The Street Ratings

October 25, 2017
NASDAQ: ILMN

ILLUMINA INC

BUY
HOLD
SELL
BUY
RATING SINCE 04/07/2017
TARGET PRICE $255.45

A+ A A- B+ B B- C+ C C- D+ D D- E+ E E- F

Annual Dividend Rate NA
Annual Dividend Yield NA
Beta 0.75
Market Capitalization $30.8 Billion
52-Week Range $119.37-$214.50
Price as of 10/24/2017 $210.82

A+ A A- B+ B B- C+ C C- D+ D D- E+ E E- F

Sector: Health Care | Sub-Industry: Life Sciences Tools & Services | Source: S&P

ILMN BUSINESS DESCRIPTION
Illumina, Inc. provides sequencing and array-based solutions for genetic analysis. The company’s sequencing by synthesis technology provides researchers with various applications and the ability to sequence mammalian genomes.

STOCK PERFORMANCE (%)
3 Mo. 1 Yr. 3 Yr (Ann)
Price Change 21.16 48.18 3.69

GROWTH (%)
Last Qtr 12 Mo. 3 Yr CAGR
Revenues 17.60 9.43 14.32
Net Income 26.46 76.32 40.69
EPS 27.58 77.25 40.77

RETURN ON EQUITY (%)
ILMN Ind Avg S&P 500
Q3 2017 27.38 32.64 13.41
Q3 2016 19.79 22.84 11.79
Q3 2015 26.35 21.09 12.91

P/E COMPARISON

39.78 68.12 24.70
ILMN Ind Avg S&P 500

EPS ANALYSIS1 ($)

0.92 0.39 2.69 4.07 2.02 2.48 0.92 1.11
2015 2016 2017

1 Compustat fiscal year convention is used for all fundamental data items.

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RECOMMENDATION
We rate ILLUMINA INC (ILMN) a BUY. This is driven by some important positives, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company’s strengths can be seen in multiple areas, such as its revenue growth, largely solid financial position with reasonable debt levels by most measures, solid stock price performance, impressive record of earnings per share growth and compelling growth in net income. Although the company may harbor some minor weaknesses, we feel they are unlikely to have a significant impact on results.

HIGHLIGHTS
The revenue growth came in higher than the industry average of 5.0%. Since the same quarter one year prior, revenues rose by 17.6%. Growth in the company’s revenue appears to have helped boost the earnings per share.

The current debt-to-equity ratio, 0.41, is low and is below the industry average, implying that there has been successful management of debt levels. Along with this, the company maintains a quick ratio of 3.65, which clearly demonstrates the ability to cover short-term cash needs.

Powered by its strong earnings growth of 27.58% and other important driving factors, this stock has surged by 48.18% over the past year, outperforming the rise in the S&P 500 Index during the same period. Turning to the future, naturally, any stock can fall in a major bear market. However, in almost any other environment, the stock should continue to move higher despite the fact that it has already enjoyed nice gains in the past year.

ILLUMINA INC has improved earnings per share by 27.6% in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past two years. We feel that this trend should continue. During the past fiscal year, ILLUMINA INC increased its bottom line by earning $3.13 versus $3.10 in the prior year. This year, the market expects an improvement in earnings ($3.65 versus $3.13).

The net income growth from the same quarter one year ago has exceeded that of the S&P 500 and the Life Sciences Tools & Services industry average. The net income increased by 26.5% when compared to the same quarter one year prior, rising from $128.89 million to $163.00 million.
REVENUE GROWTH AND EBITDA MARGIN*

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $8.1 Billion and $77.8 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between 0.6% and 42.5%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The life sciences tools and services (LSTS) industry is comprised of biotechnology companies and health care services, supplies, and equipment companies. The industry also includes firms that provide analytical tools, instruments, consumables and supplies, clinical trial services, contract research services, and technology solutions. The industry is complex and categorized into eight segments: genomics, proteomics, cell biology, combinatorial chemistry, small-animal in vivo analysis, bioinformatics, and general labware. Major LSTS players are Thermo Fisher Scientific (TMO), Agilent Technologies (A), Waters (WAT), and Illumina (ILMN).

The industry has been historically fragmented, but recently, companies seeking expanded R&D capabilities or economies of scale have sought consolidation and collaboration.

Genomics research progressed in the late 1990s and the early 2000s saw the emergence of proteomics. Currently, research and development is directed towards cell biology and animal in vivo research, which help to develop safer drugs by providing improved late-stage screening.

More than 20% of the US population will be 65 years or older by 2050, implying increased demand for heart disease, diabetes, and cancer drugs. This scenario prompts LSTS companies to develop new therapies as well as new enzymes, chemical sensors, diagnostics and nanotechnology.

The discovery of substitute drugs and stringent Food and Drug Administration (FDA) regulations are entrenched problems. Failure to meet FDA regulations leads to delays in product approval, penalties, plant closures, and loss of revenue. After the enactment of the Food and Drug Administration Modernization Act of 1997, the FDA tightened the approval procedure.

Despite rising costs and shrinking margins, industry outlook remains positive due to technology advances, robust product pipeline, and sophisticated research. As the US baby boomer population ages, healthcare spending is projected to keep growing.

PEER GROUP: Life Sciences Tools & Services

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Recent Price ($)</th>
<th>Market Cap ($M)</th>
<th>Price/Earnings</th>
<th>Net Sales TTM ($M)</th>
<th>Net Income TTM ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILMN</td>
<td>ILLUMINA INC</td>
<td>210.82</td>
<td>30,780</td>
<td>39.78</td>
<td>2,594.35</td>
<td>781.76</td>
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<td>PKI</td>
<td>PERKINELMER INC</td>
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<td>36.54</td>
<td>3,094.34</td>
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<td>TMO</td>
<td>THERMO FISHER SCIENTIFIC INC</td>
<td>194.38</td>
<td>77,792</td>
<td>33.86</td>
<td>19,199.10</td>
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<td>GGEN</td>
<td>QIAGEN NV</td>
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<td>102.54</td>
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<td>BIO.B</td>
<td>BIO-RAD LABORATORIES INC</td>
<td>223.00</td>
<td>6,584</td>
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<td>22.84</td>
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<td>Q</td>
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<td>A</td>
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<td>WAT</td>
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<td>187.63</td>
<td>14,977</td>
<td>27.67</td>
<td>2,250.59</td>
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</tbody>
</table>

The peer group comparison is based on Major Life Sciences Tools & Services companies of comparable size.
COMPANY DESCRIPTION

Illumina, Inc. provides sequencing and array-based solutions for genetic analysis. The company’s sequencing by synthesis technology provides researchers with various applications and the ability to sequence mammalian genomes. It also offers arrays for a range of deoxyribonucleic acid and RNA analysis applications, including single nucleotide polymorphism genotyping, copy number variations analysis, gene expression analysis, and methylation analysis, as well as allow for the detection of known genetic markers on a single array. In addition, the company provides various library preparation and sequencing kits to simplify workflows and accelerate analysis; and genome sequencing, genotyping, and non-invasive prenatal testing services. It serves genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, agrigenomics, commercial molecular diagnostic laboratories, and consumer genomics companies. The company markets and distributes its products directly to customers in North America, Europe, Latin America, and the Asia-Pacific region, as well as through life-science distributors. It has collaboration agreements with IBM Watson Health to access genome data interpretation by integrating Watson for genomics into Illumina’s BaseSpace Sequence Hub and tumor sequencing process; and NRGene to develop new molecular breeding tools for cattle to support global food production. The company also has a co-development agreement with Munich Leukemia Laboratory GmbH and IBM Watson Health to build a cognitive technology prototype to help researchers improve leukemia treatment. Illumina, Inc. was founded in 1998 and is headquartered in San Diego, California.

STOCK-AT-A-GLEANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of ILMN shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR | SCORE |
--- | --- |
Growth | 5.0 out of 5 stars |
Total Return | 4.0 out of 5 stars |
Efficiency | 5.0 out of 5 stars |
Price volatility | 3.0 out of 5 stars |
Solvency | 5.0 out of 5 stars |
Income | 0.5 out of 5 stars |

THE STREET RATINGS RESEARCH METHODOLOGY

TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility; i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.
Illumina, Inc. (ILMN) is a company in the Health Care sector, specifically in the Life Sciences Tools & Services industry. As of October 25, 2017, the stock is trading at $210.82.

Key financial metrics include:
- **Beta**: 0.75
- **Market Capitalization**: $30.8 Billion
- **52-Week Range**: $119.37-$214.50

### Consensus EPS Estimates
IBES consensus estimates are provided by Thomson Financial:
- **Q4 FY17**: $1.19
- **2017(E)**: $3.65
- **2018(E)**: $4.36

### Income Statement
- **Q3 FY17**:
  - Net Sales: $714.00
  - EBITDA: $221.00
  - EBIT: $181.00
  - Net Income: $163.00
- **Q3 FY16**:
  - Net Sales: $607.14
  - EBITDA: $197.69
  - EBIT: $161.78
  - Net Income: $128.89

### Balance Sheet
- **Q3 FY17**:
  - Cash & Equiv.: $2,041.00
  - Total Assets: $5,046.00
  - Total Debt: $1,182.00
  - Equity: $2,855.00
- **Q3 FY16**:
  - Cash & Equiv.: $1,536.27
  - Total Assets: $4,227.83
  - Total Debt: $1,042.02
  - Equity: $2,240.15

### Profitability
- **Q3 FY17**: Gross Profit Margin 73.11%, EBITDA Margin 30.95%, Operating Margin 25.35%, Sales Turnover 0.51, Return on Assets 15.49%, Return on Equity 27.38%
- **Q3 FY16**: Gross Profit Margin 76.10%, EBITDA Margin 32.56%, Operating Margin 26.65%, Sales Turnover 0.56, Return on Assets 10.48%, Return on Equity 19.79%

### Debt
- **Q3 FY17**: Current Ratio 4.22, Debt/Capital 0.29, Interest Expense NA, Interest Coverage NA
- **Q3 FY16**: Current Ratio 3.62, Debt/Capital 0.32, Interest Expense 8.21, Interest Coverage 19.71

### Share Data
- **Q3 FY17**: Shares outstanding (mil) 146, Div / share 0.00, EPS 1.11, Book value / share 19.55, Institutional Own % NA
- **Q3 FY16**: Shares outstanding (mil) 147, Div / share 0.00, EPS 0.87, Book value / share 15.25, Institutional Own % NA

**Share Data Note**: 2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

### Financial Analysis
ILLUMINA INC’s gross profit margin for the third quarter of its fiscal year 2017 is essentially unchanged when compared to the same period a year ago. The company managed to grow both sales and net income at a faster pace than the average competitor in its industry this quarter as compared to the same quarter a year ago. ILLUMINA INC is extremely liquid. Currently, the Quick Ratio is 3.65 which clearly shows the ability to cover any short-term cash needs. ILMN managed to increase the liquidity from the same period a year ago, despite already having very strong liquidity to begin with. This would indicate improved cash flow.

At the same time, stockholders’ equity (“net worth”) has greatly increased by 27.44% from the same quarter last year. Overall, the key liquidity measurements indicate that the company is very unlikely to face financial difficulties in the near future.

**STOCKS TO BUY**: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
The Street Ratings

Annual Dividend Rate | Annual Dividend Yield
NA | NA

RATINGS HISTORY
Our rating for ILLUMINA INC has not changed since 4/7/2017. As of 10/24/2017, the stock was trading at a price of $150.82 which is 1.7% below its 52-week high of $155.00 and 76.6% above its 52-week low of $119.37.

2 Year Chart

Price reflects the closing price as of the date listed, if available.

RATINGS DEFINITIONS & DISTRIBUTION OF THE STREET RATINGS
(as of 10/24/2017)

44.32% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

30.50% Hold - We do not believe this stock offers the information or the opportunity to produce a total return of more than 10% over the next 12 months.

25.18% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

Valuation
BUY. The current P/E ratio indicates a significant discount compared to an average of 68.12 for the Life Sciences Tools & Services industry and a significant premium compared to the S&P 500 average of 24.70. For additional comparison, its price-to-book ratio of 10.78 indicates a significant premium versus the S&P 500 average of 3.14 and a significant premium versus the industry average of 7.05. The price-to-sales ratio is well above both the S&P 500 average and the industry average, indicating a premium.

Price/Earnings
ILMN 39.78 Peers 68.12
• Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
• ILMN is trading at a significant discount to its peers.

Price/Projected Earnings
ILMN 48.35 Peers 31.66
• Premium. A higher price-to-projected earnings ratio than its peers can signify a more expensive stock or higher future growth expectations.
• ILMN is trading at a significant premium to its peers.

Price/Book
ILMN 10.78 Peers 7.05
• Premium. A higher price-to-book ratio makes a stock less attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
• ILMN is trading at a significant premium to its peers.

Price/Sales
ILMN 11.96 Peers 9.31
• Premium. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
• ILMN is trading at a significant premium to its industry.

Price/CashFlow
ILMN 35.68 Peers 27.56
• Premium. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
• ILMN is trading at a significant premium to its peers.

Price to Earnings/Growth
ILMN 2.11 Peers 0.99
• Premium. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
• ILMN trades at a significant premium to its peers.

Earnings Growth
ILMN 77.25 Peers 7.52
• Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
• ILMN is expected to have an earnings growth rate that significantly exceeds its peers.

Sales Growth
ILMN 9.43 Peers 12.10
• Lower. A sales growth rate that trails the industry implies that a company is losing market share.
• ILMN trails its peers on the basis of sales growth.

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