

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended April 4, 2021

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 001-35406



**Illumina, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**33-0804655**

(I.R.S. Employer Identification No.)

**5200 Illumina Way, San Diego, CA 92122**

(Address of principal executive offices) (Zip code)

**(858) 202-4500**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class            | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|-------------------|-------------------------------------------|
| Common Stock, \$0.01 par value | ILMN              | The NASDAQ Stock Market LLC               |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13a of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 23, 2021, there were 146.0 million shares of the registrant's common stock outstanding.

**ILLUMINA, INC.**  
**FORM 10-Q**  
**FOR THE FISCAL QUARTER ENDED APRIL 4, 2021**  
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## Consideration Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains, and our officers and representatives may from time to time make, “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “continue,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “potential,” “predict,” “should,” “will,” or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements we make regarding:

- our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- our expectations regarding the launch of new products or services;
- the benefits that we expect will result from our business activities and certain transactions we have completed, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures;
- our expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental investigations, proceedings, and regulations;
- our strategies or expectations for product development, market position, financial results, and reserves;
- our expectations regarding the pending acquisition of GRAIL, Inc. (GRAIL);
- our expectations regarding the integration of any acquired technologies with our existing technology; and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- the impact to our business and operating results caused by the COVID-19 pandemic;
- our expectations and beliefs regarding prospects and growth for our business and the markets in which we operate;
- the timing and mix of customer orders among our products and services;
- challenges inherent in developing, manufacturing, and launching new products and services, including expanding manufacturing operations and reliance on third-party suppliers for critical components;
- the impact of recently launched or pre-announced products and services on existing products and services;
- our ability to develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and to expand the markets for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- our ability to identify and acquire technologies and integrate them into our products or businesses successfully;
- risks and uncertainties regarding the pending acquisition of GRAIL and our ability to achieve the expected benefits of such acquisition;
- the assumptions underlying our critical accounting policies and estimates;
- our assessments and estimates that determine our effective tax rate;

- our assessments and beliefs regarding the outcome of pending legal proceedings and any liability that we may incur as a result of those proceedings;
- uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth in the United States or worldwide; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in “Risk Factors” within the Business and Market Information section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, or in information disclosed in public conference calls, the date and time of which are released beforehand.

The foregoing factors should be considered together with other factors detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We undertake no obligation, and do not intend, to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, or to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of any current financial quarter, in each case whether as a result of new information, future developments, or otherwise.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### ILLUMINA, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In millions)

|                                             | April 4,<br>2021<br>(Unaudited) | January 3,<br>2021 |
|---------------------------------------------|---------------------------------|--------------------|
| <b>ASSETS</b>                               |                                 |                    |
| Current assets:                             |                                 |                    |
| Cash and cash equivalents                   | \$ 4,433                        | \$ 1,810           |
| Short-term investments                      | 197                             | 1,662              |
| Accounts receivable, net                    | 517                             | 487                |
| Inventory                                   | 364                             | 372                |
| Prepaid expenses and other current assets   | 131                             | 152                |
| Total current assets                        | 5,642                           | 4,483              |
| Property and equipment, net                 | 915                             | 922                |
| Operating lease right-of-use assets         | 529                             | 532                |
| Goodwill                                    | 897                             | 897                |
| Intangible assets, net                      | 134                             | 142                |
| Other assets                                | 638                             | 609                |
| Total assets                                | \$ 8,755                        | \$ 7,585           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                 |                    |
| Current liabilities:                        |                                 |                    |
| Accounts payable                            | \$ 178                          | \$ 192             |
| Accrued liabilities                         | 602                             | 541                |
| Convertible senior notes, current portion   | 488                             | 511                |
| Total current liabilities                   | 1,268                           | 1,244              |
| Operating lease liabilities                 | 664                             | 671                |
| Term notes                                  | 992                             | —                  |
| Convertible senior notes                    | 680                             | 673                |
| Other long-term liabilities                 | 229                             | 303                |
| Stockholders' equity:                       |                                 |                    |
| Common stock                                | 2                               | 2                  |
| Additional paid-in capital                  | 3,914                           | 3,815              |
| Accumulated other comprehensive income      | 8                               | 2                  |
| Retained earnings                           | 4,870                           | 4,723              |
| Treasury stock, at cost                     | (3,872)                         | (3,848)            |
| Total stockholders' equity                  | 4,922                           | 4,694              |
| Total liabilities and stockholders' equity  | \$ 8,755                        | \$ 7,585           |

See accompanying notes to condensed consolidated financial statements.

**ILLUMINA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
(In millions, except per share amounts)

|                                              | Three Months Ended |                   |
|----------------------------------------------|--------------------|-------------------|
|                                              | April 4,<br>2021   | March 29,<br>2020 |
| Revenue:                                     |                    |                   |
| Product revenue                              | \$ 953             | \$ 701            |
| Service and other revenue                    | 140                | 158               |
| Total revenue                                | 1,093              | 859               |
| Cost of revenue:                             |                    |                   |
| Cost of product revenue                      | 265                | 174               |
| Cost of service and other revenue            | 58                 | 59                |
| Amortization of acquired intangible assets   | 6                  | 7                 |
| Total cost of revenue                        | 329                | 240               |
| Gross profit                                 | 764                | 619               |
| Operating expense:                           |                    |                   |
| Research and development                     | 197                | 156               |
| Selling, general and administrative          | 374                | 274               |
| Total operating expense                      | 571                | 430               |
| Income from operations                       | 193                | 189               |
| Other income (expense):                      |                    |                   |
| Interest income                              | 1                  | 14                |
| Interest expense                             | (19)               | (11)              |
| Other expense, net                           | (6)                | (14)              |
| Total other expense, net                     | (24)               | (11)              |
| Income before income taxes                   | 169                | 178               |
| Provision for income taxes                   | 22                 | 5                 |
| Net income                                   | \$ 147             | \$ 173            |
| Earnings per share:                          |                    |                   |
| Basic                                        | \$ 1.01            | \$ 1.18           |
| Diluted                                      | \$ 1.00            | \$ 1.17           |
| Shares used in computing earnings per share: |                    |                   |
| Basic                                        | 146                | 147               |
| Diluted                                      | 147                | 148               |

*See accompanying notes to condensed consolidated financial statements.*

**ILLUMINA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(In millions)**

|                                                                                   | Three Months Ended |                   |
|-----------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                   | April 4,<br>2021   | March 29,<br>2020 |
| Net income                                                                        | \$ 147             | \$ 173            |
| Unrealized (loss) gain on available-for-sale debt securities, net of deferred tax | (1)                | 1                 |
| Unrealized gain on cash flow hedges, net of deferred tax                          | 7                  | —                 |
| Total comprehensive income                                                        | <u>\$ 153</u>      | <u>\$ 174</u>     |

*See accompanying notes to condensed consolidated financial statements.*

**ILLUMINA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**(In millions)**

|                                                                            | Common Stock |        | Additional | Accumulated   | Retained | Treasury Stock |            | Total         |
|----------------------------------------------------------------------------|--------------|--------|------------|---------------|----------|----------------|------------|---------------|
|                                                                            | Shares       | Amount | Paid-In    | Other         | Earnings | Shares         | Amount     | Stockholders' |
|                                                                            |              |        | Capital    | Comprehensive |          |                |            | Equity        |
|                                                                            |              |        |            | Income        |          |                |            |               |
| Balance as of December 29, 2019                                            | 194          | \$ 2   | \$ 3,560   | \$ 5          | \$ 4,067 | (47)           | \$ (3,021) | \$ 4,613      |
| Net income                                                                 | —            | —      | —          | —             | 173      | —              | —          | 173           |
| Unrealized gain on available-for-sale debt securities, net of deferred tax | —            | —      | —          | 1             | —        | —              | —          | 1             |
| Issuance of common stock, net of repurchases                               | —            | —      | 32         | —             | —        | —              | (223)      | (191)         |
| Share-based compensation                                                   | —            | —      | 39         | —             | —        | —              | —          | 39            |
| Balance as of March 29, 2020                                               | 194          | 2      | 3,631      | 6             | 4,240    | (47)           | (3,244)    | 4,635         |
| Net income                                                                 | —            | —      | —          | —             | 47       | —              | —          | 47            |
| Unrealized gain on available-for-sale debt securities, net of deferred tax | —            | —      | —          | 8             | —        | —              | —          | 8             |
| Issuance of common stock, net of repurchases                               | —            | —      | 2          | —             | —        | (1)            | (145)      | (143)         |
| Share-based compensation                                                   | —            | —      | 16         | —             | —        | —              | —          | 16            |
| Balance as of June 28, 2020                                                | 194          | 2      | 3,649      | 14            | 4,287    | (48)           | (3,389)    | 4,563         |
| Net income                                                                 | —            | —      | —          | —             | 179      | —              | —          | 179           |
| Unrealized loss on available-for-sale debt securities, net of deferred tax | —            | —      | —          | (2)           | —        | —              | —          | (2)           |
| Issuance of common stock, net of repurchases                               | —            | —      | 27         | —             | —        | —              | (128)      | (101)         |
| Share-based compensation                                                   | —            | —      | 61         | —             | —        | —              | —          | 61            |
| Balance as of September 27, 2020                                           | 194          | 2      | 3,737      | 12            | 4,466    | (48)           | (3,517)    | 4,700         |
| Net income                                                                 | —            | —      | —          | —             | 257      | —              | —          | 257           |
| Unrealized loss on available-for-sale debt securities, net of deferred tax | —            | —      | —          | (10)          | —        | —              | —          | (10)          |
| Issuance of common stock, net of repurchases                               | 1            | —      | —          | —             | —        | (1)            | (331)      | (331)         |
| Share-based compensation                                                   | —            | —      | 78         | —             | —        | —              | —          | 78            |
| Balance as of January 3, 2021                                              | 195          | 2      | 3,815      | 2             | 4,723    | (49)           | (3,848)    | 4,694         |
| Net income                                                                 | —            | —      | —          | —             | 147      | —              | —          | 147           |
| Unrealized loss on available-for-sale debt securities, net of deferred tax | —            | —      | —          | (1)           | —        | —              | —          | (1)           |
| Unrealized gain on cash flow hedges, net of deferred tax                   | —            | —      | —          | 7             | —        | —              | —          | 7             |
| Issuance of common stock, net of repurchases                               | —            | —      | 31         | —             | —        | —              | (24)       | 7             |
| Share-based compensation                                                   | —            | —      | 68         | —             | —        | —              | —          | 68            |
| Balance as of April 4, 2021                                                | 195          | \$ 2   | \$ 3,914   | \$ 8          | \$ 4,870 | (49)           | \$ (3,872) | \$ 4,922      |

*See accompanying notes to condensed consolidated financial statements.*

**ILLUMINA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In millions)**

|                                                                                   | Three Months Ended |                   |
|-----------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                   | April 4,<br>2021   | March 29,<br>2020 |
| <b>Cash flows from operating activities:</b>                                      |                    |                   |
| Net income                                                                        | \$ 147             | \$ 173            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                   |
| Depreciation expense                                                              | 41                 | 37                |
| Amortization of intangible assets                                                 | 7                  | 7                 |
| Share-based compensation expense                                                  | 67                 | 39                |
| Accretion of debt discount                                                        | 10                 | 10                |
| Deferred income taxes                                                             | (79)               | (29)              |
| Losses (gains) on marketable equity securities                                    | 72                 | (3)               |
| (Gain) loss on derivative assets related to terminated acquisition                | (26)               | 95                |
| Other                                                                             | (19)               | (2)               |
| Changes in operating assets and liabilities:                                      |                    |                   |
| Accounts receivable                                                               | (39)               | 99                |
| Inventory                                                                         | 8                  | (24)              |
| Prepaid expenses and other current assets                                         | 7                  | (14)              |
| Operating lease right-of-use assets and liabilities, net                          | (3)                | (1)               |
| Other assets                                                                      | (4)                | (11)              |
| Accounts payable                                                                  | (8)                | (16)              |
| Accrued liabilities                                                               | 105                | (103)             |
| Other long-term liabilities                                                       | (4)                | 24                |
| Net cash provided by operating activities                                         | 282                | 281               |
| <b>Cash flows from investing activities:</b>                                      |                    |                   |
| Maturities of available-for-sale securities                                       | 331                | 107               |
| Purchases of available-for-sale securities                                        | (77)               | (256)             |
| Sales of available-for-sale securities                                            | 1,031              | 186               |
| Cash received (paid for) derivative assets related to terminated acquisition      | 52                 | (132)             |
| Purchases of property and equipment                                               | (42)               | (40)              |
| Purchases of strategic investments                                                | (3)                | —                 |
| Sales of strategic investments                                                    | 84                 | —                 |
| Net cash provided by (used in) investing activities                               | 1,376              | (135)             |
| <b>Cash flows from financing activities:</b>                                      |                    |                   |
| Net proceeds from issuance of debt                                                | 988                | —                 |
| Payments on convertible senior notes                                              | (27)               | —                 |
| Common stock repurchases                                                          | —                  | (188)             |
| Taxes paid related to net share settlement of equity awards                       | (24)               | (35)              |
| Proceeds from issuance of common stock                                            | 31                 | 32                |
| Net cash provided by (used in) financing activities                               | 968                | (191)             |
| Effect of exchange rate changes on cash and cash equivalents                      | (3)                | (6)               |
| Net increase (decrease) in cash and cash equivalents                              | 2,623              | (51)              |
| Cash and cash equivalents at beginning of period                                  | 1,810              | 2,042             |
| Cash and cash equivalents at end of period                                        | \$ 4,433           | \$ 1,991          |

*See accompanying notes to condensed consolidated financial statements.*

**ILLUMINA, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

*Unless the context requires otherwise, references in this report to “Illumina,” “we,” “us,” the “Company,” and “our” refer to Illumina, Inc. and its consolidated subsidiaries.*

## **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

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### **Business Overview**

We are a provider of sequencing- and array-based solutions, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments. Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, from which the prior year balance sheet information herein was derived. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expense, and related disclosure of contingent assets and liabilities. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results could differ from those estimates.

The unaudited condensed consolidated financial statements include our accounts, our wholly-owned subsidiaries, and majority-owned or controlled companies. All intercompany transactions and balances have been eliminated in consolidation. We operate under one operating segment and report under one reportable segment. Certain prior period amounts have been reclassified to conform to the current period presentation. In management’s opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

### **Fiscal Year**

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. References to Q1 2021 and Q1 2020 refer to the three months ended April 4, 2021 and March 29, 2020, respectively, which were both 13 weeks.

### **Significant Accounting Policies**

During Q1 2021, there were no changes to our significant accounting policies as described in our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

### **Accounting Pronouncements Pending Adoption**

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. The new standard reduces the number of accounting models for convertible debt instruments, amends the accounting for certain contracts in an entity's own equity, and modifies how certain convertible instruments and contracts that may be settled in cash or shares impact the calculation of diluted EPS. The standard is effective for us beginning in the first quarter of 2022,

with early adoption permitted in Q1 2021. We did not elect to early adopt the standard in Q1 2021. We are currently evaluating the impact of ASU 2020-06 on our consolidated financial statements.

## Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period.

Potentially dilutive common shares consist of shares issuable under convertible senior notes and equity awards. Convertible senior notes have a dilutive impact when the average market price of our common stock exceeds the applicable conversion price of the respective notes. Potentially dilutive common shares from equity awards are determined using the average share price for each period under the treasury stock method. In addition, proceeds from exercise of equity awards and the average amount of unrecognized compensation expense for equity awards are assumed to be used to repurchase shares.

The following table presents the calculation of weighted average shares used to calculate basic and diluted earnings per share:

| <i>In millions</i>                                                                | Q1 2021 | Q1 2020 |
|-----------------------------------------------------------------------------------|---------|---------|
| Weighted average shares outstanding                                               | 146     | 147     |
| Effect of potentially dilutive common shares from:                                |         |         |
| Equity awards                                                                     | —       | 1       |
| Convertible senior notes                                                          | 1       | —       |
| Weighted average shares used in calculating diluted earnings per share            | 147     | 148     |
| Potentially dilutive shares excluded from calculation due to anti-dilutive effect | —       | 1       |

## 2. REVENUE

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements.

### Revenue by Source

| <i>In millions</i>        | Q1 2021    |            |          | Q1 2020    |            |        |
|---------------------------|------------|------------|----------|------------|------------|--------|
|                           | Sequencing | Microarray | Total    | Sequencing | Microarray | Total  |
| Consumables               | \$ 695     | \$ 79      | \$ 774   | \$ 553     | \$ 67      | \$ 620 |
| Instruments               | 176        | 3          | 179      | 79         | 2          | 81     |
| Total product revenue     | 871        | 82         | 953      | 632        | 69         | 701    |
| Service and other revenue | 108        | 32         | 140      | 128        | 30         | 158    |
| Total revenue             | \$ 979     | \$ 114     | \$ 1,093 | \$ 760     | \$ 99      | \$ 859 |

### Revenue by Geographic Area

| <i>Based on region of destination (in millions)</i> | Q1 2021  | Q1 2020 |
|-----------------------------------------------------|----------|---------|
| Americas                                            | \$ 562   | \$ 477  |
| Europe, Middle East, and Africa                     | 305      | 221     |
| Greater China (1)                                   | 127      | 84      |
| Asia-Pacific                                        | 99       | 77      |
| Total revenue                                       | \$ 1,093 | \$ 859  |

(1) Region includes revenue from China, Taiwan, and Hong Kong.

## Performance Obligations

We regularly enter into contracts with multiple performance obligations. Most performance obligations are generally satisfied within a short time frame, approximately three to six months, after the contract execution date. As of April 4, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was \$1,129 million, of which approximately 91% is expected to be converted to revenue in the next twelve months, approximately 8% in the following twelve months, and the remainder thereafter.

## Contract Liabilities

Contract liabilities, which consist of deferred revenue and customer deposits, as of April 4, 2021 and January 3, 2021 were \$232 million and \$230 million, respectively, of which the short-term portions of \$188 million and \$186 million, respectively, were recorded in accrued liabilities and the remaining long-term portions were recorded in other long-term liabilities. Revenue recorded in Q1 2021 included \$83 million of previously deferred revenue that was included in contract liabilities as of January 3, 2021.

## 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

### Debt Securities

Our short-term investments include available-for-sale debt securities that consisted of the following:

|                                                  | April 4, 2021  |                        |                      | January 3, 2021 |                        |                      |
|--------------------------------------------------|----------------|------------------------|----------------------|-----------------|------------------------|----------------------|
|                                                  | Amortized Cost | Gross Unrealized Gains | Estimated Fair Value | Amortized Cost  | Gross Unrealized Gains | Estimated Fair Value |
| <i>In millions</i>                               |                |                        |                      |                 |                        |                      |
| Debt securities in government-sponsored entities | \$ —           | \$ —                   | \$ —                 | \$ 10           | \$ —                   | \$ 10                |
| Corporate debt securities                        | —              | —                      | —                    | 445             | —                      | 445                  |
| U.S. Treasury securities                         | —              | —                      | —                    | 830             | 1                      | 831                  |
| Total                                            | \$ —           | \$ —                   | \$ —                 | \$ 1,285        | \$ 1                   | \$ 1,286             |

During Q1 2021, we sold all of our available-for-sale debt securities in anticipation of funding the pending GRAIL acquisition. See Pending Acquisition below for further details. Realized gains and losses are determined based on the specific-identification method and are reported in interest income.

### Strategic Investments

#### Marketable Equity Securities

As of April 4, 2021 and January 3, 2021, the fair value of our marketable equity securities, included in short-term investments, totaled \$197 million and \$376 million, respectively. Total unrealized losses on our marketable equity securities, included in other expense, net, were \$58 million in Q1 2021. Total unrealized gains on our marketable equity securities were \$3 million in Q1 2020. Total losses on marketable equity securities sold, included in other expense, net, were \$14 million in Q1 2021. There were no sales of our marketable equity securities in Q1 2020.

#### Non-Marketable Equity Securities

As of April 4, 2021 and January 3, 2021, the aggregate carrying amounts of our non-marketable equity securities without readily determinable fair values, included in other assets, were \$314 million in both periods.

One of our investments, GRAIL, is a VIE for which we have concluded that we are not the primary beneficiary and, therefore, we do not consolidate GRAIL in our consolidated financial statements. In September 2020, we entered into an agreement to acquire GRAIL, as described in Pending Acquisition below. We have determined our maximum exposure to loss, excluding any amounts associated with the pending acquisition, to be the carrying value of our investment, which was \$250 million as of both April 4, 2021 and January 3, 2021.

Revenue recognized from transactions with our strategic investees was \$13 million for both Q1 2021 and Q1 2020.

### **Venture Funds**

We invest in two venture capital investment funds (the Funds) with capital commitments of \$100 million, callable through April 2026, and up to \$160 million, callable through July 2029, respectively, of which \$32 million and up to \$140 million, respectively, remained callable as of April 4, 2021. Our investments in the Funds are accounted for as equity-method investments. The aggregate carrying amounts of the Funds, included in other assets, were \$139 million and \$104 million as of April 4, 2021 and January 3, 2021, respectively.

### **Contingent Value Right**

In conjunction with the deconsolidation of Helix Holdings I, LLC (Helix) in April 2019, we received a contingent value right with a 7-year term that entitles us to consideration dependent upon the outcome of Helix's future financing and/or liquidity events. Changes in the fair value of the contingent value right resulted in an unrealized gain of \$10 million in Q1 2021 and an unrealized loss of \$3 million in Q1 2020, included in other expense, net.

### **Derivative Assets Related to Terminated Acquisition**

On November 1, 2018, we entered into an Agreement and Plan of Merger (the PacBio [Merger Agreement](#)) to acquire Pacific Biosciences of California, Inc. (PacBio) for an all-cash price of approximately \$1.2 billion (or \$8.00 per share). On January 2, 2020, we entered into an agreement to terminate the PacBio Merger Agreement (the [Termination Agreement](#)). Pursuant to the Termination Agreement, we made a cash payment to PacBio of \$98 million on January 2, 2020, which represented the Reverse Termination Fee (as defined in the PacBio Merger Agreement). The Reverse Termination Fee was repayable, without interest, if PacBio entered into a definitive agreement providing for, or consummating, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement), and such transaction was consummated by the two-year anniversary of the execution of the definitive agreement for such Change of Control Transaction. PacBio did not enter into a definitive agreement that provided for, or consummated, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement); therefore, the Reverse Termination Fee is no longer repayable.

In addition, we made cash payments to PacBio of \$18 million in Q4 2019, pursuant to [Amendment No. 1 to the PacBio Merger Agreement](#), and \$34 million in Q1 2020, pursuant to the Termination Agreement, collectively referred to as the Continuation Advances. Up to the \$52 million of Continuation Advances is repayable, without interest, if, within two years of March 31, 2020, PacBio enters into a Change of Control Transaction or raises at least \$100 million in equity or debt financing in a single transaction (with the amount repayable dependent on the amount raised by PacBio). In February 2021, PacBio entered into an investment agreement with SB Northstar LP for the issuance and sale of \$900 million in aggregate principal amount of PacBio's convertible notes. Pursuant to the PacBio Merger Agreement, PacBio repaid to us the \$52 million of Continuation Advances and we recorded a gain of \$26 million in Q1 2021, included in other expense, net.

The potential repayments of the Continuation Advances and Reverse Termination Fee met the definition of derivative assets and were recorded at fair value. The \$92 million difference between the \$132 million in cash paid during Q1 2020 for the Continuation Advances and Reverse Termination Fee and the \$40 million fair value of these derivative assets on the payment dates was recorded as selling, general and administrative expenses in Q1 2020. Changes in the fair value of the derivative assets were included in other expense, net. An unrealized loss of \$4 million was recorded in Q1 2020.

### **Pending Acquisition**

On September 20, 2020, we entered into an Agreement and Plan of Merger (the GRAIL [Merger Agreement](#)) to acquire GRAIL for \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. The cash consideration for the transaction is expected to be funded using existing cash of both Illumina and GRAIL, plus up to \$1 billion in capital raised through the issuance of term debt. Refer to note, "[4. Debt](#)" for details. The transaction, which is expected to close in the second half of 2021, is subject to certain customary closing conditions, including GRAIL shareholder approval and receipt of required regulatory approvals. Refer to note, "[7. Legal Proceedings](#)" for further details.

In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Pursuant to the GRAIL Merger Agreement, we have offered GRAIL stockholders the option to receive additional stock consideration in lieu of the contingent value rights. Such additional stock consideration would be a number of shares valued, pursuant to an agreed formula, at \$850 million in aggregate, subject to a cap of 3,035,714 shares.

We are required to make monthly cash payments to GRAIL of \$35 million (the Continuation Payments), beginning in December 2020, until the earlier of the consummation of the acquisition or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made Continuation Payments to GRAIL totaling \$105 million in Q1 2021, which were recorded as selling, general and administrative expenses. In April 2021, we made an additional monthly payment of \$35 million. If the GRAIL Merger Agreement is terminated, we will receive shares of non-voting GRAIL preferred stock in respect of all Continuation Payments in excess of \$315 million, subject to certain terms and conditions.

The GRAIL Merger Agreement contains certain termination rights if the consummation of the acquisition does not occur on or before September 20, 2021, subject to a three-month extension related to obtaining certain required regulatory clearances. Upon termination of the GRAIL Merger Agreement under specified circumstances, we would be required to pay a termination fee of \$300 million and make an additional \$300 million investment in GRAIL in exchange for shares of non-voting GRAIL preferred stock, subject to certain terms and conditions.

### Fair Value Measurements

The following table presents the hierarchy for assets and liabilities measured at fair value on a recurring basis:

| In millions                                         | April 4, 2021 |         |         |          | January 3, 2021 |         |         |          |
|-----------------------------------------------------|---------------|---------|---------|----------|-----------------|---------|---------|----------|
|                                                     | Level 1       | Level 2 | Level 3 | Total    | Level 1         | Level 2 | Level 3 | Total    |
| <b>Assets:</b>                                      |               |         |         |          |                 |         |         |          |
| Money market funds (cash equivalents)               | \$ 4,041      | \$ —    | \$ —    | \$ 4,041 | \$ 1,512        | \$ —    | \$ —    | \$ 1,512 |
| Debt securities in government-sponsored entities    | —             | —       | —       | —        | —               | 10      | —       | 10       |
| Corporate debt securities                           | —             | —       | —       | —        | —               | 445     | —       | 445      |
| U.S. Treasury securities                            | —             | —       | —       | —        | 831             | —       | —       | 831      |
| Marketable equity securities                        | 197           | —       | —       | 197      | 376             | —       | —       | 376      |
| Contingent value right                              | —             | —       | 45      | 45       | —               | —       | 35      | 35       |
| Derivative assets related to terminated acquisition | —             | —       | —       | —        | —               | —       | 26      | 26       |
| Deferred compensation plan assets                   | —             | 55      | —       | 55       | —               | 55      | —       | 55       |
| Total assets measured at fair value                 | \$ 4,238      | \$ 55   | \$ 45   | \$ 4,338 | \$ 2,719        | \$ 510  | \$ 61   | \$ 3,290 |
| <b>Liabilities:</b>                                 |               |         |         |          |                 |         |         |          |
| Deferred compensation plan liability                | \$ —          | \$ 53   | \$ —    | \$ 53    | \$ —            | \$ 51   | \$ —    | \$ 51    |

Our available-for-sale securities consist of highly-liquid, investment-grade debt securities and marketable equity securities. We consider information provided by our investment accounting and reporting service provider in the measurement of fair value of our debt securities. The investment service provider provides valuation information from an industry-recognized valuation service. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit

spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. Our marketable equity securities are measured at fair value based on quoted trade prices in active markets. Our deferred compensation plan assets consist primarily of investments in life insurance contracts carried at cash surrender value, which reflects the net asset value of the underlying publicly traded mutual funds. We perform control procedures to corroborate the fair value of our holdings, including comparing valuations obtained from our investment service provider to valuations reported by our asset custodians, validating pricing sources and models, and reviewing key model inputs, if necessary. We elected the fair value option to measure the contingent value right received from Helix. The fair value of our contingent value right, included in other assets, is derived using a Monte Carlo simulation. The derivative assets related to the terminated acquisition of PacBio were financial instruments measured at fair value, included in other assets. Significant estimates and assumptions required for these valuations include, but are not limited to, probabilities related to the timing and outcome of future financing and/or liquidity events and an assumption regarding collectibility. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value.

#### 4. DEBT

##### Summary of Term Debt Obligations

| <i>In millions</i>                              | April 4,<br>2021 |
|-------------------------------------------------|------------------|
| Principal amount of 2031 Term Notes outstanding | \$ 500           |
| Principal amount of 2023 Term Notes outstanding | 500              |
| Unamortized discounts and debt issuance costs   | (8)              |
| Net carrying amount of term notes               | 992              |
| Less: current portion                           | —                |
| Term notes, non-current                         | \$ 992           |

##### 0.550% Term Notes due 2023 (2023 Term Notes) and 2.550% Term Notes due 2031 (2031 Term Notes)

On March 23, 2021, we issued \$500 million aggregate principal amount of term notes due 2023 (2023 Term Notes) and \$500 million aggregate principal amount of term notes due 2031 (2031 Term Notes, together the Term Notes). We received net proceeds from the issuance of \$992 million, after deducting discounts and debt issuance costs.

The 2023 and 2031 Term Notes accrue interest at a rate of 0.550% and 2.550% per annum, respectively, payable semi-annually. Interest is payable on March 23 and September 23 of each year, beginning on September 23, 2021. The 2023 Term Notes mature on March 23, 2023 and the 2031 Term Notes mature on March 23, 2031.

We may redeem for cash all or any portion of the Term Notes, at our option, at any time prior to maturity. The 2023 Term Notes and, prior to December 23, 2030, the 2031 Term Notes are redeemable at make-whole premium redemption prices as defined in the applicable forms of note. After December 23, 2030, the 2031 Term Notes are redeemable at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the redemption date.

Interest expense recognized on the Term Notes was \$1 million during Q1 2021, which included amortization of debt discounts and issuance costs. The fair value of the Term Notes approximated the carrying value as of April 4, 2021.

## Summary of Convertible Debt Obligations

| <i>In millions</i>                                                                                                | April 4,<br>2021 | January 3,<br>2021 |
|-------------------------------------------------------------------------------------------------------------------|------------------|--------------------|
| Principal amount of 2023 Convertible Senior Notes outstanding                                                     | \$ 750           | \$ 750             |
| Principal amount of 2021 Convertible Senior Notes outstanding                                                     | 491              | 517                |
| Unamortized discount of liability component of convertible senior notes                                           | (73)             | (83)               |
| Net carrying amount of liability component of convertible senior notes                                            | 1,168            | 1,184              |
| Less: current portion                                                                                             | (488)            | (511)              |
| Convertible senior notes, non-current                                                                             | \$ 680           | \$ 673             |
| Carrying value of equity component of convertible senior notes, net of debt issuance costs                        | \$ 213           | \$ 213             |
| Fair value of convertible senior notes outstanding (Level 2)                                                      | \$ 1,629         | \$ 1,595           |
| Weighted-average remaining amortization period of discount on the liability component of convertible senior notes | 2.3 years        | 2.4 years          |

Interest expense recognized on the Convertible Senior Notes was \$11 million during both Q1 2021 and Q1 2020, which included amortization of debt discounts and issuance costs.

### 0% Convertible Senior Notes due 2023 (2023 Convertible Notes)

In August 2018, we issued \$750 million aggregate principal amount of convertible senior notes due 2023 (2023 Convertible Notes). The 2023 Convertible Notes mature on August 15, 2023, and the implied estimated effective rate of the liability component of the notes was 3.7%, assuming no conversion option.

The 2023 Convertible Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, based on an initial conversion rate, subject to adjustment, of 2.1845 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$457.77 per share of common stock), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price in effect on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2023 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events described in the indenture. Regardless of the foregoing circumstances, the holders may convert their notes on or after May 15, 2023 until August 11, 2023.

We may redeem for cash all or any portion of the 2023 Convertible Notes, at our option, on or after August 20, 2021 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect (currently \$595.10) for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid special interest to, but excluding, the redemption date. The 2023 Convertible Notes were not convertible as of April 4, 2021 and had no dilutive impact during Q1 2021. If the notes were converted as of April 4, 2021, the if-converted value would not exceed the principal amount.

### 0.5% Convertible Senior Notes due 2021 (2021 Convertible Notes)

In June 2014, we issued \$517 million aggregate principal amount of convertible senior notes due 2021 (2021 Convertible Notes). The 2021 Convertible Notes mature on June 15, 2021, and the implied estimated effective rate of the liability component of the notes was 3.5%, assuming no conversion option.

The 2021 Convertible Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at our election, based on an initial conversion rate, subject to adjustment, of 3.9318 shares per \$1,000 principal amount of the notes (which represents an initial conversion price of approximately \$254.34 per share), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending September 30, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the 5 business day period after any 10 consecutive trading day period (the “measurement period”) in which the trading price per 2021 Convertible Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified events described in the indenture. Regardless of the foregoing circumstances, the holders may convert their notes on or after March 15, 2021 until June 11, 2021.

The market price of our common stock met the stock trading price conversion requirement of \$330.64 and the 2021 Convertible Notes became convertible on January 1, 2021 and continue to be convertible through June 11, 2021. The potential dilutive impact of the 2021 Convertible Notes has been included in our calculation of diluted earnings per share for Q1 2021. If the notes were converted as of April 4, 2021, the if-converted value would exceed the principal amount by \$275 million.

During Q1 2021, a portion of the 2021 Convertible Notes were converted. The principal amount was repaid in cash, with the excess of the conversion value over the principal amount paid in shares of common stock. The following table summarizes information about the conversions during Q1 2021:

| <i>In millions</i>                                                     | <b>2021 Notes</b> |             |
|------------------------------------------------------------------------|-------------------|-------------|
| Cash paid for principal of notes converted                             | <b>\$</b>         | <b>27</b>   |
| Conversion value over principal amount, paid in shares of common stock | <b>\$</b>         | <b>17</b>   |
| Number of shares of common stock issued upon conversion                |                   | <b>0.04</b> |

### **Credit Agreement**

On March 8, 2021, we entered into a credit agreement (the Credit Agreement), which provides us with a \$750 million senior unsecured five-year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit (the Credit Facility). The proceeds of the loans under the Credit Facility may be used to finance working capital needs and for general corporate purposes.

Any loans under the Credit Facility will have a variable interest rate based on either the eurocurrency rate or the alternate base rate, plus an applicable spread that varies with the Company's debt rating. The Credit Agreement includes an option for us to elect to increase the commitments under the Credit Facility or to enter into one or more tranches of term loans in the aggregate principal amount of up to \$250 million, subject to the consent of the lenders providing the additional commitments or term loans, as applicable, and certain other conditions.

The Credit Agreement contains financial and operating covenants. Pursuant to the Credit Agreement, we are required to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA), calculated based on the four consecutive fiscal quarters ending with the most recent fiscal quarter, of not greater than 3.50 to 1.00 as of the end of each fiscal quarter. Upon the consummation of any Qualified Acquisition (as defined in the Credit Agreement) and us providing notice to the Administrative Agent, the ratio increases to 4.00 to 1.00 for the fiscal quarter in which the acquisition is consummated and the three consecutive fiscal quarters thereafter. The operating covenants include, among other things, limitations on (i) the incurrence of indebtedness by our subsidiaries, (ii) liens on our and our subsidiaries assets, and (iii) certain fundamental changes and the disposition of assets by us and our subsidiaries. The Credit Agreement contains other customary covenants, representations and warranties, and events of default.

The Credit Facility matures, and all amounts outstanding thereunder become due and payable in full, on March 8, 2026, subject to two one-year extensions at our option, the consent of the extending lenders and certain other conditions. We may prepay amounts borrowed and terminate commitments under the Credit Facility at any time without premium or penalty.

As of April 4, 2021, there were no borrowings outstanding under the Credit Facility, and we were in compliance with all financial and operating covenants.

## Bridge Facility

In advance of the acquisition of GRAIL, we obtained a bridge facility commitment letter from Goldman Sachs Bank USA for a 364-day senior unsecured bridge loan facility, in an aggregate principal amount of \$1 billion. The bridge facility commitment letter was subject to certain conditions, including consummation of the acquisition pursuant to the GRAIL Merger Agreement. On March 23, 2021, we terminated the bridge facility commitment letter in conjunction with the issuance of the 2023 and 2031 Term Notes.

## 5. STOCKHOLDERS' EQUITY

As of April 4, 2021, approximately 3.5 million shares remained available for future grants under the 2015 Stock Plan.

### Restricted Stock

Restricted stock activity was as follows:

| Units in thousands             | Restricted Stock Units (RSU) | Performance Stock Units (PSU)(1) | Weighted-Average Grant Date Fair Value per Share |           |
|--------------------------------|------------------------------|----------------------------------|--------------------------------------------------|-----------|
|                                |                              |                                  | RSU                                              | PSU       |
| Outstanding at January 3, 2021 | 1,721                        | —                                | \$ 313.35                                        | —         |
| Awarded                        | 70                           | 390                              | \$ 445.13                                        | \$ 477.78 |
| Vested                         | (17)                         | —                                | \$ 230.58                                        | —         |
| Cancelled                      | (88)                         | (6)                              | \$ 311.10                                        | \$ 486.28 |
| Outstanding at April 4, 2021   | 1,686                        | 384                              | \$ 319.77                                        | \$ 477.65 |

(1) The number of units reflect the estimated number of shares to be issued at the end of the performance period. Awarded units are presented net of performance adjustments.

### Stock Options

Stock option activity was as follows:

|                                              | Options (in thousands) | Weighted-Average Exercise Price |
|----------------------------------------------|------------------------|---------------------------------|
| Outstanding at January 3, 2021               | 10                     | \$ 59.11                        |
| Exercised                                    | (1)                    | \$ 48.36                        |
| Outstanding and exercisable at April 4, 2021 | 9                      | \$ 60.21                        |

### Employee Stock Purchase Plan

The price at which common stock is purchased under the Employee Stock Purchase Plan (ESPP) is equal to 85% of the fair market value of the common stock on the first day of the offering period or purchase date, whichever is lower. During Q1 2021, approximately 0.1 million shares were issued under the ESPP. As of April 4, 2021, there were approximately 13.1 million shares available for issuance under the ESPP.

### Share Repurchases

On February 5, 2020, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. We did not repurchase any shares during Q1 2021. Authorizations to repurchase approximately \$15 million of our common stock remained available as of April 4, 2021.

## Share-based Compensation

Share-based compensation expense reported in our condensed consolidated statements of income was as follows:

| <i>In millions</i>                             | Q1 2021 | Q1 2020 |
|------------------------------------------------|---------|---------|
| Cost of product revenue                        | \$ 7    | \$ 5    |
| Cost of service and other revenue              | 1       | 1       |
| Research and development                       | 24      | 15      |
| Selling, general and administrative            | 35      | 18      |
| Share-based compensation expense before taxes  | 67      | 39      |
| Related income tax benefits                    | (13)    | (9)     |
| Share-based compensation expense, net of taxes | \$ 54   | \$ 30   |

In February 2021, we modified the metrics and reduced the maximum potential payouts for our performance stock units granted in 2019 and 2020, which vest at the end of the three-year periods ended January 2, 2022 and January 1, 2023, respectively. The modifications affected 52 employees with units granted in 2019, which resulted in total incremental share-based compensation cost of approximately \$41 million, and 72 employees with units granted in 2020, which resulted in total incremental share-based compensation cost of approximately \$65 million.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share for stock purchased under the ESPP during Q1 2021 were as follows:

|                                                  | Employee Stock Purchase Rights |
|--------------------------------------------------|--------------------------------|
| Risk-free interest rate                          | 0.08% - 1.56%                  |
| Expected volatility                              | 30% - 48%                      |
| Expected term                                    | 0.5 - 1.0 year                 |
| Expected dividends                               | 0 %                            |
| Weighted-average grant-date fair value per share | \$ 99.67                       |

As of April 4, 2021, approximately \$636 million of total unrecognized compensation cost related to restricted stock and ESPP shares issued to date was expected to be recognized over a weighted-average period of approximately 2.4 years.

## 6. SUPPLEMENTAL BALANCE SHEET DETAILS

### Accounts Receivable

| <i>In millions</i>               | April 4, 2021 | January 3, 2021 |
|----------------------------------|---------------|-----------------|
| Trade accounts receivable, gross | \$ 520        | \$ 491          |
| Allowance for credit losses      | (3)           | (4)             |
| Total accounts receivable, net   | \$ 517        | \$ 487          |

### Inventory

| <i>In millions</i> | April 4, 2021 | January 3, 2021 |
|--------------------|---------------|-----------------|
| Raw materials      | \$ 89         | \$ 106          |
| Work in process    | 252           | 244             |
| Finished goods     | 23            | 22              |
| Total inventory    | \$ 364        | \$ 372          |

## Accrued Liabilities

| <i>In millions</i>                           | April 4,<br>2021 | January 3,<br>2021 |
|----------------------------------------------|------------------|--------------------|
| Contract liabilities, current portion        | \$ 188           | \$ 186             |
| Accrued compensation expenses                | 152              | 153                |
| Accrued taxes payable                        | 116              | 68                 |
| Operating lease liabilities, current portion | 53               | 51                 |
| Other, including warranties (a)              | 93               | 83                 |
| Total accrued liabilities                    | <u>\$ 602</u>    | <u>\$ 541</u>      |

(a) Changes in the reserve for product warranties were as follows:

| <i>In millions</i>                           | Q1 2021      | Q1 2020      |
|----------------------------------------------|--------------|--------------|
| Balance at beginning of period               | \$ 13        | \$ 14        |
| Additions charged to cost of product revenue | 8            | 3            |
| Repairs and replacements                     | (6)          | (5)          |
| Balance at end of period                     | <u>\$ 15</u> | <u>\$ 12</u> |

We generally provide a one-year warranty on instruments. Additionally, we provide a warranty on consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, an accrual is established for estimated warranty expenses based on historical experience as well as anticipated product performance. We periodically review the warranty reserve for adequacy and adjust the warranty accrual, if necessary, based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

## Derivative Financial Instruments

We are exposed to foreign exchange rate risks in the normal course of business and use derivative financial instruments to partially offset this exposure. We do not use derivative financial instruments for speculative or trading purposes. All foreign exchange contracts are carried at fair value in other current assets or accrued liabilities on the condensed consolidated balance sheets.

We use foreign exchange forward contracts to manage foreign currency risks related to monetary assets and liabilities denominated in currencies other than the U.S. dollar. These derivative financial instruments have terms of one month or less and are not designated as hedging instruments. Changes in fair value of these derivatives are recognized in other expense, net, along with the re-measurement gain or loss on the foreign currency denominated assets or liabilities. As of April 4, 2021, we had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, Chinese Yuan Renminbi, and British pound. As of April 4, 2021 and January 3, 2021, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases were \$462 million and \$405 million, respectively.

We also use foreign currency forward contracts to hedge portions of our foreign currency exposure associated with forecasted revenue transactions. These derivative financial instruments have terms up to 24 months and are designated as cash flow hedges. Changes in fair value of our cash flow hedges are recorded as a component of accumulated other comprehensive income and are reclassified to revenue in the same period the underlying hedged transactions are recorded. We regularly review the effectiveness of our cash flow hedges and consider them to be ineffective if it becomes probable that the forecasted transactions will not occur in the identified period. Changes in fair value of the ineffective portions of our cash flow hedges, if any, will be recognized in other expense, net. As of April 4, 2021, we had foreign currency forward contracts in place to hedge exposures associated with forecasted revenue transactions denominated in the euro, Japanese yen, Australian dollar, and Canadian dollar. As of April 4, 2021 and January 3, 2021, the total notional amounts of outstanding cash flow hedge contracts in place for these foreign currency purchases were \$327 million and \$305 million, respectively.

## 7. LEGAL PROCEEDINGS

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On March 30, 2021, the Federal Trade Commission (the FTC) filed an administrative complaint and a motion for a preliminary injunction in the United States District Court for the District of Columbia. In both actions, the FTC alleges that our acquisition of GRAIL would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. We filed an answer to the FTC's complaint in federal district court on April 6, 2021. On April 20, 2021, the United States District Court for the District of Columbia granted our motion to transfer venue to the United States District Court for the Southern District of California. If the district court or administrative court rule in favor of the FTC, the completion of the acquisition of GRAIL may be delayed for a significant period of time (including beyond the outside date of September 20, 2021, which may be extended by three months in certain circumstances) or prevented from occurring. We intend to vigorously defend the FTC actions.

We are involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, we assess, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the consolidated financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures in consideration of many factors, which include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes and the amount of ultimate loss may differ from our estimates, resulting in a material effect on our business, financial condition, results of operations, and/or cash flows.

## 8. INCOME TAXES

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Our effective tax rate may vary from the U.S. federal statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income. The effective tax rate for Q1 2021 was 13.1%. The variance from the U.S. federal statutory tax rate of 21% in Q1 2021 was primarily attributable to discrete tax benefits related to GRAIL Continuation Payments and the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested.

## MANAGEMENT'S DISCUSSION & ANALYSIS

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Our Management's Discussion and Analysis (MD&A) will help readers understand our results of operations, financial condition, and cash flow. It is provided in addition to the accompanying condensed consolidated financial statements and notes. This MD&A is organized as follows:

- *Management's Overview and Outlook.* High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations.* Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources.* Discussion of key aspects of our condensed consolidated statements of cash flows, changes in our financial position, and our financial commitments.
- *Critical Accounting Policies and Estimates.* Discussion of significant changes since our most recent Annual Report on Form [10-K](#) that we believe are important to understanding the assumptions and judgments underlying our condensed consolidated financial statements.
- *Recent Accounting Pronouncements.* Summary of recent accounting pronouncements applicable to our condensed consolidated financial statements.
- *Off-Balance Sheet Arrangements.* We have no off-balance sheet arrangements.
- *Quantitative and Qualitative Disclosure About Market Risk.* Discussion of our financial instruments' exposure to market risk.

Our discussion of our results of operations, financial condition, and cash flow for Q1 2020 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" within our filing of [Form 10-Q](#) for the fiscal quarter ended March 29, 2020.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. See "[Consideration Regarding Forward-Looking Statements](#)" preceding the Condensed Consolidated Financial Statements section of this report for additional factors relating to such statements. This MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this report and our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021. Operating results are not necessarily indicative of results that may occur in future periods.

## MANAGEMENT'S OVERVIEW AND OUTLOOK

This overview and outlook provides a high-level discussion of our operating results and significant known trends that affect our business. We believe that an understanding of these trends is important to understanding our financial results for the periods being reported herein as well as our future financial performance. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this report.

### About Illumina

Our focus on innovation has established us as the global leader in DNA sequencing and array-based technologies, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments.

Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

Our comprehensive line of products addresses the scale of experimentation and breadth of functional analysis to advance disease research, drug development, and the development of molecular tests. This portfolio of leading-edge sequencing and array-based solutions addresses a range of genomic complexity and throughput, enabling researchers and clinical practitioners to select the best solution for their scientific challenge.

In September 2020, we entered into an agreement to acquire GRAIL for \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Pursuant to the GRAIL Merger Agreement, we have offered GRAIL stockholders the option to receive additional stock consideration in lieu of the contingent value rights. Such additional stock consideration would be a number of shares valued, pursuant to an agreed formula, at \$850 million in aggregate, subject to a cap of 3,035,714 shares. We believe our acquisition of GRAIL will accelerate the adoption of next-generation sequencing based early multi-cancer detection tests, enhance our position in Clinical Genomics, and increase our directly accessible total addressable market. The transaction is subject to customary closing conditions, including applicable regulatory approvals, and is expected to close in the second half of 2021. See note "[3. Investments and Fair Value Measurements](#)" and note "[7. Legal Proceedings](#)" for further details.

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below. While these trends are important to understanding and evaluating our financial results, this discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto within the Condensed Consolidated Financial Statements section of this report, and the other transactions, events, and trends discussed in "[Risk Factors](#)" within the Other Key Information section of this report. Forward-looking

statements included in our Financial Overview below exclude the potential post-close impact from the pending acquisition of GRAIL, which we expect to close in the second half of 2021.

## Financial Overview

Beginning in 2020, the COVID-19 pandemic and international efforts to control its spread have significantly curtailed the movement of people, goods, and services worldwide, including in the regions in which we sell our products and services and conduct our business operations. We expect the COVID-19 pandemic to continue to impact our sales and results of operations in 2021, the size and duration of which is significantly uncertain.

Financial highlights for Q1 2021 included the following:

- Revenue increased 27% in Q1 2021 to \$1,093 million compared to \$859 million in Q1 2020 primarily due to growth in sequencing consumables and instruments, partially offset by a decrease in service and other revenue. We expect our revenue to grow in 2021 compared to 2020.
- Gross profit as a percentage of revenue (gross margin) was 69.9% in Q1 2021 compared to 72.1% in Q1 2020. The gross margin decrease was driven primarily by less favorable product mix, increased freight costs attributable to the COVID-19 pandemic, and decreased revenue from development and licensing agreements. Our gross margin depends on many factors, including: market conditions that may impact our pricing; sales mix changes among consumables, instruments, services, and development and licensing revenue; product mix changes between established products and new products; excess and obsolete inventories; royalties; our cost structure for manufacturing operations relative to volume; freight costs; and product support obligations.
- Income from operations as a percentage of revenue was 17.7% in Q1 2021 compared to 22.0% in Q1 2020. The decrease was due to an increase in operating expenses as a percentage of revenue and a decrease in gross margin. We expect our operating expenses to continue to grow on an absolute basis in 2021, including an increase in expenses related to the pending acquisition of GRAIL and an increase in performance-based compensation.
- Our effective tax rate was 13.1% in Q1 2021 compared to 2.5% in Q1 2020. In Q1 2021, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to discrete tax benefits related to GRAIL Continuation Payments and the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested.
- We ended Q1 2021 with cash, cash equivalents, and short-term investments totaling \$4.6 billion as of April 4, 2021, of which approximately \$586 million was held by our foreign subsidiaries.

## RESULTS OF OPERATIONS

To enhance comparability, the following table sets forth unaudited condensed consolidated statement of operations data for the specified reporting periods, stated as a percentage of total revenue.

|                                            | Q1 2021 | Q1 2020 |
|--------------------------------------------|---------|---------|
| <b>Revenue:</b>                            |         |         |
| Product revenue                            | 87.2 %  | 81.6 %  |
| Service and other revenue                  | 12.8    | 18.4    |
| Total revenue                              | 100.0   | 100.0   |
| <b>Cost of revenue:</b>                    |         |         |
| Cost of product revenue                    | 24.3    | 20.3    |
| Cost of service and other revenue          | 5.3     | 6.8     |
| Amortization of acquired intangible assets | 0.5     | 0.8     |
| Total cost of revenue                      | 30.1    | 27.9    |
| Gross profit                               | 69.9    | 72.1    |
| <b>Operating expense:</b>                  |         |         |
| Research and development                   | 18.0    | 18.2    |
| Selling, general and administrative        | 34.2    | 31.9    |
| Total operating expense                    | 52.2    | 50.1    |
| Income from operations                     | 17.7    | 22.0    |
| <b>Other income (expense):</b>             |         |         |
| Interest income                            | 0.1     | 1.6     |
| Interest expense                           | (1.8)   | (1.3)   |
| Other expense, net                         | (0.5)   | (1.6)   |
| Total other expense, net                   | (2.2)   | (1.3)   |
| Income before income taxes                 | 15.5    | 20.7    |
| Provision for income taxes                 | 2.0     | 0.6     |
| Net income                                 | 13.5 %  | 20.1 %  |

Percentages may not recalculate due to rounding

## Revenue

*Dollars in millions*

|                           | Q1 2021  | Q1 2020 | Change | % Change |
|---------------------------|----------|---------|--------|----------|
| Consumables               | \$ 774   | \$ 620  | \$ 154 | 25 %     |
| Instruments               | 179      | 81      | 98     | 121      |
| Total product revenue     | 953      | 701     | 252    | 36       |
| Service and other revenue | 140      | 158     | (18)   | (11)     |
| Total revenue             | \$ 1,093 | \$ 859  | \$ 234 | 27 %     |

Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements.

The increase in consumables revenue in Q1 2021 was primarily due to an increase in sequencing consumables revenue of \$142 million driven primarily by growth in the instrument installed base. Instruments revenue increased in Q1 2021 primarily due to an increase in sequencing instruments revenue of \$97 million, which was primarily

driven by increased shipments of our NextSeq and NovaSeq instruments. Service and other revenue decreased in Q1 2021 primarily due to decreased revenue from development and licensing agreements.

## Gross Margin

| <i>Dollars in millions</i> | Q1 2021 | Q1 2020 | Change | % Change |
|----------------------------|---------|---------|--------|----------|
| Gross profit               | \$ 764  | \$ 619  | \$ 145 | 23%      |
| Gross margin               | 69.9 %  | 72.1 %  |        |          |

The gross margin decrease in Q1 2021 was driven primarily by less favorable product mix, increased freight costs attributable to the COVID-19 pandemic, and decreased revenue from development and licensing agreements.

## Operating Expense

| <i>Dollars in millions</i>          | Q1 2021 | Q1 2020 | Change | % Change |
|-------------------------------------|---------|---------|--------|----------|
| Research and development            | \$ 197  | \$ 156  | \$ 41  | 26 %     |
| Selling, general and administrative | 374     | 274     | 100    | 36       |
| Total operating expense             | \$ 571  | \$ 430  | \$ 141 | 33 %     |

R&D expense increased by \$41 million, or 26%, in Q1 2021 primarily due to increases in compensation related expenses, including performance-based compensation, as we continue to invest in the research and development of new products and enhancements to existing products, partially offset by a decrease in travel expenses.

SG&A expense increased by \$100 million, or 36%, in Q1 2021, primarily due to expenses related to the pending acquisition of GRAIL, including \$105 million in Continuation Payments, increases in compensation related expenses, including performance-based compensation, and an increase in outside services, partially offset by expenses for fees and other payments to PacBio of \$92 million in Q1 2020 and a decrease in travel expenses.

## Other Expense, Net

| <i>Dollars in millions</i> | Q1 2021 | Q1 2020 | Change  | % Change |
|----------------------------|---------|---------|---------|----------|
| Interest income            | \$ 1    | \$ 14   | \$ (13) | (93)%    |
| Interest expense           | (19)    | (11)    | (8)     | 73       |
| Other expense, net         | (6)     | (14)    | 8       | (57)     |
| Total other expense, net   | \$ (24) | \$ (11) | \$ (13) | 118 %    |

Interest income decreased in Q1 2021 as a result of selling all of our available-for-sale debt securities in Q1 2021 in anticipation of funding the pending GRAIL acquisition. Interest expense consisted primarily of accretion of discount on our convertible senior notes. The increase in Q1 2021 related to amortization of debt issuance costs on our Bridge Facility, which we terminated in Q1 2021. The fluctuation in other expense, net, was primarily due to the \$26 million gain recorded on our derivative assets related to the terminated PacBio acquisition in Q1 2021, offset by net losses recorded on our strategic investments.

## Provision for Income Taxes

Dollars in millions

|                            | Q1 2021 | Q1 2020 | Change  | % Change |
|----------------------------|---------|---------|---------|----------|
| Income before income taxes | \$ 169  | \$ 178  | \$ (9)  | (5)%     |
| Provision for income taxes | 22      | 5       | 17      | 340      |
| Net income                 | \$ 147  | \$ 173  | \$ (26) | (15)%    |
| Effective tax rate         | 13.1 %  | 2.5 %   |         |          |

Our effective tax rate was 13.1% in Q1 2021 compared to 2.5% in Q1 2020. The variance from the U.S. federal statutory tax rate of 21% in Q1 2021 was primarily attributable to discrete tax benefits related to GRAIL Continuation Payments and the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested. In Q1 2020, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to discrete tax benefits related to the derivative assets recorded as a result of the terminated PacBio acquisition, the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and tax benefits related to share-based compensation.

Our future effective tax rate may vary from the U.S. federal statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor “We are subject to risks related to taxation in multiple jurisdictions” described in “Risk Factors” within the Business and Market Information section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

## LIQUIDITY AND CAPITAL RESOURCES

At April 4, 2021, we had approximately \$4.4 billion in cash and cash equivalents, of which approximately \$586 million was held by our foreign subsidiaries. Cash and cash equivalents increased by \$2.6 billion from January 3, 2021, due to the factors described in the “Cash Flow Summary” below. Our primary source of liquidity, other than our holdings of cash, cash equivalents and investments, has been cash flows from operations and, from time to time, issuances of debt. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs.

Historically, we have liquidated our short-term investments and/or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. During Q1 2021, we sold all of our available-for-sale debt securities and a portion of our marketable equity securities in anticipation of funding the pending GRAIL acquisition. As of April 4, 2021, we had \$0.2 billion remaining in short-term investments.

In September 2020, we entered into an agreement to acquire GRAIL for \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. The cash consideration to GRAIL stockholders, excluding Illumina, of approximately \$3.1 billion is expected to be funded using existing cash of both Illumina and GRAIL, plus up to \$1 billion in capital raised through the issuance of term debt.

In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Pursuant to the GRAIL Merger Agreement, we have offered GRAIL stockholders the option to receive additional stock consideration in lieu of the contingent value rights. Such additional stock consideration would be a number of shares valued, pursuant to an agreed formula, at \$850 million in aggregate, subject to a cap of 3,035,714 shares.

We are required to make monthly Continuation Payments to GRAIL of \$35 million, beginning in December 2020, until the earlier of the consummation of the acquisition or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made Continuation Payments to GRAIL totaling \$105 million in Q1 2021. In April 2021, we made an additional monthly payment of \$35 million. If the GRAIL Merger Agreement is terminated under specified circumstances, we would be required to pay a termination fee of \$300 million and make an additional \$300 million investment in GRAIL, subject to certain terms and conditions.

On March 23, 2021, we issued term notes due 2023 with an aggregate principal amount of \$500 million and term notes due 2031 with an aggregate principal amount of \$500 million. The net proceeds from the issuance were \$992 million. The 2023 Term Notes and the 2031 Term Notes accrue interest at a rate of 0.550% and 2.550% per annum, respectively, payable semi-annually on March 23 and September 23 of each year. The 2023 Term Notes mature on March 23, 2023 and the 2031 Term Notes mature on March 23, 2031. We may redeem for cash all or any portion of the Term Notes, at our option, at any time prior to maturity.

On March 8, 2021, we obtained a Credit Facility, which provides us with a \$750 million senior unsecured five-year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit. The Credit Facility matures, and all amounts outstanding thereunder become due and payable in full, on March 8, 2026, subject to two one-year extensions at our option and the consent of the extending lenders and certain other conditions. As of April 4, 2021, there were no borrowings outstanding under the Credit Facility.

Our convertible senior notes due in 2021, with an aggregate principal amount of \$517 million, became convertible on January 1, 2021 and continue to be convertible through June 11, 2021. During Q1 2021, a portion of the notes were converted and approximately \$27 million in principal was paid in cash, with the excess of the conversion value over the principal amount paid in shares of common stock. Our convertible senior notes due in 2023 were not convertible as of April 4, 2021.

We anticipate that our current cash, cash equivalents, and short-term investments, together with cash provided by operating activities and available borrowing capacity under the Credit Facility, are sufficient to fund our near-term capital and operating needs for at least the next 12 months, including the cash requirements of funding the pending acquisition of GRAIL, as described above. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our primary short-term needs for capital, which are subject to change, include:

- support of commercialization efforts related to our current and future products;
- acquisitions of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- the continued advancement of research and development efforts;
- potential strategic acquisitions and investments, including the cash requirements of funding the pending acquisition of GRAIL, as described above;
- repayment of debt obligations; and
- the expansion needs of our facilities, including costs of leasing and building out additional facilities.

On February 5, 2020, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. Authorizations to repurchase \$15 million of our common stock remained available as of April 4, 2021. We do not intend to make any share repurchases during fiscal year 2021.

We had \$32 million and up to \$140 million, respectively, remaining in our capital commitments to two venture capital investment funds as of April 4, 2021 that are callable through April 2026 and July 2029, respectively.

We expect that our revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize and further develop our technologies and create innovative products in our markets;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

## Cash Flow Summary

| <i>In millions</i>                                           | Q1 2021  | Q1 2020 |
|--------------------------------------------------------------|----------|---------|
| Net cash provided by operating activities                    | \$ 282   | \$ 281  |
| Net cash provided by (used in) investing activities          | 1,376    | (135)   |
| Net cash provided by (used in) financing activities          | 968      | (191)   |
| Effect of exchange rate changes on cash and cash equivalents | (3)      | (6)     |
| Net increase (decrease) in cash and cash equivalents         | \$ 2,623 | \$ (51) |

### *Operating Activities*

Net cash provided by operating activities in Q1 2021 primarily consisted of net income of \$147 million plus net adjustments of \$73 million and net changes in operating assets and liabilities of \$62 million. The primary adjustments to net income included losses on marketable equity securities of \$72 million, share-based compensation of \$67 million, depreciation and amortization expenses of \$48 million, partially offset by deferred income taxes of \$79 million and a gain on derivative assets related to a terminated acquisition of \$26 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by an increase in accrued liabilities, partially offset by an increase in accounts receivable.

### *Investing Activities*

Net cash provided by investing activities totaled \$1,376 million in Q1 2021. We received \$1,362 million related to maturities and sales of our available-for-sale debt securities during the period, \$84 million for sales of strategic investments and \$52 million from PacBio for repayment of Continuation Advances. We purchased \$77 million of available-for-sale debt securities during the period and invested \$42 million in capital expenditures, primarily associated with our investment in facilities.

### *Financing Activities*

Net cash provided by financing activities in Q1 2021 totaled \$968 million. We received \$988 million in net proceeds from the issuance of debt and \$31 million in proceeds from the sale of shares under our employee stock purchase plan and the issuance of common stock through the exercise of stock options. We made payments on our convertible senior notes due in 2021 of \$27 million and used \$24 million to pay taxes related to net share settlement of equity awards.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income and net income, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in "Critical Accounting Policies and Estimates" within the Management's Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. There were no material changes to our critical accounting policies and estimates during Q1 2021.

## RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our condensed consolidated financial statements, see note "[1. Organization and Significant Accounting Policies](#)" within the Condensed Consolidated Financial Statements section of this report, which is incorporated herein by reference.

## OFF-BALANCE SHEET ARRANGEMENTS

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During Q1 2021, we were not involved in any “off-balance sheet arrangements” within the meaning of the rules of the Securities and Exchange Commission.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There were no substantial changes to our market risks in Q1 2021, when compared to the disclosures in “Quantitative and Qualitative Disclosures about Market Risk” within the Management’s Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

## OTHER KEY INFORMATION

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### CONTROLS AND PROCEDURES

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

Based on management’s evaluation (under the supervision and with the participation of our chief executive officer (CEO) and chief financial officer (CFO)), as of the end of the period covered by this report, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

During Q1 2021, we continued to monitor and evaluate the design and operating effectiveness of key controls, including the impact of the COVID-19 pandemic on our internal control environment. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

## LEGAL PROCEEDINGS

See discussion of legal proceedings in note “[7. Legal Proceedings](#)” in the Condensed Consolidated Financial Statements section of this report, which is incorporated herein by reference.

## RISK FACTORS

Our business is subject to various risks, including those described in “Risk Factors” within the Business and Market Information Section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, which we strongly encourage you to review. In addition to the risk factors disclosed in our Form [10-K](#), the issues raised in the following risk factors could adversely affect our operating results and stock price:

**There is no assurance when or if our planned acquisition (the Acquisition) of GRAIL will be completed. If the Acquisition is not completed within the expected time frame, or at all, we may, or will, not be able to achieve the synergies and other benefits that we expect to achieve as a result of the Acquisition, and we could incur additional costs or liabilities, loss of revenue and other adverse effects.**

The completion of the Acquisition is subject to the satisfaction or waiver of a number of conditions as set forth in the Agreement and Plan of Merger (the Merger Agreement) for the Acquisition, including, among others, the expiration or termination of the applicable waiting periods under the Hart-Scott Rodino Antitrust Improvements Act (the HSR Act), the approval of antitrust authorities in the United Kingdom, if applicable, no law having been enacted, issued, promulgated, enforced or entered, whether temporary, preliminary or permanent, which is then in effect and has the effect of enjoining, restraining, prohibiting or otherwise preventing consummation of the Acquisition or imposes any remedies on us or our subsidiaries other than certain permitted restrictions, the receipt of the GRAIL stockholder approvals, the effectiveness of a registration statement on Form S-4, and the approval for listing on NASDAQ of the shares of our common stock to be issued in connection with the Acquisition. There can be no assurance that the expiration or termination of the applicable waiting periods under the HSR Act or the other conditions to the obligations of the parties to effect the Acquisition will be satisfied or waived. In particular, foreign, federal, state or local governmental or regulatory authorities and, in certain instances, private parties may seek to challenge the Acquisition and/or impose conditions on us, GRAIL and/or the surviving company as a condition to completion of the Acquisition under applicable antitrust or other laws. In addition, there can be no assurance that any consents, clearances or approvals necessary or advisable to be obtained in connection with the Acquisition will be obtained in a timely manner or at all, or whether they will be subject to actions, conditions, limitations or restrictions that may jeopardize or delay the completion of the Acquisition, materially reduce or delay the anticipated benefits of the Acquisition or allow the parties to terminate the Merger Agreement. Under the terms of the Merger Agreement, we and our subsidiaries may be required to offer and agree to undertake certain specified behavioral remedies. However, neither we nor any of our subsidiaries is obligated to agree to or accept (i) any commitment, undertaking or order to divest, hold separate or otherwise dispose of any portion of our businesses or assets, including after giving effect to the Acquisition, or (ii) any limitation on our ability to acquire or hold or exercise full rights of ownership of any capital stock of GRAIL or its subsidiaries, including after giving effect to the Acquisition.

On March 30, 2021, the Federal Trade Commission (the FTC) filed an administrative complaint and a motion for a preliminary injunction in the United States District Court for the District of Columbia. In both actions, the FTC alleges that the Acquisition would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. Illumina filed its answer to the FTC's complaint in federal district court on April 6, 2021, and on April 20, 2020 the district court granted our and GRAIL's motion to transfer the federal court action to the United States District Court for the Southern District of California. Additionally, on April 19, 2021 the European Commission accepted a referral of the Acquisition for merger review pursuant to Article 22 of the EU Merger Regulation. The European Commission has purported to impose a stay on completion of the Acquisition until such time as it completes its review and approves the Acquisition. The failure to satisfy all of the required closing conditions, including as a result of the antitrust actions by the FTC and the European Commission, could delay the completion of the Acquisition for a significant period of time (including beyond the Outside Date) or prevent it from occurring.

If the Acquisition is consummated, but it, or the integration of the companies' respective businesses, is not completed within the expected time frame, such delay may materially and adversely affect the synergies and other benefits that we expect to achieve as a result of the Acquisition and could result in additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations.

The Merger Agreement may be terminated in certain circumstances, including, among others, if the Acquisition has not been completed by the Outside Date or if a governmental entity of competent jurisdiction has issued or granted an order, judgment, decree, ruling or injunction that results in a permanent restraint that has become final and non-appealable or imposes, as a final and non-appealable condition, restrictions on us that are not permitted restrictions. We and GRAIL can also mutually agree to terminate the Merger Agreement at any time prior to the effective time. Upon termination of the Merger Agreement under specified circumstances, we will be required to pay GRAIL a termination fee of \$300 million and make an additional \$300 million payment to GRAIL in exchange for shares of non-voting GRAIL preferred stock. The Merger Agreement may also be terminated in circumstances in which such fee will not be payable and such investment will not be required. We are required to make monthly cash payments to GRAIL of \$35 million (the Continuation Payments) until the Acquisition is completed or terminated, subject to terms and conditions set forth in the Merger Agreement. In the event that the Merger Agreement is terminated, we will receive shares of non-voting GRAIL preferred stock in respect of all Continuation Payments in excess of \$315 million, subject to certain terms and conditions.

## SHARE REPURCHASES AND SALES

### Purchases of Equity Securities by the Issuer

None during the quarterly period ended April 4, 2021.

### Unregistered Sales of Equity Securities

None during the quarterly period ended April 4, 2021.

## EXHIBITS

| Exhibit Number | Exhibit Description                                                                                                                                                                                        | Incorporated by Reference |             |         |             | Filed Herewith |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|---------|-------------|----------------|
|                |                                                                                                                                                                                                            | Form                      | File Number | Exhibit | Filing Date |                |
| 4.1            | <a href="#">Indenture, dated March 12, 2021, between the Company and U.S. Bank National Association, as trustee.</a>                                                                                       | S-3                       | 333-254195  | 4.6     | 3/12/2021   |                |
| 4.2            | <a href="#">Form of Officer's Certificate setting forth the terms and forms of the 2023 Notes and 2031 Notes.</a>                                                                                          | 8-K                       | 001-35496   | 4.2     | 3/22/2021   |                |
| 10.1           | <a href="#">Credit Agreement dated as of March 8, 2021 among Illumina, Inc., Bank of America, N.A., Goldman Sachs Bank USA, Citibank, N.A., and JPMorgan Chase Bank, N.A.</a>                              | 8-K                       | 001-35406   | 10.1    | 3/8/2021    |                |
| 10.2           | <a href="#">Underwriting Agreement, dated March 16, 2021, between the Company and Goldman Sachs &amp; Co. LLC and BofA Securities, Inc., as representatives of the several underwriters named therein.</a> | 8-K                       | 001-35406   | 1.1     | 3/22/2021   |                |
| 31.1           | <a href="#">Certification of Francis A. deSouza pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                                                                             |                           |             |         |             | X              |
| 31.2           | <a href="#">Certification of Sam A. Samad pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                                                                                   |                           |             |         |             | X              |
| 32.1           | <a href="#">Certification of Francis A. deSouza pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>                                              |                           |             |         |             | X              |

|         |                                                                                                                                                                |   |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 32.2    | <a href="#">Certification of Sam A. Samad pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>        | X |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | X |
| 101.SCH | XBRL Taxonomy Extension Schema                                                                                                                                 | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                   | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                                         | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                  | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                                    | X |
| 104     | Cover Page Interactive Data File - formatted in Inline XBRL and included as Exhibit 101                                                                        | X |

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\* Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ILLUMINA, INC.  
(registrant)

Date: April 27, 2021

/s/ SAM A. SAMAD

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Sam A. Samad  
Senior Vice President and Chief Financial Officer

**CERTIFICATION OF FRANCIS A. DESOUZA PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Francis A. deSouza, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 27, 2021

By: /s/ FRANCIS A. DESOUZA  
 Francis A. deSouza  
 President and Chief Executive Officer

**CERTIFICATION OF SAM A. SAMAD PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sam A. Samad, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 27, 2021

By: /s/ SAM A. SAMAD  
 Sam A. Samad  
 Senior Vice President and Chief Financial Officer

**CERTIFICATION OF FRANCIS A. DESOUZA PURSUANT TO 18 U.S.C. SECTION  
1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-  
OXLEY ACT OF 2002**

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended April 4, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis A. deSouza, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 27, 2021

By: /s/ FRANCIS A. DESOUZA  
Francis A. deSouza  
President and Chief Executive Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF SAM A. SAMAD PURSUANT TO 18 U.S.C.  
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended April 4, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sam A. Samad, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 27, 2021

By: /s/ SAM A. SAMAD  
Sam A. Samad  
Senior Vice President and Chief Financial Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.