

Illumina, Inc.(ILMN)

\$276.02 (As of 03/05/20)

Price Target (6-12 Months): **\$290.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

Illumina exited fourth-quarter 2019 with better-than-expected numbers. The company's consistent growth across its high and mid throughput categories buoys optimism. Non-DTC array revenues also contributed significantly to the top line. It continues to witness a robust show across a broad range of sequencing applications, especially in the sequencing consumables segment. Further, capability expansion related to IVD test kits banking on two significant partnerships with QIAGEN and Adaptive Biotechnologies, buoys optimism. Issuance of a promising guidance also instills optimism. However, a year-over-year decline in research and development costs and lower system revenues in the low throughput category due to a weak performance by MiniSeq, are concerns. Over the past six months, Illumina's shares have underperformed the industry it belongs to.

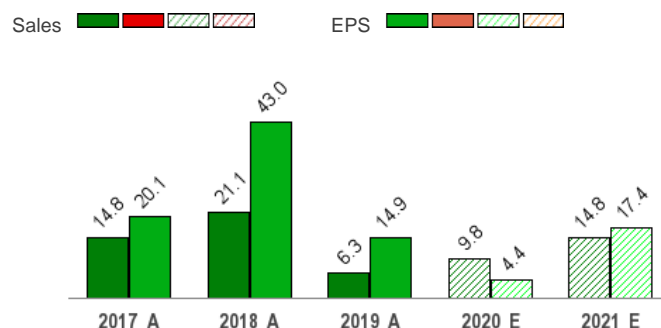
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$380.76 - \$252.43
20 Day Average Volume (sh)	1,482,870
Market Cap	\$40.6 B
YTD Price Change	-16.8%
Beta	1.15
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Top 39% (99 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	42.0
P/E F1	40.2
PEG F1	1.9
P/S TTM	11.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,014 E	1,066 E	1,139 E	1,226 E	4,466 E
2020	854 E	935 E	1,008 E	1,092 E	3,889 E
2019	846 A	838 A	907 A	953 A	3,543 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.70 E	\$1.84 E	\$2.10 E	\$2.34 E	\$8.05 E
2020	\$1.24 E	\$1.61 E	\$1.90 E	\$2.08 E	\$6.86 E
2019	\$1.60 A	\$1.35 A	\$1.93 A	\$1.70 A	\$6.57 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

San Diego, CA.-based Illumina Inc. is a life sciences company, which provides tools and integrated systems for analysis of genetic variation and function. Using its proprietary technologies, the company provides innovative sequencing- and array-based solutions for genotyping, copy number variation analysis, methylation studies, and gene expression profiling of DNA and RNA.

Its customers include leading genomic research centers, academic institutions, government laboratories, hospitals and reference laboratories as well as pharmaceutical, biotechnology, agrigenomics, commercial molecular diagnostic and consumer genomics companies.

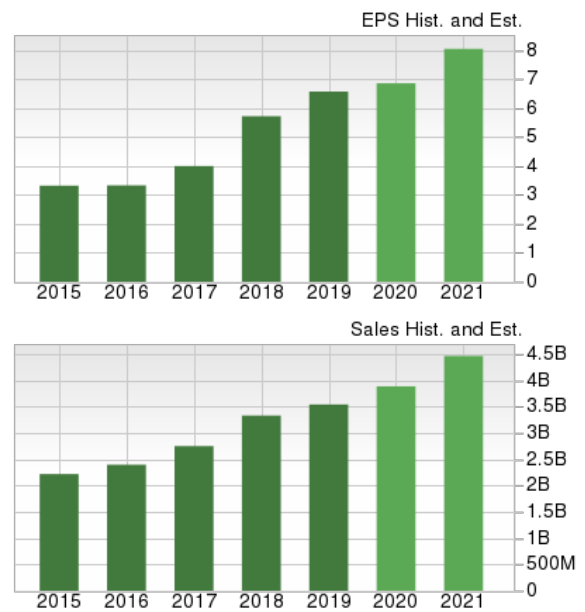
Illumina generates revenue from two segments – Product and Service.

Product revenues (82.7% of total revenues in 2019; underlying growth rate was 5.4% from 2018) are primarily attributed to the partnerships and collaborations to develop distributable clinical in-vitro diagnostics (IVDs) for Illumina sequencers. Product revenues consist of sales proceeds from the Consumables and Instruments segment used in genetic analysis. This includes reagents, flow cells, and BeadChips) based on the company's proprietary technologies.

Service revenues (17.3%, up 0.9%) include genotyping and sequencing services as well as instrument maintenance contracts.

Next-Generation Sequencing (NGS)

Illumina's portfolio of sequencing platforms represents a family of systems that are designed to meet the workflow, output, and accuracy demands of a full range of sequencing applications. The company's MiSeq sequencing system is a low-cost desktop sequencing system that provides individual researchers with rapid turnaround time, high accuracy and streamlined workflow. NextSeq 500, launched in January 2014, provides flexibility from whole genome sequencing to targeted panels in a desktop platform. The HiSeq 2500 sequencing system allows customers to sequence an entire human genome in approximately a day.



Reasons To Buy:

- ▲ **Reproductive and Genetic Health Market Prospect High:** Illumina is currently keeping well with its goals to strengthen foothold in the multi-billion gene sequencing world-wide market with some highly competitive products in its existing portfolio and pipeline. This market is developing rapidly on a global scale which has allowed the company to witness a persistent growth in the number of non-invasive prenatal test (NIPT) samples.

Reproductive health proved to be a major growth driver for the company, primarily reflecting continued growth in NIPT due to broader coverage in EMEA. In the EMEA region, the VeriSeq NIPT solution registered robust sample volume growth along with witnessing higher adoption in China. The company also registered moderate growth in the United States.

Illumina's market opportunities continue to expand owing to accelerated demand from clinical and translational customers. The company's recent strategic collaborations are expected to expand its product portfolio.

- ▲ **Growth in Oncology Space:** Lately, to catalyze clinical markets Illumina has adopted a strategy to deliver market-leading technologies and tailored solutions that will enable customers to personalize patient care through genomics. In its oncology business, yet another area of focus in Illumina's market expansion – this strategy has led the company to develop pharma partnerships and bring to market custom panel tests.

The company's Oncology portfolio (representing about 20% of total sequencing consumables) grew faster than total clinical consumables in 2019 due to increasing adoption of panels including Comprehensive Genomic Profiling. Further, clinical trials, like Guardant's LUNAR, boost the use of sequencing consumable in oncology testing. The company also believes China to be a strong market for its oncology business.

Illumina is continuing its expansion of clinical portfolio and both TSO 500 and TruSight NIPT are under regulatory review. TSO 500 is a NGS tumor profiling evaluation, analyzing hundreds of cancer-related biomarkers and is included in the company's 523 gene oncology panel currently available as research use only. This is making continuous progress toward US IVD. In the fourth quarter, Greater China witnessed strong clinical sequencing consumable growth partly due on developments in oncology. Overall, the segment performed well sequentially and year over year.

- ▲ **Worldwide Expansion to Drive Growth:** Apart from North America, Illumina markets and distributes its products directly to customers in Europe, Latin America, and the Asia-Pacific region (APAC) either through its direct selling force or through distributors that specialize in life science products. In the fourth quarter, EMEA witnessed impressive growth of 19% supported by a strong contribution from the UK Biobank, which is currently sequencing in full production mode. The NovaSeq consumable pull-through registered a strong growth in the fourth quarter, partly due to a robust boost from the UK Biobank, now operating at scale.

Illumina has completed its work for HiSeq and is currently reviewing NextSeq, MiSeq and MiniSeq. The company will be revising the installed bases in the upcoming quarters while completing the analysis.

- ▲ **Partnerships Strengthen Business:** We are optimistic about Illumina's expansion strategy through the enhancement of its portfolio of sequencing products through new purchases and the development of strategic partnerships with therapeutics and diagnostic services providers.

In terms of strategic collaborations and acquisitions, Illumina recently partnered with Roche to accelerate the availability of distributable NGS-based IVD tests on Illumina's diagnostic (Dx) sequencing systems. Further, Roche will collaborate with Illumina to complement the company's comprehensive pan-cancer assay TruSight Oncology 500 (TSO 500) with new companion diagnostic (CDx) claims.

This apart, in the fourth quarter of 2019, Illumina announced the completion of an agreement with the Broad Institute of MIT and Harvard to work on the development of secondary genomic analysis algorithms and software.

Illumina has also completed the integration of the hardware-accelerated and best-in-class pipeline that it acquired through its Edico Genome business.

Further, Illumina's recent partnership with QIAGEN is aimed at expanding the accessibility and use of NGS-based IVD kits, including companion diagnostics, for better patient management. Illumina's collaboration with Adaptive Biotechnologies Corporation will enable clinicians to carry out clinical immunodiagnostic testing, which can be conducted in local laboratories.

All these indicates that Illumina's products still stand a chance to outreach a large portion of sequencing programs in demand, which in turn might boost its profit margin.

Reasons To Sell:

- ▼ **Share Price performance:** In the past six months, Illumina has underperformed its industry. The stock has risen 3.4% compared with the industry's growth of 14.3% during the same period. A year-over-year decline in research and development costs, and lower system revenues in the low throughput category due to a weak performance by MiniSeq, have lowered the company's share price.
- ▼ **Expensive Valuation:** Illumina's P/S (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/S (F12M) ratio of 10.16 for the six months, whereas the current P/S (F12M) for the industry it belongs to is 2.99.
- ▼ **Tough Funding Environment to Restrict Growth:** Illumina's exposure to the U.S. government funding was less than 30% in 2015 (academic or government customers in the U.S. that directly or indirectly derive funding from the U.S. National Institute of Health or NIH). NIH, as part of the U.S. Department of Health and Human Services (HHS), is the nation's medical research agency aimed at improving health and saving lives. Budgetary pressures may result in further reduced allocations to government agencies that fund research and development activities, such as NIH. Any shift from the funding of life sciences research and development or delays surrounding the approval of government budget proposals may cause Illumina's customers to delay or forego purchases of its products.
- ▼ **Tough Competition:** Illumina faces significant competition in the sequencing, SNP genotyping, gene expression and molecular diagnostics markets with several large players already enjoying significant market share, intellectual property portfolios and regulatory expertise. Such companies include the likes of Agilent Technologies, Pacific Biosciences of California, BGI, QIAGEN N.V., Roche Holding A.G. and Thermo Fisher Scientific, among others. With substantially greater financial, technical, research and other resources, and larger, more established marketing, sales, distribution and service organization, these companies offer substantial challenges for Illumina. To compete effectively, the company must upgrade its organization and infrastructure appropriately and develop products with superior throughput, cost, and accuracy.

Government budget cuts, including NIH funding issues, and competition headwinds persist as major downsides.

Last Earnings Report

Illumina Q4 Earnings Beat Estimates, Margins Expand

Illumina's fourth-quarter fiscal 2019 adjusted earnings per share of \$1.70 surpassed the Zacks Consensus Estimate by 6.9%. Moreover, the bottom line improved 28.8% from the year-ago quarter.

Including one-time items, the company's GAAP (reported) earnings per share was \$1.61, up 14.2% year over year.

For 2019, adjusted earnings per share was \$6.57, up 14.9% from the year-ago figure. Also, the metric surpassed the consensus mark by 1.7%.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.63%
EPS Surprise	6.92%
Quarterly EPS	1.70
Annual EPS (TTM)	6.58

Revenues

In the reported quarter, Illumina's revenues rose 9.9% year over year to \$953 million. The top line also surpassed the Zacks Consensus Estimate by 0.6%. The year-over-year improvement can be attributed to the company's sequencing consumable growth and stronger-than-expected IVD partnership and non-DTC array revenues.

For fiscal 2019, total revenues were \$3.54 billion, up 6.3% from the year-ago figure. Moreover, it was in line with the Zacks Consensus Estimate.

Segment Details

The **Sequencing consumable** subsegment revenues were \$572 million in the reported quarter, up 21.7% year over year. The **Sequencing systems** subsegment revenues were \$141 million, down by 12.4% from the year-ago quarter's figure. **Sequencing** revenues, a subsegment of the Service & Other segment, were \$124 million, up 19.2% from the year-ago quarter.

In the fourth quarter of fiscal 2019, HiSeq consumables declined on customers' transition to NovaSeq. Nevertheless, the overall high throughput consumables portfolio witnessed sequential and year-over-year growth. NextSeq shipments were lower than expected due to customer timing in the fourth quarter. The same witnessed sequential and year-over-year growth on the placement of record number of NextSeq Dx Systems in the quarter.

Margins

Gross margin (excluding the amortization of acquired intangible assets) was 70.2% in the reported quarter, up 110 basis points (bps) year over year.

Research and development expenses declined 8.5% year over year to \$161 million, and selling, general & administrative expenses rose 7.4% to \$233 million. Adjusted operating margin came in at 31%, reflecting a massive surge of 670 bps year over year.

Financial Update

Illumina exited the fourth quarter of fiscal 2019 with cash and cash equivalents plus short-term investments of \$3.41 billion compared with \$3.17 billion at the end of fiscal 2018.

In fiscal 2019, net cash provided by operating activities was \$1.05 billion compared with \$1.14 billion reported in the year-ago quarter.

Fiscal 2020 Guidance

Illumina issued fiscal 2020 guidance. The company expects adjusted revenues of \$3.86-\$3.93 billion for the year, suggesting 9-11% growth. The Zacks Consensus Estimate for revenues stands at \$3.90 billion, which is closer to the upper end of the company's guided range.

Illumina envisions adjusted earnings per share of \$6.80-\$7 for fiscal 2020. The consensus mark for the metric is pinned at \$6.99, which is close to the high end of the company's guidance.

For first-quarter fiscal 2020, Illumina anticipates adjusted revenues of \$850-\$855 million. The consensus estimate for revenues stands at \$907.2 million, above the company's projected range.

Adjusted earnings per share is estimated at \$1.20-\$1.25 for first-quarter fiscal 2020. The Zacks Consensus Estimate for the same is pegged at \$1.55, above the company's expected range.

Recent News

On **Jan 13, 2020**, Illumina announced entering into a non-exclusive collaboration agreement with Roche to expand the adoption of distributable next-generation sequencing-based (NGS) testing in oncology.

Valuation

Illumina shares are down 16.7% in the year-to-date period and down 5.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 1.3% while the Zacks Medical sector are down 1.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 1.3% while sector is up 0.6%.

The S&P 500 index is down 3% in the year-to-date period and up 12.6% in the past year.

The stock is currently trading at 39X Forward 12-months earnings, which compares to 188.4X for the Zacks sub-industry, 20.4X for the Zacks sector and 17.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 63.2X and as low as 32.7X, with a 5-year median 46.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$290 price target reflects 40.9x forward 12-months earnings.

The table below shows summary valuation data for ILMN.

Valuation Multiples- ILMN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	39.04	188.39	20.43	17.88
	5-Year High	63.20	188.39	21.09	19.34
	5-Year Low	32.67	20.59	15.82	15.18
	5-Year Median	46.18	39.86	18.87	17.46
P/S F12M	Current	10.16	2.99	2.76	3.30
	5-Year High	14.82	2.99	3.84	3.43
	5-Year Low	6.73	2.03	2.45	2.54
	5-Year Median	10.82	2.57	2.97	3.01
P/B TTM	Current	8.80	3.93	4.52	4.18
	5-Year High	19.59	5.80	5.05	4.54
	5-Year Low	7.71	2.44	3.44	2.85
	5-Year Median	11.44	3.28	4.32	3.63

As of 3/5/2020

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 255)



Top Peers

Abbott Laboratories (ABT)	Neutral
Quest Diagnostics Incorporated (DGX)	Neutral
Danaher Corporation (DHR)	Neutral
Hologic, Inc. (HOLX)	Neutral
Myriad Genetics, Inc. (MYGN)	Neutral
QIAGEN N.V. (QGEN)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Becton, Dickinson and Company (BDX)	Underperform

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	ILMN Neutral	X Industry	S&P 500	HOLX Neutral	MYGN Neutral	TMO Neutral
VGM Score	C	-	-	D	D	B
Market Cap	40.57 B	190.97 M	21.47 B	12.47 B	1.29 B	124.79 B
# of Analysts	9	2	13	10	5	9
Dividend Yield	0.00%	0.00%	2.04%	0.00%	0.00%	0.24%
Value Score	C	-	-	C	C	C
Cash/Price	0.09	0.23	0.05	0.03	0.11	0.02
EV/EBITDA	27.78	-3.22	12.81	43.00	16.81	19.86
PEG Ratio	1.87	1.77	1.88	2.12	2.98	1.64
Price/Book (P/B)	8.80	3.85	2.95	5.52	1.19	4.23
Price/Cash Flow (P/CF)	33.53	13.17	11.75	11.28	7.42	17.30
P/E (F1)	40.24	31.79	17.19	17.87	38.87	22.98
Price/Sales (P/S)	11.45	13.49	2.32	3.68	1.58	4.89
Earnings Yield	2.49%	-15.58%	5.81%	5.60%	2.55%	4.35%
Debt/Equity	0.40	0.02	0.70	1.23	0.26	0.58
Cash Flow (\$/share)	8.23	-1.08	7.01	4.20	2.33	18.08
Growth Score	B	-	-	D	F	B
Hist. EPS Growth (3-5 yrs)	19.06%	18.12%	10.85%	9.12%	-9.38%	13.63%
Proj. EPS Growth (F1/F0)	4.40%	4.76%	6.27%	9.05%	-73.41%	10.23%
Curr. Cash Flow Growth	13.10%	14.61%	6.07%	2.17%	21.53%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	16.75%	8.17%	8.52%	3.55%	-3.44%	10.08%
Current Ratio	6.69	4.85	1.23	1.57	3.25	1.92
Debt/Capital	28.47%	4.20%	42.57%	55.26%	20.85%	36.53%
Net Margin	28.27%	-227.76%	11.69%	7.30%	-3.22%	14.47%
Return on Equity	22.34%	-67.29%	16.66%	30.47%	5.42%	17.24%
Sales/Assets	0.49	0.21	0.54	0.53	0.52	0.45
Proj. Sales Growth (F1/F0)	9.74%	13.95%	3.90%	-3.32%	-13.71%	5.38%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	-2.17%	-1.51%	-3.79%	-4.09%	-2.38%	-4.21%
1 Week Price Chg	-10.23%	-9.92%	-12.06%	-10.40%	-10.33%	-13.18%
4 Week Price Chg	-8.37%	-6.54%	-10.92%	-12.22%	-41.07%	-5.76%
12 Week Price Chg	-14.28%	-0.24%	-8.10%	-10.96%	-30.96%	-2.03%
52 Week Price Chg	-5.49%	-14.87%	4.09%	1.17%	-40.26%	24.75%
20 Day Average Volume	1,482,870	199,127	2,483,920	1,890,862	1,465,319	2,043,451
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	0.00%	-82.07%	0.04%
(F1) EPS Est 12 week change	-3.09%	0.00%	-0.42%	0.72%	-81.88%	0.21%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.29%	0.00%	-120.07%	-0.04%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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