

Illumina, Inc.

4Q update brings few surprises, but also no LT clarity

Reiterate Rating: UNDERPERFORM | PO: 105.00 USD | Price: 143.33 USD

4Q as expected following preliminary release

Illumina (ILMN) reported 4Q23 results largely in-line with its preliminary release on 01/09 (see our [preA recap](#) note), including revenues of \$1.12bn. Adj OpM of 18.5% was ahead of the preliminary result of 18.0%, while Adj EPS were 14c vs BofAe/Street 15c/2c.

Formal guide shows FY24 to be another challenging year

ILMN's formal topline guidance matched mgmt commentary in recent quarters, with FY24 core ILMN sales seen flat y/y. Instruments are expected to decline high teens, and sequencing consumables are anticipated to grow +LSD. While we acknowledge that some slowing in instr. is understandable in the year following a major launch, the magnitude of the slowdown (and backlog of only 38 NovaX) are concerning. Mgmt. underscored ILMN's value proposition from a total cost perspective, but we believe that recent competitive entrants to the NGS space (many gave updates at AGBT this week) may be beginning to take their toll (we est. 10-20% of mid/high throughput placements in 2023). Relatedly, we see the soft consumables outlook as evidence that the NovaX (even with 25B flowcell) is seeing far less elasticity of demand than ILMN had hoped.

Even with GRAIL drag gone, margin trajectory unclear

Mgmt. continues to anticipate a formal plan for the divestment of GRAIL by the end of 2Q and is only providing guidance on a core ILMN basis. Given mgmt's confidence in the divestment, we now completely remove GRAIL from our FY25 and FY26 forecasts (we assume via IPO/capital market transaction). That said, even excluding GRAIL, ILMN's margins have deteriorated meaningfully, with FY24 adj OpM guidance of 20% vs historical 25-30% ranges. Major margin expansion is a core element of the ILMN bull thesis, but we have trouble seeing the path back to prior levels, given less Gross Margin leverage as competition pressures pricing, and as significant cost cutting actions were already recognized in FY23 and given mgmt's emphasis on continued R&D investments.

Update ests; Reit. Underperform on key lingering questions

There were few surprises in the 4Q print and guidance though the update also did little to address the key issues overhanging the stock. We make modest changes to our ests (and remove GRAIL from FY25/26E); our DCF-based PO moves to \$105. We reiterate our Underperform rating as ILMN faces structural, competitive and market challenges.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.11	0.87	0.81	4.20	4.60
GAAP EPS	(28.01)	(7.34)	0.53	3.99	4.39
EPS Change (YoY)	-64.3%	-58.8%	-6.9%	418.5%	9.5%
Consensus EPS (Bloomberg)			0.81	2.44	4.23
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	67.9x	164.7x	177.0x	34.1x	31.2x
GAAP P/E	NM	NM	270.4x	35.9x	32.6x
EV / EBITDA*	28.5x	37.3x	58.7x	20.8x	19.4x
Free Cash Flow Yield*	0.5%	1.1%	0.4%	2.8%	3.1%

* For full definitions of *IQmethod*SM measures, see page 4.

08 February 2024

Equity

Key Changes (US\$)

	Previous	Current
Price Obj.	100.00	105.00
2025E Rev (m)	4,770.0	4,575.0
2026E Rev (m)	5,100.0	4,675.0
2024E EPS	0.76	0.81
2025E EPS	1.61	4.20
2026E EPS	2.60	4.60

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Stock Data

Price	143.33 USD
Price Objective	105.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-3-9
52-Week Range	89.00 USD - 238.55 USD
Mrkt Val (mn) / Shares Out (mn)	22,789 USD / 159.0
Free Float	99.7%
Average Daily Value (mn)	259.42 USD
BofA Ticker / Exchange	ILMN / NAS
Bloomberg / Reuters	ILMN US / ILMN.OQ
ROE (2024E)	2.8%
Net Dbt to Eqty (Dec-2023A)	7.6%
ESGMeter TM	Medium

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Timestamp: 08 February 2024 11:51PM EST

AGBT: Advances in Genome Biology and Technology
NGS: Next Generation Sequencing
LSD: Low-single-digits

iQprofileSM Illumina, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.8%	1.4%	2.3%	11.8%	10.7%
Return on Equity	3.9%	2.2%	2.8%	17.3%	16.6%
Operating Margin	10.4%	5.2%	5.4%	22.1%	23.4%
Free Cash Flow	106	258	98	649	714

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	3.5x	2.3x	1.3x	1.3x
Asset Replacement Ratio	0.7x	0.5x	1.1x	1.1x	1.1x
Tax Rate	26.5%	44.2%	34.0%	25.0%	24.3%
Net Debt-to-Equity Ratio	10.6%	7.6%	13.8%	0.3%	-11.4%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,584	4,504	4,500	4,575	4,675
% Change	1.2%	-1.7%	-0.1%	1.7%	2.2%
Gross Profit	3,140	2,928	2,936	3,042	3,131
% Change	-2.7%	-6.8%	0.3%	3.6%	3.0%
EBITDA	872	667	424	1,195	1,282
% Change	-35.3%	-23.5%	-36.5%	182.1%	7.3%
Net Interest & Other Income	(32)	(11)	(48)	(118)	(123)
Net Income (Adjusted)	334	138	129	671	736
% Change	-62.5%	-58.8%	-6.2%	419.3%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	327	125	129	671	736
Depreciation & Amortization	394	432	180	183	187
Change in Working Capital	204	41	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(533)	(120)	(9)	2	1
Capital Expenditure	(286)	(220)	(203)	(206)	(210)
Free Cash Flow	106	258	98	649	714
% Change	-68.5%	143.4%	-62.1%	564.9%	10.0%
Share / Issue Repurchase	63	67	(150)	(150)	(150)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	991	(1,236)	(25)	1,475	(25)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,037	1,054	965	2,927	3,453
Trade Receivables	671	734	675	686	701
Other Current Assets	853	821	675	686	701
Property, Plant & Equipment	1,091	1,007	1,030	1,052	1,076
Other Non-Current Assets	7,600	6,495	3,145	3,153	3,163
Total Assets	12,252	10,111	6,490	8,505	9,094
Short-Term Debt	1,248	0	0	0	0
Other Current Liabilities	1,525	1,570	1,035	1,052	1,075
Long-Term Debt	1,487	1,489	1,464	2,939	2,914
Other Non-Current Liabilities	1,393	1,307	365	365	365
Total Liabilities	5,653	4,366	2,864	4,356	4,354
Total Equity	6,599	5,745	3,626	4,148	4,740
Total Equity & Liabilities	12,252	10,111	6,490	8,505	9,094

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Life Sciences & Diagnostic Tools

Company Description

Headquartered in San Diego, California, Illumina is a life sciences company offering instruments, consumables, and services for genetic analysis. The company's proprietary products and services are used by researchers in a broad spectrum of scientific activities to gain a greater understanding of genetic variation and biological function. As such, Illumina's tools play an important role in helping advance disease research, drug development, and the creation of molecular tests.

Investment Rationale

While we are positive on Illumina's technology, their market position, and the overall trajectory of the genomics market, we see risks tied to current macroeconomic conditions, execution, visibility into customer timing and demand, the pending divestment of GRAIL, and growing competitive risks. ILMN has struggled to grow revenues over the past 4 years, and we see no imminent fix to a myriad of challenges facing the business.

Stock Data

Average Daily Volume 1,809,919

Quarterly Earnings Estimates

	2023	2024
Q1	0.08A	0.06E
Q2	0.32A	0.20E
Q3	0.33A	0.25E
Q4	0.14A	0.30E

Price objective basis & risk

illumina, Inc. (ILMN)

Our \$105 price objective is based on a DCF analysis that assumes a WACC of approximately 9% and a terminal growth rate of 4%. We consider this justified given near-term questions on certain pockets of ILMN's business and related execution, as well as the company's market position and significant TAM. This PO is also equivalent to roughly 25x ILMN's core 2025 EPS (ie. excluding GRAIL), which is on the lower end of its historical P/E multiple, but is justified given poor performance in recent years.

Downside risks to our PO are lower demand elasticity as ILMN further lowers cost of sequencing, lost sales due to challenging macroeconomic conditions for key customer groups, weaker-than-expected academic funding, lower consumable pull-through, competition within the genetic analysis market, regulatory and reimbursement uncertainty in the clinical sequencing markets, acquisition related integration issues, growing concerns over data privacy, and slower-than-expected uptake of new products (esp. NovaSeqX).

Upside risks to our PO are a stronger than expected recovery in instrument placements and overall sequencing demand following near-term market volatility, strong uptake of NovaSeqX product cycle, increased spending by high-throughput customers, better clinical reimbursement/market penetration, cost cuts that drive meaningful margin expansion, and the acquisition of the company.

Analyst Certification

I, Michael Ryskin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin

UNDERPERFORM

	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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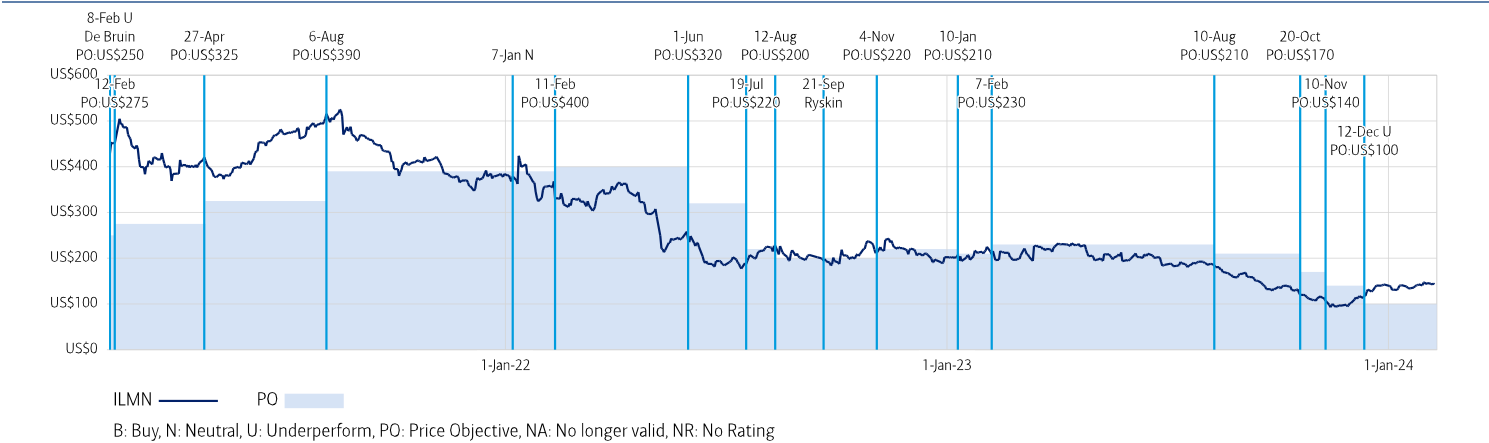
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Illumina (ILMN) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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