ILMN Q3 2024 Earnings Call
Prepared Remarks – November 4, 2024

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

Hello everyone, and welcome to our earnings call for the third 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 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 historical financial results for GRAIL and consolidated Illumina, please see our earnings release and our SEC filings.

We will be discussing non-GAAP results which include stock-based compensation. We encourage you to review the GAAP reconciliation of these non-GAAP measures which can be found in today's release and in the supplementary data available on our website.

As we go through the results, please note that "year-over-year" is as compared against the third quarter of fiscal 2023, while "sequential" is as compared against the second quarter of fiscal 2024.

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, and thank you everyone for joining our call today.

Illumina delivered another quarter of strong financial performance. We are making significant progress in:

- Expanding margins and driving earnings;
- Growing the utilization of the NovaSeq X platform; and
- Bringing the next phase of sequencing innovation to our customers.

In Q3, revenue was $1.1 billion dollars, in line with our expectations.

Across our regions:

- Americas revenue was down 6 percent year-over-year.
- Europe revenue was up 12 percent.
- AMEA revenue was up 7 percent and Greater China was down 23 percent.

In the quarter, we placed an additional 58 NovaSeq X Plus instruments, bringing our total installed base to 527. Approximately 40 percent of this installed base has been shipped to clinical customers, highlighting the diversity of our user base. The X Series surpassed $1 billion dollars in cumulative revenue, a major milestone.

Our non-GAAP operating margin of 22.6 percent and diluted earnings per share of $1.14, both exceeding our expectations, and we began executing on the capital allocation strategy we laid out at our August Strategy Update.

Looking ahead through year end, while the funnels remain healthy, the near-term macroeconomic environment has been persistently constrained. We now expect our 2024 revenue growth to be slightly lower than our prior guidance range. However, we are raising our guidance for both 2024 operating margin and earnings per share, reflecting the significant progress we have made so far this year in our transformative journey, driving operational excellence and strengthening our culture of performance. Ankur will provide additional details during his remarks.

During our August Strategy Update, we laid out a plan to drive high-single digit revenue growth and 500 basis points of operating margin expansion by 2027, while achieving annual EPS growth in the double digits to teens over the next three years. To achieve this, I have set key priorities to guide execution against our strategy: deeper customer collaboration, continuous innovation, and commitment to operational excellence and margin expansion.

Our first priority, deeper customer collaboration, is centered on providing a range of targeted solutions to serve the increasingly diverse needs of our customer base.

Over the past several months, I've continued connecting with our customers worldwide. Most recently, this included a group of academic core lab directors that have a long legacy of collaboration with Illumina and are some of our most experienced users. I am grateful to them for their ongoing partnership and support.

As we evolve the way we engage with customers, we are focused on two key initiatives:

- One, shifting how we interact and collaborate with customers to support their ambitions. My observation was that we needed to do better in this area. And now I'm beginning to hear from customers that they are seeing Illumina present itself in a new way.
- And two, giving customers a clear line of sight to the significant innovations we have in the pipeline. Their early input is invaluable, allowing us to develop the most impactful products and solutions in the industry.

I'm pleased to see this partner mindset become increasingly embedded into our company's culture. It will serve as a cornerstone of our success going forward.

Our second priority is continuous innovation, which follows naturally from our first priority as it is driven and shaped by what customers are telling us they need.

For example, we recently announced the launch of the groundbreaking MiSeq i100. We are addressing demand for flexible solutions for smaller-scale projects with faster turnaround time. Early feedback is validating our approach of bringing customers into the fold as advisors throughout the product development process. Customers are excited about room-temperature shipping and storage of reagents, allowing for sequencing on demand without the need to thaw reagents. The shorter run times, paired with 18 proven end-to-end workflows, are what our customers have been asking for – and they have expressed that this is a gamechanger. Over time, we intend to leverage these new technologies in future releases across our portfolio.

MiSeq i100 instruments for early access customers will begin shipping in late Q4, driven by the strong demand we saw in the days following the announcement.

At our Strategy Update, we shared a number of additional innovations including comprehensive whole genome sequencing and our 5-base genome that will launch over the next 12 to 18 months. Collectively, these technologies will reinvent the genome while making NGS workflows easier.

Comprehensive whole genome solution leverages a novel constellation mapped read technology to add additional layers of genomic data, redefining the extent of information created by the SBS chemistry. Standard library prep is eliminated, as it is performed directly on the flow cell – going from multiple hours of hands-on time to just a few minutes.

Another customer-driven innovation is the 5-base genome, which will provide variant and epigenetic information from a single library prep. Customers will have access to methylation information in every run, which is important to understanding diseases, including cancer, obesity, and infectious diseases.

Both the 5-base genome and constellation mapped read technology solutions are currently in development, with customers providing feedback that will influence our product advancements. We will be providing further details on these two innovations, including results from early access customers, at upcoming industry events like ASHG later this week.

In the near-term, Illumina continues to deliver innovations for the NovaSeq X Series. We remain on track to begin shipping the single flow cell NovaSeq X by the end of this year. This instrument will be upgradeable to the NovaSeq X Plus. 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.

Our third priority is operational excellence. Our focus here is to build a foundation that powers our long-term success, regardless of the topline. By enhancing productivity, optimizing our investment spend, and driving smart capital allocation, we are positioning Illumina to directly benefit not only our customers and the patients they serve, but also our employees and our shareholders. Indeed, we have made great progress in building a culture where every employee is driving efficiencies to contribute to operational excellence.

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

Ankur Dhingra, *Chief Financial Officer*

Thank you, Jacob. And good afternoon, everyone.

I will give you an overview of our financial results, provide more color about revenue, expenses, earnings, and developments on our balance sheet, and then speak about our outlook going forward.

All financial information including guidance that we share on this call is for Core Illumina only, and excludes GRAIL.

During the third quarter, Illumina's revenue of $1.08 billion was in line with our expectations, and the team delivered a very strong margin and earnings expansion through ongoing cost discipline and operational excellence. Cash generation remains strong and we also put cash to use across all dimensions of our capital allocation strategy.

Now I will add color to each of these items:

Third quarter revenue was down (2%) year-over-year on both a reported and constant currency basis, with strong growth in our consumables business offset by the instruments business declining against launch-year compares.

Sequencing consumables revenue was $741 million, up 7% year-over-year, driven by continued strong uptake in X consumables.

The NovaSeq X transition progressed faster than we forecasted. As of end of Q3, more than 55% of high-throughput gigabases sequenced, and more than 35% of high-throughput consumables revenue, was on the NovaSeq X series. We saw some acceleration of the transition from 6K to X this quarter – including in clinical as approximately 40% of high-throughput clinical gigabases sequenced were on the NovaSeq X series. As legacy assays transition to the X series, we have seen increased clinical volumes and increasing adoption of the 25B flow cell from clinical customers. While there will be some quarterly variations in the pace of transition based on choices our customers make, we still believe almost half of high-throughput consumables revenue could transition to the X series by the middle of 2025.

Moving to sequencing activity, total sequencing Gb output on our connected high- and mid-throughput instruments continued to grow at a rate more than 40% year-over-year, with robust growth from both clinical and research customers.

Sequencing instruments revenue was $104 million for Q3, a (42%) year-over-year decline, slightly behind our expectations. 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 third quarter of 2023, and
- Two, a decline in mid-throughput shipments, as capital and cashflow constraints continue to impact purchasing behavior and moderate instrument placements globally.

Sequencing service and other revenue was $150 million, up 6% year-over-year, driven by an increase in revenue from strategic partnerships as well as high instrument service contract revenue on a growing installed base.

Moving to the rest of the P&L:

Non-GAAP gross margin of 70.5% for the quarter increased 450 basis points year-over-year. This strong gross margin performance was driven primarily by the execution of our operational excellence initiatives that continue to improve productivity and deliver cost savings. Year-over-year improvement in gross margin was also supported by a more favorable revenue mix of sequencing consumables - making up roughly half of that improvement. While the business mix will change on quarter to quarter basis, the productivity improvements we have achieved are sustainable and will support our margin expansion going forward.

Non-GAAP operating expenses of $517 million were roughly flat to last quarter. This includes the additional headcount and expenses resulting from our acquisition of Fluent BioSciences. The Illumina team continues to manage expenses effectively. As I mentioned during our Strategy Update, we have several actions in play to reprioritize and reduce our expenses.

As a result, non-GAAP operating margin for the quarter was 22.6%, compared to 22.5% in the prior year period. This came in well above our guidance of approximately 20%, driven by strong operational performance across gross margin and discipline in expenses.

Below the operating income line, non-GAAP other expense was ($14) million in Q3. During the quarter, we issued $500 million in debt at a 4.65% coupon that was used, along with cash on hand, to redeem in full the high cost $750 million delayed draw term loan, effectively de-levering and also reducing our interest rate.

Non-GAAP tax rate was 21.0% for the quarter. In Q3, we received the benefit of a few one-time credits as we filed our return for last year.

Putting it all together, non-GAAP net income for Q3 was $181 million, or diluted earnings per share of $1.14 per diluted share. Our non-GAAP weighted average diluted share count for the quarter was approximately 160 million shares.

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

- Cash flow provided by operations was healthy at $316 million;
- Capital expenditures were $32 million and free cash flow was $284 million.

During the quarter, we put cash to work in line with our stated capital allocation strategy. We acquired Fluent Biosciences – adding innovative instrument-free single-cell technology to Illumina's portfolio. We are excited about the potential for very-large single cell experiments this technology can enable.

In addition, following authorization from our Board earlier this quarter, we put a share repurchase program in place, and repurchased 770 thousand shares of Illumina stock for $98M, at an average price of $127.71 per share. And as noted, we de-levered. Taken together, these capital actions show the strength of our operational execution in the quarter.

We ended the quarter with approximately $939 million in cash, cash equivalents and short-term investments.

In summary, revenue was in line with expectations; the transition of high-throughput sequencing to the NovaSeq X is going quite well; we announced breakthrough new products in low throughput; we made significant progress towards our stated goal of margin expansion; and we have been deploying our strong cash flow towards revenue growth, improved earnings, and shareholder-friendly capital actions.

Moving now to 2024 guidance:

Although our overall Q3 revenue results met our expectations, we are tempering our revenue expectations for year-end business – and now expect full-year revenue to be down approximately 3%. For Q4, we expect revenue to be approximately $1.07 billion. We continue to see strong utilization levels and pull-through on our instruments but the near-term macroeconomic environment remains constrained and does not support any uptick in purchasing behavior through the end of the year.

From an instruments versus consumables perspective, the projected mix is unchanged and we are still forecasting instruments revenue to decline in the mid-thirties % range relative to 2023. Although we are very excited about MiSeq i100, it is in early access, and we will receive minimal revenue contribution in Q4. As we had planned for, our low throughput instruments business will likely decline in Q4 with customers waiting for the new instrument. For high-throughput, we still expect second half NovaSeq X shipments to be above what we delivered in the first half of 2024.

We also still forecast sequencing consumables revenue to grow towards the upper end of the low single-digit percentage range versus 2023. We saw strong uptake and Gb usage in the third quarter, setting the stage for exiting the year with solid year-over-year consumables growth.

While we are disappointed in our lower revenue guidance, we are increasing our guidance for operating margin and diluted EPS – reflecting both the outperformance in Q3 and carrying forward the impact of our operational excellence initiatives into Q4. We are raising our non-GAAP operating margin guidance to a range of 21% - 21.5% for 2024. We are reducing our projected tax rate for the year to approximately 24%. And lastly, we are raising our guidance range for non-GAAP diluted earnings per share to $4.05 to $4.15 range for full year 2024.

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

Jacob Thaysen, *Chief Executive Officer*

Thanks, Ankur.

As I reflect on my first year, I am excited for the early progress Illumina has made and the momentum we have created to drive the industry forward. We refocused the company on our strong core business and launched our new strategy. We reset the leadership team and made the necessary structural changes to support our customer-first orientation. We have been increasingly embedding operational excellence in our culture, and the results are beginning to show in our financials. This is a good start to our multi-year transformation journey. For 2025, we are looking forward to returning to growth, although I would like to finish Q4 before providing specific guidance.

Ultimately, I am encouraged and I feel confident in bringing Illumina back to high single digit revenue growth by 2027 as stated during our Strategy Update.

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, legal contingencies and settlement, and goodwill and intangible impairment, operating income, operating margin, gross profit, other income (expense), tax provision, constant currency revenue growth, and free cash flow (on a consolidated and, as applicable, segment basis) 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 reconciliations of 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. 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 impact of items such as acquisition-related expenses, gains and losses from strategic investments, fair value adjustments to contingent consideration, 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 Statements of Cash Flows
(In millions)
(unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 29, 2024	October 1, 2023	September 29, 2024	October 1, 2023
Net cash provided by operating activities	**$ 316**	$ 139	**$ 473**	$ 254
Net cash used in investing activities	**(42)**	(54)	**(130)**	(146)
Net cash used in financing activities	**(332)**	(707)	**(523)**	(1,183)
Effect of exchange rate changes on cash and cash equivalents	**7**	(4)	**1**	(9)
Net decrease in cash and cash equivalents	**(51)**	(626)	**(179)**	(1,084)
Cash and cash equivalents, beginning of period	**920**	1,553	**1,048**	2,011
Cash and cash equivalents, end of period	**$ 869**	$ 927	**$ 869**	$ 927
Calculation of free cash flow:				
Net cash provided by operating activities	**$ 316**	$ 139	**$ 473**	$ 254
Purchases of property and equipment	**(32)**	(45)	**(99)**	(144)
Free cash flow (a)	**$ 284**	$ 94	**$ 374**	$ 110

TABLE 2: CORE ILLUMINA FREE CASH FLOWS:

	Three Months Ended
	September 29, 2024
Calculation of free cash flow:	
Net cash provided by operating activities	**$ 316**
Purchases of property and equipment	**(32)**
Free cash flow (a)	**$ 284**

(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 - Constant Currency Revenue
(Dollars in millions)
(unaudited)

TABLE 1: CORE ILLUMINA - CONSTANT CURRENCY REVENUE:

	Three Months Ended			Nine Months Ended		
	September 29, 2024	October 1, 2023	% Change	September 29, 2024	October 1, 2023	% Change
Core Illumina revenue	**$ 1,080**	$ 1,106	(2)%	**$ 3,228**	$ 3,341	(3)%
Less: Hedge gains	**3**	5		**10**	9	
Core Illumina revenue, excluding hedge effect	**1,077**	1,101		**3,218**	3,332	
Less: Exchange rate effect	**(1)**	—		**(7)**	—	
Core Illumina constant currency revenue (a)	**$ 1,078**	$ 1,101	(2)%	**$ 3,225**	$ 3,332	(3)%

TABLE 2: CONSOLIDATED - CONSTANT CURRENCY REVENUE:

	Three Months Ended			Nine Months Ended		
	September 29, 2024	October 1, 2023	% Change	September 29, 2024	October 1, 2023	% Change
Consolidated revenue	**$ 1,080**	$ 1,119	(4)%	**$ 3,268**	$ 3,382	(3)%
Less: Hedge gains	**3**	5		**10**	9	
Consolidated revenue, excluding hedge effect	**1,077**	1,114		**3,258**	3,373	
Less: Exchange rate effect	**(1)**	—		**(7)**	—	
Consolidated constant currency revenue (a)	**$ 1,078**	$ 1,114	(3)%	**$ 3,265**	$ 3,373	(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			Nine Months Ended		
	September 29, 2024	October 1, 2023	% Change	September 29, 2024	October 1, 2023	% Change
AMR revenue - Core Illumina	**$ 609**	$ 650	(6)%	**$ 1,812**	$ 1,879	(4)%
Less: Hedge gains	**—**	—		**—**	1	
AMR revenue - Core Illumina, excluding hedge effect	**609**	650		**1,812**	1,878	
Less: Exchange rate effect	**(2)**	—		**(1)**	—	
AMR constant currency revenue - Core Illumina (a)	**$ 611**	$ 650	(6)%	**$ 1,813**	$ 1,878	(3)%
AMEA revenue - Core Illumina (b)	**$ 105**	$ 98	7 %	**$ 329**	$ 335	(2)%
Less: Hedge gains	**2**	2		**4**	5	
AMEA revenue - Core Illumina, excluding hedge effect (b)	**103**	96		**325**	330	
Less: Exchange rate effect	**(1)**	—		**(8)**	—	
AMEA constant currency revenue - Core Illumina (a)(b)	**$ 104**	$ 96	9 %	**$ 333**	$ 330	1 %
China revenue - Core Illumina (c)	**$ 75**	$ 98	(23)%	**$ 228**	$ 302	(25)%
Less: Hedge gains	**1**	4		**4**	4	
China revenue - Core Illumina, excluding hedge effect (c)	**74**	94		**224**	298	
Less: Exchange rate effect	**1**	—		**(5)**	—	
China constant currency revenue - Core Illumina (a)(c)	**$ 73**	$ 94	(22)%	**$ 229**	$ 298	(23)%
Europe revenue - Core Illumina	**$ 291**	$ 260	12 %	**$ 859**	$ 825	4 %
Less: Hedge gains	**—**	(1)		**1**	(2)	
Europe revenue - Core Illumina, excluding hedge effect	**291**	261		**858**	827	
Less: Exchange rate effect	**2**	—		**7**	—	
Europe constant currency revenue - Core Illumina (a)	**$ 289**	$ 261	11 %	**$ 851**	$ 827	3 %

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: CORE ILLUMINA - RECONCILIATION OF GAAP AND NON-GAAP DILUTED EARNINGS PER SHARE:

	Three Months Ended September 29, 2024	Nine Months Ended September 29, 2024
GAAP earnings per share - diluted	$ 4.03	$ 4.88
Cost of revenue (b)	0.10	0.29
R&D expense (b)	0.03	0.04
SG&A expense (b)	(0.18)	(1.11)
Goodwill and intangible impairment (b)	—	0.02
Legal contingency and settlement (b)	(3.07)	(2.98)
Other expense, net (b)	0.04	2.05
GILTI, US foreign tax credits, and global minimum top-up tax (c)	0.34	0.55
Incremental non-GAAP tax expense (d)	(0.16)	(0.56)
Income tax provision (e)	0.01	0.02
Non-GAAP earnings per share - diluted (a)	$ 1.14	$ 3.20

TABLE 2: CORE ILLUMINA - RECONCILIATION OF GAAP AND NON-GAAP NET INCOME:

	Three Months Ended September 29, 2024	Nine Months Ended September 29, 2024
GAAP net income	$ 642	$ 777
Cost of revenue (b)	16	47
R&D expense (b)	4	6
SG&A expense (b)	(29)	(176)
Goodwill and intangible impairment (b)	—	3
Legal contingency and settlement (b)	(488)	(474)
Other expense, net (b)	7	326
GILTI, US foreign tax credits, and global minimum top-up tax (c)	54	87
Incremental non-GAAP tax expense (d)	(26)	(89)
Income tax provision (e)	1	3
Non-GAAP net income (a)	$ 181	$ 510

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

TABLE 3: CONSOLIDATED - RECONCILIATION OF GAAP AND NON-GAAP DILUTED EARNINGS (LOSS) PER SHARE:

	Three Months Ended		Nine Months Ended	
	September 29, 2024	October 1, 2023	September 29, 2024	October 1, 2023
GAAP earnings (loss) per share - diluted	**$ 4.42**	$ (4.77)	**$ (8.86)**	$ (6.23)
Cost of revenue (b)	**0.09**	0.30	**0.70**	0.93
R&D expense (b)	**0.03**	0.02	**0.04**	0.11
SG&A expense (b)	**(0.18)**	(0.15)	**(1.03)**	0.64
Goodwill and intangible impairment (b)	**—**	5.20	**11.87**	5.19
Legal contingency and settlement (b)	**(3.06)**	(0.01)	**(2.98)**	0.09
Other expense, net (b)	**0.04**	0.14	**2.05**	0.23
GILTI, US foreign tax credits, and global minimum top-up tax (c)	**0.16**	0.24	**0.89**	0.40
Incremental non-GAAP tax expense (d)	**(0.37)**	(0.65)	**(1.11)**	(0.68)
Income tax provision (e)	**0.01**	0.01	**0.02**	0.05
Non-GAAP earnings per share - diluted (a)	**$ 1.14**	$ 0.33	**$ 1.59**	$ 0.73

TABLE 4: CONSOLIDATED - RECONCILIATION OF GAAP AND NON-GAAP NET INCOME (LOSS):

	Three Months Ended		Nine Months Ended	
	September 29, 2024	October 1, 2023	September 29, 2024	October 1, 2023
GAAP net income (loss)	**$ 705**	$ (754)	**$ (1,410)**	$ (986)
Cost of revenue (b)	**16**	48	**112**	147
R&D expense (b)	**4**	3	**6**	17
SG&A expense (b)	**(30)**	(24)	**(163)**	102
Goodwill and intangible impairment (b)	**—**	821	**1,889**	821
Legal contingency and settlement (b)	**(488)**	(1)	**(474)**	14
Other expense, net (b)	**7**	22	**326**	36
GILTI, US foreign tax credits, and global minimum top-up tax (c)	**25**	38	**141**	63
Incremental non-GAAP tax expense (d)	**(59)**	(102)	**(177)**	(108)
Income tax provision (e)	**1**	1	**3**	9
Non-GAAP net income (a)	**$ 181**	$ 52	**$ 253**	$ 115

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 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 Reconciliations between GAAP and Non-GAAP Results of Operations for details of amounts.
(c) Amounts represent the impact of GRAIL pre-acquisition net operating losses on GILTI, the utilization of US foreign tax credits, and the Pillar Two global minimum top-up tax, which became effective in Q1 2024.
(d) Incremental non-GAAP tax expense reflects the tax impact of the non-GAAP adjustments listed.
(e) Amounts represent the difference between book and tax accounting related to stock-based compensation cost.

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

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

	Three Months Ended							
	September 29, 2024		October 1, 2023					
	Core/Consolidated		Core Illumina		GRAIL	Elims	Consolidated	
GAAP gross profit (loss) (b)	**$ 745**	**68.9 %**	$ 715	64.7 %	$ (27)	$ (4)	$ 684	61.1 %
Amortization of acquired intangible assets	**16**	**1.6 %**	14	1.2 %	33	—	47	4.2 %
Restructuring (g)	**—**	**—**	1	0.1 %	—	—	1	0.1 %
Non-GAAP gross profit (a)	**$ 761**	**70.5 %**	$ 730	66.0 %	$ 6	$ (4)	$ 732	65.4 %
GAAP R&D expense	**$ 253**	**23.4 %**	$ 238	21.5 %	$ 79	$ (2)	$ 315	28.1 %
Acquisition-related expenses (d)	**(3)**	**(0.2)%**	—	—	—	—	—	—
Restructuring (g)	**(1)**	**(0.1)%**	(3)	(0.3)%	—	—	(3)	(0.3)%
Non-GAAP R&D expense	**$ 249**	**23.1 %**	$ 235	21.2 %	$ 79	$ (2)	$ 312	27.8 %
GAAP SG&A expense	**$ 239**	**22.2 %**	$ 216	19.5 %	$ 87	$ —	$ 303	27.0 %
Amortization of acquired intangible assets	**—**	**—**	—	—	(1)	—	(1)	(0.1)%
Contingent consideration liabilities (c)	**49**	**4.6 %**	110	9.9 %	—	—	110	9.8 %
Acquisition-related expenses (d)	**(15)**	**(1.4)%**	(26)	(2.2)%	(3)	—	(29)	(2.5)%
Restructuring (g)	**(5)**	**(0.5)%**	(54)	(4.9)%	(1)	—	(55)	(4.9)%
Non-GAAP SG&A expense	**$ 268**	**24.9 %**	$ 246	22.3 %	$ 82	$ —	$ 328	29.3 %
GAAP goodwill and intangible impairment	**$ —**	**—**	$ —	—	$ 821	$ —	$ 821	73.4 %
Goodwill impairment (i)	**—**	**—**	—	—	(712)	—	(712)	(63.6)%
Intangible (IPR&D) impairment (i)	**—**	**—**	—	—	(109)	—	(109)	(9.8)%
Non-GAAP goodwill and intangible impairment	**$ —**	**—**	$ —	—	$ —	$ —	$ —	—
GAAP legal contingency and settlement	**$ (488)**	**(45.3)%**	$ (1)	(0.2)%	$ —	$ —	$ (1)	(0.1)%
Legal contingency and settlement (h)	**488**	**45.3 %**	1	0.2 %	—	—	1	0.1 %
Non-GAAP legal contingency and settlement	**$ —**	**—**	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	**$ 741**	**68.6 %**	$ 262	23.7 %	$(1,015)	$ (1)	$ (754)	(67.3)%
Cost of revenue	**16**	**1.5 %**	15	1.3 %	33	—	48	4.3 %
R&D costs	**4**	**0.4 %**	3	0.4 %	—	—	3	0.3 %
SG&A costs	**(29)**	**(2.6)%**	(30)	(2.7)%	6	—	(24)	(2.3)%
Goodwill and intangible impairment	**—**	**—**	—	—	821	—	821	73.4 %
Legal contingency and settlement	**(488)**	**(45.3)%**	(1)	(0.2)%	—	—	(1)	(0.1)%
Non-GAAP operating profit (loss) (a)	**$ 244**	**22.6 %**	$ 249	22.5 %	$ (155)	$ (1)	$ 93	8.3 %
GAAP other (expense) income, net	**$ (21)**	**(2.0)%**	$ (33)	(3.0)%	$ 5	$ —	$ (28)	(2.6)%
Strategic investment related loss, net (e)	**12**	**1.2 %**	19	1.8 %	—	—	19	1.8 %
Gain on Helix contingent value right (f)	**(4)**	**(0.4)%**	(5)	(0.5)%	—	—	(5)	(0.4)%
Acquisition-related expenses (d)	**(1)**	**(0.1)%**	8	0.7 %	—	—	8	0.7 %
Non-GAAP other (expense) income, net (a)	**$ (14)**	**(1.3)%**	$ (11)	(1.0)%	$ 5	$ —	$ (6)	(0.5)%

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

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

	Nine Months Ended September 29, 2024					
	Core Illumina		GRAIL	Elims	Consolidated	
GAAP gross profit (loss) (b)	$2,181	67.6 %	$ (38)	$ (10)	$ 2,133	65.3 %
Amortization of acquired intangible assets	46	1.4 %	65	—	111	3.4 %
Restructuring (g)	1	—	—	—	1	—
Non-GAAP gross profit (a)	$2,228	69.0 %	$ 27	$ (10)	$ 2,245	68.7 %
GAAP R&D expense	$ 732	22.7 %	$ 189	$ (8)	$ 913	27.9 %
Acquisition-related expenses (d)	(4)	(0.1)%	—	—	(4)	(0.1)%
Restructuring (g)	(2)	(0.1)%	—	—	(2)	—
Non-GAAP R&D expense	$ 726	22.5 %	$ 189	$ (8)	$ 907	27.8 %
GAAP SG&A expense	$ 621	19.3 %	$ 192	$ —	$ 813	24.8 %
Amortization of acquired intangible assets	—	—	(2)	—	(2)	(0.1)%
Contingent consideration liabilities (c)	304	9.3 %	—	—	304	9.3 %
Acquisition-related expenses (d)	(85)	(2.6)%	(11)	—	(96)	(2.9)%
Restructuring (g)	(43)	(1.3)%	(1)	—	(44)	(1.3)%
Non-GAAP SG&A expense	$ 797	24.7 %	$ 178	$ —	$ 975	29.8 %
GAAP goodwill and intangible impairment	$ 3	0.1 %	$ 1,886	$ —	$ 1,889	57.8 %
Goodwill impairment (i)	—	—	(1,466)	—	(1,466)	(44.9)%
Intangible (IPR&D) impairment (i)	(3)	(0.1)%	(420)	—	(423)	(12.9)%
Non-GAAP goodwill and intangible impairment	$ —	—	$ —	$ —	$ —	—
GAAP legal contingency and settlement	$ (474)	(14.7)%	$ —	$ —	$ (474)	(14.4)%
Legal contingency and settlement (h)	474	14.7 %	—	—	474	14.4 %
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$1,298	40.2 %	$ (2,305)	$ (1)	$(1,008)	(30.8)%
Cost of revenue	47	1.5 %	65	—	112	3.4 %
R&D costs	6	0.2 %	—	—	6	0.2 %
SG&A costs	(176)	(5.5)%	13	—	(163)	(5.1)%
Goodwill and intangible impairment	3	0.1 %	1,886	—	1,889	57.8 %
Legal contingency and settlement	(474)	(14.7)%	—	—	(474)	(14.4)%
Non-GAAP operating profit (loss) (a)	$ 704	21.8 %	$ (341)	$ (1)	$ 362	11.1 %
GAAP other (expense) income, net	$ (363)	(11.2)%	$ 5	$ —	$ (358)	(11.0)%
Strategic investment related loss, net (e)	339	10.5 %	—	—	339	10.4 %
Gain on Helix contingent value right (f)	(15)	(0.5)%	—	—	(15)	(0.5)%
Acquisition-related expenses (d)	2	0.1 %	—	—	2	0.1 %
Non-GAAP other (expense) income, net (a)	$ (37)	(1.1)%	$ 5	$ —	$ (32)	(1.0)%

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

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

	Nine Months Ended October 1, 2023					
	Core Illumina		GRAIL	Elims	Consolidated	
GAAP gross profit (loss) (b)	$2,161	64.7 %	$ (77)	$ (14)	$2,070	61.2 %
Amortization of acquired intangible assets	43	1.3 %	100	—	143	4.3 %
Restructuring (g)	4	0.1 %	—	—	4	0.1 %
Non-GAAP gross profit (a)	$2,208	66.1 %	$ 23	$ (14)	$2,217	65.6 %
GAAP R&D expense	$ 771	23.1 %	$ 254	$ (12)	$1,013	30.0 %
Acquisition-related expenses (d)	(1)	—	—	—	(1)	—
Restructuring (g)	(16)	(0.6)%	—	—	(16)	(0.5)%
Non-GAAP R&D expense	$ 754	22.5 %	$ 254	$ (12)	$ 996	29.5 %
GAAP SG&A expense	$ 857	25.7 %	$ 271	$ (1)	$1,127	33.3 %
Amortization of acquired intangible assets	(1)	—	(3)	—	(4)	(0.1)%
Contingent consideration liabilities (c)	82	2.5 %	—	—	82	2.3 %
Acquisition-related expenses (d)	(64)	(1.9)%	(11)	—	(75)	(2.1)%
Restructuring (g)	(72)	(2.3)%	(3)	—	(75)	(2.2)%
Proxy contest	(29)	(0.9)%	—	—	(29)	(0.9)%
Non-GAAP SG&A expense	$ 773	23.1 %	$ 254	$ (1)	$1,026	30.3 %
GAAP goodwill and intangible impairment	$ —	—	$ 821	$ —	$ 821	24.3 %
Goodwill impairment (i)	—	—	(712)	—	(712)	(21.1)%
Intangible (IPR&D) impairment (i)	—	—	(109)	—	(109)	(3.2)%
Non-GAAP goodwill and intangible impairment	$ —	—	$ —	$ —	$ —	—
GAAP legal contingency and settlement	$ 14	0.4 %	$ —	$ —	$ 14	0.4 %
Legal contingency and settlement (h)	(14)	(0.4)%	—	—	(14)	(0.4)%
Non-GAAP legal contingency and settlement	$ —	—	$ —	$ —	$ —	—
GAAP operating profit (loss)	$ 519	15.5 %	$ (1,424)	$ —	$ (905)	(26.8)%
Cost of revenue	47	1.4 %	100	—	147	4.4 %
R&D costs	17	0.5 %	—	—	17	0.5 %
SG&A costs	84	2.6 %	18	—	102	3.0 %
Goodwill and intangible impairment	—	—	821	—	821	24.3 %
Legal contingency and settlement	14	0.4 %	—	—	14	0.4 %
Non-GAAP operating profit (loss) (a)	$ 681	20.4 %	$ (485)	$ —	$ 196	5.8 %
GAAP other (expense) income, net	$ (53)	(1.6)%	$ 8	$ —	$ (45)	(1.3)%
Strategic investment related loss, net (e)	36	1.1 %	—	—	36	1.0 %
Gain on Helix contingent value right (f)	(8)	(0.2)%	—	—	(8)	(0.2)%
Acquisition-related expenses (d)	8	0.2 %	—	—	8	0.2 %
Non-GAAP other (expense) income, net (a)	$ (17)	(0.5)%	$ 8	$ —	$ (9)	(0.3)%

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.
(b) Reconciling amounts are recorded in cost of revenue.
(c) Amounts consist primarily of fair value adjustments for our contingent consideration liability related to GRAIL.
(d) Amounts consist primarily of legal and other expenses related to the acquisition and divestiture of GRAIL, as well as the acquisition of Fluent Biosciences which was completed in Q3 2024. Amounts in other (expense) income, net for Q3 2023 and YTD 2023 relate to unrealized gains/losses for foreign currency balance sheet remeasurement of the EC fine liability, which was reversed in Q3 2024, and mark-to-market gains/losses on the hedge for the EC fine.
(e) Amounts consist primarily of mark-to-market adjustments and impairments from strategic investments. Amount for YTD 2024 primarily relates to impairment recorded on our retained investment in GRAIL post spin-off.
(f) Amounts consist of fair value adjustments related to our Helix contingent value right, which was settled in Q3 2024.
(g) Amounts for Q3 2024 consist primarily of employee severance costs. Amounts for YTD 2024 also consist of lease and other asset impairments. Amounts for Q3 2023 consist primarily of lease and other asset impairments and amounts for YTD 2023 consist primarily of employee severance costs and lease and other asset impairments.
(h) Amounts for Q3 2024 and YTD 2024 primarily consist of the reversal of the accrued EC fine, including accrued interest. Amount for YTD 2023 primarily consists of an adjustment recorded to our accrual for the EC fine.
(i) Amount for YTD 2024 consists of goodwill and IPR&D intangible asset impairments related to GRAIL in Q2 2024. Amount for YTD 2024 also consists of an IPR&D intangible asset impairment related to Core Illumina in Q1 2024. Amounts for Q3 2023 and YTD 2023 consist of goodwill and IPR&D intangible asset impairments related to GRAIL.

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

TABLE 6: CORE ILLUMINA - RECONCILIATION OF GAAP AND NON-GAAP TAX PROVISION:

	Three Months Ended		Nine Months Ended	
	September 29, 2024		September 29, 2024	
GAAP tax provision	**$ 77**	**10.8 %**	**$ 158**	**16.9 %**
Incremental non-GAAP tax expense (b)	**26**		**89**	
Income tax provision (c)	**(1)**		**(3)**	
GILTI, US foreign tax credits, and global minimum top-up tax (d)	**(54)**		**(87)**	
Non-GAAP tax provision (a)	**$ 48**	**21.0 %**	**$ 157**	**23.6 %**

TABLE 7: CONSOLIDATED - RECONCILIATION OF GAAP AND NON-GAAP TAX PROVISION (BENEFIT):

	Three Months Ended		Nine Months Ended	
	September 29, 2024		September 29, 2024	
GAAP tax provision	**$ 15**	**2.1 %**	**$ 44**	**(3.2)%**
Incremental non-GAAP tax expense (b)	**59**		**177**	
Income tax provision (c)	**(1)**		**(3)**	
GILTI, US foreign tax credits, and global minimum top-up tax (d)	**(25)**		**(141)**	
Non-GAAP tax provision (a)	**$ 48**	**21.0 %**	**$ 77**	**23.4 %**

	Three Months Ended		Nine Months Ended	
	October 1, 2023		October 1, 2023	
GAAP tax (benefit) provision	$ (28)	3.6 %	$ 36	(3.8)%
Incremental non-GAAP tax expense (b)	102		108	
Income tax provision (c)	(1)		(9)	
GILTI and US foreign tax credits (d)	(38)		(63)	
Non-GAAP tax provision (a)	$ 35	39.7 %	$ 72	38.3 %

(a) Non-GAAP tax provision excludes the effects of the pro forma adjustments detailed above, which have been excluded to assist investors in analyzing and assessing past and future operating performance.
(b) Incremental non-GAAP tax expense reflects 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 US foreign tax credits, and the Pillar Two global minimum top-up tax, which became effective in Q1 2024.