ILMN Q2 2024 Earnings Call
Prepared Remarks – August 6, 2024

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

Hello everyone, and welcome to our earnings call for the second 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 for Core Illumina. As a reminder, we divested GRAIL in June of this year. For a review of second quarter financial results for GRAIL and consolidated Illumina, please see our earnings release and our SEC filings.

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.

Throughout the second quarter, I continued to meet with our customers and partners around the world. I've been hearing about all of the opportunities they are excited for – and discussing the issues we are facing together in this environment. Most importantly, it has been encouraging to see our customers and partners launch the next generation of their products.

Illumina is uniquely positioned to support our customers' aspirations. Ongoing progress in science and technology allows our customers to envision large-scale discovery programs that are now possible using multiomics. And customers are more empowered to move to whole genome sequencing that provides significantly more insights. Furthermore, there is an opportunity to further integrate genomics throughout the health care system to improve patient outcomes.

But we also have to help our customers navigate their current realities. There are still many moving elements in the global economy, and we are taking a more measured view. I'm regularly hearing that our customers feel constrained to make significant capital outlays. We also see it in delays in our sales cycle and in orders being pushed out.

For Illumina, this means we balance two important jobs. Job one is to stabilize our own base. We're doing that through continued rollout of the NovaSeq X series to lay the groundwork for everything our customers – and we – want to pursue in the future. We're also highly focused on operational excellence and optimizing the ways in which we run our business.

And Job two is accelerating growth.

Our Strategy Update next week will address:

- Illumina's vision for the future and our strategy to execute;
- New dimensions of technology from our R&D vault;
- And, our financial outlook for the next several years.

For purposes of today's call, we will focus on our second quarter results.

In Q2, Illumina again delivered results ahead of expectations, with Core Illumina revenue of 1.1 billion dollars and non-GAAP operating margin of 22.2%, driven by continued execution against our strategic priorities.

The ongoing transition of sequencing activity to the NovaSeq X Plus led to a significant step-up in consumables in the quarter. We also placed another 62 NovaSeq X Plus instruments. With that said, we continue to see our customers actively managing their capital spend. As a result, for the remainder of the year we are adding caution to our guide. We are taking a more prudent view on the instruments business to reflect the further extension of sales cycles. But at the same time, we have a slightly stronger view on consumables. Ankur will provide further details on our adjusted guidance shortly.

Turning to our regions' performance in the second quarter:

- Americas revenue was relatively flat year-over-year.
- Europe revenue was down 5%, given the significant backlog we worked through early last year following the X launch.
- AMEA revenue was down 8%, and Greater China was down 35%.

I have been talking with you about our three key priorities.

I'd like to highlight the progress made by Illumina's management team during the second quarter toward those priorities.

I'll start with driving our top line, which has been focused on expanding our installed base and helping our customers maximize the potential of their instruments.

As I mentioned earlier, in Q2 we shipped 62 NovaSeq X Plus instruments, bringing our total X Plus installed base to 469 instruments. Customers continue to transition their projects onto the NovaSeq X Plus, and we are encouraged by their corresponding increase in sequencing activity. NovaSeq X Plus average annual pull-through has topped 1 million dollars per instrument, a milestone achievement.

Moving to mid-throughput, in Q2 we introduced the XLEAP-SBS chemistry to our NextSeq 1k/2k P1, P2, and P3 flow cells, complementing the P4 flow cell we launched earlier this year. The XLEAP launch has exceeded our expectations. More than 60% of the 1k/2k installed base now has upgraded software – a leading indicator for adoption. XLEAP-SBS chemistry delivers improved quality, greater usable reads, and lower turnaround times, in addition to attractive pricing.

While customers' interest in XLEAP is encouraging, translation to additional instrument uptake has been less than we expected. Our mid-throughput segment remains the most sensitive to the macroeconomic environment, and we have seen our sales cycles continue to lengthen. This is clearly driven by constrained capital spending – our win rates have remained stable and our pipeline has grown. We will continue to support our mid-throughput customers through this environment and are confident that bringing XLEAP to NextSeq 1k/2k is further strengthening our leadership position around the world.

Turning to our second priority: delivering operational excellence:

We are thrilled to have Everett Cunningham on board as Chief Commercial Officer. Everett is already driving a sharp customer focus across the business with an essential underpinning of operational excellence.

As I've shared, it has been my goal to align our organization in a way that will make our customers heroes by delivering the products, services, and solutions that address their most pressing needs. Following our move to combine our marketing and commercial functions, we have implemented a new commercial organizational design. We are positioning our teams to more effectively serve our customers as their partners for innovation. Teams are equipped with the go-to-market expertise to accelerate our multiomics capabilities and commercialize and scale our software stack across research and clinical customers. This new structure will provide the alignment needed to deliver long-term results for our customers and for the business.

Additionally, earlier this year we shared that we were implementing a portfolio optimization strategy to drive productivity improvements across our supply chain. As one recent example, we have identified a number of products that we will rationalize, in an effort to increase our focus on higher profitability offerings. We will of course work with our customers to provide a seamless transition to other offerings in our portfolio. We continue to make good progress toward achieving greater operating leverage this year.

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

As you know, in June, we completed the spin-off of GRAIL and GRAIL is now an independent public company. Illumina has maintained a minority 14.5% stake. GRAIL plays a critical role in the fight against cancer, and while it is no longer part of Illumina, we remain confident in its future. We will continue to support GRAIL with our sequencing technology and suite of services.

As we continue to deliver on our priorities and activating our new strategy, I know we will be well positioned to move forward and lead the next era of genomics growth and discovery.

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

Ankur Dhingra, *Chief Financial Officer*

Thank you, Jacob. And hello, everyone.

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, as well as our consolidated financials that include GRAIL, which can be found in today's release and in the supplementary data available on our website.

In the last three months, I have had a chance to spend time with Illumina teams across all functions. I continue to be impressed with how mission-driven this team is and also how transformation is taking hold at Illumina. I have also heard from several of our investors as part of a listening tour. As I focus my commentary on the financial results and current outlook, I will include some additional color in my remarks.

Core Illumina second quarter revenue of $1.1 billion was down (6%) year-over-year on both a reported and constant currency basis, and up 3% from the first quarter of 2024. These results exceeded our guidance. This above-expectations performance was driven primarily by continued increase in high-throughput sequencing consumables revenue, as our customers further ramp activity on NovaSeq X Plus. This strength in consumables was partially offset by fewer than expected shipments of our mid-throughput instruments, as capital and cash flow constraints continue to impact our customers' purchasing decisions.

Total Core Illumina sequencing consumables revenue of $737 million was flat against last year's second quarter, which was the highest sequencing consumables revenue quarter of the year 2023. High-throughput was a particularly bright spot in this year's second quarter, with consumables shipments growing both year-over-year and sequentially. X consumables revenue grew 35% from the first quarter of 2024, accelerating from the double-digit sequential growth we saw in the first quarter. In order to provide some additional color on the transition - as of Q2, approximately 45% of high-throughput gigabases sequenced, and a little over 25% of high-throughput consumables revenue, was on NovaSeq X Plus. In terms of the pace of shifting mix from 6K to X, to date, on average, roughly 5 percentage points of high-throughput sequencing consumables revenue has moved from NovaSeq 6000 to NovaSeq X Plus each quarter. As this transition progresses, the impact of price continues to reduce. If this trajectory holds, almost half of high-throughput sequencing consumables revenue should transition to the NovaSeq X by mid-2025, continuing to reduce the impact of the pricing transition and converting volume growth into higher revenue growth thereafter.

I hope you find this additional information helpful. We are increasing our disclosures around the NovaSeq X to give you a clearer picture of the progress we are making in this important transition.

Moving to sequencing activity, Total sequencing Gb output on our connected high- and mid-throughput instruments grew more than 40% year-over-year and approximately 10% quarter-over-quarter. Growth in activity from both Research & Applied and Clinical customers was healthy. Although not a predictor of near-term revenue, Gb output provides us a directional view of underlying applications demand and levels of utilization of our instruments and consumables.

Sequencing instruments revenue for Core Illumina of $116 million for Q2 grew 5% sequentially but declined (40%) year-over-year. The year-over-year decline was driven by two factors:

One, lower NovaSeq X placements, as compared to significant pre-order launch-related shipments in the second quarter of 2023, and

Two, an expected decline in mid-throughput shipments, as capital and cashflow constraints continue to impact purchasing behavior and moderate instrument placement.

Core Illumina sequencing service and other revenue of $143 million was up 7% year-over-year, driven by an increase in revenue from strategic partnerships as well as 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 69.4% for the quarter increased 240 basis points year-over-year. This strong gross margin performance was driven primarily by a more favorable revenue mix of sequencing consumables, and also, importantly, execution of our operational excellence initiatives that improved productivity and delivered cost savings.

Core Illumina non-GAAP operating expenses of $516 million were down $15 million year-over-year, reflecting reductions in headcount and several other cost containment initiatives.

Putting it all together, Core Illumina non-GAAP operating margin was 22.2% in Q2 2024 compared to 21.2% in the prior year period. This came in well above our guidance of 18%, as well as our expectations, due to higher-than-expected revenue, better-than-expected gross margin, and strides our organization has made in reducing operating expenses.

Below the operating income line, Core Illumina non-GAAP other expense of ($13) million in Q2 includes 11 days of interest expense for the $750 million delayed draw term loan we drew in full on June 20, 2024.

Core Illumina non-GAAP net income for Q2 was $174 million, or $1.09 per diluted share. Core Illumina non-GAAP tax rate was 24.2% for the quarter. Our non-GAAP weighted average diluted share count for the quarter was approximately 159 million.

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

- Cash flow provided by operations was $243 million;
- Capital expenditures were $30 million and free cash flow was $213 million;

We ended the quarter with approximately $994 million in cash, cash equivalents and short-term investments.

Moving now to 2024 guidance:

While we were encouraged by our results in Q2, we see several puts and takes as we consider the remainder of the year. On one hand, our customers' capital spending remains constrained. On the other hand, our consumables business, especially high-throughput driven by the transition to NovaSeq X, remains solid.

We are therefore reducing our revenue expectations, especially for instruments, for the second half of the year. Core Illumina full year revenue is now projected to be down 2% to 3% from 2023, or down 1.5% to 2.5% on constant currency basis. Approximately one-half of the decline from our prior guidance is due to our lower expectations for our business in China and broader Asia, and the other half is a result of our reduced expectations for mid-throughput and NovaSeq X shipments.

From an instruments versus consumables perspective, at the mid-point of the Core Illumina revenue guidance range:

- Sequencing instruments revenue is now projected to decline in the mid-thirties % rate relative to 2023
- Sequencing consumables revenue is now projected to grow towards the upper end of the low single-digit % range versus 2023.

Now about the remainder of P&L. Illumina has been able to execute on stated operational excellence initiatives, delivering operating leverage above our previous expectations. We thus are raising our Core Illumina non-GAAP operating margin guidance to a range of 20.5% - 21%. This reflects the margin expansion achieved in Q2'24, but we are also reducing our forecasted operating expenses for second half of the year. We continue to make progress against our expense actions, as well as several operational excellence initiatives under our internal Pinnacle Continuous Improvement program. We've now launched several new initiatives under this continuous improvement program, which we expect will deliver an additional $200 million in expense savings over the next few years. We will talk about this in more detail at the upcoming Strategy Update.

Additionally, we expect the Core Illumina non-GAAP tax rate to be approximately 25%.

And lastly, we are introducing guidance for Core Illumina non-GAAP diluted earnings per share in the range of $3.80 to $3.95 for full year 2024. This range includes second-half interest expense resulting from the $750 million delayed draw term loan we put in place in June this year.

For the third quarter of 2024:

We expect Core Illumina revenue in the range of $1.075 billion to $1.085 billion. The decline from the prior year is driven predominantly by lower NovaSeq X instrument shipments, given the significant backlog we worked through last year following the launch.

For the third quarter, we also expect Core Illumina non-GAAP operating margin of approximately 20%. The sequential decrease from the second quarter is primarily due to lower revenue and timing of project spend delayed from Q2.

We expect the third quarter non-GAAP Core Illumina tax rate to be approximately 25%, and Core Illumina non-GAAP diluted EPS between $0.80 and $0.90, which again includes the said interest expense from the June 2024 delayed draw term loan.

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 move to Q&A, I would like to spend a couple of minutes on our latest innovations.

For 26 years, Illumina's highest-value asset has been our innovation engine. One example from the quarter is the launch of our latest version of our DRAGEN software, which added significant enhancements to our analysis tools. Bioinformatics has become a key driver for customer decisions, and this new release includes our most accurate multi-genome mapping technology, advancements in machine learning, and the ability to genotype difficult genes to unlock deeper insights.

Looking ahead, I am excited to share the next round of NovaSeq X solutions. As you recall, the NovaSeq X series we announced in late 2022 includes two systems: the NovaSeq X Plus, which has been shipping globally since March 2023, and the NovaSeq X, our single flow cell high-throughput sequencer for customers looking for a lower-cost entry point to the X series. The X will begin shipping in Q4 of this year and will be upgradeable to the X Plus.

Also in Q4, we will introduce 100 cycle and 200 cycle 25B flow cells designed for high-output counting applications, such as single cell and proteomics. Additionally, our next software update for the NovaSeq X and X Plus will enable increased yield and other improvements.

I am also pleased with the opportunities Illumina has to further enable the multiomics ecosystem. We will share more next week, but one recent highlight was our acquisition of Fluent BioSciences, a company with single-cell technology that sorts and labels complex cell mixtures to be processed for sequencing. Fluent's approach will make single-cell analysis available to a broader set of customers. Together with the specialized multiomics software solutions from our Partek acquisition, Fluent's solutions are yet another building block in our efforts to create greater value for our customers by further integrating their workflows. We want our customers to have the flexibility to adopt the tools that best fit their needs. Illumina will therefore remain an open NGS platform, and is committed to maintaining and supporting our existing single-cell partnerships.

I'm looking forward to speaking more about our vision, our strategy, and our financial outlook next week at our Strategy Update. This virtual event will be on Tuesday, August 13th. Please be sure to register through our investor relations website.

Thank you for joining today. I'll now invite the Operator to open the line 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 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 the divestment of GRAIL; (xiii) the risk of additional litigation arising against us in connection with the GRAIL acquisition; (xiv) our ability to obtain approval by third-party payors to reimburse patients for our products; (xv) our ability to obtain regulatory clearance for our products from government agencies; (xvi) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xvii) uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth or armed conflict; (xviii) the application of generally accepted accounting principles, which are highly complex and involve many subjective assumptions, estimates, and judgments and (xix) 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)

TABLE 1: CONSOLIDATED STATEMENTS OF CASH FLOWS AND FREE CASH FLOWS:

	Three Months Ended		Six Months Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Net cash provided by operating activities	**$ 80**	$ 105	**$ 157**	$ 115
Net cash used in investing activities	**(41)**	(37)	**(89)**	(93)
Net cash used in financing activities	**(225)**	(3)	**(191)**	(476)
Effect of exchange rate changes on cash and cash equivalents	**(2)**	(6)	**(5)**	(4)
Net (decrease) increase in cash and cash equivalents	**(188)**	59	**(128)**	(458)
Cash and cash equivalents, beginning of period	**1,108**	1,494	**1,048**	2,011
Cash and cash equivalents, end of period	**$ 920**	$ 1,553	**$ 920**	$ 1,553
Calculation of free cash flow:				
Net cash provided by operating activities	**$ 80**	$ 105	**$ 157**	$ 115
Purchases of property and equipment	**(32)**	(47)	**(67)**	(99)
Free cash flow **(a)**	**$ 48**	$ 58	**$ 90**	$ 16

TABLE 2: CORE ILLUMINA FREE CASH FLOWS:

	Three Months Ended
	June 30, 2024
Calculation of free cash flow:	
Net cash provided by operating activities	**$ 243**
Purchases of property and equipment	**(30)**
Free cash flow **(a)**	**$ 213**

(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		
	June 30, 2024	July 2, 2023	% Change	June 30, 2024	July 2, 2023	% Change
Consolidated revenue	**$ 1,112**	$ 1,176	(5)%	**$ 2,188**	$ 2,263	(3)%
Less: Hedge gains	**4**	2		**7**	3	
Consolidated revenue, excluding hedge effect	**1,108**	1,174		**2,181**	2,260	
Less: Exchange rate effect	**(5)**	—		**(7)**	—	
Consolidated constant currency revenue **(a)**	**$ 1,113**	$ 1,174	(5)%	**$ 2,188**	$ 2,260	(3)%
Core Illumina revenue	**$ 1,092**	$ 1,159	(6)%	**$ 2,148**	$ 2,235	(4)%
Less: Hedge gains	**4**	2		**7**	3	
Core Illumina revenue, excluding hedge effect	**1,088**	1,157		**2,141**	2,232	
Less: Exchange rate effect	**(5)**	—		**(7)**	—	
Core Illumina constant currency revenue **(a)**	**$ 1,093**	$ 1,157	(6)%	**$ 2,148**	$ 2,232	(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		
	June 30, 2024	July 2, 2023	% Change	June 30, 2024	July 2, 2023	% Change
AMR revenue - Core Illumina	**$ 620**	$ 623	(1)%	**$ 1,203**	$ 1,228	(2)%
Less: Hedge gains	**—**	—		**—**	1	
AMR revenue - Core Illumina, excluding hedge effect	**620**	623		**1,203**	1,227	
Less: Exchange rate effect	**—**	—		**1**	—	
AMR constant currency revenue - Core Illumina **(a)**	**$ 620**	$ 623	(1)%	**$ 1,202**	$ 1,227	(2)%
AMEA revenue - Core Illumina (b)	**$ 108**	$ 118	(8)%	**$ 224**	$ 237	(5)%
Less: Hedge gains	**1**	1		**3**	2	
AMEA revenue - Core Illumina, excluding hedge effect **(b)**	**107**	117		**221**	235	
Less: Exchange rate effect	**(2)**	—		**(8)**	—	
AMEA constant currency revenue - Core Illumina **(a)(b)**	**$ 109**	$ 117	(7)%	**$ 229**	$ 235	(3)%
China revenue - Core Illumina (c)	**$ 75**	$ 115	(35)%	**$ 153**	$ 206	(26)%
Less: Hedge gains	**2**	1		**3**	1	
China revenue - Core Illumina, excluding hedge effect **(c)**	**73**	114		**150**	205	
Less: Exchange rate effect	**(3)**	—		**(5)**	—	
China constant currency revenue - Core Illumina **(a)(c)**	**$ 76**	$ 114	(33)%	**$ 155**	$ 205	(24)%
Europe revenue - Core Illumina	**$ 289**	$ 303	(5)%	**$ 568**	$ 564	1 %
Less: Hedge gains	**1**	(1)		**1**	(1)	
Europe revenue - Core Illumina, excluding hedge effect	**288**	304		**567**	565	
Less: Exchange rate effect	**—**	—		**6**	—	
Europe constant currency revenue - Core Illumina **(a)**	**$ 288**	$ 304	(5)%	**$ 561**	$ 565	— %

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		Six Months Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
GAAP loss per share - diluted	**$ (12.48)**	$ (1.48)	**$ (13.28)**	$ (1.46)
Cost of revenue **(b)**	**0.29**	0.32	**0.60**	0.63
R&D expense **(b)**	**—**	0.08	**0.01**	0.09
SG&A expense **(b)**	**(1.33)**	0.68	**(0.75)**	0.89
Goodwill and intangible impairment **(b)**	**11.84**	—	**11.86**	—
Other expense, net **(b)**	**2.06**	0.01	**2.01**	0.08
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(c)**	**0.62**	0.44	**0.73**	0.16
Incremental non-GAAP tax expense **(d)**	**(0.65)**	0.27	**(0.74)**	(0.04)
Income tax provision **(e)**	**0.01**	—	**0.01**	0.05
Non-GAAP earnings per share - diluted **(a)**	**$ 0.36**	$ 0.32	**$ 0.45**	$ 0.40

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

	Three Months Ended		Six Months Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
GAAP net loss	**$ (1,988)**	$ (234)	**$ (2,114)**	$ (231)
Cost of revenue **(b)**	**46**	50	**95**	99
R&D expense **(b)**	**—**	13	**2**	14
SG&A expense **(b)**	**(211)**	107	**(120)**	142
Goodwill and intangible impairment **(b)**	**1,886**	—	**1,889**	—
Other expense, net **(b)**	**328**	2	**319**	13
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(c)**	**99**	69	**116**	25
Incremental non-GAAP tax expense **(d)**	**(104)**	43	**(117)**	(6)
Income tax provision **(e)**	**1**	—	**1**	8
Non-GAAP net income **(a)**	**$ 57**	$ 50	**$ 71**	$ 64

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

TABLE 3: CORE ILLUMINA RECONCILIATION BETWEEN GAAP AND NON-GAAP DILUTED EARNINGS PER SHARE:

	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024
GAAP earnings per share - diluted	$ 0.41	$ 0.85
Cost of revenue **(b)**	0.10	0.19
R&D expense **(b)**	—	0.01
SG&A expense **(b)**	(1.35)	(0.84)
Goodwill and intangible impairment **(b)**	—	0.02
Other expense, net **(b)**	2.06	2.01
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(c)**	0.12	0.21
Incremental non-GAAP tax expense **(d)**	(0.26)	(0.39)
Income tax provision **(e)**	0.01	0.01
Non-GAAP earnings per share - diluted **(a)**	$ 1.09	$ 2.07

TABLE 4: CORE ILLUMINA RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME:

	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024
GAAP net income	$ 66	$ 135
Cost of revenue **(b)**	15	30
R&D expense **(b)**	—	2
SG&A expense **(b)**	(215)	(132)
Goodwill and intangible impairment **(b)**	—	3
Other expense, net **(b)**	328	319
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(c)**	20	33
Incremental non-GAAP tax expense **(d)**	(41)	(62)
Income tax provision **(e)**	1	1
Non-GAAP net income **(a)**	$ 174	$ 329

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.

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(unaudited)

TABLE 5: ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Three Months Ended June 30, 2024					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$ 743	68.0 %	$ (16)	$ (6)	$ 721	64.8 %
Amortization of acquired intangible assets	15	1.4 %	31	—	46	4.2 %
Non-GAAP gross profit **(a)**	$ 758	69.4 %	$ 15	$ (6)	$ 767	69.0 %
GAAP and Non-GAAP R&D expense	$ 241	22.1 %	$ 88	$ (4)	$ 325	29.2 %
GAAP SG&A expense	$ 60	5.5 %	$ 88	$ (1)	$ 147	13.2 %
Amortization of acquired intangible assets	—	—	(1)	—	(1)	(0.1)%
Contingent consideration liabilities **(c)**	271	24.8 %	—	—	271	24.4 %
Acquisition-related expenses **(d)**	(46)	(4.2)%	(3)	—	(49)	(4.4)%
Restructuring **(g)**	(3)	(0.3)%	—	—	(3)	(0.3)%
Accrued interest on EC fine **(h)**	(7)	(0.6)%	—	—	(7)	(0.6)%
Non-GAAP SG&A expense	$ 275	25.2 %	$ 84	$ (1)	$ 358	32.2 %
GAAP goodwill and intangible impairment	$ —	—	$ 1,886	$ —	$ 1,886	169.6 %
Goodwill impairment **(i)**	—	—	(1,466)	—	(1,466)	(131.8)%
Intangible (IPR&D) impairment **(i)**	—	—	(420)	—	(420)	(37.8)%
Non-GAAP goodwill and intangible impairment	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 442	40.5 %	$ (2,078)	$ (1)	$(1,637)	(147.2)%
Cost of revenue	15	1.4 %	31	—	46	4.2 %
SG&A costs	(215)	(19.7)%	4	—	(211)	(19.0)%
Goodwill and intangible impairment	—	—	1,886	—	1,886	169.6 %
Non-GAAP operating profit (loss) **(a)**	$ 242	22.2 %	$ (157)	$ (1)	$ 84	7.6 %
GAAP other (expense) income, net	$ (341)	(31.2)%	$ 2	$ —	$ (339)	(30.5)%
Strategic investment related loss, net **(e)**	334	30.5 %	—	—	334	30.0 %
Gain on Helix contingent value right **(f)**	(8)	(0.7)%	—	—	(8)	(0.7)%
Foreign currency loss on EC fine **(j)**	2	0.2 %	—	—	2	0.2 %
Non-GAAP other (expense) income, net **(a)**	$ (13)	(1.2)%	$ 2	$ —	$ (11)	(1.0)%

Illumina, Inc.
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(Dollars in millions)
(unaudited)

TABLE 5 (CONTINUED): 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	$ 371	31.9 %	$ 91	$ —	$ 462	39.3 %
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)%
Legal contingency and settlement **(k)**	(12)	(1.0)%	—	—	(12)	(1.0)%
Proxy contest	(25)	(2.2)%	—	—	(25)	(2.1)%
Non-GAAP SG&A expense	$ 270	23.3 %	$ 85	$ —	$ 355	30.2 %
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	100	8.7 %	7	—	107	9.1 %
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 %

Illumina, Inc.
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(unaudited)

TABLE 5 (CONTINUED): ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP RESULTS OF OPERATIONS AS A PERCENT OF REVENUE:

	Six Months Ended June 30, 2024					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$1,436	66.9 %	$ (38)	$ (10)	$ 1,388	63.5 %
Amortization of acquired intangible assets	30	1.4 %	65	—	95	4.3 %
Non-GAAP gross profit **(a)**	$1,466	68.3 %	$ 27	$ (10)	$ 1,483	67.8 %
GAAP R&D expense	$ 479	22.3 %	$ 189	$ (8)	$ 660	30.2 %
Restructuring **(g)**	(2)	(0.1)%	—	—	(2)	(0.1)%
Non-GAAP R&D expense	$ 477	22.2 %	$ 189	$ (8)	$ 658	30.1 %
GAAP SG&A expense	$ 396	18.5 %	$ 192	$ —	$ 588	26.9 %
Amortization of acquired intangible assets	—	—	(2)	—	(2)	(0.1)%
Contingent consideration liabilities **(c)**	255	11.9 %	—	—	255	11.7 %
Acquisition-related expenses **(d)**	(70)	(3.3)%	(11)	—	(81)	(3.7)%
Restructuring **(g)**	(38)	(1.8)%	(1)	—	(39)	(1.8)%
Accrued interest on EC fine **(h)**	(14)	(0.7)%	—	—	(14)	(0.7)%
Non-GAAP SG&A expense	$ 529	24.6 %	$ 178	$ —	$ 707	32.3 %
GAAP goodwill and intangible impairment	$ 3	0.1 %	$ 1,886	$ —	$ 1,889	86.3 %
Goodwill impairment **(i)**	—	—	(1,466)	—	(1,466)	(67.0)%
Intangible (IPR&D) impairment **(i)**	(3)	(0.1)%	(420)	—	(423)	(19.3)%
Non-GAAP goodwill and intangible impairment	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 558	26.0 %	$ (2,305)	$ (2)	$(1,749)	(79.9)%
Cost of revenue	30	1.4 %	65	—	95	4.3 %
R&D costs	2	0.1 %	—	—	2	0.1 %
SG&A costs	(133)	(6.2)%	13	—	(120)	(5.4)%
Goodwill and intangible impairment	3	0.1 %	1,886	—	1,889	86.3 %
Non-GAAP operating profit (loss) **(a)**	$ 460	21.4 %	$ (341)	$ (2)	$ 117	5.4 %
GAAP other (expense) income, net	$ (342)	(15.9)%	$ 5	$ —	$ (337)	(15.4)%
Strategic investment related loss, net **(e)**	327	15.2 %	—	—	327	15.0 %
Gain on Helix contingent value right **(f)**	(11)	(0.5)%	—	—	(11)	(0.5)%
Foreign currency loss on EC fine **(j)**	3	0.1 %	—	—	3	0.1 %
Non-GAAP other (expense) income, net **(a)**	$ (23)	(1.1)%	$ 5	$ —	$ (18)	(0.8)%

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(Dollars in millions)
(unaudited)

TABLE 5 (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	$ 656	29.4 %	$ 184	$ (1)	$ 839	37.1 %
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)%
Legal contingency and settlement **(k)**	(15)	(0.7)%	—	—	(15)	(0.7)%
Proxy contest	(31)	(1.4)%	—	—	(31)	(1.4)%
Non-GAAP SG&A expense	$ 527	23.6 %	$ 171	$ (1)	$ 697	30.8 %
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	129	5.8 %	13	—	142	6.3 %
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.

(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 segments.
(b) Reconciling amounts are recorded in cost of revenue.
(c) Amounts consist of fair value adjustments for our contingent consideration liability related to GRAIL.

(d) Amounts consist primarily of legal and other expenses related to the acquisition and divestiture of GRAIL.
(e) Amounts consist primarily of mark-to-market adjustments and impairments from our strategic investments. Amounts for Q2 2024 and YTD 2024 primarily relate to the impairment on our retained investment in GRAIL post spin-off.
(f) Amounts consist of fair value adjustments related to our Helix contingent value right.
(g) Amount for Q2 2024 consists primarily of employee severance costs. Amount for YTD 2024 consists primarily of lease and other asset impairments. Amounts for Q2 2023 and YTD 2023 consist primarily of employee severance costs and lease and other asset impairments.
(h) Amounts for Q2 2024 and YTD 2024 consist of accrued interest on the fine imposed by the European Commission.
(i) Amounts for Q2 2024 and YTD 2024 consist of goodwill and IPR&D intangible asset impairments related to GRAIL. Amount for YTD 2024 also consists of an IPR&D intangible asset impairment related to Core Illumina in Q1 2024.
(j) Amounts for Q2 2024 and YTD 2024 consist of unrealized gains/losses related to foreign currency balance sheet remeasurement of the EC fine liability and unrealized/realized mark-to-market gains/losses on the hedge associated with the EC fine.
(k) Amount for Q2 2023 consists of an adjustment to our accrual for the fine imposed by the European Commission. Amount for YTD 2023 also consists of a loss related to a patent litigation settlement in Q1 2023.

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(unaudited)

TABLE 6: CONSOLIDATED ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended June 30, 2024			Six Months Ended June 30, 2024		
GAAP tax provision	$	12	(0.6)%	$	28	(1.4)%
Incremental non-GAAP tax expense **(b)**		104			117	
Income tax provision **(c)**		(1)			(1)	
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(d)**		(99)			(116)	
Non-GAAP tax provision **(a)**	$	16	22.3 %	$	28	28.8 %

	Three Months Ended July 2, 2023			Six Months Ended 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 %

TABLE 7: CORE ILLUMINA ITEMIZED RECONCILIATION BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended June 30, 2024			Six Months Ended June 30, 2024		
GAAP tax provision	$	35	35.0 %	$	80	37.3 %
Incremental non-GAAP tax expense **(b)**		41			62	
Income tax provision **(c)**		(1)			(1)	
GILTI, U.S. foreign tax credits, and global minimum top-up tax **(d)**		(20)			(33)	
Non-GAAP tax provision **(a)**	$	55	24.2 %	$	108	24.9 %

(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 and 4.
(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.