

# Quarterly Financial Results

## Q3 2013

Align Technology, Inc



# Align Technology Q3 FY2013 Conference Call

- **Speakers:**

- Tom Prescott, president and CEO
- David White, CFO

- **Moderator:**

- Shirley Stacy, vice president, corporate and investor communications

- **Replay and Web cast Archive**

- Telephone replay will be available through 5:30pm ET October 25, 2013
  - Domestic callers: 877-660-6853
  - International callers: 201-612-7415
  - Conference # 421424
- Audio web cast archive will be available at <http://investor.aligntech.com> for approximately 12 months

# Safe Harbor and Forward Looking Statement

This presentation, including the tables, contains forward-looking statements, including statements regarding certain business metrics for the fourth quarter of 2013, including anticipated net revenues, gross margin, operating expenses, operating profit, diluted earnings per share, case shipments and cash, cash equivalents and short-term and long-term investments. Forward-looking statements contained in this news release and the tables below relating to expectations about future events or results are based upon information available to Align as of the date hereof. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. As a result, actual results may differ materially and adversely from those expressed in any forward-looking statement. Factors that might cause such a difference include, but are not limited to, difficulties predicting customer and consumer purchasing behavior, the willingness and ability of our customers to maintain and/or increase utilization in sufficient numbers, the possibility that the development and release of new products does not proceed in accordance with the anticipated timeline, the possibility that the market for the sale of these new products may not develop as expected, the risks relating to Align's ability to sustain or increase profitability or revenue growth in future periods while controlling expenses, growth related risks, including capacity constraints and pressure on our internal systems and personnel, our ability to successfully achieve the anticipated benefits from the scanner and the CAD/CAM services business, continued customer demand for our existing and new products, changes in consumer spending habits as a result of, among other things, prevailing economic conditions, levels of employment, salaries and wages and consumer confidence, the timing of case submissions from our doctors within a quarter, acceptance of our products by consumers and dental professionals, foreign operational, political and other risks relating to Align's international manufacturing operations, Align's ability to protect its intellectual property rights, continued compliance with regulatory requirements, competition from existing and new competitors, Align's ability to develop and successfully introduce new products and product enhancements, the loss of key personnel and impairments in the book value of goodwill or other intangible assets. These and other risks are detailed from time to time in Align's periodic reports filed with the Securities and Exchange Commission, including, but not limited to, its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the Securities and Exchange Commission on March 1, 2013. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

# Q3 FY2013 Overview

Tom Prescott  
President and CEO

# Q3 FY2013 Financial Highlights

	Total Net Revenues	Invisalign Clear Aligners Net Revenues		Scanner & CAD/CAM Net Revenues
	\$164.5M	\$153.5M	106,900 <sub>cases</sub>	\$11.0M
QoQ	+0.4%	+0.2%	+0.7%	+4.1%
YoY	+20.5%	+21.2%	+15.5%	+12.1%

- Achieved record levels of revenues, Invisalign case volume, and NA iTero scanner volume, enabling us to reach the low end of our long term model for operating margin, while generating strong operating cash flow.
- Q3 includes the seasonally slower period in Europe and in N.A. for our GP dentists, along with the peak of the summer season for teenage orthodontic case starts. We're pleased that patient traffic appears to have remained solid for our N.A. Orthodontist customers this summer, which resulted in strong sequential and year over year growth for Invisalign volume, especially in the important teenage patient segment.
- **Invisalign Clear Aligners**
  - Y/Y growth was driven by continued expansion of our customer base, as well as increased Invisalign utilization.
  - Doctors continue to give SmartTrack aligner material high marks on performance with 78% of doctors surveyed agreeing that SmartTrack supports better clinical outcomes. SmartTrack Aligner Material also recently received "Top 100 Product" accolades from Dentistry Today and is the winner of a 2013 "Pride Best of Class" Award.
- **Scanner and CAD/CAM**
  - Q3 results also reflect solid growth from our iTero scanner and CAD/CAM services business.

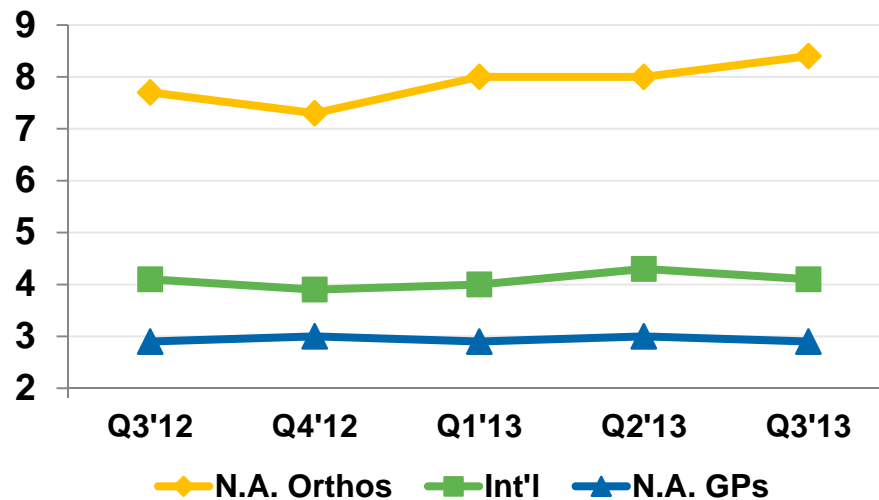
# Q3 FY2013 Invisalign Adoption Metrics

## Doctor Utilization and Training

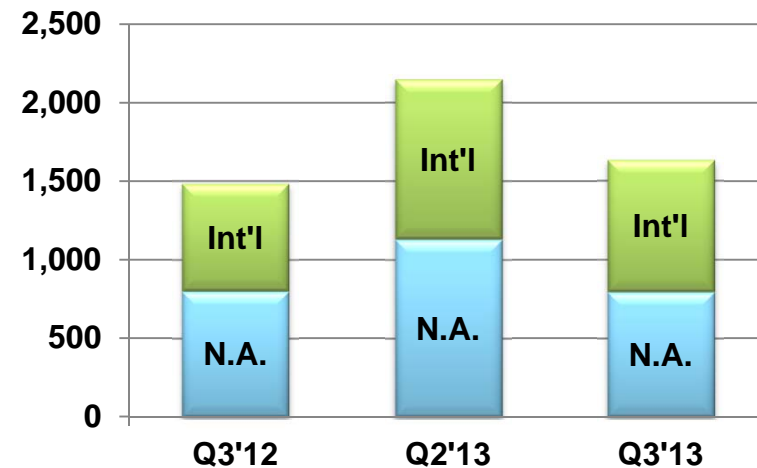
- Total utilization was 4.3 cases per doctor compared to 4.4 in Q2'13 and 4.2 Q3'12
  - N.A. Orthodontists 8.4 cases/doc
  - N.A. GP Dentists 2.9 cases/doc
  - International 4.1 cases/doc

- 1,635 new Invisalign-trained doctors
  - 795 North America
  - 840 International

Average Channel Utilization



Quarterly Doctors Trained Worldwide

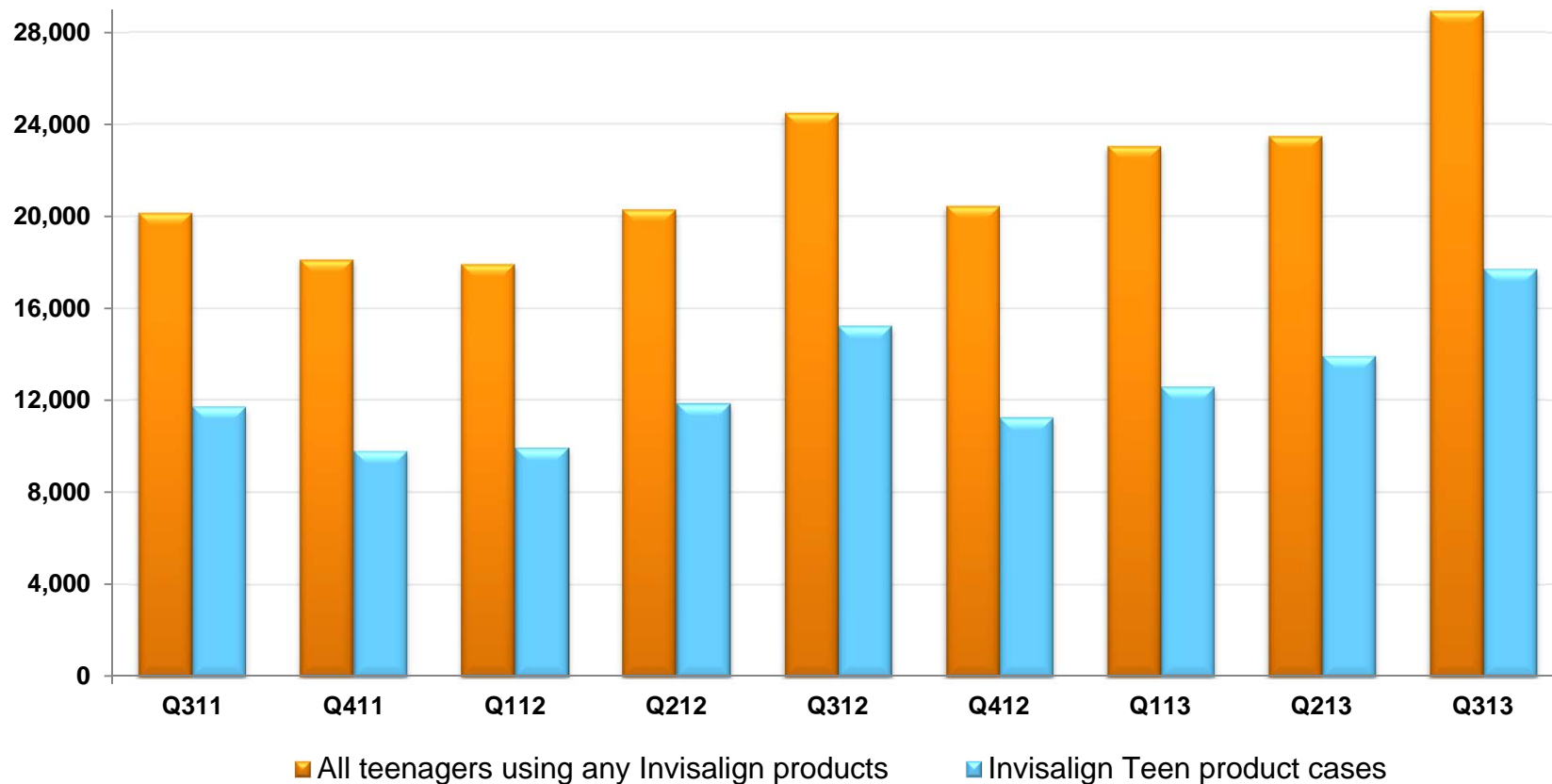


Utilization = # of cases shipped/# of doctors to whom cases were shipped

# Q3 FY2013 Invisalign Performance

## Teenage Segment

- Teenage Patient Demographic: 28,940 cases, +23% Q/Q, +18% Y/Y
  - NA Orthodontist Teenage cases +31% Q/Q and +20% Y/Y
- Invisalign Teen Product: 17,740 cases, +27% Q/Q, +16% Y/Y



# Q3 FY2013 Invisalign Performance

## Highlights

	Worldwide	N.A. Ortho	N.A. GP	Int'l
Shipments	106,900	41,610	38,520	26,770
Q/Q	+0.7%	+5.2%	(-2.0%)	(-1.8%)
Y/Y	+15.5%	+16.0%	+10.9%	+22.2%

- N. A. Orthodontists: Y/Y and Q/Q increase primarily reflects continuing increases in utilization, along with some contribution from new Ortho submitters. These results reflect our continued focus on driving adoption and utilization of Invisalign into the very important teenage orthodontic market. While we are still assessing the market data from the summer teen season, we believe we gained some teen share of overall orthodontic case starts.
- N. A. GP Dentists: Y/Y increase primarily reflects an expanding customer base along with increased utilization. Q/Q GP case volume was down slightly, as expected, given the seasonally slower summer period for most GP practices.
- International: down modestly Q/Q reflecting summer holidays for our customers, especially in the southern European countries. We continue to see strong volume growth from our Asia Pacific region, which was up Q/Q and Y/Y.



# Q3 FY2013 Invisalign Geographic Performance

## *International*

- **Asia Pacific**

- Strong volume growth for Asia Pacific came from our traditional direct country markets of Japan and China, as well as our new direct country markets in Australia, New Zealand, and Hong Kong.
- Japan - Q3 was another record quarter for Invisalign volumes. Strong growth was driven by the continued increase in the submitter base. We're also seeing positive trends in Teen submissions as a result of expanded training for Japanese doctors on the Invisalign Teen product, which began in July.
- China - Q3 was also a record quarter with strong sequential and year over year growth in Invisalign volume. These results reflect continued good execution of our strategic investments over the past few years. The China team continues to deliver outstanding clinical education, provide high-impact clinical and customer support, and facilitate peer-to-peer advocacy – all of which support our strong progress.



- **Europe**

- On an overall basis in our direct coverage Europe region, case shipments increased in this region by 20% year over year, led by Spain, France, Italy, and Germany.
- Across the region, we've seen an increase in clinical confidence in our product, along with further expansion of our customer base and increased demand for shorter, simpler treatments. These trends, combined with our continuous investments in education and customer experience improvements, are contributing to great progress for Invisalign in Europe.
- All country markets demonstrated strong year over year growth for Invisalign case shipments, with the exception of the UK which decreased slightly compared to Q3 last year.
- While our team in the UK continues to work against economic headwinds, we are seeing some initial signs of a recovery among UK Orthos.

# Consumer Demand Strategy

## Q3' 13 Program Highlights – North America

- Goal to raise awareness of Invisalign and Invisalign Teen as the best option for a healthy, beautiful smile among adults and teens.
- Better Smile Everyday Campaign
  - In late Q2 we launched a new, fully integrated consumer advertising campaign in North America and Q3 was the first full quarter in the market.
  - Continues our focus on women and moms of teenagers and its launch was timed to coincide with the busy teen orthodontic season which runs from late spring through the start of the new school year.
  - Pleased with the strong early metrics from the campaign, which combines TV and digital advertising with social media and traditional media relations.
- Web traffic at Invisalign.com continues at an all-time high – that's a strong indicator of consumer awareness and interest in Invisalign.
- Great editorial coverage in key outlets such as Lucky Magazine, Marie Claire, and Working Mother
  - Year-to-date print and online media impressions are at an all time high.
  - Over time, we expect to convert this awareness and interest into patient starts in our customer's practices.



# Scanner and CAD/CAM Services

## Q3' 13 Performance

- Scanner and CAD/CAM Services net revenues of \$11.0M, compared to \$10.5M in Q2' 13 and \$9.8M in Q3' 12
  - Scanner net revenues of \$5.5M, CAD/CAM Services net revenues of \$5.5M
  - Record quarter for scanner shipments in North America.
- Continuing to build our scanner installed base and by our estimates we are growing faster than our competitors.
  - Results reflect the selling leverage we are gaining from major Invisalign customer events such as the Invisalign GP Summit held in July, as well as Invisalign Orthodontic Forums—a key clinical education event -- held throughout Q3.
- Scanner business strategy is to improve the customer and patient Invisalign experience through the use of scanners to replace PVS impressions.
  - As of Q3, the percentage of Invisalign cases submitted with a digital scan rose to 25% in Q3, compared to 22% in Q2, and 13% in Q3 a year ago. Doctors, staff members, and especially patients are all happy about this trend, as they see faster cycle times, better aligner fit, and a far better experience.



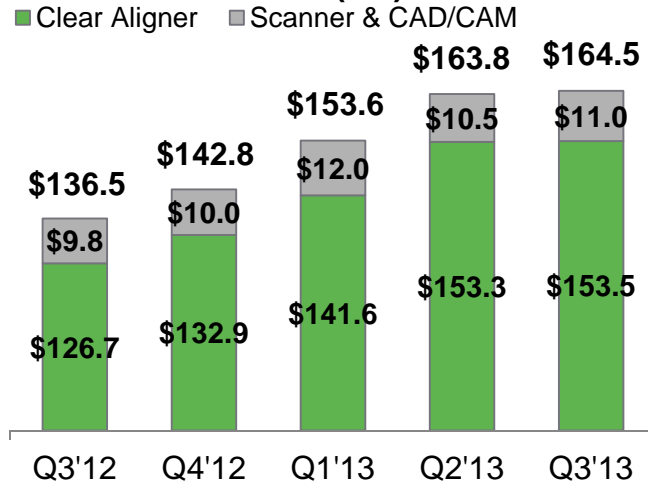
iTero™

# Q3 FY2013 Financial Review

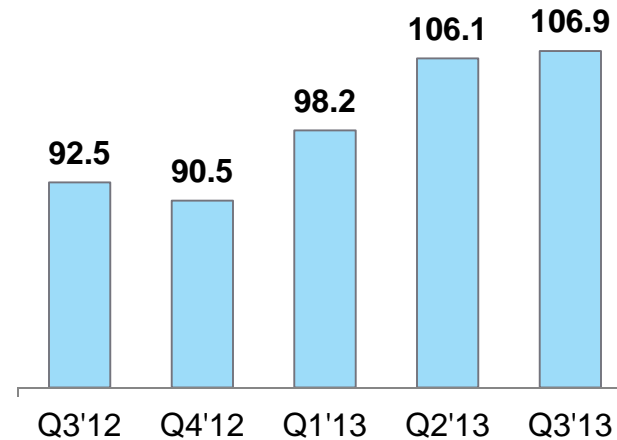
David White  
CFO

# Q3 FY2013 Trended Financials

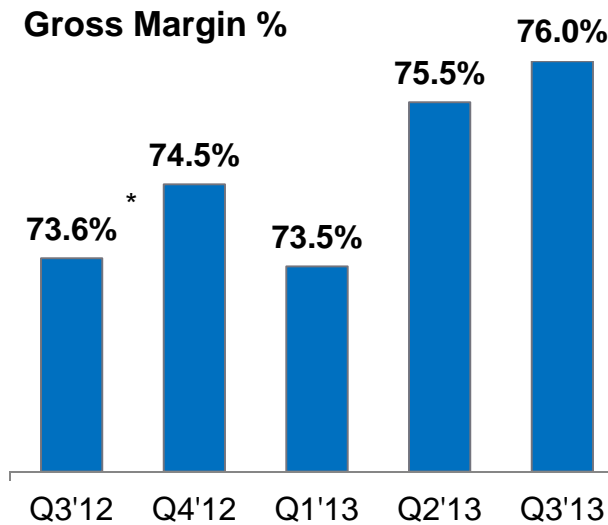
**WW Net Revenues (\$M)**



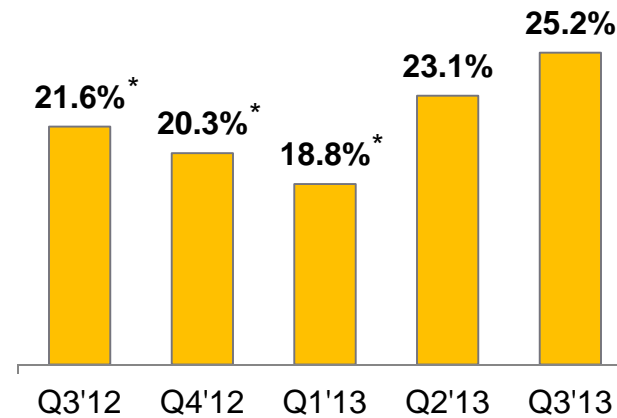
**Invisalign Case Shipments (#K)**



**Gross Margin %**



**Operating Margin %**



\* Non-GAAP

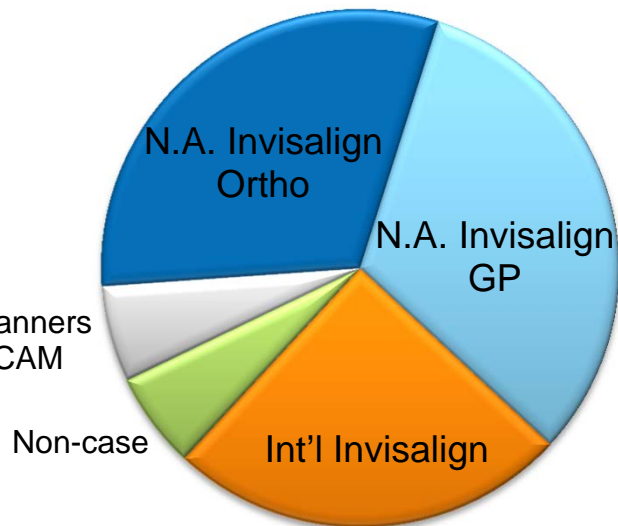
A reconciliation of GAAP to Non-GAAP can be found at <http://investor.aligntech.com> under Financial Information > Quarterly Results for each respective quarter.

# Q3 FY2013 Net Revenues by Geography and Products

**Q3'13 Worldwide Net Revenues: \$164.5M**

## Geography Mix

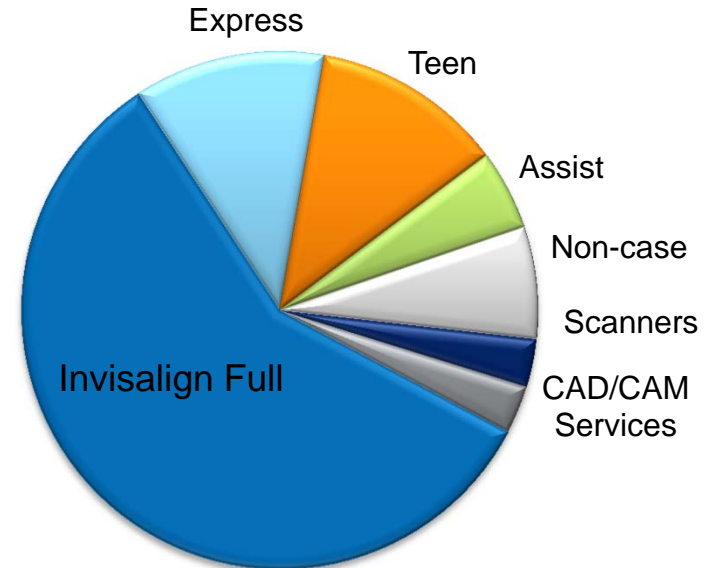
N.A. Invisalign Ortho: 32% • +4% Q/Q • +22% Y/Y	N.A. Invisalign GP: 31% • (-1%) Q/Q • +11% Y/Y	International Invisalign: 24% • (-3%) Q/Q • +31% Y/Y
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Int'l Scanner & CAD/CAM: 0% • +14% Q/Q • (76%) Y/Y	N.A. Scanner & CAD/CAM: 6.6% • +4% Q/Q • +15% Y/Y	Invisalign Non-case: 6.5% • (-1%) Q/Q • +43% Y/Y
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## Product Mix

Full: 57% • (-2%) Q/Q • +17% Y/Y	Express: 11% • (-8%) Q/Q • +39% Y/Y	Teen: 14% • +19% Q/Q • +24% Y/Y	Assist: 5% • (-3%) Q/Q • +6% Y/Y
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Invisalign Non-case: 6.5% • (-1%) Q/Q • +43% Y/Y	Scanner: 3% • +10% Q/Q • +38% Y/Y	CAD/CAM Services: 3% • (-2%) Q/Q • (-6%) Y/Y
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# Q3 FY2013 Invisalign Shipments by Geography and Product

**Q3'13 Invisalign Case Shipments: 106,900**

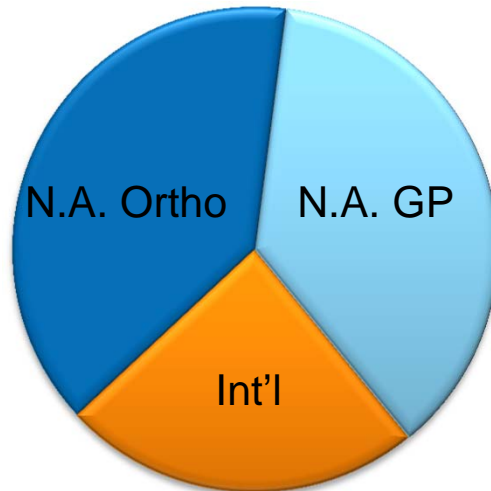
## Channel Mix

N.A. Ortho: 39%

- +5% Q/Q
- +16% Y/Y

N.A. GP: 36%

- (-2%) Q/Q
- +11% Y/Y



Int'l: 25%

- (-2%) Q/Q
- +22% Y/Y

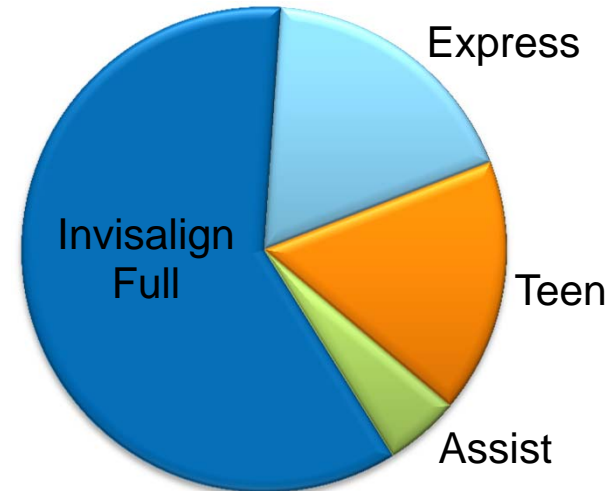
## Product Mix

Full: 60%

- (-1%) Q/Q
- +13% Y/Y

Express: 18%

- (-10%) Q/Q
- +32% Y/Y



Teen: 17%

- +27% Q/Q
- +16% Y/Y

Assist: 5%

- (-1%) Q/Q
- +2% Y/Y

# Q3 FY2013 Income Statement Highlights

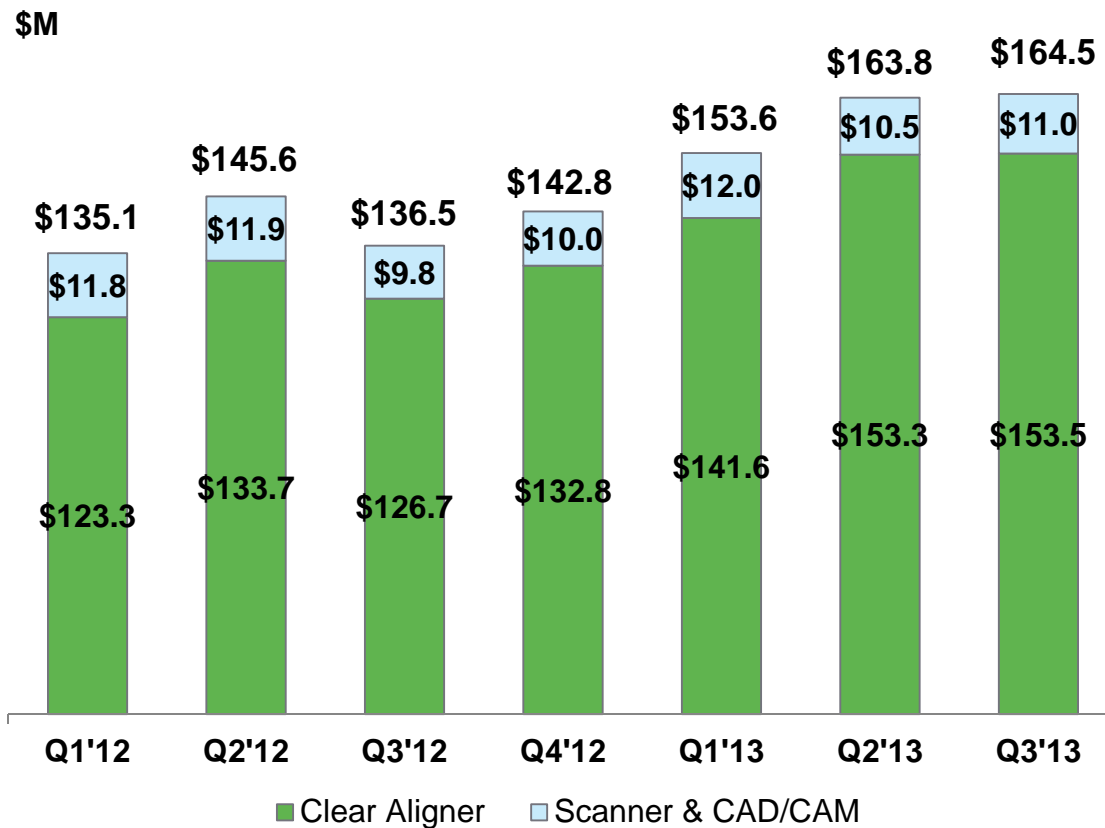
*(in millions except per share data and percentages)*

	<i>Year/Year Change</i>	Q3'12	<i>Sequential Change</i>	Q2'13	Q3'13
<b>Net Revenues</b>	<i>20.5%</i>	\$136.5	<i>0.4%</i>	\$163.8	\$164.5
<b>Gross Margin</b>	<i>2.5% pts</i>	73.5%	<i>0.5% pts</i>	75.5%	76.0%
<b>Non-GAAP Gross Margin</b>	<i>2.4% pts</i>	73.6%	<i>0.5% pts</i>	75.5%	76.0%
<b>Operating Expenses</b>	<i>(12.8%)</i>	\$95.8	<i>(2.5%)</i>	\$85.8	\$83.6
<b>Non-GAAP Op Exp</b>	<i>18.0%</i>	\$70.9	<i>(2.5%)</i>	\$85.8	\$83.6
<b>Operating Margin</b>	<i>21.9% pts</i>	3.3%	<i>2.1% pts</i>	23.1%	25.2%
<b>Non-GAAP Op Margin</b>	<i>3.6% pts</i>	21.6%	<i>2.1% pts</i>	23.1%	25.2%
<b>GAAP EPS, diluted</b>	<i>\$0.42</i>	(\$0.00)	<i>\$0.06</i>	\$0.36	\$0.42
<b>Non-GAAP EPS, diluted</b>	<i>\$0.16</i>	\$0.26	<i>\$0.06</i>	\$0.36	\$0.42
<b>EBITDA (non-GAAP)</b>	<i>437.0%</i>	\$8.5	<i>10.5%</i>	\$41.4	\$45.8
<b>Adjusted EBITDA (non-GAAP)</b>	<i>36.4%</i>	\$33.6	<i>10.5%</i>	\$41.4	\$45.8

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# Net Revenues Trend

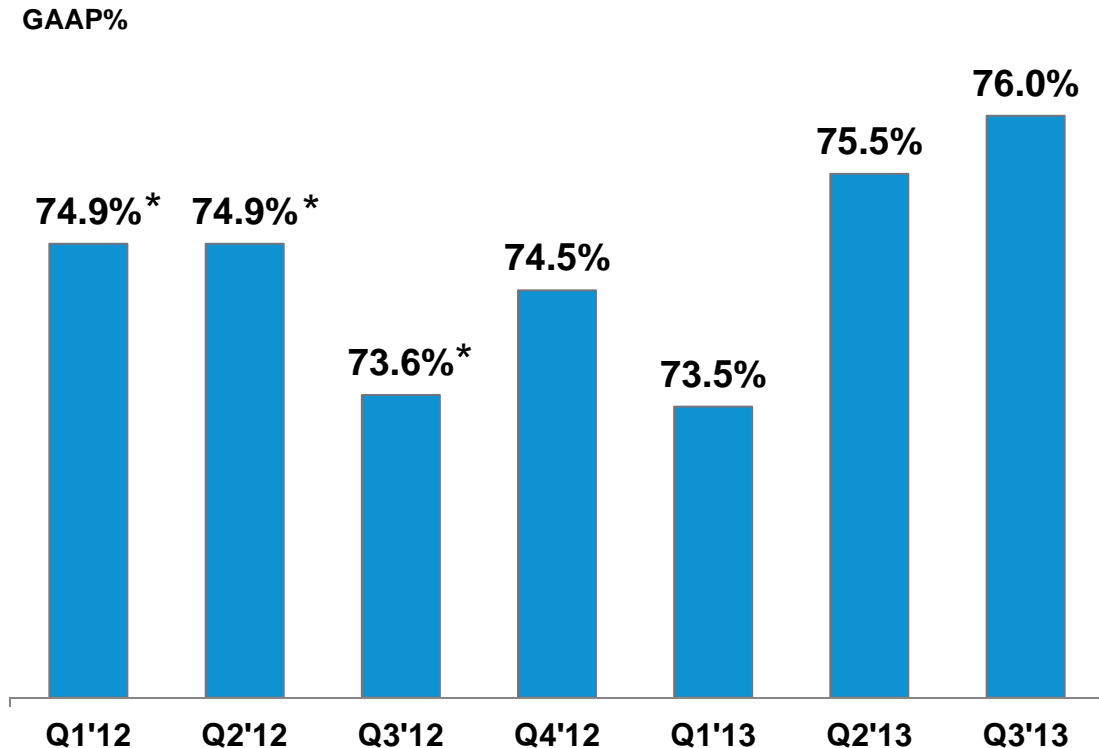


## Q3'13 Net Revenues Highlights

- Net revenues of \$164.5M, +0.4% Q/Q, +20.5% Y/Y
- Invisalign clear aligner net revenues of \$153.5M
- +0.2% Q/Q, +21.2% Y/Y
- Q/Q growth was driven primarily by seasonal strength in the N.A. Ortho market which reflects a 27% Q/Q increase in number of teenage cases in N.A. Offset somewhat by a decrease in Int'l cases and lower Int'l ASPs. N.A. ASPs were flat.
- Y/Y growth reflected higher Invisalign volumes across all geographies, channels, and products.
- Scanner & CAD/CAM Services net revenues of \$11.0M
- +4.1% Q/Q, +12.1% Y/Y
- Scanner volume was up 32% over last quarter, which reflects record volumes in North America.

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# Gross Margin Trend



\* Non-GAAP

Starting in fiscal year 2013, amortization of acquired intangible assets is no longer excluded as a non-GAAP measure. This expense is included in GAAP gross profit, operating expenses, profit (loss) from operations and net profit (loss) for prior periods and therefore is no longer a reconciling item.

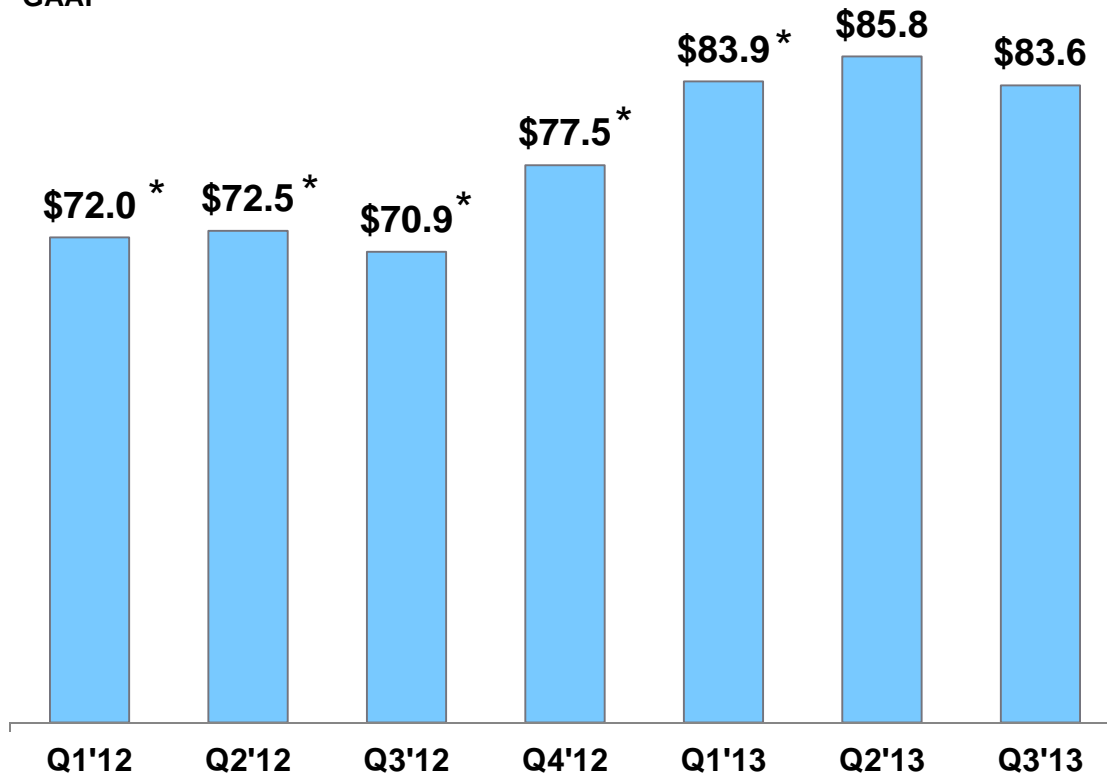
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## Q3'13 Gross Margin Highlights

- GAAP gross margin was \$125.1M or 76.0%.
- Includes stock based compensation expense of \$0.7M
- Invisalign gross margin of 79.9%, +0.5pts Q/Q, +2.4pts Y/Y
- Q/Q increase reflects: 1) more favorable product mix shift to higher priced products, 2) as a result of updating our midcourse correction policy last quarter, we experienced a modest increase in midcourse correction cases and a corresponding reduction in our warranty claims. This necessitated a modest true-up of our revenue deferrals and warranty reserves, which actually resulted in a reduction in our overall gross profit of approximately \$1.1M, however the impact on gross margin was favorable by about 0.7 points.
- Y/Y increase primarily reflects higher ASPs, resulting from our price increase which was effective in the beginning of 2013, as well as the aforementioned impact from the change in our midcourse correction policy.
- Scanners & CAD/CAM Services: 22.2%
- Q/Q decrease primarily reflects lower scanner ASPs as a result of a reduction in the list price of our current scanner, combined with a promotion to sell our older scanners, as well as higher manufacturing costs.
- Y/Y improvement in this segment's margins was primarily the result of lower manufacturing costs which were partially offset by lower ASPs.

# Operating Expense Trend

\$M  
GAAP



## Q3'13 Operating Expenses Highlights

- Operating expense was \$83.6M
  - (2.5%) Q/Q, +18.0 Y/Y
- Q/Q decrease as a result fewer customer events in the quarter, as well as less media cost.
- Y/Y up \$12.7 million, incidental to the growth of the business, as well as the impact of the medical device excise tax levied on our U.S. revenues.
- Includes stock-based compensation expense of \$6.9M

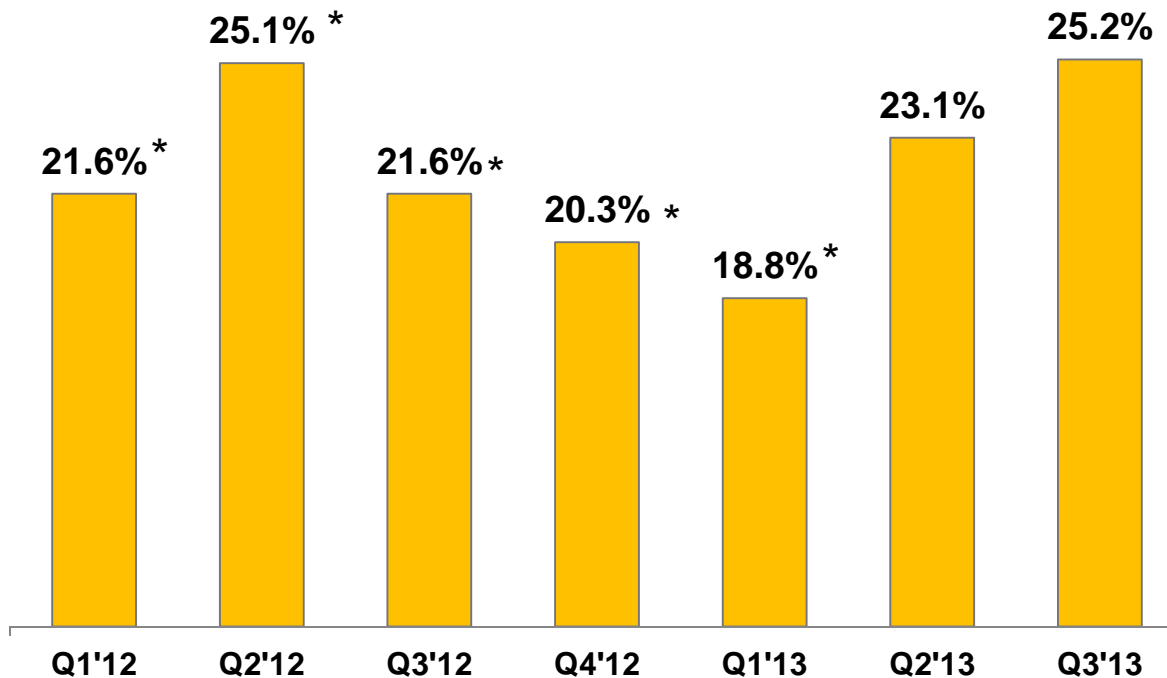
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# Operating Margin Trend

GAAP %



## Q3'13 Operating Margin Highlights

- Operating profit was \$41.5M
- Operating Margin 25.2%
  - 2.1% pts. Q/Q
  - 3.6% pts. Y/Y
- With regards to Q3 tax provision, results for the quarter benefited from a one-time tax credit of \$1.3M related to our 2012 federal income taxes.

\* Non-GAAP

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# Balance Sheet Highlights

<i>(in millions except for DSOs)</i>	Q3'12	Q2'13	Q3'13
Accounts Receivables, net	\$105.9	\$112.4	\$109.2
DSOs	72 days	62 days	60 days
Cash, Cash Equivalent & Short-Term and Long-Term Marketable Securities	\$348.9	\$341.3	\$400.4

Cash Flow from Operations	\$40.3	\$53.3	\$55.1
Capital Expenditures	(\$5.7)	(\$3.8)	(\$5.8)
Free Cash Flow*	\$34.6	\$49.5	\$49.3

\*Free cash flow is defined as cash flow from operations less capital expenditures and is a non-GAAP measure

## 3 to 5 Year Financial Model Targets

	Q3'12 Actual	Q3'13 Actual	3 – 5 Year Model
Revenue CAGR%			15 - 25%
Gross Margin	73.6%*	76.0%	73% - 78%
Operating Expense %	51.9%*	50.8%	45% - 50%
Operating Margin	21.6%*	25.2%	25% - 30%

\*Non-GAAP

A reconciliation of GAAP to Non-GAAP can be found at <http://investor.aligntech.com>

# Financial Outlook

# Factors That Inform Our View of Q4 2013

- While typically the third quarter reflects the peak season for teenage Orthodontic case starts, the fourth quarter is often a slower period for North American Orthos, as fewer teenagers start orthodontic treatment once the school year has started. As such, we expect volume North American Orthos to be down sequentially in Q4.
- Offsetting this trend, our fourth quarter has historically been a stronger quarter for our international doctors and North American GPs as they rebound from a seasonally slower summer quarter. We expect volume for both international and North American GPs to be up sequentially in Q4.
- Our scanner business performed very well this past quarter despite an increasingly competitive environment and we expect our scanner volumes to remain consistent with third quarter performance.
- Our strong Q3 results reflect stable patient traffic in our customers' offices and our outlook for Q4 assumes this trend will continue.



# Q4 Fiscal 2013 Outlook

Invisalign Case Shipments	109.7 K – 112.1 K
Net Revenues	\$169.1 M – \$173.1 M
Gross Margin	74.7 % – 75.3 %
Operating Expenses	\$83.8 M – \$85.4 M
Operating Margin	25.2 % – 26.0 %
Effective tax rate	21 %
EPS, diluted	\$0.41 – \$0.43
Stock based compensation	\$7.9 M
Cash, Cash Equivalent & Short-Term and Long-Term Marketable Securities	\$434 M - \$444 M
Diluted shares outstanding	82.2 M

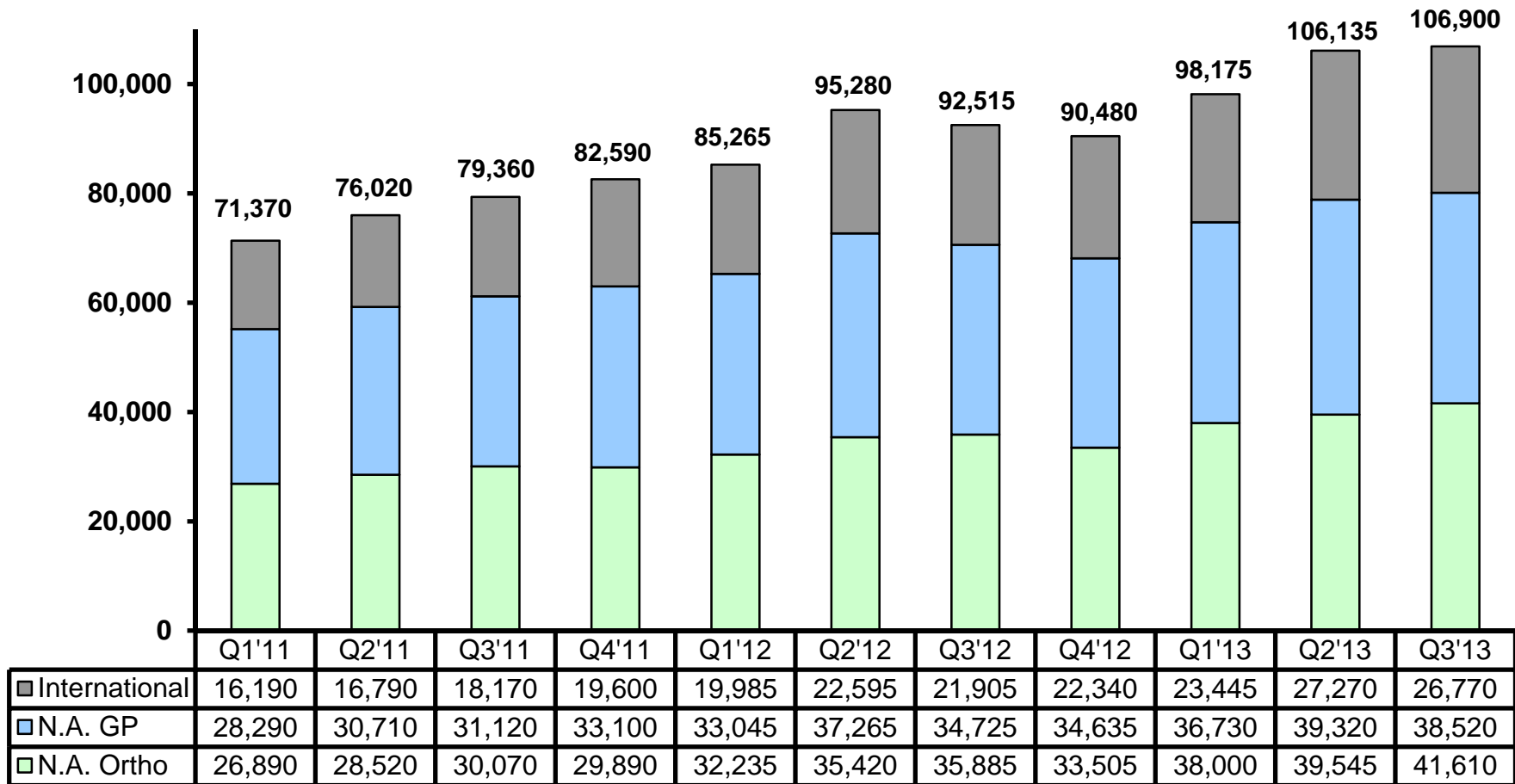
## Contact Align Technology at:

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  - Yin Cantor, [ycantor@aligntech.com](mailto:ycantor@aligntech.com)

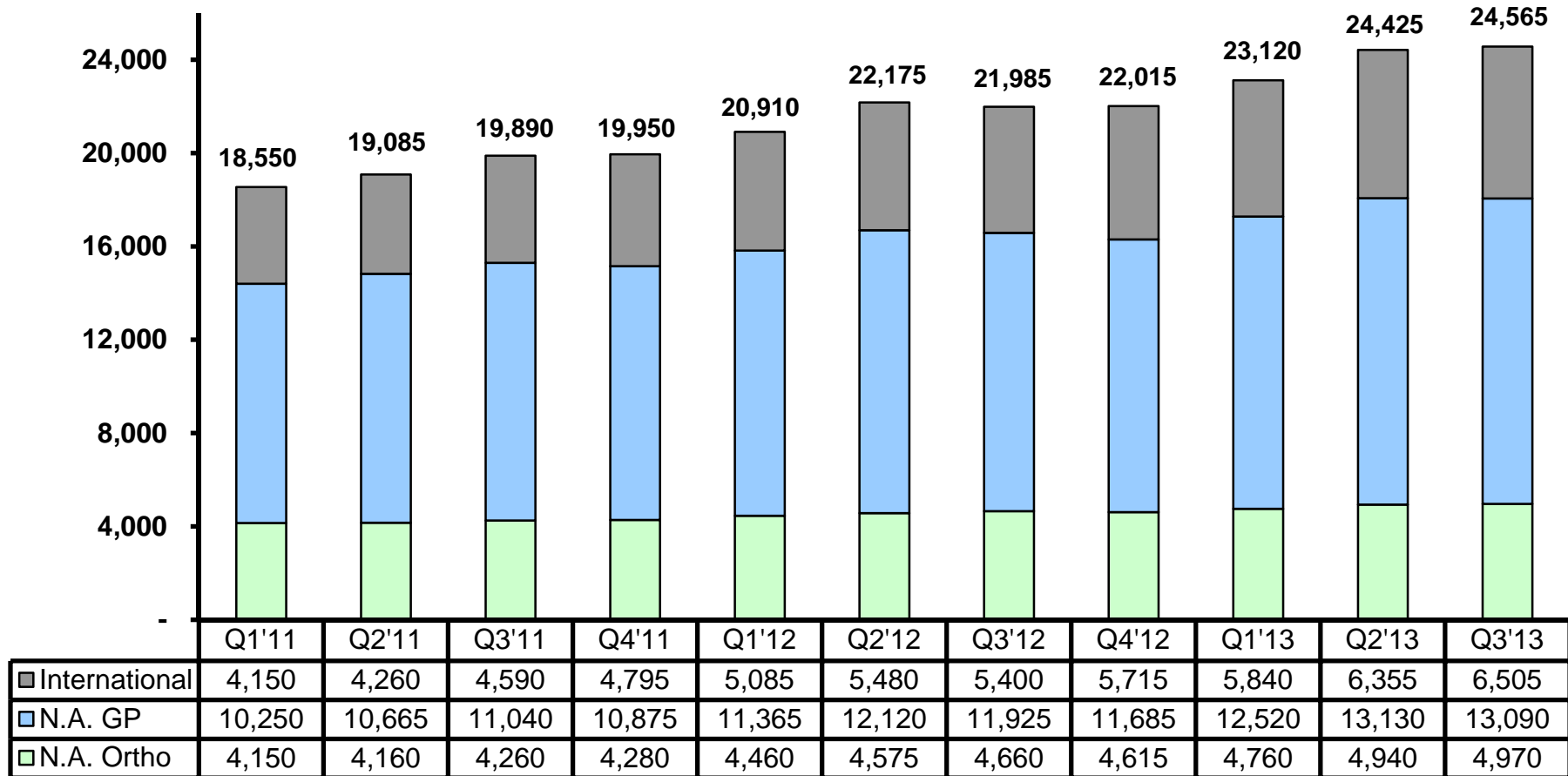
# Additional Invisalign Clear Aligner Data

Historical Information as of 9/30/13

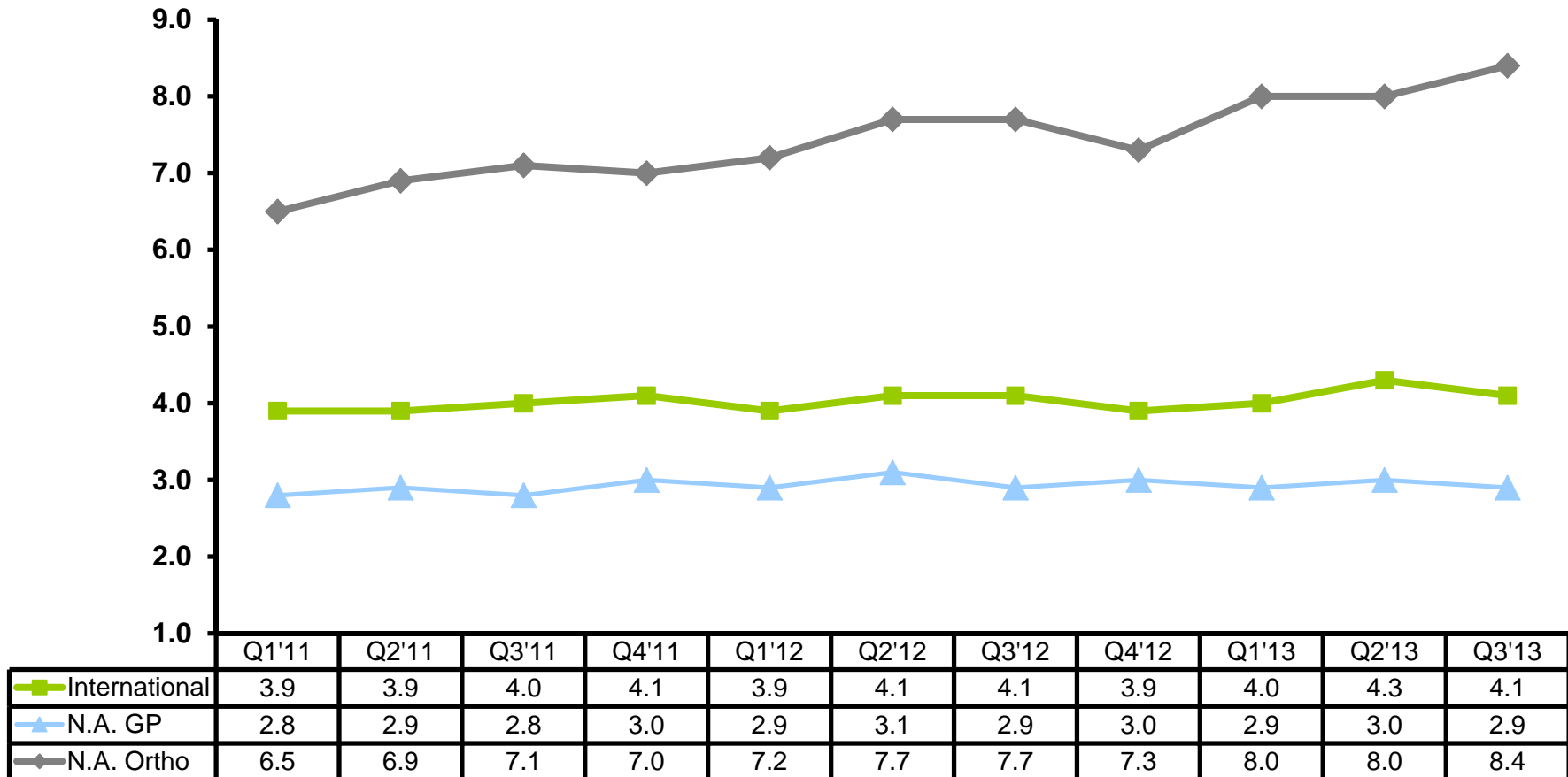
# Invisalign Cases Shipped By Geography



# Total Doctors Invisalign Cases Shipped To

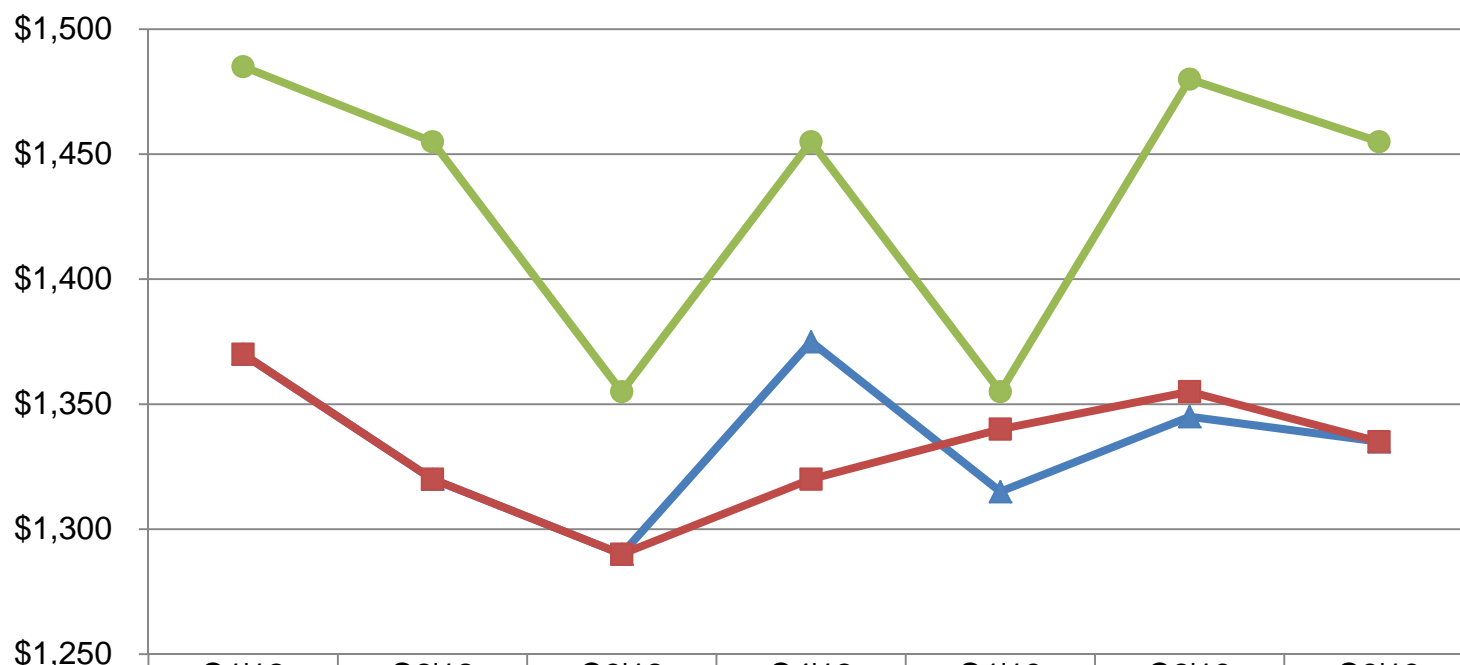


# Invisalign Utilization Rate\*



\*Utilization Rate = # of Cases Shipped / # of Doctors Cases Are Shipped To

# Invisalign Average Selling Price (ASP) Worldwide and International



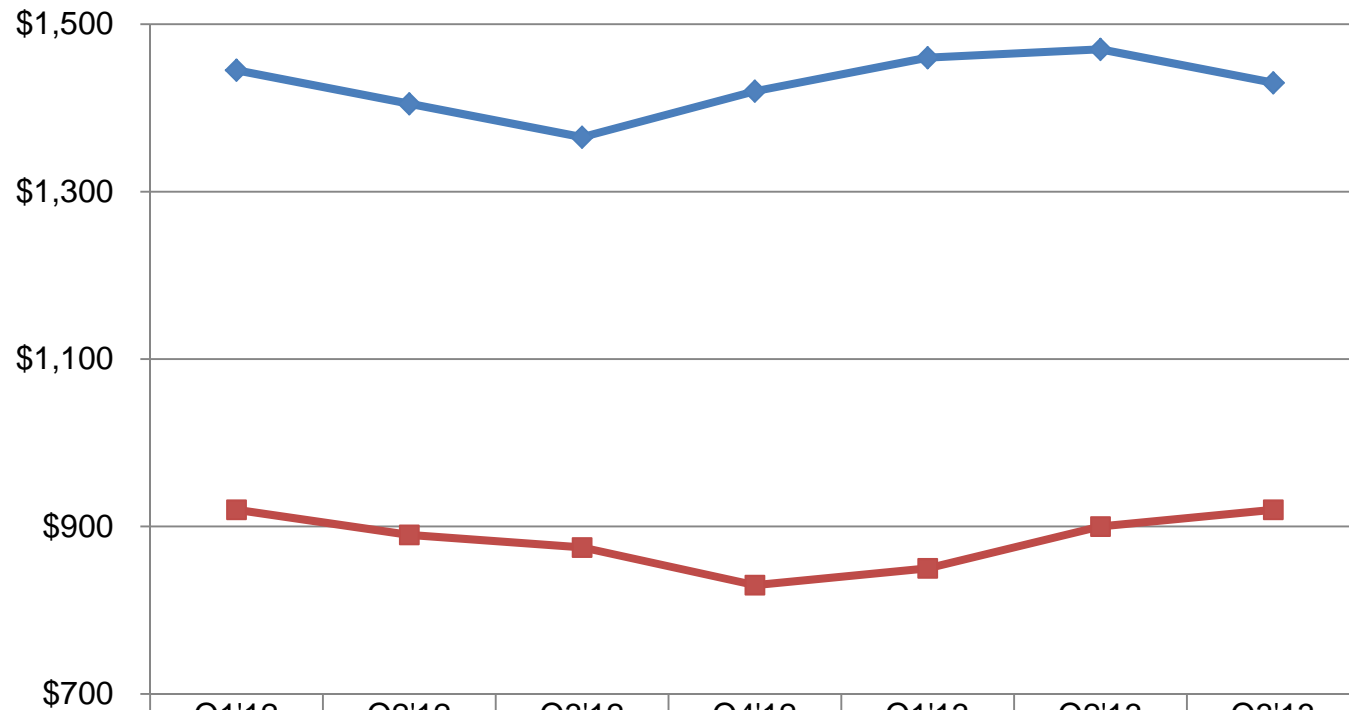
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Worldwide	\$1,370	\$1,320	\$1,290	\$1,375	\$1,315	\$1,345	\$1,335
Worldwide, adjusted	\$1,370	\$1,320	\$1,290	\$1,320	\$1,340	\$1,355	\$1,335
International	\$1,485	\$1,455	\$1,355	\$1,455	\$1,355	\$1,480	\$1,455

**ASP:** Invisalign case revenue / Invisalign case shipments

**ASP adjusted:** adjusted for one-time adjustments (eg. Q4'12 refinement release and Q1'13 and Q2'13 grandfathered mid-course correction)

**Note:** we are no longer listing billed ASPs which were previously provided to reflect revenue prior to impact from product deferrals.

# Invisalign Average Selling Price (ASP) Product Groups



	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Comprehensive Full Products	\$1,445	\$1,405	\$1,365	\$1,420	\$1,460	\$1,470	\$1,430
Express Products	\$920	\$890	\$875	\$830	\$850	\$900	\$920

**Comprehensive Full Products:** Invisalign Full, Invisalign Teen, Invisalign Assist

**Express Products:** Invisalign Express 10, Invisalign Express 5, Invisalign Lite, Invisalign i7