

Financial Results

Q3 FY2014

Align Technology, Inc



Align Technology Q3 FY2014 Conference Call

- **Speakers:**

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

- **Moderator:**

- Shirley Stacy, Vice President, Investor and Corporate Communications

- **Replay and Web cast Archive**

- Telephone replay will be available through 5:30pm ET October 30, 2014
 - Domestic callers: 877-660-6853
 - International callers: 201-612-7415
 - Conference # 13591983
- Audio web cast archive will be available at <http://investor.aligntech.com> for approximately 12 months

Safe Harbor and Forward Looking Statement

This presentation contains forward-looking statements, including statements regarding certain business metrics for the fourth quarter of 2014, including, but not limited to, anticipated net revenues, gross margin, operating expenses, operating profit, diluted earnings per share, case shipments, additional common stock repurchases 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 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, 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 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 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 fiscal year ended December 31, 2013 and Form 10Q for the third quarter of fiscal 2014. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

Q3 FY2014 Overview

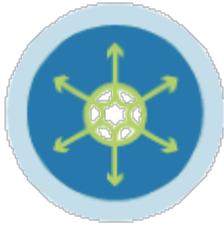
Tom Prescott
President and CEO

Q3 FY2014 Financial Highlights

	Total Net Revenues	Invisalign Clear Aligner Net Revenues		Scanner & Services Net Revenues
	\$189.9M	\$178.1M	119.6K cases	\$11.7M
YoY	+15.4%	+16.0%	+11.9%	+7.1%
QoQ	(1.4)%	(0.9)%	+0.3%	(8.3)%

- Year-over-year revenues driven by higher Invisalign volume across all customer channels and geographies, with continued strong growth from our international doctors.
- Scanner and services revenues increased 7.1% year-over-year.
- As a result of better than expected gross margin and management of operating expenses, EPS was \$0.03 above the high-end range of our outlook.

Proven Strategic Growth Drivers



Market Expansion

Increase Teen Share

Grow Adult Segment

Drive European Growth

Continue INTL Expansion-APAC



Innovation

Increase Product Predictability & Applicability

Enhance Customer Experience



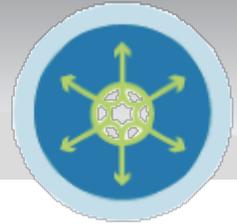
Brand Strength

Drive Awareness Among Consumers

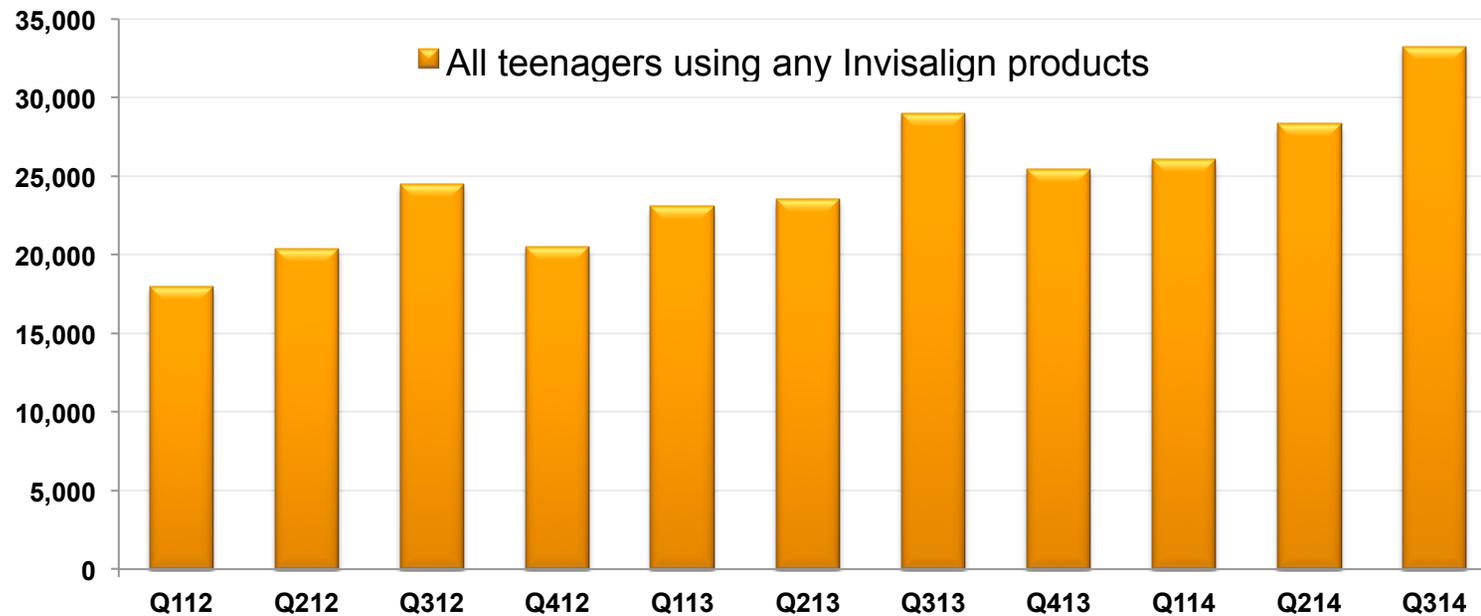
Increase Consumer Purchase Intent

Market Expansion – Q3 FY2014 Highlights

Teenage Patient Segment



- Summer months of June, July and August are typically a seasonally strong period for teenage orthodontic case starts
- Q2'14 year-over-year growth of 20.4% marked strong start to the Teen season
- Q3'14 33.2K teenager cases for Invisalign worldwide, +17.4% Q/Q, +14.8% Y/Y
- On a combined basis, Q2 and Q3 teenage volume +17.3% year-over-year, which may suggest there was an earlier start of the Teen season



Innovation – Q3 FY2014 Highlights

Invisalign G5 for Deep Bite and ClinCheck Pro



- **Invisalign G5 for Deep Bite**

- Continue to receive positive feedback from customers, specifically N.A. Orthos, on their overall awareness of Invisalign G5 and their intentions to increase their use of Invisalign for Deep Bite cases.
- Expect trend to increase over time as we continue to train and support our customers. Confident Invisalign G5 will help drive further adoption.

- **ClinCheck Pro with 3D Controls**

- Provides a doctor with more precise control over the final tooth position, helping them better achieve their treatment goals.
- ClinCheck Pro becomes even **more** valuable, offering even **greater** utility for our doctors as we further broaden our clinical applicability by delivering new solutions for more complex cases, like Invisalign G5.
- Customers also find that ClinCheck Pro serves as an efficient means of communicating their treatment goals for final tooth position.
- Strong adoption across North America and expect a similar response from international doctors when ClinCheck Pro is launched outside the U.S. in Q1'15.

Brand Strength – Q3 FY2014 Highlights

North America and EMEA Consumer Demand



- North America

- Created more than 850M consumer impressions through paid media, reaching women, moms and teens across the country. Much of our Q3 traditional media and PR and social media activity focused on reaching teens and moms during the busy teen summer treatment season.
- Partnering with YouTube personality Amanda Steele to share her Invisalign treatment journey with other teens. Her initial Invisalign posts have garnered more 1.5M video views.
- Extensive media tour with technology journalist Jennifer Jolly - reached more than 100M consumers through 36 media placements

- EMEA

- New, more localized consumer initiatives and continued integrated media activities created over 51M impressions throughout key markets in Europe in Q3. These targeted social media, advertising and media engagement activities have lead to over 100,000 people to search for an Invisalign Provider during Q3 and we have seen the European Invisalign social media community continue to grow.
- Now have a fan base of over 100,000 consumers, with the highest engagement scores we have seen this year.
- “Real Patient” campaigns recently partnered with UK Olympian cyclists, Laura Trott and Jason Kenny to share their Invisalign journey resulting in over 60M opportunities for consumers to see the Invisalign message across the UK.

Q3 FY2014 Invisalign Geographic Results

North America

	Worldwide	North America
Shipments	119,615	85,405
Y/Y	+11.9%	+6.6%
Q/Q	+0.3%	+0.7%



- Q/Q reflects growth from N.A. Orthos, offset by an expected decline among N.A. GPs, who typically have fewer days in office during the summer.
- Y/Y both customer channels were up and growth was driven primarily by increased utilization from N.A. Orthos, as well as by expansion of our GP customer base.
- Despite solid progress in North America in a number of areas, Invisalign growth, based on some of the initiatives that were expected to accelerate adoption, has not occurred at the pace we expected.
 - While we continue to build upon our strong base of GP customers, we are not making enough progress in growing GP utilization. We will continue to work on overcoming the challenges we see in keeping these practices -- which provide a wide range of dental services -- fully engaged in treating moderate orthodontic cases with Invisalign.
- Dental Services Organizations (DSOs) and their long term potential as partners
 - Still early in our engagement with many of these players, the training and program rollout for this initiative is now in progress.
 - Part of the significant year-over-year growth in new Invisalign doctors included a number of DSO clinicians we trained.
 - It will take some time to help these organizations ramp their volume, given the need to engage doctors and practices across a wide geographic and Invisalign-experience range, with a systematic approach. We see a tremendous potential to provide practice-building impact to these groups and we are deploying the resources.

Q3 FY2014 Invisalign Geographic Results

International – EMEA and APAC

	Worldwide	International
Shipments	119,615	34,210
Y/Y	+11.9%	+27.8%
Q/Q	+0.3%	(0.7)%



- EMEA

- Invisalign case volume increased 20.0% Y/Y. Strong performance was driven by a combination of increased utilization by orthodontists in all countries, amid a continuous effort to add new Invisalign-trained doctors. With a significant number of training and education events planned for delivery through November, we expect the trend to continue through to year-end.

- APAC

- Invisalign case volume increased 43.3% Y/Y and all country markets achieved record shipments.
- China continues to deliver above our high expectations, doubling case volumes when compared to the same quarter last year and is now roughly equivalent in size to our business in Japan.
- Continue to see strong growth from Japan, Australia and New Zealand, as well as the Southeast Asia countries. This is driven by an expanding customer base coupled with higher utilization – which reaffirms the value of investing in the right coverage, as well as the importance of product evolution to treat higher complexity cases.

Q3 FY2014 Scanner and Services Results

- Revenues were down sequentially consistent with our expectations for lower capital equipment sales in the summer.
- Expanded the workflow options for our iTero intraoral scanner with DENTSPLY Implants Atlantis Custom Abutments and Zimmer Zfx Custom Abutments.
- Scanner business continues to have a positive impact on Invisalign franchise, helping to drive utilization especially among NA Orthos. For Q3, the percentage of Invisalign cases submitted digitally from a scanner in North America rose to 34.0%, compared to 32.7% in Q2, and 25.3% in Q3 a year ago.
- To take advantage of the increasing trend towards digital dentistry, we will continue to do everything we can to grow our iTero installed base with the goal of creating additional leverage for the Invisalign business. This includes working with other intraoral scanning companies to enable interoperability for use with Invisalign treatment. Invisalign interoperability is good for our customers, their patients, and for extending the Invisalign franchise.

Scanner & Services Net Revenues	
	\$11.7M
Y/Y	+7.1%
Q/Q	(8.3)%

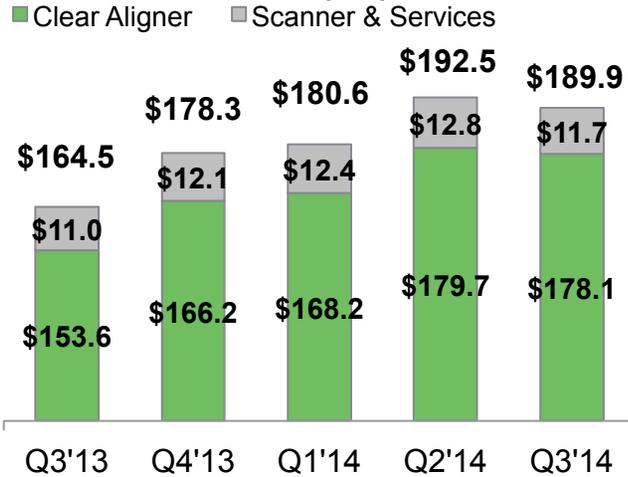


Q3 FY2014 Financial Review

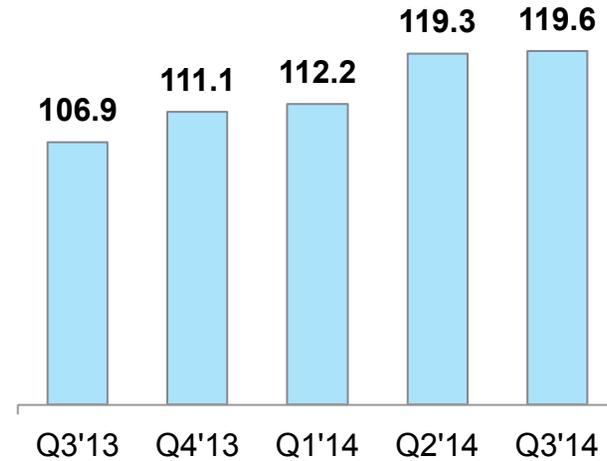
David White
CFO

Q3 FY2014 Trended Financials

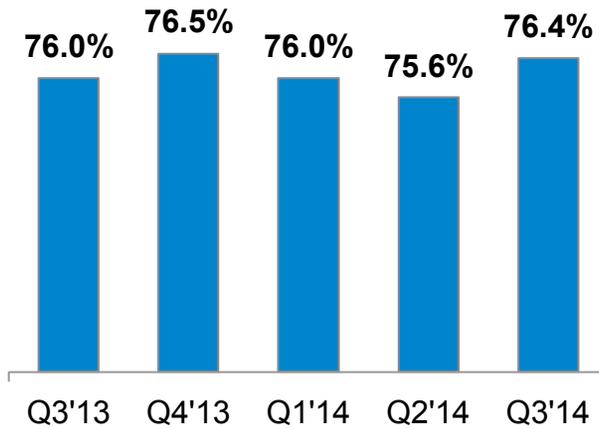
WW Net Revenues (\$M)



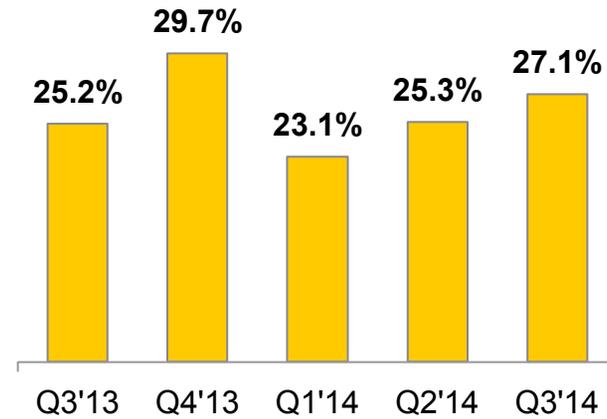
Clear Aligner Shipments (#K)



Gross Margin %



Operating Margin %



Note: Rounding may effect totals.

Q3 FY2014 Income Statement Highlights

GAAP

(in millions except per share data and percentages)

	Year/Year Change	Q3'13	Sequential Change	Q2'14	Q3'14
Net Revenues	+15.4%	\$164.5	(1.4)%	\$192.5	\$189.9
Gross Margin	0.4% pts	76.0%	0.8% pts	75.6%	76.4%
Operating Expenses	+11.8%	\$83.6	(3.3)%	\$96.7	\$93.5
Operating Margin	+1.9% pts	25.2%	+1.8% pts	25.3%	27.1%
EPS, diluted	+\$0.05	\$0.42	+\$0.04	\$0.43	\$0.47

Net Revenues Trend

Q3'14 Net Revenues Highlights

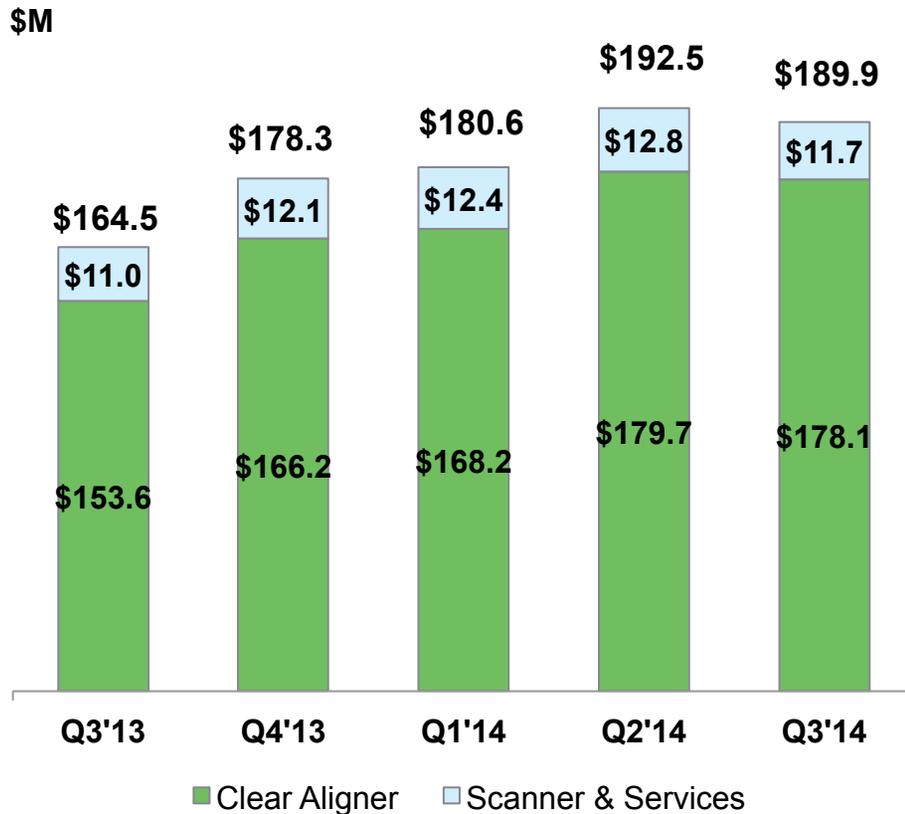
Net revenues of \$189.9M, (1.4)% Q/Q, +15.4% Y/Y

Clear aligner net revenues

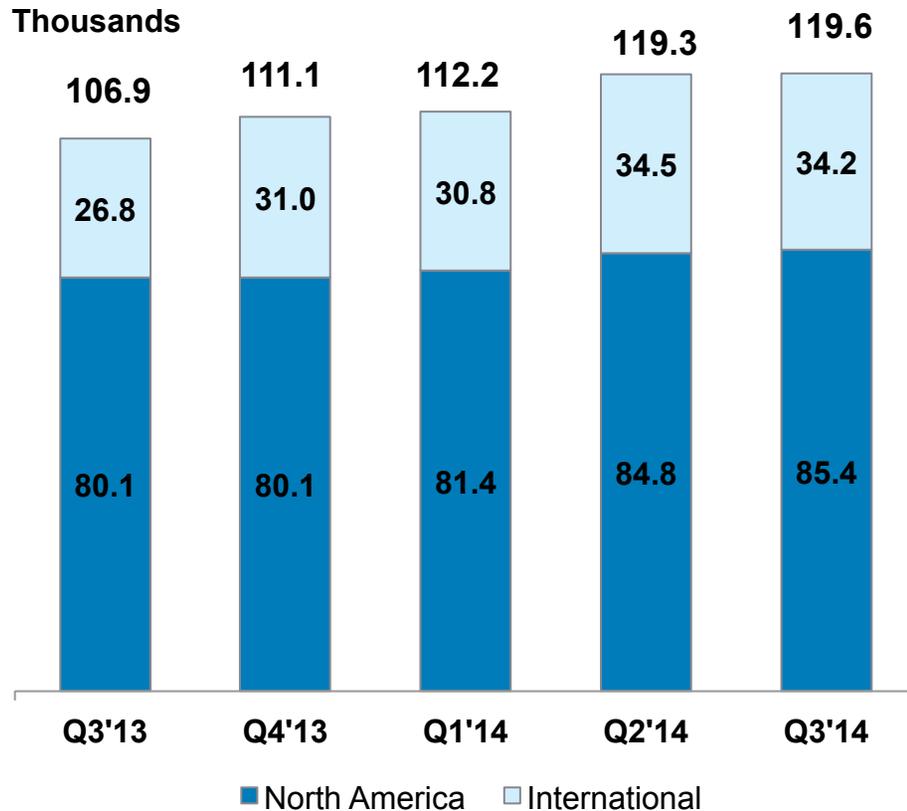
- (0.9)% Q/Q, +16.0% Y/Y
- Q3 ASPs were down sequentially \$11 primarily due to FX losses related to the weakening Euro, which primarily impacted us in September
- Y/Y growth reflects Invisalign case volume growth across all customer channels, as well as favorable ASPs from a higher mix of Invisalign Full products and a higher mix of Int'l business

Scanner & services net revenues

- (8.3)% Q/Q, +7.1% Y/Y
- Q/Q decrease as expected due to lower capital equipment purchasing during the summer months
- Y/Y increase reflecting increased OrthoCAD services offset by a slight decrease in scanner volume



Clear Aligner Shipments Trend



Q3'14 Clear Aligner Shipment Highlights

Shipments of 119,615

- +0.3% Q/Q, +11.9% Y/Y
- Q/Q was flat reflecting increases from N.A. Ortho & Asia Pacific offset by expected seasonal decreases from N.A. GPs & EMEA
- Y/Y growth reflects continued strong Int'l growth, increased utilization from International doctors and N.A. Orthos, as well as expansion of our customer base

North America

- N.A. Orthodontists +5.6% Q/Q, +10.6% Y/Y
- N.A. GP Dentists (4.6)% Q/Q, +2.3% Y/Y

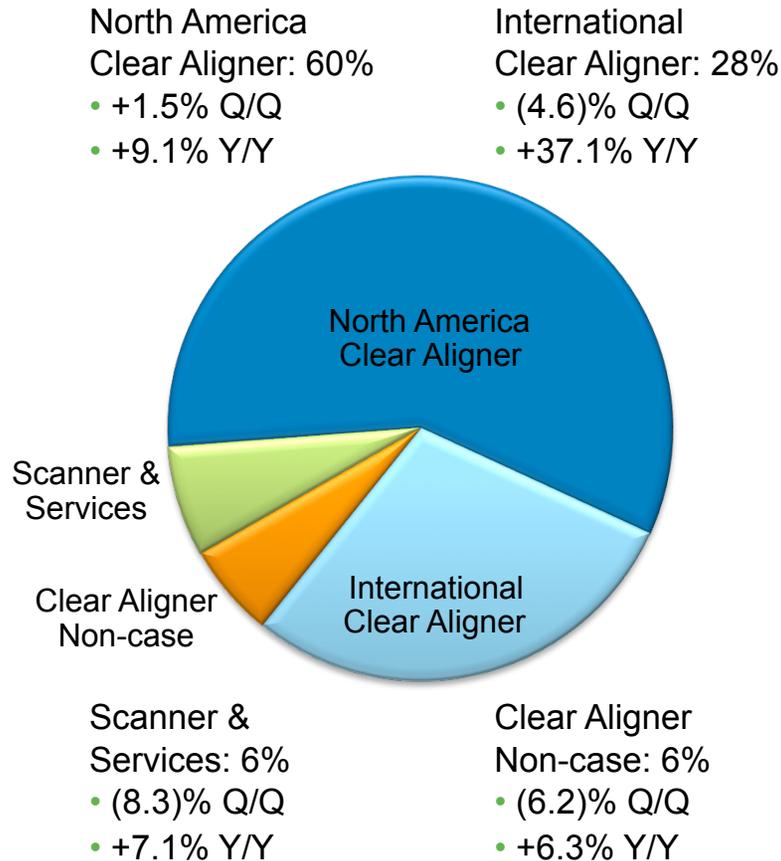
International

- (0.7)% Q/Q, +27.8% Y/Y

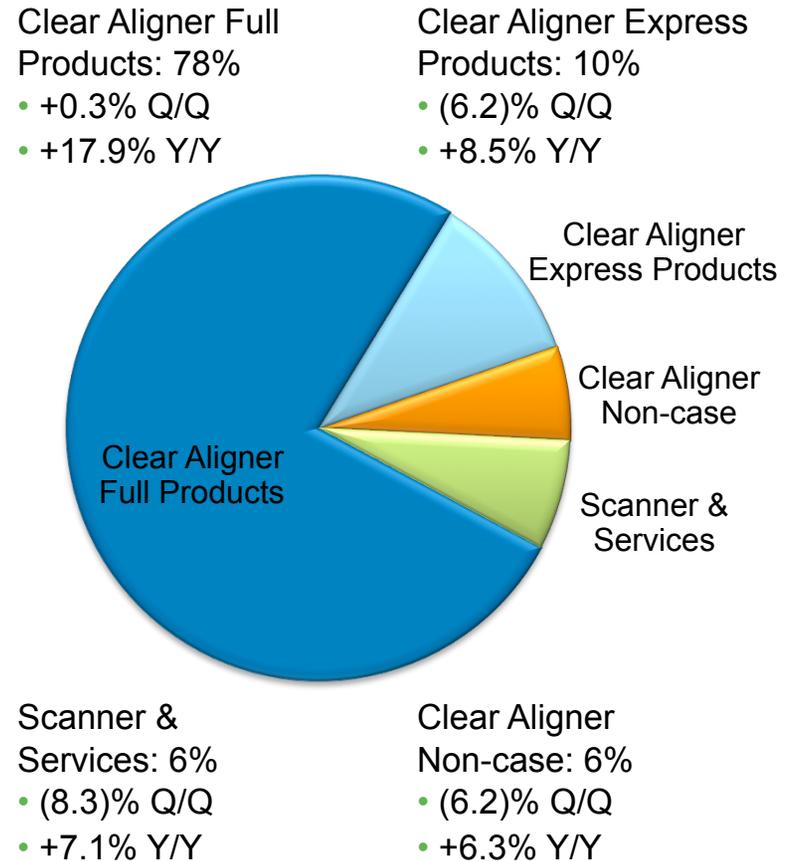
Q3 FY2014 Net Revenues by Geography and Products

Q3'14 Worldwide Net Revenues: \$189.9M

Geographic Mix



Product Mix



Full Products: Invisalign Full, Invisalign Teen, Invisalign Assist

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

Q3 FY2014 Shipments by Geography and Product

Clear Aligner

Q3'14 Clear Aligner Case Shipments: 119,615

Geography Mix

Clear Aligner
North America: 71%

- +0.7% Q/Q
- +6.6% Y/Y

Clear Aligner
International: 29%

- (0.7)% Q/Q
- +27.8% Y/Y



Product Mix

Clear Aligner
Full Products: 83%

- +0.8% Q/Q
- +13.4% Y/Y

Clear Aligner
Express Products: 17%

- (2.4)% Q/Q
- +5.2% Y/Y



Full Products: Invisalign Full, Invisalign Teen, Invisalign Assist

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

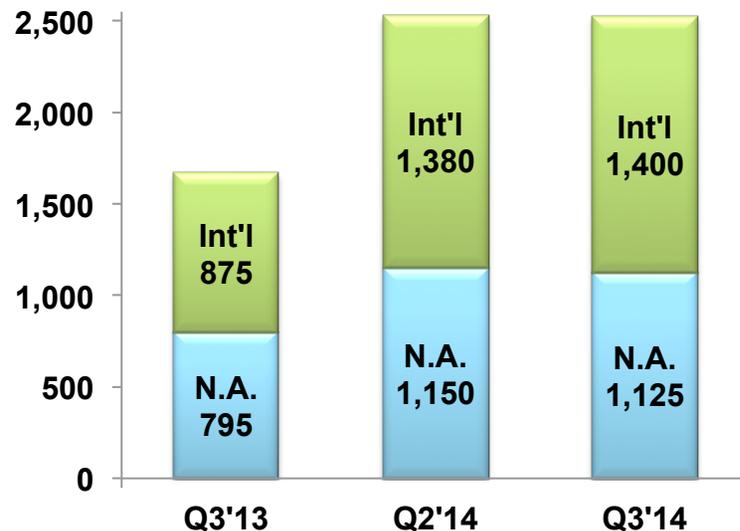
Q3 FY2014 Clear Aligner Adoption Metrics

Invisalign Doctor Training and Utilization

- 2,525 new Invisalign-trained doctors in Q3'14
 - 1,125 North America
 - 1,400 International

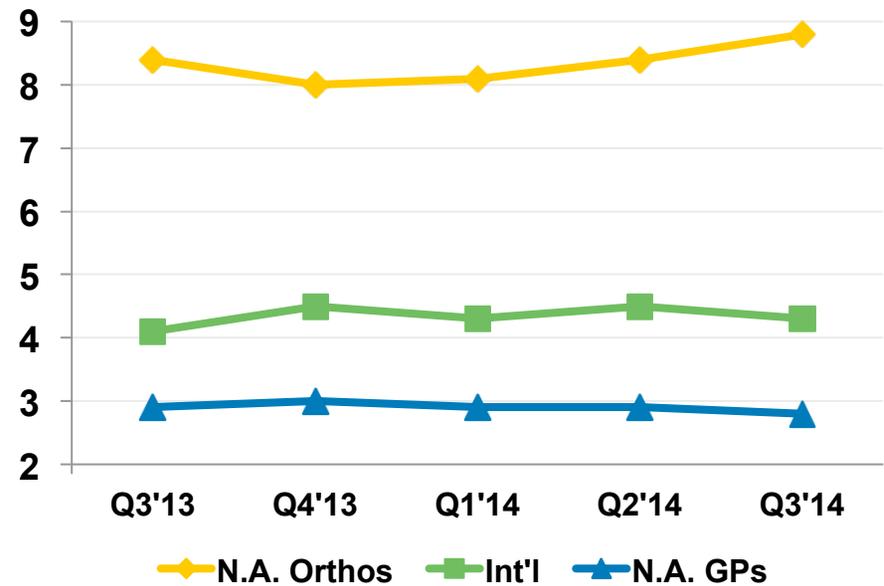
- Q3'14 Doctor Utilization 4.4 cases/doctor compared to 4.4 in Q2'14 and 4.3 Q3'13
 - N.A. Orthodontists 8.8, +5% Y/Y
 - N.A. GP Dentists 2.8, (6)% Y/Y
 - International 4.3, +5% Y/Y

Quarterly Doctors Trained Worldwide



* Q2 2014 North America training numbers updated 8/14/14

Average Doctor Utilization by Channel



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

Gross Margin Trend

Q3'14 Gross Margin Highlights

Gross margin was \$145.1M or 76.4%

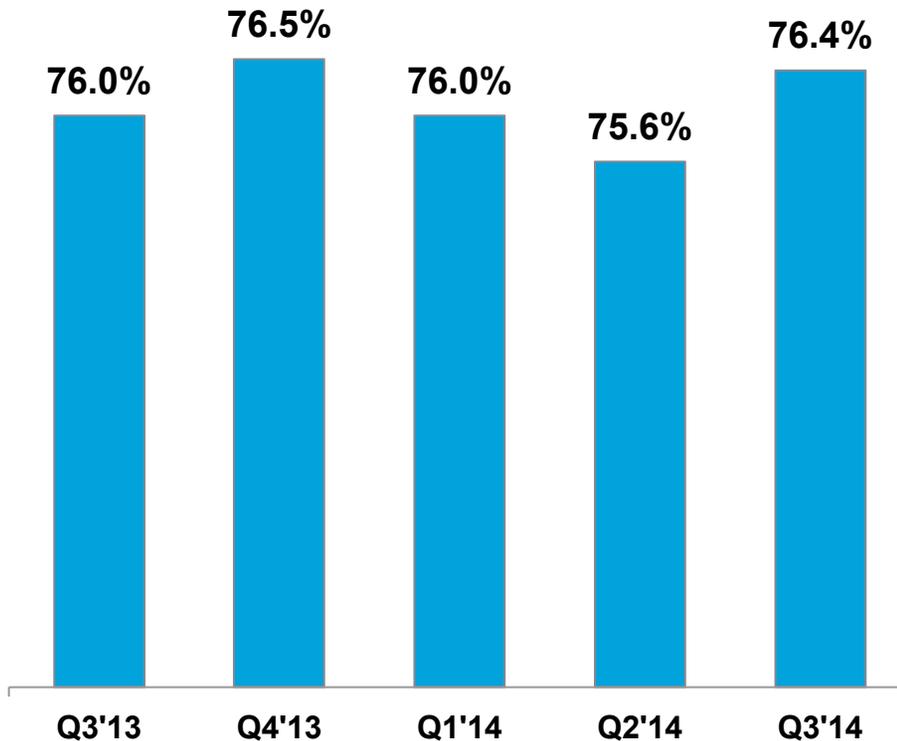
Includes stock based compensation expense of \$0.9M

Clear Aligners: 79.2%

- +0.4% pts Q/Q, (0.7)% pts Y/Y
- Q/Q increase was primarily the result of fewer training events in Q3 and lower freight expense
- Y/Y increase decrease was primarily the result of a benefit recorded in the prior year relating to the change we made in our mid-course correction policy in June 2013. This was partially offset by higher ASPs

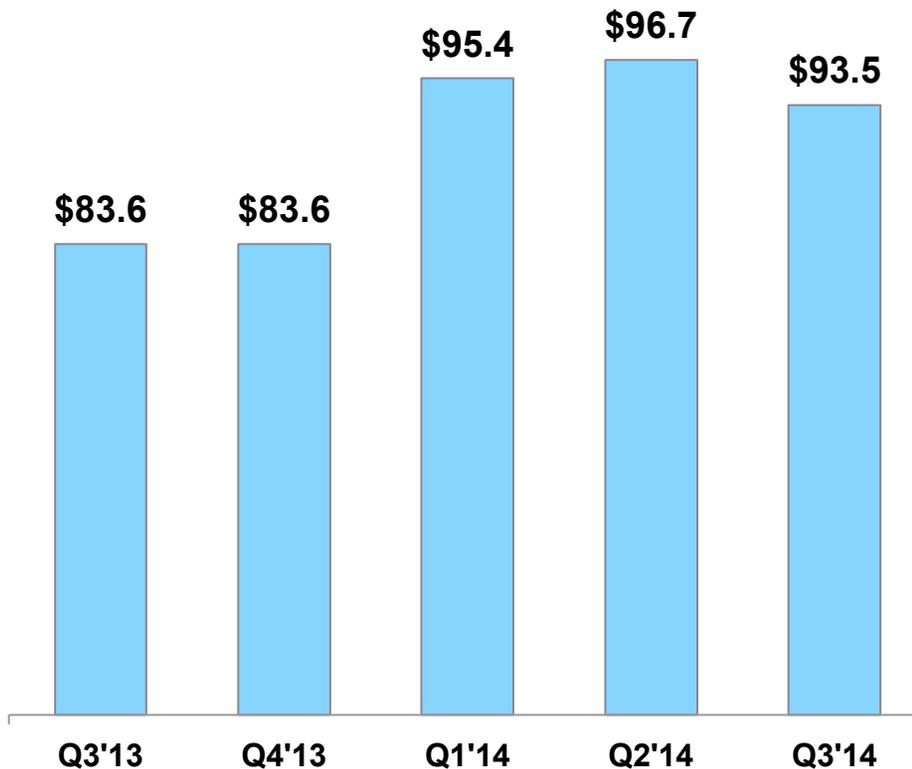
Scanners & Services: 33.5%

- +4.0% pts Q/Q, +11.3% pts Y/Y
- Q/Q increase was primarily the result of favorable product and service costs
- Y/Y increase was primarily the result of more favorable product costs and the prior year's results being unfavorably impacted by the sale of older, end-of-life products



Operating Expense Trend

\$M

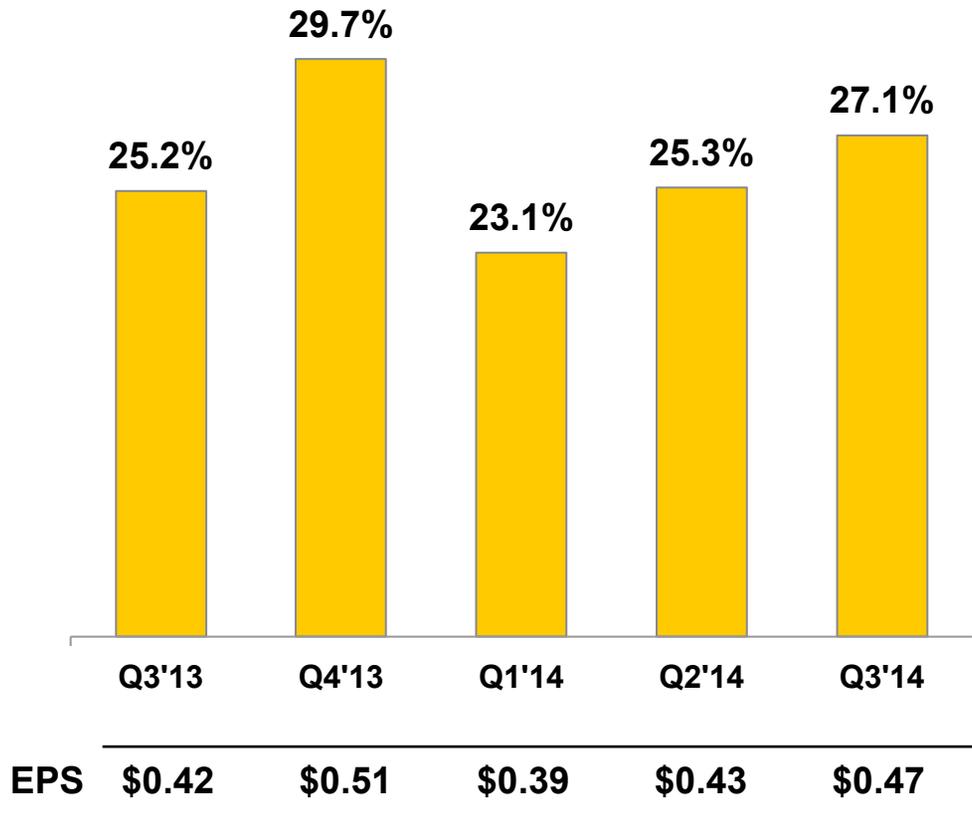


Q3'14 Operating Expenses Highlights

Operating expense was \$93.5M

- (3.3)% Q/Q, +11.8% Y/Y
- Includes stock-based compensation expense of \$9.0M
- Q/Q operating expenses were down \$3.2M due primarily to lower sales and marketing spend. Also, recall that operating expenses in the prior quarter, Q2'14, benefited from a \$1.2M refund of Medical Device Excise Taxes that we had paid earlier this year in Q1.
- Y/Y operating expenses were up \$9.9M incidental to the growth of the business, which primarily relates to continued market expansion in new and existing markets/geographies.

Operating Margin and EPS Trend



Q3'14 Operating Margin Highlights

Operating profit was \$51.5M

Operating margin 27.1%

- +1.8% pts. Q/Q, +1.9% pts. Y/Y
- Q/Q improvement was primarily driven by higher Invisalign gross margin and lower operating expense

Q3'14 Other Income and Expense

- Included a charge of ~\$2.1M associated with FX losses, which primarily related to the decline of the Euro to the US dollar. Including this impact and the Euro's impact on revenue, net of operating expenses and taxes, it amounted to ~\$0.02 per share.

Balance Sheet Highlights

<i>(in millions except for DSOs)</i>	Q3'13	Q2'14	Q3'14
Accounts Receivables, net	\$109.2	\$131.0	\$130.0
DSOs	60 days	61 days	62 days
Cash, Cash Equivalent & Short-Term and Long-Term Marketable Securities	\$400.4	\$502.7	\$561.5

Cash Flow from Operations	\$55.1	\$69.7	\$67.6
Capital Expenditures	\$(5.8)	\$(5.0)	\$(7.0)
Free Cash Flow*	\$49.4	\$64.8	\$60.6

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

Stock Repurchase Program

- During Q3'14, the Company repurchased 500,000 shares of stock, including 364,000 shares related to the completion of the Company's previously announced \$70 million accelerated stock repurchase (ASR) and 136,000 shares for \$7.4 million in open market repurchases.
- The repurchases are part of Align's three-year, \$300 million stock repurchase program announced on April 23, 2014, with \$100 million of that amount authorized to be purchased through April 2015.
- Year-to-date, the Company repurchased 1.5 million shares for \$77.4 million.
- The Company anticipates repurchasing the remaining \$22.6 million of the first \$100 million of the authorization over the next six months.

3 to 5 Year Financial Model Targets

	Q3'13 Actual	Q3'14 Actual	3 – 5 Year Model
Revenue CAGR%			15 - 25%
Gross Margin	76.0%	76.4%	73% - 78%
Operating Expense %	50.8%	49.2%	45% - 50%
Operating Margin	25.2%	27.1%	25% - 30%

Financial Outlook

Factors That Inform Our View of Q4 FY2014

- The fourth quarter is typically a seasonally slower period for North American Orthos as fewer teenagers start orthodontic treatment after the school year has started. This is typically offset by North American GPs as they recover from a slower summer season due to vacations. In aggregate, we expect Invisalign volume for North America to be up sequentially in Q4.
- Our fourth quarter has historically been a stronger quarter for our international doctors as they rebound from a seasonally slower summer. We expect Invisalign volume for international to be up sequentially in Q4.
- Our scanner business performed very well this past quarter despite it being a seasonally slower period, and similarly we expect our scanner volumes to be up sequentially on a stronger Q4.

Q4 FY2014 Outlook

Invisalign Case Shipments	125.1 K - 127.6 K
Net Revenues	\$194.9 M - \$199.1 M
Gross Margin	74.2 % - 74.6 %
Operating Expenses	\$94.7 M - \$95.5 M
Operating Margin	25.6 % - 26.6 %
Effective tax rate	23.0 %
EPS, diluted	\$0.47 - \$0.50
Stock based compensation	\$11.1 M
Cash, Cash Equivalent & Short-Term and Long-Term Marketable Securities	\$580 M - \$590 M
Diluted shares outstanding	81.9 M

Contact Align Technology at:

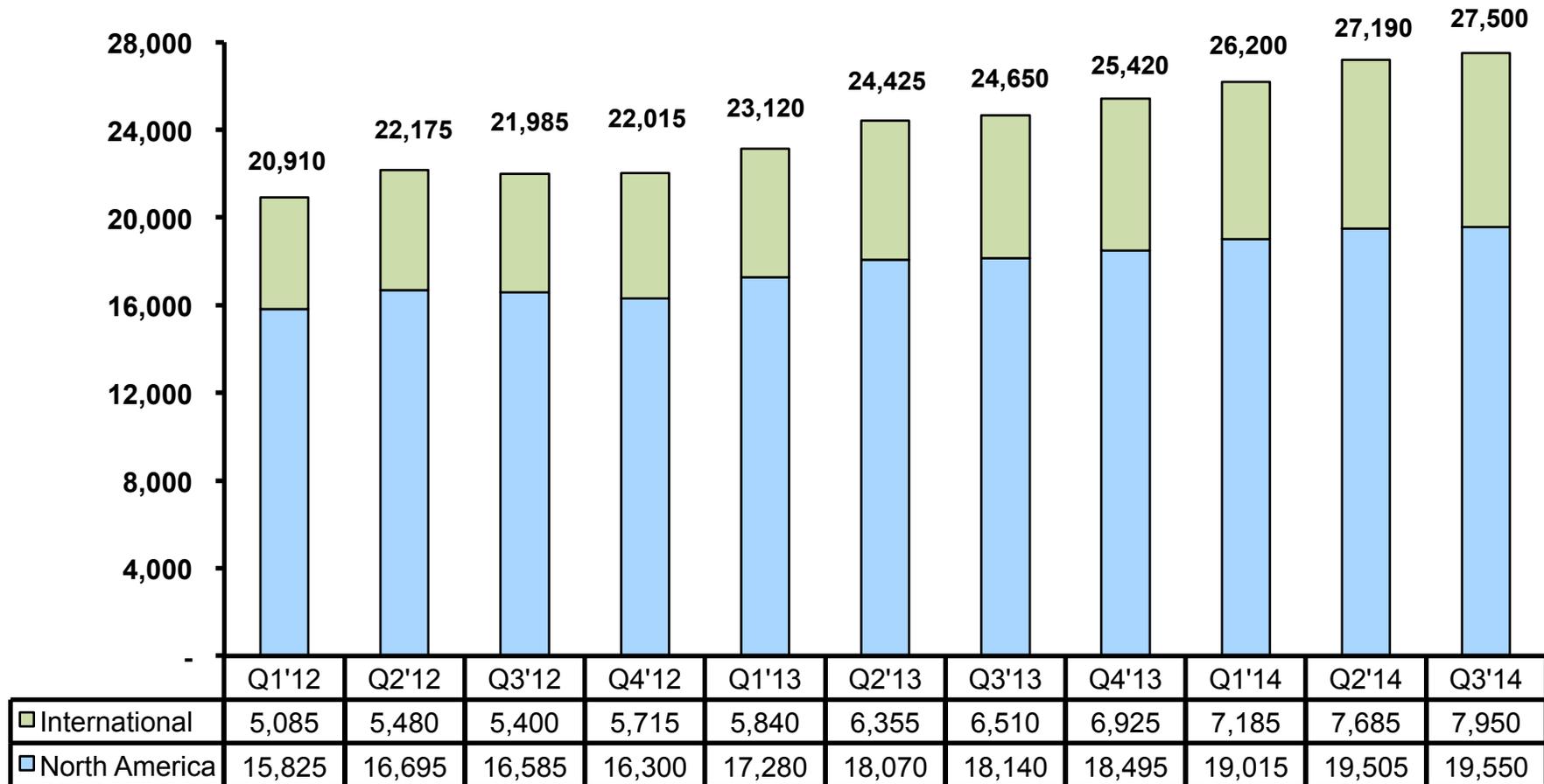
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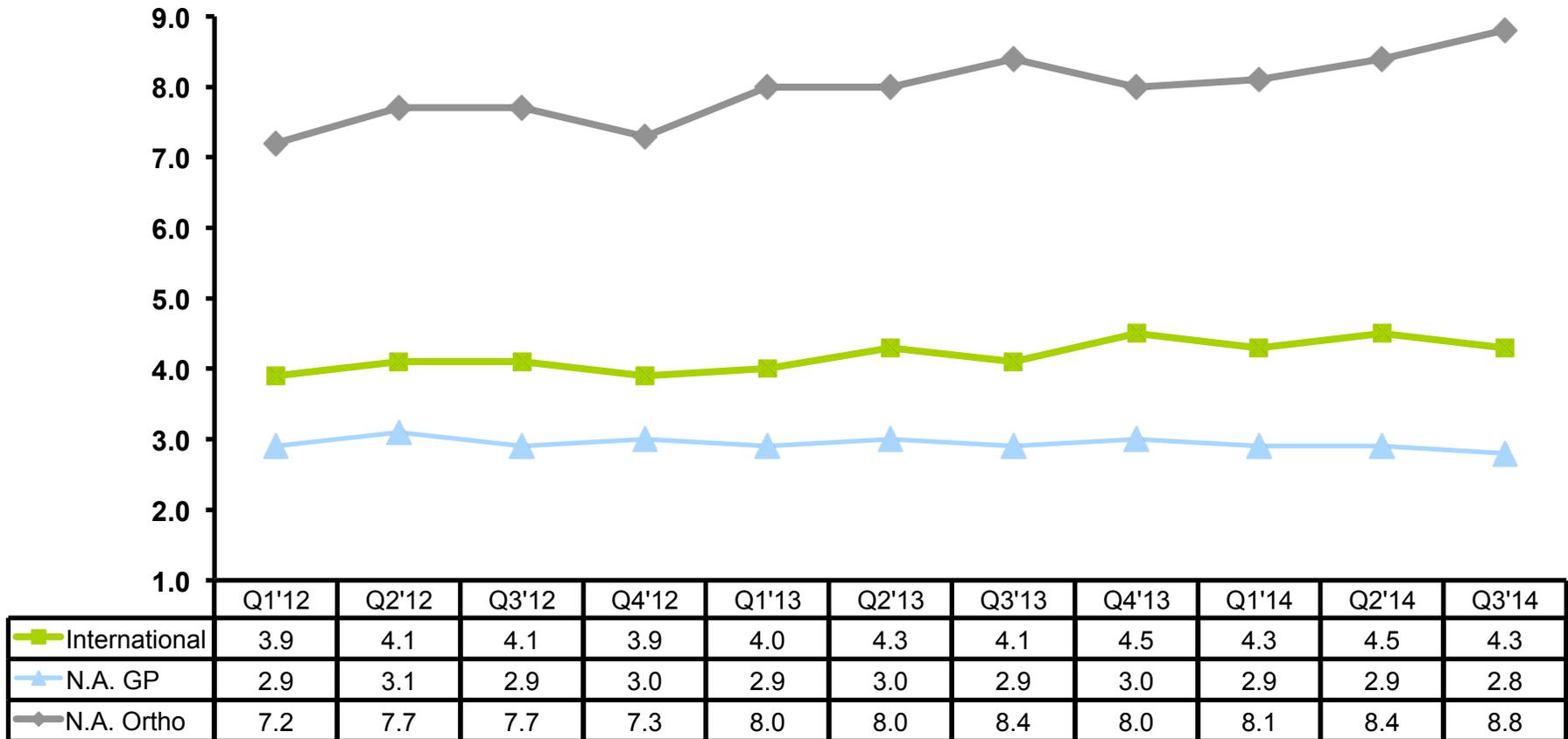
Additional Clear Aligner Data

Historical Information as of 9/30/14

Total Doctors Invisalign Cases Shipped To



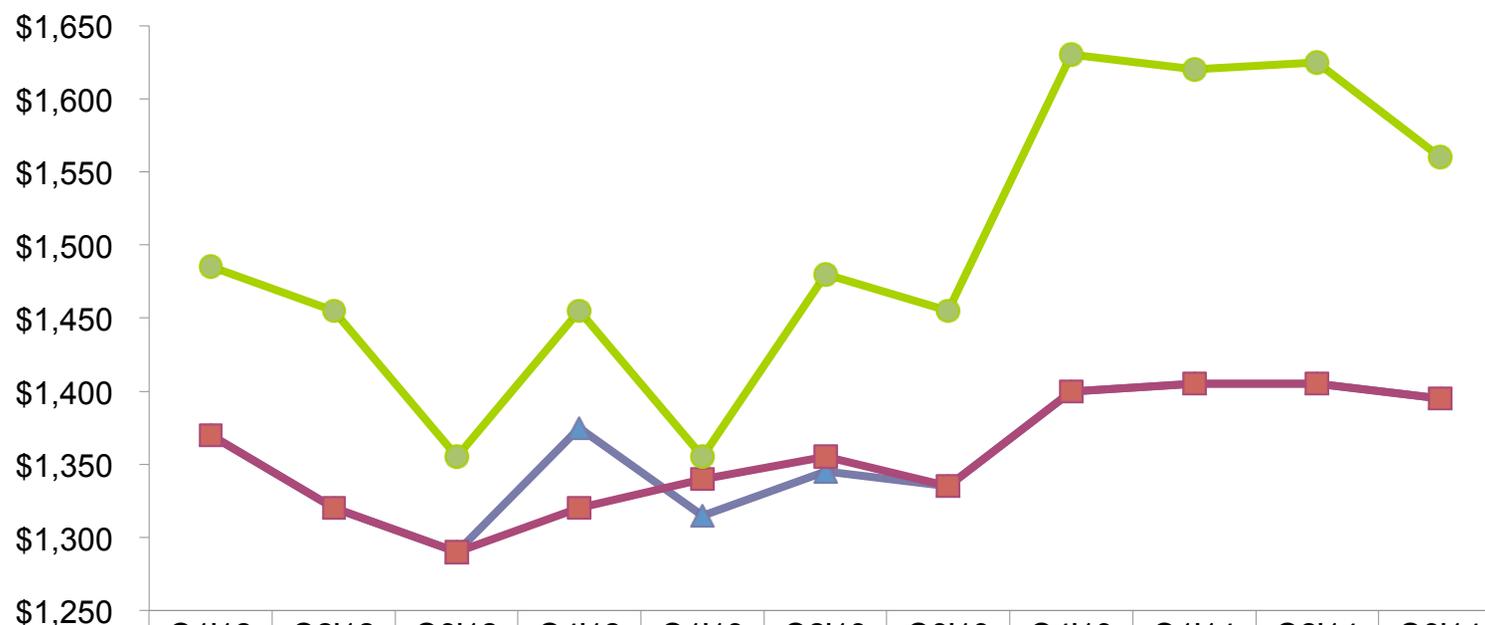
Invisalign Utilization Rate*



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

Invisalign Average Selling Price (ASP)

Worldwide and International



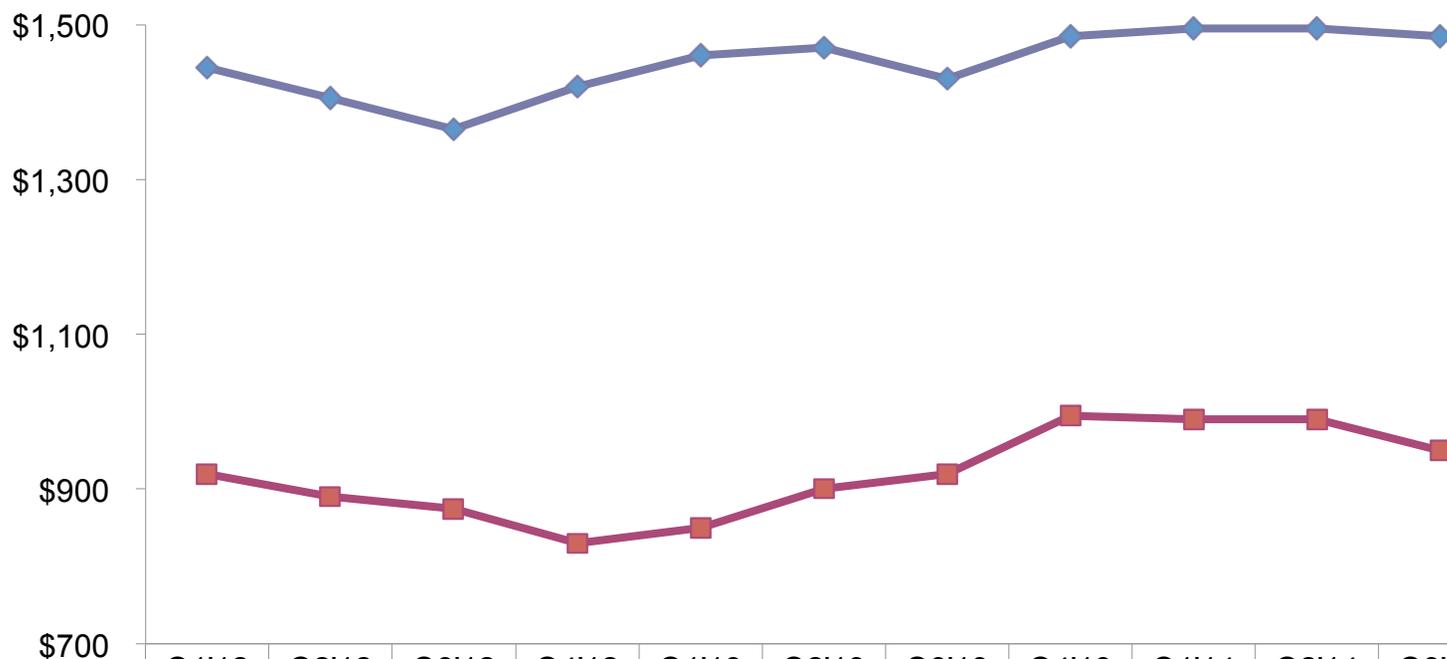
Worldwide	\$1,370	\$1,320	\$1,290	\$1,375	\$1,315	\$1,345	\$1,335	\$1,400	\$1,405	\$1,405	\$1,395
Worldwide, adjusted	\$1,370	\$1,320	\$1,290	\$1,320	\$1,340	\$1,355	\$1,335	\$1,400	\$1,405	\$1,405	\$1,395
International	\$1,485	\$1,455	\$1,355	\$1,455	\$1,355	\$1,480	\$1,455	\$1,630	\$1,620	\$1,625	\$1,560

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	Q4'13	Q1'14	Q2'14	Q3'14
◆ Full Products*	\$1,445	\$1,405	\$1,365	\$1,420	\$1,460	\$1,470	\$1,430	\$1,485	\$1,495	\$1,495	\$1,485
■ Express Products*	\$920	\$890	\$875	\$830	\$850	\$900	\$920	\$995	\$990	\$990	\$950

Full Products: Invisalign Full, Invisalign Teen, Invisalign Assist

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

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