

Illumina, Inc.

Backlog falls sharply entering 2024 – sign of downside risk to FY guide?

Maintain Rating: UNDERPERFORM | PO: 105.00 USD | Price: 140.05 USD

Backlog down to \$653mn (vs \$1,030mn a year ago)

ILMN published their 2023 10K on Friday (Feb 16th), which included some additional information beyond what was discussed in the recent 4Q earnings call. Of note, ILMN's backlog at the end of FY23 is now down to \$653mn. This is sharply lower vs FY22 ending backlog (\$1,030mn) or FY21 ending backlog (\$1,035mn). The backlog has not been this low since 2016, and has been an average of ~ \$950mn over the past 6 years.

Backlog covers only 12% of FY24e sales (vs ~20% prior)

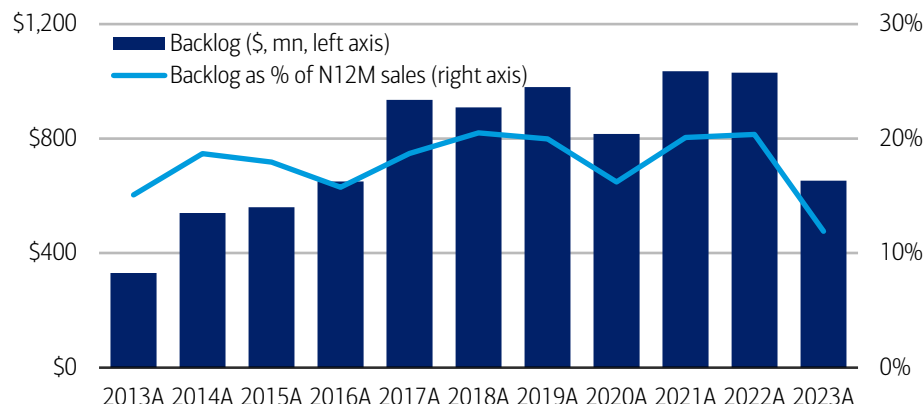
Illumina also disclosed that 82% of this backlog is expected to be shipped in the next 12 months, ie in 2024 (vs ~90% over each of the past 3 years), with an additional 13% in the 12 months following (ie, 2025). Based on that metric, ILMN currently has "orders believed to be firm" of \$535mn that it expects to ship in 2024, or equivalent to 12% of FY24e revenues. In comparison, in prior years, ILMN typically has "firm orders" of between 16% and 20% (average of 19%, 2014-2022) of N12M revenue at end-of-year.

Smaller NovaSeqX order-book is only part of the story

After launching the NovaSeqX in late 2022, ILMN had 140+ entering 2023, with an average ASP of ~ \$1mn. While 2023 was a strong year for NovaSeqX shipments (352 units), ILMN burned through the existing order book, and entered '24 with only 38 orders in backlog. This swing in NovaSeqX orders represents \$100mn of ILMN's lower backlog. Another ~ \$50mn could be explained by a similar reduction in NovaSeq6000 instrument backlog (we expect that to be essentially 0 at this point), but we note remaining \$200mn in fewer orders yoy is yet to be accounted for. Given ILMN's outlook for flat revenue dollars in 2024 vs 2023, the lower backlog could point to downside to the 2024 guide. Maintain Underperform as we think ILMN faces structural, competitive and market challenges.

Exhibit 1: Illumina backlog is sharply lower entering FY24 (vs prior years)

We see this as pointing to potential downside risk to 2024 guide & consensus



Source: Company filings, Bank of America research

BofA GLOBAL RESEARCH

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Stock Data

Price	140.05 USD
Price Objective	105.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-3-9
52-Week Range	89.00 USD - 238.55 USD
Mkt Val (mn) / Shares Out (mn)	22,268 USD / 159.0
Free Float	99.7%
Average Daily Value (mn)	274.24 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™	Medium

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ASP: average selling price

N12M: next twelve months

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Timestamp: 21 February 2024 05:00AM EST

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.

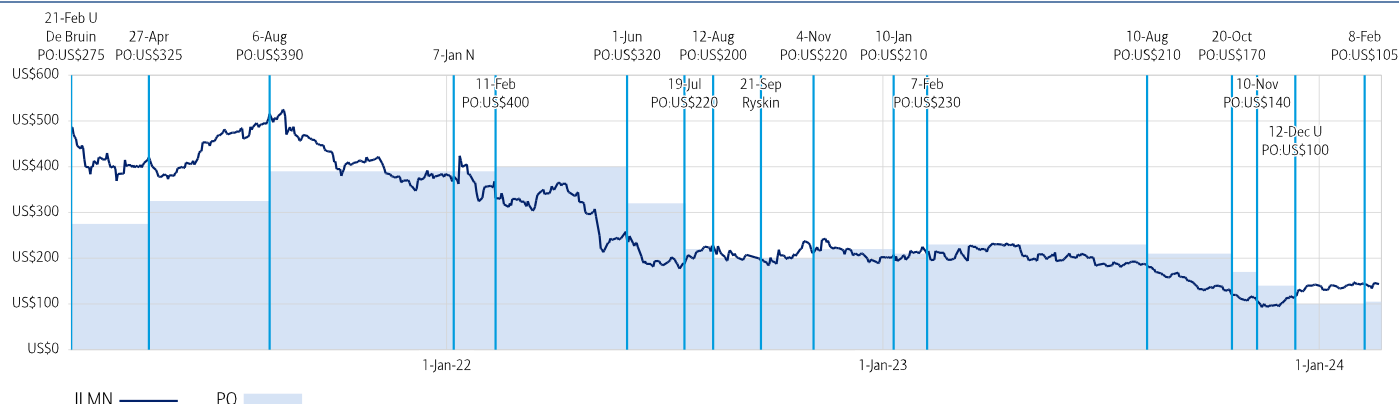
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Illumina (ILMN) Price Chart



ILMN — PO ■■■■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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