

ILMN Earnings Call Transcript

Date: 2025-10-30

Quarter: 3

Operator: Good day, ladies and gentlemen. Welcome to the Third Quarter 2025 Illumina Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the call over to Head of Investor Relations, Conor McNamara.

Conor Noel McNamara: All right. So we'll kick things off. Today, we will review our financial results released after the market close and provide prepared remarks before opening the line for Q&A.; Our earnings release is available in the Investor Relations section of illumina.com. Joining us on today's call are Jacob Thaysen, Chief Executive Officer; and Ankur Dhingra, Chief Financial Officer. Jacob will start with an update on Illumina's business, followed by Ankur's review of the company's financials. We will be discussing certain non-GAAP financial measures on today's call, and a reconciliation to GAAP can be found in today's release and in the supplementary data available on our website. Please note that unless otherwise stated or when referring to our end markets, all year-over-year revenue growth rates discussed in our prepared remarks are presented on a constant currency basis, excluding the impact of foreign exchange fluctuations. In addition, all references to China refer to our Greater China region, which also includes Taiwan and Hong Kong. This call is being recorded, and the replay will be available in the Investors section of our website. It is our intent that all forward-looking statements made during today's call will be protected under the Private Securities Litigation Reform Act of 1995. To better understand the risks and uncertainties that could cause actual results to differ, we refer you to the documents that Illumina files with the SEC, including our most recent Forms 10-Q and 10-K. With that, I will now turn the call over to Jacob.

Jacob Thaysen: Thank you, Conor, and good afternoon, everyone. In the third quarter, we delivered another strong performance with revenue, non-GAAP operating margin and diluted EPS all above our guidance range. We reported total revenue of \$1.08 billion, and we returned to growth ex China, up about 2% year-over-year. Non-GAAP operating margin was 24.5% and non-GAAP diluted EPS was \$1.34, both reflecting strong year-over-year expansion and above our guidance. This performance reflects the momentum we're building through the NovaSeq X transition, especially in the clinical markets, where sequencing consumables revenue grew at a high single-digit rate year-over-year. Given this strength, we are raising our total full-year 2025 outlook with staying disciplined as we monitor macro and funding dynamics through year-end. In our end markets, clinical continues to accelerate. Customers are advancing new assays that demand increasing sequencing capacity and intensity. And the NovaSeq X is proving to be the ideal solution, delivering higher throughput with the same trusted accuracy and workflow as the existing NovaSeq 6000 instruments. Growing sequencing volumes are more than offsetting transitional pricing effects, driving a sequential and year-over-year increase in consumables revenue. In research, we saw stabilization in demand, even as many labs continue to manage spending carefully in light of regulatory and funding uncertainty. Our teams remain closely engaged with customers to help sustain their work. We were also encouraged by the resilience of our business in China, where our revenue came in ahead of our guidance despite ongoing export restrictions. As a reminder, a fraction of our business is served by OEM partners that sell our instruments and consumables into specific customer segments. We have now received approval to serve those partners through the manufacturing of select instruments locally in China. While this marks a measured step forward, we have not yet reached a long-term resolution related to our operations in

China, but we remain in dialogue with the relevant agencies. Now, turning to our strategy. In Q3, we made significant progress across the 3 pillars that underpin our long-term financial targets, growing our core sequencing business, scaling into multiomics and expanding our services, data and software capabilities. Together, these pillars are shifting the conversations from cost per gigabase to delivering the highest quality biological insights at the lowest end-to-end cost. Starting with our core sequencing business. In Q3, we had another strong quarter for the NovaSeq X with more than 55 instruments placed in line with our goal of 50 to 60 placements per quarter. Most importantly, we achieved the milestones we have set for our high-throughput transition to the NovaSeq X. Our goal was to reach approximately 75% of high-throughput gigabases shipped and 50% of high-throughput revenue on the X platform by year-end, and we exceeded both here in Q3. Our results highlight the strength and elasticity of sequencing demand. NovaSeq X consumables revenue growth accelerated even as conversion from the NovaSeq 6000 increased, demonstrating that our transition strategy is working. Clinical remains the primary driver, supported by new assay approvals, positive reimbursement decisions and growing demand for more sequencing-intensive tests, all trends that position us well for sustained growth. As pricing headwinds ease and research end markets stabilize, we believe these dynamics will put us back on track toward our long-term revenue growth targets. Moving to our second pillar, scaling into multiomics. Following our announcement, announced acquisition of SomaLogic in Q2, which we continue to expect will close in 2026, we launched Illumina Protein Prep in Q3. This co-developed proteomics assay brings the power of NGS to protein analysis through a simple integrated workflow that delivers scale, precision and accessibility for labs of all sizes. Illumina Protein Prep can measure up to 9,500 proteins per sample and provides highly consistent results in about 2.5 days with minimum hands-on time and at a lower cost per insight. Importantly, Illumina Protein Prep integrates with Dragon and our upcoming Illumina Complete multiomics software suite, extending our end-to-end capabilities from sample prep through data interpretation. Beyond proteomics, earlier this month at ASHG, we expanded our multiomics portfolio with the launch of our 5-base solution, an integrated library prep and software offering that simultaneously reads genetic variances and DNA methylation. Using proprietary chemistry and our new DRAGEN algorithm, 5-base preserved both variant and methylation information in a single workflow, delivering accurate single-base resolution while reducing complexity and cost. Turning to our third pillar, expanding our services, data and software capabilities. Earlier this month, we introduced BioInsight, a new business created to accelerate the use of genomic and multiomics data in drug discovery and research. BioInsight brings together our population sequencing programs, data partnerships and software and AI capabilities under one structure, creating a more strategic platform to collaborate with governments, biopharma and research institutions. By combining advances in sequencing, economics and AI, BioInsight enables customers to generate and interpret data at a greater scale, positioning Illumina to capture new opportunities in this fast-growing space. In the near term, BioInsight will focus on large-scale data generation partnerships with longer-term plans to further monetize data, software and AI-enabled services, adding another layer of growth that supports our long-term financial targets. Together, these initiatives show how we are executing on our strategy, expanding Illumina's reach from sequencing to multiomics and from data generation to biological insights. They reflect an innovation road map that is delivering for customers today while setting the stage for what comes next. Throughout the quarter and ASHG, I met with many customers, those enthusiasm for our recent launches and upcoming solutions like Constellations with CLIA. These discussions are one of many ways we gather customer feedback, and we continuously integrate those insights into our road map. Customer focus and understanding are core to how we operate and my own conversations are an extension of that discipline. We are focused on what matters most to them, making sequencing easier, more accessible and more affordable, which helps us build stronger partnerships and better solutions. As a result, customers are expanding into new sequencing-intensive applications, broadening the reach and impact of our technology. At ASHG, these conversations reaffirmed our leadership position, built on end-to-end solutions, the quality and consistency of our data and proven reliability and service and highlighted the trust customers place in Illumina as a long-term partner. That feedback strengthened our conviction in the path ahead and our ability to extend our leadership for years to come. Looking ahead, we remain focused on disciplined execution and building our momentum from Q3. Clinical will continue to be our primary near-term driver

of revenue growth as NovaSeq X volume more than offsets conversion pricing headwinds. We also anticipate a gradual return to growth in our research business as pricing headwinds abate and end markets stabilize. Together, these dynamics position us well going into 2026, giving us confidence in our ability to achieve high single-digit revenue growth and 20% non-GAAP operating margins by 2027, excluding Greater China. With that, I'll turn it over to Ankur to walk through our Q3 results and outlook before we move to Q&A.;

Ankur Dhingra: Thank you, Jacob, and good afternoon, everyone. I will give you an overview of our third quarter financial results, provide more color about revenue, expenses, earnings and capital deployment and then speak about our outlook going forward. Before I get into the details of the financial performance, let me give you a high-level view of how the third quarter played out. In Q3, our business outside of China returned to growth, an important milestone towards our long-term goals. We made significant progress in the NovaSeq X transition with over 75% volume and over 50% revenue now transitioned to X. High-throughput consumables had strong growth in our clinical business, driven by continued expansion of X. Revenue exceeded the top end of our guidance range, was roughly flat globally and grew approximately 2% year-over-year ex China. Non-GAAP operating margin expanded by 190 basis points to 24.5% and non-GAAP diluted EPS of \$1.34 grew \$0.20 year-over-year. Now let me provide you details of our financial performance. Third quarter revenue of \$1.08 billion was roughly flat year-over-year on both a constant currency and reported basis and ahead of the top end of our guidance range. Revenue, excluding China, which makes up 95% of our revenue, grew approximately 2% year-over-year. Greater China revenue was \$52 million. Sequencing consumables revenue was \$747 million, roughly flat year-over-year and up about 3%, excluding China, both on reported and constant currency basis. High-throughput volumes continue to grow as customers across research and clinical take advantage of the NovaSeq X instruments. In clinical, momentum remains strong with double-digit revenue growth outside of China, driven by broader adoption of comprehensive genomic profiling and growing use of sequencing-intensive applications like MRD. In research and applied, consumables sales declined high single digits outside of China, reflecting continued funding uncertainty and pricing dynamics tied to the X transition. To give investors better visibility into these dynamics, we have added new disclosures for revenue outside China, showing instruments and consumables revenue and also consumables revenue growth by clinical and research segments. This can be found on Slide 10. The X transition progressed significantly in Q3, roughly 78% of volumes and 51% of revenue in Q3 was sequenced on X. 91% of research volumes were sequenced on X. The clinical X transition has progressed to roughly 64% of volumes in the quarter. Our customers are taking advantage of X's capabilities to increase content on their assays, expand into new indications and taking whole genome-based approaches, as you may have seen with several product launches and approvals in the last few months across therapy selection, MRD and genetic disease indications. Now that we have achieved this transition milestone, we thought it would be helpful to illustrate the conversion patterns with our clinical customers. On Slide 12, we look at the 40 customers that have fully transitioned to X as of Q3, and we see how elasticity of demand played out. For this group of customers, volume offset price in year 1 and then revenue and volume both accelerated in year 2. We continue to be in deep dialogue with our clinical customers about their growth trajectory and their 6K to X transition plans. These plans support a view of continued revenue growth in 2026 and beyond. Specifically, business with our largest customers is projected to grow faster than the overall company average rate, at least over our strategic plan period. Taken together with the range of new assays coming to market and these discussions with our customers, gives us confidence that clinical demand will remain strong as the X transition advances. On sequencing activity, total sequencing GB output on our connected high- and mid-throughput instruments grew at a rate of more than 30% year-over-year, driven by robust strength in clinical, but a more muted growth from our research customers. Moving to sequencing instruments. Revenue of \$107 million was up approximately 3% year-over-year in Q3 and 6% ex China on both a reported and constant currency basis, driven by the broad adoption of the MiSeq 100 in the low-throughput space. NovaSeq X placements were strong at over 55 in Q3. In line with recent trends, over 50% of Xs placed in Q3 were to clinical customers. In Greater China, our instruments business was down approximately 54% due to restrictions on exportation of instruments into China. Sequencing service and other revenue of \$147 million was down approximately 3%

year-over-year, below our expectations. The decrease was mainly due to the timing of certain strategic partnership revenues. Moving to the rest of the Illumina P&L; Non-GAAP gross margin of 69.2% for the third quarter. Tariffs impacted gross margins by roughly 220 basis points on a year-over-year basis. Non-GAAP operating expenses were \$484 million, which is down approximately 6% or \$33 million year-over-year, reflecting results of multiyear cost reduction programs while prioritizing key growth investments. Non-GAAP operating margin was 24.5% in Q3, expanding 190 basis points year-over-year. Non-GAAP operating profit grew approximately 9% year-over-year, reflecting increased operating leverage from the improved cost structure. Looking at our results below the line, non-GAAP other expense, which is largely comprised of net interest expense, was \$13 million and non-GAAP tax rate was slightly higher than expectations at 18.6%. We continue to assess long-term tax structure optimization to balance U.S. R&D; benefits with efficient credit utilization across jurisdictions. Our average diluted shares were approximately \$154 million, roughly \$3 million lower than last quarter, driven by an increased level of share repurchases, net of dilution from employee equity awards. Altogether, the non-GAAP earnings per diluted share of \$1.34 grew 18% year-over-year and came in well above our guidance range. Moving to cash flow, balance sheet and capital allocation items for the quarter. Cash flow provided by operations was a robust \$284 million. Capital expenditures were \$31 million and free cash flow was \$253 million. In Q3, we repurchased approximately 1.24 million shares of Illumina stock at an average price of \$97.10 per share for a total of \$120 million. At quarter end, we had \$684 million remaining on our share repurchase authorization, and we intend to continue to repurchase shares opportunistically. Additionally, last quarter, we entered into a definitive agreement with Standard BioTools to acquire SomaLogic and other specified assets. We are working with regulatory authorities to obtain clearance and still expect the deal to close in the first half of 2026. We ended the quarter with roughly \$1.28 billion in cash, cash equivalents and short-term investments and gross leverage of approximately 1.6x gross debt to last 12 months' EBITDA. Now moving to guidance for the year 2025. As you may have seen in the press release, we are increasing our guidance for 2025. Starting with revenue. We're raising our revenue guidance for the Greater China region by \$20 million to approximately \$220 million for the year. For the Rest of the World, we're projecting revenue growth between 0.5% and 1.5% on a constant currency basis, unchanged at midpoint. Hence, we now anticipate total Illumina constant currency revenues to decline in the range of minus 0.5% to minus 1.5%. On a reported basis, that equates to Illumina revenue in the range of \$4.27 billion to \$4.31 billion, up \$20 million at the midpoint relative to last guidance. Now shifting into our product assumptions for rest of the world, excluding China. We now expect sequencing consumables growth between 2.5% and 3% towards the higher end of our prior guidance of 1% to 3%. This increase reflects strong performance in Q3, driven by sequencing consumable volume growth from our clinical customers. We are reiterating our guidance range for sequencing instruments decline of minus 6% to minus 4%. The offset is in services related to timing of certain strategic partnership revenues. Moving down the P&L; reflecting our strong execution and results as well as increased revenue expectation from China, we are increasing our non-GAAP operating margin guidance by approximately 60 basis points at the midpoint to a range of 22.75% to 23% -- we now expect full year 2025 non-GAAP tax rate to be approximately 20.5% and our full year 2025 weighted average shares outstanding of roughly 156 million shares to reflect our Q3 repurchases. Bringing it all together, we're raising our non-GAAP diluted EPS guidance by \$0.20 at the midpoint to a range of \$4.65 to \$4.75, reflecting 13% growth year-over-year at midpoint. This guidance implies that for Q4 2025, we expect our year-over-year revenue growth in rest of the world ex China to step up to the 4% and China contributing \$33 million in Q4. As we close out 2025, we are quite encouraged by the momentum we've built from the successful NovaSeq X transition and the continued strength of our clinical business to the progress we've made preparing for multiomics launches across single cell, spatial and proteomics. Looking ahead to 2026, we see 3 key trends. First, in clinical, we expect dynamics similar to this year, strong volume growth and continued transition to X. Second, in research and applied, we anticipate conditions to remain muted, consistent with the latter half of 2025, with pricing headwinds easing now that 91% of high throughput volume has transitioned to X. And third, our planned 2026 multiomics launches will begin contributing to growth as and when research end markets recover. Altogether, we expect the end markets in 2026 to look similar to the second half of 2025. We'll provide detailed 2026 guidance when

we report our Q4 results. In closing, I want to once again express my sincere appreciation to the Illumina team for their continued focus and disciplined execution throughout this year. This quarter was extremely encouraging as we returned to growth and made significant progress towards our short- and long-term goals. Thank you for joining our call today. I'll now invite the operator to open the line for Q&A.;

Operator: [Operator Instructions] Our first question comes from Puneet Souda with Leerink.

Puneet Souda: If I could, I'll just wrap my questions into one. Thanks for the details on the \$33 million for China that you are implying versus the full year, I'm just trying to understand how should we think about China in sort of '26? You seem to be isolating China as you are moving forward. Maybe if you could provide some color there. And then a bigger question here is what competitively has been announced at ASHG. Is that leading to any freezing on the research and applied side of the market? I appreciate you providing more color on the clinical. And then the last part, if I may, clinical growth, 12%, thank you for that. How should we expect that for the full year and '26, if you could?

Jacob Thaysen: Puneet, this is Jacob. So thanks for that one question, which I think had a few smaller parts. But let me start with the China setup. First of all, I'm very pleased with the performance in China. As you know, we still haven't resolved the situation in China, but we made a good step forward here by now being able to serve our OEM partners so they can serve their customers in China. So I'm with instruments. So I'm really pleased about that. I'm also very happy to see how Jenny, our General Manager in China and the Illumina team continues to serve our customers in a challenging environment. They've shown really resilience in this. And of course, what we're also seeing and we continue to be very pleasantly surprised about is how well or how much our customers do want to continue to work with Illumina. They continue to see the high quality and innovations, and they want to see us stay in the market. We are taking this right now, quarter-by-quarter. It will be too early for us to go in and give you a view on '26. But clearly, again, we need to find a way to resolve the situation, and we continue to work with the regulators in China to find a solution for that.

Operator: Your next question will come from Doug Schenkel with Wolfe Research.

Douglas Schenkel: Two questions. So the first, as I think about 2026, based on how you described trends in your prepared remarks, there's 3 things that really jump out to me. One, it seems plausible that research revenue could be flat to down low singles next year in a somewhat stable funding environment given the state of the transition to the X. Two, clinical revenue should grow, but maybe mid-single digits to high single digits as volumes grow and customers continue to transition to the X, keeping in mind the slide that you presented on 3-year precedent with clinical customers. And then third, China could be a 50 to 100 basis point headwind to growth. So like when I pull those 3 things together, mathematically, it gets me to low single-digit revenue growth, at least as a starting point for next year. I'm just wondering if that's a reasonable framework. And then the second thing is, operationally, you have managed to expand margin about 50 basis points year-to-date in a period where total revenue is down a couple of points. including a close to 25% year-over-year decline in high-margin China revenue. So it's been really impressive. I'm just wondering what does this mean as the margin outlook or the margin outlook as the environment normalizes? Because on one hand, you could argue you already pulled forward a lot of operating levers to get to these levels. On the other hand, the fact that you've accelerated operating efforts the way you have could lead to pretty material flow-through when revenue starts to pick up again. So I just -- Ankur, it would be great to just know how you're thinking about this.

Jacob Thaysen: All right, Doug, thank you for the questions. And let me start again on '26. As I said before, we're not going to go in and give guidance. We do think it's highly appropriate to wait until we have a better sense for how what will happen over the next quarter here and how the market evolves and also the regulatory space, of course, from a China perspective. That said, I think that the framework you're putting out looking at clinical being the driver of growth in next year also, where we are seeing more muted environment for research. And I think we're seeing it more like a second-half environment as we see it right now, it is stabilizing, but still soft. And then we think there will be some contribution from some of our new launches of our multiomics products here. How we think about it right now, we are not taking -- I wouldn't take China into the consideration at this point of time for -- in our framework. That's too early to see where this is -- where China is going. I would say overall, on the

-- how we are operating the company and how disciplined the team has been on executing, I feel good about the opportunity we have to further expand our margins. And I feel really good about, as I mentioned in my prepared remarks, moving towards our goal of 26% in '27 and above going forward.

Ankur Dhingra: Yes. On the margin side, good question, Doug. Very pleased with the performance, especially as some of the result of the actions that we've been taking coming through here in this quarter as well. We're pleased with 190 basis point operating margin expansion during the quarter. So we've taken a lot of cost structure actions. I'm looking forward, there are still several plays that are yet to reflect the full benefit in our P&L, especially in our gross margins, where we continue to work with optimizing our manufacturing footprint. And on the OpEx side, our sense is we've put in a lot of structural plays in move. Some of those have to play out. But at the same time, we are making growth investments as well. So going forward, I do anticipate additional margin expansion coming both from cost action, but also most certainly, much stronger operating leverage given where we are from a cost structure perspective.

Operator: Your next question will come from Vijay Kumar with Evercore ISI.

Vijay Kumar: Congrats on a nice sprint here. Two quick ones, Jacob, Ankur, for both of you. On consumables, I thought the expectations for the quarter was something like 720, 725-ish, given China headwinds. I recognize China came in better. Was there any pull forward in academic and government segments? Like how would you -- when you look at the consumables growth of 3% rate, what was -- what is macro versus this transition impact? If you could just parse that out. And Ankur, for you, I think in the past, you've said 500 basis points of margin expansion. Is that still relevant given off of current levels given you guys have executed in margins?

Jacob Thaysen: So Vijay, thanks for the question. And yes, we are excited about Q3. We think -- and consumables were definitely a highlight of the quarter also. It continues to see momentum. What you're seeing is how the quarter played out. There's not been any pull forward either from China or what we've seen from NIH. We're very pleased to see that the grants are starting to flow again, but it did not -- there was no catch-up effect from actually spending from NIH customers, so to say, grant receivers. So we're not seeing that at this point of time. But we are, of course, hopeful that more will happen. But I think it will take time for this to stabilize even further.

Ankur Dhingra: Yes. So the only thing I would add, bulk of the overperformance, rest of the world came from clinical side there on the consumable side. So very robust demand there. And then on the margin expansion, the 500-basis point was the goal we had set ourselves when we had the Analyst Day last year with a starting point where our base was much closer to about 21% or so. So we're marching towards in aggregate, getting to that 500 basis points over time. But as I've said, the business, the way it is at close to 69%, 75%, 70% gross margin, we do hire long-term opportunity in that space, but we'll talk about it once we achieve our first milestone and then go from there.

Operator: Your next question will come from Tycho Peterson with Jefferies.

Tycho Peterson: A couple of quick ones. So as we think about research being muted next year per your comments, how are you thinking about multiyear grants and then on the flip side, allowing labs to potentially tap into indirect funds for capital equipment and also pent-up demand? So that's the first question. I also understand you don't want to talk about '26 a lot, but can you grow earnings in your view, given China and Roche headwinds? And then maybe for Ankur, on the consumables for this quarter, how much of the beat was China and tariff surcharges? And then what -- you didn't really explain gross margins, down 130 basis points year-over-year. Can you maybe touch on that? Was that all pricing? And what are the levers that you're implementing to offset? You said there's some GM levers coming.

Jacob Thaysen: Okay. So the first question was the research part. So I think still, there's a lot of in and outs on both single-year grants and multiyear grants. I think what we're seeing right now is that while grants has been granted, we have not seen many of the researchers starting to spend the money yet. And I think if you think about an academic researchers right now, usually, they might get several grants during the year. So it's not the one grant that drives and necessarily decision. It's predictability of the grants coming also. And I think that's a little bit what we are still and what the market on the academic market is still waiting to see is the new predictability. Can they expect that grants are also flowing in '26. So I think there's a little bit of that uncertainty that has to play through before we start to see a more

normal situation. So we will definitely be ready to respond, and I'm actually quite pleased with our lineup in multiomics also that will be very relevant for this type of customers when the funding is coming back. We are very confident and believe we can grow our earnings also in '26. And I think we have proven that here in '25. It's been a lot of headwinds from many different angles. And I think you can definitely see that we have been able to do so. So that brings my confidence for what we can do in '26 also very high.

Ankur Dhingra: Okay. Let me address the other 2 parts there. One, on the gross margin side, down 130 basis points, almost 220 basis points is from tariffs, which we'll talk about -- we're working towards mitigating some of those. The remainder base gross margin was up about 90 basis points accordingly. So the base business is continuing to do very well, and we are working towards, over time, find a way to mitigate the impact coming from tariffs. Your question about the beat on consumables, so roughly half and half in China and outside China. Most of the outside China is in clinical. The surcharge was exactly where we guided it to be. It came in right at the forecast.

Operator: Your next question will come from Dan Leonard with UBS.

Daniel Leonard: Apologies for that. One question on the growth in clinical consumables. That double-digit growth rate, did that include any positive lumpiness in there? Or do you view that as more run rate?

Jacob Thaysen: Dan, thanks for that question. We are very pleased again with the performance for Q3 and also definitely the clinical performance. As you also saw in the prepared remarks, but also in the slide that we had a very strong movement going from 44% of revenue in the high throughput on the X now up to 51% at the same time, also moving a lot of volume. So I think it really speaks to that when we are -- even with the shift and the transitioning that we can grow in -- even when we have a fast transitioning. That's what you're seeing. There's no specific lumpiness in this. I wouldn't count on that this is the run rate from now on, but I do believe that we will continue to have strong growth in the clinical space.

Operator: Your next question will come from Patrick Donnelly with Citi.

Patrick Donnelly: Maybe one, I know Roche has been mentioned a few times. Would love just your guys' perspective on the competitive environment. Jacob and Ankur, I know you're both up at ASHG, talking to a lot of customers seeing the product. So can you just give us your perspective on the competitive landscape, what factor that plays into '26 and just how you're thinking about any pressure or freezing that could offer to the market, particularly on the clinical side?

Jacob Thaysen: Yes. Patrick, thanks for the question. And as I mentioned before, we've always had competition in this space. We definitely have a lot of competition right now, and I love it. I think competition is great for us and how we think, how we push ourselves and how we thereby also become a better partner for our customers. What I also see out there is that most of our competition -- competitors are trying to compete and differentiate on one dimension only. But in reality, as you also mentioned here, we've been in conversation with many of our customers, and our customers are much more sophisticated than looking at one single dimension. They are actually looking at multidimension as highest quality data combined with the best workflow and lowest end-to-end cost. And as I see it, and I think also our customers resonates with our customers is that Illumina is really the only one that's delivering across all these dimensions and continue to innovate also. So I feel really good where we are and the competitive situation.

Operator: Your next question will come from Mason Carrico with Stephens.

Mason Carrico: Assuming similar market trends next year. How sustainable is the 50 to 60x per quarter moving forward? What does the pipeline look today? And maybe assuming we get a flattish NIH budget, do you think X placements could remain stable around these levels?

Jacob Thaysen: Yes, Mason, so thanks for that question. We started the year coming out and guided towards a 50, 60 placements per quarter. And remember, in '26 -- '25 when we provided this guidance, what happened afterwards was, of course, our challenging situation in China, combined with the challenges in NIH and funding. And yet, we have still been able to deliver on that algorithm. And I also expect here that Q4 will look stronger than the average of the year, which is usually do. We always have a stronger instrument placements in Q4. So I think -- and what I see is that I don't see no reason why -- any reason why that trend wouldn't continue into next year. But at this point, it's too early to

actually give you specifics on exactly how we think about that range.

Ankur Dhingra: Mason, from an end market perspective, if you look at the overall sequencing demand, we still see a significant number of sequencing-intensive applications that are both in the clinical as well as in research space that are building and continuing to build traction and momentum here. So we do see a several-year further expansion of the sequencing ecosystem, which actually should translate into placements as well.

Operator: Your next question will come from Catherine Schulte with R.W. Baird.

Catherine Ramsey: Maybe in research and applied, it looks like the NovaSeq X transition is almost complete there. Just curious, how has the gigabyte output looked in that customer group this year, just as we try to think about underlying activity levels? And then related, are you baking in any government shutdown impact for the fourth quarter?

Jacob Thaysen: Yes, Catherine. So I'll start by the first one, looking at the transition here and we're very pleased -- but also as expected that the NovaSeq X would transition much faster in the research and academic environment. As you can -- as you might know, is that what is happening there is that when a researcher have finished up their project on the 6 when they get the new project, they can immediately start on the X and do a bigger single cell project or whatever else they are working on in that particular research environment. That's very different from the clinical space where you have to validate and you have to make sure that it works on the new platform before you move over. So we're very used to and we expected that research applied would move much faster. And now with the transition done, we see that, that pricing headwind is, of course, reducing. So we are, of course, encouraged about the future. That said, there's still, of course, concerns about NIH funding, and they'll be muted for the time being. So maybe, Ankur, you can a little more.

Ankur Dhingra: So Catherine, in terms of actual GB volume growth, the -- as you may have probably worked through with where our research revenue growth in consumables has been, the GBs have grown both in clinical and in research during the quarter. Clinical was much, much stronger. The growth rate in research has come down relative to what the historical growth rates have been, but it is still growing. Now the overall funding environment has played out where the actual demand in that space and the activity has become muted, but the GB still grew, albeit below the 30% kind of number that we've talked about.

Operator: Your next question will come from Kyle Mikson with Canaccord.

Kyle Mikson: Congrats on the print and all the updates, really good. Yes. Ankur, for you on the quarterly R&D; expenses declined a bunch quarter-over-quarter. It's like the lowest dip below \$230 million for the first time since 2021. Wondering if that's -- if this is a new run rate or will it grow from here? And how much of it relates to the recent or the upcoming launches of new products as well as your efforts to remain competitive, obviously, too? And then just one quick one on the clinical. That looks like it's accelerating. What's specifically driving that? And there are there other catalysts that could unlock further growth?

Jacob Thaysen: Yes, Kyle. So let me start on this. This is Jacob, on the R&D.; And I'm very pleased with how Steve, our CTO and the R&D; team is driving a disciplined execution of the R&D; and the portfolio. And -- but we also, at the same time, we're very disciplined on how we spend our money and how we think about OpEx going forward. And I think that's the result you're seeing. But what I'm really pleased about is that I continue to see improved productivity in the R&D; organizations also. So I'm excited about what we have in our portfolio and what will come out over the next few years. Some of that we have talked about, a lot we haven't really shared as of yet. So much more to come.

Ankur Dhingra: Yes. Thanks, Jacob. On the -- your second question, Kyle, the -- okay. The clinical acceleration during the year, think about it in 2 ways. We've talked about the number of X placements and more than 50% of the Xs being placed in the clinical over the last several quarters and a significant number placed during the last quarter, talked about the validation of Xs in the clinical takes a little bit longer than what it has in the research environment. So the -- what we believe we are seeing the effect of is a lot of our large customers launching and getting approval for several new tests in some even in early detection, definitely in therapy selection, also in MRD and in genetic disease, even if you just line up the number of tests that have been approved in the last 2, 3 quarters alone, you will see the significant new activity that is getting added, right? And a lot of these larger highly intensive tests have

been enabled on X given the amount of sequencing intensity of these new tests take. So we think it's the clinical market is building momentum, and there is legs to this momentum going forward as well. The eventual growth rates in itself will pan out the way they would pan out, but there's a lot of good fundamental momentum building in that business.

Jacob Thaysen: Yes. And I also remind that we did a lot of X placements in Q4 and Q1 in '25 here in Q4 '24, and that's playing out now. You can see that many of those went into the clinical space, and that's where you start to see volume coming from also these placements.

Operator: Your next question will come from Jack Meehan with Nephron Research.

Jack Meehan: You've given a lot of very helpful comments around 2026 framing thoughts. In the past, you've talked about a goal of double-digit EPS growth. I was just curious with the building blocks that you've laid out for us, just your confidence that you think you can deliver on that next year.

Jacob Thaysen: Jack, good to hear from you. And yes, we continue to -- as I mentioned also in the call, we continue to -- of course, we were not guiding when we were at our earnings -- our investor set up here last summer. We were not providing too much detail on the EPS as far as I recall, it was more on the operating margin, where we said we were going to -- where we're going from 500 basis point up to 26%. But with that also comes, of course, strong EPS growth. So we're confident we can continue to grow the EPS in that range we were talking about also here. Now we're not -- it's too early again for us to give specific guidance for next year, but we believe we can continue to do so. And I think we have proven very well in very tough environments that we've seen both in '24 and here in '25 that we have expanded the EPS. And our aim is to continue to do so in the same level. Ankur?

Ankur Dhingra: Yes. Thanks, Jacob. Jack, yes, we still have several levers that we continue to work on from an overall earnings expansion perspective. Clearly, getting the OpEx cost structure to a level where we have much stronger operating leverage was an important point, and we feel we're getting close to that. So keeping discipline on that spending is one crucial aspect. We still continue to work on several of the programs that we've kind of outlined before. And the results of some of those are yet to play out in the P&L.; We've talked about setting up our core centers of excellence in Singapore. We've talked about centers of excellence in India. We've talked about continuing to work on the gross margin on our instruments. These are all levers that we continue to play and still have additional value to be dried. And on top of that, as we return to growth and with a better cost structure, there should be better operating leverage, too. So in short, yes, our focus is to continue to expand our earnings going forward. We'll talk about the specifics, of course, for 2026 when we get to the guide.

Operator: Your next question will come from Tom Stevens with TD Cowen.

Daniel Brennan: Great. This is Dan Brennan. Congrats on the quarter. Maybe just a couple. So I know a few questions have been asked on the X transition, but the 900 basis points of like sequential increase of volume on the X from 55 to 64, like could we see another 900 basis points in 4Q? And kind of how do we think about getting to the research kind of level for the X, which is 90%? Like how long will that take, do you think? And then b, in terms of research, can you just break down a little bit like what you're actually seeing from your U.S. academic and government customers? Like what have those trended year-to-date in the third quarter? And if we do get a flat budget or even like a CR, do you think that would be enough to see like a nice uptick in spending? Or what are you hearing from customers about what will allow them to spend more in the research customers?

Jacob Thaysen: Yes, Dan, thanks for that. I think at the last earnings call, we had a lot of conversations with all of you about why the transition was slowing. And now we have a conversation about why it's accelerating. I think first and foremost, what's important is that revenue accelerated with the acceleration of the conversion. So we're very pleased with that, and we continue to see that, that trend will continue. I will caution and overinterpret deceleration and deceleration quarter-by-quarter. The trend is what we want to look at. So where we are in a quarter from now, we will take that and see that. But it's 1 quarter, it's too early to say whether it's -- how much we are accelerating, whether that's a new line we should go after. But overall, I'm very encouraged where we are. And more importantly, I'm encouraged about that we continue to grow through an accelerated conversion. If we look into the academic environment, as I mentioned before, we're pleased to see that the grants are flowing. I think it's -- from now on, it's more and getting predictability in the grant flowing and the predictability that the researchers can actually expect to get also future grants because they are not planning their spending

based on one grant, they're spending on what is expected to come over the next few quarters. So I think that's the next -- this was a great checkmark that we now see that NIH is spending. The next checkmark is, of course, we need to have the budget approved at least a CR. And finally, of course, we need to see that the grants are flowing regularly. So I think that's the steps we have to go through. How long time that's going to take? I don't know exactly, but it's going to move into '26 for sure.

Operator: Our next question will come from Subbu Nambi with Guggenheim.

Subhalaxmi Nambi: First, 2 quick ones for me. First, it looks to me, Ankur, that you're expecting a bit of a step-up in Q4 instrument revenue outside China up to \$125 million. Do I have that right? It would still be down year-over-year, but it's a decent sequential step-up. So what are you assuming relative to historical norms when it comes to budget flush? And second, as a follow-up to Catherine's question, is that the right way to think about research customers that most of the X transition is done? I ask because unlike clinical, which you did a nice job addressing in the slides, I would think you get to the other side of the transition and start growing again more quickly. Is that right?

Jacob Thaysen: So Subbu, let me start on overall. I think there's nothing uncommon in having a very strong Q4 in instrument placements. That is the usual way we look at it. So I don't consider that as a budget flush, but it's very normal in the Q4, and we saw that last year and we've seen the other years also in Q4 is usually stronger. And that's not an Illumina thing, I think that's a life science -- at least what I know, a life science tools industry phenomenon. So we expect that also for Q4, but we are not building in any specific time of flush -- budget flush. Ankur?

Ankur Dhingra: Yes. Subbu, good questions. So Jacob's addressed the Q4 instruments. Certainly anticipating and the forecast assumes a pickup up there, not as big as the 91 placements that we had in Q4 last year. That's not what we're assuming in our forecast, but if that happens, that will be a nice upside overall. In terms of the research market looking forward, you have it right in the sense vast majority of our -- the volumes in the research market have transitioned to X, implying that as and when those markets return to growth or even in a stable environment, the actual pricing headwind should start to dissipate from that and resulting into a better revenue performance or revenue growth performance. We're also pleased with the series of multiomics that are getting launched. So we feel we're very well positioned as and when those markets return as well. So yes, thinking about the right way.

Operator: This concludes the Q&A; section of the call. I would now like to turn the call back to Conor McNamara for closing remarks.

Conor Noel McNamara: Thank you for joining us today. A replay of this call will be available in the Investors section of our website. This concludes our call. We look forward to seeing you in upcoming events.

Operator: This concludes today's call. We thank you for your participation. You may disconnect at this time and have a great day.