



ILMN Q1 2024 Earnings Call
Prepared Remarks – May 2, 2024

Salli Schwartz, Vice President, Investor Relations

Hello everyone, and welcome to our earnings call for the first quarter of 2024.

During the call today, we will review the financial results we released after the close of market, and offer commentary on our commercial and regulatory activity, after which we will host a question-and-answer session. Our earnings release can be found in the Investor Relations section of our website at illumina.com.

Providing prepared remarks for Illumina today will be Jacob Thaysen, Chief Executive Officer, and Ankur Dhingra, Chief Financial Officer. Jacob will provide an update on the state of Illumina's business and Ankur will review our financial results, which include GRAIL. Joydeep Goswami, who is serving as an advisor to the company through June 30th, will then join us for Q&A.

As a reminder, GRAIL must be held and operated separately and independently from Illumina pursuant to the transitional measures ordered by the European Commission, which prohibited our acquisition of GRAIL under the EU Merger Regulation.

This call is being recorded and the audio portion will be archived in the Investor section of our website. It is our intent that all forward-looking statements regarding our financial results and commercial activity made during today's call will be protected under the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are subject to risks and uncertainties. Actual events or results may differ materially from those projected or discussed. All forward-looking statements are based upon current available information, and Illumina assumes no obligation to update these statements.

To better understand the risks and uncertainties that could cause actual results to differ, we refer you to the documents that Illumina files with the Securities and Exchange Commission, including Illumina's most recent forms 10-Q and 10-K.

With that, I will now turn the call over to Jacob.

Jacob Thaysen, Chief Executive Officer

Thank you, Salli. Good afternoon, everyone.

Before going into our first quarter results, I want to take a moment to thank our former Chief Financial Officer and Chief Strategy and Corporate Development Officer, Joydeep Goswami, for his many contributions to Illumina over more than four years. As Salli noted, Joydeep will stay on in an advisory role through June to support a smooth transition.

I also wanted to welcome our new CFO, Ankur Dhingra, who you will hear from shortly, and congratulate Jakob Wedel, who has been named Chief Strategy and Corporate Development Officer. Jakob joined Illumina in November and has been heavily involved in our long-term strategy planning.

Throughout the quarter, I continued to meet with customers around the world and had the opportunity to bring a number of them to our San Diego headquarters to discuss new ways to collaborate, innovate, and shape what their future looks like with Illumina. Some of our customers shared how they are scaling up their projects with NovaSeq X to unlock greater discovery power. One key area of focus is harnessing whole-genome opportunities in minimal residual

disease. Other customers are starting to sequence deeper and are adding multiomic layers to their projects, while others are looking at epigenomic biomarkers and methylation to help diagnose and characterize disease.

We are seeing a significant opportunity to expand in multiomics: customers are looking for more sophisticated solutions to support their work, and we are exploring all avenues to create value in this space. Our recent acquisition of Partek, a specialized multiomics software solution, is a building block of our expansion into the space. Our intent is to collaborate with our customers to understand how we can provide more sample-to-answer solutions. Illumina is at the heart of the ecosystem, and we will continue to catalyze the industry with an even greater focus on our customers' priorities.

Turning to our first quarter results, I'll focus my comments on Core Illumina:

In Q1, we delivered Core Illumina revenue of approximately \$1.06 billion, ahead of our expectations. While it was a decent start to the year, we remain cautious due to the persistently challenging global macro environment, where customers are still constrained in their purchasing decisions.

As expected, we are seeing this playing out across our regions, notably with lower NovaSeq X placements versus the first quarter of 2023, when we shipped our first X instruments to fulfill a strong pre-order book. Three of our regions declined year-over-year. Americas revenue was down 4%; AMEA revenue was down 3%; and Greater China revenue was down 14%. Europe revenue was up 7% year-over-year, although we expect a decline in Q2 given last year's strong X shipments in Europe in the second quarter.

Nonetheless, Illumina's management team continues to make significant progress executing against my three key priorities to accelerate value creation across the company.

My first priority, driving our top line, is grounded in a growing installed base and helping customers realize the full potential of our instruments.

In Q1, we shipped an additional 55 NovaSeq X instruments, bringing our total X installed base to more than 400 instruments. This is a solid start to the year, and we expect momentum to continue to build.

We also saw promising consumables demand throughout the quarter as our customers continued scaling their operations and expanding their sequencing projects. With the launch of the 25B reagent kit in Q4 and the 1.5B in Q1, and alongside the well-received upgrade of the 10B flow cell, we are now providing our customers with a full suite of NovaSeq X products.

In Q1, we also made XLEAP-SBS Chemistry available to our mid-throughput customers with the launch of our P4 flow cell on their existing NextSeq 1k/2k instruments. In the first several weeks post-launch, we have received exceptional feedback from customers, who are reporting reads that exceed specs for quantity and quality. Customers are positive about the simple migration that's enabled them to run spatial and single cell projects, and they are impressed with the accuracy they see with DRAGEN on board.

Illumina continues to pursue strategic partnerships and alliances to drive the entire genomics ecosystem forward. As a recent example, Pillar Biosciences announced FDA approval for its pan-cancer IVD for general tumor profiling on the Illumina MiSeq Dx System. We've been partnering with Pillar since 2017 and are excited for this important milestone.

Also in the quarter, Bristol Myers Squibb joined our previously announced collaboration with Johnson & Johnson Innovative Medicine on the development of our multi-cancer, whole-genome-sequencing based, molecular residual disease assay to better understand disease recurrence.

You should expect to see more of these types of activities going forward.

Now turning to my second priority, I am continuing my focus on delivering operational excellence by driving margin improvement through increased productivity, while sustaining innovation and growth.

It has been my goal to align our organization in a way that best supports our customers' evolving needs. In March, we brought together our marketing and commercial teams under one customer-first global function. I am confident that combining these teams into one Global Commercial organization will build our agility to better serve customers while delivering more sustained growth and margins over time.

Additionally, we are focused on driving further improvements throughout our end-to-end supply chain, and are taking a disciplined approach to improve our cost structure. In Q1, we implemented new initiatives to adjust pricing across our portfolio to better cover our global operational costs.

We also made progress in streamlining our real estate footprint as we exited select facilities in the Bay Area and in San Diego. These actions add to the number of ongoing initiatives that will continue to support our margins and increase further flexibility for investment in high-growth areas.

We are also tightly focused on stabilizing our Greater China business, and in Q1 we brought on Jenny Zheng as Head of Region. Jenny has deep expertise in healthcare and global organizations and a strong leadership and execution mindset. She is already proving to be a great leader of our China team and is introducing changes to make our business more "in China, for China," which will include improving our local manufacturing and partnerships in the region.

Moving on to my third priority, which is working to resolve GRAIL as quickly as possible.

In April, we reached an important milestone in the divestment process when the European Commission approved our divestment plan for GRAIL. The approved plan contemplates both sale and capital markets options, and we have made progress on both paths, consistent with the European Commission's divestiture order.

In the event of a capital markets transaction, we are required to capitalize GRAIL with approximately \$1 billion, reflecting two-and-a-half years of funding based on GRAIL's long-range plan. The amount includes cash on GRAIL's balance sheet.

We are on track to finalize the terms of the transaction by the end of the second quarter. I look forward to having additional updates for you soon.

Overall, I am encouraged by the progress we achieved in the quarter, and optimistic about delivering on our initiatives here in 2024.

Now, I'll ask Ankur to share more detail on our first quarter results and outlook.

Ankur Dhingra, *Chief Financial Officer*

Thank you, Jacob, and hello everyone.

I am very excited to join team Illumina to improve human health by unlocking the power of the genome. I'm passionate about making a positive, meaningful impact in healthcare. I am very familiar with the role Illumina has played in establishing and advancing the genomics industry over the last 25 years. Building on that strong foundation, I am confident we can continue leading, supporting our customers, and delivering on the promise of what genomics can do for patients around the globe. I would also like to express my thanks to Joydeep for his support as I transition into my role. It's been a great first two-and-a-half weeks.

I'll start by reviewing our segment results for Core Illumina and GRAIL, followed by consolidated financial results, and then conclude with my remarks on our current outlook for 2024. I will be discussing non-GAAP results which include stock-based compensation. I encourage you to review the GAAP reconciliation of these non-GAAP measures which can be found in today's release and in the supplementary data available on our website.

Starting with our segment financials:

Core Illumina first quarter revenue was \$1.06 billion, which is down 2% year-on-year – both on a reported and constant currency basis. This revenue performance exceeded our expectations and was primarily driven by three areas:

- First, strong performance in high throughput consumables,
- Second, timing of revenue from certain strategic partnerships,
- And third, some customers accelerating delivery of a few NovaSeq X instruments from Q2 into Q1.

Core Illumina sequencing consumables revenue of \$698 million was up 1% year-over-year primarily due to growth in high-throughput. On a sequential basis, NovaSeq X consumables grew in the double digits following the successful launch of the 25B flow cell.

Total sequencing Gb output on our connected high- and mid-throughput instruments grew over 35% year-over-year and grew at a high single digit rate quarter-over-quarter. Research & Applied activity benefitted as transition to the NovaSeq X continues to ramp and 25B adoption grew at large core labs. Clinical activity continued to be driven predominantly by the NovaSeq 6000. As a reminder, we believe this data is a useful reference that shows the general activity trends across our installed base and is directionally correlated with revenue over time.

Sequencing instruments revenue for Core Illumina of \$110 million declined 29% year-over-year in Q1 2024. The year-over-year decline was driven both by:

- One, an expected decline in mid-throughput shipments, as capital and cashflow constraints continue to impact purchasing behavior and moderate instrument placements, and
- Second, lower NovaSeq X placements, as compared to significant pre-order launch related shipments in the first quarter of 2023.

For NovaSeq X, as Jacob noted, we shipped 55 instruments in Q1.

Core Illumina sequencing service and other revenue of \$151 million was up 27% year-over-year, driven primarily by an increase in revenue from strategic partnerships and higher instrument service contract revenue on a growing installed base.

Moving to the rest of the Core Illumina P&L:

Core Illumina non-GAAP gross margin of 67.1% for the quarter increased 190 basis points year-over-year driven primarily by a more favorable mix of sequencing consumables and execution of our operational excellence priorities that delivered cost savings, including freight and improved productivity. This was partially offset by certain strategic partnership revenue that is lower margin and increased warranty and field service costs.

Core Illumina non-GAAP operating expenses of \$491 million were down \$23 million year-over-year primarily due to decreased labor expense as a result of reduced headcount, and continued savings from our cost containment initiatives. Core Illumina non-GAAP operating expenses were lower than expected due to timing of project spend shifting from Q1 into Q2, and lower stock-based compensation expense due to one-time reversals.

Putting it all together, Core Illumina non-GAAP operating margin was 20.6% in Q1 2024 compared to 17.4% in Q1 2023.

Transitioning to financial results for GRAIL:

GRAIL revenue of \$27 million for the quarter grew 35% year-over-year driven primarily by adoption of Galleri. GRAIL non-GAAP operating expenses totaled \$197 million and increased \$24 million year-over-year driven primarily by increased headcount to support commercial expansion and research & development.

Moving to consolidated financial results:

In the first quarter, consolidated revenue of \$1.08 billion was down 1% year-over-year, both on a reported and constant currency basis.

Non-GAAP net income was \$14 million, or \$0.09 per diluted share, which included dilution from GRAIL's non-GAAP operating loss of \$185 million for the quarter. Non-GAAP EPS exceeded our expectations, driven primarily by higher core revenue and lower core operating expenses in the quarter.

Our Q1 non-GAAP tax rate was 46.4%, compared to 27.3% in Q1 2023, with both periods including a meaningful impact from the consolidation of GRAIL's operating loss, which increased by \$21 million year-over-year. Absent the impact of GRAIL, our Q1 2024 and Q1 2023 tax rates were in the mid-twenties.

Our non-GAAP weighted average diluted share count for the quarter was approximately 159 million.

Moving to consolidated cash flow and balance sheet items for the quarter:

- Cash flow provided by operations was \$77 million;
- Capital expenditures were \$36 million and free cash flow was \$41 million; and
- We did not repurchase any common stock.

We ended the quarter with approximately \$1.12 billion in cash, cash equivalents and short-term investments.

Moving now to 2024 guidance:

As a reminder, Illumina is moving as quickly as possible to resolve GRAIL, and the company is focusing its 2024 financial outlook on Core Illumina given the uncertainty around the specific timing and impact of the GRAIL divestment. Our guidance does not assume any impact from the potential divestment of GRAIL in 2024. We will provide non-GAAP EPS guidance for 2024 upon completion of the divestment.

We are encouraged by our results in Q1 that came in ahead of our expectations, both for topline and margins. We have also seen the seasonal rebuild of our total performance obligations, or backlog, which increased more than 20% from the end of Q4. At the same time, and we are still not seeing any significant improvement in the macroeconomic environment or our business in China, and we are monitoring the impact of a strengthening US dollar. While we are seeing early strength in consumables to start the year, it's being offset by capital constraints that are continuing to weigh on instrument purchases.

As such, we are reiterating our full year 2024 Core Illumina revenue guidance of approximately flat from 2023 and non-GAAP operating margin of approximately 20%. Our operating margin expectations continue to reflect the benefit of gross margin improvement and disciplined management of our expenses, including reduced headcount, offset by normalization of our performance-based compensation, as well as the impacts of inflation.

For the second quarter of 2024:

We expect Core Illumina revenue in the range of \$1.072 billion to \$1.084 billion, reflecting a year-over-year decline of 6.5% to 7.5%, the year-over-year decline is driven predominantly by lower NovaSeq X instrument shipments given the significant backlog we worked through early last year following the launch. At the midpoint, this guidance reflects a \$22 million sequential increase from Q1 2024.

For the second quarter, we expect Core Illumina non-GAAP operating margin of approximately 18%, resulting from a seasonal step up in operating expenses in Q2 compared to Q1 primarily due to an increase in stock-based compensation expense from the timing of equity grants. We also expect an increase due to some project spend shifting into Q2 from Q1.

With that, I will now turn it back over to Jacob for his closing remarks. Thank you.

Jacob Thaysen, Chief Executive Officer

Thanks, Ankur.

Before we close and move to Q&A, I'd like to comment on our upcoming Strategy Update event.

Illumina's leadership team has been re-examining our strategy, the roadmap and initiatives for achieving it, and the profitable growth we believe it can produce.

Our strategy will continue to play to Illumina's strengths of building the genomics ecosystem and maintaining a tight customer focus – in an increasingly competitive space. Central to this is our goal of making customers the heroes in their labs. In every customer meeting, we are listening intently to understand what they need to unleash the full power of their Illumina instruments – and making their priorities the core of our strategy.

You will see us continue to develop more sample-to-answer solutions to enable the genomics – and multiomics – ecosystem. We will maintain our open platform approach and continue to drive the innovation that our customers need to succeed – and for which Illumina is known.

Illumina has long been the standard in NGS. Our strategic, hands-on support for customers globally, our deep experience and expertise across multiple research and clinical markets, and our decade-long technology roadmap position us well to continue leading the industry and enabling our customers to improve human health.

I am excited to announce that we will be sharing our comprehensive strategy work with you during a virtual event in the fall of this year. We will have more information in the coming months.

Thank you for joining. I'll now invite Ankur and Joydeep to join me for Q&A.

Statement regarding use of non-GAAP financial measures

The company reports non-GAAP results for diluted earnings per share, net income, gross margin, operating expenses, including research and development expense, selling general and administrative expense, and from time to time, as applicable, legal contingencies and settlement, and goodwill and intangible impairment, operating income (loss), operating margin, gross profit (loss), other income (expense), tax provision, constant currency revenue growth, and free cash flow (on a consolidated and, as applicable, segment basis for our Core Illumina and GRAIL segments) in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The company's financial measures under GAAP include substantial charges such as amortization of acquired intangible assets among others that are listed in the itemized reconciliations between GAAP and non-GAAP financial measures included in this press release, as well as the effects of currency translation. Management has excluded the effects of these items in non-GAAP measures to assist investors in analyzing and assessing past and future operating performance, including in the non-GAAP measures related to our Core Illumina and GRAIL segments. Additionally, non-GAAP net income, diluted earnings per share and operating margin are key components of the financial metrics utilized by the company's board of directors to measure, in part, management's performance and determine significant elements of management's compensation.

The company encourages investors to carefully consider its results under GAAP, as well as its supplemental non-GAAP information and the reconciliation between these presentations, to more fully understand its business. Reconciliations between GAAP and non-GAAP results are presented in the tables of this release.

The company provides forward-looking guidance on a non-GAAP basis. The company is unable to provide a reconciliation of forward-looking non-GAAP financial measures to the most directly comparable GAAP reported financial measures because it is unable to predict with reasonable certainty the financial impact of items such as acquisition-related expenses, gains and losses from our strategic investments, fair value adjustments related to contingent consideration and contingent value rights, potential future asset impairments, restructuring activities, and the ultimate outcome of pending litigation without unreasonable effort. These items are uncertain, inherently difficult to predict, depend on various factors, and could have a material impact on GAAP reported results for the guidance period. For the same reasons, the company is unable to address the significance of the unavailable information, which could be material to future results.

Use of forward-looking statements

This release may contain forward-looking statements that involve risks and uncertainties. Among the important factors to which our business is subject that could cause actual results to differ materially from those in any forward-looking statements are: (i) changes in the rate of growth in the markets we serve; (ii) the volume, timing and mix of customer orders among our products and services; (iii) our ability to adjust our operating expenses to align with our revenue expectations; (iv) our ability to manufacture robust instrumentation and consumables; (v) the success of products and services competitive with our own; (vi) challenges inherent in developing, manufacturing, and launching new products and services, including expanding or modifying manufacturing operations and reliance on third-party suppliers for critical components; (vii) the impact of recently launched or pre-announced products and services on existing products and services; (viii) our ability to modify our business strategies to accomplish our desired operational goals; (ix) our ability to realize the anticipated benefits from prior or future actions to streamline and improve our R&D processes, reduce our operating expenses and maximize our revenue growth; (x) our ability to further develop and commercialize our instruments, consumables, and products; (xi) to deploy new products, services, and applications, and to expand the markets for our technology platforms; (xii) the risks and costs associated with our ongoing inability to integrate GRAIL due to the transitional measures imposed on us by the European Commission as a result of their prohibition of our acquisition of GRAIL and orders issued by the European Commission and the Federal Trade Commission requiring that we divest GRAIL; (xiii) the risks and costs associated with the expected divestment of GRAIL, including the possibility that the terms on which we divest all or a portion of the assets or equity interests of GRAIL are materially worse than those on which we acquired GRAIL; (xiv) our ability to satisfy the necessary conditions to consummate the divestiture of GRAIL on a timely basis or at all, due to the requirements set by the European Commission; (xv) the risk that disruptions from the consummation of our acquisition of GRAIL and associated legal or regulatory proceedings, including appeals, or obligations will harm our business, including current plans and operations; (xvi) the risk of incurring additional fines associated with the consummation of our acquisition of GRAIL; (xvii) our ability to obtain approval by third-party payors to reimburse patients for our products; (xviii) our ability to obtain regulatory clearance for our products from government agencies; (xix) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xx) uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth or armed conflict; (xxi) the application of generally accepted accounting principles, which are highly complex and involve many subjective

assumptions, estimates, and judgments and (xxii) legislative, regulatory and economic developments, 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 update these forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of the current quarter.

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Illumina, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(unaudited)

	Three Months Ended	
	March 31, 2024	April 2, 2023
Net cash provided by operating activities	\$ 77	\$ 10
Net cash used in investing activities	(48)	(56)
Net cash provided by (used in) financing activities	35	(473)
Effect of exchange rate changes on cash and cash equivalents	(4)	2
Net increase (decrease) in cash and cash equivalents	60	(517)
Cash and cash equivalents, beginning of period	1,048	2,011
Cash and cash equivalents, end of period	<u>\$ 1,108</u>	<u>\$ 1,494</u>
Calculation of free cash flow:		
Net cash provided by operating activities	\$ 77	\$ 10
Purchases of property and equipment	(36)	(52)
Free cash flow (a)	<u>\$ 41</u>	<u>\$ (42)</u>

(a) Free cash flow, which is a non-GAAP financial measure, is calculated as net cash provided by operating activities reduced by purchases of property and equipment. Free cash flow is useful to management as it is one of the metrics used to evaluate our performance and to compare us with other companies in our industry. However, our calculation of free cash flow may not be comparable to similar measures used by other companies.

Illumina, Inc.
Results of Operations - Revenue by Segment
(Dollars in millions)
(unaudited)

	Three Months Ended		
	March 31, 2024	April 2, 2023	% Change
Consolidated revenue	\$ 1,076	\$ 1,087	(1)%
Less: Hedge gains	3	2	
Consolidated revenue, excluding hedge effect	1,073	1,085	
Less: Exchange rate effect	(1)	—	
Consolidated constant currency revenue (a)	\$ 1,074	\$ 1,085	(1)%
Core Illumina revenue	\$ 1,056	\$ 1,076	(2)%
Less: Hedge gains	3	2	
Core Illumina revenue, excluding hedge effect	1,053	1,074	
Less: Exchange rate effect	(1)	—	
Core Illumina constant currency revenue (a)	\$ 1,054	\$ 1,074	(2)%

(a) Constant currency revenue growth, which is a non-GAAP financial measure, is calculated using comparative prior period foreign exchange rates to translate current period revenue, net of the effects of hedges.

Illumina, Inc.
Results of Operations - Revenue by Region
(Dollars in millions)
(unaudited)

	Three Months Ended		
	March 31, 2024	April 2, 2023	% Change
AMR revenue - Core Illumina	\$ 583	\$ 605	(4)%
Less: Hedge gains	—	—	
AMR revenue - Core Illumina, excluding hedge effect	583	605	
Less: Exchange rate effect	1	—	
AMR constant currency revenue - Core Illumina (a)	<u><u>\$ 582</u></u>	<u><u>\$ 605</u></u>	(4)%
AMEA revenue - Core Illumina (b)	\$ 116	\$ 119	(3)%
Less: Hedge gains	2	1	
AMEA revenue - Core Illumina, excluding hedge effect (b)	114	118	
Less: Exchange rate effect	(5)	—	
AMEA constant currency revenue - Core Illumina (a)(b)	<u><u>\$ 119</u></u>	<u><u>\$ 118</u></u>	1 %
China revenue - Core Illumina (c)	\$ 78	\$ 91	(14)%
Less: Hedge gains	1	—	
China revenue - Core Illumina, excluding hedge effect (c)	77	91	
Less: Exchange rate effect	(2)	—	
China constant currency revenue - Core Illumina (a)(c)	<u><u>\$ 79</u></u>	<u><u>\$ 91</u></u>	(13)%
Europe revenue - Core Illumina	\$ 279	\$ 261	7 %
Less: Hedge gains	—	—	
Europe revenue - Core Illumina, excluding hedge effect	279	261	
Less: Exchange rate effect	5	—	
Europe constant currency revenue - Core Illumina (a)	<u><u>\$ 274</u></u>	<u><u>\$ 261</u></u>	5 %

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

(a) Constant currency revenue growth, which is a non-GAAP financial measure, is calculated using comparative prior period foreign exchange rates to translate current period revenue, net of the effects of hedges.

(b) Region includes revenue from Russia and Turkey.

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

Illumina, Inc.
Results of Operations - Non-GAAP
(In millions, except per share amounts)
(unaudited)

TABLE 1: CONSOLIDATED RECONCILIATION BETWEEN GAAP AND NON-GAAP DILUTED (LOSS) EARNINGS PER SHARE:

	Three Months Ended	
	March 31, 2024	April 2, 2023
GAAP (loss) earnings per share - diluted	\$ (0.79)	\$ 0.02
Cost of revenue (b)	0.31	0.30
R&D expense (b)	0.03	0.01
SG&A expense (b)	0.57	0.22
Other (income) expense, net (b)	(0.05)	0.08
GILTI, U.S. foreign tax credits, and global minimum top-up tax (c)	0.10	(0.28)
Incremental non-GAAP tax expense (d)	(0.08)	(0.32)
Income tax provision (e)	—	0.05
Non-GAAP earnings per share - diluted (a)	\$ 0.09	\$ 0.08

TABLE 2: CONSOLIDATED RECONCILIATION BETWEEN GAAP AND NON-GAAP NET (LOSS) INCOME:

	Three Months Ended	
	March 31, 2024	April 2, 2023
GAAP net (loss) income	\$ (126)	\$ 3
Cost of revenue (b)	49	48
R&D expense (b)	4	2
SG&A expense (b)	91	35
Other (income) expense, net (b)	(8)	11
GILTI, U.S. foreign tax credits, and global minimum top-up tax (c)	17	(44)
Incremental non-GAAP tax expense (d)	(13)	(50)
Income tax provision (e)	—	8
Non-GAAP net income (a)	\$ 14	\$ 13

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

(a) Non-GAAP net income and diluted earnings per share exclude the effects of the pro forma adjustments as detailed above. Non-GAAP net income and diluted earnings per share are key components of the financial metrics utilized by the company's board of directors to measure, in part, management's performance and determine significant elements of management's compensation. Management has excluded the effects of these items in these measures to assist investors in analyzing and assessing our past and future operating performance.

(b) Refer to the Itemized Reconciliations between GAAP and Non-GAAP Results of Operations for the components of these amounts.

(c) Amounts represent the impact of GRAIL pre-acquisition net operating losses on GILTI, the utilization of U.S. foreign tax credits, and the Pillar Two global minimum top-up tax, which became effective in Q1 2024.

(d) Incremental non-GAAP tax expense reflects the tax impact of the non-GAAP adjustments listed.

(e) Amounts represent the difference between book and tax accounting related to stock-based compensation cost.

Illumina, Inc.
Results of Operations - Non-GAAP (continued)
(Dollars in millions)
(unaudited)

TABLE 3: ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Three Months Ended					
	March 31, 2024					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	\$ 693	65.7 %	\$ (22)	\$ (4)	\$ 667	62.0 %
Amortization of acquired intangible assets	15	1.4 %	34	—	49	4.5 %
Non-GAAP gross profit (a)	\$ 708	67.1 %	\$ 12	\$ (4)	\$ 716	66.5 %
GAAP R&D expense	\$ 241	22.8 %	\$ 101	\$ (3)	\$ 339	31.5 %
Restructuring (g)	(1)	(0.1)%	—	—	(1)	(0.1)%
IPR&D impairment (i)	(3)	(0.3)%	—	—	(3)	(0.3)%
Non-GAAP R&D expense	\$ 237	22.4 %	\$ 101	\$ (3)	\$ 335	31.1 %
GAAP SG&A expense	\$ 336	31.9 %	\$ 104	\$ (1)	\$ 439	40.8 %
Amortization of acquired intangible assets	—	—	(1)	—	(1)	(0.1)%
Contingent consideration liabilities (c)	(16)	(1.5)%	—	—	(16)	(1.4)%
Acquisition-related expenses (d)	(25)	(2.4)%	(6)	—	(31)	(2.9)%
Restructuring (g)	(34)	(3.3)%	(1)	—	(35)	(3.3)%
Accrued interest on EC fine (h)	(7)	(0.7)%	—	—	(7)	(0.7)%
Non-GAAP SG&A expense	\$ 254	24.0 %	\$ 96	\$ (1)	\$ 349	32.4 %
GAAP operating profit (loss)	\$ 116	11.0 %	\$ (227)	\$ —	\$ (111)	(10.3)%
Cost of revenue	15	1.4 %	34	—	49	4.5 %
R&D costs	4	0.4 %	—	—	4	0.4 %
SG&A costs	83	7.8 %	8	—	91	8.5 %
Non-GAAP operating profit (loss) (a)	\$ 218	20.6 %	\$ (185)	\$ —	\$ 33	3.1 %
GAAP other (expense) income, net	\$ (1)	(0.1)%	\$ 3	\$ —	\$ 2	0.2 %
Strategic investment related gain, net (e)	(6)	(0.6)%	—	—	(6)	(0.6)%
Gain on Helix contingent value right (f)	(3)	(0.3)%	—	—	(3)	(0.3)%
Unrealized foreign currency loss on EC fine (j)	1	0.1 %	—	—	1	0.1 %
Non-GAAP other (expense) income, net (a)	\$ (9)	(0.9)%	\$ 3	\$ —	\$ (6)	(0.6)%

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TABLE 3 (CONTINUED): ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Three Months Ended					
	April 2, 2023					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	\$ 687	63.8 %	\$ (25)	\$ (7)	\$ 655	60.3 %
Amortization of acquired intangible assets	14	1.4 %	34	—	48	4.4 %
Non-GAAP gross profit (a)	<u>\$ 701</u>	<u>65.2 %</u>	<u>\$ 9</u>	<u>\$ (7)</u>	<u>\$ 703</u>	<u>64.7 %</u>
GAAP R&D expense	\$ 259	24.1 %	\$ 86	\$ (4)	\$ 341	31.4 %
Acquisition-related expenses (d)	(1)	(0.1)%	—	—	(1)	(0.1)%
Restructuring (g)	(1)	(0.1)%	—	—	(1)	(0.1)%
Non-GAAP R&D expense	<u>\$ 257</u>	<u>23.9 %</u>	<u>\$ 86</u>	<u>\$ (4)</u>	<u>\$ 339</u>	<u>31.2 %</u>
GAAP SG&A expense	\$ 286	26.6 %	\$ 93	\$ (1)	\$ 378	34.8 %
Amortization of acquired intangible assets	—	—	(1)	—	(1)	(0.1)%
Acquisition-related expenses (d)	(20)	(1.8)%	(5)	—	(25)	(2.3)%
Restructuring (g)	(1)	(0.1)%	—	—	(1)	(0.1)%
Legal settlement (k)	(2)	(0.2)%	—	—	(2)	(0.2)%
Proxy contest	(6)	(0.6)%	—	—	(6)	(0.6)%
Non-GAAP SG&A expense	<u>\$ 257</u>	<u>23.9 %</u>	<u>\$ 87</u>	<u>\$ (1)</u>	<u>\$ 343</u>	<u>31.5 %</u>
GAAP operating profit (loss)	\$ 142	13.2 %	\$ (204)	\$ (2)	\$ (64)	(5.7)%
Cost of revenue	14	1.3 %	34	—	48	4.4 %
R&D costs	2	0.2 %	—	—	2	0.2 %
SG&A costs	29	2.7 %	6	—	35	3.0 %
Non-GAAP operating profit (loss) (a)	<u>\$ 187</u>	<u>17.4 %</u>	<u>\$ (164)</u>	<u>\$ (2)</u>	<u>\$ 21</u>	<u>1.9 %</u>
GAAP other (expense) income, net	\$ (17)	(1.6)%	\$ 2	\$ —	\$ (14)	(1.3)%
Strategic investment related loss, net (e)	15	1.4 %	—	—	14	1.3 %
Gain on Helix contingent value right (f)	(3)	(0.3)%	—	—	(3)	(0.3)%
Non-GAAP other (expense) income, net (a)	<u>\$ (5)</u>	<u>(0.5)%</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ (3)</u>	<u>(0.3)%</u>

All amounts in tables are rounded to the nearest millions, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided. Percentages of revenue are calculated based on the revenue of the respective segment.

(a) Non-GAAP gross profit, included within non-GAAP operating profit (loss), is a key measure of the effectiveness and efficiency of manufacturing processes, product mix and the average selling prices of our products and services. Non-GAAP operating profit (loss) and non-GAAP other (expense) income, net exclude the effects of the pro forma adjustments as detailed above. Non-GAAP operating margin is a key component of the financial metrics utilized by the company's board of directors to measure, in part, management's performance and determine significant elements of management's compensation. Management has excluded the effects of these items in these measures to assist investors in analyzing and assessing past and future operating performance, including in the non-GAAP measures related to our Core Illumina and GRAIL segments.

(b) Reconciling amounts are recorded in cost of revenue.

(c) Amount consists of fair value adjustments for our contingent consideration liability related to GRAIL.

(d) Amounts consist primarily of legal and other expenses related to the planned divestiture of GRAIL.

(e) Amounts consist primarily of mark-to-market adjustments and impairments from our strategic investments.

- (f)** Amounts consist of fair value adjustments related to our Helix contingent value right.
- (g)** Amounts for Q1 2024 consist primarily of lease and other asset impairments related to restructuring activities. Amounts for Q1 2023 consist primarily of employee severance costs related to restructuring activities.
- (h)** Amount consists of accrued interest on the fine imposed by the European Commission.
- (i)** Amount for Q1 2024 consists of an IPR&D intangible asset impairment related to our Core Illumina segment.
- (j)** Amount consists of unrealized gains/losses related to foreign currency balance sheet remeasurement of the EC fine liability and unrealized mark-to-market gains/losses on the hedge associated with the EC fine.
- (k)** Amount consists of a loss related to a patent litigation settlement.

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TABLE 4: CONSOLIDATED ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION (BENEFIT):

	Three Months Ended	
	March 31, 2024	
GAAP tax provision	\$ 17	(15.3)%
Incremental non-GAAP tax expense (b)	13	
GILTI, U.S. foreign tax credits, and global minimum top-up tax (d)	(17)	
Non-GAAP tax provision (a)	<u>\$ 13</u>	<u>46.4 %</u>

	Three Months Ended	
	April 2, 2023	
GAAP tax benefit	\$ (81)	103.9 %
Incremental non-GAAP tax expense (b)	50	
Income tax provision (c)	(8)	
GILTI and U.S. foreign tax credits (d)	44	
Non-GAAP tax provision (a)	<u>\$ 5</u>	<u>27.3 %</u>

(a) Non-GAAP tax provision excludes the effects of the pro forma adjustments as detailed above. Management has excluded the effects of these items in this measure to assist investors in analyzing and assessing past and future operating performance.

(b) Incremental non-GAAP tax expense reflects the tax impact of the non-GAAP adjustments listed in Table 2.

(c) Amounts represent the difference between book and tax accounting related to stock-based compensation cost.

(d) Amounts represent the impact of GRAIL pre-acquisition net operating losses on GILTI, the utilization of U.S. foreign tax credits, and the Pillar Two global minimum top-up tax, which became effective in Q1 2024.