



ALIGN TECHNOLOGY, INC.

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## Quarterly Financial Results Q3 2009

# Align Technology Q3 FY2009 Conference Call

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- Speakers:
  - Tom Prescott, president and CEO
  - Ken Arola, vice president of finance and CFO
- Moderator:
  - Shirley Stacy, senior director of investor relations
- Replay and Web cast Archive
  - Telephone replay will be available through 5:30pm ET November 5, 2009
    - Domestic callers: 877-660-6853
    - International callers: 201-612-7415
    - Account #292 and conference #333971
  - 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 third quarter of 2009, including anticipated revenue, gross margin, operating expense, operating income, earnings per share, case shipments and cash. 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 as well as the willingness and ability of our customers to adopt the expected baseline requirements set forth in our recently announced proficiency program and the willingness and ability of our customers to maintain and/or increase utilization to meet the new proficiency standards 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, continued customer demand for Invisalign 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 Invisalign by consumers and dental professionals, Align's third party manufacturing processes and personnel, foreign operational, political and other risks relating to Align's international manufacturing operations, Align's ability to protect its intellectual property rights, competition from manufacturers of traditional braces 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, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009. Align undertakes no obligation to revise or update publicly any forward-looking statements for any reason.



# Q3 FY2009 Overview

Tom Prescott

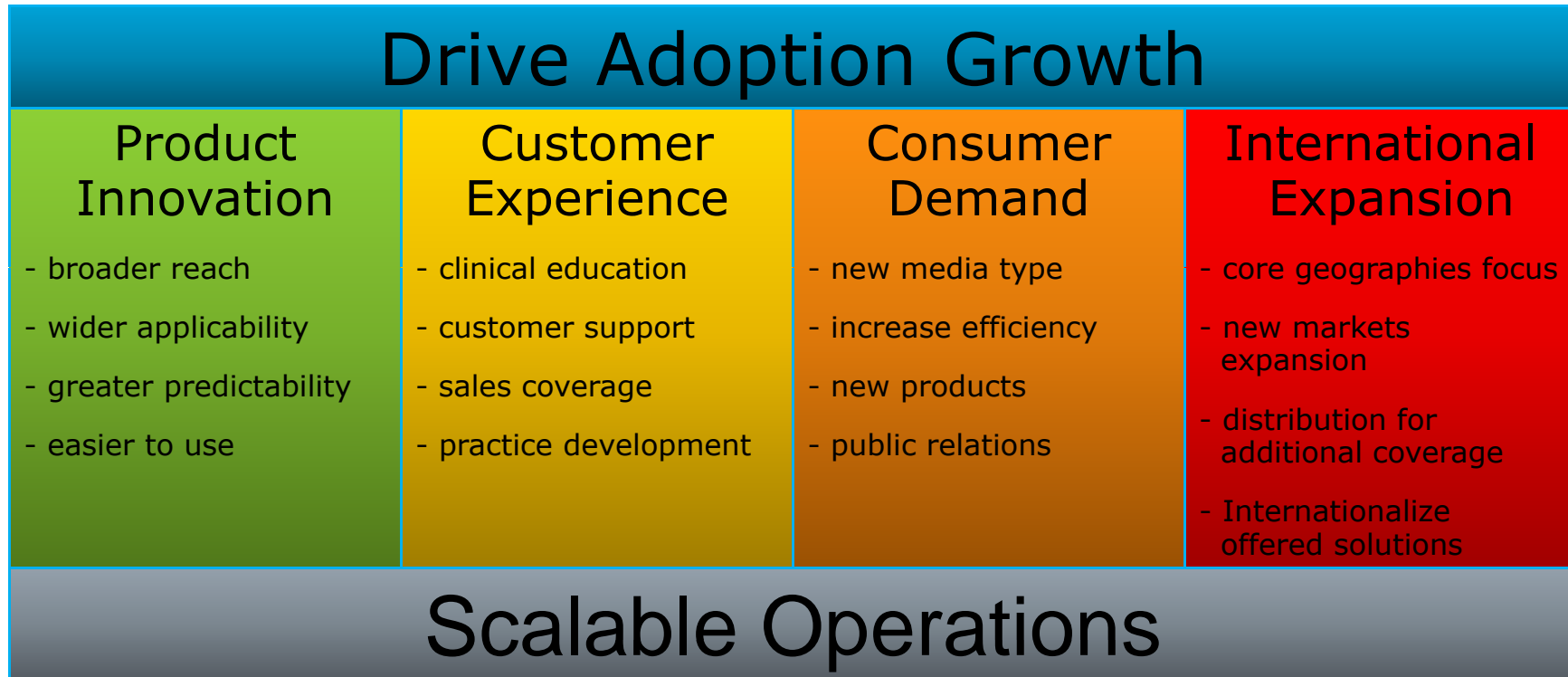
President and CEO

## Q3 FY2009 Financial Highlights

- Revenues of \$79.3 million
  - +3.9% Q/Q, +5.4% Y/Y
- Record case shipments of 56,510
  - +6.6% Q/Q, +7.0% Y/Y
- Growth driven by North American GPs and Orthos, as well as continued adoption of Invisalign Teen worldwide
- Record non-GAAP gross margin of 76.8%
- Non-GAAP operating margin of 14.4%
- Non-GAAP net profit of \$8.9 million or \$0.13 per share



# Our Strategy to Drive Adoption of Invisalign

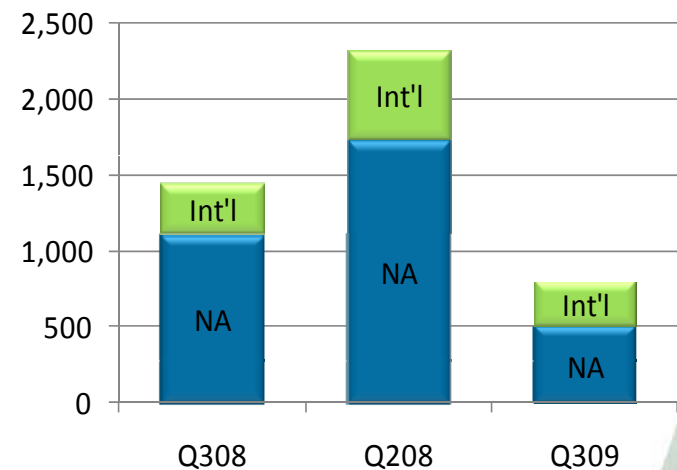


# Invisalign Adoption Metrics

## *Doctor Training*

- Q309 trained 805 new doctors worldwide
  - 505 in North America, 300 International
  - Fewer training courses during the summer months due to vacation schedules
  - Continued conservatism on the part of GPs who may be a bit hesitant to add new services
- Approach to training continues to evolve
  - Emphasis on helping newly trained doctors integrate Invisalign into their practice more quickly and successfully in the weeks after training
  - New CE1 course now focuses primarily on Invisalign Assist, giving new doctors the features, support, and confidence they need to achieve success with Invisalign as they're building experience with this new treatment modality

**Quarterly Doctors Trained Worldwide**

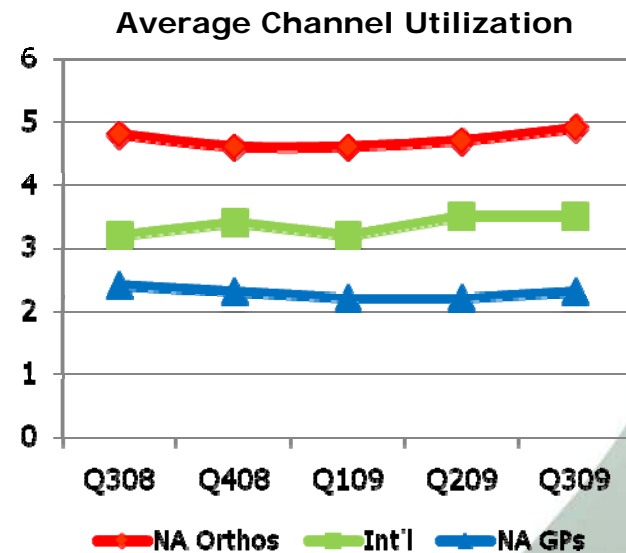


# Invisalign Adoption Metrics

## *Doctor Utilization or "Same Practice Sales"*

- Q3 09 utilization increased Q/Q and Y/Y
- Q3 volumes reflected good sequential growth from NA Orthos and GPs, particularly among lower volume doctors who have been a key focus of the Proficiency Requirements
- NA GP Volume: Highest sequential growth since Q207. Many beginning to re-engage and have shown great progress and potential.
- NA Ortho Volume: First time since Q108 showed Y/Y growth. Invisalign Teen is providing opportunity to re-engage with Orthos, resulting in continued steady adoption
- Int'l Volume: Q3 is a seasonally slower quarter due summer holidays throughout Europe, however volume increased slightly reflecting growth in Asia Pacific

Utilization Rates	Q3 08	Q2 09	Q3 09
NA Ortho	4.8	4.7	4.9
NA GPs	2.4	2.2	2.3
International	3.2	3.6	3.5
Total	3.0	3.0	3.1



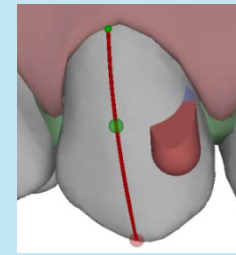


# New Product Features and Enhancements

*Announced September 2009 – Available mid-October*

## Optimized Attachments

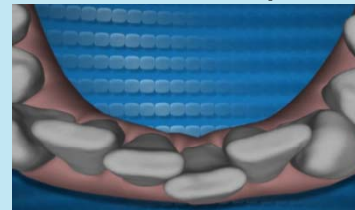
Custom designed to be patient and tooth-specific to consistently deliver correct forces to the teeth



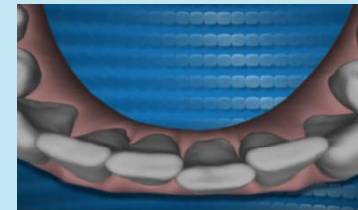
## Interproximal Reduction (IPR)

Can now be set up in later stages of treatment when teeth are better aligned

Previously



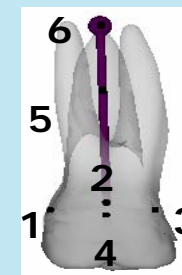
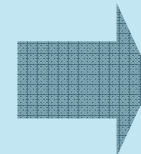
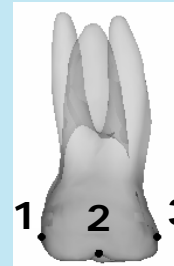
New Prescribed



IPR and Access

## Velocity Optimization

Additional reference points designed to factor in root and crown to automatically limit the speed of tooth movements to optimal ranges

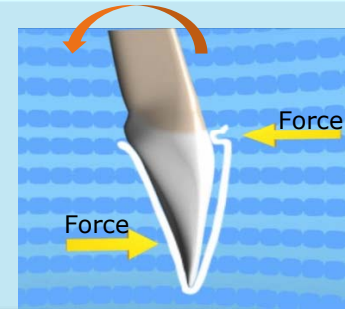
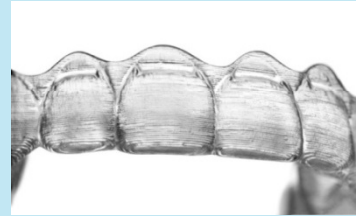


## New Product Features and Enhancements – cont.

*Announced September 2009 – Available mid-October*

### **Power Ridges™**

Now expanded across the product line for cases requiring certain types of movements, including lingual root torque



### **New Invisalign Attachment Kit**

New kit and attachment material deliver greater bond strength, wear resistance, accuracy, and ease of use



*“We believe that all of these improvements will give doctors greater confidence in what they can achieve with Invisalign, and help deliver the outcomes they expect”*

# Doctor Feedback on “New and Enhanced” Invisalign

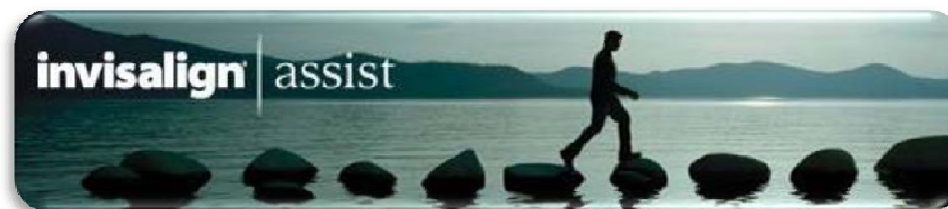
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- “The optimized rotation and extrusion attachments will give me a lot more confidence in treating my cases. I left CE II today feeling more confident in recommending Invisalign to my patients.....The things I worry most about in treating my patients with Invisalign are being addressed with these latest innovations”.
  - Dr. Joseph Field, Los Altos, California
- “Learning about the improvements in anterior extrusion in CE II expanded the applicability of the Invisalign appliance for me. I feel a lot more confident in clinical outcomes moving forward...In the past I’ve been conservative with treating cuspid rotations. After hearing about the new rotation attachments, I’m really excited to be using these in future cases and feel more confident in achieving the patient outcomes I desire”
  - Dr. Douglas Boucher, Menlo Park, California

- Q3 09 Invisalign Teen Case Volume
  - +32% Q/Q to 14% of worldwide volume
- Invisalign Teen doctor training
  - North America
    - ~370 new NA Orthos completed Teen training
    - ~2,800 total doctors trained (~80% of routine NA Orthos)
    - 76% repeat rate in Q3, up from 74% Q2
    - Orthos will steadily adopt Invisalign into practice over time
  - International
    - ~235 new Orthos completed Teen training
    - ~1,590 total doctors trained
    - Expect uptake Internationally, especially in Europe, to be a bit slower as our consumer demand programs are not as broad in scale and scope as in North America



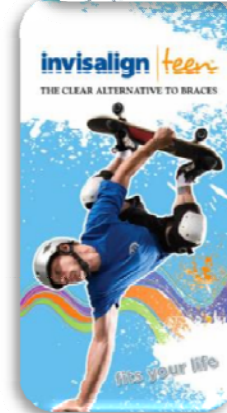
- Q3 09 Invisalign Assist Case Volume
  - +25% Q/Q to 3% of worldwide volume
- Additional features have been added or enhanced in Invisalign Assist, expanding its capabilities and giving doctors the confidence and control necessary to treat a wider range of patients
- While overall penetration of Invisalign Assist is still small, it's meaningful to us to help get new practices going



# Consumer Demand Creation

## Program Highlights

- Conventional Media
  - More efficient and have spent less money year to date while maintaining total overall leads
  - Expect to see Invisalign on air in major markets across the country up until the Thanksgiving holiday
- Public Relations
  - Increased print editorials and spots on TV talk shows
  - Invisalign Teen featured Back-to-School media tour
  - In Q4 National Orthodontic Health Month
- Event Marketing
  - Goal to be where teens work and play
  - Invisalign Teen at U.S. Open of Surfing in Huntington Beach, 37,000 brand impressions from "What Makes You Smile" booth
  - Portland, Salt Lake City, and Orlando Dew Tour stops, created 21,000 brand impressions
- Social Networking
  - Invisalign Teen hosted an exclusive regional "mom blogger" event in San Francisco - big opportunity for us to highlight good clinical evidence and educate online communities about the benefits of Invisalign vs. traditional treatment. As a result, Invisalign has 1200+ posts, 500+ new posts. To date, mom blogs generated nearly 900,000 consumer impressions



**Go Back To  
School with  
a Smile!**



**Submit a photo  
of your smile  
& be entered  
to win a digital  
camera!**

**A L I G N**  
ALIGN TECHNOLOGY, INC.



# Evolution of the Invisalign Brand

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# Invisalign Proficiency Requirements Status

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- The Invisalign System is an evolving, skill-based technique that requires regular usage and education
- Align is committed to doing everything possible to help doctors achieve success with Invisalign, but ultimately, treatment outcome is in the hands of the doctor
- Proficiency Requirements launched June 1, 2009:  $\geq 10$  Invisalign cases +  $\geq 10$  Invisalign CE each calendar year, as of 12/31/09
- Q3 09 progress to date
  - Pleased with the effort customers have taken to re-engage
  - Q3 results demonstrate real progress towards the proficiency goals, particularly for customers with less than 10 cases a year
  - Invisalign CE course completions are “off the charts” indicating that customers are training and want to re-engage



# Invisalign Proficiency Requirements Update

- Doctors who meet the Invisalign Proficiency Requirements:
  - New consumer marketing program that encourages prospective patients to seek out Preferred Providers
  - New Invisalign “Preferred Provider” designation and signage (based on new branding) will be highlighted on Invisalign.com and in consumer media and on-line ads
- Doctors who are **unable** to meet the requirements this year, but have  $\geq 1$  case shipment and  $\geq 1$  CE hour:
  - One-time, additional 6 month qualification period
  - Opportunity to realize the full value of, and gain greater confidence in Invisalign, from new product improvements



## Ormco Settlement and Joint Development

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- On August 16, 2009 Align reached a settlement agreement with Ormco ending all ongoing litigation
- As part of the settlement, Align made a cash payment of \$13.1 million and issued 7.6 million shares to Danaher
- New strategic relationship to jointly develop and market a combination orthodontic product
- Target the millions of people with severe malocclusion that won't accept or start treatment with wires and brackets alone
- Enable Align to compete for a segment of the market that can enhance our overall penetration

# Q3 FY2009 Financial Review

Ken Arola

Vice President, Finance and CFO

# Ormco Litigation Settlement Accounting

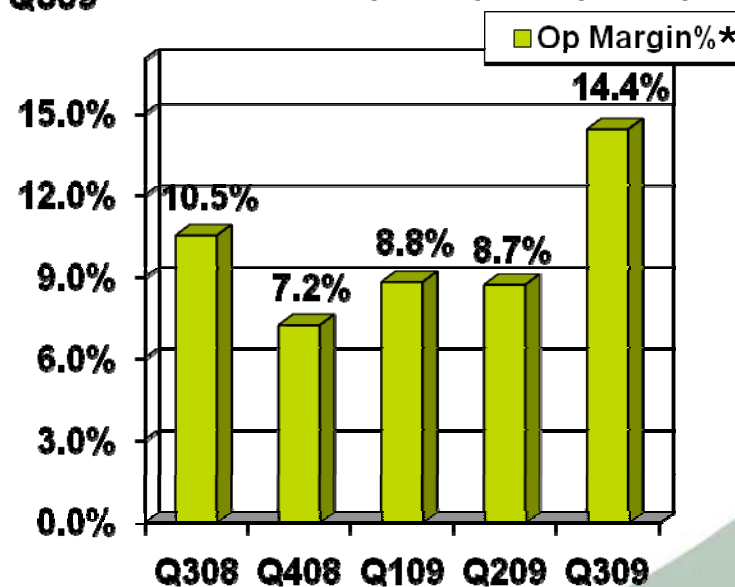
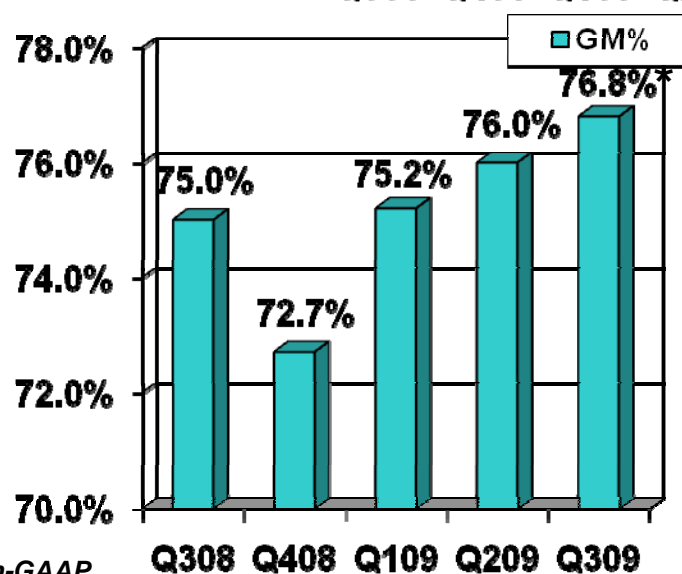
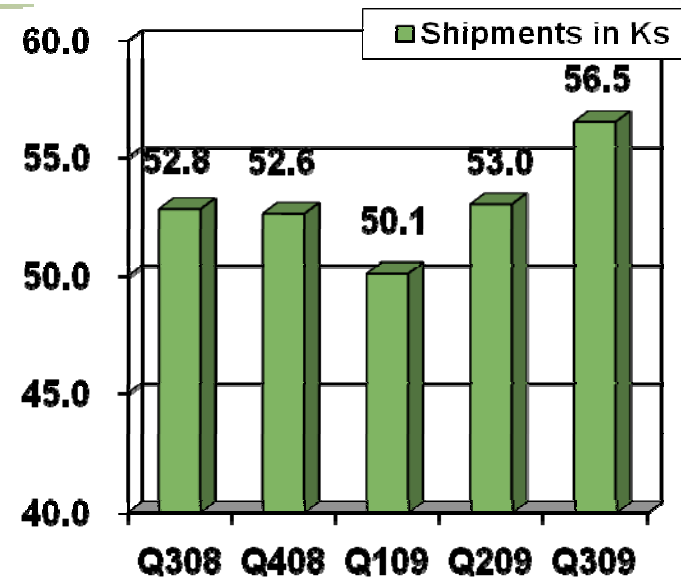
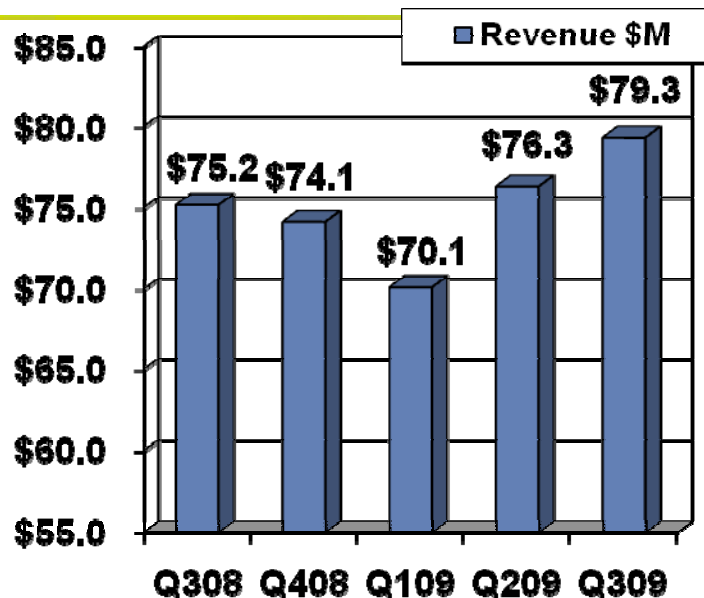
- In Q3, as part of the Ormco settlement Align paid \$13.1 million in cash and issued 7.6 million shares to Danaher.
- Settlement was valued at \$76.7 million, as the shares issued carry certain restrictions and thus a discounted value.
- In Q3, \$69.7 million of the \$76.7 million was recorded in operating expenses as a one-time settlement cost.
- The remaining \$7.0 million was characterized as a prepaid royalty to be expensed to cost of sales from the date of the settlement through the end of Ormco's '444 patent.
- In Q3, Ormco royalty expense recorded to cost of sales was \$1.9 million. We expect Q4 09 royalty expense to be \$3.8 million.
- In Q3, shares used to calculate GAAP and non-GAAP EPS included a weighted average of the 7.6 million shares issued. This is due to the timing of the share issuances during the quarter. The full weighting of these shares will be in Q409.

## Q3 FY2009 Income Statement Highlights

	Q3 09	Q2 09	Sequential Change	Q3 08	Year/Year Change
<b>Revenue</b>	\$79.3M	\$76.3M	3.9%	\$75.2M	5.4%
<b>Gross Margin</b>	74.4%	76.0%	(1.6% pts)	75.0%	(0.6% pts)
<b>Non-GAAP Gross Margin</b>	76.8%	76.0%	.08% pts	75.0%	1.8% pts
<b>Operating Expenses</b>	\$119.2M	\$51.7M	(130.4%)	\$50.7M	(135.0)%
<b>Operating Margin</b>	(75.9%)	8.2%	(84.1% pts)	7.6%	(83.5% pts)
<b>GAAP EPS, diluted</b>	(\$0.72)	\$0.07	(\$0.79)	\$0.08	(\$0.80)
<b>Non-GAAP Op Exp</b>	\$49.5M	\$51.3M	(3.5%)	\$48.5M	2.1%
<b>Non-GAAP Op Margin</b>	14.4%	8.7%	+5.7% pts	10.5%	+3.9% pts
<b>Non-GAAP EPS, diluted</b>	\$0.13	\$0.07	\$0.06	\$0.11	\$0.02

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

## Q3 FY2009 Trended Financials



\* Non-GAAP

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

# Q3 FY2009 Revenue and Cases by Channel

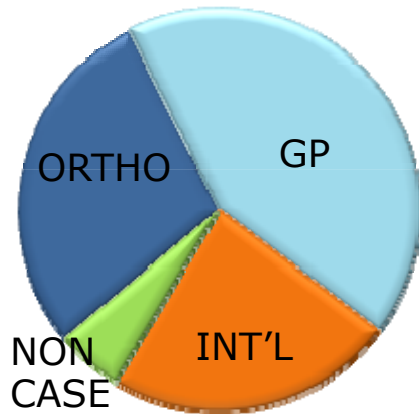
## Q3 09 Revenue: \$79.3M

N.A. Ortho: 28.7%

- +5.3% Q/Q
- +3.5% Y/Y

N.A. GP: 42.8%

- +6.8% Q/Q
- +0.1% Y/Y



Non-case: 5.3%

- -15.2% Q/Q
- -1.3% Y/Y

Int'l: 23.3%

- +2.2% Q/Q
- +22.0% Y/Y

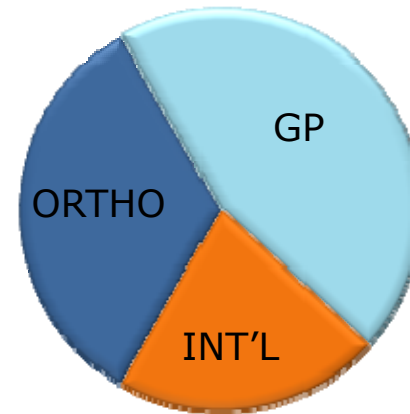
## Q3 09 Case Shipments: 56,515

N.A. Ortho: 33.3%

- +7.8% Q/Q
- +4.8% Y/Y

N.A. GP: 45.2%

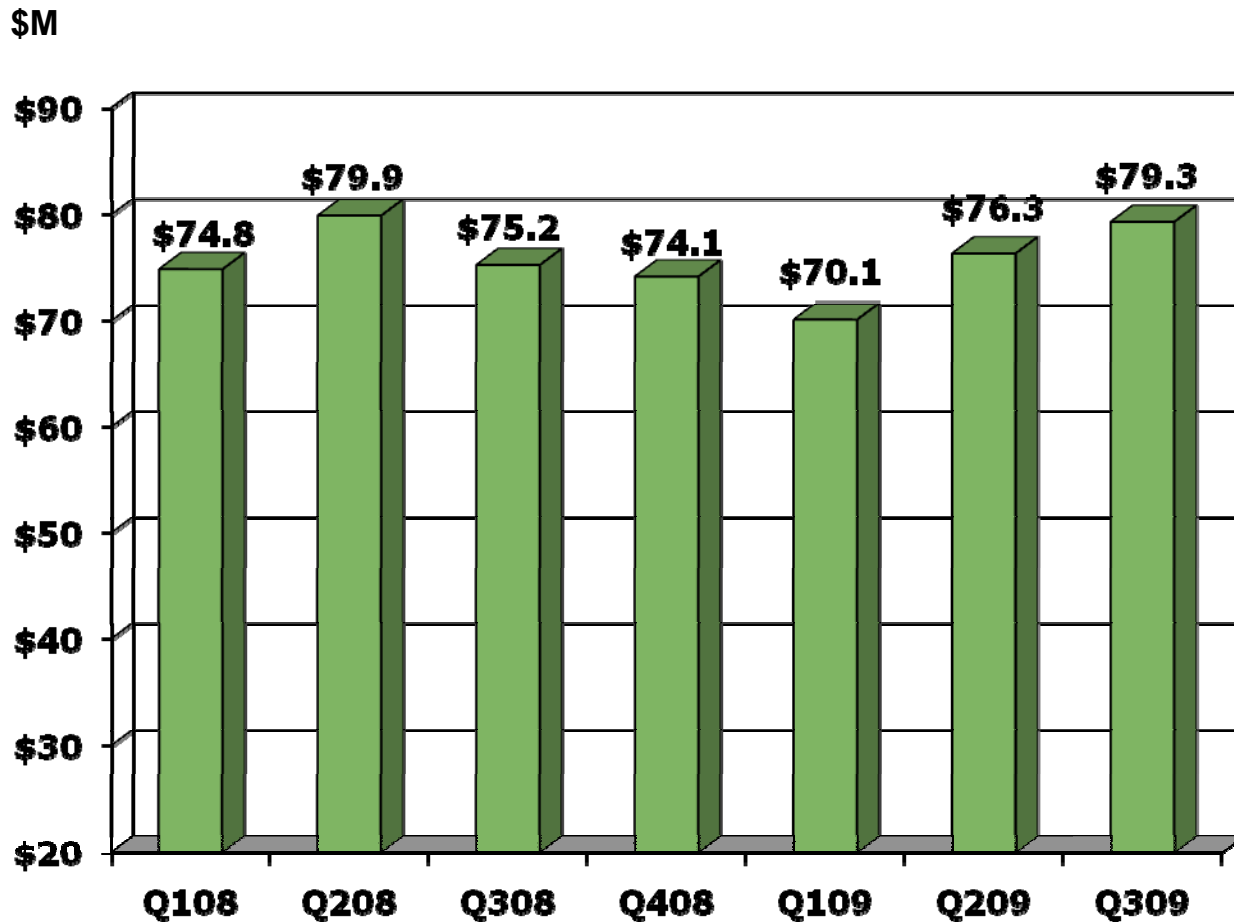
- +8.7% Q/Q
- -0.5% Y/Y



Int'l: 21.5%

- +0.9% Q/Q
- +32.7% Y/Y

# Revenue Trend

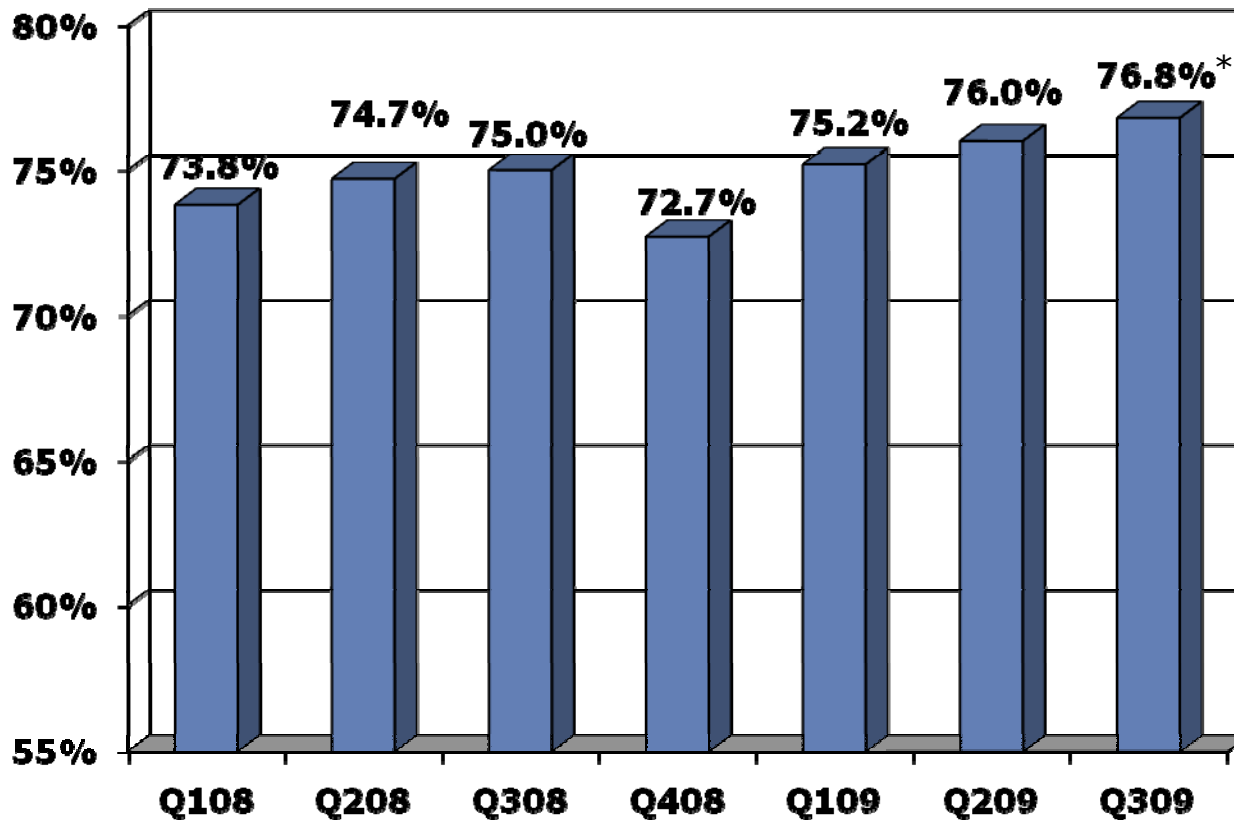


## Q309 Revenue Highlights

- Grew 3.9% Q/Q and 5.4% Y/Y
- Q3 sequential growth driven by NA GPs and Orthos who are working hard to meet the Proficiency Requirements.
- Sequential revenue growth rate reflects the overall increase in case volume, offset by an increase in deferred revenue associated with new products.
- Year over Year revenue increase reflects strong International growth (case volume +33% and revenue +22%). International revenue growth rate reflects the unfavorable impact of foreign exchange rates as the Dollar has strengthened against the Euro from the same period last year.



# Gross Margin Trend



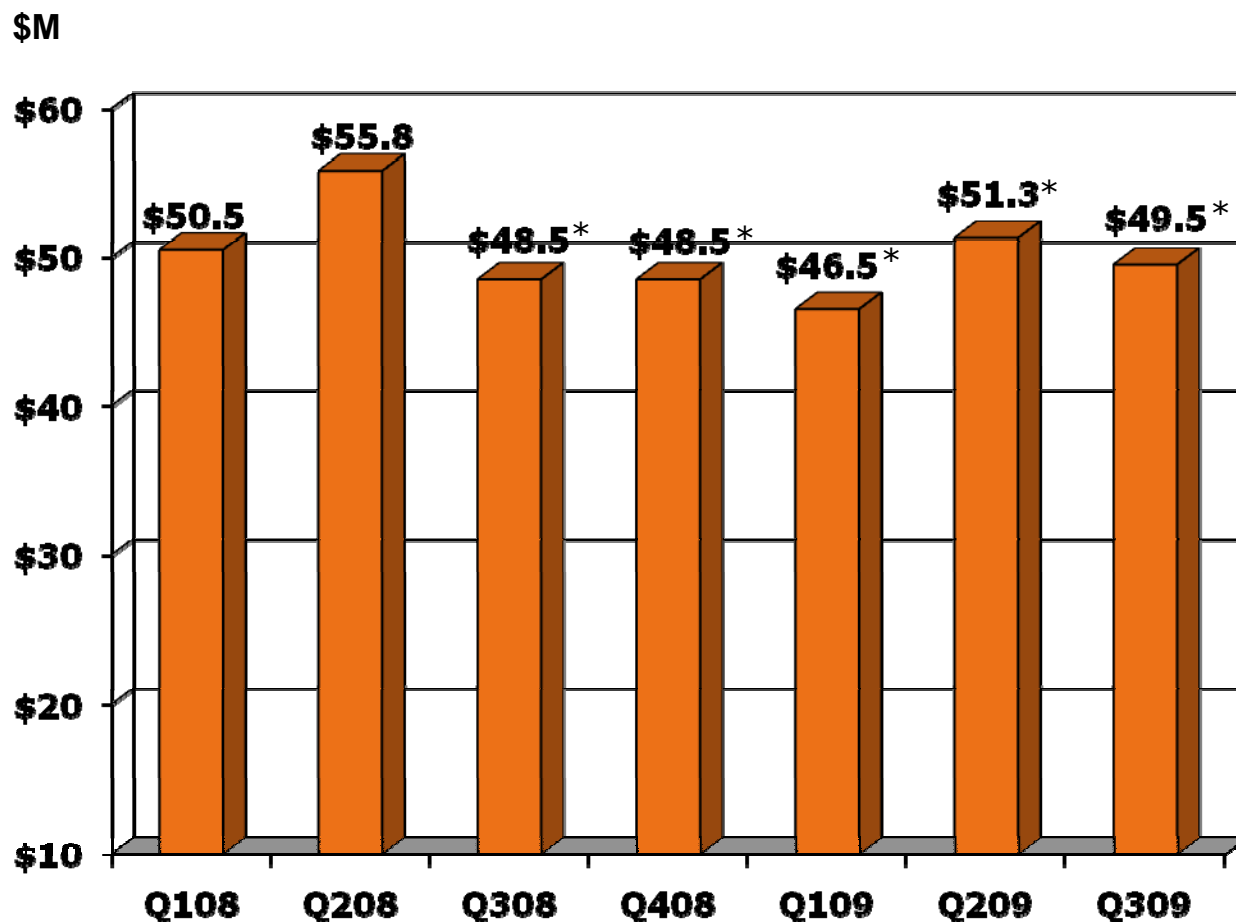
## Q309 Gross Margin\* Highlights

- + 0.8% pts Q/Q
- + 1.8% pts Y/Y
- Non-GAAP gross margin was a record 76.8%, excluding \$1.9M Ormco royalties.
- Sequential increase was driven by driven primarily by the favorable impact from higher case volumes.
- Includes stock based compensation expense of \$359K.

### \* Non-GAAP

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

# Operating Expenses Trend



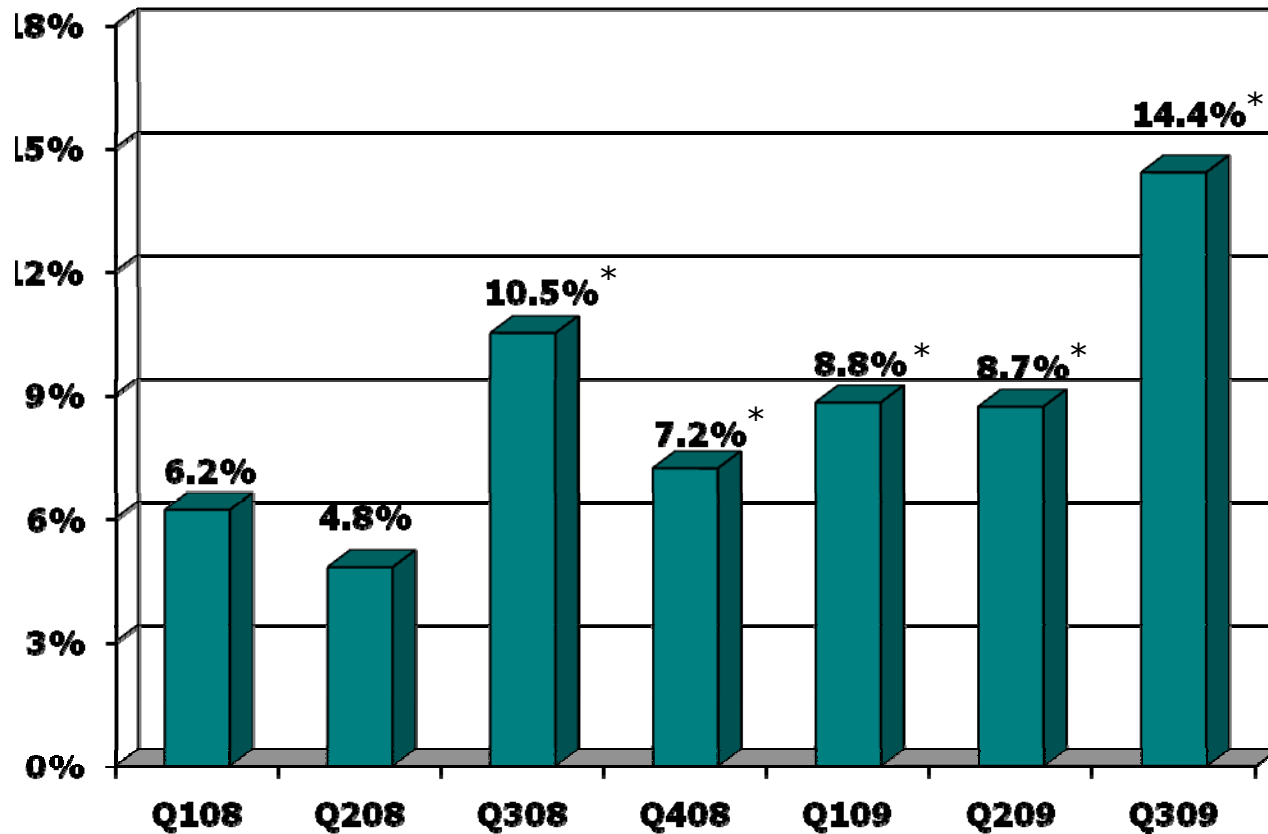
## Q309 OpEx\* Highlights

- Non-GAAP operating expenses were \$49.5M, excluding \$69.7M for Ormco settlement costs.
- Sequential decrease largely reflects the timing of several significant customer events.
- Includes stock based compensation expense of \$3.6M.

### **\* Non-GAAP**

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

# Operating Margin Trend



## Q309 Op Margin\* Highlights

- + 5.7% pts. Q/Q
- + 3.9% pts. Y/Y
- Q3 non-GAAP operating income increased 44.5% or 390 basis points, reflecting top line growth, combined with improving operating efficiencies and expense management
- Excluded \$1.9M in Ormco royalties and \$67.9 for Ormco settlement costs.

### \* Non-GAAP

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

## Balance Sheet Highlights

	Q309	Q209	Q308
Cash, Cash Equivalents, & Short Term Marketable Securities	\$154.9M	\$143.1M	\$114.3M
Cash Flow from Operations	\$10.8M	\$18.5M	\$17.4M
DSOs	63 days	63 days	59 days

- In Q3, deferred revenue on the balance sheet increased by \$4.8M to \$27.9M or 20.7% sequentially. This primarily represents the revenue deferrals associated with new products, Invisalign Teen, Assist and Vivera.

# Financial Outlook

## Q4 Fiscal 2009 Outlook

Q4 09 Outlook	GAAP	Non-GAAP
Revenue	\$77.5M – \$81.0M	
Case Shipments	57K – 59K	
Gross Margin	71.1% – 71.8%	76.0% – 76.5%
Operating Expenses	\$49.0M – \$50.0M	
Operating Margin	7.9% – 10.1%	
EPS, diluted	\$0.07 – \$0.09	\$0.08 – \$0.10
Effective tax rate	10% – 12%	33% – 36%
Stock based compensation	\$3.9M	
Diluted shares outstanding	76M	
Cash	\$170M - \$175M	
DSOs	Mid 60's	

## Contact Align Technology Investors Relations at:

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- Tel: (408) 470-1000
- Shirley Stacy, Senior Director, Investor Relations
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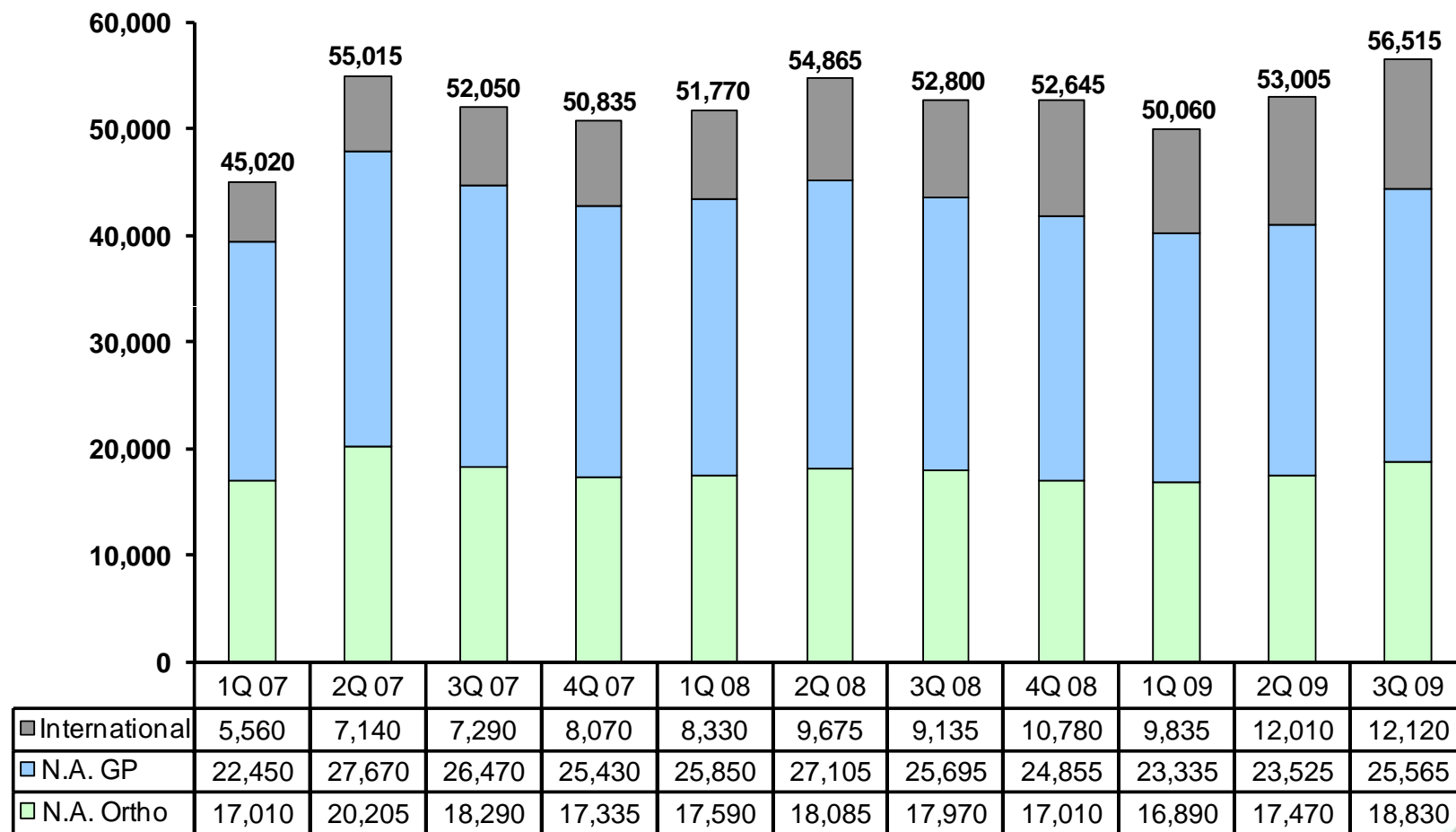
# Additional Data

Historical Information as of 9/30/09

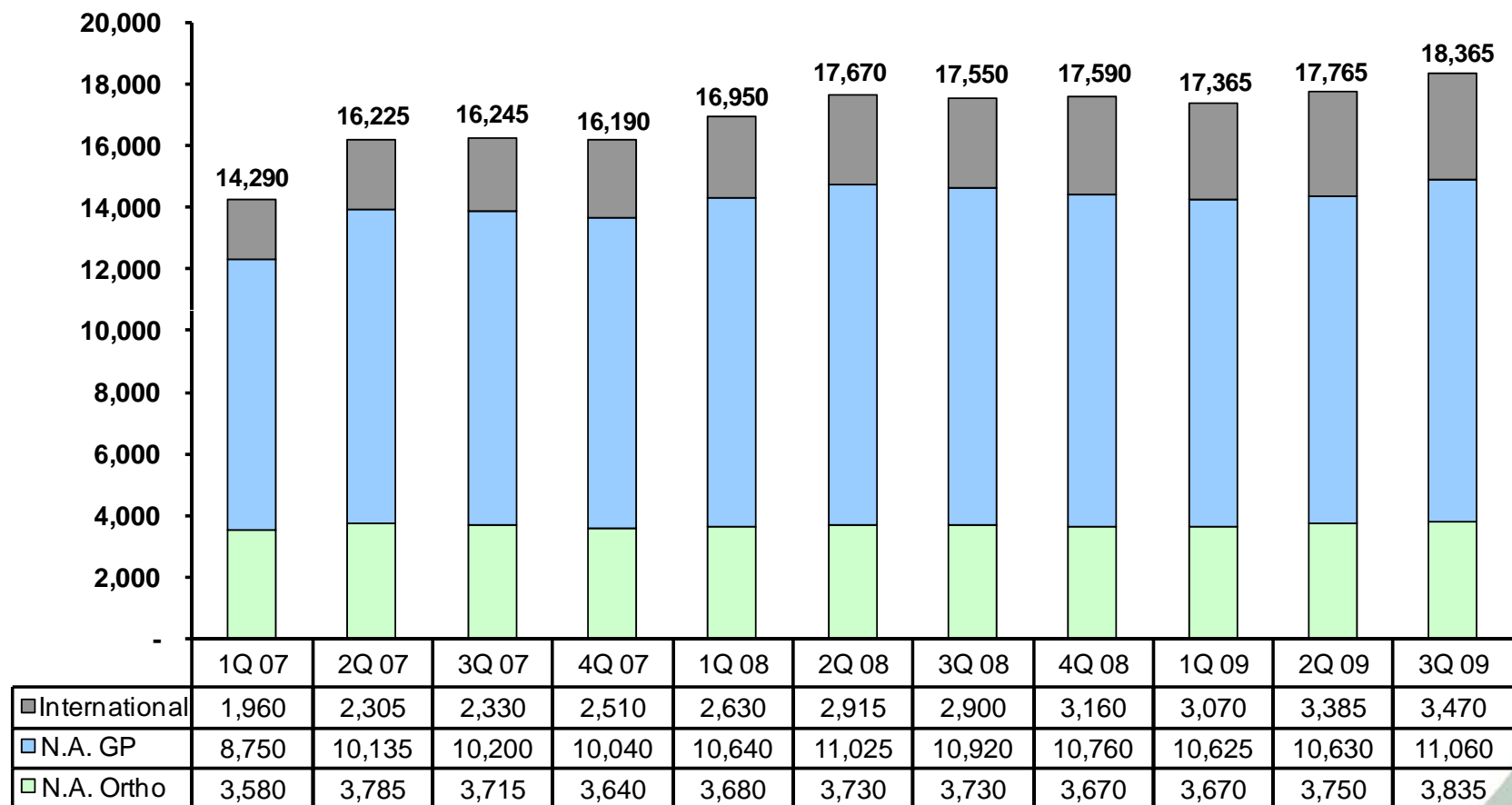
Note: Some previously provided historical information has been adjusted to reflect changes in rounding methodology.



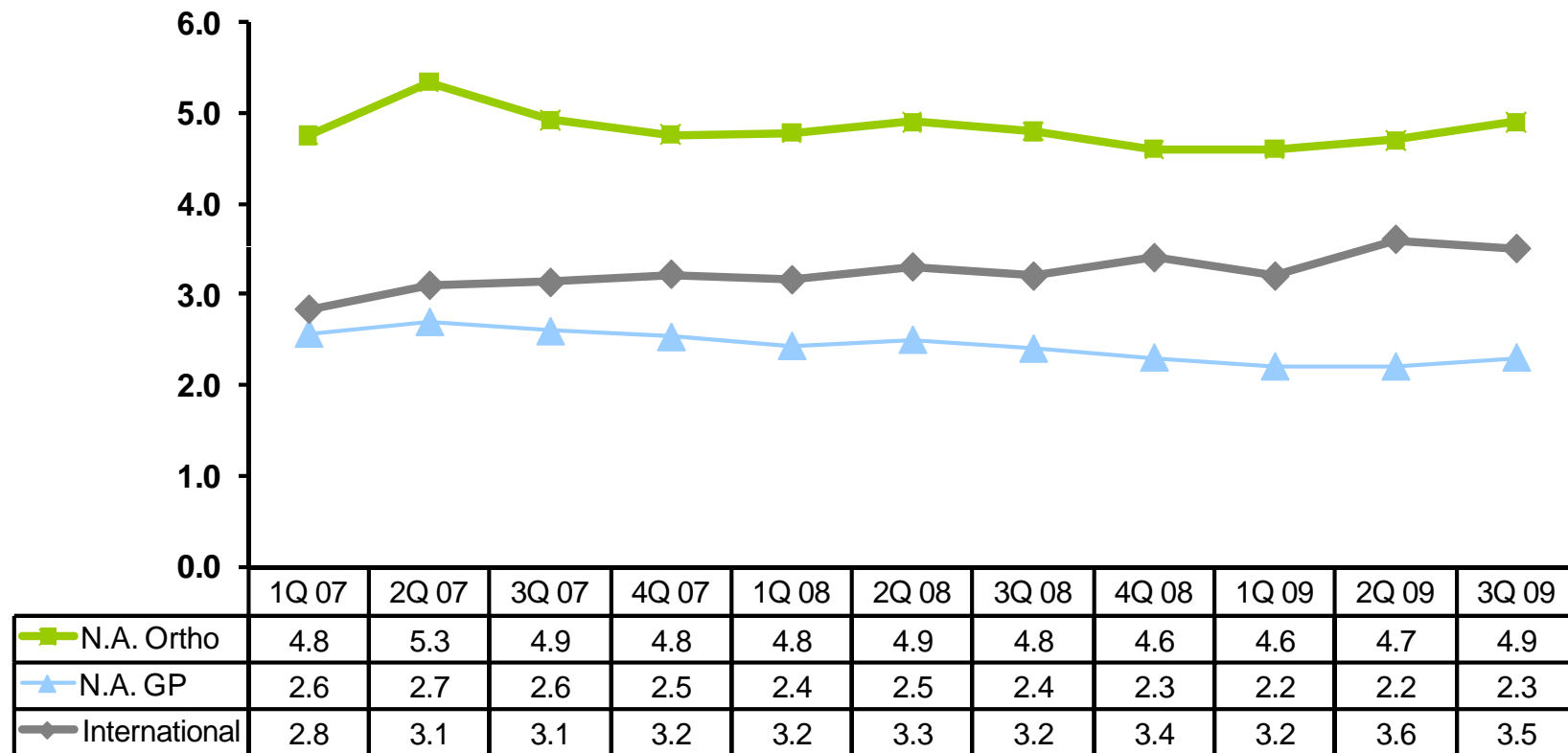
# Cases Shipped By Channel



# Total # of Doctors Cases Were Shipped To

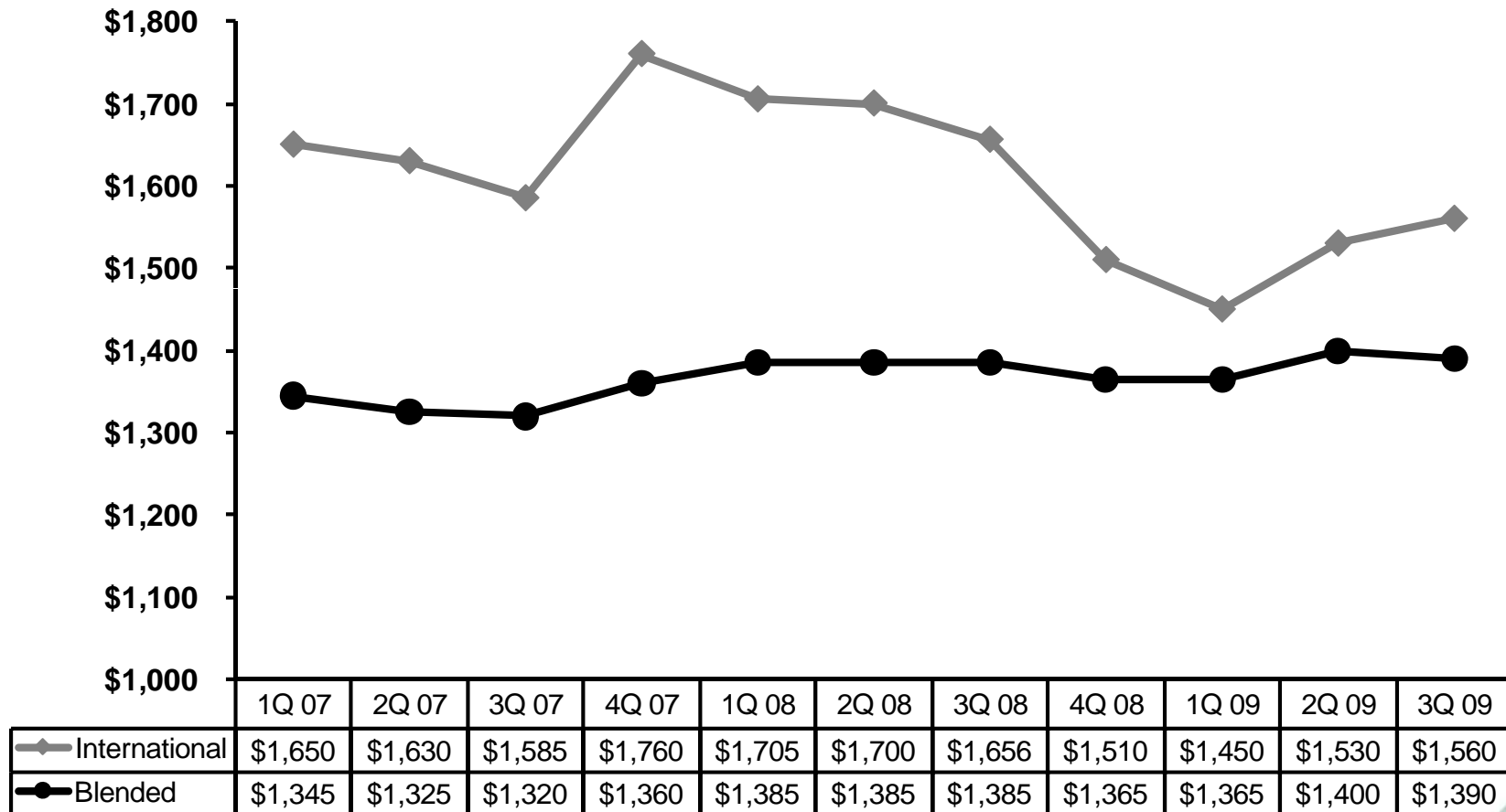


# Utilization Rate\*



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

## Average Selling Price (ASP), as billed



\* Beginning in Q1 2008, ASPs reflect gross revenue prior to impact from new products deferrals

◆ Beginning in Q1 2009, blended ASPs do not include Align's retainer business



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