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 iTero

# Financial Results

Q2 2017

Align Technology, Inc.

# Align Technology, Inc – Q2 2017 Financial Results

## Conference Call

- Speakers:
  - Joe Hogan, President and CEO
  - John Morici, CFO
  - Shirley Stacy, VP, Corporate Communications & Investor Relations
- Replay and Web cast Archive
  - Telephone replay will be available through 5:30pm ET August 10, 2017
  - Domestic callers: 877-660-6853
  - International callers: 201-612-7415
  - Conference # 13665263
  - Audio web cast archive will be available at <http://investor.aligntech.com> for 12 months

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## Safe Harbor and Forward Looking Statement

This presentation contains forward-looking statements, including statements regarding certain business metrics for the third quarter of 2017, including, but not limited to, anticipated net revenues, gross margin, operating expenses, operating profit, diluted earnings per share, tax rate and case shipments. 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, Align's ability to protect its intellectual property rights, continued compliance with regulatory requirements, competition from existing and new competitors, the willingness and ability of our customers to maintain and/or increase product 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, or that the expected benefits of new or existing business relationships will not be achieved as anticipated, 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, the security of customer and/or patient data is compromised for any reason, 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 develop and successfully introduce new products and product enhancements and the loss of key personnel. 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 year ended December 31, 2016, which was filed with the Securities and Exchange Commission (SEC) on February 28, 2017, and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, which was filed with the SEC on May 4, 2017. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

## Q2 2017 Financial Highlights

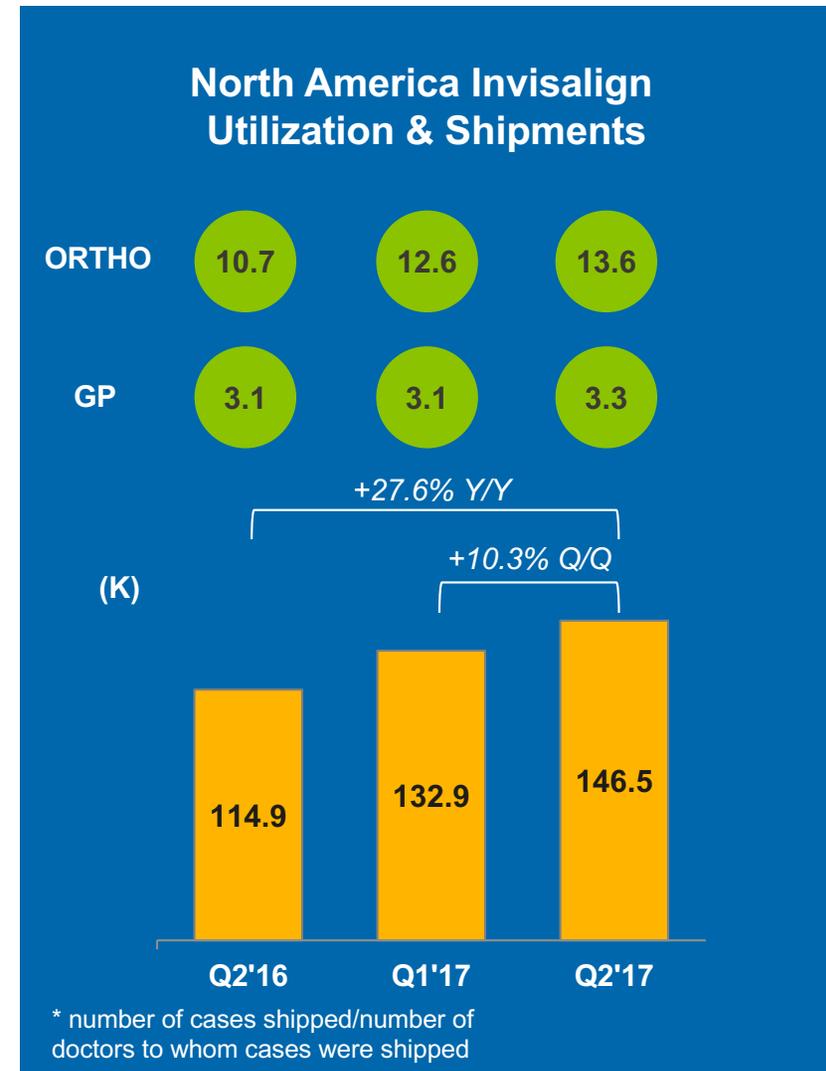
- Second quarter results were better than expected across key financial metrics including revenue, volume, margins, and EPS
- Revenues +32.3% Y/Y driven by strong Invisalign case shipments across all channels and especially in the teen segment
- Solid execution of our strategy and key investments continue to deliver strong growth across the board, with record Invisalign volume in almost every geography.
- All-time high of nearly 5,000 new Invisalign-trained doctors in a quarter
- iTero scanner business performed well with revenues up 36.7% Y/Y

	Q2'17	QoQ	YoY
Total Net Revenues	<b>\$356.5M</b>	+14.9%	+32.3%
- Clear Aligner*	<b>\$321.0M</b>	+13.7%	+31.9%
- Scanner & Services	<b>\$35.4M</b>	+26.9%	+36.7%
Invisalign Shipments	<b>231,890</b>	+11.5%	+31.0%
EPS, diluted	<b>\$0.85</b>	0%	37.1%

# Q2 2017 Financial Highlights

## North America

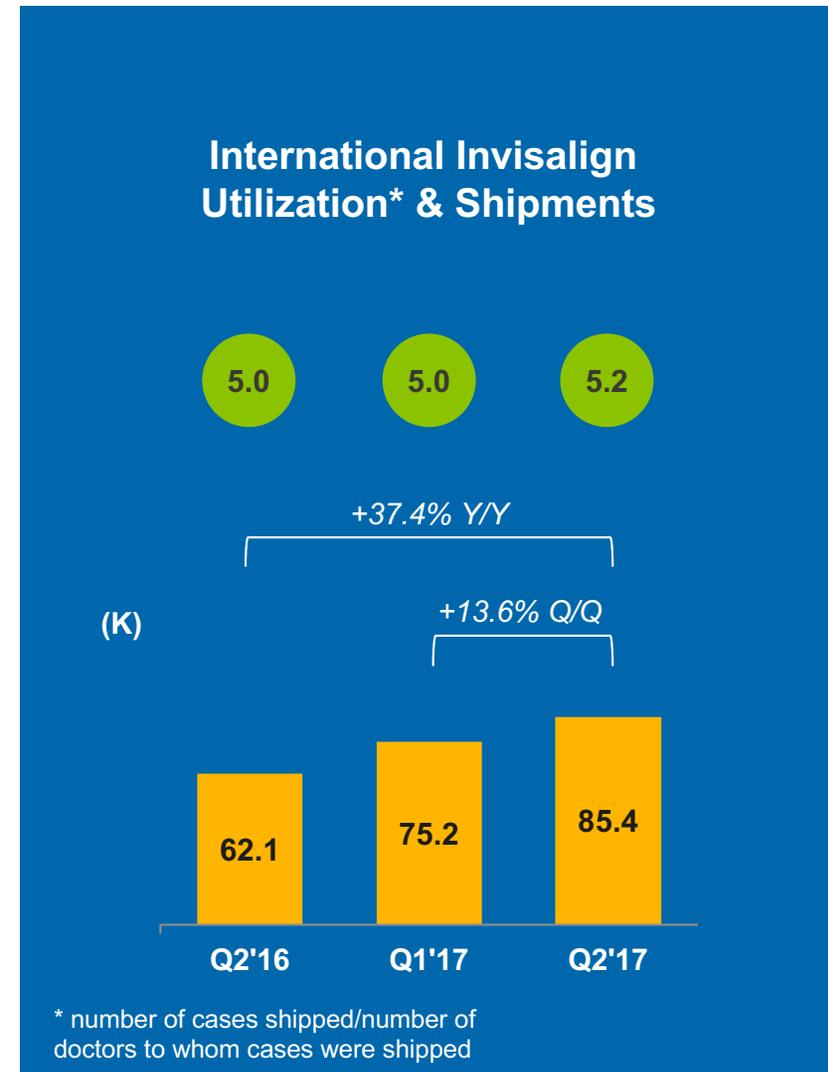
- Invisalign case volume +10.3% Q/Q, +27.6% Y/Y reflecting strong Y/Y growth from both Ortho and GP Dentist channels
- Continued uptake with teens drove Invisalign growth and contributed to another record quarter for Orthos +34.5% Y/Y and utilization up to 13.6 cases per doctor
- GP Dentist volume +18.9% Y/Y, primarily reflecting continued expansion of our GP customer-base and utilization growth, which increased to a record 3.3 cases per doctor
- First full quarter we offered Invisalign Lite and we saw solid uptake, especially among GP Dentists. Invisalign Lite includes up to 14 stages of aligners and is intended to treat simple to moderate cases



# Q2 2017 Financial Highlights

## *International*

- Invisalign volume for International doctors +13.6% Q/Q, +37.4% Y/Y driven primarily by new customers in both the EMEA and APAC regions.
- EMEA volume +33.2% Y/Y
  - All five of our core European markets showed record growth rates led by Spain and the UK.
  - Expansion markets also had record volume, with over 50% year-over-year growth led by Central and Eastern Europe (CEE) and Benelux
- APAC volume +44.4% Y/Y
  - Led by China where we trained over 1000 doctors for the first time, followed by growth from Southeast Asia, Japan, and Australia/New Zealand

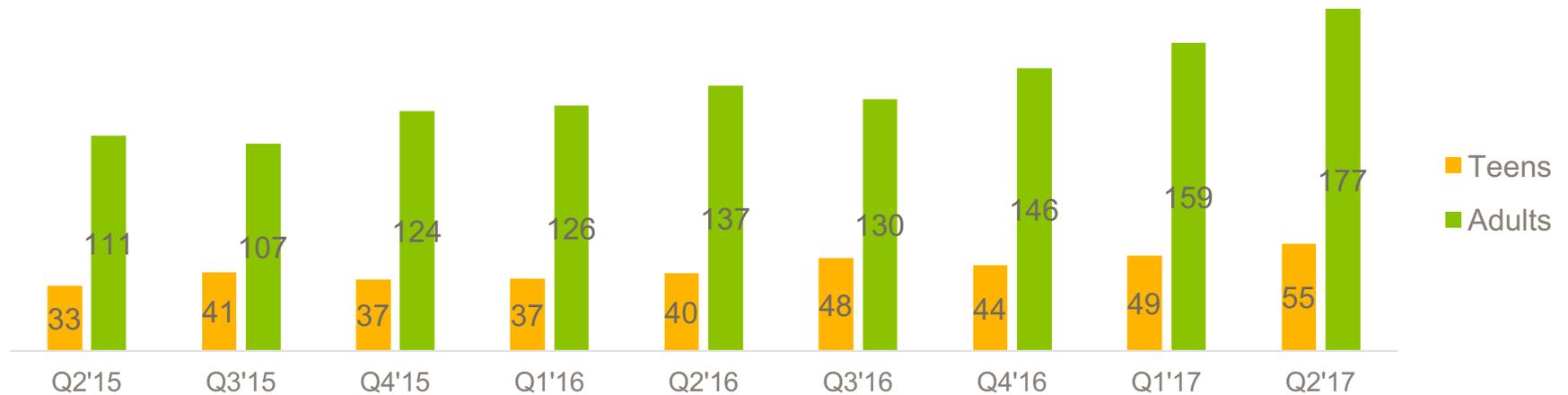


# Q2 2017 Financial Highlights

## Teens and Adults

- Third consecutive quarter in which teens growth rate outpaced adult growth rate Y/Y
- 55,000+ teenagers started treatment teenage cases +12.6% Q/Q and +37.6% Y/Y
- North America Ortho teen cases +11.6% Q/Q and 42.1% Y/Y
- International case shipment to teen patients increased both Q/Q and Y/Y

WW Cases – Patient Mix (#K)

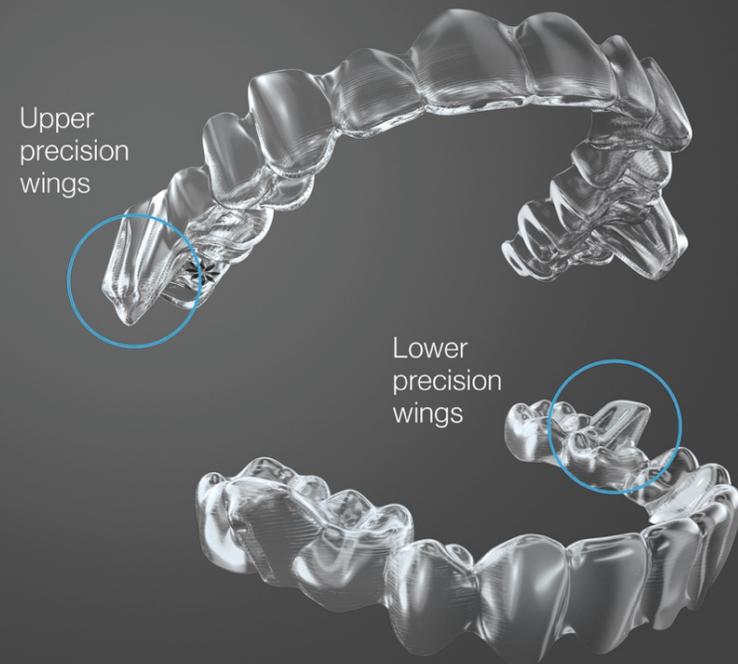


## Invisalign Treatment with Mandibular Advancement

- Expanded commercialization of Invisalign treatment with Mandibular Advancement to select countries in EMEA and APAC
- Invisalign treatment with Mandibular Advancement is the first clear aligner solution for Class II correction that advances the mandibular while moving teeth at the same time
- Still very early in the adoption cycle, to-date, we're pleased with the initial uptake and expect to see continued ramp over the course of the year
- Pending FDA approval in the U.S.



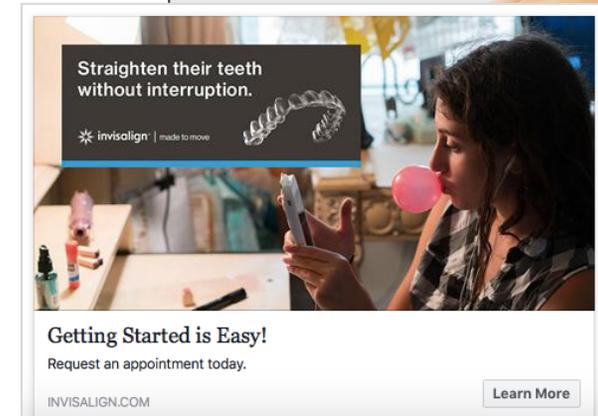
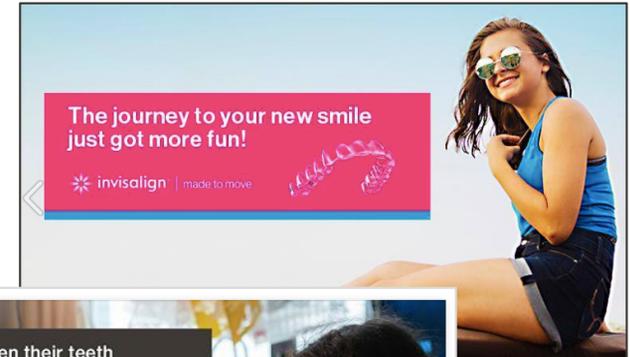
Invisalign treatment with mandibular advancement



# Q2 2017 Consumer Marketing

## North America

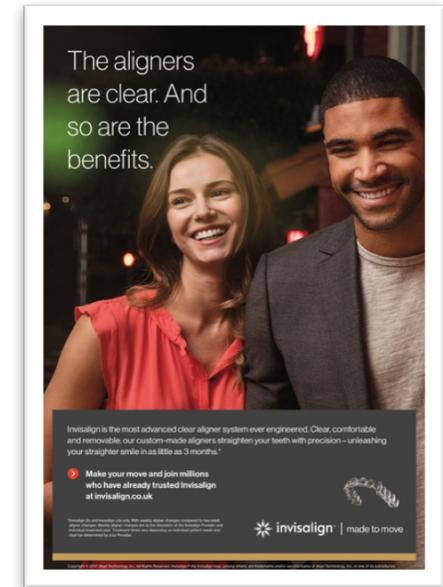
- Launched our new teen-focused marketing campaign in May
  - Aims to educate teens and their parents about the benefits of teeth straightening with Invisalign clear aligners
  - Works to ensure that teens know Invisalign treatment is the best option for their lifestyle
  - Contributed to significant growth in consumer demand during the quarter that helped drive Invisalign teen volume
- Teen campaign expands on the Invisalign “Made to Move” campaign introduced in March and we continued to see positive impact
  - +23% Y/Y increase in unique visitors to our website
  - Significant growth Y/Y in doc locator searches
- Continued uptick in adult male patients as compared to females, as a result of changing our consumer targeting and approach



# Q2 2017 Consumer Marketing

## EMEA

- Early results show the Invisalign “Made to Move” campaign is resulting in higher engagement with consumers across digital display, PPC and social channels
- During the quarter, we piloted new social media formats that delivered exceptional results all out-performing benchmarks
- Social media remains a key driver – delivering 200% more users
- Altogether, we also saw a significant increase in the number of Smile Assessment completions and total leads and will continue to roll out “Made to Move” campaign across the remaining countries in EMEA in Q3



# Q2 2017 Consumer Marketing APAC

- Consumer marketing campaigns focused primarily on Australia and New Zealand, where we saw momentum from our “Summer Campaign” featuring Invisalign Ambassador, Jason Dundas, a well-known TV host and personality in Australia
  - Campaign shares Jason’s personal journey of how Invisalign treatment helped transform his smile and his career, along with a call to action for consumers’ focused on their ‘New Year’s resolutions to improve their lives by getting the smile they’ve always wanted
- Continued driving Invisalign website doctor locator visits by reaching out to potential patients who engaged with our ads and banners in Q1.
- India: where we are still just getting started, we participated in Beach Fashion Week, where the Invisalign brand was their “Beautiful Smile Partner”

JASON DUNDAS  
FOR INVISALIGN

“I’m Jason Dundas and I was born to entertain and create. As an international TV host and entrepreneur, my smile is part of my currency. As a 34 year-old man, my smile gives me the confidence to chase my dreams, and with the help of Invisalign treatment, I discovered that your smile can take YOU further.”

Invisalign India  
March 9 · 🌐

All beautiful smiles on the Runway are powered by Invisalign- the Official Smile Partner at India Beach Fashion Week. To know more about Invisalign visit our website <https://goo.gl/4wep4j>

A smile of fashion, finesse and career content. A start time after launching his career in film and fashion shows, Gokulraj, when he served as a co-producer on several shows, to work with some of the biggest brands and host some of the most popular television...

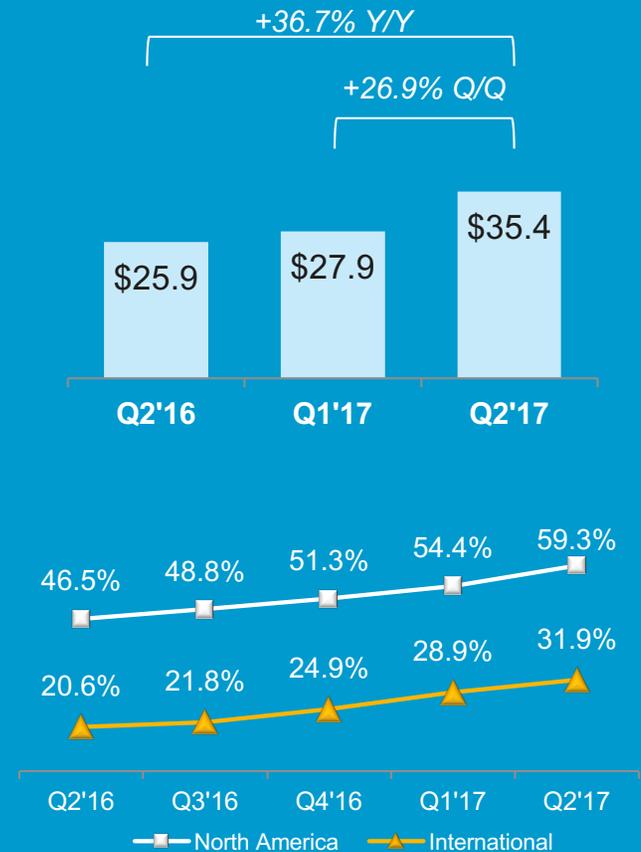
We've slightly self-conscious about his teeth. That is why after discovering that a formal ortho and veneer treatment wasn't 5 years ago, Jason believes his Invisalign treatment both personal and career goals he had set for himself, and it was through his knowledge...

# Q2 2017 Financial Highlights

## Scanner and Services

- Scanner revenues +26.9% Q/Q, +36.7% Y/Y
- In May, announced iTero Element 1.5 software upgrade which includes two key features:
  - **TimeLapse** compares a patient's prior 3D scans to their most current scan, which gives doctors an enhanced visualization, assessment and communication tool that can help them provide additional treatment recommendations.
  - **One-Minute scans** enable practitioners to complete a full arc scan in as little as 1 minute with the same accuracy and reliability practitioners have come to expect from iTero scanners.
- Use of the iTero scanners for Invisalign case submission in place of PVS impressions continues to expand and remains a positive catalyst for Invisalign utilization.
  - 59.3% Invisalign Cases Submitted Digitally in North America
  - 31.9% Invisalign Cases Submitted Digitally in International

### Scanner & Services Revenues



# Doctor-Directed at Home Channel

## *Exclusive third-party supplier of Smile Direct Club (SDC)*

- Second full quarter supplying clear aligners to SmileDirectClub (SDC)
  - Q2 shipments to this new channel were strong and nearly tripled Q/Q off of a small base.
  - As their exclusive third-party supplier, we produce roughly 1/3 of SDC's clear aligner volume and they manufacture the remaining amount.
- SDC continued to invest significantly in consumer marketing, including TV advertising, print and online media, including social media – which we believe has had a positive effect on both SDC and Invisalign demand.
- SDC opened several new SmileShops in the U.S. which are continuing to ramp
- Excited about the long term potential for the At Home, Doctor-Directed market and remain pleased with our investment and supply agreement
- Announced that we have purchased an additional 2% of SmileDirectClub for \$12.8M, which brings our total ownership to 19%, and we have extended SDC's line of credit from \$15M to \$30M



# Invisalign Value Chain Expansion

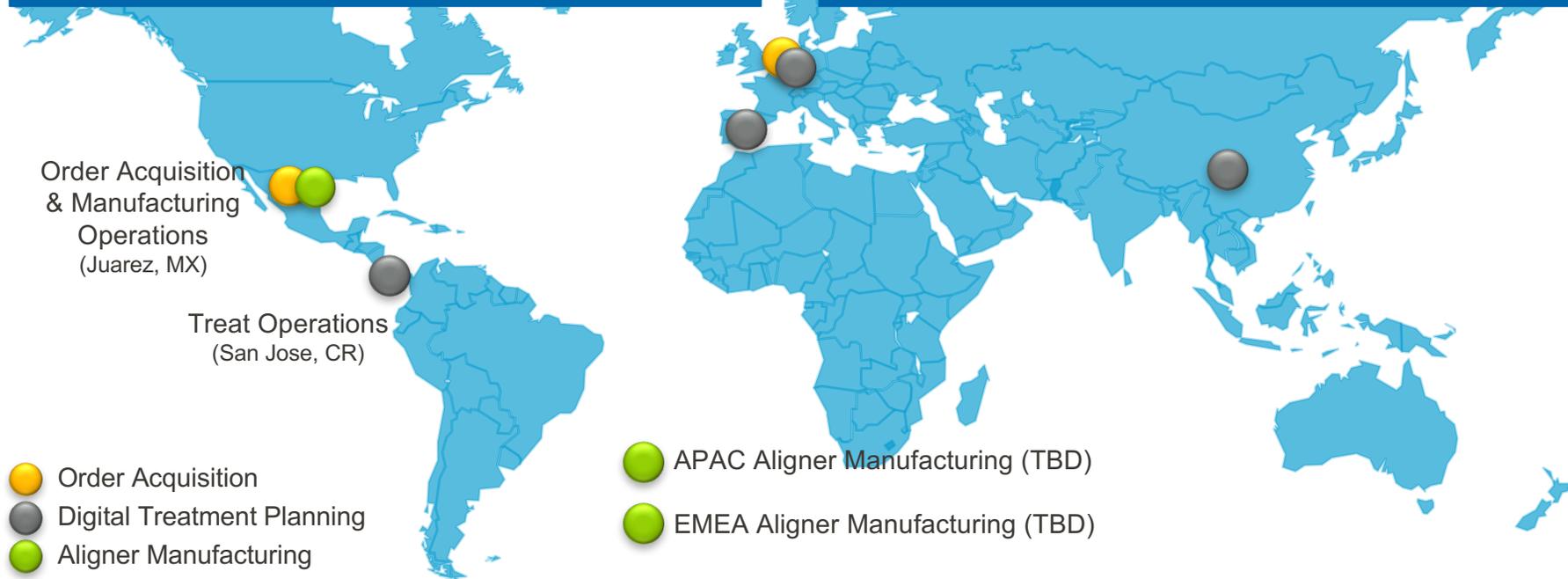
*Extending Our Leadership and Operational Global Presence*

## EMEA Region

- Order Acquisition in Amsterdam opened July 2016
- Treatment Planning (Cologne, Germany) in Q317

## APAC Region

- Order Acquisition early 2018
- Treatment Planning in Chengdu, China opened June 2017



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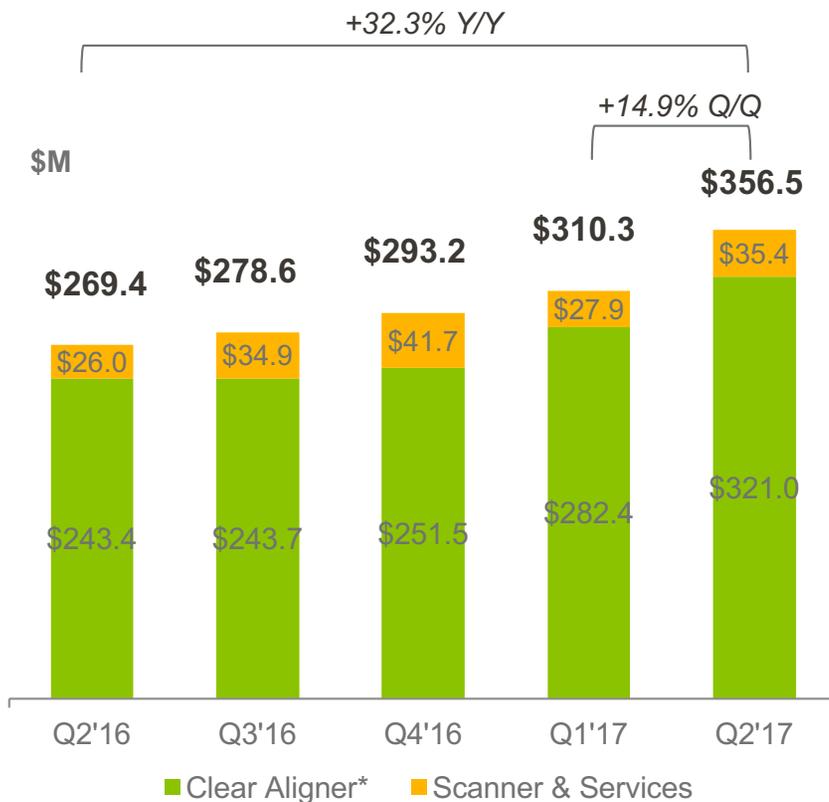
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# + Q2 2017 Financial Review

# Net Revenues Trend

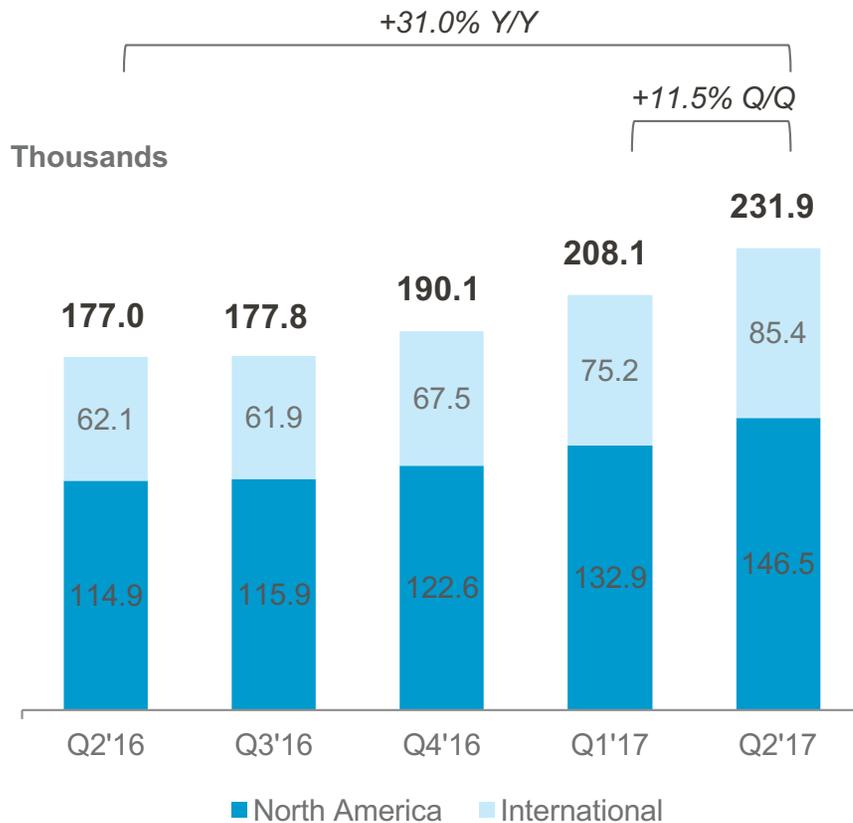
## Q2'17 Highlights



- Clear Aligner\* net revenues, +13.7% Q/Q, +31.9% Y/Y
  - Q/Q increase driven primarily by better than expected Invisalign shipments and higher Invisalign ASPs.
  - Y/Y increase reflected strong Invisalign shipment growth across all customer channels and geographies and increased prices. Partially offset by a product mix shift to non-comprehensive products primarily driven by increased sales of SDC clear aligners, higher discounts and unfavorable FX rates
  - Invisalign ASPs up ~\$15 Q/Q, at about \$1,285 reflecting price increases and favorable FX, partially offset by increased promotional discounts
  - Invisalign ASPs flat Y/Y reflecting price increases, offset by increased promotional discounts and unfavorable FX
- Scanner & Services net revenues, +26.9% Q/Q, +36.7% Y/Y

# Invisalign Shipments Trend

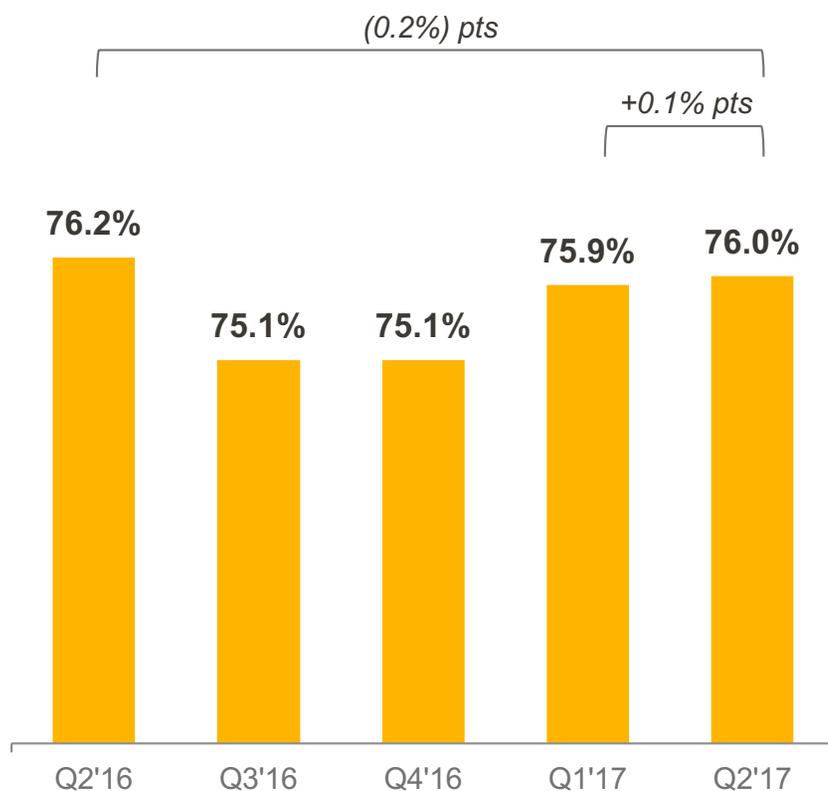
## Q2'17 Highlights



- Q/Q driven primarily by our International doctors and North American orthodontists
- Y/Y driven by growth across all regions as well as expansion of our customer base predominantly from the Asia Pacific region
- Invisalign Channel Highlights
  - N.A. Orthodontists +10.5% Q/Q, +34.5% Y/Y
  - N.A. GP Dentists +9.9% Q/Q, +18.9% Y/Y
  - International +13.6% Q/Q, +37.4% Y/Y

# Gross Margin Trend

## Q2'17 Highlights



- Gross profit was \$270.9M or 76.0% gross margin
- Includes stock based compensation expense of \$768K

### Clear Aligner\* Gross Margin: 78.1%

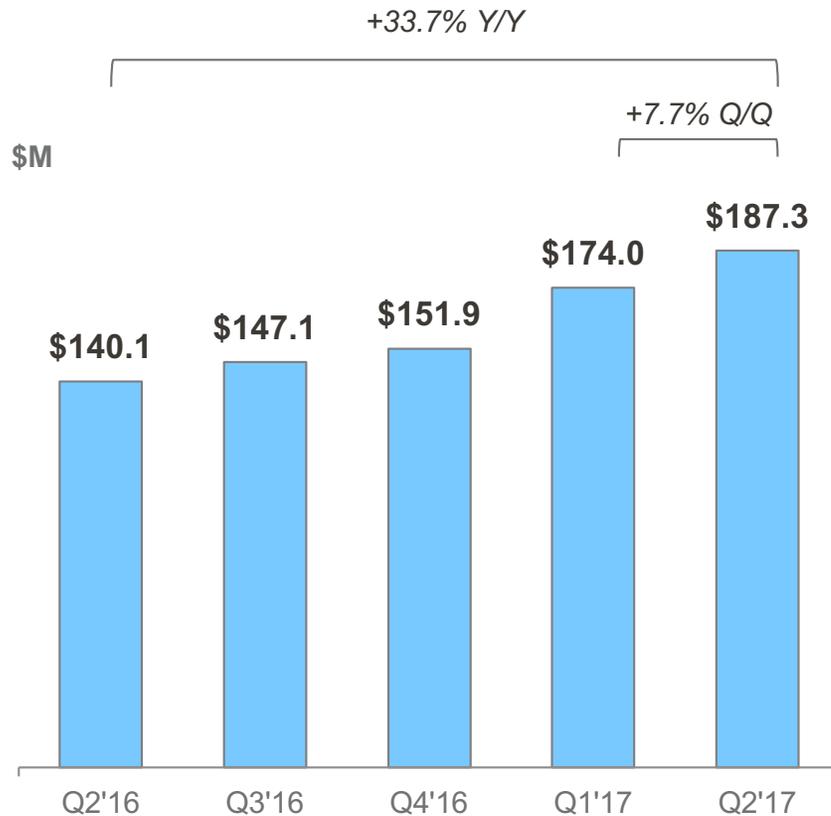
- +0.2 pts Q/Q increase primarily due to leveraging our manufacturing costs over higher volumes
- (0.5) pts Y/Y decrease primarily due to lower ASPs

### Scanners & Services Gross Margin: 56.7%

- +0.6 pts Q/Q increase primarily due to lower services costs on our installed base and partially offset by lower ASPs
- +3.1 pts Y/Y increase primarily a result of lower service costs and a product mix shift to our lower cost iTero Element scanner

# Operating Expense Trend

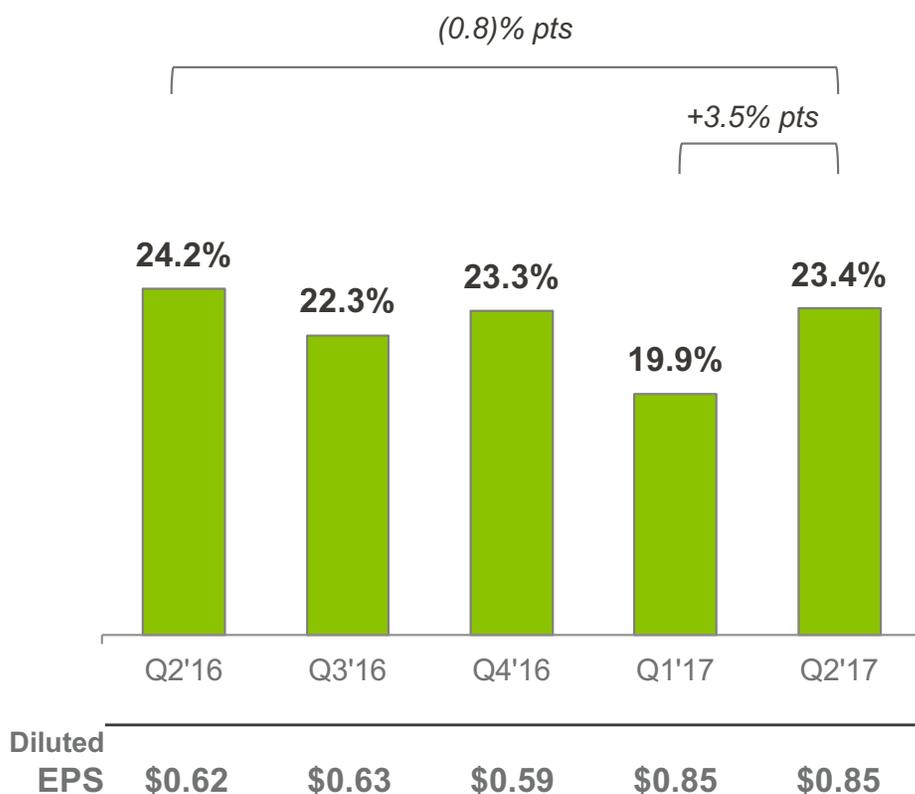
## Q2'17 Highlights



- Q/Q: +\$13.4M primarily related to increased employee headcount, marketing programs including our advertising campaigns and key customer events, and International commercialization efforts.
- Y/Y: +\$47.3M reflecting increased headcount and continued investment in our go-to-market activities critical to the growth of the business
- Includes stock-based compensation expense of \$13.5M

# Operating Margin and EPS Trend

## Q2'17 Highlights



- Operating profit \$83.6M and operating margin 23.4%
  - Q/Q decrease relates primarily to increased clear aligner volume
  - Y/Y decrease primarily reflects higher operating expenses as we invest in headcount, geographic expansion and new products in order to increase adoption and accelerate the growth of our business
- Tax rate was 17.7% which includes \$1.1M in excess tax benefits and is down by ~5.5 pts compared to Q2'16 primarily due to a favorable resolution of foreign jurisdiction unrecognized
- SmileDirectClub (SDC) aligner supplier
  - Revenue and costs are included in our operating profit and reported results, although they were immaterial this quarter
  - Report our share of SDC's losses below op margin and our tax provision and is entitled "Equity in Losses of Investee, net of tax." Q2 loss, net of tax, was ~\$2.2M, or \$0.03 per diluted share

## Balance Sheet Highlights

- \$676.6M Cash and Cash Equivalent Balance
  - Increase of ~\$32.4M compared to \$644.2 at end of Q1'17, primarily related to net income growth and collections
  - \$218.4M held by the U.S, \$458.2M held by our international entities
- DSO Y/Y increase is a result of our ERP and other related systems implementation last July which have impacted the timing of our customer collections. As we work through these changes, we anticipate that DSOs will continue to decline over the next few quarters.
- Stock Repurchase Program
  - \$50M ASR, received an initial delivery of 300K shares of common stock
  - \$250M available for repurchases under existing stock repurchase authorization
- Purchased an additional 2% of SmileDirectClub (SDC) for \$12.8M, which brings our total ownership to 19%, and we extended SDC's line of credit from \$15M to \$30M

	Q2'16	Q1'17	Q2'17
Accounts Receivables, net	\$192.7	\$267.1	\$291.7
DSOs	64 days	77 days	74 days
Cash, Cash Equivalent & Short-Term and Long-Term Marketable Securities	\$685.0	\$644.2	\$676.6

Cash Flow from Operations	\$76.2	\$47.6	\$110.5
Capital Expenditures	\$(18.8)	\$(59.6)	\$(18.5)
Free Cash Flow*	\$57.3	\$(11.9)	\$92.0

\*Free cash flow is defined as cash flow from operations less purchase of property, plant and equipment and is a non-GAAP measure

## Q3 2017 Outlook

- For our International markets, expect Invisalign volume to be up sequentially which reflects continued strong growth in APAC partially offset by summer holidays in EMEA.
- For North America, expect Invisalign volume to be flat to slightly down sequentially – reflecting seasonally stronger teen volume for Orthos offset by GP dentists who typically have less days in the office and lighter patient traffic during the summer.
- For our Scanner business, we expect revenues to be up sequentially.

	Q3 2017
Invisalign Case Shipments	231 K – 234 K
Net Revenues	\$355 M – \$360 M
Gross Margin	74.7 % - 75.7 %
Operating Expenses	\$184.5 M - \$187.5 M
Operating Margin	22.7 % - 23.6 %
Effective Tax Rate	21 % (2)
EPS, diluted	\$0.78 - \$0.81 (1)
Stock Based Compensation	14.9 M
Diluted Shares Outstanding	81.8 M (2)

(1) Includes the benefit from the adoption of the new accounting standard update for share-based compensation

(2) Excludes any stock repurchases during the quarter

## Q2 2017 Closing Comments

- Pleased to see the first half of the year off to a strong start.
- Many of you have asked recently if this is a tipping point. Frankly, we think it's too early to tell.
- The growth we are seeing in our business is better than we expected and reflects progress in several areas including clinical efficacy, sales coverage and support models, customer engagement, and demand generation and patient capture.
- We believe it also reflects a healthy underlying market with solid patient traffic and a significant increase in direct to consumer programs – by us and others.
- There is still a lot of work ahead as we move toward our goal of replacing metal braces and making Invisalign the standard of care in orthodontics.
- We know there will be challenges and we aren't drawing a straight line up and to the right. But, we are confident in our ability to drive this industry forward and transform it from an outdated analog process to a fully-digital system.

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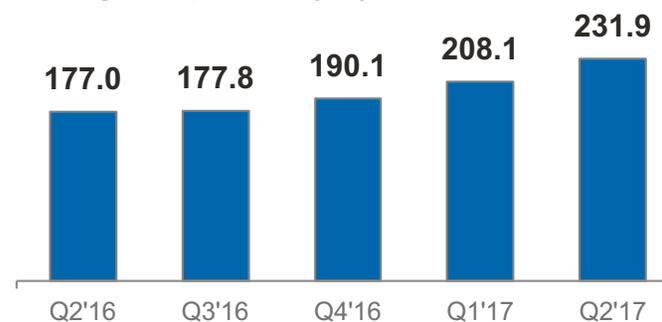
+ Appendix

# Trended Financials

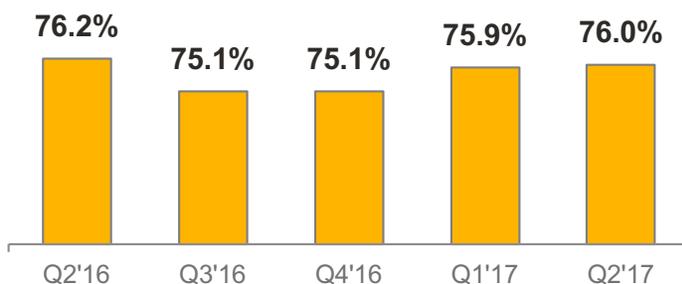
WW Net Revenues (\$M)



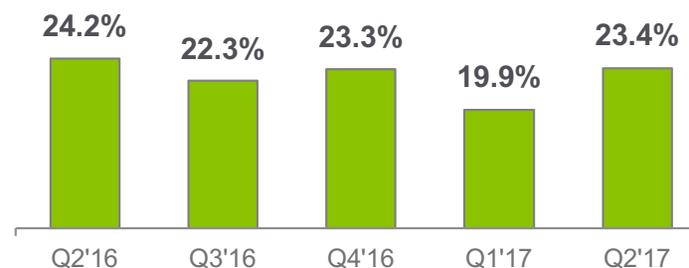
Invisalign Shipments (#K)



Gross Margin %



Operating Margin %



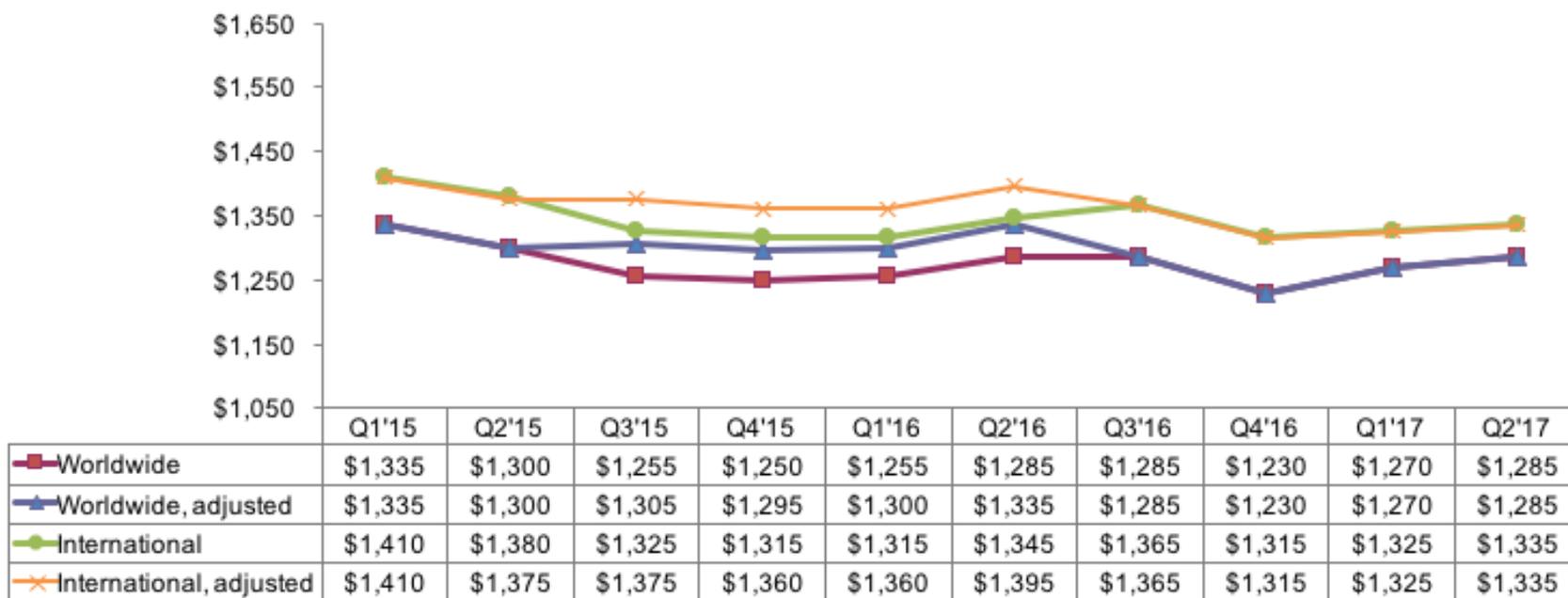
Notes: Rounding may affect totals.

## 3 to 5 Year Financial Model Targets

	Q2'16 Actual	Q1'17 Actual	Q2'17 Actual	3 – 5 Year Model
Revenue CAGR%				15 - 25%
Gross Margin	76.2%	75.9%	76.0%	73% - 78%
Operating Expense %	52.0%	56.1%	52.6%	45% - 50%
Operating Margin	24.2%	19.9%	23.4%	25% - 30%
Free Cash Flow	21.3%	(3.8)%	25.8%	20% - 25%

# Invisalign Average Selling Price (ASP)

## *Worldwide and International*

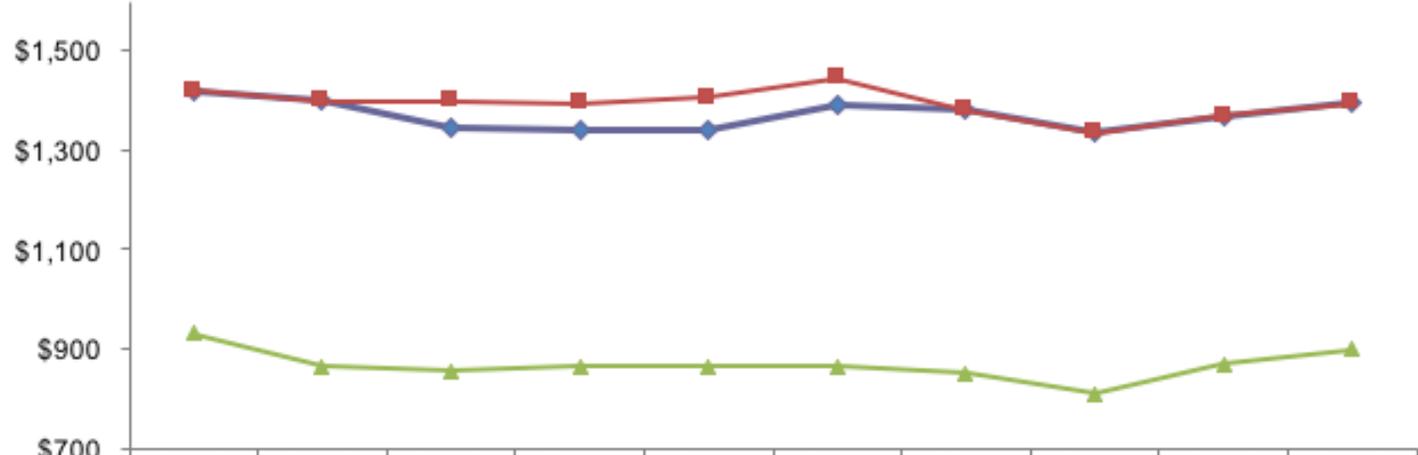


**ASP:** Invisalign case revenue / Invisalign case shipments

**ASP adjusted:** adjusted for impact of Additional Aligners at No Charge policy launched in July 18, 2015, effective for all new Invisalign Full, Teen, and Assist products, our Full Product Group, as well as any cases that were open as of this date.

# Invisalign Average Selling Price (ASP)

## Product Groups



	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Comprehensive Products	\$1,420	\$1,400	\$1,345	\$1,340	\$1,340	\$1,390	\$1,380	\$1,335	\$1,370	\$1,395
Comprehensive Products, adj	\$1,420	\$1,400	\$1,400	\$1,395	\$1,405	\$1,445	\$1,380	\$1,335	\$1,370	\$1,395
Non-comprehensive Products	\$930	\$865	\$855	\$865	\$865	\$865	\$850	\$810	\$870	\$900

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

**Non-Comprehensive Products:** Invisalign Express 10, Invisalign Express 5, Invisalign Lite, Invisalign i7, Invisalign Go

# Global Strategic Priorities

01 International Expansion



02 Orthodontist Utilization



03 GP Dentist Treat & Refer



04 Patient Demand & Conversion



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