

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 3, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-35406



Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0804655

(I.R.S. Employer Identification No.)

5200 Illumina Way, San Diego, CA 92122

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (858) 202-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	ILMN	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13a of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 12, 2021, there were 145.9 million shares (excluding 49.2 million shares held in treasury) of the registrant's common stock outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 28, 2020 (the last business day of the registrant's most recently completed second fiscal quarter), based on the closing price for the common stock on The NASDAQ Global Select Market on June 26, 2020 (the last trading day before June 28, 2020), was \$46.2 billion. This amount excludes an aggregate of approximately 18.1 million shares of common stock held by officers and directors and each person known by the registrant to own 10% or more of the outstanding common stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the registrant, or that the registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2021 annual meeting of stockholders are incorporated by reference into Items 10 through 14 of Part III of this Report

ILLUMINA, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 3, 2021
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Special Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains, and our officers and representatives may from time to time make, “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will,” or the negative of these terms, and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding:

- our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- our expectations regarding the launch of new products or services;
- the benefits that we expect will result from our business activities and certain transactions we have completed, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures;
- our expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental investigations, proceedings, and regulations;
- our strategies or expectations for product development, market position, financial results, and reserves;
- our expectations regarding the pending acquisition of GRAIL, Inc. (GRAIL); and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- the impact to our business and operating results caused by the COVID-19 pandemic;
- our expectations and beliefs regarding prospects and growth for the business and the markets in which we operate;
- the timing and mix of customer orders among our products and services;
- challenges inherent in developing, manufacturing, and launching new products and services, including expanding manufacturing operations and reliance on third-party suppliers for critical components;
- the impact of recently launched or pre-announced products and services on existing products and services;
- our ability to develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and to expand the markets for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- our ability to identify and acquire technologies, and integrate them into our products or businesses successfully;
- risks and uncertainties regarding the pending acquisition of GRAIL and our ability to achieve the expected benefits of such acquisition;
- the assumptions underlying our critical accounting policies and estimates;

- our assessments and estimates that determine our effective tax rate;
- our assessments and beliefs regarding the outcome of pending legal proceedings and any liability that we may incur as a result of those proceedings;
- uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth in the United States or worldwide; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in “[Risk Factors](#)” within the Business & Market Information section of this report, or in information disclosed in public conference calls, the date and time of which are released beforehand.

Any forward-looking statement made by us in this annual report on Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation, and do not intend, to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, or to review or confirm analysts’ expectations, or to provide interim reports or updates on the progress of any current financial quarter, in each case whether as a result of new information, future developments, or otherwise.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, www.illumina.com. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the SEC. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC. Copies of our annual report on Form 10-K will be made available, free of charge, upon written request.

illumina, Ampligase, Assign, BaseSpace, BeadArray, Bluebee, BlueFuse, BlueGnome, cBot, CircLigase, Clarity LIMS, COVIDSeq, DesignStudio, DRAGEN, Enancio, FastTrack, Genetic Energy, GenomeStudio, Globin-Zero, Golden Gate, HiSeq, iHope, Illumina Propel Certified, Infinium, iScan, iSelect, iSeq, MiniSeq, MiSeq, MiSeq FGx, NextBio, Nextera, NextSeq, NovaSeq, Powered by Illumina, Ribo-Zero, SeqMonitor, SureCell, TruGenome, TruSeq, TruSight, Verifi, Verinata, Verinata Health, VeriSeq, the pumpkin orange color, and the Genetic Energy / streaming bases design are trademarks or registered trademarks of Illumina, Inc.

Unless the context requires otherwise, references in this annual report on Form 10-K to “Illumina,” the “Company,” “we,” “us,” and “our” refer to Illumina, Inc. and its subsidiaries.

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. References to 2020, 2019, and 2018 refer to fiscal years ended January 3, 2021, December 29, 2019, and December 30, 2018, respectively. Fiscal year 2020 was 53 weeks, and fiscal years 2019 and 2018 were both 52 weeks.

BUSINESS & MARKET INFORMATION

BUSINESS OVERVIEW

We are the global leader in sequencing- and array-based solutions for genetic and genomic analysis. Our products and services serve customers in a wide range of markets, enabling the adoption of genomic solutions in research and clinical settings. We were incorporated in California in April 1998 and reincorporated in Delaware in July 2000. Our principal executive offices are located at 5200 Illumina Way, San Diego, California 92122. Our telephone number is (858) 202-4500.

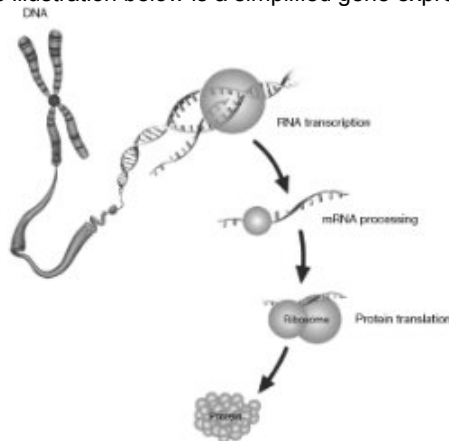
Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

Our portfolio of integrated sequencing and microarray systems, consumables, and analysis tools is designed to accelerate and simplify genetic analysis. This portfolio addresses the range of genomic complexity, price points, and throughput, enabling customers to select the best solution for their research or clinical application.

On September 20, 2020, we entered into an Agreement and Plan of Merger to acquire GRAIL for total consideration of \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. We believe our acquisition of GRAIL will accelerate the adoption of NGS-based early multi-cancer detection tests, enhance our position in Clinical Genomics, and increase our directly accessible total addressable market. The transaction is subject to customary closing conditions, including applicable regulatory approvals, and, subject to the satisfaction of such conditions, is expected to close in the second half of 2021. See note ["4. Intangible Assets, Goodwill, and Acquisitions"](#) for further details.

Genetics Primer

The instruction set for all living cells is encoded in deoxyribonucleic acid, or DNA. The complete set of DNA for any organism is referred to as its genome. DNA contains small regions called genes, which comprise a string of nucleotide bases labeled A, C, G, and T, representing adenine, cytosine, guanine, and thymine, respectively. These nucleotide bases occur in a precise order known as the DNA sequence. When a gene is "expressed," a copy of a portion of its DNA sequence called messenger RNA (mRNA) is used as a template to direct the synthesis of a particular protein. Proteins, in turn, direct all cellular function. The illustration below is a simplified gene expression schematic.



Variations among organisms are due, in large part, to differences in their DNA sequences. Changes can result from insertions, deletions, inversions, translocations, or duplications of nucleotide bases. These changes may result in certain genes becoming overexpressed (excessive protein production), underexpressed (reduced protein production), or silenced altogether, sometimes triggering changes in cellular function. The most common form of variation in humans is called a single nucleotide polymorphism (SNP), which is a base change in a single position in a DNA

sequence. Another type of variation, copy number variations (CNVs), occur when there are fewer or more copies of certain genes, segments of a gene, or stretches of DNA.

In humans, genetic variation accounts for many of the physical differences we see (e.g., height, hair, eye color, etc.). Genetic variations also can have medical consequences affecting disease susceptibility, including predisposition to complex genetic diseases such as cancer, diabetes, cardiovascular disease, and Alzheimer's disease. They can affect individuals' response to certain drug treatments, causing them to respond well, experience adverse side effects, or not respond at all.

Scientists are studying these variations and their consequences in humans, as well as in a broad range of animals, plants, and microorganisms. Such research takes place in government, university, pharmaceutical, biotechnology, and agrigenomics laboratories around the world, where scientists expand our knowledge of the biological functions essential for life. Beginning at the genetic level, our tools are used to elucidate the relationship between gene sequence and biological processes. Researchers who investigate human and non-human genetic variation to understand the mechanisms of disease are enabling the development of more effective diagnostics and therapeutics. They also provide greater insight into genetic variation in plants (e.g., food and biofuel crops) and animals (e.g., livestock and domestic), enabling improvements in crop yields and animal breeding programs.

By empowering genetic analysis and facilitating a deeper understanding of genetic variation and function, our tools advance disease research, drug development, and the creation of molecular diagnostic tests. We believe that this will trigger a fundamental shift in the practice of medicine and health care, and that the increased emphasis on preventive and predictive molecular medicine will usher in the era of precision health care.

Our Principal Markets

We target the markets and customers outlined below.

Life Sciences

Historically, our core business has been in the life sciences research market. This includes laboratories associated with universities, research centers, and government institutions, along with biotechnology and pharmaceutical companies. Researchers at these institutions use our products and services for basic and translational research across a spectrum of scientific applications, including targeted, exome, and whole-genome sequencing; genetic variation; gene expression; epigenetics; and metagenomics. Next-generation sequencing (NGS) technologies are being adopted due to their ability to cost-effectively sequence large sample sizes quickly and accurately, generating vast amounts of high-quality data. Both private and public funding drive this research, along with global initiatives to characterize genetic variation.

Our products also serve various applied markets including consumer genomics and agrigenomics. For example, in consumer genomics, our customers use our technologies to provide personalized genetic data and analysis to individual consumers. In agrigenomics, government and corporate researchers use our products and services to explore the genetic and biological basis for productivity and nutritional constitution in crops and livestock. Researchers can identify natural and novel genomic variation and deploy genome-wide marker-based applications to accelerate breeding and production of healthier and higher-yielding crops and livestock.

Clinical Genomics

We are focused on enabling translational and clinical markets through the introduction of best-in-class sequencing technology. Further, we are developing sample-to-answer solutions to catalyze adoption in the clinical setting, including in reproductive and genetic health and oncology. In reproductive health, our primary focus is driving noninvasive prenatal testing (NIPT) adoption globally through our technology, which identifies fetal chromosomal abnormalities by analyzing cell-free DNA in maternal blood. Our NGS technology is also accelerating rare and undiagnosed disease research to discover the genetic causes of inherited disorders by assessing many genes simultaneously. Using NGS can reduce costs compared to traditional methods of disease diagnosis, which are often expensive and inconclusive while requiring extensive testing.

Cancer is a disease of the genome, and the goal of cancer genomics is to identify genomic changes that transform a normal cell into a cancerous one. Understanding these genomic changes will improve diagnostic accuracy, increase understanding of the prognosis, and enable oncologists to target therapies to individuals. Customers in the translational and clinical oncology markets use our products to perform research that may help identify

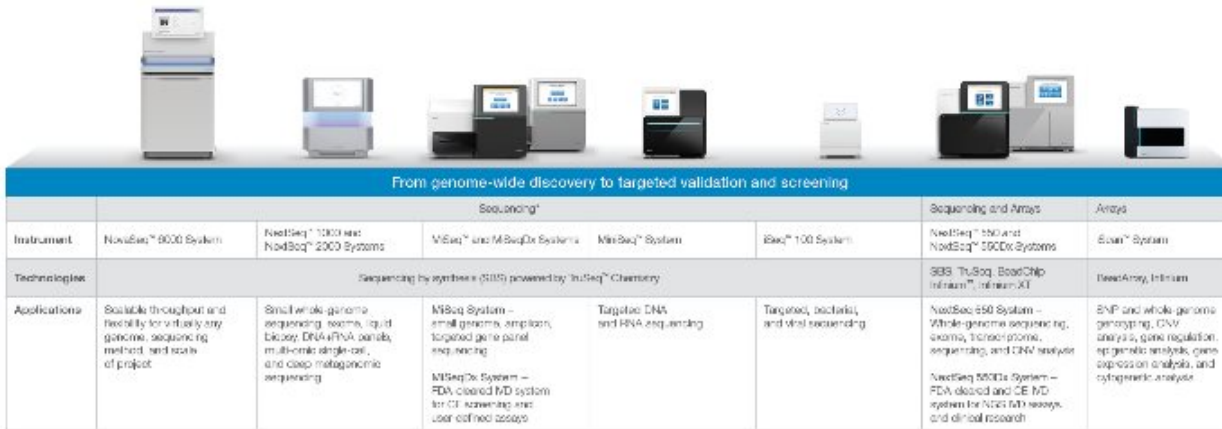
individuals who are genetically predisposed to cancer and to identify molecular changes in a tumor. We believe that circulating tumor DNA (ctDNA) will become an important clinical tool for managing oncology patients during all stages of tumor progression. Our technology is being used to research the implications of ctDNA in treatment determination, treatment monitoring, minimal residual disease, and asymptomatic screening. For example, GRAIL has developed a blood-based test for early-stage cancer detection that is enabled by our sequencing technology.

Our Principal Products, Services, and Technologies

Our unique technology platforms support the scale of experimentation necessary for population-scale studies, genome-wide discovery, target selection, and validation studies (see Figure 1 below). Customers use our products to analyze the genome at all levels of complexity, from targeted panels to whole-genome sequencing. A large and dynamic Illumina user community has published tens of thousands of customer-authored scientific papers using our technologies. Through rapid innovation, we are changing the economics of genetic research, enabling projects that were previously considered impossible, and supporting clinical advances towards precision medicine.

Most of our product sales consist of instruments and consumables, which include reagents, flow cells, and microarrays, based on our proprietary technologies. We also perform various services for our customers. In 2020, 2019, and 2018, instrument sales represented 13%, 15%, and 17%, respectively, of total revenue; consumable sales represented 71%, 68%, and 65%, respectively, of total revenue; and services represented 16%, 17%, and 18%, respectively, of total revenue.

Figure 1: Illumina Platform Overview:



*Our HiSeq™ series of instruments, including the HiSeq 4000 and HiSeq X, have been discontinued and are not included in this chart. However, we continue to provide support and sell consumables to customers through March 31, 2024.

Sequencing

DNA sequencing is the process of determining the order of nucleotide bases (A, C, G, or T) in a DNA sample. Our portfolio of sequencing platforms represents a family of systems that we believe set the standard for productivity, cost-effectiveness, and accuracy among NGS technologies. Customers use our platforms to perform whole-genome, de novo, exome and RNA sequencing, and targeted resequencing of specific gene regions and genes.

Whole-genome sequencing determines the complete DNA sequence of an organism. In de novo sequencing, the goal is to sequence and assemble the genome of that sample without using information from prior sequencing of that species. In targeted resequencing, a portion of the sequence of an organism is compared to a standard or reference sequence from previously sequenced samples to identify genetic variation. Understanding the similarities and differences in DNA sequence between and within species helps us understand the function of the structures encoded in the DNA.

Our DNA sequencing technology is based on our proprietary reversible terminator-based sequencing chemistry, referred to as sequencing by synthesis (SBS) biochemistry. SBS tracks the addition of labeled nucleotides as the DNA chain is copied in a massively parallel fashion. Our SBS sequencing technology provides researchers with a

broad range of applications and the ability to sequence even large mammalian genomes in a few days rather than weeks or years.

Our sequencing platforms can generate between 500 megabases (Mb) and 6.0 terabases (Tb) (equivalent to approximately 48 human genomes) of genomic data in a single run, depending on the instrument and application.

There are different price points per gigabase (Gb) for each instrument, and for different applications, which range from small-genome, amplicon, and targeted gene-panel sequencing to population-scale whole human genome sequencing. Since we launched our first sequencing system in 2007, our systems have reduced the cost of sequencing by a factor of more than 10,000. In addition, the sequencing time per Gb has dropped by a factor of approximately 12,000.

Our BaseSpace Informatics Suite cloud platform plays a critical role in supporting our sequencing applications. BaseSpace Informatics Suite integrates directly with our sequencing instruments, allowing customers to manage their biological sample and sequencing runs, process and analyze the raw genomic data, and derive meaningful results. It facilitates data sharing, provides data-storage solutions and streamlines analysis through a growing number of applications developed by us and the bioinformatics community.

We recently launched Illumina Connected Analytics, an integrated bioinformatics solution that provides a comprehensive, private, cloud-based data platform that empowers customers to manage, analyze, and explore large volumes of multi-omic data in a secure, scalable, and flexible environment.

In 2020, 2019, and 2018, total sequencing revenue comprised 89%, 87%, and 83%, respectively, of total revenue.

Arrays

Arrays are used for a broad range of DNA and RNA analysis applications, including SNP genotyping, CNV analysis, gene expression analysis, and methylation analysis, and enable the detection of millions of known genetic markers on a single array. Arrays are the primary technology used in consumer genomics applications.

Our BeadArray technology combines microscopic beads and a substrate in a proprietary manufacturing process to produce arrays that can perform many assays simultaneously. This facilitates large-scale analysis of genetic variation and biological function in a unique, high-throughput, cost-effective, and flexible manner. Using our BeadArray technology, we achieve high-throughput analysis via a high density of test sites per array and the ability to format arrays in various configurations. To serve the needs of multiple markets and market segments, we can vary the size, shape, and format of the substrate into which the beads self-assemble and create specific bead types for different applications. Our iScan System and our NextSeq 550 System can be used to image arrays.

In 2020, 2019, and 2018, total array revenue comprised 11%, 13%, and 17%, respectively, of total revenue.

Consumables

We have developed various library preparation and sequencing kits to simplify workflows and accelerate analysis. Our sequencing applications include whole-genome sequencing kits, which sequence entire genomes of any size and complexity, and targeted resequencing kits, which can sequence exomes, specific genes, RNA or other genomic regions of interest. Our sequencing kits maximize the ability of our customers to characterize the target genome accurately and are sold in various configurations, addressing a wide range of applications.

Customers use our array-based genotyping consumables for a wide range of analyses, including diverse species, disease-related mutations, and genetic characteristics associated with cancer. Customers can select from a range of human, animal, and agriculturally relevant genome panels or create their own custom arrays to investigate millions of genetic markers targeting any species.

Services

We provide whole-genome sequencing, genotyping, NIPT, and product support services. Human whole-genome sequencing services are provided through our CLIA-certified, CAP-accredited laboratory. Using our services, customers can perform whole-genome sequencing projects and microarray projects (including large-scale genotyping studies and whole-genome association studies). We also provide NIPT services through our partner laboratories that direct samples to us on a test send-out basis in our CLIA-certified, CAP-accredited laboratory. In addition, we also offer support services to customers who have purchased our products.

Intellectual Property

We have an extensive intellectual property portfolio. As of January 12, 2021, we owned or had exclusive licenses to 901 issued U.S. patents and 650 pending U.S. patent applications, including 55 allowed applications that have not yet issued as patents. Our issued and pending patents cover various aspects of our arrays, assays, oligo synthesis, sequencing technology, instruments, digital microfluidics, software, bioinformatics, and chemical-detection technologies, and have terms that expire between 2021 and 2041. We continue to file new patent applications to protect the full range of our technologies. We have filed or have been granted counterparts for many of these patents and applications in foreign countries.

We protect our trade secrets, know-how, copyrights, and trademarks. Our success depends in part on obtaining patent protection for our products and processes, preserving trade secrets, patents, obtaining copyrights and trademarks, operating without infringing the proprietary rights of third parties, and acquiring licenses for technology or products. In addition, we invest in technological innovation, and we seek beneficial licensing opportunities to develop and maintain our competitive position.

We are party to various exclusive and nonexclusive license agreements and other arrangements with third parties that grant us rights to use key aspects of our sequencing and array technologies, assay methods, chemical detection methods, reagent kits, and scanning equipment. We have additional nonexclusive license agreements with various third parties for other components of our products. In most cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation, and require that we pay customary royalties.

Research and Development

We have historically made substantial investments in research and development. Our research and development efforts prioritize continuous innovation coupled with product evolution.

Research and development expense in 2020, 2019, and 2018 was \$682 million, \$647 million, and \$623 million, respectively. We expect research and development expense to increase during 2021 to support business growth and continuing expansion in research and product-development efforts.

Marketing and Distribution

We market and distribute our products directly to customers in North America, Europe, Latin America, and the Asia-Pacific region. In addition, we sell through life-science distributors in certain markets within Europe, the Asia-Pacific region, Latin America, the Middle East, and Africa. We expect to continue increasing our sales and distribution resources during 2021 and beyond as we launch new products and expand our potential customer base.

Manufacturing

We manufacture sequencing and array platforms and reagent kits. In 2020, we continued to increase our manufacturing capacity, although we scaled manufacturing to meet lower levels of demand due to the COVID-19 pandemic. We expect to increase our manufacturing capacity again in 2021 to meet customer demand. To address increasing product complexity and volume, we continue to automate manufacturing processes to accelerate throughput and improve quality and yield. We are committed to providing medical devices and related services that consistently meet customer and applicable regulatory requirements. We adhere to access and safety standards required by federal, state, and local health ordinances, such as standards for the use, handling, and disposal of hazardous substances. Our key manufacturing and distribution facilities operate under a quality management system certified to ISO 13485.

Raw Materials

Our manufacturing operations require a wide variety of raw materials, electronic and mechanical components, chemical and biochemical materials, and other supplies. Multiple commercial sources provide many of our components and supplies, but there are some raw materials and components that we obtain from single-source suppliers. To manage potential risks arising from single-source suppliers, we believe that, if necessary, we could redesign our products using alternative components or for use with alternative reagents or develop an internal supply capability. In addition, while we attempt to keep our inventory at minimal levels, we purchase incremental inventory as circumstances warrant to protect our supply chain. If the capabilities of our suppliers and component manufacturers are limited or stopped, due to the COVID-19 pandemic, disasters, quality, regulatory, or other reasons, it could negatively impact our ability to manufacture our products.

Competition

Although we believe that our products and services provide significant advantages over products and services currently available from other sources, we expect continued intense competition. Our competitors offer products and services for sequencing, SNP genotyping, gene expression, and molecular diagnostics markets. In some cases, we compete for the resources our customers allocate for purchasing a wide range of sequencing and non-sequencing products used to analyze genetic variation and biological function, some of which are complementary or adjacent to our own but not directly competitive; in other cases, our products face direct competition as customers choose among sequencing and non-sequencing products that are designed to address the same use case or answer the same biological question. Some of our competitors have, or will have, substantially greater financial, technical, research, and other resources than we do, along with larger, more established marketing, sales, distribution, and service organizations. In addition, they may have greater name recognition than we do in the markets we address, and in some cases a larger installed base of systems. We expect new competitors to emerge and the intensity of competition to increase. To compete effectively, we must scale our organization and infrastructure appropriately and demonstrate that our products have superior throughput, cost, and accuracy.

Segment and Geographic Information

We have one reportable segment, Core Illumina, as of January 3, 2021, which relates to Illumina's core operations. Prior to the Helix deconsolidation on April 25, 2019, our reportable segments included both Core Illumina and Helix.

We currently sell our products to a number of customers outside the United States, including customers in other areas of North America, Latin America, Europe, China, and the Asia-Pacific region. Shipments to customers outside the United States totaled \$1,584 million, or 49%, of total revenue, in 2020, compared to \$1,684 million, or 48%, and \$1,554 million, or 47%, in 2019 and 2018, respectively. We consider the U.S. dollar to be the functional currency of our international operations due to the primary activities of our foreign subsidiaries. We expect that sales to international customers will continue to be an important and growing source of revenue. See note "[1. Organization and Significant Accounting Policies](#)" and note "[2. Revenue](#)" within the Consolidated Financial Statements section of this report for further information concerning our foreign and domestic operations.

Backlog

Our backlog was approximately \$816 million and \$980 million as of January 3, 2021 and December 29, 2019, respectively. Generally, our backlog consists of orders believed to be firm as of the balance sheet date. However, we may allow customers to make product substitutions as we launch new products. The timing of shipments depends on several factors, including agreed upon shipping schedules, which may span multiple quarters, and whether the product is catalog or custom. We expect approximately 90% of our backlog as of January 3, 2021, to be shipped in 2021, approximately 7% in 2022, and the remainder thereafter. Although we generally recognize revenue when control of our products and services is transferred to our customers, some customer contracts might require us to defer revenue recognition beyond the transfer of control.

Properties

The following table summarizes the facilities we leased as of January 3, 2021, including the location and size of each principal facility, and their designated use. We believe our facilities are adequate for our current and near-term needs, and we will be able to locate additional facilities, as needed.

Location	Approximate Square Feet	Operation	Lease Expiration Dates
San Diego, CA	1,249,000	Office, Lab, Manufacturing, and Distribution	2025 – 2031
San Francisco Bay Area, CA	464,000	Office, Lab, and Manufacturing	2025 – 2033
Singapore *	395,000	Office, Lab, Manufacturing, and Distribution	2022 – 2025
Cambridge, United Kingdom	176,000	Office, Lab, and Manufacturing	2024 – 2039
Madison, WI	133,000	Office, Lab, and Manufacturing	2033
China	55,000	Office and Lab	2021 – 2025
Eindhoven, the Netherlands *	42,000	Office and Distribution	2021
Other	69,000	Office	2021 – 2025

*Excludes approximately 295,000 square feet for which the leases do not commence until 2021 and beyond.

Human Capital

To continue as a leader in genomics we need to harness the world's best talent and give them the opportunity to thrive. We are committed to attracting, retaining, developing, and supporting our people to enable everyone to fully contribute to our mission and deliver on the transformative power of genomics. Diversity is a competitive advantage that drives innovation in all that we do.

As of January 3, 2021, our global workforce was comprised of approximately 7,800 full time employees, 50 part time employees, and 1,500 temporary employees. The regional representation includes 4,900 in the Americas, 1,000 in EMEA, and 1,900 in APAC. Our global voluntary turnover rate for 2020 was 9%. Women comprised 43% of our global workforce and in 2020, 47% of global new hires were women. Based on self-identification data, our U.S. workforce is comprised of 52% minorities. We plan to disclose additional details on our diversity demographics and programming in our next Corporate Social Responsibility (CSR) Report set to be published in April 2021.

Our key human capital objectives include: curate a culture of care; embed diversity, inclusion, and fairness in all we do; foster an environment where people feel Illumina is a great place to work for everyone; offer employees the resources and support they need to bring their personal best every day; invest and develop our people to create a deep and diverse pipeline; and steward our employee safety and wellness.

Additional information is included in our annual CSR Report (located on our website at www.illumina.com/csr). Information on our website, including the CSR Report, shall not be deemed incorporated by reference into this Annual Report. Our April 2021 CSR Report is intended to be guided by the reporting frameworks of the Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), and the Task Force for Climate related Financial Disclosures (TCFD).

Environmental Matters

As a global corporate citizen, we recognize the importance of the environment to a healthy, sustainable future for our business, our patients, and communities. We are committed to the protection of our employees and the environment with an approach to continuously strengthen our environmental stewardship. We believe that we are in material compliance with current applicable laws and regulations. However, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance. In addition, climate change may impact our business by increasing operating costs due to additional regulatory requirements, physical risks to our facilities, energy limitations, and disruptions to our supply chain. These potential risks are accounted for in our business planning, including investment in reducing energy and water consumption, greenhouse gas emissions, and waste production.

Government Regulation

As we expand product lines to address the diagnosis of disease, regulation by governmental authorities in the United States and other countries will become an increasingly significant factor in development, testing, production, and marketing. Products that we develop in the molecular diagnostic markets, depending on their intended use, may be regulated as medical devices or in vitro diagnostic products (IVDs) by the FDA and comparable agencies in other countries. In the United States, certain of our products may require FDA clearance following a pre-market notification process, also known as a 510(k) clearance, or premarket approval (PMA) from the FDA. The usually shorter 510(k) clearance process, which we used for the FDA-cleared assays that are run on our FDA-regulated MiSeqDx instrument, generally takes from three to six months after submission, but it can take significantly longer. The longer PMA process, which we used for our FDA-cleared RAS panel that is also run on our MiSeqDx instrument, is typically much more costly and uncertain. It can take from 9 to 18 months after a complete filing, but it can take significantly longer and requires conducting clinical studies that are generally more extensive than those required for 510(k) clearance. All of the products that are currently regulated by the FDA as medical devices and IVDs are also subject to the FDA Quality System Regulation (QSR). Obtaining the requisite regulatory approvals, including the FDA quality system inspections that are required for PMA approval, can be expensive and may involve considerable delay.

In the U.S., the products we develop for oncology and non-invasive prenatal testing will be regulated by the PMA process. We cannot be certain which of our other planned molecular diagnostic products will be subject to the shorter 510(k) clearance process, or which of will need to go through the PMA process.

The regulatory approval process for such products may be significantly delayed, may be significantly more expensive than anticipated, and may conclude without such products being approved by the FDA. Without timely regulatory approval, we will not be able to launch or successfully commercialize such products, which would adversely affect our earnings and competitive position.

Changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products. This may negatively affect our ability to obtain or maintain FDA or comparable regulatory clearance or approval of our products. In addition, regulatory agencies may introduce new requirements that may change the regulatory requirements for us or our customers, or both.

If our products labeled as “For Research Use Only,” or RUO, are used, or could be used, for the diagnosis of disease, the regulatory requirements related to marketing, selling, and supporting such products could be uncertain. This is true even if such use by our customers occurs without our consent. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Our products sold as medical devices or IVDs in Europe will be regulated under the In Vitro Diagnostics Directive (98/79/EC). A new regulation, the in vitro Diagnostic Medical Devices Regulation (EU) 2017/746, the IVDR, has been released and will become fully enforceable in 2022. These regulations include requirements for both presentation and review of performance data and quality-system requirements.

Certain of our products are currently available through laboratories that are certified under the Clinical Laboratory Improvements Amendments (CLIA) of 1988. These products are commonly called “laboratory developed tests,” or LDTs. For a number of years, the FDA has exercised its regulatory enforcement discretion not to regulate LDTs as medical devices if created and used within a single laboratory. However, the FDA is continually reexamining this regulatory approach and changes to the agency’s handling of LDTs could impact our business in ways that cannot be predicted at this time. We cannot predict the nature or extent of the FDA’s final guidance or regulation of LDTs, in general, or with respect to our or our customers’ LDTs, in particular.

Certification of CLIA laboratories includes standards in the areas of personnel qualifications, administration, and participation in proficiency testing, patient test management, and quality control procedures. CLIA also mandates that, for high complexity labs such as ours, to operate as a lab, we must have an accreditation by an organization recognized by CLIA such as the College of Pathologists (CAP), which we have obtained and must maintain. If we were to lose our CLIA certification or CAP accreditation, our business, financial condition, or results of operations could be adversely affected. In addition, state laboratory licensing and inspection requirements may also apply to our products, which, in some cases, are more stringent than CLIA requirements.

RISK FACTORS

Our business is subject to various risks, including those described below. In addition to the other information included in this report, the following issues could adversely affect our operating results or our stock price.

Risks Relating to Research, Development, Marketing, and Sales of Products and Services

Our continued growth is dependent on continuously developing and commercializing new products.

Our target markets are characterized by rapid technological change, changes in customer needs, existing and emerging competition, strong price competition, and frequent new product introductions. Accordingly, our continued growth depends on developing and commercializing new products and services, including improving our existing products and services, in order to address evolving market requirements on a timely basis. If we fail to innovate or adequately invest in new technologies, we could lose our competitive position in the markets that we serve. We believe that successfully introducing new products and technologies on a timely basis provides a significant competitive advantage because customers invest time in selecting and learning to use a new product and may be reluctant to switch once that selection is made.

To the extent that we fail to introduce new and innovative products, or such products are not accepted in the market or suffer significant delays in development, we may lose market share to our competitors, which will be difficult or impossible to regain. An inability, for technological or other reasons, to successfully develop and introduce new products on a timely basis could reduce our growth rate or otherwise have an adverse effect on our business.

In the past, we have experienced, and are likely to experience in the future, delays in the development and introduction of new products. There can be no assurance that we will keep pace with the rapid rate of change in our markets or that our new products will adequately meet the requirements of the marketplace, achieve market acceptance, or compete successfully with third-party technologies. Some of the factors affecting our ability to develop and successfully commercialize new products and services include:

- the functionality and performance of new and existing products and services;
- the timing of introduction of new products or services relative to competing products and services;
- availability, quality, and price relative to competing products and services;
- scientists' and customers' opinions of the utility of new products or services;
- citation of new products or services in published research;
- regulatory trends and approvals; and
- our ability to acquire or otherwise gain access to third party technologies, products, or businesses. We may also have to write off excess or obsolete inventory if sales of our products are not consistent with our expectations or the market requirements for our products change due to technical innovations in the marketplace.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation, and continued substantial increases in the use of sequencing as the cost of sequencing declines.

The usefulness of our technologies depends in part upon the availability of genetic data and its usefulness in clinical, research, and consumer applications. We are focusing on markets for analysis of genetic variation or biological function, namely sequencing, genotyping, and gene expression profiling. These markets are relatively new and emerging, and they may not develop as quickly as we anticipate, or reach what we expect to be their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not be able to successfully analyze raw genetic data or be able to convert raw genetic data into valuable information. In addition, factors affecting research and development spending generally could harm our business, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect.

The introduction of next-generation sequencing technologies, including ours, has reduced the cost of sequencing by a factor of more than 10,000 and reduced the sequencing time per Gb by a factor of approximately 12,000 over the last 20 years. Consequently, demand for sequencing-related products and services has increased substantially as new applications are enabled and more sequencing is done in connection with existing applications. If, as we expect, the cost of sequencing continues to fall over time, we cannot be sure that the demand for related products and services will increase at least proportionately as new applications are enabled or more sequencing is done in connection with existing applications. In the future, if demand for our products and services due to lower sequencing costs is less than we expect, our business, financial condition, and results of operations will be adversely affected.

Our products may be used to provide genetic information about humans, agricultural crops, other food sources, and other living organisms. The information obtained from our products could be used in a variety of applications, which may have underlying ethical, legal, and social concerns regarding privacy and the appropriate uses of the resulting information, including preimplantation genetic screening of embryos, prenatal genetic testing, genetic engineering or modification of agricultural products, or testing genetic predisposition for certain medical conditions, particularly for those that have no known cure. Our customers' implementation of our products to provide their own products and services may raise such concerns and affect our own reputation. U.S. and international governmental authorities could, for social or other purposes, call for limits on or regulation of the use of genetic testing or prohibit testing for genetic predisposition to certain conditions, particularly for those that have no known cure. Similarly, such concerns may lead individuals to refuse to use genetics tests, even if permissible. These and other ethical, legal, and social concerns about genetic testing may limit market acceptance of our technology for certain applications or reduce the potential markets for our technology, either of which could have an adverse effect on our business, financial condition, or results of operations.

If we do not successfully manage the development, manufacturing, and launch of new products or services, including product transitions, our financial results could be adversely affected.

We face risks associated with launching new products and pre-announcing products and services when the products or services have not been fully developed or tested. In addition, we may experience difficulty in managing or forecasting customer reactions, purchasing decisions, transition requirements, or programs with respect to newly-launched products (or products in development), which could adversely affect sales of our existing products.

If our products and services are not able to deliver the performance or results expected by our target markets or are not delivered on a timely basis, our reputation and credibility may suffer. If we encounter development challenges or discover errors in our products late in our development cycle, we may delay the product launch date. The expenses or losses associated with unsuccessful product development or launch activities, or a lack of market acceptance of our new products, could adversely affect our business, financial condition, or results of operations.

As we announce future products or integrate new products into our portfolio, such as new instruments or instrument platforms, we face numerous risks relating to product transitions and the evolution of our product portfolio. We may be unable to accurately forecast new product demand and the impact of new products on the demand for current or established products. We may experience challenges relating to managing excess and obsolete inventories, managing new or higher product cost structures, and managing different sales and support requirements. Announcements of currently planned or other new products may cause customers to defer or stop purchasing our current or established products until new products become available. In addition, customers may defer or stop purchasing our current or established products as they assess the features and technological characteristics of new products, as compared to our current or established products, before making a financial commitment.

We face intense competition, which could render our products obsolete, result in significant price reductions, or substantially limit the volume of products that we sell.

We compete with third parties that design, manufacture, and market products and services for analysis of genetic variation and biological function and other applications using a wide range of technologies. In some cases, we compete for the resources our customers allocate for purchasing a wide range of sequencing and non-sequencing products, some of which are complementary or adjacent to our own but not directly competitive; in other cases, our products face direct competition as customers choose among sequencing and non-sequencing products that are designed to address the same use case or answer the same biological question. For example, complementary third-party sequencing technologies address use cases to which our products are not well suited. If we are unable to develop or acquire new technologies that address these complementary sequencing applications, our rate of growth and our ability to grow the overall market for sequencing could be adversely affected.

We anticipate that we will continue to face increased competition as existing companies develop new or improved products and as new companies enter the market with new technologies. One or more of our competitors may render one or more of our technologies obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, more focused product lines, a more established customer base, more experience and broader reach in clinical markets, and more experience in research and development than we do. Furthermore, life sciences, clinical genomics, and pharmaceutical companies, which are our potential customers and strategic partners, could also develop competing products. We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular product; therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. To the extent we are unable to be the first to develop or supply new products, our competitive position may suffer.

The market for clinical and diagnostic products, in particular, is currently limited and highly competitive, with several large companies having significant market share, intellectual property portfolios, and regulatory expertise. For example, the market for noninvasive prenatal testing is rapidly developing, and if our competitors are able to develop and commercialize products superior to or less expensive than ours or are able to obtain regulatory clearances before we do, our business could be adversely impacted. Established clinical and diagnostic companies also have an installed base of instruments in several markets, including clinical and reference laboratories, which could deter acceptance of our products. In addition, some of these companies have formed alliances with genomics companies that provide them access to genetic information that may be incorporated into their diagnostic tests, potentially creating a competitive advantage for them.

As we develop, market, or sell diagnostic tests, we may encounter delays in receipt, or limits in the amount, of reimbursement approvals and public health funding, which will impact our ability to grow revenues in the healthcare market.

Physicians and patients may not order diagnostic tests that we develop, market, sell, or enable such as our prenatal tests or, after our expected acquisition of GRAIL, anticipated oncology screening tests, unless third-party payors, such as managed care organizations as well as government payors such as Medicare and Medicaid and governmental payors outside of the United States, pay a substantial portion of the test price. Third-party payors are often reluctant to reimburse healthcare providers for the use of medical tests that involve new technologies or provide novel diagnostic information. In addition, third-party payors are increasingly limiting reimbursement coverage for medical diagnostic products and, in many instances, are exerting pressure on diagnostic product suppliers to reduce their prices. Reimbursement by a payor may depend on a number of factors, including a payor's determination that tests using our technologies are: not experimental or investigational; medically necessary; appropriate for the specific patient; cost-effective; supported by peer-reviewed publications; and included in clinical practice guidelines.

Since each third-party payor often makes reimbursement decisions on an individual patient basis, obtaining such approvals is a time-consuming and costly process that requires us to provide scientific and clinical data supporting the clinical benefits of each of our products. As a result, there can be no assurance that reimbursement approvals will be obtained. This process can delay the broad market introduction of new products, and could have a negative effect on our results of operations. As a result, third-party reimbursement may not be consistent or financially adequate to cover the cost of diagnostic products that we develop, market, or sell. This could limit our ability to sell our products or cause us to reduce prices, which would adversely affect our results of operations.

Even if tests are reimbursed, third-party payors may withdraw their coverage policies, cancel their contracts with our customers at any time, review and adjust the rate of reimbursement, require co-payments from patients, or stop paying for tests, which would reduce our revenues. In addition, insurers, including managed care organizations as well as government payors such as Medicare and Medicaid, have increased their efforts to control the cost, utilization, and delivery of healthcare services. These measures have resulted in reduced payment rates and decreased utilization for the clinical laboratory industry. Reductions in the reimbursement rate of payors may occur in the future. Reductions in the prices at which our tests are reimbursed could have a negative impact on our results of operations.

Risks Relating to Supply Chain, Manufacturing, and Quality

We depend on third-party manufacturers and suppliers for some of our products, or sub-assemblies, components, and materials used in our products, and if shipments from these manufacturers or suppliers are delayed or interrupted, or if the quality of the products, components, or materials supplied do not meet our requirements, we may not be able to launch, manufacture, or ship our products in a timely manner, or at all.

The complex nature of our products requires customized, precision-manufactured sub-assemblies, components, and materials that currently are available from a limited number of sources, and, in the case of some sub-assemblies, components, and materials, from only a single source. If deliveries from these vendors are delayed or interrupted for any reason, or if we are otherwise unable to secure a sufficient supply, we may not be able to obtain these sub-assemblies, components, or materials on a timely basis or in sufficient quantities or at satisfactory qualities. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, in whole or in part, or develop these capabilities internally, and there can be no assurance that we will be able to do this on a timely basis, in sufficient quantities, or on commercially reasonable terms. In addition, the lead time needed to establish a relationship with a new supplier can be lengthy, and we may experience delays in meeting demand in the event we must switch to a new supplier. The time and effort required to qualify a new supplier could result in additional costs, diversion of resources, or reduced manufacturing yields, any of which would negatively impact our operating results. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs. In addition, the manufacture or shipment of our products may be delayed or interrupted if the quality of the products, sub-assemblies, components, or materials supplied by our vendors does not meet our requirements. Current or future social and environmental regulations or critical issues, such as those relating to the sourcing of minerals from conflict-affected areas such as the Democratic Republic of the Congo or the need to eliminate environmentally sensitive materials from our products, could restrict the supply of components and materials used in production or increase our costs. Any delay or interruption to our manufacturing process or in shipping our products could result in lost revenue, which would adversely affect our business, financial condition, or results of operations.

If defects are discovered in our products, we may incur additional unforeseen costs, our products may be subject to recalls, customers may not purchase our products, our reputation may suffer, and ultimately our sales and operating earnings could be negatively impacted.

Our products incorporate complex, precision-manufactured mechanical parts, electrical components, optical components, and fluidics, as well as computer software and complex surface chemistry and reagents, any of which may contain or result in errors or failures, especially when first introduced. In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design, and manufacturing processes, as well as defects in third-party components included in our products. In addition, new products or enhancements may contain undetected errors or performance problems that, despite testing, are discovered only after commercial shipment. Defects or errors in our products may discourage customers from purchasing our products. The costs incurred in correcting any defects or errors may be substantial and could adversely affect our operating margins. Identifying the root cause of quality issues, particularly those affecting reagents and third-party components, may be difficult, which increases the time needed to address quality issues as they arise, and increases the risk that similar problems could recur. Because our products are designed to be used to perform complex genomic analysis, we expect that our customers will have an increased sensitivity to such defects. If we do not meet applicable regulatory or quality standards, our products may be subject to recall, and, under certain circumstances, we may be required to notify applicable regulatory authorities about a recall. If our products are subject to recall or shipment holds, our reputation, business, financial condition, or results of operations could be adversely affected.

If we are unable to increase our manufacturing or service capacity and develop and maintain operation of our manufacturing or service capability, we may not be able to launch or support our products or services in a timely manner, or at all.

We expect to increase our manufacturing and service capacity to meet the anticipated demand for our products. Although we have consistently increased our manufacturing and service capacity, and we believe we have plans in place sufficient to ensure we have adequate capacity to meet our current business plans, there are uncertainties inherent in expanding our manufacturing and service capabilities, and we may not be able to sufficiently increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facilities and launch new products. Also, we may not manufacture the right product mix to meet customer demand, especially as we introduce new products. As a result, we may experience difficulties in meeting customer, collaborator, and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions and quality control issues that have temporarily reduced or suspended production of certain products. Due to the intricate nature of manufacturing complex instruments, consumables, and products that contain DNA and enzymes, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or

sell these products (or to produce them economically), or prevent us from achieving expected performance levels, any of which could adversely affect our business, financial condition, or results of operations.

An interruption in our ability to manufacture our products or an inability to obtain key components or raw materials due to a catastrophic disaster or infrastructure could adversely affect our business.

We currently manufacture in a limited number of locations. Our manufacturing facilities are located in San Diego and the San Francisco Bay Area in California; Madison, Wisconsin; Cambridge, United Kingdom; and Singapore. These areas are subject to natural disasters such as earthquakes, wildfires, or floods. If a natural disaster were to damage one of our facilities significantly or if other events, such as the outbreak of a serious infectious disease, were to cause our operations to fail or be significantly curtailed, we may be unable to manufacture our products, provide our services, or develop new products. In addition, if the capabilities of our suppliers and component manufacturers are limited or stopped, due to the outbreak of a serious infectious disease, natural or other disasters, quality, regulatory, or other reasons, it could negatively impact our ability to manufacture our products.

Many of our manufacturing processes are automated and are controlled by our custom-designed laboratory information management system (LIMS). Additionally, the decoding process in our array manufacturing requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, our ability to manufacture our products on a timely basis could be adversely impacted and we could be prevented from achieving our expected shipments in any given period.

Risk Relating to COVID-19

We are unable to predict the extent to which the COVID-19 pandemic will adversely impact our business operations and financial performance.

The COVID-19 pandemic has significantly curtailed the movement of people, goods and services worldwide, including in the regions in which we sell our products and services and conduct our business operations. As a result, we experienced a decline in our sales and results of operations during 2020. The magnitude and duration of the resulting decline in business activity cannot currently be estimated with any degree of certainty and is expected to continue to (1) negatively impact the demand for our products and services, (2) restrict our sales operations, marketing efforts, and customer field support, (3) impede the shipping and delivery of our products to customers (4) disrupt our supply chain, and (5) limit our ability to conduct research and product development and other important business activities. We continue to monitor our operations and applicable government recommendations, and we have made modifications to our normal operations because of the COVID-19 pandemic. In the U.S. and in most other key markets, we are requiring most of our employees to work remotely, while ensuring essential staffing levels in our operations remain in place, including maintaining key personnel in our laboratories and manufacturing facilities, and many may continue to work remotely for an indefinite period of time. Remote working arrangements could impact employees' productivity and morale. We may incur increased costs and experience delays in sales, purchases, deliveries and other business activities associated with the invocation by customers, suppliers, service providers, and other business partners of contractual provisions they may claim are triggered by the COVID-19 pandemic. Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and other capital markets which may adversely impact the fair value of our marketable securities.

Risk Relating to the Protection of Our Intellectual Property

Any inability to effectively protect our proprietary technologies could harm our competitive position.

The proprietary positions of companies developing tools for the life sciences, genomics, forensics, agricultural, and pharmaceutical industries, including our proprietary position, generally are uncertain and involve complex legal and factual questions. Our success depends to a large extent on our ability to develop proprietary products and technologies and to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in establishing and enforcing their proprietary rights outside of the United States. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights outside of the United States.

We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets.

Any finding that our patents or applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship or ownership rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all. Furthermore, as issued patents expire, including those related to our sequencing-by-synthesis technology. As this occurs, we may lose some competitive advantage as others develop, market, and sell competing products, which could negatively affect our revenue.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products and may therefore fail to provide us with any competitive advantage. We may need to initiate lawsuits to protect or enforce our patents, or litigate against third-party claims, which would be expensive, and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel. There is also the risk that others may independently develop similar or alternative technologies or design around our patented technologies. In that regard, certain patent applications in the United States may be maintained in secrecy until the patents issue, and publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months.

We also rely upon trade secrets and proprietary know-how protection for our confidential and proprietary information, and we have taken security measures to protect this information. These measures, however, may not provide adequate protection for our trade secrets, know-how, or other confidential information.

Risks Related to Acquisitions, Including the Pending Acquisition of GRAIL

Our acquisitions expose us to risks that could adversely affect our business, and we may not achieve the anticipated benefits of acquisitions of businesses or technologies.

As part of our strategy to develop and identify new products, services, and technologies, we have made, and may continue to make, acquisitions of technologies, products, or businesses. Acquisitions involve numerous risks and operational, financial, and managerial challenges, including the following, any of which could adversely affect our business, financial condition, or results of operations:

- difficulties in integrating new operations, technologies, products, and personnel;
- lack of synergies or the inability to realize expected synergies and cost-savings;
- lengthy, expensive, and time and resource-intensive regulatory review processes, the outcomes of which can be unpredictable;
- difficulties in managing geographically dispersed operations;
- underperformance of any acquired technology, product, or business relative to our expectations and the price we paid;
- negative near-term impacts on financial results after an acquisition, including acquisition-related earnings charges;
- the potential loss of key employees, customers, and strategic partners of acquired companies;
- claims by terminated employees and shareholders of acquired companies or other third parties related to the transaction;
- the issuance of dilutive securities, assumption or incurrence of additional debt obligations or expenses, or use of substantial portions of our cash;
- diversion of management's attention and company resources from existing operations of the business;
- inconsistencies in standards, controls, procedures, and policies;
- the impairment of intangible assets as a result of technological advancements, or worse-than-expected performance of acquired companies; and

- assumption of, or exposure to, known or unknown contingent liabilities or liabilities that are difficult to identify or accurately quantify.

In addition, the successful integration of acquired businesses requires significant efforts and expense across all operational areas, including sales and marketing, research and development, manufacturing, finance, legal, and information technologies. There can be no assurance that any of the acquisitions we make will be successful or will be, or will remain, profitable. Our failure to successfully address the above risks may prevent us from achieving the anticipated benefits from any acquisition in a reasonable time frame, or at all.

There is no assurance when or if our planned acquisition (the Acquisition) of GRAIL will be completed. If the Acquisition is not completed within the expected time frame, we may not be able to achieve the synergies and other benefits that we expect to achieve as a result of the Acquisition, and we could incur additional costs or liabilities, loss of revenue and other adverse effects.

The completion of the Acquisition is subject to the satisfaction or waiver of a number of conditions as set forth in the Agreement and Plan of Merger (the Merger Agreement) for the Acquisition, including, among others, the expiration or termination of the applicable waiting periods under the Hart-Scott Rodino Antitrust Improvements Act (the HSR Act), the approval of antitrust authorities in the United Kingdom, if applicable, no law having been enacted, issued, promulgated, enforced or entered, whether temporary, preliminary or permanent, which is then in effect and has the effect of enjoining, restraining, prohibiting or otherwise preventing consummation of the Acquisition or imposes any remedies on us or our subsidiaries other than certain permitted restrictions, the receipt of the GRAIL stockholder approvals, the effectiveness of a registration statement on Form S-4, and the approval for listing on NASDAQ of the shares of our common stock to be issued in connection with the Acquisition. There can be no assurance that the expiration or termination of the applicable waiting periods under the HSR Act or the other conditions to the obligations of the parties to effect the Acquisition will be satisfied or waived. In particular, foreign, federal, state or local governmental or regulatory authorities and, in certain instances, private parties may seek to challenge the Acquisition and/or impose conditions on us, GRAIL and/or the surviving company as a condition to completion of the Acquisition under applicable antitrust or other laws. In addition, there can be no assurance that any consents, clearances or approvals necessary or advisable to be obtained in connection with the Acquisition will be obtained in a timely manner or at all, or whether they will be subject to actions, conditions, limitations or restrictions that may jeopardize or delay the completion of the Acquisition, materially reduce or delay the anticipated benefits of the Acquisition or allow the parties to terminate the Merger Agreement. Under the terms of the Merger Agreement, we and our subsidiaries may be required to offer and agree to undertake certain specified behavioral remedies. However, neither we nor any of our subsidiaries is obligated to agree to or accept (i) any commitment, undertaking or order to divest, hold separate or otherwise dispose of any portion of our businesses or assets, including after giving effect to the Acquisition, or (ii) any limitation on our ability to acquire or hold or exercise full rights of ownership of any capital stock of GRAIL or its subsidiaries, including after giving effect to the Acquisition. If the Acquisition, or the integration of the companies' respective businesses, is not completed within the expected time frame, such delay may materially and adversely affect the synergies and other benefits that we expect to achieve as a result of the Acquisition and could result in additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations.

The Merger Agreement may be terminated in certain circumstances, including, among others, if the Acquisition has not been completed by the outside date of September 20, 2021 (subject to a three-month extension) or if a governmental entity of competent jurisdiction has issued or granted an order, judgment, decree, ruling or injunction that results in a permanent restraint that has become final and non-appealable or imposes, as a final and non-appealable condition, restrictions on us that are not permitted restrictions. We and GRAIL can also mutually agree to terminate the Merger Agreement at any time prior to the effective time. Upon termination of the Merger Agreement under specified circumstances, we will be required to pay GRAIL a termination fee of \$300 million and make an additional \$300 million payment to GRAIL in exchange for shares of non-voting GRAIL preferred stock. The Merger Agreement may also be terminated in circumstances in which such fee will not be payable and such investment will not be required. We are required to make monthly cash payments to GRAIL of \$35 million (the Continuation Payments) until the Acquisition is completed or terminated, subject to terms and conditions set forth in the Merger Agreement. In the event that the Merger Agreement is terminated, we will receive shares of non-voting GRAIL preferred stock in respect of all Continuation Payments in excess of \$315 million, subject to certain terms and conditions.

We are subject to various uncertainties, including contractual restrictions and requirements while the Acquisition is pending, that could adversely affect our business, financial condition and results of operations.

During the pendency of the Acquisition, it is possible that customers, suppliers, commercial partners and/or other persons with whom we have a business relationship may elect to delay or defer certain business decisions or decide to seek to terminate, change or renegotiate their relationships with us, as the case may be, as a result of the Acquisition, which could significantly reduce the expected benefits of the Acquisition and/or negatively affect our revenues, earnings and cash flows, and the market price of our common stock, regardless of whether the Acquisition is completed. Uncertainty about the effects of the Acquisition on employees may impair the ability to attract, retain and motivate key personnel during the pendency of the Acquisition and, if the Acquisition is completed, for a period of time thereafter. If key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with us or GRAIL following the completion of the Acquisition, we and GRAIL may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent. Matters relating to the Acquisition (including integration planning) will require substantial commitments of time and resources by Illumina management, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to us. We will also incur significant costs related to the Acquisition, some of which must be paid even if the Acquisition is not completed. These costs are substantial and include financial advisory, legal and accounting costs.

Under the terms of the Merger Agreement, we are also subject to a more limited set of restrictions on the conduct of our business prior to the completion of the Acquisition, which may adversely affect our ability to execute certain of our business strategies, including the ability in certain cases to amend our organizational documents or pay dividends or distributions. Such limitations could adversely affect our business, strategy, operations and prospects prior to the completion of the Acquisition.

We may encounter difficulty or high costs associated with financing the cash consideration required in the Acquisition.

We expect to fund the aggregate cash consideration (approximately \$3.1 billion) upon completion of the Acquisition using balance sheet cash of both Illumina and GRAIL plus up to \$1 billion in permanent financing. If such permanent financing is unavailable prior to or upon completion, a 364-day senior unsecured bridge term loan facility will be provided by Goldman Sachs totaling \$1 billion. Our ability to obtain additional debt financing will be subject to various factors, including market conditions, operating performance and our ability to incur additional debt. Depending on these factors, the terms upon which debt financing or debt offerings are available to us may be less favorable to us than we expect. The receipt of financing by us is not a condition to completion of the Acquisition and, accordingly, we will be required to complete the Acquisition (assuming that all of the conditions to its obligations under Merger Agreement are satisfied) whether or not debt financing is available at all or on acceptable terms.

We may not be able to integrate GRAIL's business successfully or manage the combined business effectively, and many of the anticipated synergies and other benefits of acquiring GRAIL may not be realized or may not be realized within the expected time frame.

We and GRAIL entered into the Merger Agreement with the expectation that the Acquisition would result in various benefits, including, among other things, operating efficiencies, synergies and cost savings. Achieving the anticipated benefits of the Acquisition is subject to a number of uncertainties, including whether our and GRAIL's businesses can be integrated in an efficient and effective manner.

It is possible that the integration process could take longer than anticipated or that the management of the combined business could be more difficult than expected, and could result in the loss of valuable employees, the disruption of ongoing businesses, processes, systems and business relationships, or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect our ability to achieve the anticipated benefits of the Acquisition. Our results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur before the closing of the Acquisition. The integration process is subject to a number of risks and uncertainties, and no assurance can be given that the anticipated benefits of the Acquisition will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could adversely affect our and the surviving company's future businesses, financial condition, results of operations and prospects.

The market price of our common stock may decline as a result of the Acquisition and the issuance of shares of our common stock to GRAIL stockholders in the Acquisition may have a negative impact on our financial results, including earnings per share.

The market price of our common stock may decline as a result of the Acquisition, and holders of our common stock (including holders of GRAIL capital stock and GRAIL equity-based awards who receive our common stock in connection with the Acquisition) could see a decrease in the value of their investment in our common stock, if, among other things, we and the surviving company are unable to achieve the expected growth in earnings, or if the anticipated benefits, including synergies, cost savings, innovation and operational efficiencies, from the Acquisition are not realized, or if the Acquisition and integration-related costs related to the Acquisition are greater than expected. The market price of our common stock may also decline if we do not achieve the anticipated benefits of the Acquisition as rapidly or to the extent expected by financial or industry analysts or if the effects of the Acquisition on our financial position, results of operations or cash flows are not otherwise consistent with the expectations of financial or industry analysts. The issuance of shares of our common stock in the Acquisition could on its own have the effect of depressing the market price for our common stock. In addition, some GRAIL stockholders may decide not to continue to hold the shares of our common stock they receive as a result of the Acquisition, and any such sales of our common stock could have the effect of depressing their market price. Moreover, general fluctuations in stock markets could have a material adverse effect on the market for, or liquidity of, our common stock, regardless of our actual operating performance following the completion of the Acquisition.

Following the issuance of shares of our common stock, our earnings per share may be lower than would have been reported by us in the absence of the Acquisition. There can be no assurance that any increase in our earnings per share as compared to our earnings per share prior to the Merger, will occur, even in the long term. Any increase in our earnings per share as a result of the Merger requires, among other things, that we successfully manage the operations of GRAIL and increase the consolidated earnings of Illumina after the Acquisition, which is subject to significant risks and uncertainties.

Risks Relating to Our Strategic Collaborations and Investments

If we fail to maintain and successfully manage our strategic collaborations, our future results may be adversely impacted.

Strategic collaborations require significant management attention and operational resources. If we are unable to successfully manage or meet milestones related to our strategic collaborations, or if our partners do not perform as we expect, our future results may be adversely impacted. Furthermore, dependence on collaborative arrangements may also subject us to other risks, including:

- we may be required to relinquish important rights, including intellectual property, marketing and distribution rights;
- we may disagree with our partners as to rights to intellectual property, the direction of research programs, or commercialization activities;
- our revenues may be lower than if we were to develop and commercialize such products ourselves;
- a collaboration partner could develop and market a product that is competitive with either products developed under the collaboration or other of our products, either independently or in collaboration with others, including our competitors;
- our partners could become unable or less willing to expend their resources in support of our collaboration;
- collaborations could expose us to additional regulatory risks; and
- we may be unsuccessful at managing multiple simultaneous collaborations.

Moreover, disagreements with a partner or former partner could develop, and any conflict with a partner or former partner could reduce our ability to enter into future collaboration agreements and negatively impact our relationships with one or more existing partners.

Our strategic investments may result in losses.

We periodically make strategic investments in various public and private companies with businesses or technologies that may complement our business. In addition, we periodically form companies that remain consolidated within our

financial statements but receive substantial funding from third-party investors who are granted certain control and governance rights.

The market values of these strategic investments may fluctuate due to market conditions and other conditions over which we have no control. Declines in the market price and valuations of the securities that we hold in other companies would require us to record losses related to our investment. This could result in future charges to our earnings. It is uncertain whether or not we will realize any long-term benefits associated with these strategic investments.

Risks Relating to Litigation

Litigation, other proceedings, or third-party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our success depends in part on our non-infringement of the patents or proprietary rights of third parties. Third parties have asserted and may in the future assert that we are employing their proprietary technology without authorization. As we enter new markets or introduce new products, we expect that competitors will likely claim that our products infringe their intellectual property rights as part of a business strategy to impede our successful competition. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Any adverse ruling or perception of an adverse ruling in defending ourselves against these claims could have an adverse impact on our stock price, which may be disproportionate to the actual impact of the ruling itself. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize, or sell products or services, and could result in the award of substantial damages against us. In the event of a successful infringement claim against us, we may be required to pay damages and obtain one or more licenses from third parties or be prohibited from selling certain products or services. In addition, we may be unable to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins and earnings per share. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products or services could adversely affect our ability to grow or maintain profitability.

If product or service liability lawsuits are successfully brought against us, we may face reduced demand for our products and incur significant liabilities.

Our products and services are used for sensitive applications, and we face an inherent risk of exposure to product or service liability claims if our products or services are alleged to have caused harm, resulted in false negatives or false positives, or do not perform in accordance with specifications. Product liability claims filed against us or against third parties to whom we may have an obligation could be costly and time-consuming to defend and result in substantial damages or reputational risk. We cannot be certain that we would be able to successfully defend any product or service liability lawsuit brought against us. Regardless of merit or eventual outcome, product or service liability claims may result in: decreased demand for our products; injury to our reputation; increased product liability insurance costs; costs of related litigation; and substantial monetary awards to plaintiffs.

Although we carry product and service liability insurance, if we become the subject of a successful product or service liability lawsuit, our insurance may not cover all substantial liabilities, which could have an adverse effect on our business, financial condition, or results of operations.

Risks Relating to Government Regulation

Our products, if used for the diagnosis of disease, could be subject to government regulation, and the regulatory approval and maintenance process for such products may be expensive, time-consuming, and uncertain both in timing and in outcome.

Our products are not subject to FDA clearance or approval if they are not intended to be used for the diagnosis, treatment or prevention of disease. However, as we expand our product line to encompass products that are intended to be used for the diagnosis of disease, such as our FDA-regulated MiSeqDx, certain of our products will become subject to regulation by the FDA, or comparable international agencies, including requirements for regulatory

clearance or approval of such products before they can be marketed. Such regulatory approval processes or clearances may be expensive, time-consuming, and uncertain, and our failure to obtain or comply with such approvals and clearances could have an adverse effect on our business, financial condition, or operating results. In addition, changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products, which may negatively affect our ability to obtain or maintain FDA or comparable regulatory approval of our products, if required.

Diagnostic products are regulated as medical devices by the FDA and comparable international agencies and may require either clearance from the FDA following the 510(k) pre-market notification process or pre-market approval from the FDA, in each case prior to marketing. Obtaining the requisite regulatory approvals can be expensive and may involve considerable delay. If we fail to obtain, or experience significant delays in obtaining, regulatory approvals for diagnostic products that we develop, we may not be able to launch or successfully commercialize such products in a timely manner, or at all.

In addition, if our products labeled as “For Research Use Only. Not for use in diagnostic procedures,” or RUO, are used, or could be used, for the diagnosis of disease, the regulatory requirements related to marketing, selling, and supporting such products could change or be uncertain, even if such use by our customers is without our consent. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

If the FDA requires in the future that any of our LDT products be subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Certain of our diagnostic products are currently available through laboratories that are certified under the Clinical Laboratory Improvements Amendments (CLIA) of 1988. These products are commonly called “laboratory developed tests,” or LDTs. For a number of years, the FDA has exercised its regulatory enforcement discretion not to regulate LDTs as medical devices if created and used within a single laboratory. However, the FDA has been reconsidering its enforcement discretion policy and has commented that regulation of LDTs may be warranted because of the growth in the volume and complexity of testing services utilizing LDTs. We cannot predict the nature or extent of the FDA's final guidance or regulation of LDTs, in general, or with respect to our LDTs, in particular. If the FDA requires in the future that LDT products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Risks Relating to Information Technology Security and Continuity

Despite using commercially reasonable measures to secure our systems and networks, security breaches, including with respect to cybersecurity, and other disruptions could compromise our information, products, and services, disrupt our operations, and expose us to liability, which could cause our business and reputation to suffer.

In the ordinary course of our business, we collect sensitive data, including intellectual property, our proprietary business information (and that of our customers), and personally identifiable information of our customers and employees and store it in our data centers and on our networks. The secure maintenance of this information is important to our operations and business strategy. Despite our security measures, due to the inherent features of Internet and technical limitations our information technology and infrastructure may be impacted by cyber-attacks, employee error, malfeasance, or other disruptions.

We may face cyber-attacks, including from nation state actors or advanced persistent threat who attempt to penetrate our network security, including our data centers; sabotage or otherwise disable our research, products, and services, including instruments at our customers' sites; misappropriate our or our customers' and partners' proprietary information, which may include personally identifiable information; or cause interruptions of our internal operations, systems and services. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disruption, disclosure, or other loss of information could result in an adverse impact on our business, legal claims or proceedings, liability under laws that protect the privacy of personal information, and damage to our reputation.

Disruption of critical information technology systems could have an adverse effect on our operations, business, customer relations, and financial condition.

Our success depends, in part, on the continued and uninterrupted performance of our IT systems, which are used extensively in virtually all aspects of our business. IT systems may be vulnerable to damage from a variety of sources, including telecommunications or network failures, power loss, natural disasters, human acts, terrorist attacks, computer viruses, computer denial-of-service attacks, unauthorized access to customer or employee data or company trade secrets, and other attempts to harm our systems. Certain of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality. Despite any precautions we may take, such problems could result in, among other consequences, disruption of our operations, which could harm our reputation and financial results.

As we continuously adjust our workflow and business practices and add additional functionality to our enterprise software, problems could arise that we have not foreseen, including interruptions in service, loss of data, inaccurate data, or reduced functionality. Such problems could adversely impact our ability to run our business in a timely manner.

General Risk Factors

Reduction or delay in research and development budgets and government funding may adversely affect our revenue.

The timing and amount of revenues from customers that rely on government and academic research funding may vary significantly due to factors that can be difficult to forecast, and there is significant uncertainty concerning government and academic research funding worldwide. Funding for life science research can be volatile during periods of economic uncertainty. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Other programs, such as defense, entitlement programs, or general efforts to reduce budget deficits could be viewed by governments as a higher priority. These budgetary pressures may result in reduced allocations to government agencies that fund research and development activities, such as the U.S. National Institute of Health, or NIH. Past proposals to reduce budget deficits have included reduced NIH and other research and development allocations. Any shift away from the funding of life sciences research and development or delays surrounding the approval of government budget proposals may cause our customers to delay or forego purchases of our products, which could adversely affect our business, financial condition, or results of operations.

Doing business internationally, especially in emerging markets, creates operational risk for our business.

Conducting and launching operations on an international scale requires close coordination of activities across multiple jurisdictions and consumes significant management resources. If we fail to coordinate and manage these activities effectively, including the risks noted below, our business, financial condition, or results of operations could be adversely affected. We have sales offices located internationally throughout Europe, the Asia-Pacific region, and Brazil, as well as manufacturing and research facilities in Singapore and the United Kingdom. Shipments to customers outside the United States comprised 49%, 48%, and 47% of our total revenue in 2020, 2019, and 2018, respectively.

We are subject to the following risks and challenges associated with conducting business globally, particularly in emerging international markets, where we expect a growing proportion of our business to be located:

- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- longer sales cycles due to the volume of transactions taking place through public tenders;
- challenges in staffing and managing foreign operations;
- tariffs and other trade barriers;
- lack of consistency, and unexpected changes, in legislative or regulatory requirements of foreign countries into which we sell our products;
- increased risk of governmental and regulatory scrutiny and investigations;
- the burden of complying with a wide variety of foreign laws, regulations, and legal standards;
- operating in locations with a higher incidence of corruption and fraudulent business practices;

- import and export requirements, tariffs, taxes, and other trade barriers;
- weak or no protection of intellectual property rights;
- possible enactment of laws regarding the management of and access to data and public networks and websites;
- potential negative impact of a global health crisis, such as the outbreak of a serious infectious disease, to our commercial or manufacturing operations, including the loss of productivity from our own workforce and consequences of any restrictions on the movement of people or materials;
- possible future limitations on foreign-owned businesses;
- significant taxes; and
- other factors beyond our control, including political, social and economic instability, and security concerns in general.

Additionally, we must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other local laws prohibiting corrupt payments to governmental officials, anti-competition regulations and sanctions imposed by the U.S. Office of Foreign Assets Control and other similar laws and regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

As we continue to expand our business into multiple international markets, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and negatively impact our sales, adversely affecting our business, results of operations, financial condition and growth prospects.

We are exposed to risks associated with transactions denominated in foreign currency.

During 2020, more than half of our international sales were denominated in foreign currencies while the majority of our purchases of raw materials were denominated in U.S. dollars. Changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Changes in currency exchange rates may also affect the relative prices at which we are able to sell products in the same market. Our revenues from international customers may be negatively impacted as increases in the U.S. dollar relative to our international customers local currency could make our products more expensive, impacting our ability to compete. Our costs of materials from international suppliers may increase if, in order to continue doing business with us, they raise their prices as the value of the U.S. dollar decreases relative to their local currency. Foreign policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. Recent global financial conditions have led to a high level of volatility in foreign currency exchange rates and that level of volatility may continue, which could adversely affect our business, financial condition, or results of operations.

Significant developments stemming from the U.S. administration's trade policies or the U.K.'s exit from the EU could have an adverse effect on us.

Changes in U.S. or foreign political, regulatory and economic conditions or laws and policies governing foreign trade, manufacturing, and development and investment in the territories and countries where we or our customers operate could adversely affect our operating results and our business. The prospect of such changes has already affected, and may continue to affect, the timing of customer purchases.

Our business could be affected by the United Kingdom's exit from the EU and the adoption and implementation of new trade agreements. In addition, our business could be negatively affected by new trade agreements between the United Kingdom and other countries, including the United States, and by the possible imposition of trade or other regulatory barriers in the United Kingdom. These possible negative impacts, and others resulting from the United Kingdom's withdrawal from the EU, may adversely affect our operating results and our customers' businesses.

We are subject to risks related to taxation in multiple jurisdictions.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in determining the provision for income taxes. Our effective income tax rate could be adversely affected by various factors, including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax policies, laws, regulations, or rates, changes in the level of non-deductible expenses (including share-based compensation), location of operations, changes in our future levels of research and development spending, mergers and acquisitions, or the result of examinations by various tax authorities. Although we believe our tax estimates are reasonable, if the U.S. Internal Revenue Service or other taxing authority disagrees with the positions taken on our tax returns, we could have additional tax liability, including interest and penalties. If material, payment of such additional amounts upon final adjudication of any disputes could have a material impact on our results of operations and financial position.

Our operating results may vary significantly from period to period, and we may not be able to sustain operating profitability.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services, the effects of new product launches and related promotions, the timing and availability of our customers' funding, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. In particular, collaboration agreements and large-scale government funded projects such as population genomic projects are the result of lengthy and complex negotiations, and the timing of revenue recognition in connection with these agreements and projects may be subject to significant uncertainty because of the long-term nature of development and collaboration projects, as well as sample availability for population genomics projects.

Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. While we anticipate future growth, there is some uncertainty as to the timing of revenue on a quarterly basis. This is because a substantial portion of our quarterly revenue is typically recognized in the last month of a quarter and because the pattern for revenue generation during that month is normally not linear, with a concentration of orders in the final weeks of the quarter. In light of that, our manufacturing and shipping operations may experience increased pressure and demand during the time period shortly before the end of a fiscal quarter; delays related to our manufacturing and shipping operations during this time period could delay the recognition of revenue.

From time to time, we receive large orders that have a significant effect on our operating results in the period in which the order is recognized as revenue. The timing of such orders is difficult to predict, and the timing of revenue recognition from such orders may affect period-to-period changes in net sales. As a result, our operating results could vary materially from quarter-to-quarter based on the receipt of such orders and their ultimate recognition as revenue.

We may not be able to convert our order backlog into revenue.

Our backlog consists of orders believed to be firm as of the balance sheet date. However, we may allow customers to make product substitutions as we launch new products. We may not receive revenue from some of these orders, and the order backlog we report may not be indicative of our future revenue. Many events can cause an order to be delayed or not completed at all, some of which may be out of our control. If we delay fulfilling customer orders, or if customers reconsider their orders, those customers may seek to cancel or modify their orders with us. Customers may otherwise seek to cancel or delay their orders even if we are prepared to fulfill them. If our orders in backlog do not result in sales, our operating results may suffer.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

Our future success depends upon the continuing services of members of our senior management team and scientific and engineering personnel. The loss of their services could adversely impact our ability to achieve our business objectives. In addition, the continued growth of our business depends on our ability to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, software, engineering, sales, marketing, and technical support. We compete for qualified management and scientific personnel with other life

science and technology companies, universities, and research institutions. Competition for these individuals, particularly in the San Diego and San Francisco areas, is intense, and the turnover rate can be high. Moreover, changes in immigration policies, laws and regulations in the United States or other jurisdictions may make it more difficult for us to hire and retain members of management and scientific and engineering personnel. Failure to attract and retain management and scientific and engineering personnel could prevent us from pursuing collaborations or developing our products or technologies. Additionally, integration of acquired companies and businesses can be disruptive, causing key employees of the acquired business to leave. Further, we use share-based compensation, including restricted stock units and performance stock units, to attract key personnel, incentivize them to remain with us, and align their interests with ours by building long-term stockholder value. If our stock price decreases, the value of these equity awards decreases and, therefore, reduces a key employee's incentive to stay.

Conversion of our outstanding convertible notes may result in losses.

As of January 3, 2021, we had \$517 million aggregate principal amount of convertible notes due 2021 and \$750 million aggregate principal amount of convertible notes due 2023 outstanding. The notes are convertible into cash, and if applicable, shares of our common stock under certain circumstances, including trading price conditions related to our common stock. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the notes to be extinguished and their corresponding net carrying value. The fair value of the notes to be extinguished depends on our current incremental borrowing rate. The net carrying value of our notes has an implicit interest rate of 3.5% with respect to convertible notes due 2021 and 3.7% with respect to convertible notes due 2023. If our incremental borrowing rate at the time of conversion is lower than the implied interest rate of the notes, we will record a loss in our consolidated statement of income during the period in which the notes are converted.

Our Certificate of Incorporation and Bylaws include anti-takeover provisions that may make it difficult for another company to acquire control of us or limit the price investors might be willing to pay for our stock.

Certain provisions of our Certificate of Incorporation and Bylaws could delay the removal of incumbent directors and could make it more difficult to successfully complete a merger, tender offer, or proxy contest involving us. Our Certificate of Incorporation has provisions that give our Board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock. In addition, the staggered terms of our board of directors could have the effect of delaying or deferring a change in control.

In addition, certain provisions of the Delaware General Corporation Law (DGCL), including Section 203 of the DGCL, may have the effect of delaying or preventing changes in the control or management of Illumina. Section 203 of the DGCL provides, with certain exceptions, for waiting periods applicable to business combinations with stockholders owning at least 15% and less than 85% of the voting stock (exclusive of stock held by directors, officers, and employee plans) of a company.

The above factors may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in the control or management of Illumina, including transactions in which our stockholders might otherwise receive a premium over the fair market value of our common stock.

LEGAL PROCEEDINGS

See discussion of legal proceedings in note "[8. Legal Proceedings](#)" within the Consolidated Financial Statements section of this report, which is incorporated by reference herein.

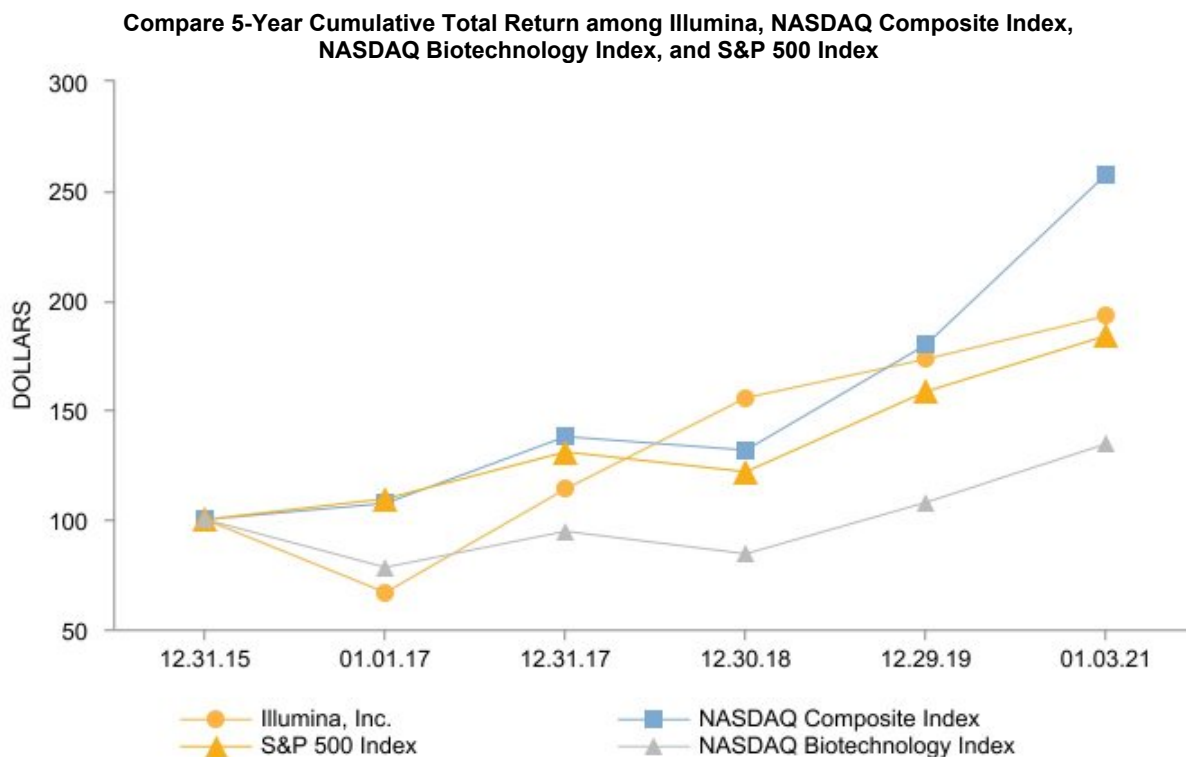
MARKET INFORMATION

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "ILMN" since July 28, 2000. The following table sets forth, for the fiscal periods indicated, the quarterly high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market.

	2020		2019	
	High	Low	High	Low
First Quarter	\$ 339.63	\$ 196.78	\$ 322.32	\$ 268.62
Second Quarter	\$ 377.80	\$ 251.14	\$ 369.00	\$ 300.35
Third Quarter	\$ 404.20	\$ 260.42	\$ 380.76	\$ 263.30
Fourth Quarter	\$ 378.33	\$ 288.01	\$ 336.63	\$ 279.76

Stock Performance Graph

The graph below compares the cumulative total stockholder returns on our common stock for the last five fiscal years with the cumulative total stockholder returns on the NASDAQ Composite Index, the NASDAQ Biotechnology Index, and the S&P 500 Index for the same period. The graph assumes that \$100 was invested on December 31, 2015 in our common stock and in each index and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



Holders

As of February 12, 2021, we had 126 record holders of our common stock.

Dividends

We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. The indentures for our convertible senior notes due in 2021 and 2023, which are convertible into cash and, in certain circumstances, shares of our common stock, require us to increase the conversion rate applicable to the notes if we pay any cash dividends.

SHARE REPURCHASES AND SALES

Purchases of Equity Securities by the Issuer

On February 5, 2020, our Board of Directors authorized a share repurchase program, which superseded all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. Shares repurchased in open-market transactions pursuant to this program during 2020 were as follows:

<i>In thousands, except price per share</i>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
First Quarter	660	\$ 284.08	660	\$ 562,500
Second Quarter	410	\$ 348.63	410	\$ 419,624
Third Quarter	378	\$ 330.11	378	\$ 294,774
Fourth Quarter (1)	880	\$ 317.98	880	\$ 14,953
Total	2,328	\$ 315.74	2,328	\$ 14,953

(1) Repurchases during the fourth quarter of 2020 were as follows:

<i>In thousands, except price per share</i>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
September 28, 2020 - October 25, 2020	238	\$ 320.22	238	\$ 218,601
October 26, 2020 - November 22, 2020	357	\$ 305.26	357	\$ 109,510
November 23, 2020 - January 3, 2021	285	\$ 332.08	285	\$ 14,953
Total	880	\$ 317.98	880	\$ 14,953

Sales of Unregistered Securities

There were no sales of unregistered securities in 2020.

MANAGEMENT'S DISCUSSION & ANALYSIS

Our Management's Discussion and Analysis (MD&A) will help readers understand our results of operations, financial condition, and cash flow. It is provided in addition to the accompanying consolidated financial statements and notes. This MD&A is organized as follows:

- *Management's Overview and Outlook.* High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations.* Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources.* Discussion of key aspects of our consolidated statements of cash flows, changes in our financial position, and our financial commitments.
- *Contractual Obligations.* Tabular disclosure of known contractual obligations as of January 3, 2021.
- *Critical Accounting Policies and Estimates.* Discussion of critical accounting policies and the significant assumptions, estimates, and judgments we make in applying such policies.
- *Quantitative and Qualitative Disclosure about Market Risk.* Discussion of our financial instruments' exposure to market risk.
- *Recent Accounting Pronouncements.* Summary of recent accounting pronouncements applicable to our consolidated financial statements.
- *Off-Balance Sheet Arrangements.* We have no off-balance sheet arrangements.

Our discussion of our results of operations, financial condition, and cash flow for 2018 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" within our filing of [Form 10-K](#) for the fiscal year ended 2018.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. See "[Special Note Regarding Forward-Looking Statements](#)" preceding the Business & Market Overview section of this report for additional factors relating to such statements. See "[Risk Factors](#)" within the Business & Market Information section of this report for a discussion of certain risk factors applicable to our business, financial condition, and results of operations. Operating results are not necessarily indicative of results that may occur in future periods.

MANAGEMENT'S OVERVIEW AND OUTLOOK

This overview and outlook provides a high-level discussion of our operating results and significant known trends that affect our business. We believe that an understanding of these trends is important to understanding our financial results for the periods being reported herein as well as our future financial performance. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this report.

About Illumina

We have one reportable segment, Core Illumina, which relates to Illumina's core operations. Prior to the Helix deconsolidation on April 25, 2019, our reportable segments included both Core Illumina and Helix. For information on Helix, refer to note "[3. Investments and Fair Value Measurements](#)" and note "[11. Segments and Geographic Data](#)" within the Consolidated Financial Statements section of this report.

Our focus on innovation has established us as the global leader in DNA sequencing and array-based technologies, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments.

Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

Our comprehensive line of products addresses the scale of experimentation and breadth of functional analysis to advance disease research, drug development, and the development of molecular tests. This portfolio of leading-edge sequencing and array-based solutions addresses a range of genomic complexity and throughput, enabling researchers and clinical practitioners to select the best solution for their scientific challenge.

On September 20, 2020, we entered into an Agreement and Plan of Merger to acquire GRAIL for total consideration of \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. We believe our acquisition of GRAIL will accelerate the adoption of NGS-based early multi-cancer detection tests, enhance our position in Clinical Genomics, and increase our directly accessible total addressable market. The transaction is subject to customary closing conditions, including applicable regulatory approvals, and, subject to the satisfaction of such conditions, is expected to close in the second half of 2021. See note ["4. Intangible Assets, Goodwill, and Acquisitions"](#) for further details.

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below. While these trends are important to understanding and evaluating our financial results, this discussion should be read in conjunction with our consolidated financial statements and the notes thereto within the Consolidated Financial Statements section of this report, and the other transactions, events, and trends discussed in ["Risk Factors"](#) within the Business & Market Information section of this report. Forward-looking statements included in our Financial Overview below exclude the potential post-close impact from the pending acquisition of GRAIL, which we expect to close in the second half of 2021.

Financial Overview

The COVID-19 pandemic and international efforts to control its spread have significantly curtailed the movement of people, goods, and services worldwide, including in the regions in which we sell our products and services and conduct our business operations. As a result, we experienced a decline in our sales and results of operations during 2020 compared to 2019. We expect the COVID-19 pandemic to continue to impact our sales and results of operations in 2021, the size and duration of which is significantly uncertain.

Consolidated financial highlights for 2020 include the following:

- Revenue decreased 9% in 2020 to \$3.2 billion compared to \$3.5 billion in 2019 primarily due to decreased shipments of consumables and instruments to our customers impacted by the effects of the COVID-19 pandemic. We expect our revenue to grow in 2021 compared to 2020 and 2019, although the size and duration of the COVID-19 impact remains significantly uncertain.
- Gross profit as a percentage of revenue (gross margin) was 68.0% in 2020 compared to 69.6% in 2019. The gross margin decrease was driven primarily by increased freight costs attributable to the COVID-19 pandemic, less favorable product mix within sequencing consumables, lower total revenue, which generated less fixed cost leverage, and decreased revenue from development and licensing agreements, partially offset by an increase in sequencing consumables as a percentage of total revenue, which generate higher gross margins. Our gross margin in future periods will depend on several factors, including: market conditions that may impact our pricing; sales mix changes among consumables, instruments, services, and development and licensing revenue; product mix changes between established products and new products; excess and obsolete inventories; royalties; our cost structure for manufacturing operations relative to volume; freight costs; and product support obligations.
- Income from operations as a percentage of revenue decreased to 17.9% in 2020 compared to 27.8% in 2019. The decrease was due to an increase in operating expenses as a percentage of total revenue, primarily due to the decrease in revenue in 2020 compared to 2019, increased acquisition-related costs, and a decrease in gross margin. We expect our operating expenses to continue to grow on an absolute basis in 2021, including an increase in expenses related to the acquisition of GRAIL in the first half of 2021 and an increase in stock-based compensation.
- Our effective tax rate was 23.3% and 11.4% in 2020 and 2019, respectively. In 2020, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to tax expense related to the valuation allowance recorded against the deferred tax asset for California research and development credits and

the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments. This was partially offset by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, tax benefits related to share-based compensation, and tax benefits related to the derivative assets recorded as a result of the terminated PacBio acquisition.

Our future effective tax rate may vary from the U.S. federal statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor “We are subject to risks related to taxation in multiple jurisdictions” in “Risk Factors” within the Business & Market Information section of this report. We anticipate that our future effective tax rate will be lower than the U.S. federal statutory tax rate of 21% due to the portion of our earnings that will be subject to lower statutory tax rates.

- We ended 2020 with cash, cash equivalents, and short-term investments totaling \$3.5 billion, of which approximately \$571 million was held by our foreign subsidiaries.

RESULTS OF OPERATIONS

To enhance comparability, the following table sets forth audited consolidated statement of operations data for 2020, 2019, and 2018, stated as a percentage of total revenue.

	2020	2019	2018
Revenue:			
Product revenue	84.4 %	82.7 %	82.5 %
Service and other revenue	15.6	17.3	17.5
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cost of revenue:			
Cost of product revenue	24.3	22.6	22.1
Cost of service and other revenue	6.8	6.8	7.8
Amortization of acquired intangible assets	0.9	1.0	1.1
Total cost of revenue	<u>32.0</u>	<u>30.4</u>	<u>31.0</u>
Gross profit	<u>68.0</u>	<u>69.6</u>	<u>69.0</u>
Operating expense:			
Research and development	21.1	18.3	18.7
Selling, general and administrative	29.0	23.5	23.8
Total operating expense	<u>50.1</u>	<u>41.8</u>	<u>42.5</u>
Income from operations	<u>17.9</u>	<u>27.8</u>	<u>26.5</u>
Other income (expense):			
Interest income	1.3	2.1	1.3
Interest expense	(1.5)	(1.5)	(1.7)
Other income, net	8.7	3.2	0.7
Total other income, net	<u>8.5</u>	<u>3.8</u>	<u>0.3</u>
Income before income taxes	<u>26.4</u>	<u>31.6</u>	<u>26.8</u>
Provision for income taxes	6.1	3.6	3.3
Consolidated net income	<u>20.3</u>	<u>28.0</u>	<u>23.5</u>
Add: Net loss attributable to noncontrolling interests	—	0.3	1.3
Net income attributable to Illumina stockholders	<u>20.3 %</u>	<u>28.3 %</u>	<u>24.8 %</u>

Percentages may not recalculate due to rounding.

Revenue

(Dollars in millions)	2020 - 2019				2019 - 2018		
	2020	2019	Change	% Change	2018	Change	% Change
Consumables	\$ 2,304	\$ 2,392	\$ (88)	(4) %	\$ 2,177	\$ 215	10 %
Instruments	431	537	(106)	(20)	572	(35)	(6)
Total product revenue	2,735	2,929	(194)	(7)	2,749	180	7
Service and other revenue	504	614	(110)	(18)	584	30	5
Total revenue	\$ 3,239	\$ 3,543	\$ (304)	(9) %	\$ 3,333	\$ 210	6 %

Service and other revenue consists primarily of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements. Total revenue primarily relates to Core Illumina for all periods presented.

2020 Compared to 2019

The decrease in consumables revenue in 2020 was driven by a \$52 million decrease in microarray consumables, primarily due to decreased shipments to our customers impacted by the effects of the COVID-19 pandemic and ongoing weakness in the direct-to-consumer (DTC) market. Sequencing consumables also decreased by \$36 million due to the COVID-19 pandemic, which more than offset the positive impacts from the growth in instrument installed base. Instruments revenue decreased in 2020 primarily due to a decrease in sequencing instruments revenue, which was driven by decreased shipments to our customers impacted by the effects of the COVID-19 pandemic. We experienced fewer shipments across our portfolio, with the exception of our NextSeq 2000 and NextSeq 1000 platforms, which launched in 2020. Service and other revenue decreased in 2020 primarily due to decreased revenue from genotyping and sequencing services, as well as decreased revenue from development and licensing agreements.

2019 Compared to 2018

The increase in consumables revenue in 2019 was driven by a \$251 million increase in sequencing consumables revenue, primarily due to growth in the instrument installed base. The increase in sequencing consumables revenue was partially offset by a decrease in microarray consumables revenue, primarily due to ongoing weakness in the DTC market. Instruments revenue decreased in 2019 primarily due to a lower average selling price for our NovaSeq instrument compared to its historic range as well as fewer shipments of our microarray instruments. These decreases were partially offset by increased shipments of our NextSeq instruments in 2019. Service and other revenue increased in 2019 primarily due to increased revenue from development and licensing agreements, partially offset by decreased revenue from sequencing and genotyping services.

Gross Margin

(Dollars in millions)	2020 - 2019				2019 - 2018		
	2020	2019	Change	% Change	2018	Change	% Change
Gross profit	\$ 2,203	\$ 2,467	\$ (264)	(11) %	\$ 2,300	\$ 167	7 %
Gross margin	68.0 %	69.6 %			69.0 %		

2020 Compared to 2019

The gross margin decrease in 2020 was driven primarily by increased freight costs attributable to the COVID-19 pandemic, less favorable product mix within consumables, lower total revenue, which generated less fixed cost leverage, and decreased revenue from development and licensing agreements, partially offset by an increase in sequencing consumables as a percentage of total revenue, which generate higher gross margins.

2019 Compared to 2018

The gross margin increase in 2019 was driven primarily by an increase in revenue from development and licensing agreements as well as an increase in sequencing consumables as a percentage of total revenue, which generate higher gross margins, partially offset by lower average selling prices on instruments and consumables and lower volumes in our service business.

Operating Expense

(Dollars in millions)	2020 - 2019				2019 - 2018		
	2020	2019	Change	% Change	2018	Change	% Change
Research and development	\$ 682	\$ 647	\$ 35	5 %	\$ 623	\$ 24	4 %
Selling, general and administrative	941	835	106	13	794	41	5
Total operating expense	\$ 1,623	\$ 1,482	\$ 141	10 %	\$ 1,417	\$ 65	5%

2020 Compared to 2019

Core Illumina R&D expense increased by \$44 million, or 7%, primarily due to increases in compensation related expenses, including performance-based compensation, as we continue to invest in the research and development of new products and enhancements to existing products, partially offset by decreased travel expenses. Helix R&D expense decreased by \$9 million due to its deconsolidation on April 25, 2019.

Core Illumina SG&A expense increased by \$116 million, or 14%, primarily due to expenses related to fees and other payments made to PacBio of \$92 million, acquisition expenses related to the pending acquisition of GRAIL, and increases in compensation related expenses, including performance-based compensation, partially offset by a \$27 million gain on litigation and decreased travel expenses. Helix SG&A expense decreased by \$10 million due to its deconsolidation on April 25, 2019.

2019 Compared to 2018

Core Illumina R&D expense increased by \$43 million, or 7%, primarily due to increased headcount, as we continue to invest in the research and development of new products and enhancements to existing products, partially offset by a decrease in performance-based compensation. Helix R&D expense decreased by \$19 million, primarily due to its deconsolidation on April 25, 2019.

Core Illumina SG&A expense increased by \$73 million, or 10%, primarily due to increased headcount and investments in facilities to support the continued growth and scale of our operations, and \$43 million in expenses related to the Pacific Biosciences acquisition, which was terminated on January 2, 2020, partially offset by a decrease in performance-based compensation. Helix SG&A expense decreased by \$32 million, primarily due to its deconsolidation on April 25, 2019.

Other Income, Net

(Dollars in millions)	2020 - 2019				2019 - 2018		
	2020	2019	Change	% Change	2018	Change	% Change
Interest income	\$ 41	\$ 75	\$ (34)	(45) %	\$ 44	\$ 31	70 %
Interest expense	(49)	(52)	3	(6)	(57)	5	(9)
Other income, net	284	110	174	158	24	86	358
Total other income, net	\$ 276	\$ 133	\$ 143	108 %	\$ 11	\$ 122	1,109 %

Other income, net primarily relates to Core Illumina for all periods presented.

2020 Compared to 2019

Interest income decreased in 2020 compared to 2019 as a result of lower yields on our short-term debt securities and money market funds. Interest expense consisted primarily of accretion of discount on our convertible senior notes. The increase in other income, net, was primarily due to increased unrealized gains on our marketable equity securities, partially offset by the \$39 million gain recorded on the deconsolidation of Helix in 2019, decreases in the fair value of our derivative assets related to the terminated PacBio acquisition, and the \$15 million gain recorded in 2019 from the settlement of a contingency related to the deconsolidation of GRAIL in 2017.

2019 Compared to 2018

Interest income increased in 2019 compared to 2018 as a result of higher cash and cash-equivalent balances and yields on our short-term debt securities. Interest expense consisted primarily of accretion of discount on our convertible senior notes. The increase in other income, net, in 2019, was primarily due to mark-to-market adjustments on our strategic investments in marketable equity securities. Additionally, in 2019, we recorded a \$39 million gain related to the deconsolidation of Helix and a \$15 million gain from the settlement of a contingency related to the deconsolidation of GRAIL in 2017.

Provision for Income Taxes

(Dollars in millions)	2020 - 2019				2019 - 2018		
	2020	2019	Change	% Change	2018	Change	% Change
Income before income taxes	\$ 856	\$ 1,118	\$ (262)	(23) %	\$ 894	\$ 224	25 %
Provision for income taxes	200	128	72	56	112	16	14
Consolidated net income	\$ 656	\$ 990	\$ (334)	(34) %	\$ 782	\$ 208	27 %
Effective tax rate	23.3 %	11.4 %			12.5 %		

2020 Compared to 2019

In 2020, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to tax expense related to the valuation allowance recorded against the deferred tax asset for California research and development credits and the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments. This was partially offset by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, tax benefits related to share-based compensation, and tax benefits related to the derivative assets recorded as a result of the terminated PacBio acquisition. In 2019, the variance from the U.S. federal statutory rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, tax benefits related to uncertain tax positions, and tax benefits related to share-based compensation.

In evaluating our ability to realize the deferred tax asset for California research and development credits we considered all available positive and negative evidence, including operating results and forecasted ranges of future taxable income, and determined it is more likely than not that our California research and development credits will not be realized. As a result, tax expense of \$68 million was recorded in 2020 related to establishing a valuation allowance against the deferred tax asset for California research and development credits. We will continue to monitor all available positive and negative evidence in assessing the realization of the deferred tax asset for California research and development credits in the future. In the event there is a need to release the valuation allowance a tax benefit will be recorded.

On June 22, 2020, the Supreme Court denied petition for certiorari for Altera Corporation v. Commissioner. This effectively means the Ninth Circuit decision that stock-based compensation must be included in intercompany cost sharing is final. As a result, tax expense of \$28 million was recorded in 2020.

2019 Compared to 2018

In 2019, the variance from the U.S. federal statutory rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, tax benefits related to uncertain tax positions, and tax benefits related to share-based compensation. In 2018, the variance from the U.S. federal statutory rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and tax benefits related to share-based compensation, offset partially by the \$11 million tax expense associated with updating prior year estimates of the impact of U.S. Tax Reform.

LIQUIDITY AND CAPITAL RESOURCES

At January 3, 2021, we had approximately \$1.8 billion in cash and cash equivalents, of which approximately \$571 million was held by our foreign subsidiaries. Cash and cash equivalents decreased by \$232 million from last year due to the factors described in the “Cash Flow Summary” below. Our primary source of liquidity, other than our holdings of cash, cash equivalents, and investments, has been cash flows from operations and, from time to time, issuances of debt. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs. It is our intention to indefinitely reinvest the historical earnings of our foreign subsidiaries generated prior to 2017. As of January 3, 2021, we asserted that \$164 million of foreign earnings would not be indefinitely reinvested.

Historically, we have liquidated our short-term investments and/or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. As of January 3, 2021, we had \$1.7 billion in short-term investments. Our short-term investments are predominantly comprised of marketable securities consisting of U.S government-sponsored entities, corporate debt securities, and U.S. Treasury securities.

On September 20, 2020, we entered into an agreement to acquire GRAIL for total consideration of \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. The cash consideration to GRAIL stockholders, excluding Illumina, of approximately \$3.1 billion is expected to be funded using balance sheet cash of both Illumina and GRAIL plus up to \$1 billion in capital raised through a debt issuance. In advance of this anticipated issuance, we obtained a bridge facility commitment letter from Goldman Sachs Bank USA for a 364-day senior unsecured bridge loan facility, in an aggregate principal amount of \$1 billion. The bridge facility commitment letter is subject to certain conditions, including consummation of the acquisition pursuant to the GRAIL merger agreement. It is anticipated that we will replace or repay some or all of the bridge facility through the issuance of debt securities.

In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Pursuant to the merger agreement, we will offer GRAIL stockholders the option to receive additional cash and/or stock consideration, in an amount to be determined prior to closing, in lieu of the contingent value rights.

We are required to make monthly cash payments to GRAIL of \$35 million (the “Continuation Payments”) until the earlier of the consummation or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made Continuation Payments to GRAIL totaling \$35 million in 2020. In January 2021, we made an additional monthly payment of \$35 million to GRAIL. If the GRAIL Merger Agreement is terminated under specified circumstances, we would be required to pay a termination fee of \$300 million and make an additional \$300 million investment in GRAIL, subject to certain terms and conditions.

Our convertible senior notes due in 2021, with an aggregate principal amount of \$517 million, became convertible on January 1, 2021. Our convertible senior notes due in 2023 were not convertible as of January 3, 2021.

We anticipate that our current cash, cash equivalents, and short-term investments, together with cash provided by operating activities and available borrowing capacity under the bridge facility commitment, are sufficient to fund our near-term capital and operating needs for at least the next 12 months, including the cash requirements of funding the pending acquisition of GRAIL, as described above. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our primary short-term needs for capital, which are subject to change, include:

- support of commercialization efforts related to our current and future products;
- acquisitions of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- the continued advancement of research and development efforts;
- potential strategic acquisitions and investments, including the cash requirements of funding the pending acquisition of GRAIL, as described above;
- repayment of debt obligations;

- the expansion needs of our facilities, including costs of leasing and building out additional facilities; and
- potential repurchases of our outstanding common stock.

On February 5, 2020, our Board of Directors authorized a new share repurchase program, which superseded all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. Authorizations to repurchase \$15 million of our common stock remained available as of January 3, 2021.

We had \$35 million and up to \$140 million, respectively, remaining in our capital commitments to two venture capital investment funds as of January 3, 2021, that are callable through April 2026 and July 2029, respectively.

We expect that our revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize and further develop our technologies and create innovative products in our markets;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Cash Flow Summary

(In millions)	2020	2019	2018
Net cash provided by operating activities	\$ 1,080	\$ 1,051	\$ 1,142
Net cash (used in) provided by investing activities	(554)	745	(1,813)
Net cash (used in) provided by financing activities	(766)	(897)	594
Effect of exchange rate changes on cash and cash equivalents	8	(1)	(4)
Net (decrease) increase in cash and cash equivalents	\$ (232)	\$ 898	\$ (81)

Operating Activities

Net cash provided by operating activities in 2020 primarily consisted of net income of \$656 million plus net adjustments of \$351 million and net changes in operating assets and liabilities of \$73 million. The primary non-cash adjustments to net income included share-based compensation of \$194 million, depreciation and amortization expenses of \$187 million, deferred income taxes of \$117 million, a loss on derivative assets related to a terminated acquisition of \$116 million, and accretion of debt discount of \$40 million, partially offset by unrealized gains on marketable equity securities of \$270 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by a decrease in accounts receivable and increases in accounts payable and other long-term liabilities, partially offset by increases in other assets and prepaid expenses and other current assets.

Net cash provided by operating activities in 2019 primarily consisted of net income of \$990 million plus net adjustments of \$255 million, partially offset by net changes in operating assets and liabilities of \$194 million. The primary non-cash adjustments to net income included share-based compensation of \$194 million, depreciation and amortization expenses of \$188 million, accretion of debt discount of \$46 million, deferred income taxes of \$11 million, and loss on Continuation Advances of \$8 million, partially offset by payment of the accreted debt discount related to our 2019 Notes of \$84 million, gains on deconsolidation of \$54 million, and unrealized gains on marketable equity securities of \$53 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by increases in accounts receivable, other assets, and prepaid expenses and decreases in accrued liabilities, accounts payable, and other long-term liabilities, partially offset by a decrease in inventory.

Investing Activities

Net cash used in investing activities totaled \$554 million in 2020. We purchased \$1,802 million of available-for-sale securities and \$1,791 million of our available-for-sale securities matured or were sold during the period. We paid \$132 million for derivative assets, consisting of a \$98 million Reverse Termination Fee and \$34 million in Continuation Advances, associated with the terminated acquisition of PacBio. We purchased strategic investments of \$124 million and completed acquisitions for total cash consideration of \$98 million, net of cash acquired. We invested \$189 million in capital expenditures, primarily associated with our investment in facilities and equipment.

Net cash provided by investing activities totaled \$745 million in 2019. We purchased \$1,010 million of available-for-sale securities and \$2,016 million of our available-for-sale securities matured or were sold during the period. We received \$15 million in proceeds from the settlement of a contingency related to the deconsolidation of GRAIL in 2017. We invested \$209 million in capital expenditures, primarily associated with our investment in facilities and paid \$20 million for strategic investments and \$18 million to PacBio for Continuation Advances. We removed \$29 million in cash from our balance sheet as a result of the deconsolidation of Helix.

Financing Activities

Net cash used in financing activities totaled \$766 million in 2020. We used \$736 million to repurchase our common stock, and \$91 million to pay taxes related to net share settlement of equity awards. We received \$61 million in proceeds from the issuance of common stock through the exercise of stock options and the sale of shares under our employee stock purchase plan.

Net cash used in financing activities totaled \$897 million in 2019. We used \$550 million to repay financing obligations primarily related to our 2019 Notes, \$324 million to repurchase our common stock, and \$82 million to pay taxes related to net share settlement of equity awards. We received \$59 million in proceeds from the issuance of common stock through the exercise of stock options and the sale of shares under our employee stock purchase plan.

CONTRACTUAL OBLIGATIONS

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. The following table represents our contractual obligations as of January 3, 2021, aggregated by type:

<i>In millions</i>	Payments Due by Period(1)				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Debt obligations(2)	\$ 1,269	\$ 519	\$ 750	\$ —	\$ —
Operating lease liabilities(3)	924	82	177	177	488
U.S. Tax Reform transition tax(4)	105	—	35	70	—
Amounts due under executive deferred compensation plan	51	51	—	—	—
Total	\$ 2,349	\$ 652	\$ 962	\$ 247	\$ 488

(1) The table excludes \$80 million of uncertain tax positions, \$175 million of capital commitments for our venture capital investment funds, the approximately \$3.1 billion in cash consideration for the pending acquisition of GRAIL, and the \$35 million monthly cash payments required to be paid to GRAIL until the earlier of the consummation or termination of the acquisition, as the timing and amounts of settlement remained uncertain as of January 3, 2021. See note “9. Income Taxes,” note “3. Investments and Fair Value Measurements,” and note “4. Intangible Assets, Goodwill, and Acquisitions” in the Consolidated Financial Statements section of this report for additional information.

(2) Debt obligations include the principal amount of our convertible senior notes due 2021 and 2023, as well as interest payments to be made under the notes. Although these notes mature in 2021 and 2023, respectively, they may be converted into cash and shares of our common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. See note “5. Debt and Other Commitments” in the Consolidated Financial Statements section of this report for further discussion.

- (3) Operating lease liabilities exclude \$18 million of legally binding minimum lease payments for leases signed but not yet commenced.
- (4) U.S. Tax Reform transition tax includes the remaining portion of the one-time tax on earnings of certain foreign subsidiaries which we elected to pay in installments in accordance with the Tax Cuts and Jobs Act enacted on December 22, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience, market and other conditions, and various other assumptions it believes to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, the estimation process is, by its nature, uncertain given that estimates depend on events over which we may not have control. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. If market and other conditions change from those that we anticipate, our consolidated financial statements may be materially affected. In addition, if our assumptions change, we may need to revise our estimates, or take other corrective actions, either of which may also have a material effect on our consolidated financial statements.

We believe that the following critical accounting policies and estimates have a higher degree of inherent uncertainty and require our most significant judgments. In addition, had we used estimates different from any of these, our consolidated financial statements could have been materially different from those presented. Members of our senior management have discussed the development and selection of our critical accounting policies and estimates, and our disclosure regarding them, with the audit committee of our board of directors. Our accounting policies are more fully described in note ["1. Organization and Significant Accounting Policies"](#) in the Consolidated Financial Statements section of this report.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements.

We recognize revenue when control of our products and services is transferred to our customers in an amount that reflects the consideration we expect to receive from our customers in exchange for those products and services. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. Revenue recognition for contracts with multiple deliverables is based on the separate satisfaction of each distinct performance obligation within the contract. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. We consider a performance obligation satisfied once we have transferred control of a good or service to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service. Most performance obligations are generally satisfied within a short time frame, approximately three to six months, after the contract execution date. The contract price is allocated to each performance obligation in proportion to its standalone selling price. We determine our best estimate of standalone selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, we rely upon prices set by management, adjusted for applicable discounts.

Revenue from product sales is recognized generally upon delivery to the end customer, which is when control of the product is deemed to be transferred. Invoicing typically occurs upon shipment and payment is typically due within 60 days from invoice. In instances where right of payment or transfer of title is contingent upon the customer's acceptance of the product, revenue is deferred until all acceptance criteria have been met. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer. Revenue from instrument service contracts is recognized as the

services are rendered, typically evenly over the contract term. Revenue from development and licensing agreements generally includes upfront and periodic licensing fees, contract research and development services, or payments for development and regulatory milestones. Revenue for these agreements is recognized when each distinct performance obligation is satisfied.

Revenue is recorded net of discounts, distributor commissions, and sales taxes collected on behalf of governmental authorities. Employee sales commissions are recorded as selling, general and administrative expenses when incurred as the amortization period for such costs, if capitalized, would have been one year or less.

In certain markets, products and services are sold to customers through distributors. In most sales through distributors, the product is delivered directly to customers by us. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers.

Investments

We invest in various types of securities, including debt securities in government-sponsored entities, corporate debt securities, U.S. Treasury securities and equity securities. As of January 3, 2021, we had \$1.7 billion in short-term investments. We classify our investments as Level 1, 2, or 3 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets that we have the ability to access. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset.

As discussed in note “[3. Investments and Fair Value Measurements](#)” in the Consolidated Financial Statements section of this report, approximately 27% of our security holdings have been classified as Level 2. These securities have been initially valued at the transaction price and subsequently valued utilizing a third-party service provider who assesses the fair value using inputs other than quoted prices that are observable either directly or indirectly, such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. We perform certain procedures to corroborate the fair value of these holdings, and in the process, we apply judgment and estimates that if changed, could significantly affect our statement of financial positions.

Inventory Valuation

Inventory is stated at lower of cost or net realizable value. We regularly review inventory for excess and obsolete products and components, taking into account product life cycles, quality issues, historical experience, and usage forecasts. We record write-downs of inventory for potentially excess, obsolete, or impaired goods in order to state inventory at net realizable value. We make assumptions about future demand, market conditions, and the release of new products that may supersede old ones. However, if actual market conditions are less favorable than anticipated, additional inventory write-downs could be required.

Contingencies

We are involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, we assess, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the consolidated financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures in consideration of many factors, which include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes and the amount of ultimate loss may differ from our estimates, resulting in a material effect on our business, financial condition, results of operations, and/or cash flows.

Intangible Assets and Other Long-Lived Assets — Impairment Assessments

We perform regular reviews to determine if the carrying values of our long-lived assets are impaired. A review of identifiable intangible assets and other long-lived assets is performed when an event occurs indicating the potential

for impairment. If indicators of impairment exist, we assess the recoverability of the affected long-lived assets and compare their fair values to the respective carrying amounts.

In order to estimate the fair value of identifiable intangible assets and other long-lived assets, we estimate the present value of future cash flows from those assets. The key assumptions that we use in our discounted cash flow model are the amount and timing of estimated future cash flows to be generated by the asset over an extended period of time and a rate of return that considers the relative risk of achieving the cash flows, the time value of money, and other factors that a willing market participant would consider. Significant judgment is required to estimate the amount and timing of future cash flows and the relative risk of achieving those cash flows.

Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. For example, if our future operating results do not meet current forecasts or if we experience a sustained decline in our market capitalization that is determined to be indicative of a reduction in fair value of our reporting units, we may be required to record future impairment charges for purchased intangible assets. Impairment charges could materially decrease our future net income and result in lower asset values on our balance sheet.

Share-Based Compensation

We measure and recognize compensation expense for all share-based payments based on estimated fair value. Share-based compensation expense is recognized based on the fair value on a straight-line basis over the requisite service periods of the awards. The fair value of our restricted stock and performance stock units is based on the market price of our common stock on the date of grant. The determination of the amount of share-based compensation expense for our performance stock units requires the use of certain estimates and assumptions that affect the amount of share-based compensation expense recognized in our consolidated statements of income. At each reported period, we reassess the probability of the achievement of corporate performance goals to estimate the amount of shares to be released. Any increase or decrease in share-based compensation expense resulting from an adjustment in the estimated shares to be released is treated as a cumulative catch-up in the period of adjustment. If any of the assumptions or estimates used change significantly, share-based compensation expense may differ materially from what we have recorded in the current period.

Income Taxes

Our provision for income taxes, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. Significant judgments and estimates based on interpretations of existing tax laws or regulations in the United States and the numerous foreign jurisdictions where we are subject to income tax are required in determining our provision for income taxes. Changes in tax laws, statutory tax rates, and estimates of our future taxable income could impact the deferred tax assets and liabilities provided for in the consolidated financial statements and would require an adjustment to the provision for income taxes.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when we believe it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating our ability to recover deferred tax assets within the jurisdiction which they arise, we consider all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, our history of earnings and reliability of our forecasts, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

We recognize the impact of a tax position in our consolidated financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Tax authorities regularly examine our returns in the jurisdictions in which we do business and we regularly assess the tax risk of our return filing positions. Due to the complexity of some of the uncertainties, the ultimate resolution may result in payments that are materially different from our current estimate of the tax liability. These differences, as well as any interest and penalties, will be reflected in the provision for income taxes in the period in which they are determined.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Sensitivity

Our investment portfolio is exposed to market risk from changes in interest rates. The fair market value of fixed-rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk, and reinvestment risk. We mitigate default risk by investing in investment-grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest-sensitive financial instruments.

Changes in interest rates may impact gains or losses from the conversion of our outstanding convertible senior notes. In June 2014, we issued \$517 million aggregate principal amount of 0.5% convertible senior notes due 2021 (2021 Notes). In August 2018, we issued \$750 million aggregate principal amount of 0% convertible senior notes due 2023 (2023 Notes). At our election, the notes are convertible into cash, shares of our common stock, or a combination of cash and shares of our common stock under certain circumstances, including trading price conditions related to our common stock. If the trading price of our common stock reaches a price at 130% above the conversion price, the notes become convertible. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the debt to be extinguished and its corresponding net carrying value. The fair value of the debt to be extinguished depends on our then-current incremental borrowing rate. If our incremental borrowing rate at the time of conversion is higher or lower than the implied interest rate of the notes, we will record a gain or loss in our consolidated statement of income during the period in which the notes are converted. The implicit interest rates for the 2021 and 2023 Notes were 3.5% and 3.7%, respectively. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of \$100 million aggregate principal amount of each of the 2021 and 2023 Notes would result in losses of approximately \$1 million and \$3 million, respectively.

Foreign Currency Exchange Risk

We conduct a portion of our business in currencies other than our U.S. dollar functional currency. These transactions give rise to cash flows and monetary assets and liabilities that are denominated in currencies other than the U.S. dollar; the value of these amounts are exposed to changes in currency exchange rates from the time the transactions are forecasted or originated, until the time the cash settlement is converted into U.S. dollars. Our foreign currency exposures are primarily concentrated in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, Chinese Yuan Renminbi, and British pound. We use forward exchange contracts to manage these foreign currency risks and to hedge portions of our foreign currency exposure associated with forecasted revenue transactions. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. The counterparties to these forward exchange contracts expose us to credit-related risks in the event of their non-performance. We mitigate this risk by actively monitoring credit ratings and only selecting major financial institutions as counterparties. Additionally, our risk of credit-related loss is limited to the fair value of these financial contracts, which were not material to our financial position.

Our forward exchange contracts used to manage foreign currency risks related to monetary assets and liabilities have terms of one month or less. Realized and unrealized gains or losses on the fair value of these financial contracts are included in the determination of net income, as they have not been designated for hedge accounting. These contracts, which settle monthly, effectively fix the exchange rate at which these specific monetary assets and liabilities will be settled, so that gains or losses on the forward contracts offset the gains or losses from changes in the value of the underlying monetary assets and liabilities. As of January 3, 2021, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases was \$405 million. Our forward exchange contracts used to hedge portions of our foreign currency exposure associated with forecasted revenue transactions have terms of twelve months or less. These derivative financial instruments are designated as cash flow hedges. Gains and losses on these financial contracts, which settle monthly, are generally recorded to revenue in the same period the underlying hedged transactions are recorded. As of January 3, 2021, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases was \$305 million.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our consolidated financial statements see note “[1. Organization and Significant Accounting Policies](#)” within the Consolidated Financial Statements section of this report, which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended January 3, 2021, we were not involved in any “off-balance sheet arrangements” within the meaning of the rules of the Securities and Exchange Commission.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Illumina, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Illumina, Inc. (the Company) as of January 3, 2021 and December 29, 2019, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 3, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 3, 2021 and December 29, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 3, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 3, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2021 expressed an unqualified opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and the related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of Excess and Obsolete Inventory

Description of the Matter The Company's inventories totaled \$372 million as of January 3, 2021. As explained in Note 1 to the consolidated financial statements, the Company assesses the valuation of inventory each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated net realizable value if those balances are determined to be less than cost.

Auditing management's estimates for excess and obsolete inventory involved subjective auditor judgment because the estimates rely on a number of factors that are affected by market and economic conditions outside the Company's control. In particular, the excess and obsolete inventory calculations are sensitive to significant assumptions, including product life cycles, quality issues, historical experience, and usage forecasts.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated and tested the design and operating effectiveness of internal controls over the Company's excess and obsolete inventory valuation process, including management's assessment of the assumptions stated above and data underlying the excess and obsolete inventory valuation.

Our audit procedures included, among others, evaluating the significant assumptions stated above and the accuracy and completeness of the underlying data management used to value excess and obsolete inventory. We compared the balance of on-hand inventories to usage forecasts and historical usage and evaluated adjustments to forecasted usage for specific product considerations, such as new product introductions, technological changes or alternative uses. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses over the significant assumptions to evaluate the changes in the excess and obsolete inventory estimates that would result from changes in the underlying assumptions.

/s/ ERNST & YOUNG LLP

We have served as the Company's auditor since 1998.

San Diego, California
February 16, 2021

ILLUMINA, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except par value)

	January 3, 2021	December 29, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,810	\$ 2,042
Short-term investments	1,662	1,372
Accounts receivable, net	487	573
Inventory	372	359
Prepaid expenses and other current assets	152	105
Total current assets	4,483	4,451
Property and equipment, net	922	889
Operating lease right-of-use assets	532	555
Goodwill	897	824
Intangible assets, net	142	145
Deferred tax assets, net	20	64
Other assets	589	388
Total assets	\$ 7,585	\$ 7,316
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 192	\$ 149
Accrued liabilities	541	516
Long-term debt, current portion	511	—
Total current liabilities	1,244	665
Operating lease liabilities	671	695
Long-term debt	673	1,141
Other long-term liabilities	303	202
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10 million shares authorized; no shares issued and outstanding at January 3, 2021 and December 29, 2019	—	—
Common stock, \$0.01 par value, 320 million shares authorized; 195 million shares issued and 146 million outstanding at January 3, 2021; 194 million shares issued and 147 million outstanding at December 29, 2019	2	2
Additional paid-in capital	3,815	3,560
Accumulated other comprehensive income	2	5
Retained earnings	4,723	4,067
Treasury stock, 49 million shares and 47 million shares at cost at January 3, 2021 and December 29, 2019, respectively	(3,848)	(3,021)
Total stockholders' equity	4,694	4,613
Total liabilities and stockholders' equity	\$ 7,585	\$ 7,316

See accompanying notes to consolidated financial statements.

ILLUMINA, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Years Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Revenue:			
Product revenue	\$ 2,735	\$ 2,929	\$ 2,749
Service and other revenue	504	614	584
Total revenue	<u>3,239</u>	<u>3,543</u>	<u>3,333</u>
Cost of revenue:			
Cost of product revenue	788	802	738
Cost of service and other revenue	220	240	260
Amortization of acquired intangible assets	28	34	35
Total cost of revenue	<u>1,036</u>	<u>1,076</u>	<u>1,033</u>
Gross profit	<u>2,203</u>	<u>2,467</u>	<u>2,300</u>
Operating expense:			
Research and development	682	647	623
Selling, general and administrative	941	835	794
Total operating expense	<u>1,623</u>	<u>1,482</u>	<u>1,417</u>
Income from operations	<u>580</u>	<u>985</u>	<u>883</u>
Other income (expense):			
Interest income	41	75	44
Interest expense	(49)	(52)	(57)
Other income, net	284	110	24
Total other income, net	<u>276</u>	<u>133</u>	<u>11</u>
Income before income taxes	<u>856</u>	<u>1,118</u>	<u>894</u>
Provision for income taxes	<u>200</u>	<u>128</u>	<u>112</u>
Consolidated net income	<u>656</u>	<u>990</u>	<u>782</u>
Add: Net loss attributable to noncontrolling interests	—	12	44
Net income attributable to Illumina stockholders	<u>\$ 656</u>	<u>\$ 1,002</u>	<u>\$ 826</u>
Earnings per share attributable to Illumina stockholders:			
Basic	\$ 4.48	\$ 6.81	\$ 5.63
Diluted	\$ 4.45	\$ 6.74	\$ 5.56
Shares used in computing earnings per share:			
Basic	147	147	147
Diluted	148	149	149

See accompanying notes to consolidated financial statements.

ILLUMINA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Consolidated net income	\$ 656	\$ 990	\$ 782
Unrealized (loss) gain on available-for-sale debt securities, net of deferred tax	(3)	6	—
Total consolidated comprehensive income	653	996	782
Add: Comprehensive loss attributable to noncontrolling interests	—	12	44
Comprehensive income attributable to Illumina stockholders	<u>\$ 653</u>	<u>\$ 1,008</u>	<u>\$ 826</u>

See accompanying notes to consolidated financial statements.

ILLUMINA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)

	Illumina Stockholders									Total Stockholders' Equity
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock		Noncontrolling Interests		
	Shares	Amount				Shares	Amount			
Balance as of December 31, 2017	191	\$ 2	\$ 2,833	\$ (1)	\$ 2,256	(44)	\$ (2,341)	\$ —	\$ 2,749	
Net income (loss)	—	—	—	—	826	—	—	(10)	816	
Issuance of common stock, net of repurchases	1	—	46	—	—	(1)	(275)	—	(229)	
Share-based compensation	—	—	193	—	—	—	—	—	193	
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	127	—	—	—	—	—	127	
Vesting of redeemable equity awards	—	—	(2)	—	—	—	—	—	(2)	
Issuance of subsidiary shares	—	—	—	—	—	—	—	5	5	
Contributions from noncontrolling interest owners	—	—	—	—	—	—	—	92	92	
Issuance of convertible senior notes, net of tax impact	—	—	93	—	—	—	—	—	93	
Cumulative-effect adjustment from adoption of ASU 2016-01	—	—	—	—	1	—	—	—	1	
Balance as of December 30, 2018	192	2	3,290	(1)	3,083	(45)	(2,616)	87	3,845	
Net income (loss)	—	—	—	—	1,002	—	—	(3)	999	
Unrealized gain on available-for-sale debt securities, net of deferred tax	—	—	—	6	—	—	—	—	6	
Issuance of common stock, net of repurchases	2	—	59	—	—	(2)	(405)	—	(346)	
Share-based compensation	—	—	194	—	—	—	—	—	194	
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	16	—	—	—	—	—	16	
Deconsolidation of Helix	—	—	2	—	—	—	—	(84)	(82)	
Vesting of redeemable equity awards	—	—	(1)	—	—	—	—	—	(1)	
Cumulative-effect adjustment from adoption of ASU 2016-02, net of deferred tax	—	—	—	—	(18)	—	—	—	(18)	
Balance as of December 29, 2019	194	2	3,560	5	4,067	(47)	(3,021)	—	4,613	
Net income	—	—	—	—	656	—	—	—	656	
Unrealized loss on available-for-sale debt securities, net of deferred tax	—	—	—	(3)	—	—	—	—	(3)	
Issuance of common stock, net of repurchases	1	—	61	—	—	(2)	(827)	—	(766)	
Share-based compensation	—	—	194	—	—	—	—	—	194	
Balance as of January 3, 2021	195	\$ 2	\$ 3,815	\$ 2	\$ 4,723	(49)	\$ (3,848)	\$ —	\$ 4,694	

See accompanying notes to consolidated financial statements.

ILLUMINA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Cash flows from operating activities:			
Consolidated net income	\$ 656	\$ 990	\$ 782
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	156	151	140
Amortization of intangible assets	31	37	39
Share-based compensation expense	194	194	193
Accretion of debt discount	40	46	41
Deferred income taxes	117	11	(18)
Payment of accreted debt discount	—	(84)	—
Unrealized gains on marketable equity securities	(270)	(53)	(21)
Gains on deconsolidation	—	(54)	—
Loss on derivative assets related to terminated acquisition	116	8	—
Other	(33)	(1)	4
Changes in operating assets and liabilities:			
Accounts receivable	89	(58)	(105)
Inventory	(12)	25	(53)
Prepaid expenses and other current assets	(20)	(14)	5
Operating lease right-of-use assets and liabilities, net	(11)	(5)	—
Other assets	(33)	(30)	(9)
Accounts payable	40	(35)	45
Accrued liabilities	(7)	(44)	103
Other long-term liabilities	27	(33)	(4)
Net cash provided by operating activities	<u>1,080</u>	<u>1,051</u>	<u>1,142</u>
Cash flows from investing activities:			
Maturities of available-for-sale securities	493	1,387	860
Purchases of available-for-sale securities	(1,802)	(1,010)	(2,859)
Sales of available-for-sale securities	1,298	629	597
Purchases of property and equipment	(189)	(209)	(296)
Net purchases of strategic investments	(124)	(20)	(15)
Cash paid for derivative assets related to terminated acquisition	(132)	(18)	—
Deconsolidation of Helix cash	—	(29)	—
Proceeds from the deconsolidation of GRAIL	—	15	—
Net cash paid for acquisitions	(98)	—	(100)
Net cash (used in) provided by investing activities	<u>(554)</u>	<u>745</u>	<u>(1,813)</u>
Cash flows from financing activities:			
Payments on financing obligations	—	(550)	(4)
Net proceeds from issuance of debt	—	—	735
Common stock repurchases	(736)	(324)	(201)
Proceeds from issuance of common stock	61	59	46
Taxes paid related to net share settlement of equity awards	(91)	(82)	(74)
Contributions from noncontrolling interest owners	—	—	92
Net cash (used in) provided by financing activities	<u>(766)</u>	<u>(897)</u>	<u>594</u>
Effect of exchange rate changes on cash and cash equivalents	8	(1)	(4)
Net (decrease) increase in cash and cash equivalents	<u>(232)</u>	<u>898</u>	<u>(81)</u>
Cash and cash equivalents at beginning of year	<u>2,042</u>	<u>1,144</u>	<u>1,225</u>
Cash and cash equivalents at end of year	<u>\$ 1,810</u>	<u>\$ 2,042</u>	<u>\$ 1,144</u>
Supplemental cash flow information:			
Cash paid for income taxes	<u>\$ 119</u>	<u>\$ 164</u>	<u>\$ 99</u>
Cash paid for operating lease liabilities	<u>\$ 86</u>	<u>\$ 84</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to “Illumina,” “we,” “us,” the “Company,” and “our” refer to Illumina, Inc. and its consolidated subsidiaries.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview

We are a provider of sequencing- and array-based solutions, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments. Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include our accounts, our wholly-owned subsidiaries, majority-owned or controlled companies, and variable interest entities for which we are the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

Variable Interest Entities (VIEs)

We evaluate our ownership, contractual and other interests in entities that are not wholly-owned to determine if these entities are VIEs, and, if so, whether we are the primary beneficiary of the VIE. In determining whether we are the primary beneficiary of a VIE and therefore required to consolidate the VIE, we apply a qualitative approach that determines whether we have both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of, or the rights to receive benefits from, the VIE that could potentially be significant to that VIE. We continuously perform this assessment, as changes to existing relationships or future transactions may result in the consolidation or deconsolidation of a VIE. See note [“3. Investments and Fair Value Measurements”](#) for further details.

Use of Estimates

The preparation of the consolidated financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures of contingent assets and liabilities. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results could differ from those estimates.

Fiscal Year

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. References to 2020, 2019, and 2018 refer to fiscal years ended January 3, 2021, December 29, 2019, and December 30, 2018, respectively. Fiscal year 2020 was 53 weeks, and fiscal years 2019 and 2018 were both 52 weeks.

Functional Currency

The U.S. dollar is the functional currency of our international operations. We re-measure foreign subsidiaries' monetary assets and liabilities to the U.S. dollar and record the net gains or losses resulting from re-measurement in other income, net in the consolidated statements of income.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Concentrations of Risk**Customers**

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities, and other factors could negatively impact our operating results. A portion of our customers consist of university and research institutions that management believes are, to some degree, directly or indirectly supported by the United States Government. A significant change in current research funding, particularly with respect to the U.S. National Institutes of Health, could have an adverse impact on future revenues and results of operations.

International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles, and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability, and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed. Shipments to customers outside the United States comprised 49%, 48%, and 47% of total revenue in 2020, 2019, and 2018, respectively. Customers outside the United States represented 56% and 53% of our gross trade accounts receivable balance as of January 3, 2021 and December 29, 2019, respectively.

We had no customers that provided more than 10% of total revenue in 2020, 2019, and 2018. We perform regular reviews of customer activity and associated credit risks and do not require collateral or enter into netting arrangements. Historically, we have not experienced significant credit losses from accounts receivable.

Financial Instruments

We are also subject to risks related to our financial instruments, including cash and cash equivalents, investments, and accounts receivable. Most of our cash and cash equivalents as of January 3, 2021 were deposited with U.S. financial institutions, either domestically or with their foreign branches. Our investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio or 5% of the total issue size outstanding at the time of purchase and to any one industry sector, as defined by Clearwater Analytics (Industry Sector Report), to 30% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in debt securities, U.S. government-sponsored entities, U.S. Treasury securities, and money market funds. Historically, we have not experienced significant credit losses from financial instruments.

Suppliers

We require customized products and components that currently are available from a limited number of sources. We source certain key products and components included in our products from single vendors.

Segments

We report segment information based on the management approach. This approach designates the internal reporting used by the Chief Operating Decision Maker (CODM) for making decisions and assessing performance as the source of our reportable segments. The CODM allocates resources and assesses the performance of each operating segment using information about its revenue and income (loss) from operations. Management evaluates the performance of our reportable segments based upon income (loss) from operations. We do not allocate expenses between segments.

Accounting Pronouncements Adopted in 2020

In May 2020, the SEC issued Final Rule Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, which amends the disclosure requirements applicable to acquisitions and dispositions of businesses, including the required pro forma financial information. The amendments are effective for us beginning January 1, 2021, with early compliance permitted. Among other changes, the final amendments revised the investment and income tests used to determine whether a business acquisition is significant and reduced the filing requirements for financial statements and pro forma financial information of a significant acquired business to cover a maximum of two years. We elected to adopt the amendments in 2020 in connection with our pending acquisition of GRAIL, which is further described in note [“4. Intangible Assets, Goodwill, and Acquisitions”](#).

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables and available-for-sale debt securities. We adopted the standard on its effective date in the first quarter of 2020 using a modified retrospective approach. The cumulative effect of applying the new credit loss standard was not material and, therefore, did not result in an adjustment to retained earnings. There was no material difference to the consolidated financial statements in 2020 due to the adoption of ASU 2016-13.

In accordance with ASU 2016-13, we no longer evaluate whether our available-for-sale debt securities in an unrealized loss position are other than temporarily impaired. Instead, we assess whether such unrealized loss positions are credit-related. The credit-related portion of unrealized losses, and any subsequent improvements, are recorded in interest income through an allowance account. Unrealized gains and losses that are not credit-related are included in accumulated other comprehensive income (loss). We estimate our allowance for credit losses on our trade receivables as described in our Accounts Receivable policy, below.

Accounting Pronouncements Adopted in 2019

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize most leases on the balance sheet as lease liabilities with corresponding right-of-use assets and to disclose key information about leasing arrangements. We adopted Topic 842 on its effective date in the first quarter of 2019 using a modified retrospective approach by recognizing a cumulative-effect adjustment to retained earnings as of December 31, 2018. We elected the available package of practical expedients upon adoption, which allowed us to carry forward our historical assessment of whether existing agreements contained a lease and the classification of our existing operating leases.

The following table summarizes the impact of Topic 842 on our consolidated balance sheet upon adoption on December 31, 2018:

<i>In millions</i>	December 31, 2018		
	Pre-adoption	Adoption Impact	Post-adoption
ASSETS			
Prepaid expenses and other current assets	\$ 78	\$ (8)	\$ 70
Property and equipment, net	1,075	(241)	834
Operating lease right-of-use assets	—	579	579
Deferred tax assets, net	70	6	76
Total assets	\$ 1,223	\$ 336	\$ 1,559
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued liabilities	\$ 513	\$ 36	\$ 549
Operating lease liabilities	—	722	722
Long-term debt	1,107	(269)	838
Other long-term liabilities	359	(135)	224
Retained earnings	3,083	(18)	3,065
Total liabilities and stockholders' equity	\$ 5,062	\$ 336	\$ 5,398

The adoption impact summarized above was primarily due to the recognition of operating lease liabilities with corresponding right-of-use assets based on the present value of our remaining minimum lease payments, and the derecognition of existing fixed assets and financing obligations related to build-to-suit leasing arrangements that, under Topic 840, did not qualify for sale-leaseback accounting. The difference between these amounts, net of deferred tax, was recorded as a cumulative-effect adjustment to retained earnings.

Accounting Pronouncements Pending Adoption

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. The new standard reduces the number of accounting models for convertible debt instruments, amends the accounting for certain contracts in an

ILLUMINA, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

entity's own equity, and modifies how certain convertible instruments and contracts that may be settled in cash or shares impact the calculation of diluted EPS. The standard is effective for us beginning in the first quarter of 2022, with early adoption permitted in Q1 2021. We do not expect to early adopt the new standard. We are currently evaluating the impact of ASU 2020-06 on the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements.

We recognize revenue when control of our products and services is transferred to our customers in an amount that reflects the consideration we expect to receive from our customers in exchange for those products and services. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. Revenue recognition for contracts with multiple deliverables is based on the separate satisfaction of each distinct performance obligation within the contract. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. We consider a performance obligation satisfied once we have transferred control of a good or service to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service. The contract price is allocated to each performance obligation in proportion to its standalone selling price. We determine our best estimate of standalone selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, we rely upon prices set by management, adjusted for applicable discounts.

Revenue from product sales is recognized generally upon delivery to the end customer, which is when control of the product is deemed to be transferred. Invoicing typically occurs upon shipment and payment is typically due within 60 days from invoice. In instances where right of payment or transfer of title is contingent upon the customer's acceptance of the product, revenue is deferred until all acceptance criteria have been met. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from development and licensing agreements generally includes upfront and periodic licensing fees, contract research and development services, or payments for development and regulatory milestones. Revenue for these agreements is recognized when each distinct performance obligation is satisfied.

Revenue is recorded net of discounts, distributor commissions, and sales taxes collected on behalf of governmental authorities. Employee sales commissions are recorded as selling, general and administrative expenses when incurred as the amortization period for such costs, if capitalized, would have been one year or less.

In certain markets, products and services are sold to customers through distributors. In most sales through distributors, the product is delivered directly to customers by us. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers.

Earnings per Share

Basic earnings per share attributable to Illumina stockholders is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to Illumina stockholders is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Up to April 25, 2019, the date of the Helix deconsolidation, per-share losses of Helix were included in the consolidated basic and diluted earnings per share computations based on our share of the entities' securities.

Potentially dilutive common shares consist of shares issuable under convertible senior notes and equity awards. Convertible senior notes have a dilutive impact when the average market price of our common stock exceeds the applicable conversion price of the respective notes. Potentially dilutive common shares from equity awards are

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

determined using the average share price for each period under the treasury stock method. In addition, proceeds from exercise of equity awards and the average amount of unrecognized compensation expense for equity awards are assumed to be used to repurchase shares.

The following table presents the calculation of weighted average shares used to calculate basic and diluted earnings per share:

<i>In millions</i>	Years Ended		
	January 3, 2021	December 29, 2019	December 30, 2018
Weighted average shares outstanding	147	147	147
Effect of potentially dilutive common shares from:			
Equity awards	1	1	1
Convertible senior notes	—	1	1
Weighted average shares used in calculating diluted earnings per share	148	149	149

Fair Value Measurements

The fair value of assets and liabilities are based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We use a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities approximate the related fair values due to the short-term maturities of these instruments.

Cash Equivalents and Debt Securities

Cash equivalents are comprised of short-term, highly-liquid investments with maturities of 90 days or less at the date of purchase.

We hold debt securities in U.S. government-sponsored entities, corporate debt securities, and U.S. Treasury securities. We have the ability, if necessary, to liquidate any of our short-term debt securities to meet our liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase are classified as short-term investments on the accompanying consolidated balance sheets. We classify short-term debt investments as available-for-sale at the time of purchase and evaluate such classification as of each balance sheet date. All short-term debt investments are recorded at estimated fair value. We evaluate our available-for-sale debt securities in an unrealized loss position to assess whether such unrealized loss positions are credit-related. The credit-related portion of unrealized losses, and any subsequent improvements, are recorded in interest income through an allowance account. Unrealized gains and losses that are not credit-related are included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains and losses are determined based on the specific identification method and are recorded in interest income in the consolidated statements of income.

Equity Securities and Investments

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We have strategic investments in privately-held companies (non-marketable equity securities) and companies that have completed initial public offerings (marketable equity securities). Our marketable equity securities are measured at fair value. Our non-marketable equity securities without readily determinable market values are initially measured at cost and adjusted to fair value for observable transactions for identical or similar investments of the same issuer or impairment. Equity investments are classified as current or noncurrent based on the nature of the securities and their availability for use in current operations. Unrealized gains and losses for equity investments are recorded in other income, net in the consolidated statements of income.

Our equity investments are assessed for impairment quarterly. Impairment losses, equal to the difference between the carrying value and the fair value of the investment, are recorded in other income, net.

We use the equity method to account for investments through which we have the ability to exercise significant influence, but not control, over the investee. Such investments are recorded in other assets, and our share of net income or loss is recognized on a one quarter lag in other income, net.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest-bearing. Receivables are considered past due based on the contractual payment terms. We reserve specific receivables when collectibility is no longer probable. We also reserve a percentage of our trade receivable balance based on collection history and current economic trends that we expect will impact the level of credit losses over the life of our receivables. These reserves are re-evaluated on a regular basis and adjusted, as needed. Once a receivable is deemed to be uncollectible, such balance is charged against the reserve.

Inventory

Inventory is stated at the lower of cost or net realizable value, on a first-in, first-out basis. Inventory includes raw materials and finished goods that may be used in the research and development process, and such items are expensed as consumed or capitalized as property and equipment and depreciated. Inventory write-downs for slow-moving, excess, and obsolete inventories are estimated based on product life cycles, quality issues, historical experience, and usage forecasts.

Property and Equipment

Property and equipment are stated at cost, subject to review for impairment, and depreciated over the estimated useful lives of the assets, using the straight-line method. Depreciation of leasehold improvements is recorded over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are expensed as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Costs incurred to develop internal-use software during the application development stage are recorded as computer software costs, at cost. Costs incurred in the development of such internal-use software, including external direct costs of materials and services and applicable compensation costs of employees devoted to specific software application development, are capitalized. Cost incurred outside of the application development stage are expensed as incurred.

The estimated useful lives of the major classes of property and equipment are generally as follows:

	Estimated Useful Lives
Buildings and leasehold improvements	4 to 20 years
Machinery and equipment	3 to 5 years
Computer hardware and software	3 to 9 years
Furniture and fixtures	7 years

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Leases

We lease approximately 2.6 million square feet of office, lab, manufacturing, and distribution facilities under various non-cancellable operating lease agreements (real estate leases). Our real estate leases have remaining lease terms of approximately 1 to 19 years, which represent the non-cancellable periods of the leases and include extension options that we determined are reasonably certain to be exercised. We exclude extension options that are not reasonably certain to be exercised from our lease terms, ranging from approximately 6 months to 20 years. Our lease payments consist primarily of fixed rental payments for the right to use the underlying leased assets over the lease terms as well as payments for common-area-maintenance and administrative services. We often receive customary incentives from our landlords, such as reimbursements for tenant improvements and rent abatement periods, which effectively reduce the total lease payments owed for these leases. Leases are classified as operating or financing at commencement. We do not have any material financing leases.

Operating lease right-of-use assets and liabilities on our consolidated balance sheets represent the present value of our remaining lease payments over the remaining lease terms. We do not allocate lease payments to non-lease components; therefore, fixed payments for common-area-maintenance and administrative services are included in our operating lease right-of-use assets and liabilities. We use our incremental borrowing rate to calculate the present value of our lease payments, as the implicit rates in our leases are not readily determinable. Operating lease costs consist primarily of the fixed lease payments included in our operating lease liabilities and are recorded on a straight-line basis over the lease terms. We sublease certain real estate to third parties and this sublease income is also recorded on a straight-line basis.

Goodwill, Intangible Assets and Other Long-Lived Assets

Assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of the net assets acquired.

Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. During the goodwill impairment review, we assess qualitative factors to determine whether it is more likely than not that the fair values of our reporting units are less than the carrying amounts, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance. If, after assessing the totality of these qualitative factors, we determine that it is not more likely than not that the fair values of our reporting units are less than the carrying amounts, then no additional assessment is deemed necessary. Otherwise, we proceed to compare the estimated fair values of the reporting units with the carrying values, including goodwill. If the carrying amounts of the reporting units exceed the fair values, we record an impairment loss based on the difference. We may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the quantitative goodwill impairment test.

Our identifiable intangible assets are typically comprised of acquired core technologies, licensed technologies, customer relationships, license agreements, and trade names. The cost of identifiable intangible assets with finite lives is generally amortized on a straight-line basis over the assets' respective estimated useful lives.

We perform regular reviews to determine if any event has occurred that may indicate that intangible assets with finite useful lives and other long-lived assets are potentially impaired. If indicators of impairment exist, an impairment test is performed to assess the recoverability of the affected assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If the affected assets are not recoverable, we estimate the fair value of the assets and record an impairment loss if the carrying value of the assets exceeds the fair value. Factors that may indicate potential impairment include a significant decline in our stock price and market capitalization compared to the net book value, significant changes in the ability of a particular asset to generate positive cash flows for our strategic business objectives, and the pattern of utilization of a particular asset.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Derivative Financial Instruments

We are exposed to foreign exchange rate risks in the normal course of business and use derivative financial instruments to partially offset this exposure. We do not use derivative financial instruments for speculative or trading purposes. All foreign exchange contracts are carried at fair value in other current assets or accrued liabilities on the consolidated balance sheet.

We use foreign exchange forward contracts to manage foreign currency risks related to monetary assets and liabilities denominated in currencies other than the U.S. dollar. These derivative financial instruments have terms of one month or less and are not designated as hedging instruments. Changes in fair value of these derivatives are recognized in other income, net, along with the re-measurement gain or loss on the foreign currency denominated assets or liabilities. As of January 3, 2021, we had foreign exchange forward contracts in place to hedge exposures to monetary assets and liabilities denominated in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, Chinese Yuan Renminbi, and British pound. As of January 3, 2021 and December 29, 2019, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases was \$405 million and \$252 million, respectively.

We also use foreign currency forward contracts to hedge portions of our foreign currency exposure associated with forecasted revenue transactions. These derivative financial instruments have terms of twelve months or less and are designated as cash flow hedges. Changes in fair value of our cash flow hedges are recorded as a component of accumulated other comprehensive income and are reclassified to revenue in the same period the underlying hedged transactions are recorded. We regularly review the effectiveness of our cash flow hedges and consider them to be ineffective if it becomes probable that the forecasted transactions will not occur in the identified period. Changes in fair value of the ineffective portions of our cash flow hedges, if any, will be recognized in other income, net. As of January 3, 2021, we had foreign currency forward contracts in place to hedge exposures associated with forecasted revenue transactions denominated in the euro, Japanese yen, Australian dollar, and Canadian dollar. As of January 3, 2021, the total notional amounts of outstanding cash flow hedge contracts in place for these foreign currency purchases was \$305 million. There were no outstanding cash flow hedge contracts in place as of December 29, 2019.

Our derivative financial instruments did not have a material impact on our consolidated financial statements in any of the years presented.

Warranties

We generally provide a one-year warranty on instruments. Additionally, we provide a warranty on consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, an accrual is established for estimated warranty expenses based on historical experience as well as anticipated product performance. We periodically review the warranty reserve for adequacy and adjust the warranty accrual, if necessary, based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

Share-Based Compensation

Share-based compensation expense is incurred related to restricted stock and Employee Stock Purchase Plan (ESPP).

Restricted stock units (RSU) and performance stock units (PSU) are both considered restricted stock. The fair value of restricted stock is determined by the closing market price of our common stock on the date of grant. Share-based compensation expense is recognized based on the fair value on a straight-line basis over the requisite service periods of the awards. PSU represents a right to receive a certain number of shares of common stock based on the achievement of corporate performance goals and continued employment during the vesting period. At each reporting period, we reassess the probability of the achievement of such corporate performance goals and any increase or decrease in share-based compensation expense resulting from an adjustment in the estimated shares to be released is treated as a cumulative catch-up in the period of adjustment.

The Black-Scholes-Merton option-pricing model is used to estimate the fair value of stock purchased under our ESPP. The model assumptions include expected volatility, term, dividends, and the risk-free interest rate. The expected

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

volatility is determined by equally weighing the historical and implied volatility of our common stock. The historical volatility is generally commensurate with the estimated expected term, adjusted for the impact of unusual fluctuations and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on our common stock. The expected term is based on historical forfeiture experience and the terms and conditions of the ESPP. The expected dividend yield is determined to be 0% given that we have never declared or paid cash dividends on our common stock and do not anticipate paying such cash dividends. The risk-free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected term of the share-based awards.

Forfeitures are accounted for, as incurred, as a reversal of share-based compensation expense related to awards that will not vest.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue.

Research and Development

Research and development expenses include personnel expenses, contractor fees, facilities-related costs, material costs, and license fees. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$28 million, \$28 million, and \$38 million in 2020, 2019, and 2018, respectively.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when we believe it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise, we consider all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The impact of a tax position is recognized in the consolidated financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

2. REVENUE

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue by Source

<i>in millions</i>	2020			2019			2018		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	\$ 2,039	\$ 265	\$ 2,304	\$ 2,075	\$ 317	\$ 2,392	\$ 1,824	\$ 353	\$ 2,177
Instruments	417	14	431	517	20	537	535	37	572
Total product revenue	2,456	279	2,735	2,592	337	2,929	2,359	390	2,749
Service and other revenue	423	81	504	476	138	614	416	168	584
Total revenue	\$ 2,879	\$ 360	\$ 3,239	\$ 3,068	\$ 475	\$ 3,543	\$ 2,775	\$ 558	\$ 3,333

Revenue by Geographic Area

Based on region of destination (in millions)

	2020	2019	2018
Americas (1)	\$ 1,744	\$ 1,970	\$ 1,864
Europe, Middle East, and Africa	886	933	851
Greater China (2)	342	372	365
Asia-Pacific	267	268	253
Total revenue	\$ 3,239	\$ 3,543	\$ 3,333

(1) Revenue for the Americas region included United States revenue of \$1,655 million, \$1,859 million, and \$1,779 million in 2020, 2019, and 2018, respectively.

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

Performance Obligations

We regularly enter into contracts with multiple performance obligations. Most performance obligations are generally satisfied within a short time frame, approximately three to six months, after the contract execution date. As of January 3, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was \$816 million, of which approximately 90% is expected to be converted to revenue through 2021, approximately 7% in the following twelve months, and the remainder thereafter.

Contract Liabilities

Contract liabilities, which consist of deferred revenue and customer deposits, as of January 3, 2021 and December 29, 2019 were \$230 million and \$209 million, respectively, of which the short-term portions of \$186 million and \$167 million, respectively, were recorded in accrued liabilities and the remaining long-term portions were recorded in other long-term liabilities. Revenue recorded in 2020 included \$156 million of previously deferred revenue that was included in contract liabilities as of December 29, 2019.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Debt Securities

Our short-term investments are primarily available-for-sale debt securities that consisted of the following:

<i>In millions</i>	January 3, 2021			December 29, 2019		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Debt securities in government-sponsored entities	\$ 10	\$ —	\$ 10	\$ 18	\$ —	\$ 18
Corporate debt securities	445	—	445	627	3	630
U.S. Treasury securities	830	1	831	616	2	618
Total	<u>\$ 1,285</u>	<u>\$ 1</u>	<u>\$ 1,286</u>	<u>\$ 1,261</u>	<u>\$ 5</u>	<u>\$ 1,266</u>

Contractual maturities of available-for-sale debt securities, as of January 3, 2021, were as follows:

<i>In millions</i>	Estimated Fair Value
Due within one year	\$ 1,286
After one but within five years	—
Total	<u>\$ 1,286</u>

Strategic Investments**Marketable Equity Securities**

As of January 3, 2021 and December 29, 2019, the fair value of our marketable equity securities, included in short-term investments, totaled \$376 million and \$106 million, respectively. Total unrealized gains on our marketable equity securities, included in other income, net, were \$270 million, \$53 million, and \$21 million in 2020, 2019, and 2018, respectively.

Non-Marketable Equity Securities

As of January 3, 2021 and December 29, 2019, the aggregate carrying amounts of our non-marketable equity securities without readily determinable fair values, included in other assets, were \$314 million and \$220 million, respectively.

One of our investments, GRAIL, is a VIE for which we have concluded that we are not the primary beneficiary, and therefore, we do not consolidate GRAIL in our consolidated financial statements. On September 20, 2020, we entered into an agreement to acquire GRAIL, as described in note [“4. Intangible Assets, Goodwill, and Acquisitions”](#). We have determined our maximum exposure to loss, excluding any amounts associated with the pending acquisition of GRAIL, to be the carrying value of our investment, which was \$250 million and \$190 million as of January 3, 2021 and December 29, 2019, respectively, recorded in other assets. During 2020, we made an additional \$60 million investment in GRAIL.

Revenue recognized from transactions with our strategic investees was \$62 million, \$71 million, and \$143 million in 2020, 2019, and 2018, respectively.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Venture Funds

We invest in two venture capital investment funds (the Funds) with capital commitments of \$100 million, callable through April 2026, and up to \$160 million, callable through July 2029, respectively, of which \$35 million and up to \$140 million, respectively, remained callable as of January 3, 2021. Our investments in the Funds are accounted for as equity-method investments. The aggregate carrying amounts of the Funds, included in other assets, were \$104 million and \$53 million as of January 3, 2021 and December 29, 2019, respectively.

Previously Consolidated Variable Interest Entity*Helix Holdings I, LLC (Helix)*

In July 2015, we obtained a 50% voting equity ownership interest in Helix. At that time, we determined that we had unilateral power over one of the activities that most significantly impacts the economic performance of Helix through its contractual arrangements and, as a result, we were deemed to be the primary beneficiary of Helix and were required to consolidate Helix. The operations of Helix are included in the accompanying consolidated statements of income for 2018 and 2019, up to the date of the deconsolidation, described below. During this period, we absorbed 50% of Helix's losses.

On April 25, 2019, we entered into an agreement to sell our interest in, and relinquish control over, Helix. As part of the agreement, (i) Helix repurchased all of our outstanding equity interests in exchange for a contingent value right with a 7-year term that entitles us to consideration dependent upon the outcome of Helix's future financing and/or liquidity events, (ii) we ceased having a controlling financial interest in Helix, including unilateral power over one of the activities that most significantly impacts the economic performance of Helix, (iii) we were relieved of any potential obligation to redeem certain noncontrolling interests, and (iv) we no longer have representation on Helix's board of directors. As a result, we deconsolidated Helix's financial statements effective April 25, 2019 and recorded a gain on deconsolidation in 2019 of \$39 million in other income, net. The gain on deconsolidation included (i) the contingent value right received from Helix recorded at a fair value of approximately \$30 million, (ii) the derecognition of the carrying amounts of Helix's assets and liabilities, and (iii) the derecognition of the noncontrolling interests related to Helix.

Changes in the fair value of the contingent value right resulted in an unrealized gain of \$7 million in 2020 and an unrealized loss of \$1 million in 2019, included in other income, net.

Derivative Assets Related to Terminated Acquisition

On November 1, 2018, we entered into an [Agreement and Plan of Merger](#) (the Merger Agreement) to acquire Pacific Biosciences of California, Inc. (PacBio) for an all-cash price of approximately \$1.2 billion (or \$8.00 per share). On January 2, 2020, we entered into an agreement to [terminate the Merger Agreement](#) (the Termination Agreement). Pursuant to the Termination Agreement, we made a cash payment to PacBio of \$98 million on January 2, 2020, which represented the Reverse Termination Fee (as defined in the Merger Agreement). The Reverse Termination Fee was repayable, without interest, if PacBio entered into a definitive agreement providing for, or consummating, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement), and such transaction was consummated by the two-year anniversary of the execution of the definitive agreement for such Change of Control Transaction. PacBio did not enter into a definitive agreement that provided for, or consummated, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement); therefore, the Reverse Termination Fee is no longer repayable. In addition, we made cash payments of \$18 million in Q4 2019, pursuant to [Amendment No. 1 to the PacBio Merger Agreement](#), and \$34 million in Q1 2020, pursuant to the Termination Agreement, collectively referred to as the Continuation Advances. Up to the \$52 million of Continuation Advances is repayable without interest to us if, within two years of March 31, 2020, PacBio enters into a Change of Control Transaction or raises at least \$100 million in equity or debt financing in a single transaction (with the amount repayable dependent on the amount raised by PacBio). On February 10, 2021, PacBio announced their entry into an investment agreement with SB Northstar LP relating to the issuance and sale of \$900 million in aggregate principal amount of PacBio's convertible notes. Pursuant to the PacBio Merger Agreement, we expect that, upon the closing of the convertible notes issuance, PacBio will be obligated to repay to us \$52 million of Continuation Advances.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The potential repayment of the Continuation Advances and Reverse Termination Fee meet the definition of derivative assets and are recorded at fair value. The \$92 million difference between the \$132 million in cash paid during Q1 2020 for the Continuation Advances and Reverse Termination Fee and the \$40 million fair value of these derivative assets on the payment dates was recorded as selling, general and administrative expenses in 2020. The \$8 million difference between the \$18 million in Continuation Advances paid in Q4 2019 and the \$10 million fair value of the derivative asset on the payment date was recorded as selling, general, and administrative expenses in 2019. Changes in the fair value of the derivative assets are included in other income, net, and totaled \$25 million in unrealized losses in 2020.

Fair Value Measurements

The following table presents the hierarchy for assets and liabilities measured at fair value on a recurring basis:

<i>In millions</i>	January 3, 2021				December 29, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	\$ 1,512	\$ —	\$ —	\$ 1,512	\$ 1,732	\$ —	\$ —	\$ 1,732
Debt securities in government-sponsored entities	—	10	—	10	—	18	—	18
Corporate debt securities	—	445	—	445	—	630	—	630
U.S. Treasury securities	831	—	—	831	618	—	—	618
Marketable equity securities	376	—	—	376	106	—	—	106
Contingent value right	—	—	35	35	—	—	29	29
Derivative assets related to terminated acquisition	—	—	26	26	—	—	10	10
Deferred compensation plan assets	—	55	—	55	—	48	—	48
Total assets measured at fair value	<u>\$ 2,719</u>	<u>\$ 510</u>	<u>\$ 61</u>	<u>\$ 3,290</u>	<u>\$ 2,456</u>	<u>\$ 696</u>	<u>\$ 39</u>	<u>\$ 3,191</u>
Liabilities:								
Deferred compensation plan liability	<u>\$ —</u>	<u>\$ 51</u>	<u>\$ —</u>	<u>\$ 51</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 46</u>

Our available-for-sale securities consist of highly-liquid, investment-grade debt securities and marketable equity securities. We consider information provided by our investment accounting and reporting service provider in the measurement of fair value of our debt securities. The investment service provider provides valuation information from an industry-recognized valuation service. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. Our marketable equity securities are measured at fair value based on quoted trade prices in active markets. Our deferred compensation plan assets consist primarily of investments in life insurance contracts carried at cash surrender value, which reflects the net asset value of the underlying publicly traded mutual funds. We perform control procedures to corroborate the fair value of our holdings, including comparing valuations obtained from our investment service provider to valuations reported by our asset custodians, validating pricing sources and models, and reviewing key model inputs, if necessary. We elected the fair value option to measure the contingent value right received from Helix. The fair value of our contingent value right, included in other assets, is derived using a Monte Carlo simulation. The derivative assets related to the terminated acquisition of PacBio are financial instruments measured at fair value, included in other assets. Significant estimates and assumptions required for these valuations include, but are not limited to, probabilities related to the timing and outcome of future financing and/or liquidity events and an assumption regarding collectibility. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INTANGIBLE ASSETS, GOODWILL, AND ACQUISITIONS
Intangible Assets

<i>In millions</i>	January 3, 2021			December 29, 2019		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technologies	\$ 95	\$ (91)	\$ 4	\$ 95	\$ (89)	\$ 6
Core technologies	352	(221)	131	325	(195)	130
Customer relationships	31	(27)	4	31	(27)	4
License agreements	14	(11)	3	14	(10)	4
Trade name	4	(4)	—	4	(3)	1
Total intangible assets, net	<u>\$ 496</u>	<u>\$ (354)</u>	<u>\$ 142</u>	<u>\$ 469</u>	<u>\$ (324)</u>	<u>\$ 145</u>

The estimated annual amortization of intangible assets for the next five years is shown in the following table. Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, and asset impairments, among other factors.

<i>In millions</i>	Estimated Annual Amortization
2021	\$ 28
2022	24
2023	23
2024	21
2025	21
Thereafter	25
Total	<u>\$ 142</u>

We recorded a developed technology intangible asset of \$26 million, with a useful life of 10 years, as a result of an acquisition in 2020.

Goodwill

<i>In millions</i>	Goodwill
Balance as of December 30, 2018	\$ 831
Helix deconsolidation	(7)
Balance as of December 29, 2019	<u>824</u>
Acquisitions	<u>73</u>
Balance as of January 3, 2021	<u>\$ 897</u>

Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. We performed the annual assessment for goodwill impairment in the second quarter of 2020, noting no impairment.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pending Acquisition

GRAIL

On September 20, 2020, we entered into an Agreement and Plan of Merger (the “GRAIL [Merger Agreement](#)”) to acquire GRAIL for \$8 billion, consisting of \$3.5 billion in cash and \$4.5 billion in shares of Illumina common stock, subject to a collar. The transaction, which is expected to close in the second half of 2021, is subject to certain customary closing conditions, including GRAIL shareholder approval and the receipt of required regulatory approvals.

The cash consideration for the transaction is expected to be funded using balance sheet cash of both Illumina and GRAIL, plus up to \$1 billion in capital raised through a debt issuance. In advance of this anticipated issuance, we have obtained a bridge facility commitment letter from Goldman Sachs Bank USA for a 364-day senior unsecured bridge loan facility, in an aggregate principal amount of \$1 billion. The bridge facility commitment letter is subject to certain conditions, including consummation of the acquisition pursuant to the GRAIL Merger Agreement. It is anticipated that we will replace or repay some or all of the bridge facility through the issuance of debt securities.

In connection with the transaction, GRAIL stockholders will receive contingent value rights, which will entitle holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of certain revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Pursuant to the GRAIL Merger Agreement, we will offer GRAIL stockholders the option to receive additional cash and/or stock consideration, in an amount to be determined prior to closing, in lieu of the contingent value rights.

Since the acquisition of GRAIL as contemplated by the GRAIL Merger Agreement was not consummated prior to December 20, 2020, we will make monthly cash payments to GRAIL of \$35 million (the “Continuation Payments”) until the earlier of the consummation of the acquisition or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made Continuation Payments to GRAIL totaling \$35 million in 2020. In January 2021, we made an additional monthly payment of \$35 million to GRAIL. If the GRAIL Merger Agreement is terminated, we will receive shares of non-voting GRAIL preferred stock in respect of all Continuation Payments in excess of \$315 million, subject to certain terms and conditions.

The GRAIL Merger Agreement contains certain termination rights if the consummation of the acquisition does not occur on or before September 20, 2021, subject to a three-month extension related to obtaining certain required regulatory clearances. Upon termination of the GRAIL Merger Agreement under specified circumstances, we would be required to pay a termination fee of \$300 million and make an additional \$300 million investment in GRAIL in exchange for shares of non-voting GRAIL preferred stock, subject to certain terms and conditions.

5. DEBT AND OTHER COMMITMENTS

Summary of debt obligations

<i>In millions</i>	January 3, 2021	December 29, 2019
Principal amount of 2023 Notes outstanding	\$ 750	\$ 750
Principal amount of 2021 Notes outstanding	517	517
Unamortized discount of liability component of convertible senior notes	(83)	(126)
Net carrying amount of liability component of convertible senior notes	1,184	1,141
Less: current portion	(511)	—
Long-term debt	\$ 673	\$ 1,141
Carrying value of equity component of convertible senior notes, net of debt issuance costs	\$ 213	\$ 213
Fair value of convertible senior notes outstanding (Level 2)	\$ 1,595	\$ 1,549
Weighted average remaining amortization period of discount on the liability component of convertible senior notes	2.4 years	3.2 years

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Bridge Facility

In advance of the acquisition of GRAIL, we have obtained a bridge facility commitment letter from Goldman Sachs Bank USA for a 364-day senior unsecured bridge loan facility, in an aggregate principal amount of \$1 billion. The bridge facility commitment letter is subject to certain conditions, including consummation of the acquisition pursuant to the GRAIL Merger Agreement. It is anticipated that we will replace or repay some or all of the bridge facility through the issuance of debt securities. See note [“4. Intangible Assets, Goodwill, and Acquisitions”](#) for further details.

0% Convertible Senior Notes due 2023 (2023 Notes)

On August 21, 2018, we issued \$750 million aggregate principal amount of convertible senior notes due 2023 (2023 Notes). The net proceeds from the issuance, after deducting the offering expenses payable by us, were \$735 million. The 2023 Notes carry no coupon interest and mature on August 15, 2023.

The 2023 Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, based on an initial conversion rate, subject to adjustment, of 2.1845 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$457.77 per share of common stock), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price in effect on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of 2023 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events described in the indenture. Regardless of the foregoing circumstances, the holders may convert their notes on or after May 15, 2023 until August 11, 2023.

It is our intent and policy to settle conversions through combination settlement; this involves repayment of an amount of cash equal to the “principal amount” and delivery of the “share amount” in excess of the conversion value over the principal amount in shares of common stock. In general, for each \$1,000 in principal, the “principal amount” of cash upon settlement is defined as the lesser of \$1,000 and the conversion value during the 20-day observation period. The conversion value is the sum of the daily conversion value, which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price (VWAP) of our common stock. The “share amount” is the cumulative “daily share amount” during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and \$1,000.

We may redeem for cash all or any portion of the 2023 Notes, at our option, on or after August 20, 2021 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect (currently \$595.10) for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid special interest to, but excluding, the redemption date.

The 2023 Notes are accounted for in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by estimating the fair value of a similar liability that does not have an associated conversion feature. Because we have no outstanding non-convertible public debt, we determined that market-traded senior, unsecured corporate bonds represent a similar liability without a conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in our industry, and with similar maturities to the 2023 Notes, we estimated an implied interest rate of 3.7%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2023 Notes, which resulted in a fair value of the liability component in aggregate of \$624 million upon issuance, calculated as the present value of implied future payments based on the \$750

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

million aggregate principal amount. The \$126 million difference (\$93 million, net of tax) between the aggregate principal amount of \$750 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2023 Notes are not considered redeemable.

As a policy election under applicable guidance related to the calculation of diluted net income per share, we have elected the combination settlement method as our stated settlement policy and apply the treasury stock method in the calculation of the potential dilutive impact of the 2023 Notes on net income per share each period. The 2023 Notes were not convertible as of January 3, 2021 and had no dilutive impact in 2020, 2019, and 2018. If the 2023 Notes were converted as of January 3, 2021, the if-converted value would not exceed the principal amount.

0.5% Convertible Senior Notes due 2021 (2021 Notes)

In June 2014, we issued \$517 million aggregate principal amount of convertible senior notes due 2021. The net proceeds from the issuance, after deducting the offering expenses payable by us, were \$509 million. We pay 0.5% interest per annum on the principal amount of the 2021 Notes, payable semiannually in arrears in cash on June 15 and December 15 of each year, beginning on December 15, 2014. The 2021 Notes mature on June 15, 2021.

The 2021 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at our election, based on an initial conversion rate, subject to adjustment, of 3.9318 shares per \$1,000 principal amount of the notes (which represents an initial conversion price of approximately \$254.34 per share), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending September 30, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period (the "measurement period") in which the trading price per 2021 Notes for each day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified events described in the indenture for the 2021 Notes. Regardless of the foregoing circumstances, the holders may convert their notes on or after March 15, 2021 until June 11, 2021.

It is our intent and policy to settle conversions through combination settlement; this involves repayment of an amount of cash equal to the "principal portion" and delivery of the "share amount" in excess of the conversion value over the principal portion in shares of common stock. In general, for each \$1,000 in principal, the "principal portion" of cash upon settlement is defined as the lesser of \$1,000 and the conversion value during the 20-day observation period. The conversion value is the sum of the daily conversion value which is the product of the effective conversion rate divided by 20 days and the daily volume weighted average price (VWAP) of our common stock. The "share amount" is the cumulative "daily share amount" during the observation period, which is calculated by dividing the daily VWAP into the difference between the daily conversion value (i.e., conversion rate x daily VWAP) and \$1,000.

The 2021 Notes are accounted for in accordance with authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The guidance requires the carrying amount of the liability component to be estimated by estimating the fair value of a similar liability that does not have an associated conversion feature. Because we have no outstanding non-convertible public debt, we determined that market-traded senior, unsecured corporate bonds represent a similar liability without the conversion option. Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry as us, and with similar maturities to the 2021 Notes, we estimated the implied interest rate of our 2021 Notes to be 3.5%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the 2021 Notes, which resulted in a fair value of the liability component in aggregate of \$423 million upon issuance, calculated as the present value of implied future payments based on the \$517 million aggregate principal amount. The \$87 million difference between the cash proceeds of \$510 million and the estimated fair value of the liability component was recorded in additional paid-in capital as the 2021 Notes are not considered redeemable.

As a policy election under applicable guidance related to the calculation of diluted net income per share, we elected the combination settlement method as our stated settlement policy and apply the treasury stock method in the calculation of the potential dilutive impact of the 2021 Notes. The market price of our common stock met the stock

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

trading price conversion requirement of \$330.64 and the 2021 Notes became convertible on January 1, 2021. The potential dilutive impact of the 2021 notes has been included in our calculation of diluted earnings per share in 2020, 2019, and 2018. If the 2021 Notes were converted as of January 3, 2021, the if-converted value would exceed the principal amount by \$204 million.

0% Convertible Senior Notes due 2019 (2019 Notes)

In June 2014, we issued \$633 million aggregate principal amount of 2019 Notes, and the implied estimated effective rate of the liability component of the Notes was 2.9%, assuming no conversion option. The net proceeds from the issuance, after deducting the offering expenses payable by us, were \$623 million. The \$74 million difference between the cash proceeds of \$623 million and the estimated fair value of the liability component of \$549 million was recorded in additional paid-in capital as the 2019 Notes were not considered redeemable. The 2019 Notes matured on June 15, 2019, by which time the principal had been converted and was repaid in cash. The excess of the conversion value over the principal amount was paid in shares of common stock.

The following table summarizes information about the conversion of the 2019 Notes during 2019:

<i>In millions</i>	
Cash paid for principal of notes converted	\$ 633
Conversion value over principal amount, paid in shares of common stock	\$ 153
Number of shares of common stock issued upon conversion	0.4

Leases

As of January 3, 2021, the maturities of our operating lease liabilities were as follows:

<i>In millions</i>	
2021	\$ 82
2022	85
2023	92
2024	91
2025	86
Thereafter	488
Total remaining lease payments (1)	924
Less: imputed interest	(202)
Total operating lease liabilities	722
Less: current portion	(51)
Long-term operating lease liabilities	\$ 671
Weighted-average remaining lease term	10.5 years
Weighted-average discount rate	4.5 %

(1) Total remaining lease payments exclude \$18 million of legally binding minimum lease payments for leases signed but not yet commenced.

The components of our lease costs were as follows:

<i>In millions</i>		2020	2019
Operating lease costs	\$	84	\$ 84
Sublease income		(11)	(12)
Total lease costs	\$	73	\$ 72

Rent expense was \$55 million in 2018 and the interest portion of lease expense for our build-to-suit arrangements was \$13 million. Upon adoption of Topic 842 on December 31, 2018, we began to account for our build-to-suit

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

arrangements as operating leases. See note “[1. Organization and Significant Accounting Policies](#)” for further details on the adoption of Topic 842.

Purchase Obligations

In the normal course of business, we enter into agreements to purchase goods or services that are not cancelable without penalty, primarily related to licensing and supply arrangements. For those agreements with variable terms, we do not estimate the total obligation beyond any minimum quantities or pricing as of the reporting date. Licensing agreements under which we commit to minimum royalty payments, some of which are subject to adjustment, may be terminated prior to the expiration of underlying intellectual property under certain circumstances. Annual minimum payments for noncancelable purchase obligations as of January 3, 2021 were not material.

6. STOCKHOLDERS' EQUITY

The 2015 Stock and Incentive Compensation Plan (the 2015 Stock Plan) and the New Hire Stock and Incentive Plan allow for the issuance of stock options, restricted stock units and awards, and performance stock units. As of January 3, 2021, approximately 3.5 million shares remained available for future grants under the 2015 Stock Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Restricted Stock

We issue restricted stock units (RSU) and performance stock units (PSU), both of which are considered restricted stock. We grant restricted stock pursuant to the 2015 Stock Plan and satisfy such grants through the issuance of new shares. RSU are share awards that, upon vesting, will deliver to the holder shares of our common stock. RSU generally vest over a four-year period with equal vesting annually. We issue PSU for which the number of shares issuable at the end of a three-year performance period is based on our performance relative to specified earnings per share targets and continued employment through the vesting period.

Restricted stock activity was as follows:

<i>Units in thousands</i>	Restricted Stock Units (RSU)	Performance Stock Units (PSU)(1)	Weighted-Average Grant-Date Fair Value per Share	
			RSU	PSU
Outstanding at December 31, 2017	2,085	542	\$ 172.92	\$ 166.15
Awarded	655	336	\$ 322.04	\$ 232.08
Vested	(731)	(188)	\$ 170.50	\$ 176.15
Cancelled	(169)	(30)	\$ 172.30	\$ 162.54
Outstanding at December 30, 2018	1,840	660	\$ 227.00	\$ 196.99
Awarded	698	(41)	\$ 313.70	\$ 254.52
Vested	(694)	(283)	\$ 205.51	\$ 133.11
Cancelled	(144)	(65)	\$ 225.48	\$ 181.79
Outstanding at December 29, 2019	1,700	271	\$ 271.49	\$ 258.66
Awarded	878	(78)	\$ 329.83	\$ 344.22
Vested	(655)	(117)	\$ 239.19	\$ 400.74
Cancelled	(202)	(76)	\$ 273.13	\$ 266.63
Outstanding at January 3, 2021	1,721	—	\$ 313.35	—

(1) The number of units reflect the estimated number of shares to be issued at the end of the performance period. Awarded units are presented net of performance adjustments.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pre-tax intrinsic values and fair value of vested restricted stock was as follows:

<i>In millions</i>	2020	2019	2018
Pre-tax intrinsic value of outstanding restricted stock:			
RSU	\$ 637	\$ 565	\$ 549
PSU	\$ —	\$ 90	\$ 197
Fair value of restricted stock vested:			
RSU	\$ 206	\$ 210	\$ 125
PSU	\$ 47	\$ 38	\$ 33

Stock Options

Stock option activity was as follows:

	Options (in thousands)	Weighted- Average Exercise Price
Outstanding at December 31, 2017	322	\$ 46.93
Exercised	(130)	\$ 35.68
Outstanding at December 30, 2018	192	\$ 54.52
Exercised	(134)	\$ 53.61
Outstanding at December 29, 2019	58	\$ 56.65
Exercised	(48)	\$ 56.16
Outstanding and exercisable at January 3, 2021	10	\$ 59.11

The weighted-average remaining life of options outstanding and exercisable was 2.1 years as of January 3, 2021.

The aggregate intrinsic value of options outstanding and options exercisable as of January 3, 2021 was \$3 million. Aggregate intrinsic value represents the product of the number of options outstanding multiplied by the difference between our closing stock price per share on the last trading day of the fiscal period, which was \$370.00 as of December 31, 2020, and the exercise price. Total intrinsic value of options exercised was \$14 million, \$34 million, and \$33 million in 2020, 2019, and 2018, respectively.

Employee Stock Purchase Plan

A total of 15.5 million shares of our common stock have been reserved for issuance under our 2000 Employee Stock Purchase Plan, or ESPP. The ESPP permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first day of the offering period or purchase date, whichever is lower. The initial offering period commenced in July 2000.

Approximately 0.2 million, 0.2 million, and 0.3 million shares were issued under the ESPP during 2020, 2019, and 2018, respectively. As of January 3, 2021 and December 29, 2019, there were approximately 13.3 million and 13.5 million shares available for issuance under the ESPP, respectively.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Share Repurchases

During 2020, 2019, and 2018, we repurchased approximately 2.3 million shares for \$735 million, 1.1 million shares for \$324 million, and 0.6 million shares for \$201 million (of which 0.3 million shares for \$103 million was repurchased concurrently with the offering of our 2023 Notes), respectively. As of January 3, 2021, authorizations to repurchase \$15 million of our common stock remained available under the \$750 million share repurchase program authorized by our Board of Directors on February 5, 2020. The repurchases may be completed under a 10b5-1 plan or at management's discretion.

Share-based Compensation

Share-based compensation expense reported in our consolidated statements of income was as follows:

<i>In millions</i>	2020	2019	2018
Cost of product revenue	\$ 21	\$ 19	\$ 16
Cost of service and other revenue	4	4	3
Research and development	74	66	60
Selling, general and administrative	95	105	114
Share-based compensation expense, before taxes	194	194	193
Related income tax benefits	(43)	(41)	(39)
Share-based compensation expense, net of taxes	<u>\$ 151</u>	<u>\$ 153</u>	<u>\$ 154</u>

In August 2020, we modified the performance period for our performance stock units granted in 2018, which vested at the end of the three-year period ended January 3, 2021. This modification affected 49 employees and resulted in total incremental share-based compensation cost of approximately \$47 million in 2020. In February 2021, we modified the metrics and reduced the maximum potential payouts for our performance stock units granted in 2019 and 2020, which vest at the end of the three-year periods ended January 2, 2022 and January 1, 2023, respectively.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share for stock purchased under the ESPP were as follows:

	2020	2019	2018
Risk-free interest rate	0.11% - 2.04%	1.88% - 2.56%	1.22% - 2.45%
Expected volatility	30% - 45%	30% - 38%	29% - 39%
Expected term	0.5 - 1.0 year	0.5 - 1.0 year	0.5 - 1.0 year
Expected dividends	0%	0%	0%
Weighted-average grant-date fair value per share	\$ 75.57	\$ 75.47	\$ 61.59

As of January 3, 2021, approximately \$496 million of total unrecognized compensation cost related to restricted stock and ESPP shares issued to date was expected to be recognized over a weighted-average period of approximately 2.8 years.

7. SUPPLEMENTAL BALANCE SHEET DETAILS
Accounts Receivable

<i>in millions</i>	January 3, 2021	December 29, 2019
Trade accounts receivable, gross	\$ 491	\$ 575
Allowance for doubtful accounts	(4)	(2)
Total accounts receivable, net	<u>\$ 487</u>	<u>\$ 573</u>

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventory

<i>in millions</i>	January 3, 2021	December 29, 2019
Raw materials	\$ 106	\$ 108
Work in process	244	225
Finished goods	22	26
Total inventory	<u>\$ 372</u>	<u>\$ 359</u>

Property and Equipment

<i>in millions</i>	January 3, 2021	December 29, 2019
Leasehold improvements	\$ 645	\$ 622
Machinery and equipment	461	401
Computer hardware and software	305	272
Furniture and fixtures	46	45
Buildings	44	44
Construction in progress	99	73
Total property and equipment, gross	1,600	1,457
Accumulated depreciation	(678)	(568)
Total property and equipment, net	<u>\$ 922</u>	<u>\$ 889</u>

Property and equipment, net included non-cash expenditures of \$22 million, \$20 million and \$35 million in 2020, 2019, and 2018, respectively, which were excluded from the consolidated statements of cash flows.

Accrued Liabilities

<i>in millions</i>	January 3, 2021	December 29, 2019
Contract liabilities, current portion	\$ 186	\$ 167
Accrued compensation expenses	153	154
Accrued taxes payable	68	86
Operating lease liabilities, current portion	51	45
Other, including warranties (a)	83	64
Total accrued liabilities	<u>\$ 541</u>	<u>\$ 516</u>

(a) Changes in the reserve for product warranties were as follows:

<i>in millions</i>		
Balance as of December 31, 2017		\$ 17
Additions charged to cost of revenue		27
Repairs and replacements		(25)
Balance as of December 30, 2018		19
Additions charged to cost of revenue		20
Repairs and replacements		(25)
Balance as of December 29, 2019		14
Additions charged to cost of revenue		20
Repairs and replacements		(21)
Balance as of January 3, 2021		<u>\$ 13</u>

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Redeemable Noncontrolling Interests

Changes in the redeemable noncontrolling interest were as follows:

<i>in millions</i>	
Balance as of December 31, 2017	\$ 220
Vesting of redeemable equity awards	2
Net loss attributable to noncontrolling interests	(34)
Adjustment down to the redemption value	(127)
Balance as of December 30, 2018	61
Vesting of redeemable equity awards	1
Net loss attributable to noncontrolling interests	(9)
Adjustment down to the redemption value	(16)
Release of potential obligation to noncontrolling interests	(37)
Balance as of December 29, 2019	\$ —
Balance as of January 3, 2021	\$ —

Prior to the deconsolidation of Helix, as discussed in footnote [3. Investments and Fair Value Measurements](#), certain noncontrolling Helix investors may have required us to redeem certain noncontrolling interests at fair market value. The balance of the redeemable noncontrolling interest was reported at the greater of its carrying value after receiving its allocation of Helix' profits and losses or its estimated redemption value.

Accumulated Other Comprehensive Income

<i>in millions</i>	January 3, 2021	December 29, 2019
Foreign currency translation adjustments	\$ 1	\$ 1
Unrealized gain on available-for-sale debt securities, net of deferred tax	1	4
Total accumulated other comprehensive income	\$ 2	\$ 5

8. LEGAL PROCEEDINGS

We are involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, we assess, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the consolidated financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures in consideration of many factors, which include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes and the amount of ultimate loss may differ from our estimates, resulting in a material effect on our business, financial condition, results of operations, and/or cash flows.

9. INCOME TAXES

Income before income taxes summarized by region was as follows:

<i>In millions</i>	2020	2019	2018
United States	\$ 313	\$ 242	\$ 54
Foreign	543	876	840
Total income before income taxes	\$ 856	\$ 1,118	\$ 894

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision for income taxes consisted of the following:

<i>In millions</i>	2020	2019	2018
Current:			
Federal	\$ 25	\$ 32	\$ 47
State	13	7	15
Foreign	45	84	68
Total current provision	83	123	130
Deferred:			
Federal	30	1	—
State	94	(1)	(16)
Foreign	(7)	5	(2)
Total deferred expense (benefit)	117	5	(18)
Total tax provision	\$ 200	\$ 128	\$ 112

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows:

<i>In millions</i>	2020	2019	2018
Tax at federal statutory rate	\$ 180	\$ 235	\$ 188
State, net of federal benefit	19	18	13
Research and other credits	(19)	(37)	(23)
Change in valuation allowance	69	(2)	(12)
Impact of foreign operations	(47)	(57)	(59)
Impact of foreign derived intangible income (FDII) deduction	(11)	(4)	(1)
Cost sharing adjustment	28	—	—
Investments in consolidated variable interest entities	(2)	(5)	9
Impact of U.S. Tax Reform	—	—	11
Stock compensation	(18)	(20)	(24)
Other	1	—	10
Total tax provision	\$ 200	\$ 128	\$ 112

The determination of the impact of the Tax Cuts and Jobs Act that was enacted on December 22, 2017 (U.S. Tax Reform) may change following future legislation or further interpretation of the U.S. Tax Reform based on the publication of proposed U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities. We continue to evaluate the impacts of U.S. Tax Reform as we interpret the legislation, including the global intangible low-taxed income (GILTI) provisions which subject our foreign earnings to a minimum level of tax. We have elected to account for GILTI as a period cost in our consolidated financial statements.

The impact of foreign operations primarily represents the difference between the actual provision for income taxes for our legal entities that operate primarily in jurisdictions that have statutory tax rates lower than the U.S. federal statutory tax rate of 21%. The most significant tax benefits from foreign operations were from our earnings in Singapore and the United Kingdom, which had statutory tax rates of 17% and 19%, respectively, in 2020. The impact of foreign operations also includes the impact of GILTI and the U.S. foreign tax credit impact of non-U.S. earnings and uncertain tax positions related to foreign items.

On June 22, 2020, the Supreme Court denied petition for certiorari for *Altera Corporation v. Commissioner*. This effectively means the Ninth Circuit decision that stock-based compensation must be included in intercompany cost sharing is final. As a result, tax expense of \$28 million was recorded in 2020.

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of deferred tax assets and liabilities were as follows:

<i>In millions</i>	January 3, 2021	December 29, 2019
Deferred tax assets:		
Net operating losses	\$ 26	\$ 21
Tax credits	70	63
Other accruals and reserves	21	12
Stock compensation	17	20
Cost sharing adjustment	—	21
Other amortization	17	16
Operating lease liabilities	156	158
Other	53	45
Total gross deferred tax assets	360	356
Valuation allowance on deferred tax assets	(81)	(13)
Total deferred tax assets	279	343
Deferred tax liabilities:		
Purchased intangible amortization	(27)	(27)
Convertible debt	(20)	(30)
Property and equipment	(34)	(47)
Operating lease right-of-use assets	(108)	(111)
Investments	(137)	(60)
Other	(6)	(5)
Total deferred tax liabilities	(332)	(280)
Deferred tax (liabilities) assets, net	\$ (53)	\$ 63

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence, including operating results and forecasted ranges of future taxable income. Based on the available evidence as of January 3, 2021, we were not able to conclude it is more likely than not certain deferred tax assets will be realized. Therefore, a valuation allowance of \$81 million was recorded against certain U.S. and foreign deferred tax assets. Tax expense of \$68 million was recorded in 2020 related to establishing a valuation allowance against the deferred tax asset for California research and development credits; this included \$62 million from the existing balance of these credits at the beginning of the year.

As of January 3, 2021, we had net operating loss carryforwards for federal and state tax purposes of \$19 million and \$120 million, respectively, which will begin to expire in 2021 and 2025, respectively, unless utilized prior. We also had federal and state tax credit carryforwards of \$1 million and \$115 million, which will begin to expire in 2037 and 2022, respectively, unless utilized prior.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of net operating losses and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 3, 2021 are net of any previous limitations due to Section 382 and 383.

Our manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2023. These tax holidays and incentives resulted in a \$30 million, \$33 million, and \$36 million decrease to the provision for income taxes in 2020, 2019, and 2018, respectively. These tax holidays and incentives resulted in an increase in diluted earnings per share attributable to Illumina stockholders of \$0.20, \$0.22, and \$0.24, in 2020, 2019, and 2018, respectively.

It is our intention to indefinitely reinvest the historical earnings of our foreign subsidiaries generated prior to 2017 to ensure sufficient working capital and to expand existing operations outside the United States. Accordingly, state and

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

foreign income and withholding taxes have not been provided on \$1,159 million of undistributed earnings of foreign subsidiaries as of January 3, 2021. In the event we are required to repatriate funds from outside of the United States, such repatriation would be subject to local laws, customs, and tax consequences. As of January 3, 2021, we asserted that \$164 million of foreign earnings would not be indefinitely reinvested, and accordingly, recorded a deferred tax liability of \$5 million.

The following table summarizes the gross amount of our uncertain tax positions:

<i>In millions</i>	January 3, 2021	December 29, 2019	December 30, 2018
Balance at beginning of year	\$ 79	\$ 88	\$ 79
Increases related to prior year tax positions	2	1	1
Decreases related to prior year tax positions	—	—	(1)
Increases related to current year tax positions	12	12	12
Decreases related to lapse of statute of limitations	(13)	(22)	(3)
Balance at end of year	<u>\$ 80</u>	<u>\$ 79</u>	<u>\$ 88</u>

Included in the balance of uncertain tax positions as of January 3, 2021 and December 29, 2019, was \$68 million of net unrecognized tax benefits that, if recognized, would reduce the effective income tax rate in future periods.

Any interest and penalties related to uncertain tax positions are reflected in the provision for income taxes. We recognized income of \$1 million and \$3 million in 2020 and 2019, respectively, and recognized expense of \$3 million in 2018, related to potential interest and penalties on uncertain tax positions. We recorded a liability for potential interest and penalties of \$6 million and \$7 million as of January 3, 2021 and December 29, 2019, respectively.

Tax years 1997 to 2019 remain subject to future examination by the major tax jurisdictions in which we are subject to tax. The Internal Revenue Service recently began an examination of the U.S. Corporation Income Tax Returns for tax years 2017 and 2018. Given the uncertainty of potential adjustments from examination as well as the potential expiration of the statute of limitations, it is reasonably possible that the balance of unrecognized tax benefits could change significantly over the next 12 months. Due to the number of years remaining that are subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

10. EMPLOYEE BENEFIT PLANS

Retirement Plan

We have a 401(k) savings plan covering substantially all of our employees in the United States. Our contributions to the plan are discretionary. During 2020, 2019, and 2018, we made matching contributions of \$22 million, \$20 million, and \$20 million, respectively.

Deferred Compensation Plan

The Illumina, Inc. Deferred Compensation Plan (the Plan) allows senior level employees to contribute up to 60% of their base salary and 100% of their variable cash compensation, and members of the board of directors to contribute up to 100% of their director fees and equity awards. Under the Plan, we credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, we may also make employer contributions to participant accounts in any amount determined by us. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of Illumina. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment for any reason or at a later date to comply with the restrictions of Section 409A.

We also established a rabbi trust for the benefit of the participants under the Plan and have included the assets of the rabbi trust in the consolidated balance sheets. As of January 3, 2021 and December 29, 2019, the assets of the trust were \$55 million and \$48 million, respectively, and our liabilities were \$51 million and \$46 million, respectively. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the consolidated balance sheets. Changes in the values of the assets held by the rabbi trust are recorded in other income, net in the

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

consolidated statements of income, and changes in the values of the deferred compensation liabilities are recorded in cost of revenue or operating expenses.

11. SEGMENTS AND GEOGRAPHIC DATA

Reportable Segment Information

We have one reportable segment, Core Illumina, which relates to Illumina's core operations. Prior to the Helix deconsolidation on April 25, 2019, our reportable segments included both Core Illumina and Helix. See note ["3. Investments and Fair Value Measurements"](#) for further details.

Core Illumina:

Core Illumina's products and services serve customers in the research, clinical and applied markets, and enable the adoption of a variety of genomic solutions. Core Illumina includes all of our operations, excluding the results of our previously consolidated VIE, Helix.

Helix:

Helix was established to enable individuals to explore their genetic information by providing affordable sequencing and database services for consumers through third-party partners, driving the creation of an ecosystem of consumer applications.

Core Illumina sells products and provides services to Helix in accordance with contractual agreements between the entities.

<i>In millions</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenue:			
Core Illumina	\$ 3,239	\$ 3,543	\$ 3,334
Helix	—	1	10
Eliminations	—	(1)	(11)
Consolidated revenue	<u>\$ 3,239</u>	<u>\$ 3,543</u>	<u>\$ 3,333</u>
Depreciation and amortization:			
Core Illumina	\$ 187	\$ 186	\$ 175
Helix	—	3	6
Eliminations	—	(1)	(2)
Consolidated depreciation and amortization	<u>\$ 187</u>	<u>\$ 188</u>	<u>\$ 179</u>
Income (loss) from operations:			
Core Illumina	\$ 580	\$ 1,008	\$ 970
Helix	—	(24)	(90)
Eliminations	—	1	3
Consolidated income from operations	<u>\$ 580</u>	<u>\$ 985</u>	<u>\$ 883</u>

ILLUMINA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<i>In millions</i>	January 3, 2021	December 29, 2019	December 30, 2018
Total assets:			
Core Illumina	\$ 7,585	\$ 7,316	\$ 6,912
Helix	—	—	154
Eliminations	—	—	(107)
Consolidated total assets	<u>\$ 7,585</u>	<u>\$ 7,316</u>	<u>\$ 6,959</u>
Capital expenditures:			
Core Illumina	\$ 189	\$ 209	\$ 294
Helix	—	—	2
Consolidated capital expenditures	<u>\$ 189</u>	<u>\$ 209</u>	<u>\$ 296</u>

Geographic Data

Net long-lived assets, consisting of property and equipment, by region was as follows:

<i>In millions</i>	January 3, 2021	December 29, 2019
United States	\$ 725	\$ 696
Singapore	113	112
United Kingdom	65	62
Other countries	19	19
Total	<u>\$ 922</u>	<u>\$ 889</u>

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis.

Refer to note [“2. Revenue”](#) for revenue by geographic area.

CONTROLS AND PROCEDURES

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

Our management, under the supervision and with the participation of our chief executive officer (CEO) and chief financial officer (CFO), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have concluded that as of January 3, 2021, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

During the fourth quarter of 2020, we continued to monitor and evaluate the design and operating effectiveness of key controls, including the impact of the COVID-19 pandemic on our internal control environment. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of January 3, 2021. The effectiveness of our internal control over financial reporting as of January 3, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Illumina, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Illumina, Inc.'s internal control over financial reporting as of January 3, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Illumina, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 3, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Illumina, Inc. as of January 3, 2021 and December 29, 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 3, 2021, and the related notes and our report dated February 16, 2021, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP

San Diego, California
February 16, 2021

DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Directors

Information concerning our directors is incorporated by reference from the section entitled “Proposal One: Election of Directors,” “Information About Directors,” “Director Compensation,” and “Board of Directors and Corporate Governance” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

Executive Officers

Information concerning our executive officers is incorporated by reference from the section entitled “Executive Officers” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

Corporate Governance

Section 16(a) of the Exchange Act

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

Audit Committee Financial Expert

Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from the section entitled “Board of Directors and Corporate Governance” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

Code of Conduct

We have a code of conduct for our directors, officers, and employees, which is available on our website at www.illumina.com in the Corporate Governance portal of the Investor Information section under “Company.” A copy of the Code of Conduct is available in print free of charge to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Ethics to: Corporate Secretary, Illumina, Inc., 5200 Illumina Way, San Diego, California 92122. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver from, a provision of the Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website. The information on, or that can be accessed from, our website is not incorporated by reference into this report.

EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated by reference from the sections entitled “Compensation Discussion and Analysis,” “Director Compensation,” and “Executive Compensation” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning the security ownership of certain beneficial owners and management and information covering securities authorized for issuance under equity compensation plans is incorporated by reference from the sections entitled “Stock Ownership of Principal Stockholders and Management,” “Executive Compensation,” and “Equity Compensation Plan Information” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions, and director independence is incorporated by reference from the sections entitled “Proposal One: Election of Directors,” “Information About Directors,” “Director Compensation,” “Executive Compensation,” and “Certain Relationships and Related Party Transactions” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated by reference from the sections entitled “Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm” and “Independent Registered Public Accountants” to be contained in our definitive Proxy Statement with respect to our 2021 Annual Meeting of Stockholders to be filed with the SEC no later than May 3, 2021.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits

The exhibits listed in the accompanying “[Index to Exhibits](#)” below are filed or incorporated by reference as part of this report.

Financial Statements

See “[Index to Consolidated Financial Statements](#)” within the Consolidated Financial Statements section of this report.

Financial Statement Schedules

All financial schedules have been omitted as the required information is not applicable, not material, or because the information required is included in the consolidated financial statements and notes thereto included in the [Consolidated Financial Statements](#) section of this report.

Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith	
		Form	File Number	Filing Date		
2.1	Agreement and Plan of Merger dated as of September 20, 2020, among Illumina, Inc., SDG Ops, Inc., SDG Ops, LLC and GRAIL, Inc.	8-K	001-35406	2.1	9/21/2020	
3.2	Amendment, dated as of February 5, 2021 to the Agreement and Plan of Merger dated as of September 20, 2020, among Illumina, Inc., SDG Ops, Inc., SDG Ops, LLC, and GRAIL, Inc.	8-K	001-35406	2.1	2/5/2021	
3.1	Amended and Restated Certificate of Incorporation	10-Q	001-35406	3.3	7/31/2019	
3.2	Amended and Restated Bylaws	10-Q	001-35406	3.4	10/25/2019	
4.1	Specimen Common Stock Certificate	S-1/A	333-33922	4.1	7/3/2000	
4.2	Indenture related to the 0.5% Convertible Senior Notes due 2021, dated as of June 11, 2014, between Illumina and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	001-35406	4.2	6/11/2014	
4.3	First Supplemental Indenture related to the 0.5% Convertible Senior Notes due 2021, dated as of August 27, 2014, between Illumina and The Bank of New York Mellon Trust Company, N.A., as trustee	10-Q	001-35406	4.1	10/29/2014	
4.4	Indenture related to the 0% Convertible Senior Notes due 2023, dated as of August 21, 2018, between Illumina and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	001-35406	4.1	8/21/2018	
4.5	Description of Illumina, Inc.'s securities registered pursuant to Section 12 of the Exchange Act of 1934					X
+10.1	Form of Indemnification Agreement between Illumina and each of its directors and executive officers	10-Q	000-30361	10.55	7/25/2008	
+10.2	Amended and Restated Change in Control Severance Agreement between Illumina and Jay T Flatley, dated October 22, 2008	10-K	000-30361	10.33	2/26/2009	
+10.3	Form of Change in Control Severance Agreement between Illumina and each of its executive officers	10-K	000-30361	10.34	2/26/2009	
+10.4	2000 Employee Stock Purchase Plan, as amended and restated through April 29, 2020	10-Q	001-35406	10.4	8/7/2020	
+10.5	New Hire Stock and Incentive Plan, as amended and restated through October 28, 2009	10-K	000-30361	10.7	2/26/2010	
10.6	License Agreement, effective as of May 6, 1998, between Tufts University and Illumina	10-Q	000-30361	10.5	5/3/2007	
+10.7	The Solexa Unapproved Company Share Option Plan	8-K	000-30361	99.3	11/26/2007	
+10.7	The Solexa Share Option Plan for Consultants	8-K	000-30361	99.4	11/26/2007	

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+10.8	Solexa Limited Enterprise Management Incentive Plan	8-K	000-30361	99.5	11/26/2007
+10.9	Amended and Restated Solexa 2005 Equity Incentive Plan	10-K	000-30361	10.25	2/26/2009
+10.10	Amended and Restated Solexa 1992 Stock Option Plan	10-K	000-30361	10.26	2/26/2009
+10.11	2015 Stock and Incentive Plan	10-K	001-35406	10.11	2/13/2018
+10.12	Form of Restricted Stock Unit Agreement for Employees Under 2015 Stock and Incentive Plan	10-K	001-35406	10.12	2/13/2018
10.13	Amended and Restated Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9885 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.41	5/3/2007
10.14	Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9865 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.42	5/3/2007
10.15	Amended and Restated Lease Agreement, dated March 27, 2012, between ARE-SD Region No. 32, LLC and Illumina	10-Q	001-35406	10.1	5/3/2012
10.16	First Amendment to Amended and Restated Lease Agreement, dated March 27, 2012, between ARE-SD Region No. 32, LLC and Illumina	10-K	001-35406	10.23	2/18/2015
10.17	Second Amendment to Amended and Restated Lease Agreement, dated March 27, 2012, between ARE-SD Region No. 32, LLC and Illumina	10-K	001-35406	10.24	2/18/2015
10.18	Amended and Restated Second Amendment to Amended and Restated Lease Agreement, dated March 27, 2012, between ARE-SD Region No. 32, LLC and Illumina	10-K	001-35406	10.18	2/13/2018
+10.19	Deferred Compensation Plan, effective December 1, 2007	14D-9	005-60457	99(e)(6)	2/7/2012
10.20	Lease between BMR-Lincoln Centre LP and Illumina, dated December 30, 2014	10-K	001-35406	10.26	2/18/2015
10.21	Pooled Patents Agreement between Illumina and Sequenom, Inc., dated December 2, 2014 (with certain confidential portions omitted)	10-K	001-35406	10.27	2/18/2015
10.22	First Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of April 21, 2016	10-K	001-35406	10.22	2/13/2018
10.23	Second Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of April 17, 2017	10-K	001-35406	10.23	2/13/2018
10.24	Third Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of August 28, 2017 (with certain confidential portions omitted)	10-K	001-35406	10.24	2/13/2018
10.25	Fourth Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of March 15, 2018	10-K	001-35406	10.25	2/11/2020

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10.26	Fifth Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of April 12, 2019 (with certain confidential portions omitted)	10-K	001-35406	10.25	2/11/2020	
10.27	Sixth Amendment to Pooled Patents Agreement between Illumina and Sequenom, Inc., effective as of May 8, 2020 (with certain confidential portions omitted)	10-Q	001-35406	10.1	10/30/2020	
10.28	Agreement for Lease between Granta Park Park Jco 1 Limited and Illumina, dated June 25, 2015	10-Q	001-35406	10.1	7/31/2015	
10.29	Third Amendment to Lease between ARE-SD Region No. 32, LLC and Illumina, dated September 2, 2015	10-K	001-35406	10.29	3/2/2016	
10.30	First Amendment to Lease between BMR-Lincoln Center LP and Illumina, dated February 23, 2016	10-K	001-35406	10.30	3/2/2016	
10.31	Fourth Amendment to Lease between ARE-SD Region No. 32, LLC and Illumina, dated April 14, 2016	10-K	001-35406	10.28	2/14/2017	
10.32	Second Amendment to Lease between BMR-Lincoln Center LP and Illumina dated August 15, 2016	10-K	001-35406	10.29	2/14/2017	
10.33	Deed of Variation to the Agreement for Lease between Granta Park Jco 1 Limited and Illumina dated October 24, 2016	10-K	001-35406	10.30	2/14/2017	
10.33	Third Amendment to Lease between BMR-Lincoln Center LP and Illumina dated January 18, 2018	10-Q	001-35406	10.10	4/25/2018	
10.34	Selling Investor Support Agreement dated as of September 20, 2020, among Illumina, Inc. and each of the stockholders party thereto*	8-K	001-35406	10.01	9/21/2020	
10.35	Commitment Letter dated as of September 20, 2020, between Illumina, Inc. and Goldman Sachs Bank USA*	8-K	001-35406	10.02	9/21/2020	
21.1	Subsidiaries of Illumina					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (included on the signature page)					X
31.1	Certification of Francis A. deSouza pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Sam A. Samad pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Francis A. deSouza pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Sam A. Samad pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

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101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X
101.SCH	XBRL Taxonomy Extension Schema	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
101.LAB	XBRL Taxonomy Extension Label Linkbase	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
104	Cover Page Interactive Data File - formatted in Inline XBRL and included as Exhibit 101	X

+ Management contract or corporate plan or arrangement

Supplemental Information

No Annual Report to stockholders or proxy materials has been furnished to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders after the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 16, 2021.

ILLUMINA, INC.

By

/s/ FRANCIS A. DESOUZA

Francis A. deSouza
President and Chief Executive Officer

February 16, 2021

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Francis A. deSouza and Sam A. Samad, and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their, his, or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ FRANCIS A. DESOUZA</u> Francis A. deSouza	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 16, 2021
<u>/s/ SAM A. SAMAD</u> Sam A. Samad	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 16, 2021
<u>/s/ KAREN MCGINNIS</u> Karen McGinnis	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 16, 2021
<u>/s/ JAY T. FLATLEY</u> Jay T. Flatley	Chairman of the Board of Directors	February 16, 2021
<u>/s/ FRANCES ARNOLD</u> Frances Arnold, Ph.D.	Director	February 16, 2021
<u>/s/ CAROLINE D. DORSA</u> Caroline D. Dorsa	Director	February 16, 2021
<u>/s/ ROBERT S. EPSTEIN</u> Robert S. Epstein, Ph.D.	Director	February 16, 2021
<u>/s/ SCOTT GOTTLIEB</u> Scott Gottlieb, M.D.	Director	February 16, 2021
<u>/s/ GARY S. GUTHART</u> Gary S. Guthart, Ph.D.	Director	February 16, 2021
<u>/s/ PHILIP W. SCHILLER</u> Philip W. Schiller	Director	February 16, 2021
<u>/s/ SUSAN E. SIEGEL</u> Susan E. Siegel	Director	February 16, 2021
<u>/s/ JOHN W. THOMPSON</u> John W. Thompson	Director	February 16, 2021

Description of Registrant's Securities

The following description of registered securities of Illumina, Inc. is intended as a summary only and therefore is not a complete description. As used in this "Description of Registrant's Securities," the terms "Illumina," "Company," "we," "our" and "us" refer to Illumina, Inc. and do not, unless the context otherwise indicates, include our subsidiaries.

Our authorized capital stock consists of 320 million shares of common stock, \$0.01 par value per share, and 10 million shares of preferred stock, \$0.01 par value per share. Our common stock is registered under Section 12(b) of the Exchange Act.

Common Stock

This description of our common stock is based upon, and qualified by reference to, our Amended and Restated Certificate of Incorporation (our "certificate of incorporation"), our amended and restated by-laws (our "bylaws") and applicable provisions of Delaware corporate law (the "DGCL"). You should read our certificate of incorporation and bylaws, which are incorporated by reference as Exhibits 3.1 and 3.2, respectively, to the Annual Report on Form 10-K for the provisions that are important to you.

General

Annual Meeting. Annual meetings of our stockholders are held on the date designated in accordance with our bylaws. Written notice must be mailed to each stockholder entitled to vote not less than ten nor more than 60 days before the date of the meeting. The presence in person or by proxy of the holders of record of a majority of our issued and outstanding shares entitled to vote at such meeting constitutes a quorum for the transaction of business at meetings of the stockholders, except as otherwise provided by statute or by the certificate of incorporation. Special meetings of the stockholders may be called by the board of directors. Except as may be otherwise provided by applicable law, our certificate of incorporation or our bylaws, all matters shall be decided by a majority of the votes cast by stockholders entitled to vote thereon at a duly held meeting of stockholders at which a quorum is present. Each director shall be elected by the vote of the majority of the votes cast at any meeting for the election of directors at which a quorum is present, provided, that in a contested election, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at such meeting and entitled to vote on the election of directors and recommended for adoption by the board of directors.

Voting Rights. The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders.

Dividends. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably any dividends that may be declared from time to time by the board of directors out of funds legally available for that purpose.

Liquidation and Dissolution. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock then outstanding.

Other Rights. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable.

Provisions of our Certificate of Incorporation and Bylaws and Delaware Law that May Have Anti-Takeover Effects

Certain provisions of our Certificate of Incorporation and Bylaws could delay the removal of incumbent directors and could make it more difficult to successfully complete a merger, tender offer, or proxy contest involving us. Our Certificate of Incorporation has provisions that give our Board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock. In addition, until

2022, the staggered terms of our board of directors could have the effect of delaying or deferring a change in control.

In addition, certain provisions of the Delaware General Corporation Law (DGCL), including Section 203 of the DGCL, may have the effect of delaying or preventing changes in the control or management of Illumina. Section 203 of the DGCL provides, with certain exceptions, for waiting periods applicable to business combinations with stockholders owning at least 15% and less than 85% of the voting stock (exclusive of stock held by directors, officers, and employee plans) of a company.

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Jurisdiction	Doing Business As
Advanced Liquid Logic Inc.	Delaware	Advanced Liquid Logic Inc.
Edico Genome Corp.	Delaware	Edico Genome Corp.
BlueBee Belgium BVBA	Belgium	BlueBee Belgium BVBA
BlueBee Holding BV	Netherlands	BlueBee Holding BV
BlueGnome, Ltd.	United Kingdom	BlueGnome, Ltd.
Conexio Genomics Pty Ltd.	Australia	Conexio Genomics Pty Ltd.
Enancio SAS	France	Enancio SAS
Illumina AB	Sweden	Illumina AB
Illumina Australia Pty. Ltd.	Australia	Illumina Australia Pty. Ltd.
Illumina Belgium BVBA	Belgium	Illumina Belgium BVBA
Illumina Brasil Produtos de Biotecnologia Ltda.	Brazil	Illumina Brazil
Illumina Cambridge, Ltd.	United Kingdom	Illumina Cambridge, Ltd.
Illumina Canada ULC	Canada	Illumina Canada ULC
Illumina (China) Scientific Co Ltd	China	Illumina China (Scientific) Co Ltd
Illumina Denmark ApS	Denmark	Illumina Denmark ApS
Illumina Finland Oy	Finland	Illumina Finland Oy
Illumina France Sarl	France	Illumina France Sarl
Illumina GmbH	Germany	Illumina GmbH
Illumina Hong Kong Limited	Hong Kong	Illumina Hong Kong Limited
Illumina India Biotechnology Private Limited	India	Illumina India Biotechnology Private Limited
Illumina Ireland Commercial Limited	Ireland	Illumina Ireland Commercial Limited
Illumina Italy S.r.l.	Italy	Illumina Italy S.r.l.
Illumina Korea Ltd.	Republic of Korea	Illumina Korea Ltd.
Illumina K.K. Japan	Japan	Illumina K.K. Japan
Illumina Netherlands B.V.	Netherlands	Illumina Netherlands B.V.
Illumina Norway AS	Norway	Illumina Norway AS
Illumina New Zealand Limited	New Zealand	Illumina New Zealand Limited
Illumina Productos de Espana, S.L.U.	Spain	Illumina Productos de Espana, S.L.U.
Illumina Rus LLC	Russia	Illumina Rus
Illumina Shanghai (Trading) Co., Ltd.	China	Illumina Shanghai (Trading) Co., Ltd.
Illumina Shanghai (Trading) Co Ltd Beijing Branch	China	Illumina Shanghai (Trading) Co Ltd Beijing Branch
Illumina Singapore Pte. Ltd.	Singapore	Illumina Singapore Pte. Ltd
Illumina Software, Inc.	Delaware	Illumina Software, Inc.
Illumina Switzerland GmbH	Switzerland	Illumina Switzerland GmbH
Illumina US Manufacturing Operations, Inc.	Delaware	Illumina US Manufacturing Operations, Inc.
thromboDx BV	Netherlands	thromboDx BV
Verinata Health, Inc.	Delaware	Verinata Health, Inc.

*All listed subsidiaries are wholly-owned, direct or indirect, subsidiaries of Illumina, Inc.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-3 Nos. 333-111496, 333-125100, 333-134012, 333-144953, 333-145408 and 333-168395) of Illumina, Inc.,
- (2) Registration Statements (Form S-4 Nos. 333-139111 and 333-250941) of Illumina, Inc., and
- (3) Registration Statements (Form S-8 Nos. 333-42866, 333-69058, 333-88808, 333-104190, 333-114633, 333-124074, 333-125133, 333-129611, 333-134399, 333-140416, 333-147389, 333-151265, 333-159662, 333-168393, 333-188037, 333-190322 and 333-206215) of Illumina, Inc.;

of our reports dated February 16, 2021, with respect to the consolidated financial statements of Illumina, Inc. and the effectiveness of internal control over financial reporting of Illumina, Inc. included in this Annual Report (Form 10-K) of Illumina, Inc. for the year ended January 3, 2021.

/s/ ERNST & YOUNG LLP

San Diego, California

February 16, 2021

CERTIFICATION OF FRANCIS A. DESOUZA PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis A. deSouza, certify that:

- 1 I have reviewed this Annual Report on Form 10-K of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 16, 2021

By: /s/ FRANCIS A. DESOUZA
Francis A. deSouza
President and Chief Executive Officer

CERTIFICATION OF SAM A. SAMAD PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sam A. Samad, certify that:

- 1 I have reviewed this Annual Report on Form 10-K of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 16, 2021

By: /s/ SAM A. SAMAD

Sam A. Samad

Senior Vice President and Chief Financial Officer

**CERTIFICATION OF SAM A. SAMAD PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Illumina, Inc. (the "Company") on Form 10-K for the year ended January 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sam A. Samad, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 16, 2021

By: /s/ SAM A. SAMAD

Sam A. Samad

Senior Vice President and Chief Financial Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.