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Align Technology, Inc. (ALGN) CEO Joseph Hogan on Q3 2019 Results - Earnings Call Transcript

Oct. 23, 2019 11:26 PM ET | 2 Likes
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Q3: 10-23-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.216 beats by $0.07 | Revenue of $607.34M (20.20% Y/Y) beats by $12.06M

Earning Call Audio

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Align Technology, Inc. (NASDAQ:ALGN) Q3 2019 Earnings Conference Call October 23, 2019 4:30 PM ET

Company Participants

Shirley Stacy - VP, Corporate Communications & IR

Joseph Hogan - President, CEO & Director

John Morici - CFO & SVP, Global Finance

Conference Call Participants

Erin Wright - Crédit Suisse

Stephen Beuchaw - Wolfe Research

John Kreger - William Blair & Company

Ravi Misra - Berenberg

Jonathan Block - Stifel, Nicolaus & Company

Kevin Caliendo - UBS Investment Bank

Richard Newitter - SVB Leerink

Brandon Couillard - Jefferies

Jeffrey Johnson - Robert W. Baird & Co.

Elizabeth Anderson - Evercore ISI

Andrew Stafford - Piper Jaffray Companies

Steven Valiquette - Barclays Bank

Nathan Rich - Goldman Sachs Group

Michael Ryskin - Bank of America Merrill Lynch

Operator

Greetings, and welcome to Align Technologies Q3 2019 Earnings Conference. [Operator Instructions]. As a reminder, this conference is being recorded. It is now my pleasure to turn the conference over to your host, Shirley Stacy, Vice President, Corporate and Investor Communications. Thank you. You may begin.

Shirley Stacy

Thank you. Good afternoon, everyone, and thank you for joining us. I'm Shirley Stacy, Vice President of Corporate Communications and Investor Relations. Joining me for today's call is Joe Hogan, President and CEO; and John Morici, CFO. We issued third quarter 2019 financial results today via GlobeNewswire, which is available on our website at investor.aligntech.com. Today's conference call is being audio webcast and will be archived on our website for approximately 12 months. A telephone replay will be available today by approximately 5:30 p.m. Eastern Time through 5:30 p.m. Eastern Time on November 6. To access the telephone replay, domestic callers should dial 877-660-6853 with conference number 13694915#, 16127415 with the same conference number.

As a reminder, the information that the presenters discuss today will include forward-looking statements, including statements about Align's future events, product outlook and the expected financial results for the fourth quarter of 2019. These forward-looking statements are only predictions and involve risks and uncertainties that are set forth in more detail in our most recent periodic reports filed with the Securities and Exchange Commission. Actual results may vary significantly, and Align expressly assumes no obligation to update any forward-looking statements.

We have posted historical financial statements, including the corresponding reconciliations and our third quarter 2019 conference call slides on our website under Quarterly Results. Please refer to these files for more detailed information.

With that, I'd like to turn the call over to Align Technology's President and CEO, Joe Hogan. Joe?

Joseph Hogan

Thanks, Shirley. Good afternoon, and thank you for joining us. On our call today, I'll provide some highlights for the third quarter and briefly discuss the performance of our two operating segments, clear aligners and intra-oral scanners. John will provide more detail on our financial results and discuss our outlook for the fourth quarter. Following that, I'll come back and summarize a few key points and open up the call to questions.

For Q3, I'm pleased to report revenues, volumes and earnings above our third quarter outlook, driven by better-than-expected volume across the Invisalign portfolio in Asia Pacific and Latin America, reflecting record highs for both regions and improving trends in the North American orthodontics channel. Notwithstanding EMEA summer seasonality, we saw continued adoption from teens and especially young patients using Invisalign First across the board. Q3 Invisalign volumes were up 20.7% year-over-year, driven by the growth across the product portfolio as well as the expansion of our customer base, which increased by 5,900 new Invisalign doctors for a total of 63,000 active doctors worldwide. The iTero scanner and services business was up 16.5% year-over-year, reflecting continued growth across each region, and down sequentially as expected coming off a record second quarter.

Now let's turn to the specifics around our third quarter results, starting with the Americas region. For the Americas region, typical Q3 summer seasonality for adult case starts in North America was offset by the growth in North American teen market as well as the strength from Latin American orthodontists. Q3 Invisalign case volume was up 2% sequentially and 13% year-over-year on tough comps. Recall in Q3 '18, we had a teen and adult promotion that drove approximately 4 to 5 points of growth in the Americas. In Q3, we trained over 2,700 new doctors in the Americas region, of which nearly half were Latin American doctors. On a sequential basis, Q3 Invisalign volume growth reflects increased utilization for the Americas region overall, driven by the North American Orthos at 19.1 cases per doctor, where we saw improved momentum throughout the quarter and good growth from teens in Invisalign First patients. North American GP volume was seasonally lower in Q3, and we're seeing improving trends into fourth quarter, reflecting benefit from our investment in sales resources added at the beginning of the year. New and existing reps are continuing to ramp up, and we would expect further progress over the remainder of the year.

We also had continued strength across comprehensive and non-comprehensive products in Latin America, led by Brazil. Year-over-year, Q3 Invisalign volume for the Americas region was driven by continued growth from both the Ortho and GP channels, including the DSOs. The DSO channel remains an important channel and consistently grows faster than non-DSO practices.

For our international business, Q3 reflects increased growth in Asia Pacific, especially from our teen segment in China, partially offset by sequentially lower volume in EMEA due to the summer holidays for Invisalign practices in most European countries. On a year-over-year basis, Invisalign volume increased 32.1%, reflecting strength across our product portfolio with continued expansion of our customer base. In Q3, we changed -- we trained over 3,100 new Invisalign doctors internationally, with 60% in the Asia Pacific region. In EMEA, Q3 Invisalign volumes were down sequentially as expected, reflecting more pronounced seasonality in the first half of the quarter and strong momentum in the back half, led by Iberia in the U.K. Q3 volumes were up 29% year-over-year with broad-based growth across the Invisalign product portfolio and continued momentum from Invisalign Go treatment.

We also continue to see strong growth across our key expansion markets as well, led by Central and Eastern Europe and the Middle East and Africa. In Q3, as part of our corporate structure reorganization, we reallocated order acquisition for EMEA from the Netherlands to Poland. This site will serve as a centralized facility for order acquisition, local sales and support. In addition, this location will also offer treatment planning to support all of EMEA country markets except for Spain and Germany, where we'll continue to support their local markets.

For APAC, Q3 Invisalign volume increased 35.1% year-over-year, led by Greater China and Japan. We continue to see strong growth from GP dentist, which was up 53.2% year-over-year, especially in Japan, where adoption of Invisalign Go continues to exceed expectations. On a sequential basis, Q3 Invisalign volume for APAC reflects continued momentum in China, especially from teen cases and growth from Taiwan and Korea. We also saw increased adoption of Invisalign First in Japan and ANZ and Taiwan as well as positive results from Teen Edge professional marketing programs, which are helping to drive Invisalign growth.

During the quarter, we opened the treatment planning facility in Yokohama, Japan, to better support Japanese doctors in local language and local time zones. APAC remains a huge growth opportunity for Align, and this investment reflects our commitment providing our customers with continued support as we grow and scale our business across the region.

Teens and kids continue to make up the largest portion of the orthodontic market and represent a huge growth opportunity for Invisalign treatment to replace metal braces worldwide. Over the past 2 years, we introduced 2 product innovations to help doctors treat more patients in this segment. Invisalign treatment with mandibular advancement addresses roughly 45% of teen cases and is the only clear aligner to move the mandible forward while straightening teeth at the same time. Invisalign First treatment is the first clear aligner product designed with features specifically for growing patients as young as 7 years old, and Phase 1 addresses 20% of the orthodontic case starts each year. Both products have continued to grow and helped increase utilization for Invisalign treatment worldwide.

In Q3, 130,000 teenagers and kids as young as 7 years old started treatment with Invisalign clear aligners, an increase of 31.5% year-over-year, reflecting continued adoption across all major regions, especially China. Cumulatively, nearly 2 million teens or younger patients have used Invisalign clear aligners.

In Q3, we continue to see strong dental engagement with consumers, reaching over 4.5 million unique visitors on Invisalign websites worldwide for a total of 62 million visitors to date. Our digital approach to teen marketing continues to drive awareness and interested teenagers into Invisalign practices. Other key metrics show increased activity and engagement with the Invisalign brand and are included in our Q3 quarterly slides.

In addition, we launched a new advertising campaign for North America at the beginning of the quarter. The North American campaign was launched across all key media channels with a reach to over 140 million consumers, combining a robust paid media strategy across prime broadcast, cable and connected TV channels with paid search and social media. While still new in the marketplace and very early in the cycle, we're seeing a positive response from doctors and consumers. In the last few weeks, all KPIs metrics have shown strong momentum with more than a 50% increase in Doctor Locator searches and in leads scheduled from our Smile Concierge service.

Finally, as many of you may have seen, we recently announced marketing relationships with several professional sports teens, including the San Francisco 49ers, the Toronto Raptors, the Carolina Hurricanes and the New England Patriots. Align is always looking for ways to evolve our brand marketing to be relevant to potential patients where they work, live and play.

Over the last few years, many sports brands have evolved their own brand programs to engage with fans in a variety of ways and through multiple touch points. Partnering with teens who have an omni-channel approach to brand marketing and engagement gives us direct access to large, loyal fan bases and helps us reach individual consumers and whole families through a variety of existing fan platforms. With the right team partners, we can create awareness for the power of winning smiles. And as always, the goal is the same for us: to build awareness and demand for Invisalign treatment and connect engaged consumers with Invisalign doctor practices in their markets.

For Q3, iTero scanner and services revenue was down sequentially as expected and up 16.5% year-over-year, reflecting continued growth across all regions and customer channels, including large DSOs. Year-to-date, iTero revenues were up 47.3%, reflecting continued adoption of digital dentistry. Cumulatively, over 18 million orthodontic scans and 4.3 million restorative scans have started with iTero scanners. Heartland Dental, one of our largest DSO partners, recently celebrated their millionth iTero scan, highlighting how important iTero and Invisalign workflow is in their doctor practices, which now includes 900 offices across the U.S. and is enabling them to add nearly 200,000 digital scans per month.

Use of iTero scanners for Invisalign case submissions continues to grow and remains a positive catalyst for Invisalign utilization. For Q3, total Invisalign cases submitted with a digital scanner in the Americas increased from 78.7% to 71.9% in Q3 of last year. International scans increased 62.5%, up from 53.9% in the same quarter last year. Within the Americas, 92.9% of cases submitted by North American orthos were submitted digitally. We continue to expand the iTero portfolio to address doctors' needs and enable them to more easily adopt Invisalign treatment in their practices.

In August, we announced the commercial availability of the iTero Element 2 scanner in China, with the first made in China iTero Element 2 produced in our manufacturing facility in Ziyang. The launch exemplifies Align's continued innovation and investment to advance digital dentistry in China.

In September, we announced a global distribution agreement for the iTero Element family of intraoral scanners with Zimmer Biomet Dental. The agreement enables us to leverage Zimmer Biomet Dental's extensive direct global sales force and network of dental clinicians and laboratories to help to further drive the penetration of iTero scanners and services in their growing digital restorative market. The collaboration also offers Zimmer Biomet Dental customers access to Invisalign clear aligners through the iTero platform to facilitate a comprehensive interdisciplinary treatment approach. We know that a key differentiator in the evolution to a digital practice and dental ecosystem is clinical education. Through this collaboration, the iTero scanner becomes the exclusive intraoral scanner used in the U.S. and European Zimmer Biomet Institutes, which trains thousands of doctors annually in an interactive learning environment, with the ultimate goal of improved clinical outcomes. We also joined Zimmer at the Japan Society of Oral Implantology Meeting in Japan and at the EAO in Portugal, where the iTero intraoral scanners were showcased.

With that, I'll now turn the call over to John.

John Morici

Thanks, Joe. Now for our Q3 financial results. Total revenue for the third quarter was $607.3 million, up 1.1% from the prior quarter and up 20.2% from the corresponding quarter a year ago. Year-over-year revenue growth was favorable in all regions. For clear aligners, Q3 revenue of $516.3 million was up sequentially due to Invisalign volume growth in most geographies and higher ASPs. Year-over-year clear aligner revenue growth of 20.9% reflects strong Invisalign shipment growth across all customer channels and geographies and higher ASPs. Q3 Invisalign ASPs were up sequentially by approximately $30 to $1,260, primarily due to price increases in all regions, partially offset by promotional discounts. On a year-over-year basis, Q3 Invisalign ASPs were up $30, primarily reflecting price increases in all regions, partially offset by promotional discounts and unfavorable foreign exchange.

Total Q3 Invisalign shipments of 384 point -- 385,400 cases were up 2.2% sequentially and up 20.7% year-over-year. For Americas Orthodontists, Q3 Invisalign case volume was up 5.6% sequentially and up 16.4% year-over-year. For Americas GP Dentists, Invisalign case volume was down 4.1% sequentially and up 7.4% year-over-year. For international doctors, Invisalign case volume was up 2.5% sequentially and up 32.1% year-over-year. Our scanner and services revenue for the third quarter was $91.1 million, down 12.4% sequentially as expected, reflecting lower volume coming off another strong Q2, partially offset by higher ASPs. Year-over-year, scanners and services revenue was up 16.5%, driven by increased services revenue off of a higher installed base and higher volume.

Moving on to gross margin. Third quarter overall gross margin was 72%, flat sequentially and down 1.6 points year-over-year. Gross margin was impacted by approximately 0.3 points year-over-year due to unfavorable foreign exchange. Clear aligner gross margin for the third quarter was 73.5%, down 0.2 points sequentially, primarily due to increased aligners per case, partially offset by higher ASPs and seasonally lower doctor training.

Clear aligner gross margin was down 1.8 points year-over-year, primarily due to increased aligners per case, partially offset by higher ASPs. Scanner gross margin for the third quarter was 64.1%, up 0.5 points sequentially and up 0.2 points year-over-year, primarily due to higher ASPs and increased manufacturing efficiencies.

Q3 operating expenses were $310.4 million, up sequentially 21.3% and up 25.9% year-over-year. The sequential increase reflects the benefit of $51 million related to the Straumann litigation settlement recorded in the second quarter. Additionally, the third quarter includes a $6.8 million benefit from the early termination of our Invisalign store leases. The year-over-year increase reflects our investment in consumer advertising with a brand-new North American campaign launched in August, continued -- and the continued investment in R&D, geographic expansion and go-to-market activities, partially offset by the benefit from the early termination of our Invisalign store leases.

Our third quarter operating income of $127.2 million resulted in an operating margin of 20.9%, down 8.5 points sequentially and down 3.9 points year-over-year. The sequential decrease in operating margin is primarily attributed to the $51 million benefit related to the Straumann settlement recorded in Q2, partially offset by a $6.8 million benefit related to the Invisalign store lease terminations in the third quarter. The year-over-year decrease in operating margin is primarily due to lower gross margin, as described earlier, and the increased investments in our geographic expansion and go-to-market activities, partially offset by the benefit from the early termination of our Invisalign store leases in the third quarter.

Operating margin was impacted by approximately 0.6 points year-over-year due to the unfavorable foreign exchange. Interest, other income and expense for the third quarter was $1.3 million, down $16.1 million sequentially and flat on a year-over-year basis. The sequential decrease reflects the $15.8 million gain related to the sale of our equity investment in SmileDirectClub during the second quarter.

With regards to third quarter tax provision, our tax rate was 20.2%. Third quarter diluted earnings per share was $1.28, down $0.55 sequentially and up $0.04 compared to the prior year.

Moving on to the balance sheet. As of September 30, 2019, cash, cash equivalents and marketable securities, including both short- and long-term investments, were $782.4 million, an increase of $16.5 million from the prior quarter, which is primarily due to higher cash flow from operations, partially offset by $200 million used to repurchase approximately 1.1 million shares of our stock. Of our $782.4 million of cash, cash equivalents and marketable securities, $513.9 million was held in the U.S. and $268.5 million was held by our international entities. Q3 accounts receivable balance was $531.8 million, up approximately 2.3% sequentially. Our overall days sales outstanding was 79 days, up 2 days sequentially and up 4 days from Q3 last year.

Cash flow from operations for the third quarter was $234.5 million, up $138.3 million compared to the prior year. Capital expenditures for the third quarter were $26.6 million, primarily related to our continued investment in increasing aligner capacity and facilities. Free cash flow for the third quarter defined as cash flow from operations, less capital expenditures, amounted to $207.9 million.

During Q3 2019, we entered into and completed an accelerated stock repurchase agreement, ASR, to repurchase $200 million of our common stock, which was completed in September of 2019. We received a total of approximately 1.1 million shares for an average price of $176.61 per share. We have $200.5 million remaining available for repurchase under the May 2018 repurchase program.

With that, let's turn to our Q4 outlook and the factors that inform our view, starting with the demand outlook. Q3 was a solid quarter, and momentum has continued to build into Q4, across all regions. For international, we expect Q4 volumes across to be up sequentially, reflecting strong uptick from EMEA, as doctors come back from summer holidays. For the Americas, we expect Q4 volumes to be up sequentially, reflecting growth across all key country markets as well as momentum in North American Ortho and GPs along with increased media spend and the launch of our new consumer advertising campaign, as Joe described earlier.

We expect our iTero business to be up sequentially in Q4 to reflect end of the year capital equipment purchases and investment in growing the iTero business across all regions.

With this as a backdrop, we expect the fourth quarter to shape up as follows. Invisalign case volume is expected to be in the range of 400,000 to 407,000 cases, up approximately 20% to 22% year-over-year. We expect Q4 revenue to be in the range of $640 million to $650 million, up approximately 20% to 22% year-over-year. Our Q4 revenue outlook assumes no SDC volume compared to the same quarter a year ago when aligner supply to SDC contributed about $5.8 million to revenue. We expect Q4 gross margin to be in the range of 71.7% to 72.4%. Q4 gross margin is up 0.4 points compared to Q3 as we expect continued improvements in our manufacturing efficiencies associated with higher volumes. We expect Q4 operating expenses to be in the range of $318 million to $323 million. Q4 operating margin should be in the range of 22% to 22.7%. Our effective tax rate is expected to be approximately 24%. Diluted shares outstanding is expected to be approximately $79.4 million, exclusive of any share repurchases. Taken together, we expect our Q4 diluted earnings per share to be in the range of $1.35 to $1.42. In addition, we expect to repurchase at least $100 million of our stock in the open market in Q4.

As we continue our operational expansion efforts, we expect capital expenditures for Q4 to be approximately $30 million to $35 million, and we expect depreciation and amortization to be $22 million to $24 million.

Before turning the call back to Joe, I want to update you on our corporate entity reorganization. On January 1, 2020, our EMEA headquarters in the Netherlands will officially move to Switzerland. Our new Swiss location will serve as the headquarters for all regional, commercial and operational activities in EMEA and will be supported by the existing network of local offices established across the region. Our new corporate entity, Align Technology Switzerland GmbH, will assume all responsibility for the sale and distribution of the Invisalign system, iTero intraoral scanners and associated Align goods and services in EMEA, previously provided by Align Technology B.V.

Our local and global teens have been working diligently to ensure a very smooth transition while supporting our doctors, suppliers and employees, many of whom have decided not to relocate to Switzerland but will stay on in transitional roles as needed. I want to thank all of our employees for their hard work and dedication in supporting this major company initiative. While it is never easy to make this kind of change, especially when it impacts team members who have helped build the EMEA business and have contributed so much to our overall success, we are very excited about our new operations in Switzerland.

Now I'll turn the call back to Joe for closing comments.

Joseph Hogan

Thanks, John, and thanks for joining our call today. Overall, Q3 was a solid quarter for us across the board with increasing momentum in APAC and North America that has carried us over into Q4. As you can see from the high end of our guidance, the implied full year growth rate from Invisalign volume is 23.5%, with international growth in the mid to high 30s. .

Overall, our business remains very healthy with numerous growth drivers in a vastly underpenetrated market. We remain confident in both the enormous opportunity ahead to lead the evolution of digital orthodontics and comprehensive dentistry with our doctor customers, and in our ability to execute our strategy to increase adoption of Invisalign treatment globally.

With that, I want to thank you again for joining the call. I look forward to seeing many of you at our upcoming financial conferences and meetings, including the Invisalign GP Summit in November in Las Vegas. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Erin Wright with Crédit Suisse.

Erin Wright

In terms of the higher OpEx spend, are you seeing the returns from the North America, I guess, stepped-up marketing and media spend as you expected? And how should we be thinking about that level of spend into the fourth quarter just based on the responses that you're seeing from the marketing campaigns so far? And will this, I guess, contribute to the accelerating kind of volume trends in the fourth quarter as well as momentum into 2020?

Joseph Hogan

Erin, it's Joe. Yes, we're seeing, as you can tell from the statistics we just recorded, we have a real large take-up when you think about doc locator searches, which is a primary or concierge service and what they're handling. Remember, the concierge service takes those customers and then directs them directly to doctors that we have a high degree of certainty that they'll actually convert them into Invisalign.

As we move into the fourth quarter, expect the same amount of investment. Also in the Americas too with the improvements you're seeing is also our sales force and the additions we put together. As we said at the beginning of the year, it usually takes at least 9 months, 6 to 9 months, to see some kind of traction that we're seeing with the sales force, too. So both the advertisements from a North America standpoint and the added salespeople, we think, are really contributing to that momentum we just reported.

Erin Wright

Okay. Great. And then my follow-up, just on China, in particular. Can you speak to what you're seeing across that market, just given some of the commentary you had in the previous quarter around the softness in that geography? If you could give us an update there, that would be great.

Joseph Hogan

Well, the momentum we reported in China that we -- when we had our announcement in the second quarter, continued throughout the quarter. So I think we had 26% growth in China in the second quarter. As we move into the third quarter, we're in the upper 30% range. Overall, we're just seeing good uptake. We had a good teen season there. We've hired 40% more people in China also. It takes them a while to actually become acclimatized, be trained and have them effective in China also. So we feel good about the momentum in China.

I think the economic situation there with reporting the slowest growth we've seen in 30 years, we know we have a headwind there because that continues, it reported in the second quarter, too. But overall, we think we've made the right adjustments and we have the right focus right now to continue some good growth there.

Operator

Our next question comes from Steve Beuchaw with Wolfe Research.

Stephen Beuchaw

I'm sure there'll be a lot of questions about Invisalign and appropriately so, so I want to go a different direction and ask about a couple other things. One is actually the iTero number in the quarter. I know it's normal seasonally to see things make a move like this, but I wonder, as you saw trends for iTero in the quarter, where -- there was actually a lot going on operationally, given what you were doing with Zimmer, which I'm sure was a significant time investment for the sales force where you had a product launch coming in a key region. Do you think there was any disruption in terms of the commercial effort around iTero during the quarter?

John Morici

Steve, it's John. No, there's no disruption. I mean, we are -- if you look at iTero for -- on a year-to-date basis, it's up 47%. You're going to have some timing that happens by quarter, but we feel very good where iTero is. It's the front end of our digital ecosystem, very critical to our business, and you're going to have fluctuations by quarter. But we feel very good where iTero is so far this year.

Stephen Beuchaw

Okay. And then sorry, Joe, for leaving you out here, but I got a couple for John. One is on the transition in Europe, can you speak to how much duplicative costs you might be -- might have been carrying between the Switzerland operations and the Netherlands operations and what that could mean for the tax rate over time as you change the domicile of the organization. And then I wonder if you could give us an update on what you think prospectively the impact of facilities' manufacturing capacity utilization is going to be going forward on gross margins?

John Morici

Yes, Steve. In terms of the changes that we make and making in EMEA, it's really to simplify some of the organization that we have and in light of many of the tax changes and other structures that we had to create. So look at it from that standpoint. It simplifies things a little bit from an entity standpoint and gives us some flexibility to changes to our tax -- to taxes that happen globally.

From a facility standpoint, we're putting in manufacturing where it makes sense. We've talked a lot about China manufacturing, and that continues to ramp up. Treatment planning globally would be closer to our customers. That's very important to us. And there's always a transition period in terms of that productivity, as they become more and more productive, but we feel very good about the investments that we've made and the gross margin that we see now and what we're forecasting.

Operator

Our next question comes from John Kreger with William Blair.

John Kreger

Joe, what's your sense about the underlying health of consumer spending on orthodontics at this point? Is it getting better or worse? And I'm curious if you think the -- all the money going into some of the direct-to-consumer-oriented models like SDC, is that proving to be a net benefit to Align or a little bit of a detriment as you weigh sort of awareness versus any competitive shifts?

Joseph Hogan

John, first of all, I think you picked up in your survey and other people do too when we picked it up is, I mean, we see good consumer spending right now from an orthodontic standpoint. Align stands out in that spending when you look at it specifically. As far as how that's driven, obviously, we've put a lot more into consumer advertising, and some of the DTC competitors have done that also. I do think that, that raises consumer brand awareness. No question. I think the consumers go to the Internet to try to answer those questions. They'll go to their doctors to try to answer those questions, too. So I can't deny, John. I think that our advertising and some competitive advertising in that sense probably does raise all boats to a certain extent.

John Kreger

Great. And then one quick follow-up. The utilization among your North American GPs has been kind of flat over the last couple of years. What is your thinking about the best way to drive that higher over the next year or 2?

Joseph Hogan

First of all, John, I think you know that. You've been with us for a long time. We add so many GPs every year. 150,000 of them, we train significant numbers of them each year. And so you end up with a dilutive effect in that sense. So the numbers that we reported, it always is around 3.4% to 3.6% from quarter-to-quarter. But back to your question, I think the way to do this is: one, obviously, our DSO approach is a good one because as I talked about it being a force multiplier before you work with these strong DSOs, they have their own training for their groups. They help quantify workflow and do different things that for years in this business, I think we thought we just needed 1 product, but we've learned over time, like a product like iGo really isn't a product, it's a system. It's a system that really works with GPs to identify patients that qualify for this. It fits well with their workflow. It allows them to be confident when they're in front of patients that they can handle those cases, and we stand behind them. So overall, it's right products, right systems, working with DSOs that help us to become -- drive better penetration, too.

Operator

Our next question comes from Ravi Misra with Berenberg Capital Markets.

Ravi Misra

Can hear me okay?

Shirley Stacy

Yes. Sure.

Ravi Misra

Great. So just a question on the gross margin, not to pick too much at what I think was a pretty good quarter, just why aren't we seeing, given the kind of pricing uptick that looks like it emerged in the third quarter, why aren't we seeing more of a flow-through on the clear aligner gross margin in the fourth quarter? And maybe if you could help us think about pricing in the fourth quarter for the ASPs. I think last quarter, you said it would be about even with the second quarter, and that's pretty much a lot better than that. So do you feel more confidence in your ability to take price here?

John Morici

Yes. Robbie, this is John. As we've discussed, I mean, we've taken price up in the third quarter, and you see that show up in ASPs. We're also investing to -- in our manufacturing and treatment plant to be closer to our customers. Sometimes that offsets -- and in third quarter, there was not much change from Q2. In Q4, we talked about our guidance, which is up sequentially in gross margin. It's a reflection of more volume productivity that we expect to continue to see at these manufacturing sites. And we'll continue to see that benefit. When you look at the ASPs, as you mentioned, like I said, at $1,260, was a good increase of $30 from Q2. We were able to -- when we think about the forecast to that, it will come down slightly. The mix was really high from a comprehensive standpoint in Q3. So when we take it down to Q4, it'll be, we think, closer to $1,245, which is very consistent that we've talked about as being essentially flat as we go through this year.

Ravi Misra

Great. And then if I can just maybe squeeze in a follow-up to the implications on teen there with the comprehensive, just if you could confirm or maybe provide some color. As that -- as you get deeper penetration at that market, it looks like you've been doing 30% growth here the last few quarters. How should we think about the mix shift on the pricing? That should be kind of a good guy, right, with the more comprehensive cases?

Joseph Hogan

Yes, Rob, it's Joe. Yes, you're right. It's a mix shift. Remember, from a teen growth standpoint, and we're reporting really good above 30% teen growth globally, but we're still the -- our utilization rates in that marketplace are way below our clinical entitlement, I would say. Today, we can handle almost all teen cases. So with that in mind, though, it is a mix-up. It is primarily a comprehensive marketplace. It's primarily an ortho marketplace in how it works. We feel really good about our portfolio to be able to address the teen patients right now. And long term, we see that as a counterbalance on ASPs that we all think about.

Operator

Next question is from Jon Block with Stifel.

Jonathan Block

Joe, maybe first one for you. Just any comments, maybe I missed it, but sort of on comprehensive versus non-comprehensive growth this quarter. And then with the GP summit approaching next month, is there any plan to more aggressively sort of pursue call it this lower acuity cases through that channel? And then I've got a follow-up.

Joseph Hogan

Yes. I mean, Jon, honestly, I mean, from a comprehensive standpoint, obviously, still 70% of our portfolio more goes that way. But with the introduction of Lite, iGo, products like this, we made an adjustment on E5 this quarter, E7, all these other products. I mean that part of our product line has traditionally been growing faster and with the comprehensive thing is. Now it's a law of small numbers versus large numbers, but we do see increased growth in that area.

When we look at the GP channel, we do look at the GP channel as a way to get at patients, what we call kind of a sub-acute kind of on a patient base to do that. So I mentioned iGo on the last call also as being a system that allows us to do that. Obviously, Lite does that also. So you'll see us, Jon, increasingly focused on that channel, but also think about working really closely with GPs on not just the product line, but the system itself with iTero, how to be able to do treatment planning quickly and to give the GPs confidence that when they adopt these cases, that they'll finish and they'll finish well. Those are the 3 critical variables we know we have to hit to really drive significant growth.

Jonathan Block

Got it. Very helpful. And then just maybe John, the reorg for this year, is there sort of a refined number? Is that 1.5% or 2%? Or is it still in that range? And then sort of part B to that question is it follows up on Ravi's. Just to be as specific as possible, the gross margin is in sort of flattish Q3 to Q4, is it a globalizing the supply chain headwind? Or is it more aligners per case headwind? And I'm asking that because the more aligners per case, that probably continues with teen, et cetera, but the globalizing supply chain, that seems more of a '19 event than a '20 event. So any more detail you can give around gross margin would be helpful.

John Morici

Yes, Jon, it's really both. I mean, when you look at, especially as we do and work with our doctors doing more and more complicated cases, as comprehensive grows and Invisalign First and teen and so on, those end up being more aligners and end up impacting our gross margin. The globalization that we're doing, that's much more short term. As we said, getting close to our customers is very, very critical to us. Treatment planning, manufacturing. But as you get more and more capacity there and scale that, you see productivity improvements.

Operator

Our next question is from Kevin Caliendo with UBS.

Shirley Stacy

Kevin, you there?

Kevin Caliendo

Yes. Sorry, I apologize. Did you take the same price increases internationally as you did domestically? That's the first quick one. And then just looking at the trend, quarterly trend in case growth and overall revenue growth, is seasonality shifting as international sales grow as a percentage? And how should we think about that going forward?

Joseph Hogan

Kevin, Joe. On the pricing piece, yes, it's about the same. I think there's some mix and tucks on Lite versus comprehensive. But basically the same price increase globally across the board. On the revenue growth, the seasonality of it. I think the biggest thing that you can think of, there's really a couple of trends in this business is, one, in North America, you move into the third quarter, it's teen season and GPs tend to decline. But the biggest mix is in Europe, where you basically go down for vacation, I mean, lights go out for us for a long period of time, and then obviously come back in September. And then you got China on the other side that kind of compensates for that in the past. So those are the big, I would say, countercyclical or cyclical movements that we have in the business.

Operator

Our next question comes from Richard Newitter with SVB Leerink.

Richard Newitter

I have two, Joe. Just the first one. Just last quarter, you gave a little bit of color on anecdotally what you're seeing out in the field from doctor-directed competition and some of the discounting that might be taking place. I was just curious if you could comment on the -- on the trend into the current quarter and what you're seeing there? Anything that's surprising you or different from what you saw last quarter on those? And I have a follow-up.

Joseph Hogan

Richard, on the -- with that comment I made last quarter had to do with doctor-directed to DYI model and primarily North America and some kind of young adult segments. We actually saw that stabilize and actually start to improve in the third quarter from an order endpoint. So actually saw good momentum in the right direction there.

Richard Newitter

Okay. And I was just referring to the more traditional competitors that recently started launching products where there might be some trialing. That's what you're referring to as improving, not the DTC...

Joseph Hogan

No. Actually, I'd say both. I mean the traditional competitors that are out there, we acknowledged them last quarter, which we thought we had to, but there's no fundamental change in that, what we saw in the second quarter versus what we saw in the third quarter.

Richard Newitter

Okay. And then just on China, Joe. I get the sense that you just have improved visibility relative to kind of where you were sitting at this time last conference call. Is that the right kind of directional takeaway from the call as you see the trends into the fourth quarter? Clearly, it picked up in China in the third quarter. And what would you say, your long-range plan top line greater than 20% growth for the foreseeable future. What would you say your confidence level is kind of today versus maybe 3 months ago, particularly with -- now that you have more data points in hand on China and some of those North America trend last quarter that were in focus.

Joseph Hogan

Rich, I'll keep my comments kind of in this year. But I'd say, what China shaped up to be is pretty much what we called in the second quarter. We said the teen season is going to come in China. We thought that would be a lift. We've hired the salespeople. We're looking for that to take hold and be able to move the business forward. And so to say we have better visibility, I think we have the same visibility that we had quarter-to-quarter. Actually, from an execution standpoint, I just think the steps that we've taken with some of the pressure on consumer demand that we reported in the second quarter, the operational steps that we took in China on the ground, we're seeing a good result for it and we feel good about it.

Operator

Our next question comes from Brandon Couillard with Jefferies.

Brandon Couillard

Maybe just a couple of housekeeping items. Joe, any update on the timing of the U.S. approval for the 5D scanner? And then any color you can share with us as far as mandibular uptake in the U.S.?

Joseph Hogan

Brandon, on the 5D scanner, the FDA is the FDA, and we feel confident we'll get through here. Early part of next year would be the -- my best forecast in that sense. I could tell you, from a 5D standpoint, the uptick around the world has been good. The carries detection piece to be able to see cracks or deterioration in teeth has been terrific. And so it's really been a changing aspect to the clinical GP practice to be able to see carries in a way that you really can't see them without a near infrared technology. So we're actually really excited about that. And we're excited to get it into North America.

Operator

Our next question comes from Jeff Johnson with Robert W. Baird.

Jeffrey Johnson

Joe, I want to go back to China, just you did talk last quarter that you would lose that kind of teen tailwind as you go into the fourth quarter and next kind of normalizes that to some adult patients and all that. But it sounds like, as you've said on this call, you're starting to see some good traction with some of the sales force adds and other efforts in that area. So should we look at Q2 as kind of that 26% number that you brought up again this quarter from 2Q, is that kind of where our -- the baseline should be from here, and you think, at least going forward, somewhere in there or above, given some of these recent efforts?

Joseph Hogan

Jeff, obviously, we think we did well in the third quarter in China. Some of it was obviously the teen season. But actually, we had some pretty good adult growth, too. We're moving out of teen season there. As we talked about, the momentum going into the fourth quarter has been good there, too. As far as the baseline, Jeff, goes or whatever, hey, China is a growth market for us. We wouldn't be putting manufacturing in over there. We wouldn't be putting treatment planning, we wouldn't make the investments we're making, unless we feel that China is going to continue to be the second largest market that we're growing with. So I think that's the way you have to think about it going forward. What is it, Jeff?

Shirley Stacy

There you are. Hang on. Sorry, what did you say?

Jeffrey Johnson

I said Shirley has got a quick hook tonight. So thank you for keeping the on for a follow-up...

Shirley Stacy

Well, we're trying to get to as many analysts as we can, but go ahead.

Joseph Hogan

She's upset about that with [indiscernible]

Jeffrey Johnson

Well, as an Illinois fan, I won't comment on that. Joe, I do want to ask on the direct or kind of channel in the third quarter. Obviously, you've seen some states enact as your hurdles for some of those models and all that. I'm sure it's too early to see anything like that in your number or numbers. But I'd be interested, kind of what are you doing with your doctors to kind of try to combat some of that competition? Are you having any success in kind of helping these doctors understand where they need to be price point at? Is there other channel support you can provide? Just what are you doing to really kind of combat that direct-to-consumer angle?

Joseph Hogan

Jeff, first of all, when we think about things that you're talking about, having a doctor in the center of this thing, having an X-ray, you're moving teeth through bone, people think that -- I think majority of people or patients out there think that teeth just hang from gums. They don't actually understand that the teeth are boned in. And actually seeing what's going on in the bone is a pretty good indicator if you should go through orthodontic treatment or not.

But with that said, with the GPs, I talked about in previous caller is the iGo product really is the best platform that we have right now in the sense of how to really educate doctors to go after these patients. And what I'm hearing more and more from GPs is they're having more and more of a dialogue with their patients. Their patients are coming in, they're asking questions now. They're saying, "Hey, what does this mean? What can you do for me? What's your price point for being able to straighten my sixth anterior teeth?" And we are trying to give them as many tools as we possibly can as far as workflow tools, which we have with iTero and iGo, and then products that they can really have a lot of confidence in.

So I would say our initial push on that in United States has been improving significantly. You'll see it at the GP Summit, what we're rolling out and the kind of focus areas we have around that. But obviously, we'll have a very strong focus in that area, Jeff.

Operator

Our next question comes from Elizabeth Anderson with Evercore.

Elizabeth Anderson

A lot of my questions at this point have been taken. But I just wanted to know if you could comment on the rise in inventory in the quarter? It seems like it just ticked up a little bit quarter-over-quarter but sort of has been rising year-over-year. And I just wanted to know if that was -- if there was something in what you guys were doing or something else behind that?

John Morici

Elizabeth, this is John. Really nothing out of the ordinary. When we look at the inventory, it's primarily on the iTero side. And it's really how we manufacture and much more level loading from a manufacturing standpoint. And really the rise that you saw in the third quarter is really anticipation of the volume that we expect in the fourth quarter. So that's all it is.

Operator

Our next question comes from Matt O'Brien with Piper Jaffray.

Andrew Stafford

This is Drew on for Matt, and congrats on a nice quarter. I wanted to touch on consumer financing. I know you've talked about it a little bit in the past, and you're working through a third-party provider. Are you hearing any demand from customers asking for more options there? And would you have interest in expanding that program further?

John Morici

Yes, Drew, this is John. Of course, we want to do whatever we can to try to help turn those consumers into patients at a doctor. So financing is a piece of it. And we're working with companies, not just in the U.S. but other places as well, to try to remove some of that friction, give more options to those consumers, understand what the monthly payments are, how much down and so on. So there's a lot more that we can do there. We're making some progress, and you'll see new ways that we'll be coming to help, again, remove some of that friction for those consumers.

Andrew Stafford

Okay. And then just on the deal with Zimmer, maybe you could provide some thoughts on sort of why you chose them as a partner than maybe some of the geographies you'll be focusing on early on?

Joseph Hogan

Drew, it's Joe. On the Zimmer, we're really pleased to have them as partners. When you look at the history of that company from an implant standpoint, they're one of the leaders out there. They actually needed a digital front end, and that's what iTero really supply to them.

When you look at our product line in conjunction with that, when you look at modern kind of treatments like that, implantology, is there's often a lot of space creation that has to take place in the sense of if a tooth is out of a mouth for a period of time, your teeth start to move over to fill that space. And more and more dentists do not want to remove enamel to put that implant in. So using aligners to be able to separate those teeth and allow an implant to be able to be a lot less invasive than it would be if you didn't account for that spacing.

So overall, we're excited about it. I mean they're obviously strong all over the world. They complement us in so many places, including China. And so we're really excited about having a partnership, and we think we're starting off pretty well in the sense of the training and all that we reported.

Operator

Our next question comes from Steven Valiquette with Barclays Bank.

Steven Valiquette

So not to beat China to death here, but when you talked about some of the things you did to improve results over there, whether it was on the investments in the GP, dentist, sales force, sales program centered on Invisalign Go or even just the increased consumer marketing spend, I guess, I'm curious if any one of these variables really stood out as the driver of the improvement? Or was it a little bit of everything. And then also, do you have any sort of high-level data points just on cases per doc in China on an absolute basis or even sort of relative to the rest of Align overall?

Joseph Hogan

Steve, on the variables of improvement, unfortunately, we're a multi-variable equation when you get to aligners. Things are sold in binary here. But I think you do add a point to the two big ones, which would be just an increase in consumer focus and then the sales force that we put in place. That's -- our GP effort, we're just really moving into that, too, and we're arranging that properly also. But those efforts, we think, are contributing also. But I'd say it's a mix of those 3 variables. I can't weigh them for you, really.

Steven Valiquette

Okay. What about the cases per doc in China? Any color on that?

Joseph Hogan

No, we don't want to give any color on that one. Right now, it's just -- I'd say you have to look at it as we're driving penetration there, and we're training a lot of doctors as we ramp up in China.

Operator

Our next question comes from Nathan Rich with Goldman Sachs.

Nathan Rich

Just two quick ones here. First, on ASPs. I think guidance would put you at something like $1,250 for the year. Do you think you can kind of maintain that level of ASP going forward? And can you kind of just talk through what kind of the key factors would be as we think about ASPs going forward? And then just a very quick follow-up. John, just wondering if there was any catch-up benefit to cases in the quarter, kind of post that ClinCheck disruption that you highlighted in 2Q.

John Morici

Well, I'll start with that one first because there was really no catch up or no benefit from that. As we had said in the second quarter call, it's really de minimis. There wasn't much of an effect that hit -- that affected the quarter. So there really wasn't an impact in the third quarter.

In terms of ASPs, there's going to be puts and takes. And we've talked a number of times about what those puts and takes are. As we grow in comprehensive, like we had a strong comprehensive quarter in the third quarter, ASPs are higher, growing internationally, generally at a higher ASP.

But then you also have significant growth in the low stage, and that can affect the mix as well. So what we've said all year, and as we look at things, we thought it would be relatively consistent. The puts and takes would kind of offset. Notwithstanding any FX changes, we thought the puts and takes would offset. And we saw that in the third quarter and we are guiding that in the fourth quarter.

Operator

Our next question comes from Michael Ryskin with Bank of America.

Michael Ryskin

I'll try to be brief. First, just one quick follow-on on the ASP. Obviously, really nice improvement in the third quarter. I was wondering if you've got any -- I realize it doesn't show up in the numbers, but maybe you've got some qualitative pushback or feedback from docs on the price increase, sort of what was the response there? Because this was the biggest quarter-over-quarter move in quite some time. And also maybe if you saw some divergence in results from some of your highest utilization docs that are getting the advantaged discounts that can absorb it versus some of the lower-tier docs that are paying more close to the full price and, therefore, maybe weighing some of the other doctor-directed options?

Joseph Hogan

Michael, it's Joe. On the ASP piece, obviously, we raised price. John talked about it, some of the exchange aspect, whatever. But I think one thing I want the analysts who follow us to remember, like we said before, ASPs will fluctuate. But sometimes, our ASP is going down meaning our gross margins go up. Our lower-end products actually have a higher gross margin than our comprehensive product line. I know it's counterintuitive, but that's actually how it works.

So I mean, I think, keep that in mind going forward. If you see some of that lumpiness from an ASP standpoint start heading down, don't take as a trajectory for lower gross margin. It's just those 2 are separate that way. And John, do you want to add anything on your end?

John Morici

And so like we said, you're going to have some offsets, but we're trying to grow from a -- all the way from low stage, the more simple cases, all the way to the complicated cases. And we believe in those traditional orthodontic case starts that we have product that can help move teeth, but the market expansion and some of that market expansion is going to be at those lower-stage products that are at a lower ASP, but we look at that as incremental business for us.

Michael Ryskin

And on the -- quick follow-up on the EMEA headquarters move you mentioned in your prepared remarks, you're expecting some turnover in personnel. Any expectation for disruption to the business in early 2020, sort of how are you bracing for that? How are you preparing and just to make sure that it's a smooth transition going into January next year?

Joseph Hogan

Yes, it's Joe again. Look, what we did in EMEA, which was fortuitous in a sense, about 3 years ago, we began to decentralize. We had a really big headquarters staff out of the Netherlands. It dictated a lot of what the regions did and had to do that because it's a relatively small business back then, and we needed to keep specialization at headquarters.

Over the last three years, we really moved that out into the countries, moved it into France and Spain and Germany and different areas. And so we really embedded in those countries some real talent that I feel has good continuity will take them through. Now there's some overall headquarters talent that we don't want to lose that we're working hard to save, but I don't see it being a big, big disruptor for the business at all.

John Morici

And this has been something that -- Mike, this has been going on all year. We have a complete transition plan, very clear as to who's moving and how things are happening so that come January 1, it's very clear. So it's something that, as we've talked about on these calls since the beginning of the year, we've talked about this move and we feel really good about the plan that we have now and be able to hit the ground running in 2020.

Shirley Stacy

Well, thank you, everyone, for joining us today. This concludes our conference call. We look forward to seeing you at upcoming conferences and, of course, at the GP Summit in November. If you have any follow-on questions, please contact Madeline Homick in Investor Relations.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.