

## Illumina, Inc.(ILMN)

**\$324.72** (As of 01/17/20)

Price Target (6-12 Months): **\$341.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

## Summary

Over the past year, Illumina's shares have outperformed the industry it belongs to. It is encouraging to note that revenues grew across the company's high and low throughput categories. Illumina continues with its robust performance across a broad range of sequencing applications. NovaSeq outpaced HiSeq X to become the most sequencing data generating platform, repeating its past performance on an annualized basis. The launch of AncestryHealth Plus and the partnership with QIAGEN N.V, the Broad Institute of MIT and Harvard in the third quarter also buoy optimism. It posted solid results in the third quarter of 2019, with earnings and revenues beating the Zacks Consensus Estimate. On the flip side, contraction in both research and development expenses and selling, general & administrative expenses are concerning for the company.

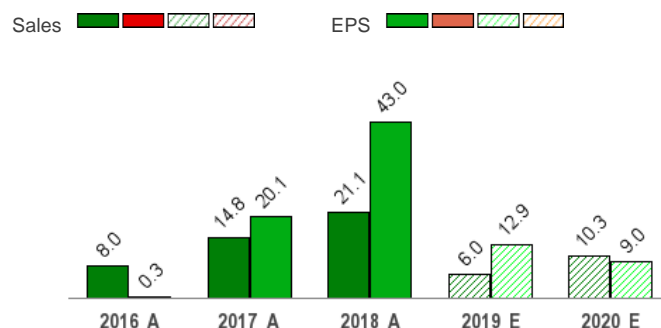
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$380.76 - \$263.30
20 Day Average Volume (sh)	919,105
Market Cap	\$47.7 B
YTD Price Change	-2.1%
Beta	1.05
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Biomedical and Genetics</a>
Zacks Industry Rank	Top 37% (94 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	37.9%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	01/29/2020
Earnings ESP	0.2%
P/E TTM	52.4
P/E F1	46.1
PEG F1	2.2
P/S TTM	13.8

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	920 E	958 E	1,004 E	1,061 E	3,895 E
2019	846 A	838 A	907 A	946 E	3,532 E
2018	782 A	830 A	853 A	867 A	3,333 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.57 E	\$1.65 E	\$1.84 E	\$1.94 E	\$7.04 E
2019	\$1.60 A	\$1.35 A	\$1.93 A	\$1.59 E	\$6.46 E
2018	\$1.45 A	\$1.43 A	\$1.52 A	\$1.32 A	\$5.72 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 01/17/2020. The reports text is as of 01/20/2020.

## 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.

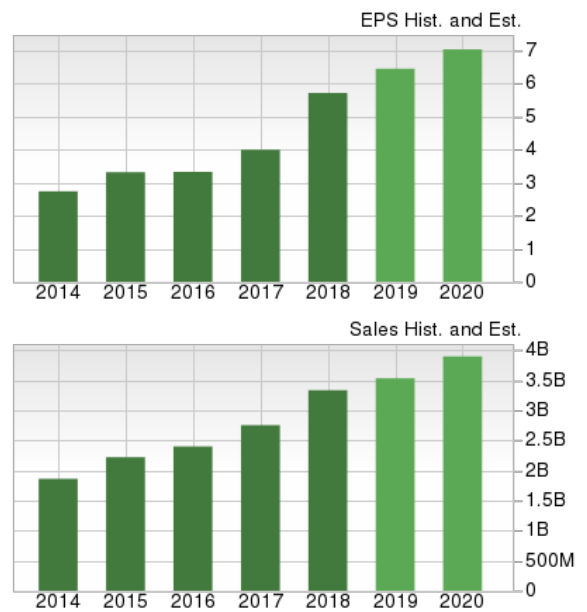
Illumina generates revenue from two segments – Product and Service.

**Product revenues** (82.5% of total revenues in 2018; underlying growth rate was 16.7% from 2017) 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** (17.5%, up 4.4%) 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.



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## Reasons To Buy:

▲ **Share Price Movement:** Over the past year, Illumina has outperformed its industry. The stock has risen 3.8% against the industry's decline of 3.5% during the same period. The year-over-year growth in revenues can be attributed to strength across Illumina's sequencing consumables portfolio, especially in the high and low throughput categories. NextSeq Dx's contribution to topline growth was impressive compared to the year-ago period. The company's partnerships on its IVD and genomics have been major boosters. Furthermore, Illumina continues to showcase robust performance across a broad range of sequencing applications. Meanwhile, the HiSeq to NovaSeq upgrade cycle is progressing well and NextSeq placements are strong. NovaSeq outpaced HiSeq X to become the most sequencing data generating platform, repeating its past performance on an annualized basis. We are also looking forward to the company's newly-linked Pacific Biosciences deal.

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.

▲ **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.

Favorable market condition in Europe was an important growth driver for the NIPT in the United States. Broader adoption of NIPT was witnessed on the seven European NIPT reimbursement decisions in 2019. Germany is also currently planning to reimburse NIPT for high-risk pregnancies. Other European countries like the U.K. and France, and Asian countries like Japan are following the same. The coverage for undiagnosed disease testing for both Whole-exome and Whole-genome sequencing has been on the rise.

▲ **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 is seeing a rise in the number of liquid biopsy and clinical commercial customers.

In the third quarter, the company witnessed strong sequencing consumables growth (13% rise from the year-ago period), on the adoption of the TruSight Oncology (TSO) 500 kit. This 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 third 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.

There have been positive developments regarding reimbursement, with almost 75% of all insured lives in the United States, having some coverage for oncology panels, including some for liquid biopsy.

▲ **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 third quarter, EMEA witnessed impressive growth of 7% supported by large-scale initiatives, namely the initial infrastructure investments from the UK Biobank, which is part of the company's effort to sequence 450,000 genomes. The EMEA has been witnessing strong contributions on clinical and research uses of NovaSeqs.

▲ **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.

Illumina recently partnered with AncestryHealth to launch AncestryHealth Plus, which will leverage Illumina's NGS technology to deliver more inclusive data on a wider set of health conditions.

In terms of strategic acquisitions, Illumina currently expects to close its \$1.2 billion purchase of Pacific Biosciences. The addition of Pacific Biosciences' long-read platform will help the company better deal with select applications such as de novo sequencing and sequencing of highly homologous regions of genomes. This apart, in the third 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. Further, Illumina recently partnered with QIAGEN to expand the accessibility and use of NGS-based IVD kits, including companion diagnostics, for better patient management.

Additionally, Illumina also signed a partnership deal with Adaptive Biotechnologies Corporation (a commercial-stage biotechnology company) in September 2019, which 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.

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## Reasons To Sell:

- ▼ **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 11.9 for the three months, whereas the current P/S (F12M) for the industry it belongs to is 2.8.
- ▼ **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 Q3 Earnings Beat Estimates

Illumina's third-quarter 2019 adjusted earnings per share of \$1.93 surpassed the Zacks Consensus Estimate by 37.9%. Moreover, the bottom line improved 26.9% from the year-ago quarter's figure.

Including one-time items, the company reported earnings per share of \$1.58, up 18.8% year over year.

Quarter Ending **09/2019**

Report Date	<b>Oct 24, 2019</b>
Sales Surprise	<b>4.06%</b>
EPS Surprise	<b>37.86%</b>
Quarterly EPS	<b>1.93</b>
Annual EPS (TTM)	<b>6.20</b>

### Revenues

In the quarter under review, Illumina's revenues rose 6.3% year over year to \$907 million. The top line also surpassed the Zacks Consensus Estimate by 4%. Year-over-year growth can be attributed to the company's collaborations to develop distributable clinical IVDs for Illumina sequencers.

### Segment Details

Sequencing consumable revenues were \$525 million in the reported quarter, up 11% year over year. Sequencing systems revenues were \$142 million, slightly up from the year-ago quarter's figures.

During the third quarter, HiSeq consumables declined due to customers' transition to NovaSeq. Nevertheless, the overall high throughput consumables portfolio witnessed sequential and year-over-year growth. NextSeq shipments witnessed sequential and year-over-year growth on the placement of record number of NextSeq Dx Systems in the quarter.

### Margins

Adjusted gross margin (excluding amortization of acquired intangible assets) was 72.4% in the reported quarter, up 126 basis points (bps) year over year.

Research and development expenses declined 5% year over year to \$151 million and selling, general & administrative expenses fell 4.1% to \$189 million. Operating margin was at 34.9%, reflecting a surge of 553 bps year over year.

### Financial Update

Illumina exited the third quarter of 2019 with cash and cash equivalents plus short-term investments of \$3.17 billion, almost flat on a sequential basis. Year-to-date net cash provided by operating activities was \$608 million compared with \$842 million reported in the year-ago quarter.

### 2019 Guidance

Illumina updated its 2019 view. The company continues to expect revenue growth to be around 6% (remained unchanged). The Zacks Consensus Estimate for 2019 revenues is pegged at \$3.53 billion.

Adjusting for certain net specified items with respect to the year, earnings per share is estimated to be \$6.40-\$6.45 compared with \$6-\$6.10 mentioned earlier. The consensus mark for earnings is pegged at \$6.04, which lies below the projected range. This outlook excludes any impact of the pending acquisition of Pacific Biosciences which is expected to be concluded by Dec 31, 2019.

## 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 up 8.9% in the six months period and up 3.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 11.3% while the Zacks Medical sector are up 9.1% in the six months period. Over the past year, the Zacks sub-industry is down 3.5% while sector is up 4.8%.

The S&P 500 index is up 12.3% in the six months period and up 23.8% in the past year.

The stock is currently trading at 45.7X Forward 12-months earnings, which compares to 133.2X for the Zacks sub-industry, 21.8X for the Zacks sector and 19.2X 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 46.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$341 price target reflects 48x 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	45.73	133.19	21.79	19.20
	5-Year High	63.20	135.59	21.79	19.34
	5-Year Low	32.67	20.54	15.88	15.17
	5-Year Median	46.62	38.25	18.95	17.44
P/S F12M	Current	11.99	2.79	2.88	3.57
	5-Year High	14.82	2.92	3.81	3.57
	5-Year Low	6.73	1.99	2.42	2.54
	5-Year Median	10.85	2.53	2.93	3.00
P/B TTM	Current	10.75	3.92	4.61	4.55
	5-Year High	19.73	5.71	5.02	4.55
	5-Year Low	7.71	2.41	3.42	2.85
	5-Year Median	11.53	3.24	4.28	3.61

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Top 37% (94 out of 254)



## Top Peers

Abbott Laboratories (ABT)	Neutral
Becton, Dickinson and Company (BDX)	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

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	ILMN Neutral	X Industry	S&P 500	HOLX Neutral	MYGN Neutral	TMO Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>B</b>	<b>D</b>	<b>B</b>
Market Cap	47.73 B	189.35 M	24.65 B	14.57 B	2.14 B	136.01 B
# of Analysts	8	3	13	10	5	9
Dividend Yield	0.00%	0.00%	1.73%	0.00%	0.00%	0.22%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Cash/Price	0.06	0.23	0.04	0.04	0.07	0.01
EV/EBITDA	39.62	-3.78	14.11	48.43	26.84	27.33
PEG Ratio	2.15	1.62	2.08	2.39	2.32	2.00
Price/Book (P/B)	10.75	4.04	3.39	6.86	1.99	4.63
Price/Cash Flow (P/CF)	44.62	13.21	13.81	12.94	12.34	20.15
P/E (F1)	46.13	28.31	19.19	20.73	27.15	24.95
Price/Sales (P/S)	13.80	13.62	2.69	4.33	2.56	5.39
Earnings Yield	2.17%	-15.48%	5.21%	4.82%	3.69%	4.01%
Debt/Equity	0.41	0.02	0.72	1.32	0.27	0.56
Cash Flow (\$/share)	7.28	-1.07	6.94	4.20	2.33	16.84
<b>Growth Score</b>	<b>C</b>	-	-	<b>A</b>	<b>F</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	18.45%	16.50%	10.56%	9.36%	-7.91%	13.25%
Proj. EPS Growth (F1/F0)	9.08%	7.26%	7.57%	7.86%	-36.65%	10.29%
Curr. Cash Flow Growth	37.69%	20.28%	14.73%	2.17%	21.53%	16.70%
Hist. Cash Flow Growth (3-5 yrs)	22.75%	8.03%	9.00%	3.55%	-3.44%	17.85%
Current Ratio	6.82	5.12	1.24	1.68	2.86	1.80
Debt/Capital	29.10%	3.91%	42.99%	56.99%	21.11%	35.83%
Net Margin	28.14%	-197.98%	11.14%	-1.19%	-1.83%	14.24%
Return on Equity	22.05%	-64.11%	17.16%	29.67%	6.48%	17.16%
Sales/Assets	0.49	0.20	0.55	0.51	0.53	0.45
Proj. Sales Growth (F1/F0)	11.91%	17.19%	4.16%	-0.11%	-5.24%	5.77%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>F</b>	<b>C</b>	<b>A</b>
Daily Price Chg	-0.38%	-0.15%	0.27%	0.18%	-0.69%	0.73%
1 Week Price Chg	3.97%	1.78%	0.39%	2.47%	4.73%	1.83%
4 Week Price Chg	-0.15%	6.15%	2.95%	4.00%	5.55%	4.93%
12 Week Price Chg	2.92%	18.24%	7.76%	13.93%	-12.14%	15.59%
52 Week Price Chg	4.73%	-4.89%	22.29%	26.03%	0.35%	42.41%
20 Day Average Volume	919,105	229,656	1,536,375	1,514,651	892,475	902,994
(F1) EPS Est 1 week change	-1.84%	0.00%	0.00%	-0.61%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.15%	0.00%	0.00%	-0.46%	1.05%	0.04%
(F1) EPS Est 12 week change	-1.79%	0.34%	-0.40%	-0.76%	-52.41%	0.33%
(Q1) EPS Est Mthly Chg	-1.46%	0.00%	0.00%	-1.18%	0.00%	-0.56%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	D
Growth Score	C
Momentum Score	D
VGM Score	D

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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### Disclosures

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