ILMN Q2 2023 Earnings Call
Prepared Remarks – August 9, 2023

Salli Schwartz, ***Vice President, Investor Relations***

Hello everyone, and welcome to our earnings call for the second quarter of 2023.

During the call today, we will review the financial results released after the close of the market, and offer commentary on our commercial activity, after which we will host a question and answer session. If you have not had a chance to review the earnings release, it can be found in the Investor Relations section of our website at illumina.com.

Participating for Illumina today will be Charles Dadswell, Interim Chief Executive Officer & General Counsel, and Joydeep Goswami, Chief Financial Officer and Chief Strategy and Corporate Development Officer. Chuck will provide an update on the state of Illumina's business and Joydeep will review our financial results which include GRAIL.

As a reminder, GRAIL must be held and operated separately and independently from Illumina pursuant to the interim 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 Chuck.

Charles Dadswell, ***Interim Chief Executive Officer & General Counsel***

Thank you, Salli. Good afternoon, everyone, and thank you for joining today's call.

As you know, I assumed the role of Illumina's interim CEO two months ago. Our search for a CEO is underway, and we look forward to updating you soon. Our Board is pleased with the outstanding candidates they are seeing.

Before going into our second quarter results, I wanted to take a moment to acknowledge and thank our former CEO, Francis deSouza, and our former Chairman of the Board, John Thompson, for their thoughtfulness and commitment while at Illumina. I would also like to welcome our new Board members: Stephen MacMillan, our new Chairman of the Board, as well as Andrew Teno and Scott Ullem.

I also wanted to acknowledge changes in our executive leadership team, including the departures of our Chief Technology Officer, Alex Aravanis, and our Chief Medical Officer, Phil Febbo. I speak for the whole company in wishing both of them every success in the future.

We also are pleased to announce that Steve Barnard, a 25-year Illumina employee and distinguished scientist in our field, will drive Illumina's legacy of innovation forward as our next Chief Technology Officer. We will be conducting a search for our next Chief Medical Officer.

Turning to our second quarter results:

In Q2, Illumina delivered revenue of approximately $1.18 billion and diluted non-GAAP EPS of $0.32, both ahead of the guidance we provided in Q1. We shipped 109 NovaSeq X instruments in the quarter and have increased our expectations for our full year supply capacity to more than 390 instruments. However, as you saw from our earnings release, we are reducing our guidance, and now expect Core Illumina full year 2023 revenue to be approximately flat with 2022, primarily as a result of three factors:

- First, a larger-than-expected temporary decline in high throughput consumables as we transition more-than-expected customers to the NovaSeq X;
- Second, many of our customers are remaining more cautious in their purchasing behaviors;
- And finally, in China, there is both a more protracted economic recovery and an increasingly challenged competitive landscape, in contrast to the Americas and Europe, where we are still expecting year-over-year growth in 2023.

Joydeep will provide additional details on our revised guidance during his remarks.

One area I'd like to touch on further is the rollout of NovaSeq X. This has been a more challenging process than we anticipated:

- NovaSeq X is the most sophisticated platform we have ever launched and includes the most comprehensive end-to-end software we have ever released.
- Also, the rollout of the X has occurred at an unprecedented magnitude and pace.
- And we have identified issues in the field that are typical in new product releases. To address these issues, we have taken actions including a planned software update that was released in June after our first customer shipment in March.

We have deployed Illumina technical teams worldwide to work with our customers to accelerate bringing their systems online.

While the rollout of NovaSeq X will take longer than we originally expected, the continued strong interest and commitment of capital to purchase NovaSeq Xs remains encouraging. To date, 20% of customers who have purchased a NovaSeq X have ordered more than one instrument. This early demand for multiple instruments and the capacity they represent underscores our confidence that customers are planning to increase their sequencing activity.

Customers have clear intentions to do more sequencing in the future:

- Our customers have commented that larger scale single cell and spatial analysis experiments become more practical with the NovaSeq X, and they are requesting funding for these applications.
- Customers engaged in large population genomics initiatives have stated they plan to run additional multiomic programs for population-specific variants, which can be used to develop treatments for various demographics that will be more effective in those populations.
- And, as some of you have heard, several of our largest customers are using the X to accelerate the move from targeted panels and exomes to whole genome sequencing.

We expect these types of projects to scale and ramp in the near future, and we will be closely engaged with our customers to support their needs.

We also continue to consciously and actively reduce our expense base and have accelerated actions within the $100 million-plus annual run rate expense reduction program we announced at our last earnings call. As you saw in our late June 8K filing, we have reduced our global headcount and are downsizing our global real estate footprint. We also are optimizing our third-party vendor spend and have reduced travel-related and other costs. For 2023, these steps are helping mitigate the impact of lower full-year revenue on our operating margin. Looking forward, these actions will continue to support our margins and create flexibility for further investment in high-growth areas.

Let me give you an update on a couple of our platforms:

We saw continued global interest in the NovaSeq X series in Q2, and we exited the quarter with more than 260 orders since launch.

Our shipments of 109 NovaSeq X instruments in Q2 were above our expectation of 80 for the quarter and brought our total installed base to 176 instruments. We now expect to be able to ship more than 390 NovaSeq X instruments this year – up from the 330 we had previously expected for the year.

In mid-throughput, we shipped approximately 160 NextSeq 1k/2k units in the second quarter, an increase of 8% year-over-year, as customers expanded their current fleets or migrated from the MiSeq or NextSeq 550. More than 20% of NextSeq 1k/2k units in Q2 were placed with new-to-Illumina customers.

We continue to experience lengthened sales cycles, in some cases as customers take time to raise funding or prioritize their investment dollars, and in other cases as they run longer procurement processes. Our win rate across the mid-throughput segment, outside of China, increased from the first quarter. We believe there is a long runway of differentiation for the 1k/2k, notably with X-LEAP SBS chemistry coming available on these instruments next year.

Moving to our markets…

In Q2, clinical represented approximately 53% of our total sequencing consumables revenue.

In oncology, progress continued for next generation sequencing-based testing reimbursement. Anthem, the second largest commercial payer in the US, and Blue Cross Blue Shield of Michigan both added coverage for comprehensive genomic profiling for patients with advanced cancers, adding more than 30 million additional covered lives. We also saw coverage continue to progress in Europe, with Switzerland now reimbursing large next generation sequencing panels, including comprehensive genomic profiling.

Illumina's market leading TruSight Oncology assay, TSO 500, remains on track to exceed more than $100 million in 2023 revenue. Growth continues to be driven by greater utilization and broader adoption of our assay. In Q2, we also completed our TSO Comprehensive submission for IVD registration in the United States.

Also in oncology, GRAIL continues to achieve solid progress in the adoption of its Galleri multi-cancer early detection test. In Q2, GRAIL achieved its 100,000th commercial Galleri test milestone, and the test has now been prescribed by more than 7,500 providers in the US and ordered in more than 80 health systems.

As an update on the NHS-Galleri study, in Q2 GRAIL completed second-year follow up visits, in which 130,000 participants returned, giving the trial a retention rate of 91.3%. Invitations for the third and final-year visits have begun, and the first appointments for those visits are expected this fall.

Evidence for Galleri continues to grow. At the most recent annual meeting held by the American Society of Clinical Oncology, GRAIL announced results from the University of Oxford-sponsored SYMPLIFY study, reporting high specificity, positive predictive value, and accuracy of the cancer signal detected and cancer signal origin prediction, as well as demonstrating the feasibility of using an MCED test to assist clinicians with decisions regarding referrals from primary care physicians.

GRAIL is also making progress on its unique multi-cancer minimal residual disease test. At the American Association for Cancer Research annual meeting, GRAIL and AstraZeneca presented new data that supports use of GRAIL's methylation platform to identify residual cancer in post-treatment settings. GRAIL's technology had a cancer detection rate of 92% in patients with relapsed or refractory disease across six hematological malignancies. These findings demonstrate that GRAIL's blood-based methylation approach offers additional options to clinicians as they evaluate patients in efforts to achieve remission and improve survival.

Returning to Core Illumina, in reproductive health, in the US, five state Medicaid programs – in Louisiana, Michigan, North Carolina, Rhode Island and Tennessee – updated their policies and are now covering non-invasive prenatal testing for all pregnancies. In Europe, NIPT is now available for all pregnancies in the Netherlands and has been approved for broader coverage in Italy.

Turning to our Research and Applied markets, as we announced in mid-July, the Alliance for Genomic Discovery, launched by Illumina and Nashville Biosciences in 2022, now includes five founding members AbbVie, Amgen, AstraZeneca, Bayer, and Merck, and represents a novel, industry-led collaboration to accelerate development of therapeutics through large-scale genomics. Members will co-fund the whole-genome sequencing of 250,000 samples and all have access to the resulting data for use in drug discovery and therapeutic development. The first phase in the Alliance was announced in January and involved whole-genome sequencing for 35,000 samples, primarily made up of DNA from individuals of African ancestry.

Before we move to Joydeep and then go to Q&A, I wanted to point out a couple of additional innovations we recently announced.

In June, our PrimateAI-3D, an AI algorithm that predicts disease-causing genetic mutations in patients with unprecedented accuracy, was featured in articles and as the cover story of SCIENCE magazine's June issue.

And in July, we announced the latest version of our DRAGEN™ software for analysis of next-generation sequencing data. DRAGEN 4.2 expands award-winning accuracy combined with flexibility and scalability to enable efficient workflows and extract meaningful insights from genomic data. It improves identification of the causes of genetic disease and further aids in both drug discovery and population genomics analysis.

While the year hasn't progressed the way we expected, we remain focused on execution, innovation, and supporting our customers as they ramp their NovaSeq X instruments. We continue to progress on margin improvement while prioritizing investment in proprietary technology that generates differentiated products that are valued by our customers and will drive growth. These include upcoming product launches, including the highly anticipated 25B flow cell for the NovaSeq X, the Illumina Complete Long Reads enrichment assay, and XLEAP-SBS chemistry on NextSeq 1k/2k – as well as future offerings for emerging markets like proteomics, multiomics, and spatial, where we see opportunities to address researchers' needs and deliver complete, integrated, and accessible workflows.

In short, Illumina will continue to deliver impactful outcomes. We empower researchers and clinicians with the data and technology they need to make life-changing discoveries and decisions for patients. Our employees take pride in being part of Illumina's mission to improve human health by unlocking the power of the genome. And we are the global engine of genomics innovation, positioning us today and in the future to maximize shareholder value.

With that, I'd like to turn the call over to Joydeep to discuss additional details on our results and outlook, and we'll go from there to Q&A. Joydeep…?

Joydeep Goswami, *Chief Financial Officer, Chief Strategy and Corporate Development Officer*

Thank you, Chuck.

I'll start by reviewing our consolidated financial results, followed by segment results for Core Illumina and GRAIL, and then conclude with my remarks on our current outlook for 2023. 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.

As Chuck noted, in the second quarter, consolidated revenue was $1.18 billion, up 8% from the first quarter of 2023 and exceeding the high end of our guidance range on stronger than expected shipments of NovaSeq X. Consolidated revenue was up 1% year-over-year, and up 3% on a constant currency basis.

Non-GAAP net income was $50 million, or $0.32 per diluted share, which included dilution from GRAIL's non-GAAP operating loss of $164 million for the quarter. Non-GAAP EPS exceeded our expectations primarily due to continued execution of expense reduction initiatives, gross margin favorability, and our higher revenue for the quarter.

Our non-GAAP tax rate was 39.3% for the quarter, which increased from 25.8% in Q2 2022, with both quarters reflecting the impact of R&D capitalization requirements. Although the non-GAAP tax expense impact of R&D capitalization requirements in dollars was the same in both periods, the impact to our effective tax rate in Q2 2023 was more significant due to our lower earnings.

Our non-GAAP weighted average diluted share count for the quarter was approximately 158 million.

Moving to segment results:

Core Illumina revenue of $1.16 billion was approximately flat year-over-year, or up 2% on a constant currency basis, which included an anticipated reduction from COVID surveillance of approximately 180 basis points. COVID surveillance contributed approximately $6 million in total revenue in Q2 2023 compared to $27 million in Q2 2022.

Core Illumina sequencing consumables revenue of $739 million was down 1% year-over-year. Mid-teens growth in clinical led by continued momentum in oncology and genetic disease testing was offset by anticipated headwinds impacting research, including an approximately 260 basis point reduction from COVID surveillance, as well as sanctions in Russia, the impact on NovaSeq 6K consumables as customers start to transition to but before they have fully ramped up on NovaSeq X, and constrained funding impacting many of our customers globally.

Total sequencing activity on our connected high- and mid-throughput instruments grew 3% from Q1 2023 and 9% year-over-year. Research & Applied was flat from Q1 and declined 1% year-over-year. Clinical sequencing activity growth remained strong, up 6% from Q1 and 23% year-over-year.

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. We have been providing this information on the basis of number of sequencing runs, but in the future we will disclose these metrics in terms of Gb sequenced to better reflect activity trends given the significant increase in output per run enabled by NovaSeq X and NextSeq 1K/2K.

Sequencing instruments revenue for Core Illumina of $193 million grew 2% year-over-year. Stronger than expected shipments of NovaSeq X more than offset the anticipated decline in NovaSeq 6000 shipments globally and NextSeq 550 placements in China, as well as a decrease in MiSeq shipments as customers transition to NextSeq 1K/2K. We continued to see strong demand for NextSeq 1K/2K from new-to-Illumina customers, with shipments growing 8% year-over-year.

Core Illumina sequencing service and other revenue of $134 million was up 7% year-over-year, driven primarily by higher instrument service contract revenue on a growing installed base, partially offset by lower contributions from co-development partnerships.

Moving to regional results for Core Illumina:

All regions continued to be impacted by tighter funding and budget pressures that are affecting customers' project planning and purchasing behaviors. Additionally, all regions faced the impact of high throughput customers transitioning to NovaSeq X, where we saw customers reduce NovaSeq 6K consumables purchases before they have fully ramped up activity on NovaSeq X. As Chuck mentioned, that though anticipated, this effect was magnified by the larger than expected number of NovaSeq X deliveries and a slower than expected ramp of these instruments coming online in Q2. Continued global demand for NovaSeq X instruments – and our stronger-than-anticipated supply in Q2 – helped offset these factors. Strong momentum in clinical also continued across the Americas, Europe and AMEA, with consumables shipments to clinical customers in these regions growing just under 20% year-over-year. Europe also benefited from the NIPT reimbursement decision in Germany last year and the national NIPT program in the Netherlands.

Americas revenue of $623 million was down 2% year-over-year, and Europe revenue of $303 million grew 11% year-over-year, or 14% on a constant currency basis. AMEA revenue of $118 million declined 10% year-over-year, or 6% on a constant currency basis, which included a 14 percentage point impact from sanctions affecting our ability to conduct business in Russia. As a reminder, these regions also continued to be impacted by the slowdown in COVID surveillance year-over-year.

Greater China revenue of $115 million represented a 3% decrease year-over-year, or a 1% increase on a constant currency basis. In addition to persistent macroeconomic and geopolitical challenges that are impacting this region, revenue was negatively impacted by the local competitive landscape, particularly in mid-throughput.

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

Core Illumina non-GAAP gross margin of 67.0% decreased 280 basis points year-over-year primarily driven by lower instrument margins due to the NovaSeq X launch, which is typical in a launch year, as well as less fixed cost leverage on lower manufacturing volumes, and higher field services and installation costs.

Core Illumina non-GAAP operating expenses of $531 million were up $12 million year-over-year primarily due to the full year impact of our headcount growth in 2022. Non-GAAP operating expenses were lower than expected due to the acceleration of our expense reduction initiatives and lower performance-based compensation.

As a result of the above, Core Illumina non-GAAP operating margin was 21.2% in Q2 2023 compared to 24.9% in Q2 2022.

Transitioning to the financial results for GRAIL:

GRAIL revenue of $22 million for the quarter grew 83% year-over-year driven primarily by accelerating adoption of Galleri. GRAIL non-GAAP operating expenses totaled $174 million and increased $18 million year-over-year driven primarily by continued investments to scale GRAIL’s commercial organization.

Moving to consolidated cash flow and balance sheet items:

- Cash flow provided by operations was $105 million;
- Second quarter 2023 capital expenditures were $47 million and free cash flow was $58 million;
- We did not repurchase any common stock in the quarter.

We ended the quarter with approximately $1.6 billion in cash, cash equivalents and short-term investments. As you are aware, we have $750 million in convertible debt that matures this month. Additionally, on July 12, 2023, the European Commission imposed a €432 million fine on Illumina due to the completion of the GRAIL acquisition during the pendency of the European Commission’s review. We plan to issue a guarantee and defer the payment of the fine pending the outcome of the appeal of the EU General Court’s ruling that the European Commission has jurisdiction to review the GRAIL acquisition.

Moving now to 2023 guidance:

We now expect full year 2023 consolidated revenue to grow approximately 1%, including Core Illumina revenue that’s approximately flat with 2022. As a reminder, these ranges include anticipated reductions from COVID surveillance of approximately 200 basis points, the impact on our business from sanctions on Russia of approximately 100 basis points, as well as a year-over-year negative impact from foreign exchange rates. GRAIL revenue is still expected to be in the range of $90 million to $110 million for 2023.

For fiscal 2023, we now expect:

Core Illumina sequencing instrument revenue growth of approximately 3% year-over-year reflecting our higher NovaSeq X shipment expectation, partially offset by capital and cashflow constraints that have continued to impact our customers' purchasing behaviors, including in China which also had an increased impact from local competition, primarily affecting mid-throughput.

We also expect:

Core Illumina sequencing consumables revenue to decline approximately (3%) year-over-year driven predominately by (1) a more persistent impact of funding issues and cautious purchasing behaviors causing project delays; (2) a more meaningful decrease in NovaSeq 6000 sequencing ahead of planned transitions to NovaSeq X, in part due to our higher shipment expectations for NovaSeq X; (3) a delay in the expected ramp of consumables on NovaSeq X; and (4) a slower than anticipated second-half recovery in China.

We now expect annual pull-through for NovaSeq 6000 of approximately $800,000 to $900,000 per instrument in 2023, NextSeq 550 pull-through in the range of $80,000 to $130,000, and pull-through for MiSeq in the range of $30,000 to $40,000. We still expect pull through for NextSeq 1K/2K to be within the historical guidance range of $120,000 to $170,000 and MiniSeq pull through is still expected to be within the historical range of $20,000 to $25,000 per instrument.

With regard to Core Illumina sequencing revenue, we expect it to be approximately flat year-over-year. This includes intercompany sales to GRAIL of approximately $30 million, which are eliminated in consolidation.

We now expect consolidated non-GAAP operating margin of approximately 5% and Core Illumina non-GAAP operating margin of approximately 20%. Our revised operating margins reflect our lower revenue expectations for the year and lower gross margins given lower manufacturing volumes and fixed cost leverage. These impacts are partially offset by acceleration of our $100 million-plus annual run rate expense reduction initiatives spanning headcount, real estate, and other costs that Chuck mentioned earlier.

We now expect our non-GAAP tax rate to be approximately 41% for 2023, which continues to include an approximately $75 million tax expense impact from R&D capitalization requirements. Although the non-GAAP tax expense impact of R&D capitalization requirements in dollars hasn't changed, the impact to our effective tax rate in 2023 has increased as a result of our lower earnings.

Lastly, we now expect non-GAAP earnings per diluted share in the range of $0.75 to $0.90 for 2023, which continues to include dilution from GRAIL's non-GAAP operating loss of approximately $670 million.

Before we go to Q&A, I'd like to cover guidance for the third quarter of 2023:

We expect Q3 2023 consolidated revenue to grow approximately 2% year-over-year to approximately $1.14 billion. This reflects a sequential decrease of approximately 320 basis points from Q2 2023, primarily driven by a sequential decrease in NovaSeq 6000 consumables as customers continue to transition to NovaSeq X.

For the third quarter, we expect non-GAAP diluted EPS of approximately $0.10 to $0.15, reflecting consolidated non-GAAP operating margin of approximately 4% and Core Illumina non-GAAP operating margin of approximately 19%.

I will now invite the operator to open the line for Q&A. Thank you.

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 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 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.

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.

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, including Galleri, the cancer screening test developed by GRAIL, to deploy new products, services, and applications, and to expand the markets for our technology platforms; (xi) the risks and costs associated with our ongoing inability to integrate GRAIL due to the interim measures imposed on us by the European Commission as a result of their prohibition of our acquisition of GRAIL and an order issued by the Federal Trade Commission requiring that we divest GRAIL; (xii) the risks and costs associated with the integration of GRAIL's business if we are ultimately able to integrate GRAIL; (xiii) the risk that disruptions from the consummation of our acquisition of GRAIL and associated legal or regulatory proceedings, including related appeals, or obligations will harm our business, including current plans and operations; (xiv) the risk of incurring fines associated with the consummation of our acquisition of GRAIL and the possibility that we may be required to divest all or a portion of the assets or equity interests of GRAIL on terms that could be materially worse than the terms on which we acquired GRAIL; (xv) our ability to obtain approval by third-party payors to reimburse patients for our products; (xvi) our ability to obtain regulatory clearance for our products from government agencies; (xvii) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xviii) uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth, COVID-19 pandemic mitigation measures, or armed conflict; (xix) the application of generally accepted accounting principles, which are highly complex and involve many subjective assumptions, estimates, and judgments and (xx) 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		Six Months Ended	
	July 2, 2023	July 3, 2022	**July 2, 2023**	July 3, 2022
Net cash provided by operating activities	**$ 105**	$ 125	**$ 115**	$ 297
Net cash used in investing activities	**(37)**	(165)	**(93)**	(239)
Net cash (used in) provided by financing activities	**(3)**	(5)	**(476)**	16
Effect of exchange rate changes on cash and cash equivalents	**(6)**	(17)	**(4)**	(17)
Net increase (decrease) in cash and cash equivalents	**59**	(62)	**(458)**	57
Cash and cash equivalents, beginning of period	**1,494**	1,351	**2,011**	1,232
Cash and cash equivalents, end of period	**$ 1,553**	$ 1,289	**$ 1,553**	$ 1,289

Calculation of free cash flow:				
Net cash provided by operating activities	**$ 105**	$ 125	**$ 115**	$ 297
Purchases of property and equipment	**(47)**	(71)	**(99)**	(132)
Free cash flow **(a)**	**$ 58**	$ 54	**$ 16**	$ 165

(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			Six Months Ended		
	July 2, 2023	July 3, 2022	% Change	July 2, 2023	July 3, 2022	% Change
Consolidated revenue	**$ 1,176**	$ 1,162	1 %	**$ 2,263**	$ 2,386	(5)%
Less: Hedge gains	**2**	10		**3**	16	
Consolidated revenue, excluding hedge effect	**1,174**	1,152		**2,260**	2,370	
Less: Exchange rate effect	**(13)**	—		**(38)**	—	
Consolidated constant currency revenue **(a)**	**$ 1,187**	$ 1,152	3 %	**$ 2,298**	$ 2,370	(3)%
Core Illumina revenue	**$ 1,159**	$ 1,156	— %	**$ 2,235**	$ 2,377	(6)%
Less: Hedge gains	**2**	10		**3**	16	
Core Illumina revenue, excluding hedge effect	**1,157**	1,146		**2,232**	2,361	
Less: Exchange rate effect	**(13)**	—		**(38)**	—	
Core Illumina constant currency revenue **(a)**	**$ 1,170**	$ 1,146	2 %	**$ 2,270**	$ 2,361	(4)%

(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			Six Months Ended		
	July 2, 2023	July 3, 2022	% Change	July 2, 2023	July 3, 2022	% Change
AMR revenue - Core Illumina	**$ 623**	$ 633	(2)%	**$ 1,228**	$ 1,278	(4)%
Less: Hedge gains	**—**	—		**1**	—	
AMR revenue - Core Illumina, excluding hedge effect	**623**	633		**1,227**	1,278	
Less: Exchange rate effect	**(2)**	—		**(3)**	—	
AMR constant currency revenue - Core Illumina **(a)**	**$ 625**	$ 633	(1)%	**$ 1,230**	$ 1,278	(4)%
AMEA revenue - Core Illumina (b)	**$ 118**	$ 131	(10)%	**$ 237**	$ 293	(19)%
Less: Hedge gains	**1**	2		**2**	4	
AMEA revenue - Core Illumina, excluding hedge effect **(b)**	**117**	129		**235**	289	
Less: Exchange rate effect	**(4)**	—		**(10)**	—	
AMEA constant currency revenue - Core Illumina **(a)(b)**	**$ 121**	$ 129	(6)%	**$ 245**	$ 289	(15)%
China revenue - Core Illumina (c)	**$ 115**	$ 118	(3)%	**$ 206**	$ 245	(16)%
Less: Hedge gains	**1**	—		**1**	—	
China revenue - Core Illumina, excluding hedge effect **(c)**	**114**	118		**205**	245	
Less: Exchange rate effect	**(6)**	—		**(13)**	—	
China constant currency revenue - Core Illumina **(a)(c)**	**$ 120**	$ 118	1 %	**$ 218**	$ 245	(11)%
Europe revenue - Core Illumina	**$ 303**	$ 274	11 %	**$ 564**	$ 561	1 %
Less: Hedge gains	**(1)**	8		**(1)**	12	
Europe revenue - Core Illumina, excluding hedge effect	**304**	266		**565**	549	
Less: Exchange rate effect	**—**	—		**(12)**	—	
Europe constant currency revenue - Core Illumina **(a)**	**$ 304**	$ 266	14 %	**$ 577**	$ 549	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.

Note: We implemented a new global commercial structure in Q1 2023 to improve operating efficiencies and better align with local markets. We integrated Asia-Pacific and Japan with emerging markets across the Middle East, Africa, Turkey, and Commonwealth of Independent States (CIS). Beginning in Q1 2023 and going forward, we will report regional results for the following regions: Americas, Europe, Greater China and Asia-Pacific, Middle East and Africa (AMEA).

(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		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
GAAP loss per share - diluted	**$ (1.48)**	$ (3.40)	**$ (1.46)**	$ (2.85)
Cost of revenue **(b)**	**0.32**	0.25	**0.63**	0.50
R&D expense **(b)**	**0.08**	—	**0.09**	—
SG&A expense **(b)**	**0.60**	0.45	**0.80**	0.38
Legal contingency and settlement **(b)**	**0.08**	3.88	**0.09**	3.88
Other expense, net **(b)**	**0.01**	0.24	**0.08**	0.48
GILTI and U.S. foreign tax credits **(c)**	**0.44**	0.04	**0.16**	0.20
Incremental non-GAAP tax expense **(d)**	**0.27**	(0.89)	**(0.04)**	(0.96)
Income tax provision **(e)**	**—**	0.01	**0.05**	0.03
Effect of dilutive shares **(f)**	**—**	(0.01)	**—**	(0.02)
Non-GAAP earnings per share - diluted **(a)**	**$ 0.32**	$ 0.57	**$ 0.40**	$ 1.64
GAAP diluted shares	**158**	157	**158**	157
Non-GAAP dilutive shares **(f)**	**—**	2	**—**	2
Non-GAAP diluted shares	**158**	159	**158**	**159**

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

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
GAAP net loss	**$ (234)**	$ (535)	**$ (231)**	$ (449)
Cost of revenue **(b)**	**50**	40	**99**	79
R&D expense **(b)**	**13**	—	**14**	—
SG&A expense **(b)**	**95**	71	**127**	60
Legal contingency and settlement **(b)**	**12**	609	**15**	609
Other expense, net **(b)**	**2**	38	**13**	76
GILTI and U.S. foreign tax credits **(c)**	**69**	6	**25**	31
Incremental non-GAAP tax expense **(d)**	**43**	(139)	**(6)**	(151)
Income tax provision **(e)**	**—**	1	**8**	5
Non-GAAP net income **(a)**	**$ 50**	$ 91	**64**	260
Add: interest expense on convertible notes, net of tax **(g)**	**—**	—	**—**	1
Non-GAAP net income for diluted earnings per share	**$ 50**	$ 91	**$ 64**	$ 261

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 and the utilization of U.S. foreign tax credits.

(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.

(f) In loss periods, GAAP basic loss per share and diluted loss per share are identical since the effect of potentially dilutive shares is anti-dilutive and therefore excluded. For non-GAAP diluted earnings per share, the impact of potentially dilutive shares from our convertible senior notes and equity awards is included and is calculated based on the sum of weighted-average common shares and potentially dilutive shares outstanding during Q2 2022 and YTD 2022.

(g) Amount represents interest expense on the 2023 Convertible Senior Notes, net of any income tax effects, which is added back to the numerator used to calculate non-GAAP diluted earnings per share, for purposes of the if-converted method as it would have a dilutive effect on the calculation of non-GAAP diluted earnings per share.

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 July 2, 2023					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$ 760	65.5 %	$ (24)	$ (4)	$ 732	62.2 %
Amortization of acquired intangible assets	14	1.2 %	33	—	47	4.0 %
Restructuring **(g)**	3	0.3 %	—	—	3	0.3 %
Non-GAAP gross profit **(a)**	$ 777	67.0 %	$ 9	$ (4)	$ 782	66.5 %
GAAP R&D expense	$ 274	23.6 %	$ 89	$ (5)	$ 358	30.4 %
Acquisition-related expenses **(d)**	(1)	(0.1)%	—	—	(1)	(0.1)%
Restructuring **(g)**	(12)	(1.0)%	—	—	(12)	(1.0)%
Non-GAAP R&D expense	$ 261	22.5 %	$ 89	$ (5)	$ 345	29.3 %
GAAP SG&A expense	$ 359	30.9 %	$ 91	$ —	$ 450	38.3 %
Amortization of acquired intangible assets	—	—	(1)	—	(1)	(0.1)%
Contingent consideration liabilities **(c)**	(29)	(2.5)%	—	—	(29)	(2.5)%
Acquisition-related expenses **(d)**	(18)	(1.4)%	(3)	—	(21)	(1.8)%
Restructuring **(g)**	(17)	(1.5)%	(2)	—	(19)	(1.6)%
Proxy contest	(25)	(2.2)%	—	—	(25)	(2.1)%
Non-GAAP SG&A expense	$ 270	23.3 %	$ 85	$ —	$ 355	30.2 %
GAAP legal contingency and settlement	$ 12	1.0 %	$ —	$ —	$ 12	1.0 %
Legal contingency and settlement **(h)**	(12)	(1.0)%	—	—	(12)	(1.0)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 115	9.9 %	$ (204)	$ 1	$ (88)	(7.5)%
Cost of revenue	17	1.5 %	33	—	50	4.3 %
R&D costs	13	1.1 %	—	—	13	1.1 %
SG&A costs	88	7.7 %	7	—	95	8.1 %
Legal contingency and settlement	12	1.0 %	—	—	12	1.0 %
Non-GAAP operating profit (loss) **(a)**	$ 245	21.2 %	$ (164)	$ 1	$ 82	7.0 %
GAAP other (expense) income, net	$ (3)	(0.3)%	$ 2	$ —	$ (1)	(0.1)%
Strategic investment related loss, net **(e)**	2	0.2 %	—	—	2	0.2 %
Non-GAAP other (expense) income, net **(a)**	$ (1)	(0.1)%	$ 2	$ —	$ 1	0.1 %

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.

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

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

	Three Months Ended July 3, 2022					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$ 801	69.3 %	$ (29)	$ (5)	$ 767	66.0 %
Amortization of acquired intangible assets	6	0.5 %	33	—	40	3.4 %
Non-GAAP gross profit **(a)**	$ 807	69.8 %	$ 4	$ (5)	$ 807	69.4 %
GAAP and non-GAAP R&D expense	$ 249	21.5 %	$ 86	$ (8)	$ 327	28.1 %
GAAP SG&A expense	$ 339	29.3 %	$ 72	$ (1)	$ 410	35.4 %
Acquisition-related expenses **(d)**	(31)	(2.7)%	(1)	—	(32)	(2.8)%
Contingent consideration liabilities **(c)**	(38)	(3.3)%	—	—	(38)	(3.3)%
Amortization of acquired intangible assets	—	—	(1)	—	(1)	(0.1)%
Non-GAAP SG&A expense	$ 270	23.3 %	$ 70	$ (1)	$ 339	29.2 %
GAAP legal contingency and settlement	$ 609	52.6 %	$ —	$ —	$ 609	52.3 %
Legal contingency and settlement **(h)**	(609)	(52.6)%	—	—	(609)	(52.3)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating loss	$ (396)	(34.3)%	$ (187)	$ 4	$ (579)	(49.8)%
Cost of revenue	6	0.5 %	33	—	40	3.4 %
SG&A costs	69	6.1 %	2	—	71	6.3 %
Legal contingency and settlement	609	52.6 %	—	—	609	52.3 %
Non-GAAP operating profit (loss) **(a)**	$ 288	24.9 %	$ (152)	$ 4	$ 141	12.2 %
GAAP other expense, net	$ (58)	(5.0)%	$ —	$ —	$ (58)	(5.0)%
Strategic investment related loss, net **(e)**	30	2.6 %	—	—	30	2.6 %
Loss on Helix contingent value right **(f)**	8	0.7 %	—	—	8	0.7 %
Non-GAAP other expense, net **(a)**	$ (20)	(1.7)%	$ —	$ —	$ (20)	(1.7)%

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.

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

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

	Six Months Ended July 2, 2023				
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$1,446	64.7 %	$ (50)	$ (10)	$ 1,386	61.3 %
Amortization of acquired intangible assets	29	1.3 %	67	—	96	4.2 %
Restructuring **(g)**	3	0.1 %	—	—	3	0.1 %
Non-GAAP gross profit **(a)**	$1,478	66.1 %	$ 17	$ (10)	$ 1,485	65.6 %
GAAP R&D expense	$ 532	23.7 %	$ 175	$ (8)	$ 699	30.9 %
Acquisition-related expenses **(d)**	(1)	—	—	—	(1)	—
Restructuring **(g)**	(13)	(0.5)%	—	—	(13)	(0.6)%
Non-GAAP R&D expense	$ 518	23.2 %	$ 175	$ (8)	$ 685	30.3 %
GAAP SG&A expense	$ 641	28.7 %	$ 184	$ (1)	$ 824	36.4 %
Amortization of acquired intangible assets	—	—	(2)	—	(2)	(0.1)%
Contingent consideration liabilities **(c)**	(28)	(1.3)%	—	—	(28)	(1.2)%
Acquisition-related expenses **(d)**	(38)	(1.7)%	(9)	—	(47)	(2.1)%
Restructuring **(g)**	(17)	(0.7)%	(2)	—	(19)	(0.8)%
Proxy contest	(31)	(1.4)%	—	—	(31)	(1.4)%
Non-GAAP SG&A expense	$ 527	23.6 %	$ 171	$ (1)	$ 697	30.8 %
GAAP legal contingency and settlement	$ 15	0.7 %	$ —	$ —	$ 15	0.7 %
Legal contingency and settlement **(h)**	(15)	(0.7)%	—	—	(15)	(0.7)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 257	11.5 %	$ (408)	$ (1)	$ (152)	(6.7)%
Cost of revenue	32	1.4 %	67	—	99	4.3 %
R&D costs	14	0.6 %	—	—	14	0.6 %
SG&A costs	114	5.1 %	13	—	127	5.6 %
Legal contingency and settlement	15	0.7 %	—	—	15	0.7 %
Non-GAAP operating profit (loss) **(a)**	$ 432	19.3 %	$ (328)	$ (1)	$ 103	4.5 %
GAAP other (expense) income, net	$ (19)	(0.9)%	$ 4	$ —	$ (15)	(0.7)%
Strategic investment related loss, net **(e)**	16	0.7 %	—	—	16	0.7 %
Gain on Helix contingent value right **(f)**	(3)	(0.1)%	—	—	(3)	(0.1)%
Non-GAAP other (expense) income, net **(a)**	$ (6)	(0.3)%	$ 4	$ —	$ (2)	(0.1)%

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.

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

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

	Six Months Ended July 3, 2022					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$1,651	69.5 %	$ (58)	$ (10)	$1,583	66.3 %
Amortization of acquired intangible assets	13	0.5 %	67	—	79	3.4 %
Non-GAAP gross profit **(a)**	$1,664	70.0 %	$ 9	$ (10)	$1,662	69.7 %
GAAP and non-GAAP R&D expense	$ 486	20.5 %	$ 171	$ (7)	$ 650	27.3 %
GAAP SG&A expense	$ 590	24.8 %	$ 130	$ (1)	$ 719	30.1 %
Amortization of acquired intangible assets	—	—	(2)	—	(3)	(0.1)%
Contingent consideration liabilities **(c)**	11	0.5 %	—	—	11	0.5 %
Acquisition-related expenses **(d)**	(64)	(2.7)%	(5)	—	(68)	(2.9)%
Non-GAAP SG&A expense	$ 537	22.6 %	$ 123	$ (1)	$ 659	27.6 %
GAAP legal contingency and settlement	$ 609	25.6 %	$ —	$ —	$ 609	25.5 %
Legal contingency and settlement **(h)**	(609)	(25.6)%	—	—	(609)	(25.5)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating loss	$ (34)	(1.4)%	$ (359)	$ (2)	$ (395)	(16.6)%
Cost of revenue	13	0.5 %	67	—	79	3.4 %
SG&A costs	52	2.2 %	7	—	60	2.5 %
Legal contingency and settlement	609	25.6 %	—	—	609	25.5 %
Non-GAAP operating profit (loss) **(a)**	$ 640	26.9 %	$ (285)	$ (2)	$ 353	14.8 %
GAAP other expense, net	$ (102)	(4.3)%	$ —	$ —	$ (102)	(4.3)%
Strategic investment related loss, net **(e)**	73	3.1 %	—	—	73	3.1 %
Loss on Helix contingent value right **(f)**	3	0.1 %	—	—	3	0.1 %
Non-GAAP other expense, net **(a)**	$ (26)	(1.1)%	$ —	$ —	$ (26)	(1.1)%

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. 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) Amounts consist primarily of fair value adjustments for our contingent consideration liability related to GRAIL.
(d) Amounts consist primarily of legal expenses related to the acquisition 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 consist primarily of employee severance costs and lease and other asset impairments related to restructuring activities.
(h) Amount for Q2 2023 consists of an adjustment to our previously recorded accrual for the fine imposed by the European Commission in July 2023. The amount for YTD 2023 also consists of a loss related to a patent litigation settlement in Q1 2023. Amounts for Q2 2022 and YTD 2022 relate to an estimated accrual of $453 million for the fine imposed by the European Commission and an accrual of $156 million related to the settlement of our litigation with BGI.

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

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

	Three Months Ended		Six Months Ended	
	July 2, 2023		July 2, 2023	
GAAP tax provision	**$ 145**	**(163.8)%**	**$ 64**	**(38.5)%**
Incremental non-GAAP tax expense **(b)**	**(43)**		**6**	
Income tax provision **(c)**	**—**		**(8)**	
GILTI and U.S. foreign tax credits **(d)**	**(69)**		**(25)**	
Non-GAAP tax provision **(a)**	**$ 33**	**39.3 %**	**$ 37**	**37.2 %**

	Three Months Ended		Six Months Ended	
	July 3, 2022		July 3, 2022	
GAAP tax benefit	$ (102)	16.0 %	$ (48)	9.7 %
Incremental non-GAAP tax expense **(b)**	139		151	
Income tax provision **(c)**	(1)		(5)	
GILTI and U.S. foreign tax credits **(d)**	(6)		(31)	
Non-GAAP tax provision **(a)**	$ 30	25.8 %	$ 67	20.8 %

(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 and the utilization of U.S. foreign tax credits.

Illumina, Inc.
Reconciliation of Consolidated Non-GAAP Financial Guidance
(unaudited)

Our future performance and financial results are subject to risks and uncertainties, and actual results could differ materially from the guidance set forth below. Some of the factors that could affect our financial results are stated above in this press release. More information on potential factors that could affect our financial results is included from time to time in the public reports filed with the Securities and Exchange Commission, including Form 10-K for the fiscal year ended January 1, 2023 filed with the SEC on February 17, 2023 and Form 10-Q for the fiscal quarter ended April 2, 2023. We assume no obligation to update any forward-looking statements or information.

TABLE 5: RECONCILIATION BETWEEN GAAP AND NON-GAAP DILUTED (LOSS) EARNINGS PER SHARE GUIDANCE:

	Fiscal Year 2023
Consolidated GAAP diluted loss per share (b)	**$(2.08) - $(1.93)**
Amortization of acquired intangible assets	1.23
Legal contingency and settlement **(c)**	0.09
Acquisition-related expenses **(d)**	0.30
Strategic investment related loss, net **(e)**	0.10
Gain on Helix contingent value right **(f)**	(0.02)
Restructuring **(g)**	0.22
Contingent consideration liabilities **(h)**	0.18
GILTI and U.S. foreign tax credits **(i)**	0.43
Incremental non-GAAP tax expense **(j)**	0.06
Income tax provision **(k)**	0.05
Proxy contest	0.19
Consolidated non-GAAP diluted earnings per share **(a)(b)**	$0.75 - $0.90

	Q3 2023
Consolidated GAAP diluted loss per share (b)	**$(0.17) - $(0.12)**
Amortization of acquired intangible assets	0.31
GILTI and U.S. foreign tax credits **(i)**	(0.11)
Incremental non-GAAP tax expense **(j)**	0.07
Consolidated non-GAAP diluted earnings per share **(a)(b)**	$0.10 - $0.15

(a) Non-GAAP diluted earnings per share excludes the effects of the pro forma adjustments as detailed above. Non-GAAP diluted earnings per share 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 this measure to assist investors in analyzing and assessing our past and future operating performance.
(b) Amounts assume that the existing R&D capitalization requirements are not repealed in 2023 and, as a result, reflect an impact of approximately $75 million.
(c) Amount consists of an adjustment to our previously recorded accrual for the fine imposed by the European Commission in July 2023 and a loss related to a patent litigation settlement in Q1 2023.
(d) Amount consists primarily of legal expenses incurred through Q2 2023 related to the acquisition of GRAIL.
(e) Amount consists primarily of mark-to-market adjustments and impairments recognized through Q2 2023 on our strategic investments.
(f) Amount consists of fair value adjustments recognized through Q2 2023 on our Helix contingent value right.
(g) Amount consists primarily of employee severance costs and lease and other asset impairments incurred through Q2 2023 related to restructuring activities.

(h) Amount consists primarily of fair value adjustments recognized through Q2 2023 for our contingent consideration liability related to GRAIL.
(i) Amount represents the impact of GRAIL pre-acquisition net operating losses on GILTI and the utilization of U.S. foreign tax credits.
(j) Incremental non-GAAP tax expense reflects the tax impact related to the non-GAAP adjustments listed.
(k) Amount represents the difference between book and tax accounting related to stock-based compensation cost recognized through Q2 2023.

Illumina, Inc.
Reconciliation of Non-GAAP Financial Guidance
(unaudited)

Our future performance and financial results are subject to risks and uncertainties, and actual results could differ materially from the guidance set forth below. Some of the factors that could affect our financial results are stated above in this press release. More information on potential factors that could affect our financial results is included from time to time in the public reports filed with the Securities and Exchange Commission, including Form 10-K for the fiscal year ended January 1, 2023 filed with the SEC on February 17, 2023 and Form 10-Q for the fiscal quarter ended April 2, 2023. We assume no obligation to update any forward-looking statements or information.

TABLE 6: RECONCILIATION BETWEEN GAAP AND NON-GAAP OPERATING MARGIN GUIDANCE:

	Q3 2023
Consolidated GAAP operating margin	**—%**
Amortization of acquired intangible assets	4
Consolidated non-GAAP operating margin **(a)**	4%

	FY 2023
Consolidated GAAP operating margin	**(3)%**
Amortization of acquired intangible assets	4
Acquisition-related expenses **(b)**	1
Contingent consideration liabilities **(c)**	1
Restructuring **(d)**	1
Proxy contest	1
Consolidated non-GAAP operating margin **(a)**	5%

	Q3 2023
Core Illumina GAAP operating margin	**18%**
Amortization of acquired intangible assets	1
Core Illumina non-GAAP operating margin **(a)**	19%

	FY 2023
Core Illumina GAAP operating margin	**16%**
Amortization of acquired intangible assets	1
Acquisition-related expenses **(b)**	1
Restructuring **(d)**	1
Proxy contest	1
Core Illumina non-GAAP operating margin **(a)**	20%

(a) Non-GAAP operating margin 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, including in the non-GAAP measure related to our Core Illumina segment.
(b) Amounts consist primarily of legal expenses incurred through Q2 2023 related to the acquisition of GRAIL.
(c) Amounts consist primarily of fair value adjustments recognized through Q2 2023 for our contingent consideration liability related to GRAIL.
(d) Amounts consist primarily of employee severance costs and lease and other asset impairments incurred through Q2 2023 related to restructuring activities.

Illumina, Inc.
Reconciliation of Non-GAAP Financial Guidance (continued)
(unaudited)

TABLE 7: RECONCILIATION BETWEEN GRAIL GAAP AND NON-GAAP OPERATING LOSS GUIDANCE:

		FY 2023
GRAIL GAAP operating loss	**$**	**(819)**
Amortization of acquired intangible assets		138
Acquisition-related expenses **(b)**		9
Restructuring **(c)**		2
GRAIL non-GAAP operating loss **(a)**	$	(670)

(a) Non-GAAP operating loss 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 related to the GRAIL segment.
(b) Amount consists primarily of legal expenses incurred through Q2 2023 related to the acquisition of GRAIL.
(c) Amount consists of employee severance costs incurred through Q2 2023 related to restructuring activities.

Illumina, Inc.
Reconciliation of Non-GAAP Financial Guidance (continued)
(unaudited)

TABLE 8: RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX RATE GUIDANCE:

	Fiscal Year 2023	
	Current (b)	**If repealed (c)**
Consolidated GAAP tax rate	**(123)%**	**(44)%**
Non-GAAP tax adjustments **(a)**	164	58
Consolidated non-GAAP tax rate	41 %	14 %

(a) Non-GAAP tax adjustments reflect the tax impact related to the non-GAAP adjustments listed above in our "Reconciliation Between GAAP and Non-GAAP Diluted (Loss) Earnings Per Share Guidance." Management has excluded the effect of these items in this measure to assist investors in analyzing and assessing past and future operating performance.
(b) Amounts assume that the existing R&D capitalization requirements are not repealed in 2023 and, as a result, reflect an impact of approximately $75 million.
(c) Amounts assume that the existing R&D capitalization requirements are repealed in 2023.