align

invisalign | iTero | exocad

Financial Results

Q3 2021

Align Technology, Inc.

Align Technology, Inc. – Q3 2021 Financial Results

Conference Call

- Speakers:
  - Joe Hogan, President and CEO
  - John Morici, CFO
  - Shirley Stacy, VP, Corporate Communications & Investor Relations
- Replay and Webcast Archive:
  - Telephone replay will be available through 5:30 pm ET, November 10, 2021
  - Domestic callers: 877-660-6853
  - International callers: 201-612-7415
  - Conference # 13723267
  - Audio webcast archive will be available at http://investor.aligntech.com for one month

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Safe Harbor and Forward-Looking Statement

- This presentation contains forward-looking statements, including quotations from management regarding confidence in our products and services, and statements regarding the availability of products and certain business metrics on either or both a GAAP or non-GAAP basis for 2021, including, but not limited to, anticipated net revenues and growth rate for the year and, in particular, the second half of 2021, operating margin, and in connection with the timing, means and amount of anticipated stock repurchases. Forward-looking statements contained in our financial presentation 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 reflect our best judgments based on currently known facts and circumstances 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:
  - the impact of the COVID-19 pandemic on the health and safety of our employees, customers, patients, and our suppliers, as well as the physical and economic impacts of the various recommendations, orders, and protocols issued by local and national governmental agencies in light of continual evolution of the pandemic, including any periodic reimplementation of preventative measures in various global locations;
  - difficulties predicting customer and consumer purchasing behavior and changes in consumer spending habits as a result of, among other things, prevailing economic conditions, levels of employment, salaries and wages, inflation and consumer confidence, particularly in light of the pandemic and as pandemic-related restrictions are eased regionally and globally;
  - unexpected or rapid changes in the growth or decline of our domestic and/or international markets;
  - increasing competition from existing and new competitors;
  - rapidly evolving and groundbreaking advances that fundamentally alter the dental industry or the way new and existing customers market and provide products and services to consumers;
  - the ability to protect our intellectual property rights;
  - continued compliance with regulatory requirements;
  - declines in, or the slowing of the growth of, sales of our intra-oral scanners domestically and/or internationally and the impact either would have on the adoption of Invisalign products;
  - 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 or enhancements to existing products do not proceed in accordance with the anticipated timeline or may themselves contain bugs or errors requiring remediation and that the market for the sale of these new or enhanced products may not develop as expected;
  - a tougher consumer demand environment in China generally, especially for manufacturers and service providers whose headquarters or primary operations are not based in China;
  - the risks relating to our ability to sustain or increase profitability or revenue growth in future periods (or minimize declines) while controlling expenses;
  - the impact of excess or constrained capacity at our manufacturing and treat operations facilities and pressure on our internal systems and personnel;
  - the compromise of customer and/or patient data for any reason;
  - the timing of case submissions from our doctors within a quarter as well as an increased manufacturing costs per case;
  - foreign operational, political and other risks relating to our international manufacturing operations; and
  - the loss of key personnel, labor shortages or work stoppages for us or our suppliers.
- The foregoing and other risks are detailed from time to time in our periodic reports filed with the Securities and Exchange Commission, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2021, and our latest Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, which was filed with the SEC on August 4, 2021. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

About Non-GAAP Financial Measures

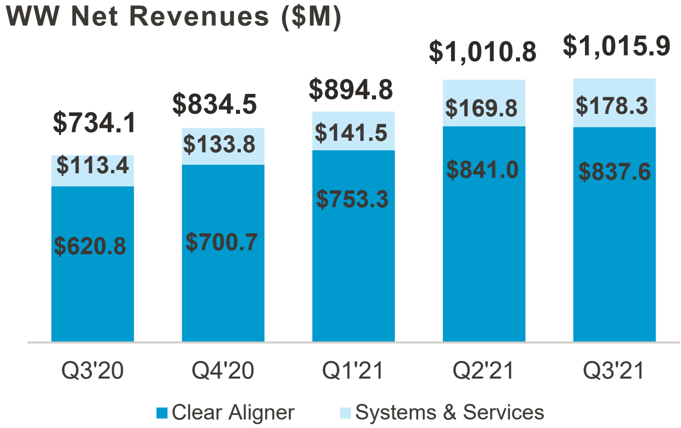
- To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we may provide investors with certain non-GAAP financial measures which may include gross profit, gross margin, operating expenses, income from operations, operating margin, interest income and other income (expense), net, net income before provision for (benefit from) income taxes, provision for (benefit from) income taxes, effective tax rate, net income and/or diluted net income per share, which exclude certain items that may not be indicative of our fundamental operating performance including discrete cash and non-cash charges or gains that are included in the most directly comparable GAAP measure. Unless otherwise indicated, when we refer to non-GAAP financial measures they will exclude the effects of stock-based compensation, amortization of certain acquired intangibles, non-cash deferred tax assets and associated amortization related to the intra-entity transfer of non-inventory assets, acquisition-related costs, and arbitration award gain, and, if applicable, any associated tax impacts.
- We use non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that the use of certain non-GAAP financial measures provide meaningful supplemental information regarding our recurring core operating performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal evaluation of period-to-period comparisons. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they will be provided to and used by our institutional investors and the analyst community to help them analyze the performance of our business.
- There are limitations to using non-GAAP financial measures, though, because they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures are limited in value because they exclude certain items that may have a material impact upon our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which charges are excluded from the non-GAAP financial measures. We compensate for these limitations by analyzing current and future results on a GAAP as well as a non-GAAP basis and also by providing GAAP measures in our public disclosures. The presentation of non-GAAP financial information is meant to be considered in addition to, not as a substitute for or in isolation from, the directly comparable financial measures prepared in accordance with GAAP. We urge investors to review the reconciliation of our GAAP financial measures to the comparable Non-GAAP financial measures included in this presentation and not to rely on any single financial measure to evaluate our business. For more information on these non-GAAP financial measures, please see the table captioned "Unaudited GAAP to Non-GAAP Reconciliation."

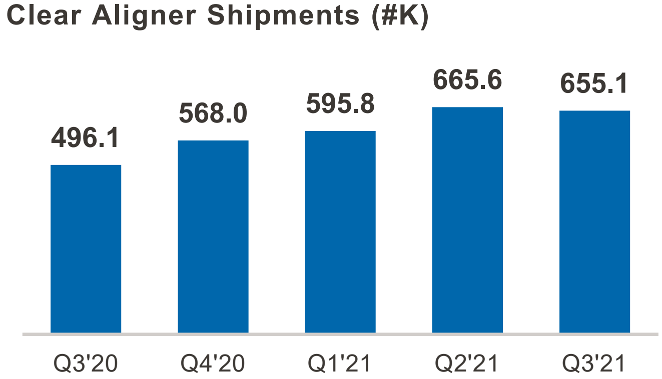
Q3 2021 Financial Highlights

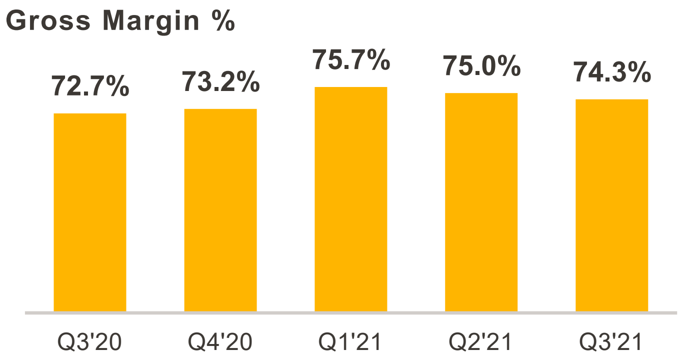
- Total revenues for the third quarter were $1.016 billion, up 0.5% from the prior quarter and up 38.4% from the corresponding quarter a year ago.
- For Q3, Clear Aligner revenues were up 34.9% year over year with strong revenue growth across all regions and across the portfolio, including Comprehensive and Non-Comprehensive products as well as Invisalign Moderate and Invisalign Go.
- On a sequential basis, Q3 Clear Aligner revenues were down very slightly from a record Q2 reflecting more pronounced summer seasonality than last year, especially in EMEA where practices and patients appear to have taken extended holidays and where offices were impacted due to a resurgence of COVID-19 cases and restrictions, especially in some markets in APAC.
- For Q3, Systems and Services revenues were up 57.3% year over year with strong revenue growth across all regions, and up 5% sequentially primarily in North America. Q3 results reflect the continued adoption of the iTero Element 5D Plus Series, our next-generation scanners and imaging systems which launched earlier this year and feature innovative technology like Near-Infrared Technology (NIRI) which aids in detection and monitoring of interproximal caries lesions (or cavities) above the gingiva without harmful radiation.
- In Q3'21, we shipped 655.1 thousand Invisalign cases, a decrease of 1.6% sequentially, with an increase of 32.1% year-over-year.

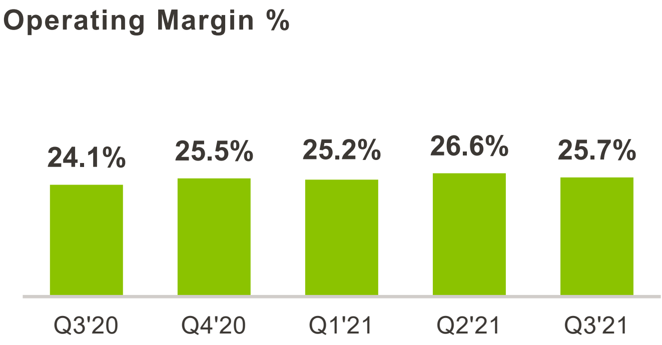
GAAP	**Q3'21**	*QoQ*	*YoY*
Total Net Revenues	**$1,015.9M**	*+0.5%*	*+38.4%*
- Clear Aligner	**$837.6M**	*(0.4)%*	*+34.9%*
- Imaging Systems and Services	**$178.3M**	*+5.0%*	*+57.3%*
Invisalign Case Shipments	**655.1K**	*(1.6)%*	*+32.1%*
Earnings Per Share, diluted	**$2.28**	*$(0.23)*	*+0.52*

Trended GAAP Financials









Percentages are based on actual values. Rounding may affect totals

Opening Commentary

- We're pleased to report strong third quarter results with revenue growth of 38.4% year over year - on top of a record third quarter last year - driven by strength across all regions, customer channels, and products. For Q3 we shipped to a record 85.5 thousand doctors. More than 11.6 million patients have benefited from Invisalign treatment.
- On a sequential basis, Q3 results reflect continued adoption of iTero scanners and increased utilization of Invisalign clear aligners in the Americas and APAC regions, as well as growth in the Teen segment, especially in the North America orthodontist channel.
- Our third quarter revenues reflect the growing confidence of doctors and patients with Invisalign treatment, iTero scanners and exocad software, as more doctors discover the benefits of digital treatment and transform their practices with the Align digital platform.

Q3 2021 Financial Highlights

Teens and Adults

- Over 11.6M total Invisalign patients to date, with over 3.0M teens.
- In the teen segment, Q3'21 Invisalign clear aligner volumes for teens were strong, up 13.8% sequentially and 26.6% year over year to a record 206.0 thousand teens, representing approximately one-third of total cases shipped, with strong shipment growth from North America orthodontists and a record quarter for teens in APAC.

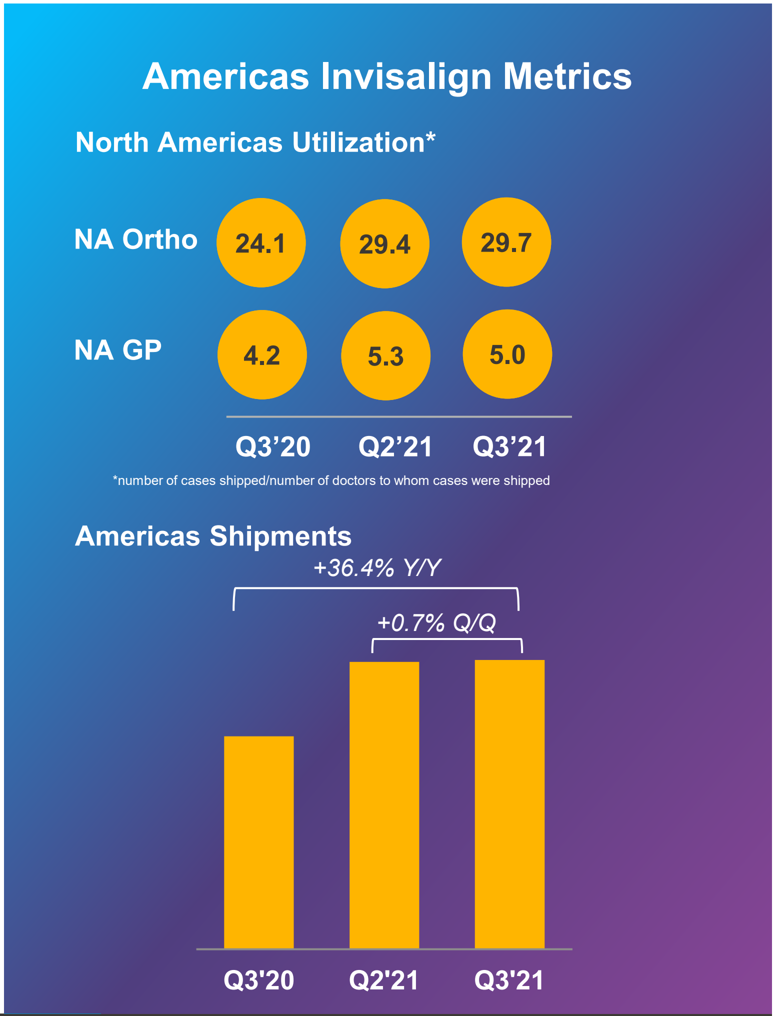
Non-case revenue, retention (DSP), and accessories (consumables/whitening)

- Our third quarter revenues also include non-case revenue for clinical training and education, and doctor prescribed retainer products.
- Retention is a critical part of creating and maintaining a beautiful new smile. Retainers prevent teeth from gradually shifting back to their initial positions after treatment ends. Studies show that without retention, even perfectly aligned teeth can gradually revert to their pre-treatment state and that dentition continues to change as patients age, often requiring limited treatment also known as “touch up” treatment if not properly retained.
- Our retention products are designed to maintain teeth that have been aligned by Invisalign aligners, braces or other aligners. These retainer products can accommodate lingual bars/wires (also known as a permanent retainer), missing teeth that require an artificial tooth, and bite ramps (also known as turbos or blocks).
- While our retainer business continues to deliver solid revenue growth, our share of the retention market is significantly underpenetrated – even more so than our share of orthodontic case starts. We have been developing a robust retainer strategy including a separate marketing team focused solely on driving adoption and increasing market share in the US. Our objective is to build brand awareness for Vivera retainers and drive engagement with doctors through clinical education and sales initiatives, while connecting consumers to doctors through demand creation programs and our concierge service. We’ve also recently implemented social media campaigns featuring the benefits of Vivera - from the makers of Invisalign clear aligners. We believe that incremental investments will provide increased value for Invisalign practices and drive growth consistent with our long-term financial model target.
- In addition, we successfully rolled out a limited pilot program to participating Invisalign providers in the US and Canada that offers a monthly targeted subscription program to address the unmet patient demand for retention or “touch up” cases. Our goal is to encourage experienced, high volume Invisalign practices who regularly treat patients with our Comprehensive products to offer a premium retention or entry level products for the long-term health of their patients and to grow their businesses. Practices in this pilot program can purchase a monthly aligner subscription, at a fixed-price, based on their monthly needs for retention or limited treatment. The program allows doctors the flexibility to order both “touch-up” or retention aligners within their tier of subscription. The program is designed for a segment of experienced Invisalign doctors who are not regularly using our retainers or low-stage aligners.
- The positive feedback from doctors has been encouraging. For instance, the doctors at Bray and Tarby told us the program is very straightforward and easy to understand and that they had been hoping Align would do something like this. Doctor Jonathan Nicozisis at Princeton orthodontics, called the program a Home Run. He went on to predict that it should replace the idea that doctors invest in 3D printing and the additional complications and expenses it can require, including the need for a full-time employee and additional overhead costs, particularly because he believes his treatment outcomes are always better with Align.
- Q3 Non-case revenues also included accessories and consumables such as aligner cases (clamshells), cleaning crystals, and other oral health products that are available on our e-commerce channels in the US only, including the Invisalign Accessories Store, Walmart, and Amazon.
- In Q3, we announced an exclusive supply and distribution agreement with Ultradent Products, Inc., a leading developer and manufacturer of high-tech dental materials, devices, and instruments worldwide. The Invisalign Professional Whitening system -- powered by Opalescence -- is optimized for Invisalign aligners and Vivera retainers and is available only through Invisalign trained doctors.
- Also, in Q3, we launched The Invisalign Whitening Pen through our e-commerce channels exclusively in the US. The whitening pen is an over the counter, retail product for consumers seeking quick and simple teeth whitening at a lower price and is not intended to be used with aligners. The whitening pen complements the other accessory products that Align already markets to consumers through its existing eCommerce channels and is a key addition to our consumable product portfolio.

Q3 2021 Financial Highlights

Americas

- For the Americas region, Q3 results reflect strong performance, including record revenues for Latin America, as well as summer seasonality for adult case starts in North America that primarily impacted GP practices, strong ortho performance, especially in the teen market that included increased utilization from the orthodontic channel. Invisalign case volume was up 0.7% sequentially and up 36.4% year over year, reflecting growth across the region, especially in LATAM. DSO utilization continued to be a strong growth driver as well, led by Heartland and Smile Doctors.



Q3 2021 Financial Highlights

International

- For our International business, Q3 Invisalign case volume was up 27.0% year over year, on top of record growth in the same quarter last year. On a sequential basis, International shipments were down 4.3% primarily a result of greater seasonality and COVID-related shutdowns in APAC markets.

EMEA

- For EMEA, Q3 Invisalign case volumes were up 49.6% year over year, with broad-based growth across all markets, led by the UK and Iberia along with continued growth in our expansion markets in Central and Eastern Europe and Benelux. For Q3, year over year Invisalign volume in EMEA was driven by increased submitters from both orthos and GPs, and increased utilization primarily from orthodontists. On a sequential basis, EMEA was down sequentially 16.5% following a record Q2, primarily as a result of increased seasonality we had anticipated from doctors and patients taking extended holidays and vacations across the region.

APAC

- For APAC, Q3 volumes were up 4.2% compared to a record Q3 last year APAC. On a year over year basis, growth was uneven across country market as APAC was the region that first emerged from the depths of COVID lockdowns in 2020. Additionally, we saw COVID resurgences and lockdowns sporadically impact various APAC countries in Q3.

- On a sequential basis, Q3 Invisalign volumes were up 21.2%, reflecting growth across the region, led by a record quarter in China - especially from teen cases – as well as strong growth in Japan and ANZ. In Q3, growth from both channels was strong, with ortho growth driven by increased Invisalign utilization, and GP channel growth driven by increased Invisalign submitters.

- APAC Teens shipment reached an all-time high in Q3'21. At the recent 10th China Finance Summit Awards, Align was recognized as the "2021 Most Innovative Enterprise" for its advancements and outstanding contributions in the field of digital orthodontics. This award builds on prior recognition of Align's leadership in the digital orthodontics industry and its efforts to promote the modernization of orthodontics.

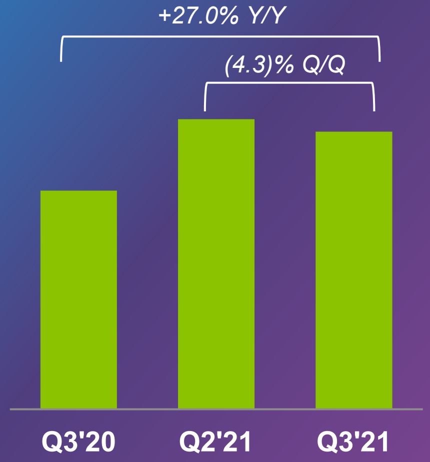
International Invisalign Metrics

International Utilization*

Q3'20	Q2'21	Q3'21
6.4	7.1	6.5

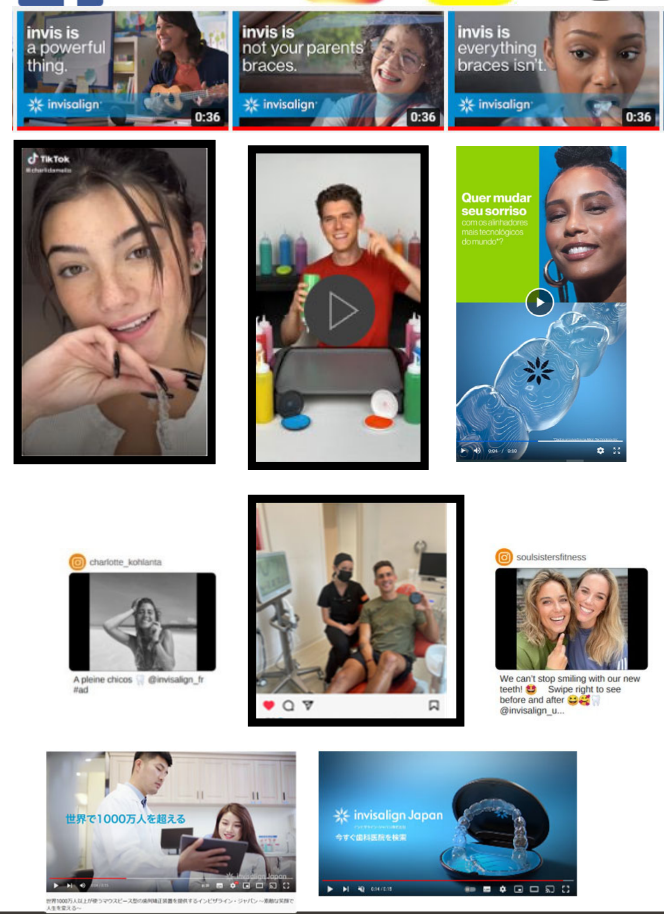
*number of cases shipped/number of doctors to whom cases were shipped

International Shipments



Invisalign Consumer Marketing

- Our consumer marketing focuses on educating consumers about the Invisalign system to drive demand to Invisalign doctors' offices, ultimately capitalizing on the massive market opportunity to transform 500 million smiles.
- In Q3, we expanded the next generation of the "Invis Is" multi-media campaign across EMEA, APAC and Brazil, to increase awareness with adult, mom and teen consumers. Globally, we delivered 6.45 billion impressions, growing 42% Y/Y resulting in a 70% Y/Y increase in Unique Visitors to our websites.
- In the US, we connected with teens on SnapChat, YouTube, and Twitch with our "Invis is Not Your Parents Braces" campaign. These campaigns continued to feature some of the largest teen influencers from our Invisalign Smile Squad like Charli D'Amelio, Marsai Martin, Michael Le and Colins and Devin Key. These influencers share their personal experiences with Invisalign treatment, including why they chose Invisalign treatment to shape their smiles. As a part of our focus on teens with our Invisalign ChangeMakers program, we held a recognition event, hosted by Marsai Martin, with teens across the country to celebrate and recognized 100 teens across the country who drove positive change within their communities.
- To continue growing our young adult business, we expanded the "Invis Is a Powerful Thing" campaign, which highlights how powerful the smile transformation with Invisalign treatment can be for their self-confidence. In the US, we expanded our Invisalign Smile Squad to include young adult influencers such as Cody Rigsby, Lana Candor and Emily Hampshire, who helped to deliver over 485 million impressions. Additionally, our influencer partnerships with TikTok creators helped increase traffic to our sites with a 127% increase in click through rates. In Brazil, we launched the "Invis Is a Powerful Thing" campaign and teamed up with mega influencer, Tais Arujo, to increase website traffic by 30%.
- In the EMEA region, we expanded into new media channels such as TikTok and SnapChat across the UK, Germany, and France to drive engagement. These efforts led to a more than 153% increase in unique visitors. We also started consumer advertising in Russia, which resulted in a more than 1000% increase in unique visitors to our website.
- In Q3, we continued to expand our consumer advertising across the APAC region, experiencing a 132% Y/Y increase in unique visitors to our websites. In Australia, we've expanded our media mix to include partners such as TikTok and Snapchat which resulted in a 256% Y/Y growth in unique visitors to our website. In Japan, we continued to see a strong response from consumers to our "Invis Is" campaign, resulting in a more than 800% increase Y/Y in unique visitors to our website.
- Adoption of our Consumer and Patient app, "My Invisalign" continued to increase in Q3 with 1.2 million downloads to-date. Usage of our four digital tools also continued to increase. For example, our Invisalign Virtual Appointment tool was used over 15K times, and our insurance verification feature was used 14K times in Q3. Furthermore, we received more than 1.5M patient photos in our Virtual Care feature to date globally, which continues to provide us with rich data to leverage our AI capabilities and improve our services for doctors that is used to enhance their patient care.



Invisalign Brand Consumer Concierge

- We've connected over 315K potential consumers with Invisalign doctors and reached more than 2.8M consumers in North America. The Invisalign Consumer Concierge program successfully provides leads to doctors they otherwise may not obtain.
- The Invisalign Consumer Concierge service teams are located in the U.S., Brazil, Singapore, the Philippines, China, Australia, the UK, Poland, Bulgaria and Saudi Arabia.

+2.8M
Consumers contacted

+315K
Consultations scheduled

+62K
Invisalign cases started

Invisalign Consumer Concierge

Consumer Conversion connects consumers with top Invisalign providers to deliver a best-in-class experience to achieve a happy and healthy smile.

Worldwide Invisalign Brand Consumer Highlights

+158.8M
Website visitors

+14.7M
Social media fans

+17.5M
Doc locator searches

+8.0M
Smile assessments

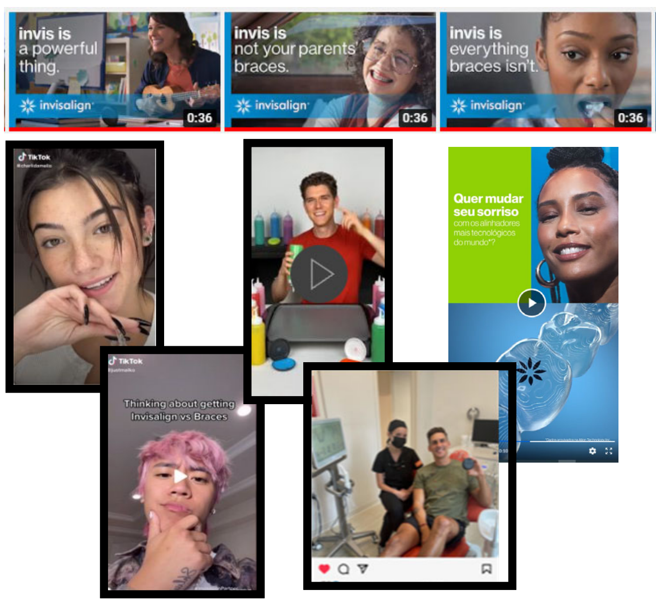
Data is cumulative as of 03/31/21.

Q3 2021 Invisalign Brand Consumer Marketing

AMERICAS		EMEA		APAC	
8.2M Website Visitors	**623K** Doc Locator Searches	**4.2M** Website Visitors	**555K** Doc Locator Searches	**2.5M** Website Visitors	**243K** Doc Locator Searches

AMERICAS

- Social media and influencer marketing
- Teen, Adult and Moms of teens

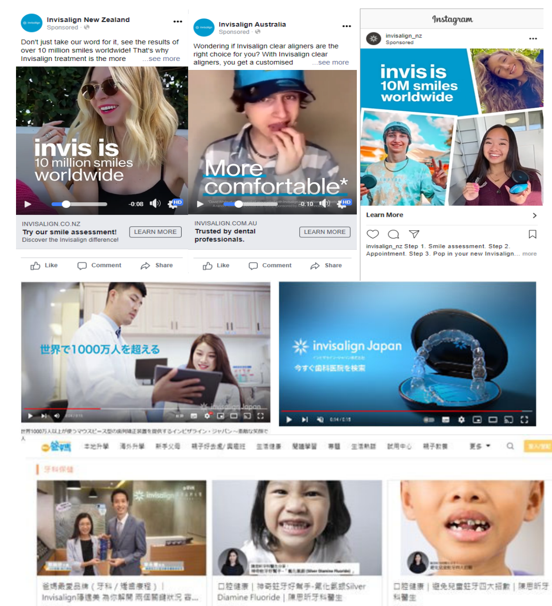


EMEA

- Social media and influencer marketing

APAC

- Social media and influencer marketing
- KOL campaigns



Q3 2021 Financial Highlights

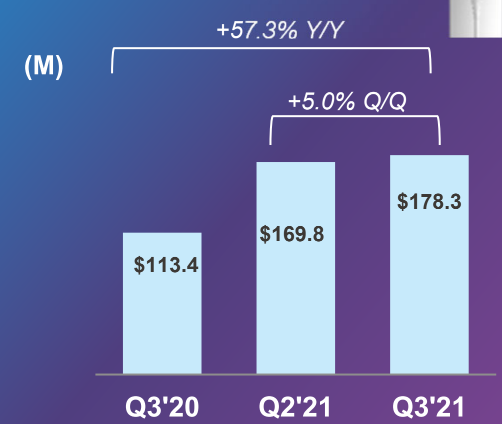
Systems and Services

- For our Systems and Services business, Q3 revenues grew 57.3% year over year reflecting strong scanner shipments and services and was up 5.0% sequentially. This is the 5th consecutive quarter of sequential revenue growth for our Systems and Service business.
- The iTero Element 5D Plus Imaging System continued gaining traction across all regions, with the most recent launch in Japan in Q3. The iTero Element 5D Plus Imaging System will be available in China in Q4’21. Additionally, the iTero Element Plus Series was launched in Korea in Q3. The series expands the portfolio of iTero Element scanners and imaging systems to include new solutions that serve the needs of a broader range of doctors and patients in the dental market.
- Moreover, we’re proud to say that in a recent clinical study, the iTero Element 5D intraoral scanner was found to be more sensitive than bitewing radiography in detecting early enamel lesions, providing further evidence of the benefits of the iTero Element 5D scanner in the detection and monitoring of interproximal caries lesions (or cavities) above the gingiva harmful radiation. This is great news for our iTero business as the study further supports the diagnostic validity of Near-Infrared Imaging (NIRI) offered by the iTero Element 5D scanner for early proximal caries detection.
- The findings also underscore the valuable role that NIRI technology can have in dental health assessment and early detection of cavities, which is important to overall oral health care, treatment options, and a comfortable, safe experience for a broad population of patients.
- A strong indicator of the digital acceleration within dental offices is the number of intraoral digital scans used for Invisalign case submissions.
  - Total worldwide intraoral digital scans used to start an Invisalign case in Q3 increased to 84.2% from 78.3% in Q3 last year.
  - International intraoral digital scans for Invisalign case submission increased to 79.3% up from 72.1% in the same quarter last year.
  - For the Americas, 87.9% of cases were submitted using an intraoral digital scan compared to 83.2% a year ago.
  - Cumulatively, over 44.9 million orthodontic scans and 9.3 million restorative scans have been performed with iTero scanners.

	Q3’19	Q4’19	Q1’20	Q2’20	Q3’20	Q4’20	Q1’21	Q2’21	Q3’21
Americas	78.8%	79.5%	80.5%	85.7%	83.2%	84.0%	85.5%	86.6%	87.9%
International	62.6%	64.7%	68.7%	72.0%	72.1%	73.7%	75.1%	76.2%	79.3%

Imaging Systems and CAD/CAM Services

Systems and Services Revenue



Invisalign scans include but not limited to additional aligner order scans, progress tracking, and does not reflect total Invisalign case shipments. Data on file at Align Technology
The iTero Element 2 and the iTero Element Flex intraoral scanners are currently available in the U.S., Canada, China, and majority of EMEA and APAC markets. The iTero Element 5D imaging system is available in the U.S., Canada, China, and the majority of EMEA and select APAC and LATAM markets

Q3 2021 Financial Highlights

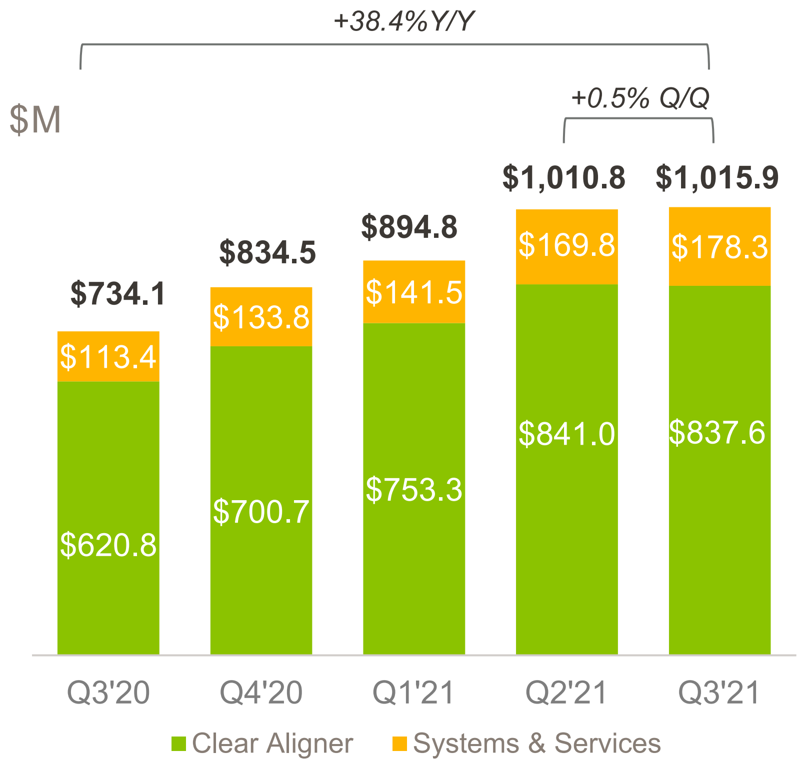
Systems and Services continued

- Our Q3 systems and services revenues also includes exocad CAD/CAM products and services. exocad's expertise in restorative dentistry, implantology, guided surgery, and smile design extends our digital dental solutions and broadens Align's digital platform towards fully integrated interdisciplinary end-to-end workflows. We remain excited about our continued integration progress and product plans with exocad.
- During the quarter, exocad launched ChairsideCAD 3.0 Galway, the next generation of exocad's easy-to-use CAD software for single-visit dentistry. The software has improved automation for fast crown design and enables users to integrate open hardware and materials of their choice. exocad's ChairsideCAD received the 2021 Cellerant Best of Class Technology Award for the third consecutive year.
- Also, during the quarter, exocad had its largest ever presence at IDS, where they showcased their seamless digital workflows and the simplicity of use of exocad's Galway software release. exocad was the only company at IDS to showcase live patient treatment with a Smile Creator Experience station, featuring iTero scans, instant smile makeovers, and production of clip-on smiles.

Q3 2021 Financial Review

Revenues Trend

Q3'21 highlights

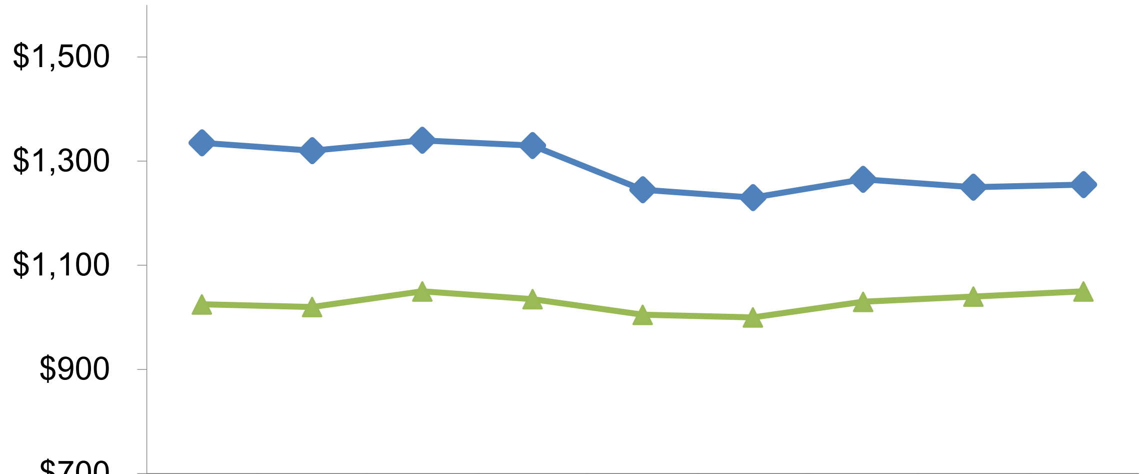


- Total revenues for the third quarter were $1.016 billion, up 0.5% from the prior quarter and up 38.4% from the corresponding quarter a year ago.
- For Clear Aligners, Q3 revenues of $837.6 million were down 0.4% sequentially and up 34.9% year-over-year reflecting Invisalign volume growth across all geographies.
- Q3 Clear Aligner revenues reflect strong growth across the Invisalign portfolio, led by Comprehensive products. Q3 Comprehensive volume increased 1.3% sequentially and 30.3% year over year, and Q3 Non-Comprehensive volume decreased 8.1% sequentially and increased 36.8% year-over-year. Q3 adult patients decreased 7.3% sequentially and increased 34.7% year-over-year. In Q3, teens or younger patients increased 13.8% sequentially and 26.6% year-over-year.
- Clear Aligner revenues were unfavorably impacted by foreign exchange of approximately $1.5 million or approximately 0.2 points sequentially. On a year-over-year basis, Clear Aligner revenues were favorably impacted by foreign exchange of approximately $16.1 million or approximately 2.6 points.
- For Q3 Invisalign Comprehensive ASPs increased sequentially and year over year. On a sequential basis, Invisalign Comprehensive ASPs reflect higher additional aligners. On a year over year basis, Comprehensive ASPs reflect favorable foreign exchange partially offset by the increase in net revenue deferrals for new Invisalign cases vs additional aligner shipments.
- Q3 Invisalign Non-Comprehensive ASPs increased sequentially and year-over-year. On a sequential basis, Invisalign Non-Comprehensive ASPs reflect higher additional aligners partially offset by higher discounts. On a year-over-year basis Invisalign Non-Comprehensive ASPs were favorably impacted by foreign exchange, higher additional aligners, and lower discounts.
- Clear aligner deferred revenues on the balance sheet increased $84.0 million or 9.3% sequentially and $347.3 million or 53.9% year-over-year and will be recognized as the additional aligners are shipped.
- Our System and Services revenues for the third quarter were a record $178.3 million, up 5.0% sequentially and up 57.3% year-over-year. This marks the 5th quarter in a row of sequential revenue increase.
- The increase sequentially can be attributed to increased scanner shipments and increased services revenues from our larger installed base.
- The increase year over year can be attributed to increased scanner shipments, increased service revenues from our larger installed base as well as a higher ASPs from a favorable mix shift towards higher priced iTero 5D scanners and imaging systems.
- Our Systems and Services deferred revenue on the balance sheet was up $27.2 million or 17.0% sequentially and up $100.1 million or 115.2% year-over-year primarily due to the increase in scanner sales and the deferral of service revenues, which will be recognized ratably over the service period.

Q/Q and Y/Y percentages are based on actual values. Rounding may affect totals

Invisalign Average Selling Price (ASP)

Product groups



	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Comprehensive Products	$1,335	$1,320	$1,340	$1,330	$1,245	$1,230	$1,265	$1,250	$1,255
Non-comprehensive Products	$1,025	$1,020	$1,050	$1,035	$1,005	$1,000	$1,030	$1,040	$1,050

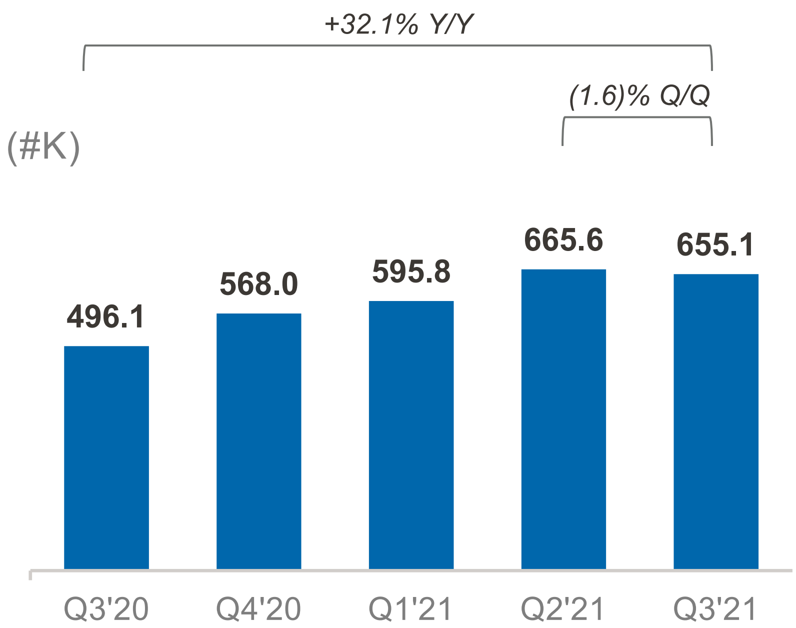
Comprehensive Products: Comprehensive Products include, but are not limited to, Invisalign Comprehensive, Invisalign Assist and Invisalign First

Non-Comprehensive Products: Non-Comprehensive Products include, but are not limited to, Invisalign Moderate, Invisalign Lite, Invisalign Express packages and Invisalign Go

ASP: Invisalign case revenue / Invisalign case shipments

Clear Aligner Shipments Trend

Q3'21 highlights

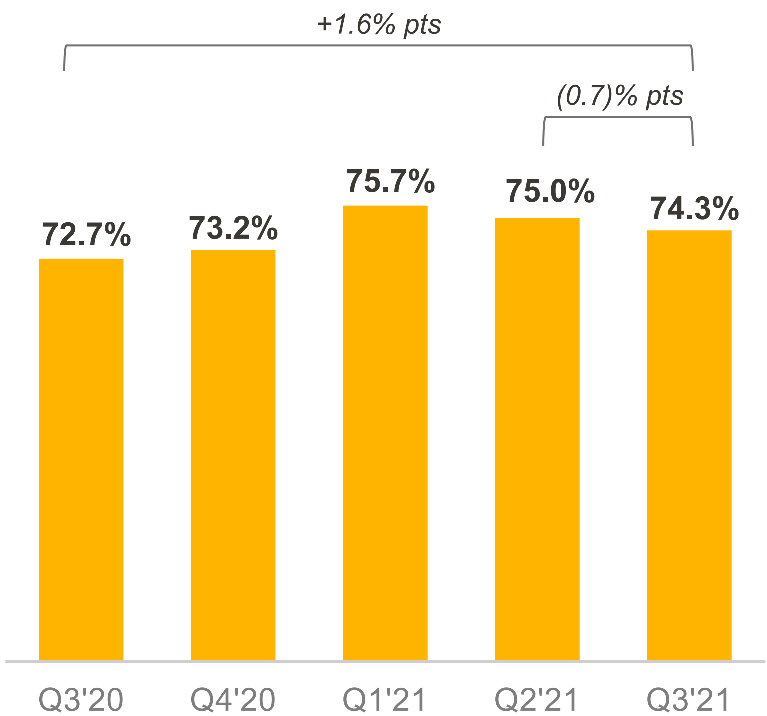


- In Q3, we shipped 655.1 thousand Invisalign cases, a decrease of 1.6% sequentially, with an increase of 32.1% year-over-year. In addition, we shipped to a record 85.5 thousand Invisalign doctors worldwide, of which approximately 7.2 thousand were first-time customers.

Q/Q and Y/Y percentages are based on actual values. Rounding may affect totals

GAAP Gross Margin Trend

Q3'21 highlights

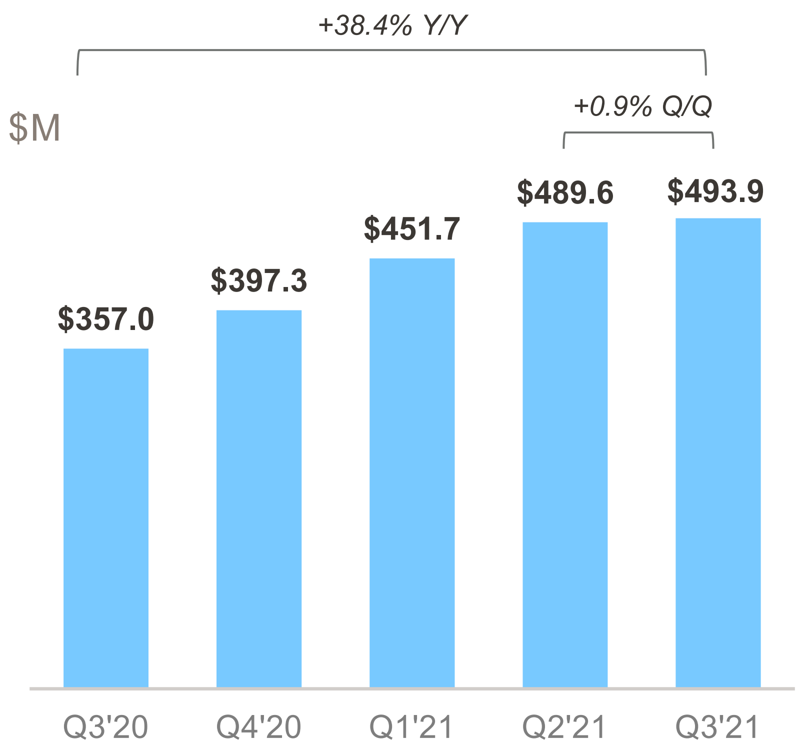


- Moving on to gross margin, third quarter overall gross margin was 74.3%, down 0.7 points sequentially and up 1.6 points year over year. On a non-GAAP basis, excluding stock-based compensation and amortization of intangibles related to our 2020 exocad acquisition, overall gross margin was 74.7% for the third quarter, down 0.7 points sequentially and up 1.4 points year-over-year.
- Overall gross margin was favorably impacted by approximately 0.5 points on a year-over-year basis due to foreign exchange and relatively unchanged sequentially.
- Clear Aligner gross margin for the third quarter was 76.2%, down 0.7 points sequentially due to higher manufacturing costs and higher additional aligners, partially offset by higher ASPs and lower freight.
- Clear Aligner gross margin was up 1.5 points year-over-year due to improved manufacturing efficiencies from higher production volume, partially offset by higher ASPs.
- Systems and Services gross margin for the third quarter was 65.6%, down 0.3 points sequentially primarily due to lower ASPs and higher manufacturing variances, partially offset by higher service revenue.
- Systems and Services gross margin was up 3.6 points year-over-year due to higher ASPs from product mix shift to iTero 5D and 5D Plus series and service revenues, partially offset by higher freight costs.

Q/Q and Y/Y percentages are based on actual values. Rounding may affect totals
See reconciliation of GAAP to Non-GAAP

GAAP Operating Expense Trend

Q3'21 highlights

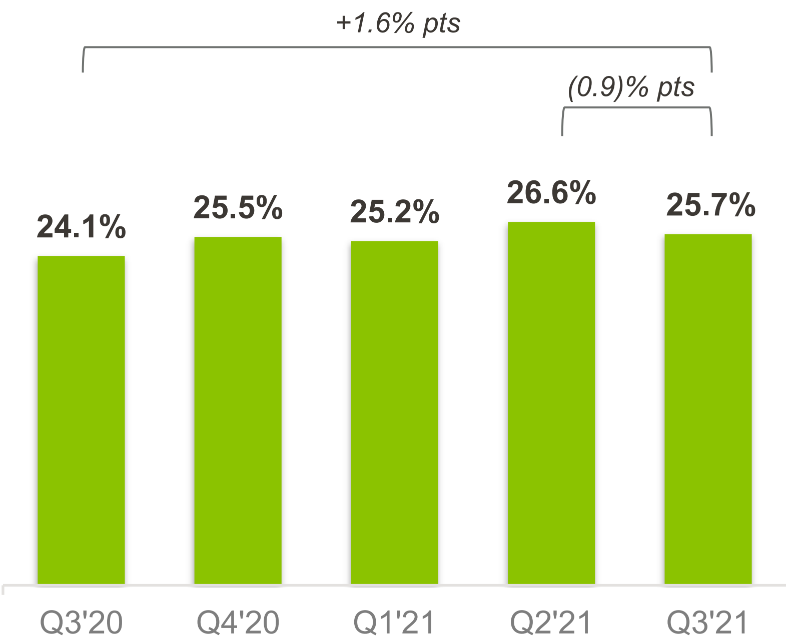


- Q3 operating expenses were $494 million, up sequentially 0.9% and up 38.4% year over year. On a sequential basis, operating expenses were up slightly by $4.4 million. Year over year, operating expenses increased by $137 million, reflecting increased headcount and our continued investment in marketing, sales and R&D activities, and investments commensurate with business growth.
- On a non-GAAP basis, excluding stock-based compensation and amortization of intangibles and acquisition costs related to our 2020 exocad acquisition, operating expenses were $466.1 million, up sequentially 1.0% and up 40.3% year over year due to the reasons described earlier.

Q/Q and Y/Y percentages are based on actual values. Rounding may affect total
See reconciliation of GAAP to Non-GAAP

GAAP Operating Margin and Earnings Per Share Trend

Q3’21 highlights



Diluted Earnings Per Share	**$1.76**	**$2.00**	**$2.51**	**$2.51**	**$2.28**

- Our third quarter operating income of $261.1 million resulted in an operating margin of 25.7%, down 0.9 points vs the prior quarter and up 1.6 points year over year. The sequential decrease in operating margin was attributable primarily to lower gross margin. The year over year increase in operating margin was primarily attributable to higher gross margin and operating leverage as well as the favorable impact from foreign exchange by approximately 0.7 points, partially offset by continued investments as mentioned earlier.
- On a non-GAAP basis, which excludes stock-based compensation and amortization of intangibles and acquisition-related costs, the operating margin for the third quarter was 28.8%, down 0.9 points sequentially, and up 0.8 points year over year.
- Interest and other income & expense, net for the third quarter was a gain of $0.8 million, up sequentially by $0.9 million and down year over year by $6.6 million.
- On a year over year basis, interest and other income and expense decreased primarily due to net foreign exchange losses in the three months ended September 30, 2021, as compared to net foreign exchange gains in the same period in 2020 which was partially offset by an unrealized gain on investment held in a private company recognized in the three months ended September 30, 2021.
- The GAAP effective tax rate in the third quarter was 30.9% compared to 25.7% in the second quarter and 24.5% in the third quarter of the prior year. Our non-GAAP effective tax rate was 22.2% in the third quarter compared to 19.5% in the second quarter and 16.6% in the third quarter of the prior year.
- The third quarter GAAP and non-GAAP effective tax rates were higher than the second quarter primarily due to our foreign income being taxed at different rates and tax true ups. Our GAAP and non-GAAP third quarter effective tax rates were higher than the third quarter of the prior year primarily due to lower tax benefits from foreign income taxed at lower rates and a tax benefit recognized last year resulting from an income tax audit settlement.
- Third quarter net income per diluted share was $2.28, down sequentially $0.23 and up $0.52 compared to the prior year. On a non-GAAP basis, net income per diluted share was $2.87 for the third quarter, down $0.17 sequentially and up $0.62 year over year.

Q/Q and Y/Y percentages are based on actual values. Rounding may affect totals
See reconciliation of GAAP to Non-GAAP

Balance Sheet and Cash Flow Highlights

- As of September 30, 2021, cash and cash equivalents were $1.2 billion, up sequentially $151.5 million and up $622.3 million year over year. Of our $1.2 billion of cash and cash equivalents, $607.5 million was held in the US and $630.3 million was held by our international entities.
- Q3 accounts receivable balance was $855.0 million, up approximately 5.8% sequentially. Our overall days sales outstanding (DSO) was 75 days, up approximately 3 days sequentially and down approximately 2 days as compared to Q3 last year.
- Cash flow from operations for the third quarter was $355.0 million.
- Capital expenditures for the third quarter were $124.3 million, as we continue to invest in increasing aligner capacity and facilities.
- Free cash flow, defined as cash flow from operations less capital expenditures, amounted to $230.7 million.
- We also have $300.0 million available under our untapped revolving line of credit. Under our $1 Billion Repurchase Program announced in May 2021, we have $825.0 million remaining available for repurchase of our common stock.

($ in millions except for DSO)	Q3'20	Q2'21	Q3'21
Accounts Receivables, net	$626.0	$808.1	$855.0
DSO	77 days	72 days	75 days
Cash and Cash Equivalents	$615.5	$1,086.4	$1,237.8
Cash Flow from Operations	$211.1	$317.5	$355.0
Capital Expenditures	$(21.3)	$(124.2)	$(124.3)
Free Cash Flow*	$189.8	$193.3	$230.7

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

Financial Outlook for Full Year 2021

Now turning to our outlook and the factors that inform our view for the remainder of the year:

- We are very pleased with our Q3 results and strong year over year growth, which reflects continued customer adoption of the iTero Scanners and increased Invisalign utilization across customer channels, including teens, adults, and young patients. Over the past 18 months, our investment decisions have helped drive and capture demand across all regions and customer channels. We continued spending in many areas and have seen good return on our investments and strong revenue growth. Consumer interest in improving smiles is high and doctor acceptance in the Align digital platform is helping drive growth across all regions and market segments.
- As anticipated in our Q3 outlook, we experienced more pronounced summer seasonality, more noticeably in September and continuing into October as practices took more extended vacations and patient traffic flow was sporadically interrupted by regional COVID resurgence, restrictions and lockdowns. We anticipate these COVID challenges and the general macroeconomic uncertainties to continue into Q4.
- Taking this all into account, as we look at the remainder of FY'21, we expect revenues for the year to be in a range of $3.90B to $3.95B, at the high-end of our original guidance range We also expect our outlook in revenue growth for the second half of 2021 to be at the high-end of our long-term operating model target of 20% to 30%
- On a GAAP basis, we anticipate our 2021 operating margin to be around 25.0%. On a Non-GAAP basis, we expect 2021 Operating Margin to be approximately 3 points higher than our GAAP Operating Margin, after excluding Stock Based Compensation, and Intangible Amortization from our 2020 exocad acquisition.
- We remain confident in the huge market opportunities for our business, our industry leadership, and our ability to execute. We will continue to invest in sales, marketing, innovation, and manufacturing capacity to drive our growth and accelerate adoption in a huge underpenetrated market. In addition, during Q4'21 we expect to repurchase up to $100 million of our common stock through either or a combination of open market repurchases, or an accelerated stock repurchase agreement.
- For 2021, we expect our investments in capital expenditures to be above $400 million. Capital expenditures primarily relate to building construction and improvements as well as additional manufacturing capacity to support our international expansion. This includes our planned investment in our new facility in Wroclaw, Poland, the first in the EMEA region.

Closing Commentary

- In summary, Q3 was a strong quarter, and we are pleased with our performance across the business. Align is uniquely positioned – we have the clinical capability and product portfolio supported by doctor and patient workflows only accessible through the proprietary Align Digital Platform to address the broadest range of orthodontic cases with the Invisalign system through a network of trained Invisalign doctors who have the expertise to reach the more than 500 million potential global patients.
- As we develop our annual plan for 2022 over the next few months, it's important that we continue to:
  - expand our commercial, manufacturing, R&D, clinical, treatment planning and manufacturing operations and continue to leverage our global quality and regulatory muscles in existing and emerging markets;
  - reach millions of consumers who want to transform their smile with the most advanced clear aligner system in the world through advertising, PR, digital, social media, and influencer marketing to drive demand and conversion through Invisalign trained doctors;
  - increase Ortho adoption and Teen utilization of Invisalign treatment; and
  - train and educate GP Dentists on how the iTero Element family of intraoral scanners/imaging systems propel today's dental practice into the future by enhancing patient experience and elevating clinical precision and on the benefits of digital dentistry with the Invisalign system, trusted by more than 11 million people worldwide to improve their smiles.
- We remain focused on strategic execution, accountability, agility, customer service excellence, and continuing to make investments to grow our business. This is the multi-variable equation that we continue to talk about and that in combination we remain uniquely able to offer.
- As we continue to stay the course with our strategic initiatives, we also continue to navigate the COVID-19 environment and the challenges and uncertainties that go with it. Throughout the pandemic, our top priority has been consistent: the health and safety of our employees and their families, doctors and their staff – and that has not changed. The situation around COVID remains very fluid and with the rise of the Delta variant, many cities, states and countries have issued or plan to issue new guidance including mask requirements, regular testing, capacity limits, and vaccination mandates. Operating in this evolving environment is challenging for everyone and we are staying as close as we can to the situation.
- The shift from traditional, analog wire and brackets to a fully end-to-end digital platform is not easy and cannot be done without very complex and industry-leading technology and talented, passionate people, but its digital transformation is inevitable. Our technology is prevalent, touching every aspect of what we do from manufacturing excellence, where we currently produce over 750 thousand unique aligners per day – to expanding our geographic footprint to over 100 markets – to building a network of over 210,000 trained Invisalign doctors – and providing the technology to our doctors in a complete digital system - the Align Digital Platform.
- As the inventor of the leading clear aligner system, we have been investing in this therapy for over 24 years to get it to where it is today and yet the majority of the market opportunity remains largely untapped. With over 500 million potential case starts globally, Align is in a rare position to address this market with the Align digital platform --powered by two decades of research and development, manufacturing excellence, clinical data - based on more than 11 million patients - with AI machine learning and digital tools to help our doctors efficiently communicate with their patients, show and explain any issues, and visualize potential treatment outcomes. And together with doctors, we're going to unleash the power of digital for dentistry and orthodontics more than ever.
- Thank you for your time today. We look forward to speaking to you again on Friday at our Investor Day where we will share more details on the Align Digital Platform and our vision and strategy to make clear aligner treatment available to everyone, through doctors.

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Appendix

Unaudited GAAP to Non-GAAP reconciliation

ALIGN TECHNOLOGY, INC.
UNAUDITED GAAP TO NON-GAAP RECONCILIATION
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
GAAP gross profit	$ 755,156	$ 534,088	$ 2,190,792	$ 1,152,772
Stock-based compensation	1,451	1,247	4,175	3,485
Amortization of intangibles (1)	2,354	2,700	6,704	4,350
Non-GAAP gross profit	$ 758,961	$ 538,035	$ 2,201,671	$ 1,160,607
GAAP gross margin	74.3%	72.7%	75.0%	70.4%
Non-GAAP gross margin	74.7%	73.3%	75.4%	70.9%
GAAP operating expenses	$ 493,996	$ 357,019	$ 1,435,284	$ 978,785
Stock-based compensation	(26,951)	(23,982)	(80,323)	(69,678)
Amortization of intangibles (1)	(960)	(580)	(2,735)	(2,175)
Acquisition related costs (2)	-	(314)	(104)	(7,621)
Non-GAAP operating expenses	$ 466,085	$ 332,143	$ 1,352,122	$ 899,311
GAAP income from operations	$ 261,160	$ 177,069	$ 755,508	$ 173,987
Stock-based compensation	28,402	25,229	84,498	73,163
Amortization of intangibles (1)	3,314	3,280	9,439	6,525
Acquisition related costs (2)	-	314	104	7,621
Non-GAAP income from operations	$ 292,876	$ 205,892	$ 849,549	$ 261,296
GAAP operating margin	25.7%	24.1%	25.9%	10.6%
Non-GAAP operating margin	28.8%	28.0%	29.1%	16.0%
GAAP interest income and other income (expense), net	$ 828	$ 7,476	$ 36,903	$ (9,580)
Acquisition related costs (2)	-	-	-	10,187
Arbitration award gain (3)	-	-	(43,403)	-
Non-GAAP interest income and other income (expense), net	$ 828	$ 7,476	$ (6,500)	$ 607
GAAP net income before provision for (benefit from) income taxes	$ 261,988	$ 184,545	$ 792,411	$ 164,407
Stock-based compensation	28,402	25,229	84,498	73,163
Amortization of intangibles (1)	3,314	3,280	9,439	6,525
Acquisition related costs (2)	-	314	104	17,808
Arbitration award gain (3)	-	-	(43,403)	-
Non-GAAP net income before provision for (benefit from) income taxes	$ 293,704	$ 213,368	$ 843,049	$ 261,903
GAAP provision for (benefit from) income taxes	$ 81,019	$ 45,174	$ 211,352	$ (1,452,493)
Tax impact on non-GAAP adjustments	6,605	1,093	19,978	20,931
Tax related non-GAAP items (4)	(22,494)	(10,763)	(57,339)	1,485,286
Non-GAAP provision for (benefit from) income taxes	$ 65,130	$ 35,504	$ 173,991	$ 53,724
GAAP effective tax rate	30.9%	24.5%	26.7%	(883.5)%
Non-GAAP effective tax rate	22.2%	16.6%	20.6%	20.5%
GAAP net income	$ 180,969	$ 139,371	$ 581,059	$ 1,616,900
Stock-based compensation	28,402	25,229	84,498	73,163
Amortization of intangibles (1)	3,314	3,280	9,439	6,525
Acquisition related costs (2)	-	314	104	17,808
Arbitration award gain (3)	-	-	(43,403)	-
Tax impact on non-GAAP adjustments	(6,605)	(1,093)	(19,978)	(20,931)
Tax related non-GAAP items (4)	22,494	10,763	57,339	(1,485,286)
Non-GAAP net income	$ 228,574	$ 177,864	$ 669,058	$ 208,179
GAAP diluted net income per share	$ 2.28	$ 1.76	$ 7.29	$ 20.45
Non-GAAP diluted net income per share	$ 2.87	$ 2.25	$ 8.40	$ 2.63
Shares used in computing diluted net income per share	79,516	79,163	79,677	79,078

Notes:

1) Amortization of intangible assets related to our exocad acquisition.

2) During 2021, acquisition related costs were for professional fees related to our exocad acquisition. During 2020, acquisition costs included third party advisory, legal, tax, accounting, banking, valuation, and other professional or consulting fees and foreign exchange losses related to a forward contract for the purchase commitment related to our exocad acquisition.

3) During Q1'21, we recorded a $43.4 million gain from the SDC arbitration award regarding the value of Align's capital account balance.

4) During Q1'20, we recorded a one-time net tax benefit for the deferred tax asset and certain costs associated with the intra-entity transfer of certain intellectual property rights and assets to our Swiss subsidiary. For the periods presented, we recorded amortization and certain adjustments to the benefit from the transferred intangible assets of our Swiss entity.

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