illumina®

ILMN Q422 Summary of Prepared Remarks

Revenue - Core Illumina

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Sequencing Consumables	$687M	-13%	-5%	• As expected, growth driven by pull-through on the increased installed base was offset by delayed recruitment for some large research projects in the Americas and Europe, the ongoing impact of COVID disruptions in China, the year-over-year impact of customer inventory management, the anticipated decrease in COVID surveillance revenue, and headwinds from foreign exchange rates • COVID surveillance contributed $19 million in sequencing consumables revenue
Microarrays Consumables	$80M	-2%	+5%	
Total Consumables	$767M	-12%	-4%	
Sequencing Instruments	$146M	-24%	-10%	• Decrease driven primarily by lower NovaSeq 6000 shipments in advance of the availability of NovaSeq X. This decline was partially offset by another quarter of record NextSeq 1K/2K shipments, which grew 31% year-over-year as we continue to see strong adoption by new-to-Illumina customers and demand for our new 2x300 kits that bring long read capabilities to our mid-throughput platform for the first time • COVID surveillance contributed $1 million in sequencing instruments revenue
Microarrays Instruments	$5M	—	—	
Total Instruments	$151M	-23%	-10%	
Total Products	$918M	-14%	-5%	
Sequencing Service & Other	$131M	+24%	+7%	• Increase driven primarily by higher instrument service contract revenue on a growing installed base, as well as an increase in oncology and IVD partnership revenue
Microarrays Service & Other	$16M	-6%	-16%	
Total Service & Other	$147M	+20%	+4%	
Total Revenue - Core Illumina	$1,065M	-11%	-4%	• Down 8% Yr/Yr on a constant currency basis, net of the effects of hedging

Revenue by Geographic Location - Core Illumina

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Americas	$577M	-7%	-3%	• The base business was impacted by anticipation for NovaSeq X, and the slowdown in COVID surveillance and Research • Record NextSeq 1K/2K instrument shipments in the Americas up nearly 50% year-over-year, driven by strength across both Research and Clinical
EMEA	$301M	-14%	+4%	• 10% decline Yr/Yr on a constant currency basis • The base business was impacted by anticipation for NovaSeq X, and the slowdown in COVID surveillance and Research • NovaSeqDx shipments exceeded expectations in the first quarter of launch, with strong early demand by clinical customers in Europe
Greater China	$94M	-22%	-29%	• 14% decline Yr/Yr on a constant currency basis • The region continued to be impacted by COVID lockdowns that resulted in lower sample volumes year-over-year. • We continue to expect our business in China to be impacted by headwinds from COVID-related disruptions, exchange rates, and slowing GDP growth in the region, at least through the first half of 2023
Asia Pacific	$93M	-10%	-2%	• 4% decline Yr/Yr on a constant currency basis, net of the effects of hedges • Strong growth across clinical markets was more than offset by the conclusion of a large research project in Japan, and delayed high throughput instrument purchases due to introduction of NovaSeq X

Core Illumina Updates

	Management Commentary
High-Throughput (HT): NovaSeq X & NovaSeq 6000	• Fantastic customer response to the NovaSeq X launch ○ Strong global interest from more >25 countries • NovaSeq X has had the strongest preorder book of any Illumina instrument launch • Started shipping NovaSeq X Plus systems to our first customers, and are on track to ship 40 to 50 NovaSeq X instruments in Q1, and more than 300 instruments in 2023 • Shipped more than 340 NovaSeq 6000s in 2022, with more than one-third of those instruments for oncology testing and nearly half to new-to-high throughput or new-to-Illumina customers • Average consumable pull-through for the NovaSeq 6000 was approximately $1 million per instrument in 2022 • We expect annual pull-through for NovaSeq 6000 of approximately $900K to $1M per system in 2023, as customers transition to NovaSeq X
Mid-Throughput (MT): NextSeq	• Shipped 1,215 instruments in 2022 and saw 4th consecutive record year for NextSeq shipments • Fourth quarter of 2022 also was the highest quarter on record for NextSeq 1k/2k shipments • Close to 25% of NextSeq 1k/2k units this year were placed with new-to-Illumina customers • We expect pull through for NextSeq 1k/2k in the range of $120,000 to $170,000 per system in 2023, as the record instrument placements in 2022 and continued strong placements in 2023 are brought fully online
Low-Throughput (LT): MiSeq, MiniSeq & iSeq	• Shipped approximately 1,670 instruments in 2022, bringing nearly 700 new customers to Illumina

GRAIL Updates

	Management Commentary
GRAIL	• GRAIL continues to have strong demand from consumers, physicians, health systems, and payers • Galleri had the fastest first-year revenue ramp in cancer screening test history, and GRAIL has established over 60 partnerships with leading health systems, self-insured employers, and other healthcare stakeholders. In 2022 alone, more than 4,500 providers ordered the test, contributing to the more than 60,000 Galleri test orders that have been received to date • The Galleri test has received FDA breakthrough designation and was recognized by TIME as one of The Best Inventions of 2022; by The Atlantic as one of the Breakthroughs of the Year; and by Fast Company as one of the World Changing Ideas of 2022. Galleri was also featured in an AARP Health story on “game-changing” medical breakthroughs improving lives today • GRAIL expects this exciting momentum to continue, and to translate into an expected revenue CAGR of 60% to 90% over the next five years. • GRAIL revenue of $23 million for the quarter grew 130% year-over-year driven primarily by accelerating adoption of Galleri, as well as higher contributions from MRD pharma partnerships due to a milestone payment in Q4 2022 that GRAIL does not expect to repeat in Q1 2023.

Q422 Non-GAAP Financial Highlights - Core Illumina

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Gross margin	67.3%	-430bps	-160bps	• Decrease Yr/Yr primarily due to less fixed cost leverage on lower manufacturing volumes
Operating expenses	$528M	-$52M	+$14M	• Decrease Yr/Yr primarily due to cost containment initiatives, lower performance-based compensation expense, and a one-time partnership related expense in Q4 2021
Operating margin	17.8%	-510bps	-480bps	

Q422 Non-GAAP Financial Highlights - GRAIL

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Operating expenses	$166M	+$35M	+$17M	• Increase Yr/Yr driven primarily by continued investments in clinical trials and to scale GRAIL's commercial organization

Q422 Non-GAAP Financial Highlights - Consolidated

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Operating expenses	$690M	-$21M	+$30M	
Other expense, net	—	+$7M	+$8M	
Tax rate	29.3%	+1,370bps	-1,390bps	• 26.0% for the full year 2022 • Increased from 15.6% in Q4 2021 and 17.3% in fiscal year 2021, primarily due to the impact of R&D capitalization requirements
Net income	$22M	-$95M	-$32M	• Includes dilution from GRAIL's non-GAAP operating loss of $159 million for Q4
EPS (diluted)	$0.14	-81%	-59%	• Lower than expected due to approximately $87 million in incremental tax expense from the R&D capitalization requirements that were not repealed in Q4 2022, despite broad bipartisan support. The incremental tax expense includes approximately $80 million recorded in Q1 through Q3 that was ultimately not reversed in Q4

	Q422	Yr/Yr	Qtr/Qtr	Management Commentary
Cash Flow from Operations	$147M	-$135M	+$199M	
Capital expenditures	($88M)	+$18M	+$21M	
Free cash flow	$59M	-$153M	+$178M	
Cash, cash equivalents & short-term Investments	$2.0B	+$698M	+$996M	• Cash as of the close of the quarter included $991 million in net proceeds from the term notes issued on December 13, 2022, which will be used to repay upcoming debt maturities in 2023

Consolidated Guidance

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	FY23 Guidance	Management Commentary
FY23 Consolidated Revenue	+7% - 10%	• Range includes an anticipated headwind from COVID surveillance of approximately 200 basis points as well as a year-over-year headwind from foreign exchange rates • We expect quarterly revenue to grow sequentially throughout 2023 driven by a ramp in NovaSeq X shipments and utilization, recovery from COVID disruptions in China, accelerating adoption of Galleri, and an expected mitigation of macroeconomic headwinds in the second half of 2023
FY23 Consolidated Non-GAAP Operating Margin	8%	• Margins reflect (1) an increase in Core Illumina operating expenses from 2022, primarily driven by normalization of our performance-based compensation, (2) a temporary decrease in gross margins as we launch the NovaSeq X, consistent with what we saw in 2017 when we launched NovaSeq 6000, and (3) an increase in GRAIL operating expenses due to ongoing investments to support the FDA application, NHS trial, and to continue to scale GRAIL's commercial organization.
FY23 Consolidated Non-GAAP Diluted EPS	$1.25 - $1.50	• Includes dilution from GRAIL's non-GAAP operating loss of approximately $670 million
FY23 Consolidated Non-GAAP Tax Rate - Current (a)	36%	• Includes an approximately $75 million impact from the R&D capitalization requirements. If these requirements are repealed in 2023, we expect our 2023 non-GAAP tax rate to be approximately 15%
GAAP and non-GAAP diluted shares outstanding	160 million	

(a) 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.

(b) Amounts assume that the existing R&D capitalization requirements are repealed in 2023.

	Q123 Guidance	Management Commentary
Q123 Consolidated Revenue	$1,050M - $1,070M	• Sequential decrease of 212 basis points from Q4 2022 at the midpoint, primarily driven by: o Historical seasonality of our core business due to year-end budget flushes not repeating in the first quarter, partially offset by an increase in high-throughput instrument shipments due to the launch of NovaSeq X in Q1; and o A decrease in GRAIL revenue of approximately $5 million due to a milestone payment in Q4 2022
Q123 Consolidated Non-GAAP Operating Margin	1%	• We expect operating margins to improve throughout 2023 as revenue ramps and we scale our production of NovaSeq X and leverage the fixed cost of the manufacturing base
Q123 Other expense, net	$9M	• Primarily due to interest expense on our new bond issuances

Segment Guidance

You are encouraged to review the GAAP reconciliation of the following non-GAAP measures at the end of this summary.

	FY23 Guidance	Management Commentary
FY23 Core Illumina Revenue	+6% - 9%	• This includes intercompany sales to Grail of approximately $35 million, which are eliminated in consolidation • We expect Core Illumina sequencing revenue to grow approximately 8% year-over year • We expect Core Illumina sequencing instrument growth of approximately 9% year-over-year driven by the NovaSeq X upgrade cycle and continued momentum in mid-throughput • We expect Core Illumina sequencing consumables growth of approximately 8% year-over-year primarily driven by the NovaSeq X launch, as customers build consumables inventory and ramp utilization, as well as continued growth in mid-throughput consumables due to the growing installed base . This growth will be partially offset by further reduced Covid surveillance revenue • Range includes an anticipated headwind from COVID surveillance of approximately 200 basis points as well as a year-over-year headwind from foreign exchange rates • We expect quarterly revenue to grow sequentially throughout 2023, with linearity trends similar to what we saw in 2017 when we launched the NovaSeq 6000
FY23 GRAIL Revenue	$90M - $110M	• Range reflects year-over-year growth of 82% at the midpoint, driven by accelerating adoption of the Galleri test
FY23 GRAIL non-GAAP operating loss	($670M)	
FY23 Core Illumina non-GAAP Operating Margin	22%	

	Q123 Guidance	Management Commentary
Q123 GRAIL Revenue	Down $5M from Q422	
Q123 Core Illumina non-GAAP Operating Margin	17%	• We expect operating margins to improve throughout 2023 as revenue ramps and we scale our production of NovaSeq X and leverage the fixed cost of the manufacturing base

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, 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 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; (ix) 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; (x) the risks and costs associated with the integration of GRAIL's business if we are ultimately able to integrate GRAIL; (xi) 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; (xii) 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; (xiii) our ability to obtain approval by third-party payors to reimburse patients for our products; (xiv) our ability to obtain regulatory clearance for our products from government agencies; (xv) our ability to successfully partner with other companies and organizations to develop new products, expand markets, and grow our business; (xvi) 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; (xvii) the application of generally accepted accounting principles, which are highly complex and involve many subjective assumptions, estimates, and judgments and (xviii) 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		Year Ended	
	January 1, 2023	January 2, 2022	January 1, 2023	January 2, 2022
Net cash provided by operating activities	**$ 147**	$ 282	**$ 392**	$ 545
Net cash used in investing activities	**(102)**	—	**(591)**	(1,069)
Net cash provided by (used in) financing activities	**956**	(129)	**1,000**	(51)
Effect of exchange rate changes on cash and cash equivalents	**10**	(1)	**(22)**	(3)
Net increase (decrease) in cash and cash equivalents	**1,011**	152	**779**	(578)
Cash and cash equivalents, beginning of period	**1,000**	1,080	**1,232**	1,810
Cash and cash equivalents, end of period	**$ 2,011**	$ 1,232	**$ 2,011**	$ 1,232
Calculation of free cash flow:				
Net cash provided by operating activities	**$ 147**	$ 282	**$ 392**	$ 545
Purchases of property and equipment	**(88)**	(70)	**(286)**	(208)
Free cash flow **(a)**	**$ 59**	$ 212	**$ 106**	$ 337

(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			Year Ended		
	January 1, 2023	January 2, 2022	% Change	January 1, 2023	January 2, 2022	% Change
Consolidated revenue	**$ 1,083**	$ 1,198	(10)%	**$ 4,584**	$ 4,526	1 %
Less: Hedge gains	**21**	6		**53**	10	
Consolidated revenue, excluding hedge effect	**1,062**	1,192		**4,531**	4,516	
Less: Exchange rate effect	**(46)**	—		**(137)**	—	
Consolidated constant currency revenue **(a)**	**$ 1,108**	$ 1,192	(7)%	**$ 4,668**	$ 4,516	3 %
Core Illumina revenue	**$ 1,065**	$ 1,193	(11)%	**$ 4,553**	$ 4,519	1 %
Less: Hedge gains	**21**	6		**53**	10	
Core Illumina revenue, excluding hedge effect	**1,044**	1,187		**4,500**	4,509	
Less: Exchange rate effect	**(46)**	—		**(137)**	—	
Core Illumina constant currency revenue **(a)**	**$ 1,090**	$ 1,187	(8)%	**$ 4,637**	$ 4,509	3 %

(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		
	January 1, 2023	January 2, 2022	% Change
AMR revenue - Core Illumina	$ **577**	$ 619	(7)%
Less: Hedge gains	**1**	—	
AMR revenue - Core Illumina, excluding hedge effect	**576**	619	
Less: Exchange rate effect	**(1)**	—	
AMR constant currency revenue - Core Illumina **(a)**	$ **577**	$ 619	(7)%
EMEA revenue - Core Illumina	$ **301**	$ 350	(14)%
Less: Hedge gains	**14**	4	
EMEA revenue - Core Illumina, excluding hedge effect	**287**	346	
Less: Exchange rate effect	**(25)**	—	
EMEA constant currency revenue - Core Illumina **(a)**	$ **312**	$ 346	(10)%
Greater China revenue - Core Illumina (b)	$ **94**	$ 121	(22)%
Less: Hedge gains	**—**	—	
Greater China revenue - Core Illumina, excluding hedge effect **(b)**	**94**	121	
Less: Exchange rate effect	**(10)**	—	
Greater China constant currency revenue - Core Illumina **(a)(b)**	$ **104**	$ 121	(14)%
APJ revenue - Core Illumina	$ **93**	$ 103	(10)%
Less: Hedge gains	**6**	2	
APJ revenue - Core Illumina, excluding hedge effect	**87**	101	
Less: Exchange rate effect	**(10)**	—	
APJ constant currency revenue - Core Illumina **(a)**	$ **97**	$ 101	(4)%
Core Illumina revenue	$ **1,065**	$ 1,193	(11)%
Less: Hedge gains	**21**	6	
Core Illumina revenue, excluding hedge effect	**1,044**	1,187	
Less: Exchange rate effect	**(46)**	—	
Core Illumina constant currency revenue **(a)**	$ **1,090**	$ 1,187	(8)%

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 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 EARNINGS (LOSS) PER SHARE:

	Three Months Ended		Year Ended	
	January 1, 2023	January 2, 2022	January 1, 2023	January 2, 2022
GAAP (loss) earnings per share - diluted	**$ (0.89)**	$ 0.71	**$ (28.00)**	$ 5.04
Cost of revenue **(b)**	**0.31**	0.25	**1.10**	0.47
R&D expense **(b)**	**0.04**	—	**0.05**	1.30
SG&A expense **(b)**	**0.51**	0.41	**(0.31)**	6.30
Legal contingency and settlement **(b)**	**0.14**	—	**3.94**	—
Goodwill impairment **(b)**	**—**	—	**24.93**	—
Other expense (income), net **(b)**	**0.26**	(0.34)	**0.78**	(6.78)
GILTI and U.S. foreign tax credits **(c)**	**(0.01)**	—	**0.38**	—
Incremental non-GAAP tax expense **(d)**	**(0.31)**	(0.23)	**(0.83)**	(0.31)
Income tax provision (benefit) **(e)**	**0.09**	(0.05)	**0.11**	(0.12)
Effect of dilutive shares **(f)**	**—**	—	**(0.03)**	—
Non-GAAP earnings per share - diluted **(a)**	**$ 0.14**	$ 0.75	**$ 2.12**	$ 5.90
GAAP diluted shares	**158**	157	**157**	151
Non-GAAP dilutive shares **(f)**	**—**	—	**2**	—
Non-GAAP diluted shares	**158**	157	**159**	**151**

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

	Three Months Ended		Year Ended	
	January 1, 2023	January 2, 2022	January 1, 2023	January 2, 2022
GAAP net (loss) income	**$ (140)**	$ 112	**$ (4,404)**	$ 762
Cost of revenue **(b)**	**49**	40	**173**	71
R&D expense **(b)**	**7**	—	**8**	196
SG&A expense **(b)**	**81**	65	**(48)**	952
Legal contingency and settlement **(b)**	**21**	—	**619**	—
Goodwill impairment **(b)**	**—**	—	**3,914**	—
Other expense (income), net **(b)**	**41**	(53)	**124**	(1,024)
GILTI and U.S. foreign tax credits **(c)**	**(1)**	—	**60**	—
Incremental non-GAAP tax expense **(d)**	**(51)**	(38)	**(129)**	(47)
Income tax provision (benefit) **(e)**	**15**	(9)	**19**	(18)
Non-GAAP net income **(a)**	**22**	117	**336**	892
Add: Interest expense on convertible notes, net of tax **(g)**	**—**	—	**2**	—
Non-GAAP net income for diluted earnings per share	**$ 22**	$ 117	**$ 338**	$ 892

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 our Itemized Reconciliations between GAAP and Non-GAAP Results of Operations below 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 2022.
(g) Amounts represent interest expense on our 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, upon the adoption of ASU 2020-06, 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											
	January 1, 2023											
	Core Illumina			GRAIL		Eliminations		Consolidated				
GAAP gross profit (loss) (b)	$	702	65.9 %	$	(26)	$	(4)	$	672	62.1 %		
Amortization of acquired intangible assets		14	1.3 %		34		—		48	4.4 %		
Restructuring **(p)**		1	0.1 %		—		—		1	0.1 %		
Non-GAAP gross profit **(a)**	$	717	67.3 %	$	8	$	(4)	$	721	66.6 %		
GAAP R&D expense	$	264	24.7 %	$	85	$	(3)	$	346	31.9 %		
Acquisition-related expenses **(f)**		(1)	(0.1)%		—		—		(1)	(0.1)%		
Restructuring **(p)**		(6)	(0.5)%		—		—		(6)	(0.5)%		
Non-GAAP R&D expense	$	257	24.1 %	$	85	$	(3)	$	339	31.3 %		
GAAP SG&A expense	$	347	32.6 %	$	86	$	(1)	$	432	39.9 %		
Amortization of acquired intangible assets		—	—		(1)		—		(1)	(0.1)%		
Contingent consideration liabilities **(e)**		(25)	(2.4)%		—		—		(25)	(2.3)%		
Acquisition-related expenses **(f)**		(27)	(2.5)%		(4)		—		(31)	(2.9)%		
Restructuring **(p)**		(24)	(2.3)%		—		—		(24)	(2.2)%		
Non-GAAP SG&A expense	$	271	25.4 %	$	81	$	(1)	$	351	32.4 %		
GAAP legal contingency and settlement	$	21	2.0 %	$	—	$	—	$	21	1.9 %		
Legal contingency and settlement **(d)**		(21)	(2.0)%		—		—		(21)	(1.9)%		
Non-GAAP legal contingency and settlement	$	—	—	$	—	$	—	$	—	—		
GAAP operating profit (loss)	$	70	6.6 %	$	(197)	$	—	$	(127)	(11.7)%		
Cost of revenue		15	1.4 %		34		—		49	4.5 %		
R&D costs		7	0.6 %		—		—		7	0.6 %		
SG&A costs		77	7.2 %		4		—		81	7.6 %		
Legal contingency and settlement		21	2.0 %		—		—		21	1.9 %		
Non-GAAP operating profit (loss) **(a)**	$	190	17.8 %	$	(159)	$	—	$	31	2.9 %		
GAAP other (expense) income, net	$	(42)	(3.9)%	$	1	$	—	$	(41)	(3.8)%		
Strategic investment related loss, net **(i)**		42	3.9 %		—		—		42	3.9 %		
Gain on Helix contingent value right **(j)**		(1)	(0.1)%		—		—		(1)	(0.1)%		
Non-GAAP other (expense) income, net **(a)**	$	(1)	(0.1)%	$	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.

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 January 2, 2022									
	Core Illumina			GRAIL		Eliminations		Consolidated		
GAAP gross profit (loss) (b)	$	847	71.0 %	$	(30)	$	—	$	817	68.2 %
Amortization of acquired intangible assets		7	0.6 %		33		—		40	3.3 %
Non-GAAP gross profit **(a)**	$	854	71.6 %	$	3	$	—	$	857	71.5 %
GAAP and non-GAAP R&D expense	$	274	23.0 %	$	76	$	—	$	350	29.2 %
GAAP SG&A expense	$	351	29.4 %	$	76	$	—	$	426	35.5 %
Acquisition-related expenses **(f)**		(33)	(2.8)%		(20)		—		(53)	(4.4)%
Contingent consideration liabilities **(e)**		(12)	(1.0)%		—		—		(12)	(1.0)%
Amortization of acquired intangible assets		—	—		(1)		—		—	—
Non-GAAP SG&A expense	$	306	25.6 %	$	55	$	—	$	361	30.1 %
GAAP operating profit (loss)	$	222	18.6 %	$	(182)	$	—	$	41	3.4 %
Cost of revenue		7	0.6 %		33		—		40	3.3 %
R&D costs		—	—		—		—		—	—
SG&A costs		45	3.7 %		21		—		65	5.5 %
Non-GAAP operating profit (loss) **(a)**	$	274	22.9 %	$	(128)	$	—	$	146	12.2 %
GAAP other income, net	$	44	3.7 %	$	—	$	—	$	45	3.8 %
Acquisition-related gain **(f)**		(86)	(7.3)%		—		—		(86)	(7.3)%
Strategic investment related loss, net **(i)**		26	2.2 %		—		—		26	2.2 %
Non-cash interest expense **(k)**		8	0.7 %		—		—		8	0.7 %
Non-GAAP other expense, net **(a)**	$	(8)	(0.7)%	$	—	$	—	$	(7)	(0.6)%

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:

	Year Ended January 1, 2023					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$3,107	68.2 %	$ (117)	$ (18)	$ 2,972	64.8 %
Amortization of acquired intangible assets	38	0.9 %	134	—	172	3.8 %
Restructuring **(p)**	1	—	—	—	1	—
Non-GAAP gross profit **(a)**	$3,146	69.1 %	$ 17	$ (18)	$ 3,145	68.6 %
GAAP R&D expense	$1,004	22.0 %	$ 330	$ (13)	$ 1,321	28.8 %
Acquisition-related expenses **(f)**	(2)	—	—	—	(2)	—
Restructuring **(p)**	(6)	(0.1)%	—	—	(6)	(0.2)%
Non-GAAP R&D expense	$ 996	21.9 %	$ 330	$ (13)	$ 1,313	28.6 %
GAAP SG&A expense	$1,003	22.0 %	$ 296	$ (2)	$ 1,297	28.3 %
Amortization of acquired intangible assets	(1)	—	(4)	—	(5)	(0.1)%
Contingent consideration liabilities **(e)**	205	4.5 %	—	—	205	4.5 %
Acquisition-related expenses **(f)**	(114)	(2.5)%	(13)	—	(127)	(2.8)%
Restructuring **(p)**	(24)	(0.5)%	—	—	(24)	(0.5)%
Non-GAAP SG&A expense	$1,069	23.5 %	$ 279	$ (2)	$ 1,346	29.4 %
GAAP legal contingency and settlement	$ 619	13.6 %	$ —	$ —	$ 619	13.5 %
Legal contingency and settlement **(d)**	(619)	(13.6)%	—	—	(619)	(13.5)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP goodwill impairment	$ —	—	$ 3,914	$ —	$ 3,914	85.4 %
Goodwill impairment **(o)**	—	—	(3,914)	—	(3,914)	(85.4)%
Non-GAAP goodwill impairment	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 481	10.6 %	$ (4,657)	$ (3)	$(4,179)	(91.2)%
Cost of revenue	39	0.9 %	134	—	173	3.8 %
R&D costs	8	0.1 %	—	—	8	0.2 %
SG&A costs	(66)	(1.4)%	17	—	(48)	(1.1)%
Legal contingency and settlement	619	13.6 %	—	—	619	13.5 %
Goodwill impairment	—	—	3,914	—	3,914	85.4 %
Non-GAAP operating profit (loss) **(a)**	$1,081	23.8 %	$ (592)	$ (3)	$ 487	10.6 %
GAAP other (expense) income, net	$ (159)	(3.5)%	$ 2	$ —	$ (157)	(3.4)%
Strategic investment related loss, net **(i)**	117	2.6 %	—	—	117	2.5 %
Loss on Helix contingent value right **(j)**	7	0.1 %	—	—	7	0.2 %
Non-GAAP other (expense) income, net **(a)**	$ (35)	(0.8)%	$ 2	$ —	$ (33)	(0.7)%

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:

	Year Ended January 2, 2022					
	Core Illumina		GRAIL	Eliminations	Consolidated	
GAAP gross profit (loss) (b)	$3,195	70.7 %	$ (41)	$	$3,154	69.7 %
Amortization of acquired intangible assets	27	0.6 %	44		71	1.6 %
Non-GAAP gross profit **(a)**	$3,222	71.3 %	$ 3	$	$3,225	71.3 %
GAAP R&D expense	$ 885	19.6 %	$ 300	$	$1,185	26.2 %
Acquisition-related expenses **(f)**	—	—	(196)		(196)	(4.3)%
Non-GAAP R&D expense	$ 885	19.6 %	$ 104	$	$ 989	21.9 %
GAAP SG&A expense	$1,502	33.2 %	$ 590	$	$2,092	46.2 %
Amortization of acquired intangible assets	(1)	—	(1)		(2)	—
Contingent consideration liabilities **(e)**	(4)	(0.1)%	—		(4)	(0.1)%
Acquisition-related expenses **(f)**	(433)	(9.6)%	(513)		(946)	(20.8)%
Expenses related to COVID-19 **(c)**	(3)	(0.1)%	—		(3)	(0.1)%
Income related to COVID-19 **(g)**	1	—	—		1	—
Gain on litigation **(h)**	2	0.1 %	—		2	—
Non-GAAP SG&A expense	$1,064	23.5 %	$ 76	$	$1,140	25.2 %
GAAP operating profit (loss)	$ 808	17.9 %	$ (931)	$	$ (123)	(2.7)%
Cost of revenue	27	0.6 %	44		71	1.6 %
R&D costs	—	—	196		196	4.3 %
SG&A costs	438	9.7 %	514		952	21.0 %
Non-GAAP operating profit (loss) **(a)**	$1,273	28.2 %	$ (177)	$	$1,096	24.2 %
GAAP other income, net	$1,006	22.3 %	$ —	$	$1,007	22.2 %
Acquisition-related gain **(f)**	(985)	(21.8)%	—		(985)	(21.8)%
Strategic investment related gain, net **(i)**	(26)	(0.6)%	—		(26)	(0.6)%
Gain on Helix contingent value right **(j)**	(30)	(0.7)%	—		(30)	(0.7)%
Non-cash interest expense **(k)**	34	0.8 %	—		34	0.9 %
Gain on derivative assets **(l)**	(26)	(0.6)%	—		(26)	(0.6)%
Bridge facility fees **(m)**	7	0.2 %	—		7	0.2 %
Loss on extinguishment of debt **(n)**	1	—	—		1	—
Non-GAAP other expense, net **(a)**	$ (19)	(0.4)%	$ —	$	$ (17)	(0.4)%

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 income (expense), 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) Amount consists of direct and incremental expenses incurred due to the COVID-19 pandemic, primarily expenses related to employee testing and incremental cleaning in 2021. Such expenses were not excluded in 2022.

(d) Amount for Q4 2022 consists of a legal accrual related to our litigation with RavGen, and an adjustment made to our previously recorded legal accrual for the potential fine that the European Commission may impose on us of up to 10% of our consolidated annual revenues, in order to reflect 10% of consolidated annual revenues for fiscal year 2022 rather than 2021. For 2022, the total amount accrued related to this potential fine is $458 million. Amount for 2022 also consists of expense of $145 million related to the settlement of our litigation with BGI.

(e) Amounts consist primarily of fair value adjustments for our contingent consideration liability related to the GRAIL acquisition.

(f) Amounts consist primarily of legal expenses related to our acquisitions. Amounts for Q4 2021 consist primarily of a gain of $86 million recorded as a result of exchanging certain contingent value rights issued as part of the GRAIL acquisition and other acquisition-related expenses. Amounts for 2021 consist primarily of a gain of approximately $899 million related to the fair value adjustment of our previously held interest in GRAIL, approximately $654 million in day one compensation expense related to the GRAIL acquisition, Continuation Payments made to GRAIL totaling $245 million and other acquisition-related expenses.

(g) Amount consists of direct and incremental income due to the COVID-19 pandemic, primarily payroll-related credits earned in the U.S. and Canada in 2021. Such income was not excluded in 2022.

(h) Amount consists of a gain related to a patent litigation settlement.

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

(j) Amounts consist of fair value adjustments related to our Helix contingent value right.

(k) Non-cash interest expense is calculated in accordance with the authoritative accounting guidance for convertible debt instruments that may be settled in cash. We adopted ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-10)*, on January 3, 2022, using the modified retrospective method. The adoption eliminated the non-cash interest expense related to the conversion feature of our 2023 Convertible Senior Notes beginning in Q1 2022.

(l) Amount represents a gain recorded on our derivative assets in 2021 related to the terminated acquisition with Pacific Biosciences as a result of Pacific Biosciences repaying to us $52 million in Continuation Advances.

(m) Amount consists of expenses related to the bridge facility commitment, which was terminated in 2021 in conjunction with our issuance of term notes.

(n) Amount consists of loss on extinguishment of our 2021 Convertible Senior Notes, which matured in 2021.

(o) Amount consists of goodwill impairment recorded in Q3 2022 related to our GRAIL reporting unit.

(p) Amounts consist primarily of employee severance costs and a lease impairment charge related to the restructuring event that occurred in Q4 2022.

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

TABLE 4: CONSOLIDATED ITEMIZED RECONCILIATIONS BETWEEN GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended		Year Ended	
	January 1, 2023		January 1, 2023	
GAAP tax (benefit) provision	**$ (28)**	**16.8 %**	**$ 68**	**(1.6)%**
Incremental non-GAAP tax expense **(b)**	**51**		**129**	
Income tax provision **(c)**	**(15)**		**(19)**	
GILTI and U.S. foreign tax credits **(d)**	**1**		**(60)**	
Non-GAAP tax provision **(a)**	**$ 9**	**29.3 %**	**$ 118**	**26.0 %**

	Three Months Ended		Year Ended	
	January 2, 2022		January 2, 2022	
GAAP tax (benefit) provision	$ (26)	(30.4)%	$ 122	13.8 %
Incremental non-GAAP tax expense **(b)**	38		47	
Income tax benefit **(c)**	9		18	
Non-GAAP tax provision **(a)**	$ 21	15.6 %	$ 187	17.3 %

(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 above.
(c) Amounts represent the difference between book and tax accounting related to stock-based compensation cost.
(d) Amount represents 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 2, 2022 filed with the SEC on February 18, 2022, Form 10-Q for the fiscal quarter ended April 3, 2022, Form 10-Q for the fiscal quarter ended July 3, 2022, and Form 10-Q for the fiscal quarter ended October 2, 2022. We assume no obligation to update any forward-looking statements or information.

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

	Fiscal Year 2023
Consolidated GAAP diluted earnings per share (b)	**$0.03 - $0.28**
Amortization of acquired intangible assets	1.23
GILTI and U.S. foreign tax credits **(c)**	0.39
Incremental non-GAAP tax expense **(d)**	(0.40)
Consolidated non-GAAP diluted earnings per share **(a)(b)**	$1.25 - $1.50

(a) Non-GAAP diluted earnings per share excludes the effect 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 represents 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 related to the non-GAAP adjustments listed.

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 2, 2022 filed with the SEC on February 18, 2022, Form 10-Q for the fiscal quarter ended April 3, 2022, Form 10-Q for the fiscal quarter ended July 3, 2022, and Form 10-Q for the fiscal quarter ended October 2, 2022. We assume no obligation to update any forward-looking statements or information.

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

	Q1 2023	FY 2023
Consolidated GAAP operating margin	**(4)%**	**4%**
Amortization of acquired intangible assets	5	4
Consolidated non-GAAP operating margin **(a)**	1%	8%

	Q1 2023	FY 2023
Core Illumina GAAP operating margin	**16%**	**21%**
Amortization of acquired intangible assets	1	1
Core Illumina non-GAAP operating margin **(a)**	17%	22%

(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.

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	**$ (808)**
Amortization of acquired intangible assets	138
GRAIL non-GAAP operating loss **(a)**	$ (670)

(a) Non-GAAP operating loss excludes the effect of the pro forma adjustment as detailed above. Management has excluded the effect of this item in this measure to assist investors in analyzing and assessing past and future operating performance related to the GRAIL segment.

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	**83 %**	**6 %**
Non-GAAP tax adjustments **(a)**	(47)	9
Consolidated non-GAAP tax rate	36 %	15 %

(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 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.