

Illumina, Inc.

4Q comes in ahead of very low bar (and still down sequentially from 3Q)

Maintain Rating: UNDERPERFORM | PO: 100.00 USD | Price: 143.61 USD

Revenues of \$1.115bn in 4Q, 79 NovaX placements

Illumina (ILMN) released flash 4Q23 results ahead of a presentation at an investor conference. At a high level, results beat the 4Q guide and consensus estimates across the board, but we highlight that ILMN set a very low outlook after the 3Q call, and results were universally down sequentially from 3Q (contrary to typical ILMN seasonality). Consolidated revenue was \$1.115bn, with \$1.09bn in Core Illumina (ex-GRAIL) sales. The consolidated revenue compares favorably to consensus of \$1.07bn, but is below 3Q's \$1.119bn. ILMN shipped 79 NovaSeqX boxes in the quarter, vs guide of ~62, but still well below 3Q's 97 shipments. On the margin front, core ILMN non-GAAP operating margins of 18.0% were above guide of ~15.5%, but still below 3Q's 22.5% number. ILMN presents later today, but we are not anticipating a major product unveil nor any color on 2024 at this time. All-in, the 4Q result was certainly better than expected, but does not dissuade us from our bearish view and provides little read-through on how 2024 could shape up. We maintain our Underperform thesis as we see demand elasticity as seriously challenged and think it'll take several years until ILMN can overcome the myriad headwinds it is facing.

09 January 2024

Equity

Michael Ryskin
Research Analyst
BofAS
+1 646 855 4373
michael.ryskin@bofa.com

Derik de Bruin
Research Analyst
BofAS
+1 646 855 3100
derik.de_bruin@bofa.com

Wolf Chanoff
Research Analyst
BofAS
+1 646 954 8482
wolf.chanoff@bofa.com

John Kim
Research Analyst
BofAS
+1 646 855 3874
john.kim4@bofa.com

Avantika Dhabaria
Research Analyst
BofAS
+1 646 743 0170
avantika.dhabaria@bofa.com

Stock Data

Price	143.61 USD
Price Objective	100.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-3-9
52-Week Range	89.00 USD - 238.55 USD
Mrkt Val (mn) / Shares Out (mn)	22,834 USD / 159.0
Free Float	99.7%
Average Daily Value (mn)	367.42 USD
BofA Ticker / Exchange	ILMN / NAS
Bloomberg / Reuters	ILMN US / ILMN.OQ
ROE (2023E)	1.9%
Net Dbt to Eqty (Dec-2022A)	10.6%
ESGMeter™	Medium

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Timestamp: 09 January 2024 11:05AM EST

Price objective basis & risk

Illumina, Inc. (ILMN)

Our \$100 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.

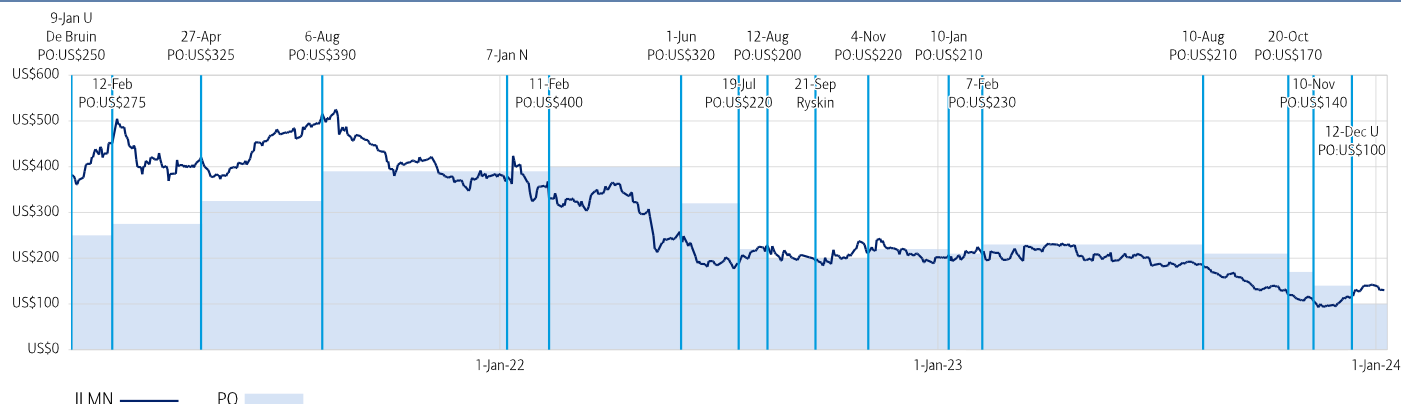
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Illumina (ILMN) Price Chart



ILMN — PO

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

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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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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