 202</u> | <u>\$ 96</u> | <u>\$ 442</u> | <u>\$ 238</u> |

(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) | <u><u>\$ 0.62</u></u> | <u><u>\$ 1.35</u></u> | <u><u>\$ 2.26</u></u> | <u><u>\$ 2.94</u></u> |

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) | <u><u>\$ 92</u></u> | <u><u>\$ 200</u></u> | <u><u>\$ 335</u></u> | <u><u>\$ 437</u></u> |

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 | \$ 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.