Q4 and Fiscal 2022 Financial Results

Align Technology, Inc.

February 1, 2023

Conference Details

Conference call

Speakers:

- Joe Hogan, President and CEO
- John Morici, CFO
- Shirley Stacy, VP, Global Communications & Investor Relations

Replay and Webcast Archive:

- Telephonic replay will be available through 5:30 pm ET, February 15, 2023
- Domestic callers: 866-813-9403
- International callers: 929-458-6194
- Access code: 328900
- Audio webcast archive will be available at http://investor.aligntech.com for one month

Contacts

Website: http://investor.aligntech.com/

Email: investorinfo@aligntech.com

Tel: (602) 742-2000

Corporate and Investor Communications:

Shirley Stacy, sstacy@aligntech.com

Madelyn Valente, mvalente@aligntech.com

Safe Harbor and Forward-Looking Statements

This presentation, including the tables below, contains forward-looking statements, including statements of beliefs and expectations regarding anticipated capital expenditures, clear aligner volumes, clear aligner ASPs, iTero scanner and services revenue, total revenues and operating margin, customer and consumer demand trends and market opportunities, our ability to successfully control our business and operations and capital expenditures and pursue our strategic growth drivers, our expectations regarding the timing and impact of new products and technologies, our beliefs for the impacts of our stock repurchase programs and our ability to generate cash flow, and our beliefs regarding the trajectory of our business. Forward-looking statements contained in this news release 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:

- macroeconomic conditions, including inflation, fluctuations in currency exchange rates, rising interest rates, market volatility, weakness in general economic conditions and recessions and the impact of efforts by central banks and federal, state and local governments to combat inflation and recession;
- customer and consumer purchasing behavior and changes in consumer spending habits as a result of, among other things, prevailing macro-economic conditions, levels of employment, salaries and wages, debt obligations, discretionary income, inflationary pressure, declining consumer confidence, and the military conflict in Ukraine;
- the impact of the COVID-19 pandemic and its variants 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;
- the economic and geopolitical ramifications of the military conflict in Ukraine, including sanctions, retaliatory sanctions, nationalism, supply chain disruptions and other consequences, any of which may or will continue to adversely impact our operations and research and development activities inside and outside of Russia;
- variations in our product mix and selling prices regionally and globally;
- the timing and availability and cost of raw materials, components, products and other shipping and supply chain constraints;
- unexpected or rapid changes in the growth or decline of our domestic and/or international markets;
- 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 clear aligners and intraoral 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, errors or defects in software or hardware 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;
- expansion of our business and products;
- 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 our systems or networks, including any customer and/or patient data contained therein, for any reason;
- the timing of case submissions from our doctor customers within a quarter as well as an increased manufacturing costs per case;
- foreign operational, political, military and other risks relating to our 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, 2021, which was filed with the Securities and Exchange Commission ("SEC") on February 25, 2022 and our latest Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, which was filed with the SEC on November 4, 2022. 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 constant currency net revenues, constant currency gross profit, constant currency gross margin, constant currency income from operations, constant currency operating margin, gross profit, gross margin, operating expenses, income from operations, operating margin, interest income and other income (expense), net, net income before provision for income taxes, provision for income taxes, effective tax rate, net income and/or diluted net income per share, which excludes certain items that may not be indicative of our fundamental operating performance including, foreign currency exchange rate impacts and discrete cash and non-cash charges or gains that are included in the most directly comparable GAAP measure. In Q4'22, we changed to a long-term non-GAAP effective tax rate in our computation of the non-GAAP income tax provision to provide better consistency across reporting periods. Our previous methodology for calculating our non-GAAP effective tax rate included certain non-recurring and period-specific items, that produced fluctuating effective tax rates that management does not believe are reflective of the Company's long-term effective tax rate.. We have given effect to this new methodology effective January 1, 2022 and recast prior periods in 2022. No changes have been made to 2021, as reflecting the change in methodology for the computation of the non-GAAP effective tax rate was immaterial to our 2021 results. 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, restructuring and other charges, acquisition-related costs, and arbitration award gain, and associated tax impacts.
- Our management believes that the use of certain non-GAAP financial measures provides 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. 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 are 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 as 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 herein 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 tables captioned "Unaudited GAAP to Non-GAAP Reconciliation."


align | invisalign | iTero | exocad
14.5M total Invisalign® patients treated to date, including **4.0M** teens.

align™ | invisalign® | iTero™ | exocad™

25 years – From appliance to platform

Revenue Y/Y%

2001–2022
+23%

1997 – 2006

Invisalign® clear aligners
ClinCheck® software
3D Printing SLA

2007 – 2012

Force system biomechanics
G-Series
Attachments
PowerRidge
Vivera™ retainers
SmartForce™
iTero™ intraoral scanners

2013 – 2016

G-Series
SmartTechnology
SmartTrack™
SmartForce™
SmartStage™
ClinCheck® Pro
Biteramps
Mandibular advancement
iTero Element™
Invisalign® Outcome Simulator

2017 – 2022

G-Series
ClinCheck® Pro 6.0
iTero Element™ 5D imaging system NIRI
Invisalign First™
My Invisalign™ app
Invisalign Smile Architect™
Invisalign® Virtual Care
Invisalign® Virtual Care AI
exocad™ lab software
Retention
Subscription
E-Commerce
Diagnostics
Invisalign® Practice App
Professional Whitening
Enhanced precision wings for Invisalign treatment with mandibular advancement

Align Digital Platform™

An integrated suite of proprietary technologies and services delivered as a seamless end-to-end solution to customers, to transform smiles and change lives.

Align® Digital Workflow

A seamless end-to-end treatment experience that guides doctor customers from first consultation through to final smile, delivering to them and their patients' superior clinical outcomes, treatment efficiency, and an elevated patient experience.

Connect

Drive consumer demand & connect it to your practice

$300M annual investment in consumer demand

My Invisalign™ app

Invisalign SmileView™

Invisalign® Doctor Locator

Scan

Enable doctor diagnosis, efficient planning & patient acceptance

iTero™ scanners with NIRI technology

iTero Element™ 5D

iTero™ TimeLapse

Invisalign® Outcome Simulator Pro

Invisalign Photo Uploader

Plan

Digitally visualize & plan your ortho & restorative treatments

ClinCheck® Pro 6.0 In-Face Visualization

ClinCheck® Live Update for 3D controls

Invisalign® Personalized Plan ("IPP")

Invisalign Smile Architect™

Cone Beam Computed Tomography ("CBCT") integration feature for ClinCheck® digital treatment planning software

Treat

Delivery of customized, digitally designed aligners

Invisalign® clear aligner system

Invisalign® Practice App

Enhanced precision wings for Invisalign treatment with mandibular advancement

Monitor

Virtual treatment tracking between visits & ongoing patient care

Invisalign® Virtual Care

Invisalign® Virtual Care AI

My Invisalign™ app

Retain

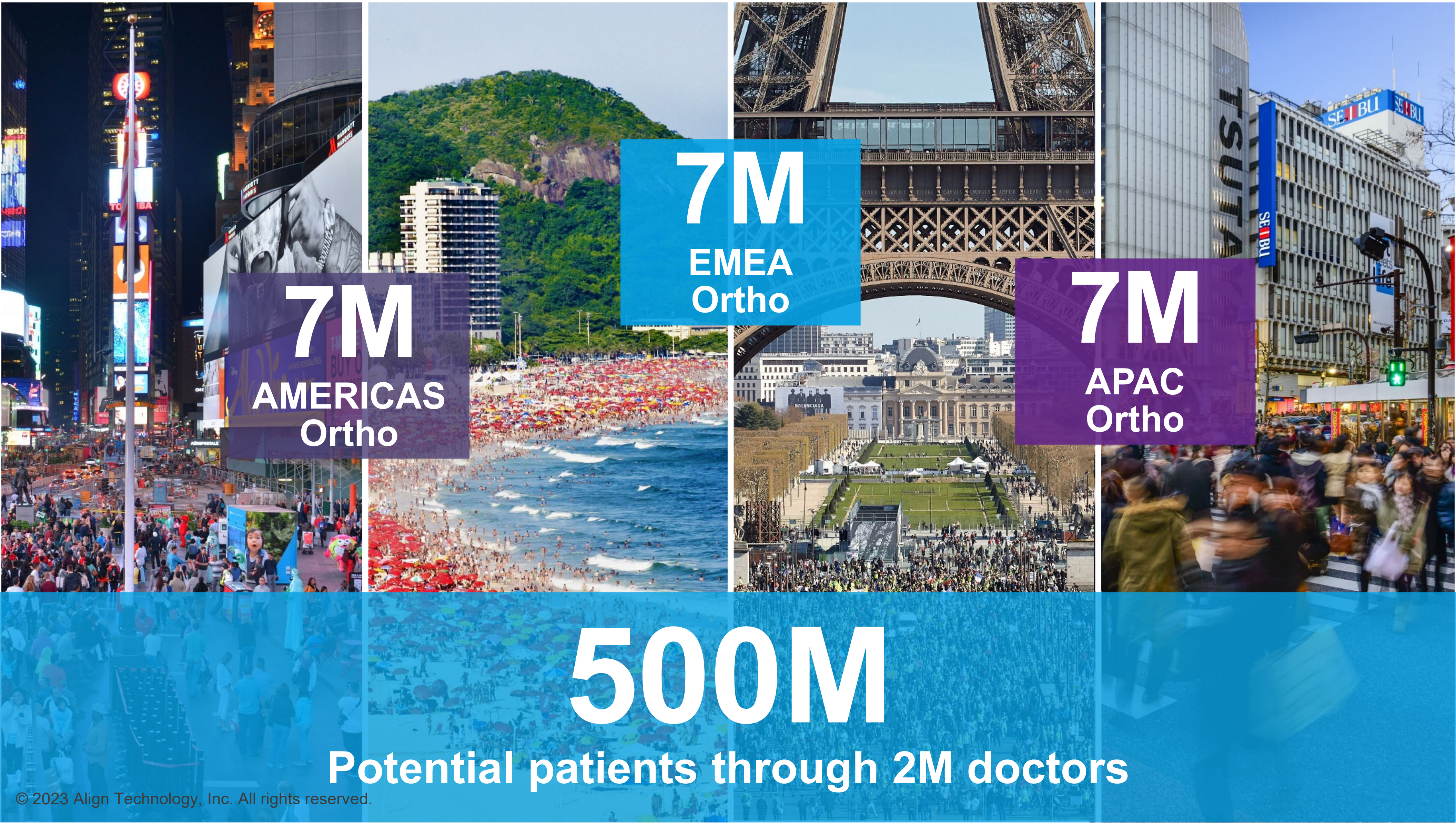
Maintain beautiful teeth for life

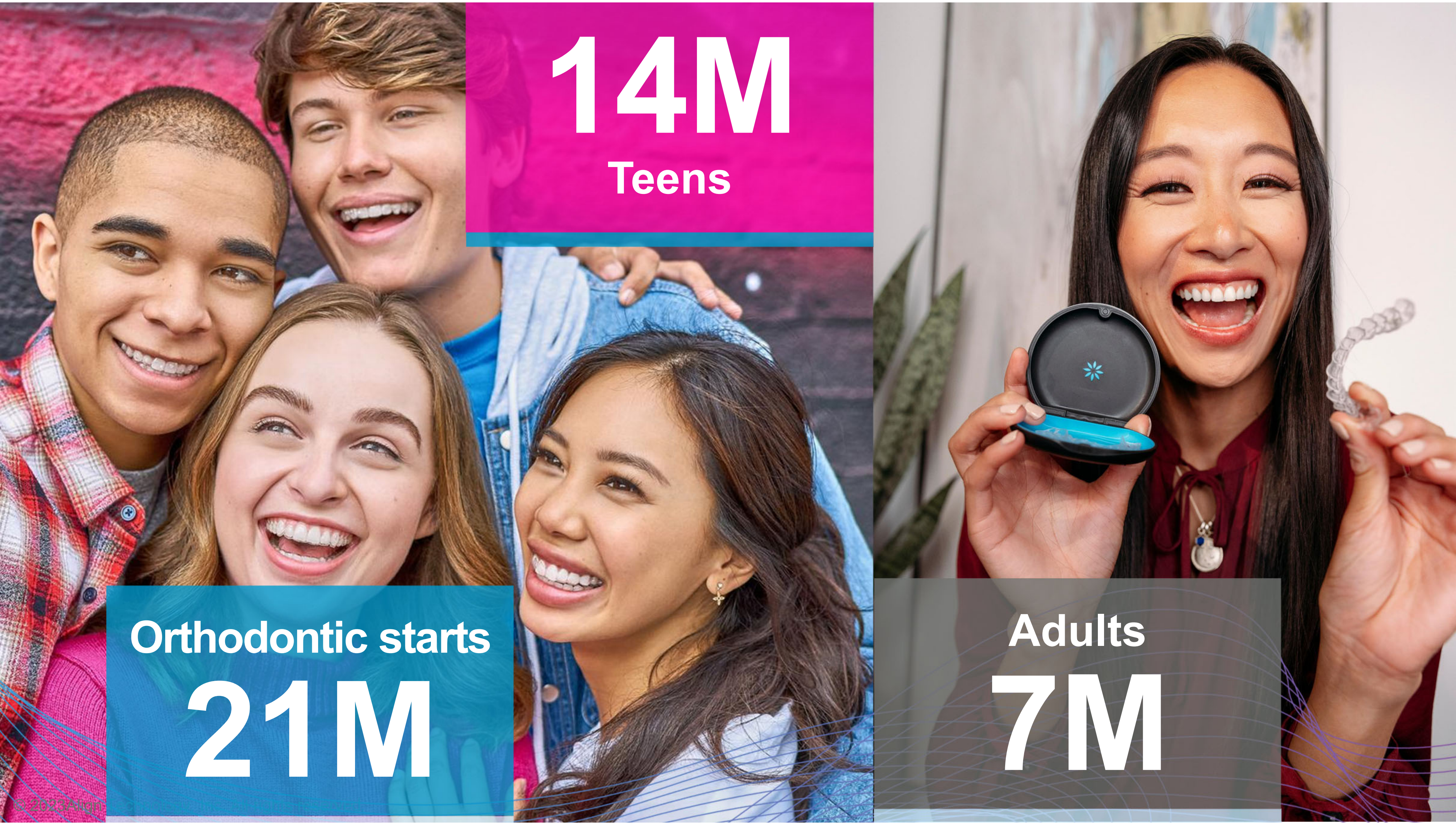
Vivera™ retainers

Invisalign® Professional Whitening System

The Invisalign Virtual Care AI remote monitoring solution is in active global rollout to Invisalign trained doctors with availability beginning in certain markets in APAC, EMEA and Americas.
Invisalign Outcome Simulator Pro is available on all iTero Element Plus Series scanners and imaging systems.
The CBCT integration feature for ClinCheck treatment planning software is currently in technical design assessment (TDA), scaled in phases across our customer population that started in the second half of 2022.
Due to the individual nature of each doctors' approach to different cases, IPP is being scaled gradually in phases across our customer population.
Invisalign Smile Architect is being piloted on the full line of Invisalign Go™ offerings only.

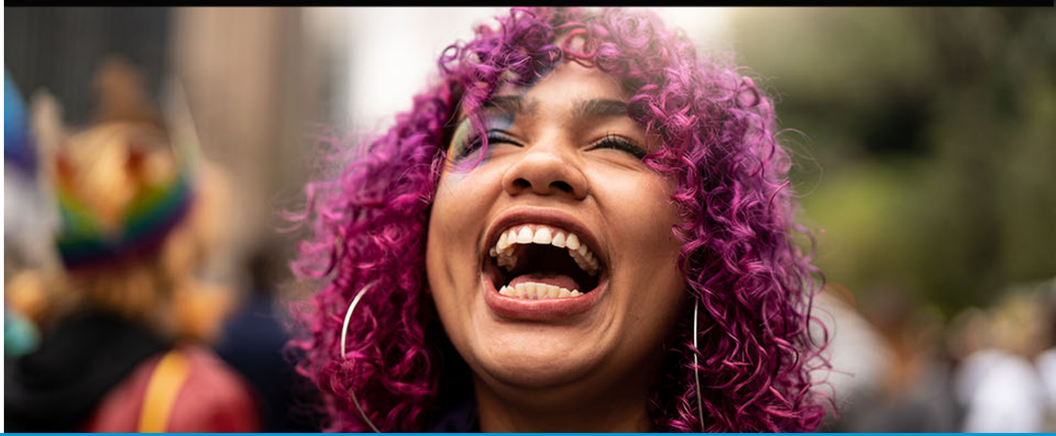
Unprecedented Opportunity


7M
AMERICAS
Ortho
7M
EMEA
Ortho
7M
APAC
Ortho
500M
Potential patients through 2M doctors

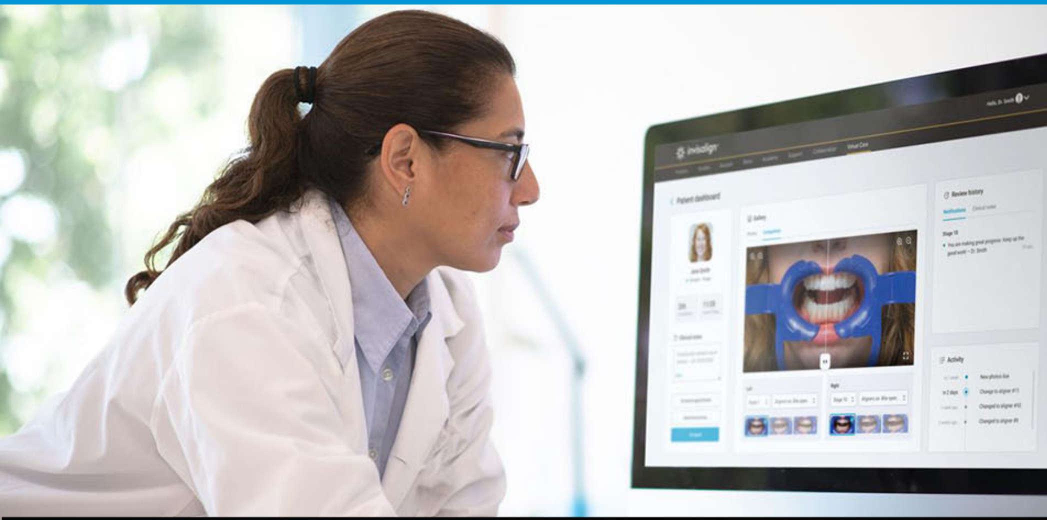

14M
Teens
Orthodontic starts
21M
Adults
7M

International expansion

Patient demand & conversion



Relentless focus and execution on our strategic growth drivers



Orthodontist utilization

GP dentist treatment

Our unique position and sustainable competitive advantage

Multivariable equation that is very difficult to replicate

Manufacturing Excellence

- ✓ 1M unique clear aligner parts / day
- ✓ > 55K treatment plans / day
- ✓ Proven & Scalable Technology

Geographical Expansion

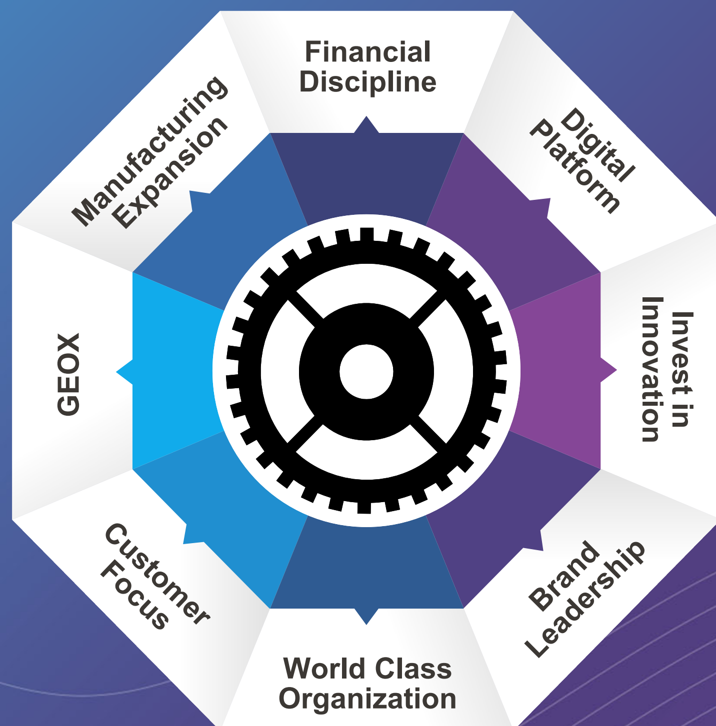
- ✓ > 120 Markets
- ✓ 14 Fab & Treat locations

Diversified Customer Base

- ✓ ~239K Orthos and GPs
- ✓ +50K software installations

Strong Workforce

- ✓ 3K+ Specialty Reps
- ✓ 1K+ Engineers
- ✓ 12K+ Manufacturing Experts



Reliable Financial Results

- ✓ Excellent Top-line & profit growth
- ✓ Strong Balance Sheet
- ✓ Great cash generation

Leading Digital Platform

- ✓ Strong Digital Technology in ClinCheck® & iTero™ scanners
- ✓ Flexible design (integrate exocad)

Product, Technology, and IP

- ✓ Consistent product launches (G7,G8)
- ✓ Partnership with leading universities
- ✓ Healthy Product / Technology pipeline

Top Brand for Aligner & Scanner

- ✓ $300M+ annual brand investment
- ✓ 14.5M+ satisfied patients

Opening Commentary

Overall, we're pleased to report fourth quarter results that reflect a more stable environment for doctors and their patients than recent quarters, especially in the Americas and EMEA regions, as well as parts of APAC. For Q4, trends in consumer interest for orthodontic treatment, patient traffic in doctor's practices, and iTero™ scanner demos improved. However, the unfavorable effect of foreign exchange on our fourth quarter and full year 2022 results reduced our revenues and margins significantly.

Despite the large impact of unfavorable foreign exchange, Q4 revenues of $901.5 million increased sequentially from Q3, reflecting growth in Systems and Services as well as a slight increase in Clear Aligners shipments. This is the first quarter in a year that our total revenues and clear aligner volumes increased sequentially. As we move through 2023, we are cautiously optimistic that we will see continued stability and an improving operating environment but remind everyone that the macroeconomic situation remains fragile. Regardless, we are confident in our large, untapped market opportunity for digital orthodontics and restorative dentistry. We anticipate 2023 will be an exciting year for new innovations at Align as we begin to commercialize one of the largest new product and technology cycles in our 25-year history.

Quarterly Highlights

FY2022 Revenues and Operating Margin

TOTAL REVENUES	TOTAL SYSTEMS AND SERVICES REVENUES	TOTAL CLEAR ALIGNER REVENUES	GAAP OP PROFIT MARGIN
2022	**2022**	**2022**	**2022**
$3,734.6M	$662.1M	$3,072.6M	$642.6M | 17.2%
Y/Y (5.5)%	Y/Y (6.2)%	Y/Y (5.4)%	Y/Y (7.5)% pts
2021	**2021**	**2021**	**2021**
$3,952.6M	$705.5M	$3,247.1M	$976.4M | 24.7%
Y/Y +59.9%	**Y/Y +90.4%**	**Y/Y +54.5%**	**Y/Y +9.0% pts**
2022 FX Impact: • Y/Y: ~$193.8M unfavorable impact from FX[1]	**2022 FX Impact:** • Y/Y: ~$33.0M unfavorable impact from FX[1]	**2022 FX Impact:** • Y/Y: ~$160.8M unfavorable impact from FX[1]	**2022 FX Impact:** • Y/Y: ~2.8 pts unfavorable impact from FX[1]

(1) See table: Unaudited GAAP to Non-GAAP Reconciliation

Q4 2022 Revenues and Operating Margin

	TOTAL REVENUES	TOTAL SYSTEMS AND SERVICES REVENUES	TOTAL CLEAR ALIGNER REVENUES	GAAP OP PROFIT MARGIN
Q4'22	$901.5M	$169.9M	$731.7M	$112.7M | 12.5%
Q4'22 Q/Q	+1.3%	+7.8%	(0.2)%	(3.6)% pts
Q4'22 Y/Y	(12.6)%	(21.3)%	(10.3)%	(8.9)% pts
Q4'21	$1,031.1M	$215.8M	$815.3M	$220.9M | 21.4%
Q4'21 Q/Q	+1.5%	+21.0%	(2.7)%	(4.3)% pts
Q4'21 Y/Y	**+23.6%**	**+61.3%**	**+16.3%**	**(4.1)% pts**

Total Revenues – Q4'22 FX Impact:
- Q/Q: ~$16.0M unfavorable impact from FX[(1)]
- Y/Y: ~$67.6M unfavorable impact from FX[(1)]

Total Systems and Services Revenues – Q4'22 FX Impact:
- Q/Q: ~$2.7M unfavorable impact from FX[(1)]
- Y/Y: ~$11.2M unfavorable impact from FX[(1)]

Total Clear Aligner Revenues – Q4'22 FX Impact:
- Q/Q: ~$13.4M unfavorable impact from FX[(1)]
- Y/Y: ~$56.4M unfavorable impact from FX[(1)]

GAAP Op Profit Margin – Q4'22 FX Impact:
- Q/Q: ~0.9 pts unfavorable impact from FX[(1)]
- Y/Y: ~4.2 pts unfavorable impact from FX[(1)]

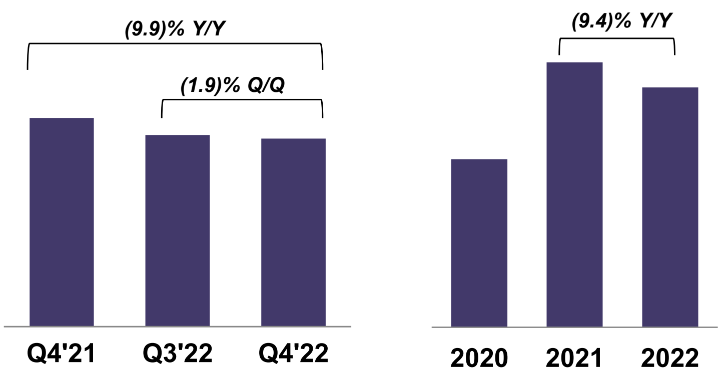
(1) See table: Unaudited GAAP to Non-GAAP Reconciliation

Business and Regional Review

Clear Aligner segment

Americas Clear Aligner Metrics

Americas Clear Aligner Shipments

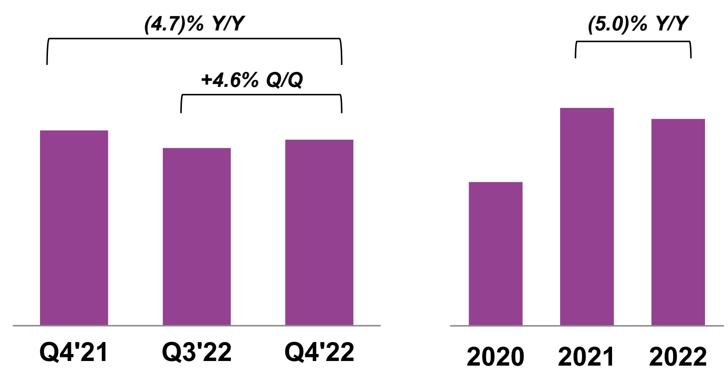


North Americas Utilization*

	Q4’21	Q3’22	Q4’22	2020	2021	2022
NA Ortho	26.9	25.9	24.8	67.3	98.1	89.2
NA GP	5.1	4.8	5.0	9.6	14.3	13.9

International Clear Aligner Metrics

International Clear Aligner Shipments



International Utilization*

Q4’21	Q3’22	Q4’22	2021	2021	2022
6.8	6.0	6.5	14.5	17.5	16.2

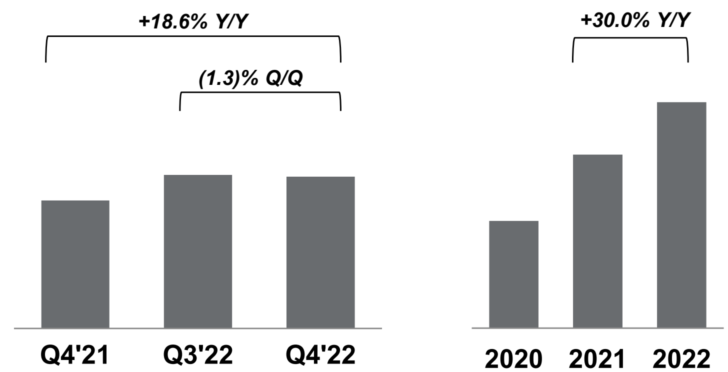
*number of cases shipped/number of doctors to whom cases were shipped

Q4 2022 Non-Case Revenues

- For other non-case revenues, which include retention products such our Vivera™ retainers, clinical training and education, accessories and eCommerce, and new subscription programs such as our DSP, Q4 revenues were down slightly sequentially and up double digits year over year
- For Retention and eCommerce products, Q4 revenues were relatively unchanged from Q3
- We are pleased with our subscription-based programs like DSP which increased sequentially and year over year and expect to continue expanding DSP offerings to other regions

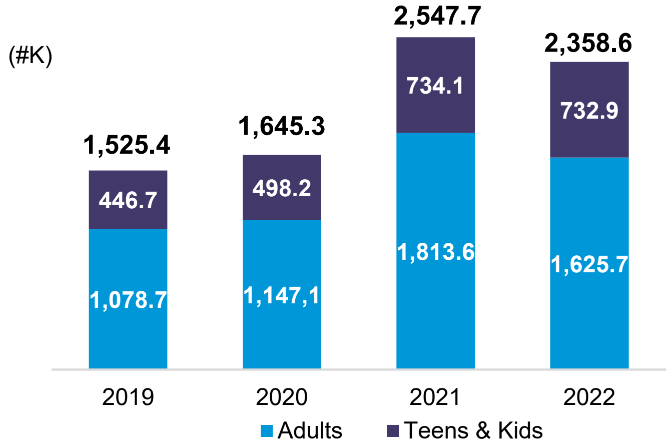
Non-Case Clear Aligner Metrics

Non-Case Clear Aligner Revenues



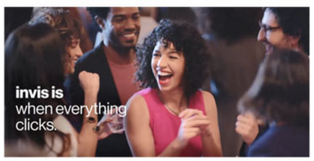
4.0M Teen and Kids treated with the Invisalign® System, to date

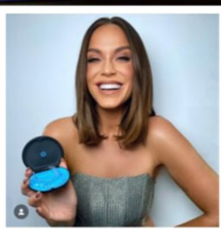
- Teen orthodontic treatment is the largest segment of the orthodontic market worldwide and represents our largest opportunity for clear aligners sales to Orthos. We continue to focus on gaining share from traditional metal braces through teen specific sales and marketing programs and product features including Invisalign First for kids as young as 6, which was up sequentially across all markets.
- For Q4, total clear aligner teen cases were down sequentially due primarily to the impact of COVID in China, as well as seasonally fewer teens starts in North America as compared to Q3.
- According to the December Gaidge report, which tracks approximately 1,000 Orthos in the U.S. and Canada, new patient exams for teens slowed in Q4, while new patient exams for adults improved slightly. A smaller pool of potential teen patients may put pressure on traditional Orthos and cause them to go between clear aligners and wires & brackets, especially those practices that have failed to understand that adopting more efficient digital workflows believing metal braces are more profitable.
- In EMEA, Q4 was a record quarter for teen case starts. On a year over year basis, Q4 teen case starts were relatively unchanged. For Q4, Invisalign® First increased year over year and was strong across all regions. Invisalign First clear aligner treatment is designed for predictable results and a positive experience while addressing the unique needs of growing children from as young as six for phase one treatment.
- For the full year, Invisalign clear aligner shipments for teens and young kids was approximately 733 thousand cases. Our teen case mix overall was a record 31% of Invisalign cases shipped for the year.



Power of consumer brand

Focusing on educating consumers about the Invisalign® System and driving demand to Invisalign doctors' offices





- Our consumer marketing focuses on educating consumers about the Invisalign system and driving that demand to Invisalign doctors' offices, ultimately capitalizing on the massive market opportunity to transform 500 million smiles.
- In Q4, we built on our successful "Invis Is" multi-media campaign across markets and expanded our new campaigns "Invis is Drama Free" to reach teens and "Invis is When Everything Clicks" targeted at adults. Our teen campaign "Invis is Drama Free" continues to highlight the benefits of Invisalign treatment, while humorously juxtaposing them with the significant tradeoffs involved with using braces. Our "Invis is when everything clicks" campaign showcases Invisalign treatment transforming smiles and the resulting confidence it gives to young adults.
- We delivered 4B impressions and had 13.9M visits to our websites in Q4. We leveraged top social media platforms such as TikTok, SnapChat, Instagram, and YouTube to increase awareness of the Invisalign brand with young adults and teens across markets. We continued our global pilot on the Roblox platform within the popular game, LiveTopia, creating an immersive and fun experience for gamers to learn about the benefits of Invisalign treatment delivering over 62M impressions and 5M unique visitors to our in-game experience through the campaign.
- In the U.S., we continued our influencer and creator centric campaigns, partnering with leading Smile Squad creators like Olympic Gold Medalist Nathan Chen, Janel Parrish, Scarlett Estevez, Caleb McLaughlin, Ocean and Sky Brown. Each of these creators shared their personal experiences with Invisalign treatment and why they chose to transform their smile with Invisalign aligners. Most recently, Nathan Chen shared his positive experiences with Invisalign aligners in major media programming resulting in over 181M impressions and Scarlett Estevez shared her experience with Invisalign treatment with major media including Teen Vogue.
- In the EMEA region, we continued to partner with our Invisalign Smile Squad with new influencers to reach consumers across digital media platforms including TikTok and Meta. Our consumer campaigns, reaching adults, parents and teens, delivered more than 874M media impressions and 4M visitors to our website.
- We continued to invest in consumer advertising across the APAC region, resulting in more than 4.9M visitors to our websites, representing a 44% Y/Y increase (excluding China). We optimized our investments in Australia, Japan and India by expanding our reach via social media platforms such as TikTok, Meta and YouTube, while reducing media spend. We saw continued strength in brand interest from consumers as evidenced by a 10% Y/Y increase in unique visitors to our website in Japan.
- Adoption of My Invisalign™ Consumer and Patient app continued to increase with 2.5+M downloads to-date. 314K patients are using our app every month. Usage of our other digital tools also continued to increase. ClinCheck® Live Update was used by 36K doctors on more than 466K cases, reducing time spent in modifying treatment by 18.5%. Invisalign® Practice app has been downloaded 450K times to date, and 58K doctors are actively using this app. Just in December,1.1M photos were uploaded via the practice app.

Connecting consumers with top Invisalign® doctors

Delivering a best-in-class experience to achieve a happy and healthy smile through doctors

Q4 2022 Invisalign® Brand Consumer Concierge

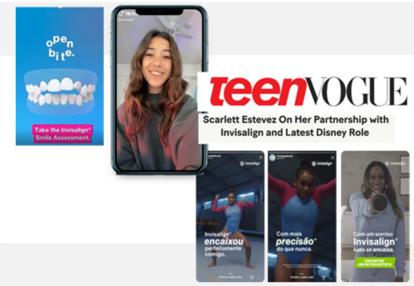
- The Invisalign® Brand Consumer Concierge service teams have connected over **533K** potential consumers with Invisalign doctors and reached **~4.7M** consumers globally. The Invisalign Brand Consumer Concierge program successfully provides leads to doctors they otherwise may not obtain
- The Invisalign Brand Consumer Concierge service teams are located in the U.S., Brazil, Singapore, the Philippines, China, Australia, the UK, Poland, Bulgaria, Saudi Arabia, United Arab Emirates, and Germany

~4.7M	+533K	+111K
Consumers contacted	Consultations scheduled	Invisalign cases started

Q4 2022 Invisalign® Brand Consumer Marketing

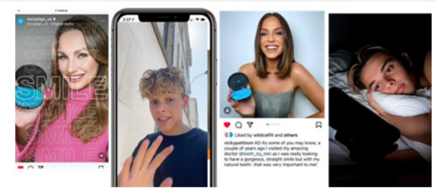
Americas

5.1M	1.6B
Website Visitors	Impressions



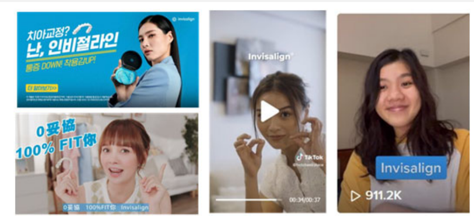
EMEA

4M	874M
Website Visitors	Impressions



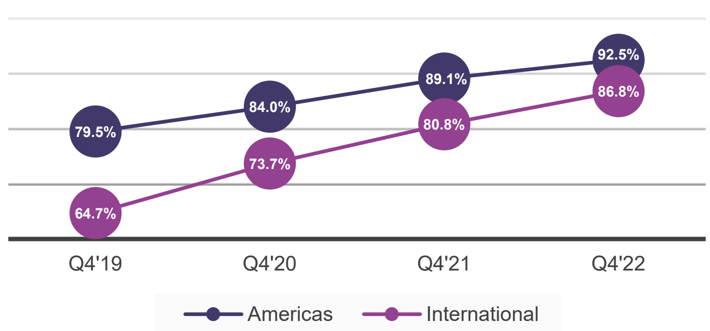
APAC

4.9M	1.6B
Website Visitors	Impressions



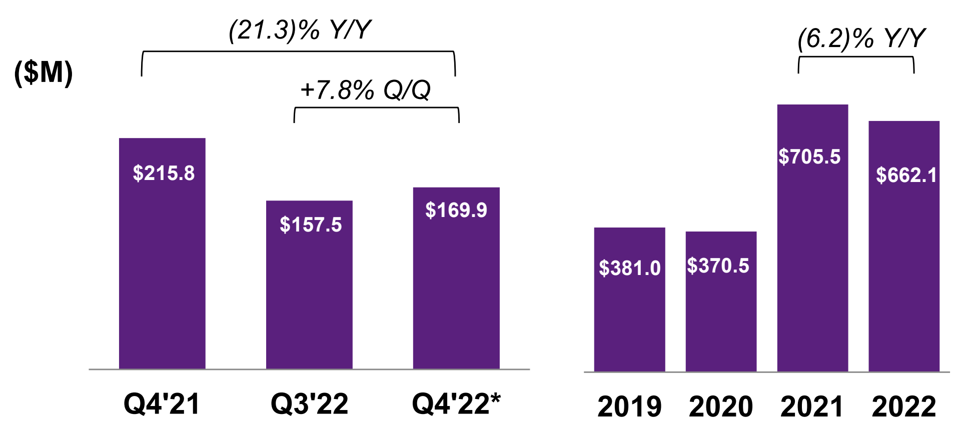
Systems and Services segment

Intraoral digital scans for Invisalign® case submission



Imaging Systems and CAD/CAM Services

Systems and Services Revenues



Services revenues represent approximately **46%*** of our Systems and Services business

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

*Q4'22

Strategic collaboration to help drive adoption of digital restorative dentistry

- To help accelerate the adoption of digital orthodontics and restorative dentistry, in Q4 we announced a strategic collaboration with Desktop Metal to supply iTero Element™ Flex scanners to Desktop Labs, one of the largest lab networks in the U.S. serving general dentists. The iTero Element Flex is now the preferred restorative scanner for Desktop Labs and will connect dentists directly to a suite of offerings from Desktop Labs that simplifies the digital design and manufacture of restorations with both traditional and digital technologies.
- Our collaboration with Desktop Metal reflects our commitment to a relationship we expect will evolve and expand to bring advanced restorative workflows to market. We see significant opportunities to enable dentists to use scan data to directly order restorative services or print-ready digital files from Desktop Labs that can be used for 3D printing in their offices. In addition to iTero scanners, we're also excited about the opportunity to potentially extend the benefits of the Align Digital Platform™, including the Invisalign® System and exocad software, to Desktop Labs' customers as well.

The iTero Element™ Flex scanner

exocad Q4 2022 Highlights

exocad Insights: a highly anticipated digital dentistry event

exocad successfully concluded Insights 2022, the third edition of its global digital dentistry event. The biennial meeting took place on October 3–4, 2022 in Palma de Mallorca, Spain.

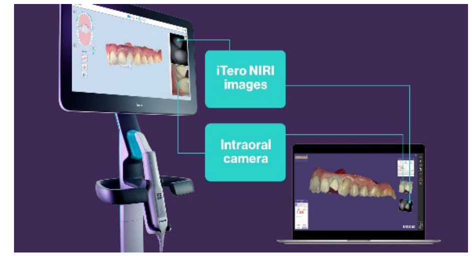
Around 700 participants and 50 strategic partners attended the event, under the motto “Learn. Connect. Enjoy.”

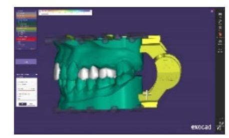
Launch of new *DentalCAD 3.1 Rijeka* features and modules

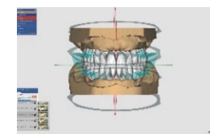
iTero™ scanners with NIRI technology and intraoral camera images are now automatically imported when designing restorations, enabling technicians to visualize the internal and external tooth structure and optimize the process of margin line tracing.

The **new xSnap module** is a model attachment for a printable 3D articulated system featuring a spherical head, which allows a precisely executed protrusion, laterotrusion and mediotrusion.

And **Ivoclar’s Ivotion Denture System**, a complete workflow for the digital production of high-quality, removable dentures is now available in exocad.







New exocad HQ in Darmstadt

exocad relocated its headquarters within Darmstadt, Germany, to a new, high-tech facility. The six-floor, centrally located office building includes a product showroom, state-of-the-art equipment, and ample indoor and outdoor meeting space.

Q4 Ultimate Bundle Trade-up

More than 740 exocad customers with a *DentalCAD* perpetual dongle activated before August 31, 2022, took advantage of the “Upgrade to Ultimate offer.” The upgrade was available for a one-time fixed fee, regardless of how old their software licenses were or how many modules were activated.

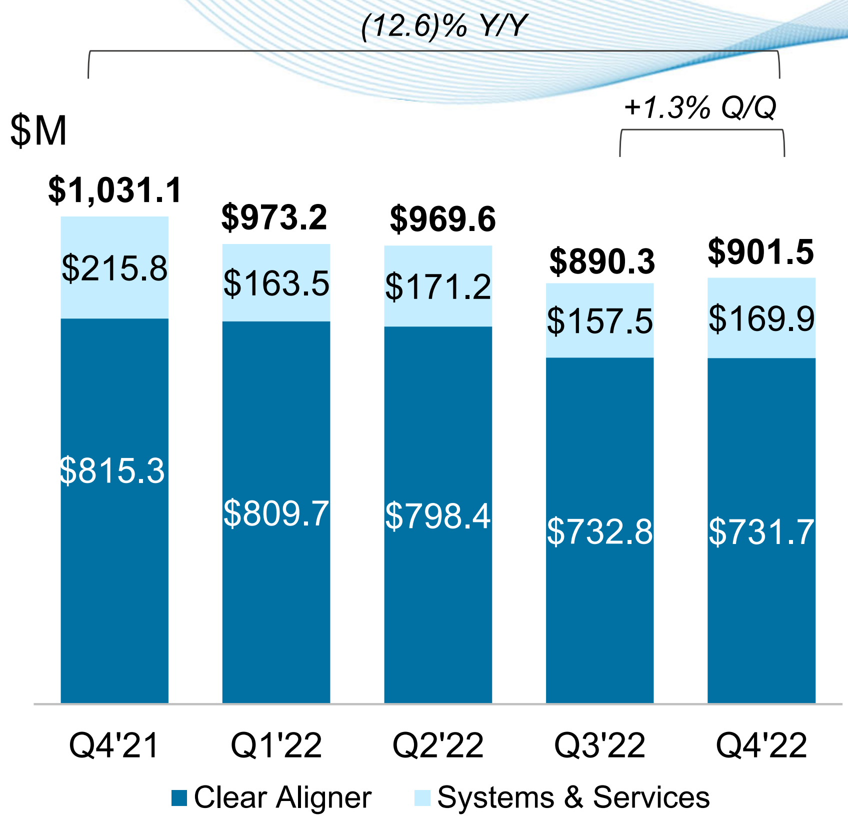
Q4 2022 Financial Review

Fourth quarter commentary

- Before turning to Q4 results, we want to comment on two items in our fourth quarter financial results.
- Restructuring and other charges: During Q4'22, we incurred a total of $14.3 million of restructuring and other charges, of which $2.9 million was included in cost of net revenues and $11.5 million included in operating expenses. Restructuring and other charges included $8.7 million of severance related costs and $5.6 million of certain lease terminations and asset impairments, primarily related to right sizing operations in Russia in light of business needs.
- Non-GAAP tax rate: In Q4 2022, we changed to a long-term projected tax rate for our non-GAAP provision for income taxes. Our previous methodology for calculating our non-GAAP effective tax rate included certain non-recurring and period-specific items, that produced fluctuating effective tax rates that management does not believe are reflective of the Company's long-term effective tax rate. We have recast non-GAAP results for our provision for income taxes, effective tax rate, net income and diluted net income per share for each reporting period in 2022 to reflect this change. We did not make any changes to the results reported for 2021 as reflecting the change in methodology for the computation of the non-GAAP effective tax rate was immaterial to our 2021 results. Refer to the section in our Q4 press release titled "Recast of Financial Measures for Prior Periods in 2022 for Tax Rate Change" under Unaudited GAAP to Non-GAAP Reconciliation for further information.

Revenues Trend

Q4’22 highlights



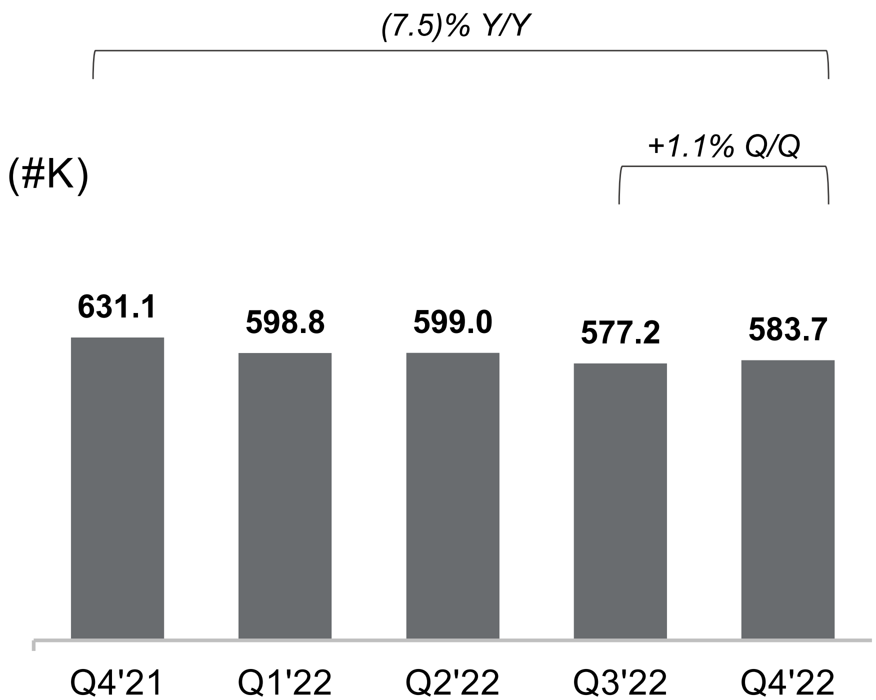
- **Total revenues of $901.5M, +1.3% Q/Q and (12.6)% Y/Y**
  - Q/Q, revenues were unfavorably impacted by FX of ~$16.0M*
  - Y/Y, revenues were unfavorably impacted by FX of ~$67.6M*
- **Clear Aligners revenues of $731.7M, (0.2)% Q/Q and (10.3)% Y/Y**
  - Q/Q decline primarily from lower ASPs mostly offset by higher volumes
  - Y/Y decline primarily due to lower volumes and lower ASPs, partially offset by higher non-case revenues
  - Clear Aligner revenues were unfavorably impacted by FX of ~$13.4M or ~1.8% Q/Q and ~$56.4M or ~7.2% Y/Y*
- **Invisalign® ASPs for comprehensive treatment was flat Q/Q and decreased Y/Y**
  - Q/Q, ASPs reflect the unfavorable impact from FX partially offset by higher additional aligners and product mix shift
  - Y/Y, decline in comprehensive ASPs reflect the significant impact of unfavorable FX, product mix shift, and higher discounts, partially offset by higher additional aligners and per order processing fees
- **Invisalign® ASPs for non-comprehensive treatment decreased both Q/Q and Y/Y**
  - Q/Q, the decline in ASPs reflect product mix shift, unfavorable impact from FX, and higher discounts, partially offset by higher additional aligners
  - Y/Y, the decline in ASPs reflect the significant impact of unfavorable FX, product mix shift, and higher discounts, partially offset by higher additional aligners and per-order processing fees
- **Systems and Services revenues of $169.9M, +7.8% Q/Q, (21.3)% Y/Y**
  - Q/Q, increase primarily due to higher scanner volume, services and exocad™ revenues, partially offset by lower ASPs
  - Y/Y, decline primarily due to lower scanner volume and ASPs, partially offset by higher services revenues from a large number of fielded iTero scanners and increased non-system revenues related to our scanner leasing/rental programs
  - Q/Q, revenues were unfavorably impacted by FX of ~$2.7M or ~1.5%*
  - Y/Y, revenues were unfavorably impacted by FX of ~$11.2M or ~6.2%*

*See table: Unaudited GAAP to Non-GAAP Reconciliation

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

Clear Aligner Shipments Trend

Q4’22 highlights

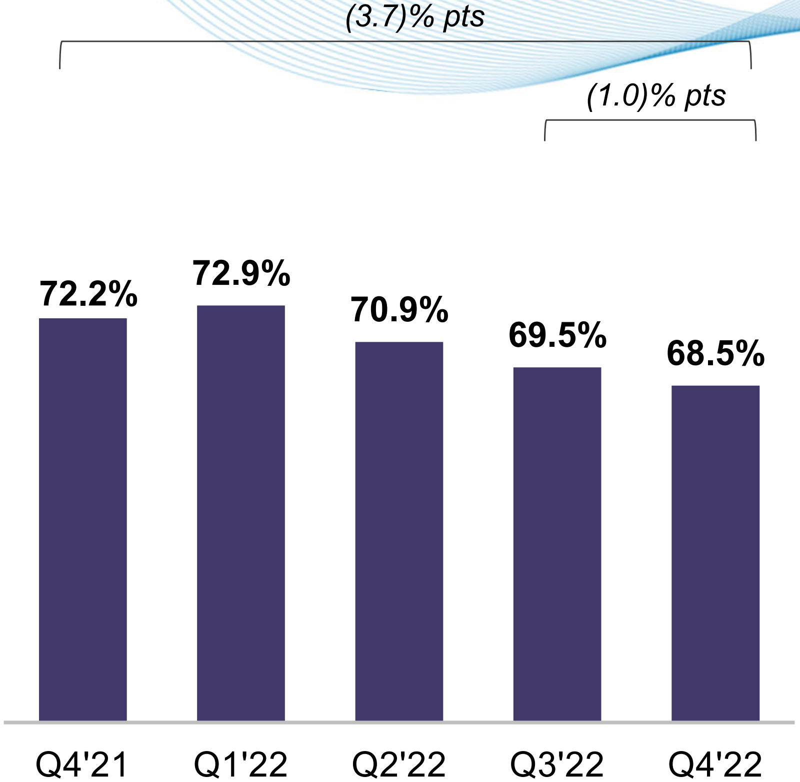


- In Q4, Clear Aligner case volume was +1.1% Q/Q, and (7.5)% Y/Y
- For Q4, the total number of new Invisalign® trained doctors decreased Q/Q, due primarily to Q4 being a seasonally slower period for clinical education with holidays, etc. as well as fewer trainings in China and Brazil. This was offset somewhat by significantly higher number of new Invisalign doctors trained in EMEA
- In Q4, the total number of doctors shipped was 82.9 thousand doctors a slight decrease due primarily to the impact of Covid in China, and off our Q322 high point which included an major DSO onboarding in North America.. For the full year 2023, we also shipped to the highest cumulative number of Invisalign trained doctors globally, over 124 thousand doctors, reinforcing our commitment to doctor-directed care for clear aligner treatment to achieve the safest and best possible clinical treatment outcomes for patients

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

GAAP Gross Margin Trends

Q4’22 highlights



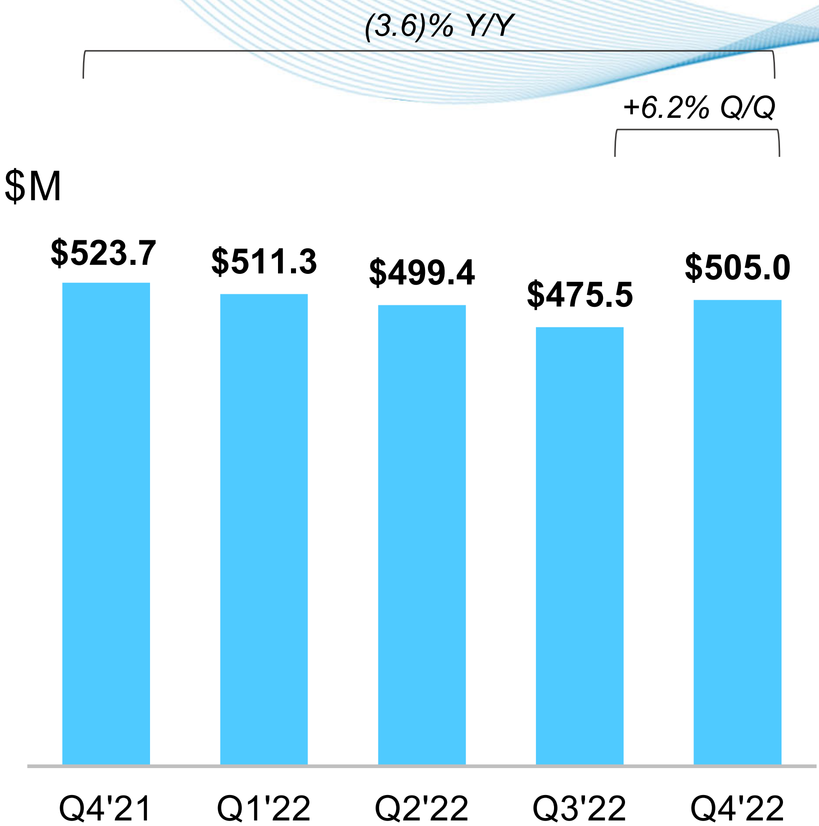
- Overall gross margin was 68.5%, (1.0) pts Q/Q and (3.7) pts Y/Y
- Overall gross margin was unfavorably impacted by FX on our revenues by ~0.6 pts Q/Q and 2.2 pts Y/Y
- Clear Aligner gross margin was 70.8%
  - (0.1) pt Q/Q due to lower ASPs, higher warranty and restructuring costs, partially offset by improved manufacturing absorption and lower training costs
  - (3.4) pts Y/Y due to lower ASPs, increased manufacturing spend as we continue to ramp up operations at our new manufacturing facility in Poland, and higher mix of additional aligner volume
- Systems and Services gross margin was 58.8%
  - (4.6) pts Q/Q due to lower ASPs and higher inventory costs and manufacturing inefficiencies, partially offset by higher services revenues and lower freight costs
  - (5.9) pts Y/Y for the reasons stated previously

*See table: Unaudited GAAP to Non-GAAP Reconciliation

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

GAAP Operating Expense Trends

Q4’22 highlights

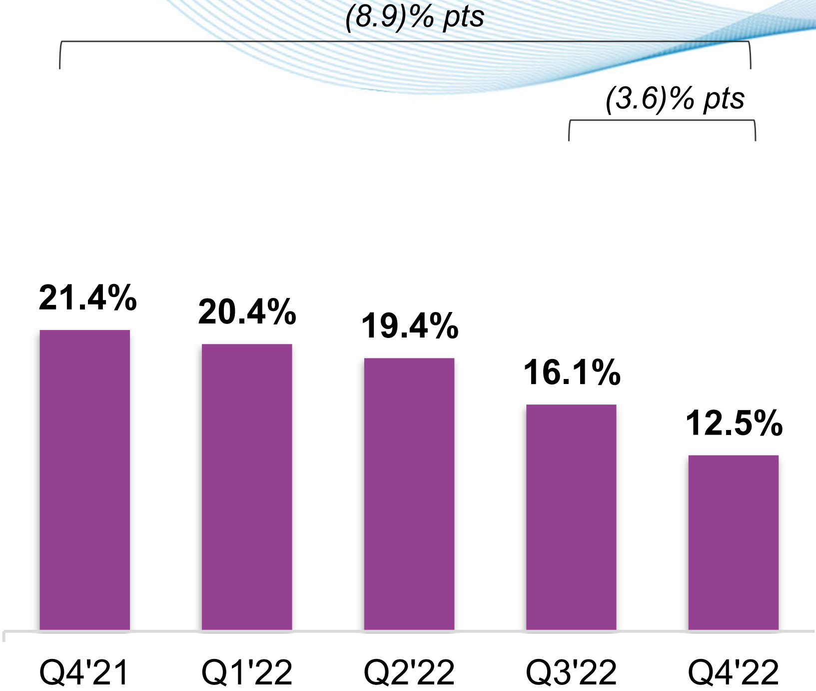


- Operating expenses were $505.0M, +6.2% Q/Q and (3.6)% Y/Y
  - Q/Q, operating expenses +$29.5M mainly due to restructuring and other charges and our continued investment in sales and R&D activities, along with higher consulting expenses.
  - Y/Y, operating expenses ($18.6M), primarily due to controlled spend on advertising and marketing as a part of our efforts to proactively manage costs as well as lower incentive compensation partially offset by restructuring and other charges
  - On a non-GAAP basis, excluding stock-based compensation, restructuring and other charges, and amortization of acquired intangibles related to certain acquisitions, operating expenses were $459.7M, +3.7% Q/Q and (7.0)% Y/Y

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 Trends

Q4’22 highlights



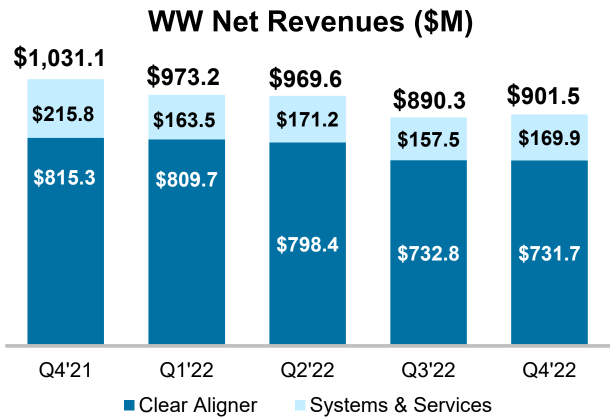
	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Diluted Earnings Per Share	**$2.40**	**$1.70**	**$1.44**	**$0.93**	**$0.54**

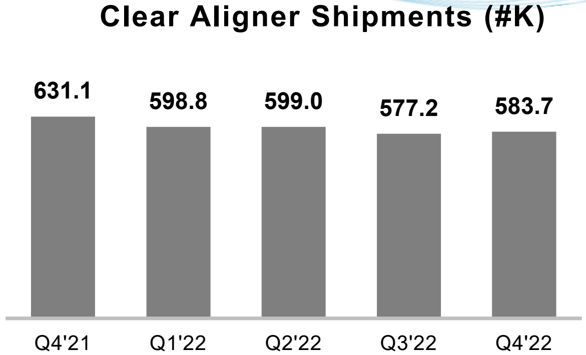
- Operating income of $112.7M resulted in an operating margin of 12.5%, (3.6) pts Q/Q and (8.9) pts Y/Y
  - Operating margin was unfavorably impacted by ~0.9 pts Q/Q primarily due to FX* and lower gross margin
  - Y/Y decrease in operating margin is primarily attributable to lower gross margin, investments in our go-to-market teams and technology, as well as unfavorable impact from FX by ~4.2 pts*
  - On a non-GAAP basis, which excludes stock-based compensation, restructuring and other charges, and amortization of intangibles related to certain acquisitions, operating margin for the fourth quarter was 18.3%, (1.9) pts Q/Q and (6.4) pts Y/Y
- Interest and other income & expense, net for the fourth quarter was an income of $2.7M, compared to a loss of $21.0M in Q3 and a loss of $0.9M in Q4’21, primarily due to net foreign exchange gains from the strengthening of certain foreign currencies against the U.S. dollar
- The GAAP effective tax rate in the fourth quarter was 63.8% compared to 40.7% in the third quarter and 13.2% in the fourth quarter of the prior year
- The fourth quarter GAAP effective tax rate was higher than the third quarter effective tax rate primarily due to decreased earnings in low tax jurisdictions and an increase in the amount U.S. minimum tax on foreign earnings
- Our non-GAAP effective tax rate was 20.0% in the fourth quarter and reflects the change in our methodology that was discussed earlier, on slide 28. Our non-GAAP effective tax rate was 11.5% in the fourth quarter of the prior year 2021 which does not reflect the change in our methodology
- Fourth quarter net income per diluted share was $0.54, $(0.39) Q/Q, $(1.86) Y/Y. Our EPS was unfavorably impacted by $0.04 Q/Q and $0.22 Y/Y due to FX. On a non-GAAP basis, net income per diluted share was $1.73 for the fourth quarter, +$0.10 Q/Q and $(1.10) Y/Y. Note that the prior year 2021 non-GAAP net income per diluted share, or prior year 2021 EPS, does not reflect the Q4’22 change in our methodology for the computation of the non-GAAP effective tax rate

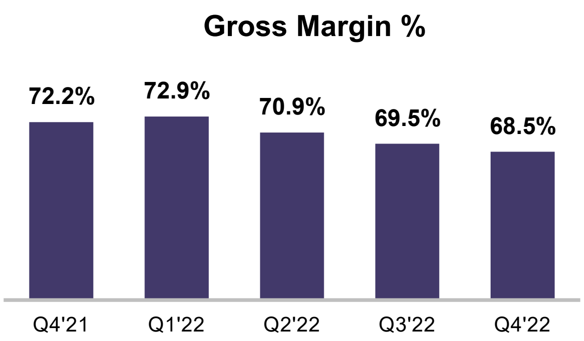
*See table: Unaudited GAAP to Non-GAAP Reconciliation

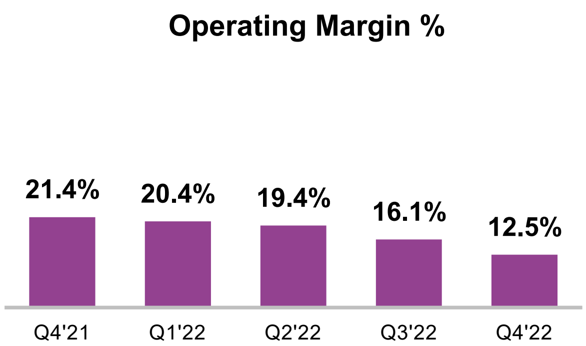
Q/Q and Y/Y percentages are based on actual values. Rounding may affect total
See reconciliation of GAAP to Non-GAAP

Trended GAAP financials



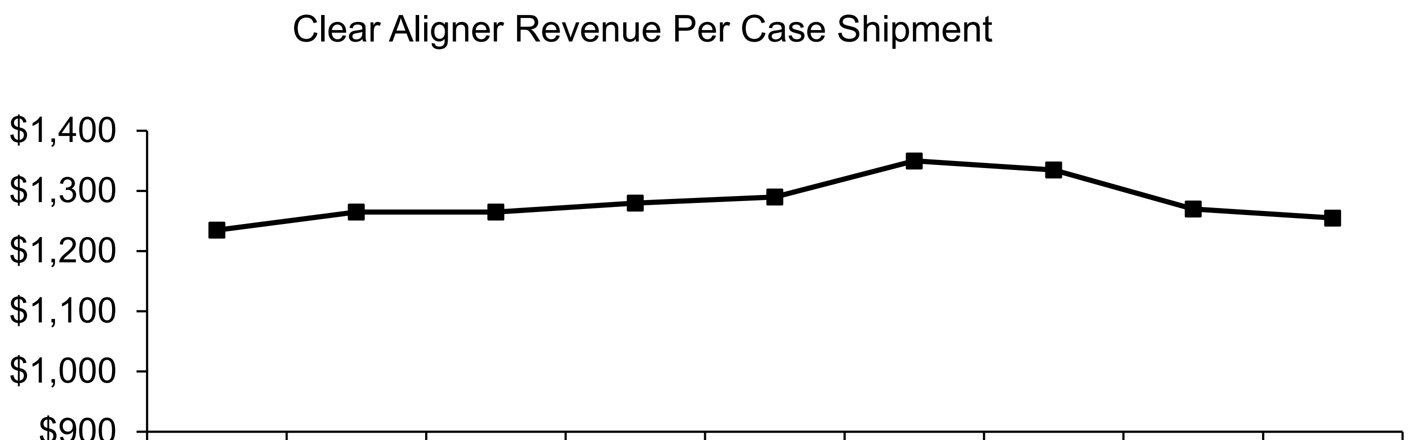






Percentages are based on actual values. Rounding may affect totals

Clear Aligner Revenue Per Case Shipment



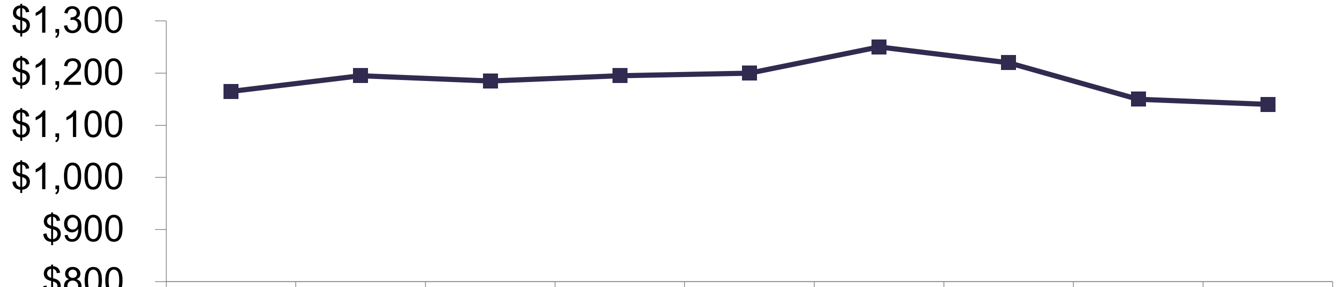
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Worldwide ASP	$1,235	$1,265	$1,265	$1,280	$1,290	$1,350	$1,335	$1,270	$1,255

- **Average Selling Price ("ASP"):** Clear aligner revenues / Case shipments

Invisalign® Average Selling Price (“ASP”)

Product groups

Worldwide ASP



	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Worldwide ASP	$1,165	$1,195	$1,185	$1,195	$1,200	$1,250	$1,220	$1,150	$1,140

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

Balance Sheet, Cash Flow, & Stock

($ in millions except for DSO)	Q4'21	Q3'22	Q4'22
Accounts Receivables, net	$897.2	$859.6	**$859.7**
DSO	78 days	86 days	**85 days**
Cash, Cash Equivalents, and Short-Term and Long-Term Marketable Securities	$1,296.7	$1,141.0	**$1,041.6**
Cash Flow from Operations	$272.8	$266.5	**$144.7**
Capital Expenditures	$(109.1)	$(75.3)	**$(53.2)**
Free Cash Flow*	$163.8	$191.1	**$91.5**

**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

- Of our $1.0 billion balance, $387.9M was held in the U.S. and $653.7M was held by our international entities. In October 2022, we repurchased approximately 848K shares of our common stock at an average price of $188.62 per share through a $200.0 million Accelerated Share Repurchase under our May 2021 $1.0 Billion Stock Repurchase Program. We have $250.0 million remaining available for repurchase under this program and we plan to repurchase this remaining amount starting in Q1 2023 through either, or a combination of, open market repurchases, or an accelerated stock repurchase agreement, completing the repurchases in Q2 2023
- Clear Aligner deferred revenues on the balance sheet +$56.4M or +4.8% Q/Q and +$171.9M or +16.2% Y/Y and will be recognized as the additional aligners are shipped.
- Systems and Services deferred revenues on the balance sheet was +$9.0M or +3.4% Q/Q and +$42.9M or +18.7% Y/Y due to the increase in scanner sales and the deferral of service revenues included with the scanner purchase, which will be recognized ratably over the service period.

2022 Financial Review

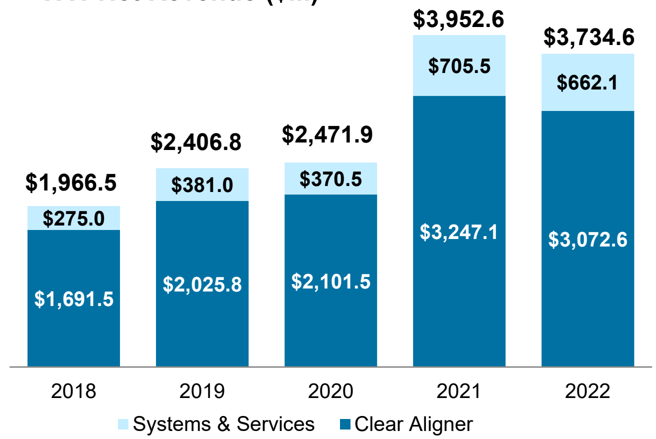
2022 Financial Highlights

GAAP	2022	YoY
Total Net Revenues	**$3,734.6M**	(5.5)%
- Clear Aligner	**$3,072.6M**	(5.4)%
- Imaging Systems and Services	**$662.1M**	(6.2)%
Invisalign Case Shipments	**2,358.6K**	(7.4)%
Earnings Per Share, diluted	**$4.61**	$(5.08)

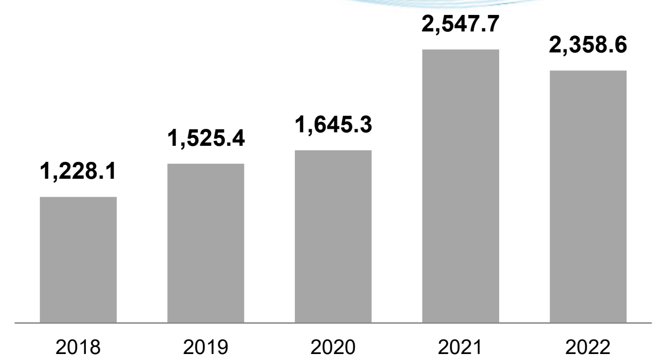
- We exited fiscal year 2022 with a strong balance sheet, including $1 billion in cash and investments, a healthy cash flow position and no long-term debt. As we announced with our earnings, our Board of Directors has authorized a new $1 billion stock repurchase program to succeed the current $1 billion program. This new $1 billion program reflects the strength of our balance sheet and cash flow generation, as well as management’s and our Board's continued confidence in our ability to capitalize on large market opportunities in our target markets and trajectory for growth while concurrently returning capital to our stockholders

2022 Trended GAAP financials

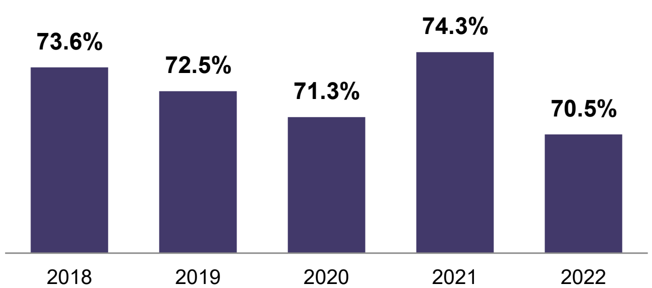
WW Net Revenue ($M)



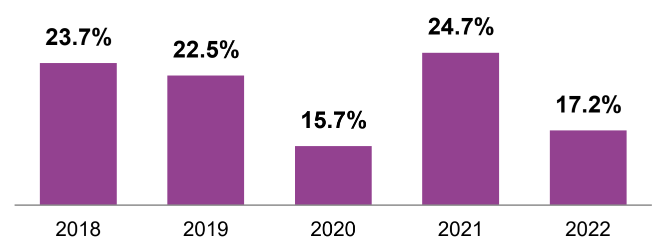
Clear Aligner Shipments (#K)



Gross Margin %



Operating Margin %



Clear aligner revenues include revenues from Invisalign clear aligners and SmileDirectClub aligners.
The supply agreement with SDC terminated December 31, 2019 and was not renewed
Invisalign shipments do not include SmileDirectClub aligners
Percentages are based on actual values. Rounding may affect totals

2022 Balance Sheet and Cash Flow Highlights

($ in millions except for DSO)	2021	2022
Accounts Receivables, net	$897.2	**$859.7**
DSO	78 days	**85 days**
Cash, Cash Equivalents, and Short-Term and Long-Term Marketable Securities	$1,296.7	**$1,041.6**
Cash Flow from Operations	$1,172.5	**$568.7**
Capital Expenditures	$(401.1)	**$(291.9)**
Free Cash Flow*	$771.4	**$276.8**

**Free cash flow is defined as cash flow from operations less capital expenditures and is a non-GAAP measure*
Rounding may affect totals

Closing Comments

Business trends commentary

For 2023, Align provides the following business outlook: We are pleased with our Q4 results and what appears to be a more stable operating environment in North America, EMEA. We are cautiously optimistic for continued stability and improving trends as we move through the year. However, the macroeconomic environment remains fragile and given continued global challenges and uncertainty, we are not providing full year revenue guidance. We would like to see improvements in the operating environment and consumer demand signals, including stability in China before revisiting our approach. At the same time, we are confident in our large, untapped market opportunity for digital orthodontics and restorative dentistry and our ability to make progress toward our strategic initiatives. We intend to focus on the things we can control and influence which includes strategic investments in sales, marketing, technology and innovation.

For full year 2023, assuming no additional material disruptions or circumstances beyond our control, we anticipate 2023 GAAP operating margin to be slightly above 16% and expect our 2023 non-GAAP operating margin to be slightly above 20%.With this backdrop, for Q1 2023, we anticipate clear aligner volumes to be down sequentially primarily due to weakness in China from COVID, partially offset by some stability from our Americas and EMEA regions.

We anticipate clear aligner ASPs to be up from Q4'22 primarily due to higher pricing and favorable foreign exchange rates. We anticipate iTero scanner and services revenue to be down sequentially as the business follows a more typical capital equipment cycle.

Taken in total, we expect Q1'23 revenues to be about flat to Q4'22. We expect our Q1'23 GAAP operating margin to be up approximately 1% point from Q4'22 GAAP operating margin and expect our Q1'23 non-GAAP operating margin to be consistent with Q4'22 non-GAAP operating margin, as we continue to make investments in R&D and go-to-market activities.

For 2023, we expect our investments in capital expenditures to exceed $200 million. Capital expenditures primarily relate to building construction and improvements as well as additional manufacturing capacity to support our international expansion.

Closing commentary

In closing, we're pleased with our fourth quarter results and the improved trend in sequential growth we saw in the Americas and EMEA regions and parts of APAC that reflect a more stable environment for doctors and their patients. While it is still early and many uncertainties remain, we are hopeful that we will see continued stability across the business and regions, especially in China. As we continue to work through these challenges, we are confident in our ability to focus on our customers and deliver key technology and innovation that furthers our leadership position in digital orthodontics and restorative dentistry. We are balancing investments to deliver shareholder value through transformative digital orthodontic solutions unique to Align.

Align is a purpose-driven business and we are committed to helping doctors transform smiles and change lives of millions of people around the world. Over the last year we have provided our customer base with a lot of new technology that represents one of the largest new product cycles in our history, but there is still a great deal of room for innovation. In the next one to three years, you should expect to see new platforms from us that will continue to revolutionize doctor's practices and patient's expectations for doctor-led treatment.

- in scanning – making it simpler and faster
- in software – saving both doctors and patients more time with improved clinical outcomes
- in direct 3D printing – an revolution in both product and material science

These three platforms will give doctors tools only dreamt of before, with the singular focus to make the Invisalign® System the standard of orthodontic & restorative care. And we couldn't be more excited about it.

Transforming

changing lives

Appendix

Unaudited GAAP to Non-GAAP Reconciliation Constant Currency Net Revenues

Note:

(1) We define constant currency net revenues as total net revenues excluding the effect of foreign exchange rate movements and use it to determine the percentage for the constant currency impact on net revenues on a sequential, year-over-year and current year versus prior year basis. Constant currency impact in dollars is calculated by translating the current period GAAP net revenues using the foreign currency exchange rates that were in effect during the previous comparable period and subtracting it by the current period GAAP net revenues. The percentage for the constant currency impact on net revenues is calculated by dividing the constant currency impact in dollars (numerator) by constant currency net revenues in dollars (denominator).

ALIGN TECHNOLOGY, INC.
UNAUDITED GAAP TO NON-GAAP RECONCILIATION
CONSTANT CURRENCY NET REVENUES
(in thousands, except percentages)

Sequential constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022	Impact % of Revenue
GAAP net revenues	$ 901,515	$ 890,348	
Constant currency impact (1)	16,023		1.7 %
Constant currency net revenues (1)	$ 917,538		
GAAP Clear Aligner net revenues	$ 731,654	$ 732,837	
Clear Aligner constant currency impact (1)	13,362		1.8 %
Clear Aligner constant currency net revenues (1)	$ 745,016		
GAAP Imaging Systems and CAD/CAM Services net revenues	$ 169,861	$ 157,511	
Imaging Systems and CAD/CAM Services constant currency impact (1)	2,661		1.5 %
Imaging Systems and CAD/CAM Services constant currency net revenues (1)	$ 172,522		

Year-over-year constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Impact % of Revenue
GAAP net revenues	$ 901,515	$ 1,031,099	
Constant currency impact (1)	67,588		7.0 %
Constant currency net revenues (1)	$ 969,103		
GAAP Clear Aligner net revenues	$ 731,654	$ 815,259	
Clear Aligner constant currency impact (1)	56,387		7.2 %
Clear Aligner constant currency net revenues (1)	$ 788,041		
GAAP Imaging Systems and CAD/CAM Services net revenues	$ 169,861	$ 215,840	
Imaging Systems and CAD/CAM Services constant currency impact (1)	11,201		6.2 %
Imaging Systems and CAD/CAM Services constant currency net revenues (1)	$ 181,062		

Current year versus prior year constant currency analysis:

	Year Ended December 31, 2022	Year Ended December 31, 2021	Impact % of Revenue
GAAP net revenues	$ 3,734,635	$ 3,952,584	
Constant currency impact (1)	193,797		4.9 %
Constant currency net revenues (1)	$ 3,928,432		
GAAP Clear Aligner net revenues	$ 3,072,585	$ 3,247,080	
Clear Aligner constant currency impact (1)	160,804		5.0 %
Clear Aligner constant currency net revenues (1)	$ 3,233,389		
GAAP Imaging Systems and CAD/CAM Services net revenues	$ 662,050	$ 705,504	
Imaging Systems and CAD/CAM Services constant currency impact (1)	32,993		4.7 %
Imaging Systems and CAD/CAM Services constant currency net revenues (1)	$ 695,043		

Unaudited GAAP to Non-GAAP Reconciliation Constant Currency Gross Profit and Gross Margin

Note:

(1) We define constant currency gross margin as constant currency gross profit as a percentage of constant currency net revenues. Gross margin constant currency impact is the increase or decrease in constant currency gross margin compared to the GAAP gross margin.

ALIGN TECHNOLOGY, INC.
UNAUDITED GAAP TO NON-GAAP RECONCILIATION CONTINUED
CONSTANT CURRENCY GROSS PROFIT AND GROSS MARGIN
(in thousands, except percentages)

Sequential constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022
GAAP gross profit	$ 617,701	$ 619,169
Constant currency impact on net revenues	16,023	
Constant currency gross profit	$ 633,724	

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022
GAAP gross margin	68.5 %	69.5 %
Gross margin constant currency impact [1]	0.6	
Constant currency gross margin [1]	69.1 %	

Year-over-year constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
GAAP gross profit	$ 617,701	$ 744,563
Constant currency impact on net revenues	67,588	
Constant currency gross profit	$ 685,289	

	Three Months Ended December 30, 2022	Three Months Ended December 30, 2021
GAAP gross margin	68.5 %	72.2 %
Gross margin constant currency impact [1]	2.2	
Constant currency gross margin [1]	70.7 %	

Unaudited GAAP to Non-GAAP Reconciliation Constant Currency Income from Operations and Operating Margin

Notes:

(1) We define constant currency income from operations as GAAP income from operations excluding the effect of foreign exchange rate movements for GAAP net revenues and operating expenses on a sequential, year-over-year and current year versus prior year basis. Constant currency impact in dollars is calculated by translating the current period GAAP net revenues and operating expenses using the foreign currency exchange rates that were in effect during the previous comparable period and subtracting it by the current period GAAP net revenues and operating expenses.

(2) We define constant currency operating margin as constant currency income from operations as a percentage of constant currency net revenues. Operating margin constant currency impact is the increase or decrease in constant currency operating margin compared to the GAAP operating margin.

ALIGN TECHNOLOGY, INC.
UNAUDITED GAAP TO NON-GAAP RECONCILIATION CONTINUED
CONSTANT CURRENCY INCOME FROM OPERATIONS AND OPERATING MARGIN
(in thousands, except percentages)

Sequential constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022
GAAP income from operations	$ 112,661	$ 143,656
Income from operations constant currency impact [(1)]	10,698	
Constant currency income from operations [(1)]	$ 123,359	

	Three Months Ended December 31, 2022	Three Months Ended September 30, 2022
GAAP operating margin	12.5 %	16.1 %
Operating margin constant currency impact [(2)]	0.9	
Constant currency operating margin [(2)]	13.4 %	

Year-over-year constant currency analysis:

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
GAAP income from operations	$ 112,661	$ 220,892
Income from operations constant currency impact [(1)]	49,320	
Constant currency income from operations [(1)]	$ 161,981	

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
GAAP operating margin	12.5 %	21.4 %
Operating margin constant currency impact [(2)]	4.2	
Constant currency operating margin [(2)]	16.7 %	

Current year versus prior year constant currency analysis:

	Year Ended December 31, 2022	Year Ended December 31, 2021
GAAP income from operations	$ 642,595	$ 976,400
Income from operations constant currency impact [(1)]	144,079	
Constant currency income from operations [(1)]	$ 786,674	

	Year Ended December 31, 2022	Year Ended December 31, 2021
GAAP operating margin	17.2 %	24.7 %
Operating margin constant currency impact [(2)]	2.8	
Constant currency operating margin [(2)]	20.0 %	

Unaudited GAAP to Non-GAAP Reconciliation Financial Measures Other Than Constant Currency

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
GAAP gross profit	$ 617,701	$ 744,563	$2,633,775	$2,935,355
Stock-based compensation	1,659	1,458	6,438	5,633
Amortization of intangibles [(1)]	2,610	2,798	10,134	9,502
Restructuring charges [(2)]	2,866	—	2,866	—
Non-GAAP gross profit	$ 624,836	$ 748,819	$2,653,213	$2,950,490
GAAP gross margin	68.5 %	72.2 %	70.5 %	74.3 %
Non-GAAP gross margin	69.3 %	72.6 %	71.0 %	74.6 %
GAAP total operating expenses	$ 505,040	$ 523,671	$1,991,180	$1,958,955
Stock-based compensation	(33,029)	(28,380)	(126,929)	(108,703)
Amortization of intangibles [(1)]	(810)	(933)	(3,417)	(3,668)
Restructuring and other charges [(3)]	(11,453)	—	(11,453)	—
Acquisition-related costs [(4)]	—	—	—	(104)
Non-GAAP total operating expenses	$ 459,748	$ 494,358	$1,849,381	$1,846,480
GAAP income from operations	$ 112,661	$ 220,892	$ 642,595	$ 976,400
Stock-based compensation	34,688	29,838	133,367	114,336
Amortization of intangibles [(1)]	3,420	3,731	13,551	13,170
Restructuring and other charges [(2),(3)]	14,319	—	14,319	—
Acquisition-related costs [(4)]	—	—	—	104
Non-GAAP income from operations	$ 165,088	$ 254,461	$ 803,832	$1,104,010
GAAP operating margin	12.5 %	21.4 %	17.2 %	24.7 %
Non-GAAP operating margin	18.3 %	24.7 %	21.5 %	27.9 %
GAAP total interest income and other income (expense), net	$ 2,660	$ (880)	$ (43,538)	$ 36,023
Arbitration award gain [(5)]	—	—	—	(43,403)
Non-GAAP total interest income and other income (expense), net	$ 2,660	$ (880)	$ (43,538)	$ (7,380)
GAAP net income before provision for income taxes	$ 115,321	$ 220,012	$ 599,057	$1,012,423
Stock-based compensation	34,688	29,838	133,367	114,336
Amortization of intangibles [(1)]	3,420	3,731	13,551	13,170
Restructuring and other charges [(2),(3)]	14,319	—	14,319	—
Acquisition-related costs [(4)]	—	—	—	104
Arbitration award gain [(5)]	—	—	—	(43,403)
Non-GAAP net income before provision for income taxes	$ 167,748	$ 253,581	$ 760,294	$1,096,630
GAAP provision for income taxes	$ 73,546	$ 29,051	$ 237,484	$ 240,403
Tax impact on non-GAAP adjustments [(6)]	(39,997)	49	(85,426)	(37,312)
Non-GAAP provision for income taxes [(6)]	$ 33,549	$ 29,100	$ 152,058	$ 203,091
GAAP effective tax rate	63.8 %	13.2 %	39.6 %	23.7 %
Non-GAAP effective tax rate [(6)]	20.0 %	11.5 %	20.0 %	18.5 %
GAAP net income	$ 41,775	$ 190,961	$ 361,573	$ 772,020
Stock-based compensation	34,688	29,838	133,367	114,336
Amortization of intangibles [(1)]	3,420	3,731	13,551	13,170
Restructuring and other charges [(2),(3)]	14,319	—	14,319	—
Acquisition-related costs [(4)]	—	—	—	104
Arbitration award gain [(5)]	—	—	—	(43,403)
Tax impact on non-GAAP adjustments [(6)]	39,997	(49)	85,426	37,312
Non-GAAP net income [(6)]	$ 134,199	$ 224,481	$ 608,236	$ 893,539
GAAP diluted net income per share	$ 0.54	$ 2.40	$ 4.61	$ 9.69
Non-GAAP diluted net income per share [(6)]	$ 1.73	$ 2.83	$ 7.76	$ 11.22
Shares used in computing diluted net income per share	77,683	79,431	78,420	79,670

Notes:

(1) Amortization of intangible assets related to certain acquisitions

(2) During the fourth quarter of 2022, we initiated a restructuring plan to increase efficiencies across the organization and lower the overall cost structure. Restructuring charges recorded to Cost of net revenues relate primarily to severance costs and impairment charges.

(3) Restructuring and other charges recorded to Operating expenses primarily relate to severance costs, lease termination charges and asset impairments.

(4) Acquisition-related costs for professional fees related to our 2020 exocad acquisition

(5) Gain from the SDC arbitration award regarding the value of Align's capital account balance

(6) In Q4'22, we changed our methodology for the computation of the non-GAAP effective tax rate to a long-term projected tax rate and have given effect to the new methodology from January 1, 2022, and recast previously reported quarterly periods in 2022. We did not make any changes to the results reported for 2021 as reflecting the change in methodology for the computation of the non-GAAP effective tax rate was immaterial to our 2021 results. Please see section captioned "Recast of Financial Measures for Prior Periods In 2022 For Tax Rate Change" under "Unaudited GAAP to Non-GAAP Reconciliation" for further information

Unaudited GAAP to Non-GAAP Reconciliation Recast of Financial Measures for Prior Periods in 2022 for Tax Rate Change

(in thousands, except per share data)

In Q4'22, we changed our methodology for the computation of the non-GAAP effective tax rate to a long-term projected tax rate as our management believes shifting to a long-term projected tax rate provides better consistency across reporting periods. Our previous methodology for calculating our non-GAAP effective tax rate included certain non-recurring and period-specific items, that produced fluctuating effective tax rates that management does not believe are reflective of the Company's long-term effective tax rate.

We have given effect to the new methodology effective January 1, 2022, and recast the previously reported quarterly periods in 2022 relating to the Non-GAAP provision for income taxes, Non-GAAP effective tax rate, Non-GAAP net income and Non-GAAP diluted net income per share. We used a projected non-GAAP effective tax rate of 20% for 2022, and expect to use the same rate for 2023. The non-GAAP effective tax rate could be subject to change for a variety of reasons, including the evolving global tax environment, significant changes to our geographic earnings mix, or other changes to our strategy or business operations. We will re-evaluate the long-term rate as appropriate. No changes were made to the results reported for 2021, as reflecting the change in methodology for the computation of the non-GAAP effective tax rate would have been immaterial to our 2021 results.

For the convenience of the reader, we have presented the relevant sections of the GAAP to non-GAAP reconciliation, for all the quarterly periods in 2022, both before and after the non-GAAP effective tax rate methodology change described above.

Table below shows the information before the tax rate change:

	Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Year Ended
	March 31, 2022	June 30, 2022		September 30, 2022		December 31, 2022	
GAAP provision for income taxes	$ 53,188	$ 60,809	$113,997	$ 49,941	$163,938	$ 73,546	$237,484
Tax impact on non-GAAP adjustments	10,788	4,317	15,105	3,300	18,405	22,531	40,936
Tax related non-GAAP items	(10,169)	(11,065)	(21,234)	(682)	(21,916)	(18,568)	(40,484)
Non-GAAP provision for income taxes	$ 53,807	$ 54,061	$107,868	$ 52,559	$160,427	$ 77,509	$237,936
GAAP effective tax rate	28.4 %	35.0 %	31.6 %	40.7 %	33.9 %	63.8 %	39.6 %
Non-GAAP effective tax rate	24.2 %	25.6 %	24.9 %	33.1 %	27.1 %	46.2 %	31.3 %
GAAP net income	$134,298	$112,800	$247,098	$ 72,700	$319,798	$ 41,775	$361,573
Stock-based compensation	31,621	34,140	65,761	32,918	98,679	34,688	133,367
Amortization of intangibles	3,397	3,265	6,662	3,469	10,131	3,420	13,551
Restructuring and other charges	—	—	—	—	—	14,319	14,319
Tax impact on non-GAAP adjustments	(10,788)	(4,317)	(15,105)	(3,300)	(18,405)	(22,531)	(40,936)
Tax related non-GAAP items	10,169	11,065	21,234	682	21,916	18,568	40,484
Non-GAAP net income	$168,697	$156,953	$325,650	$106,469	$432,119	$ 90,239	$522,358
GAAP diluted net income per share	$ 1.70	$ 1.44	$ 3.13	$ 0.93	$ 4.07	$ 0.54	$ 4.61
Non-GAAP diluted net income per share	$ 2.13	$ 2.00	$ 4.13	$ 1.36	$ 5.49	$ 1.16	$ 6.66
Shares used in computing diluted net income per share	79,193	78,545	78,840	78,237	78,652	77,683	78,420

Table below shows the information after the tax rate change:

	Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Year Ended
		June 30, 2022		September 30, 2022		December 31, 2022	
GAAP provision for income taxes	$ 53,188	$ 60,809	$113,997	$ 49,941	$163,938	$ 73,546	237,484
Tax impact on non-GAAP adjustments	(8,687)	(18,606)	(27,293)	(18,136)	(45,429)	(39,997)	(85,426)
Non-GAAP provision for income taxes	$ 44,501	$ 42,203	$ 86,704	$ 31,805	$118,509	$ 33,549	$152,058
GAAP effective tax rate	28.4 %	35.0 %	31.6 %	40.7 %	33.9 %	63.8 %	39.6 %
Non-GAAP effective tax rate	20.0 %	20.0 %	20.0 %	20.0 %	20.0 %	20.0 %	20.0 %
GAAP net income	$134,298	$112,800	$247,098	$ 72,700	$319,798	$ 41,775	$361,573
Stock-based compensation	31,621	34,140	65,761	32,918	98,679	34,688	133,367
Amortization of intangibles	3,397	3,265	6,662	3,469	10,131	3,420	13,551
Restructuring and other charges	—	—	—	—	—	14,319	14,319
Tax impact on non-GAAP adjustments	8,687	18,606	27,293	18,136	45,429	39,997	85,426
Non-GAAP net income	$178,003	$168,811	$346,814	$127,223	$474,037	$134,199	$608,236
GAAP diluted net income per share	$ 1.70	$ 1.44	$ 3.13	$ 0.93	$ 4.07	$ 0.54	$ 4.61
Non-GAAP diluted net income per share	$ 2.25	$ 2.15	$ 4.40	$ 1.63	$ 6.03	$ 1.73	$ 7.76
Shares used in computing diluted net income per share	79,193	78,545	78,840	78,237	78,652	77,683	78,420

Fiscal 2023 Outlook – GAAP to Non-GAAP Reconciliation

	Three Months Ended March 31, 2023	Year Ended December 31, 2023
GAAP Operating Margin	~13.5%	slightly above 16.0%
Stock-based compensation	~4.0%	~4.0%
Amortization of intangibles (1)	~0.4%	~0.4%
Non-GAAP Operating Margin	~18.0%	slightly above 20.0%

(1) Amortization of intangible assets related to certain acquisitions