



smile

DIRECT CLUB

**2019 Q4 Results
February 2020**

Forward-Looking Statements

This presentation contains forward-looking statements. All statements other than statements of historical facts may be forward-looking statements. Forward-looking statements generally relate to future events and include, without limitation, projections, forecasts and estimates about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans, and objectives. Some of these statements may include words such as “expects,” “anticipates,” “believes,” “estimates,” “targets,” “plans,” “potential,” “intends,” “projects,” and “indicates.”

Although they reflect our current, good faith expectations, these forward-looking statements are not guarantees of future performance, and involve a number of risks, uncertainties, estimates, and assumptions, which are difficult to predict. Some of the factors that may cause actual outcomes and results to differ materially from those expressed in, or implied by, the forward-looking statements include, but are not necessarily limited to: our ability to manage our growth; the execution of our business strategies, implementation of new initiatives, and improved efficiency; our sales and marketing efforts; our manufacturing capacity, performance, and cost; our ability to obtain future regulatory approvals; our financial estimates and needs for additional financing; consumer acceptance of and competition for our clear aligners; our relationships with retail partners and insurance carriers; our R&D, commercialization, and other activities and expenditures; the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks; laws and regulations governing remote healthcare and the practice of dentistry; our relationships with vendors; the security of our operating systems and infrastructure; our risk management framework; our cash and capital needs; our intellectual property position; our exposure to claims and legal proceedings; and other factors described in our filings with the Securities and Exchange Commission, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2019.

New risks and uncertainties arise over time, and it is not possible for us to predict all such factors or how they may affect us. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We are under no duty to update any of these forward-looking statements after the date of this presentation to conform these statements to actual results or revised expectations. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this presentation.

Market and Industry Data

This presentation also contains estimates and other statistical data obtained from independent parties and by us relating to market size and growth and other data about our industry and ultimate consumers. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates and data. In addition, projections, assumptions, and estimates of our future performance and the future performance of the geographic and other markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

Non-GAAP Financial Measures

This presentation contains certain non-GAAP financial measures, including adjusted EBITDA (“Adjusted EBITDA”). We provide a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure in the appendix to this presentation and in our Current Report on Form 8-K announcing our quarterly earnings results, which can be found on the SEC’s website at www.sec.gov and our website at investors.smiledirectclub.com.

This presentation is a supplement to, and should be read in conjunction with, SmileDirectClub’s earnings release for the quarter ended December 31, 2019.

Before and happily ever after.

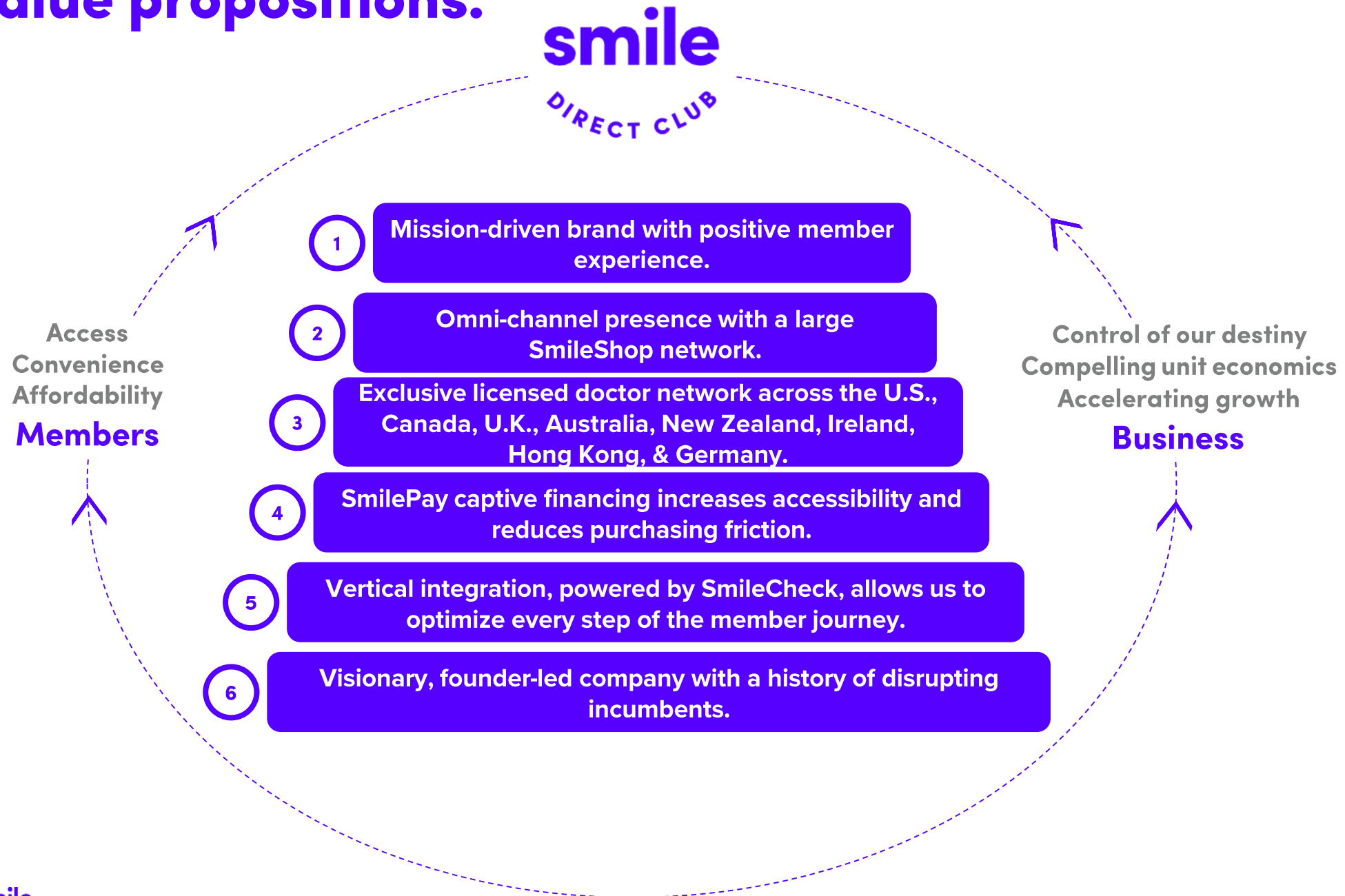




WHAT WE STAND FOR

Our mission is to democratize access to a smile each and every person loves by making it affordable and convenient for everyone.

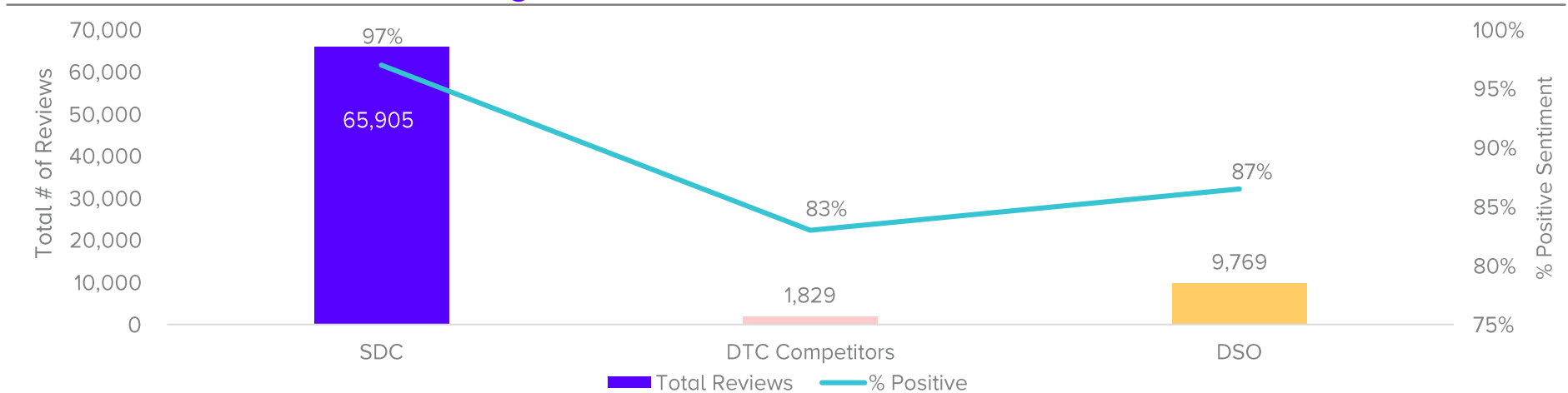
We are a global medtech platform with unique value propositions.



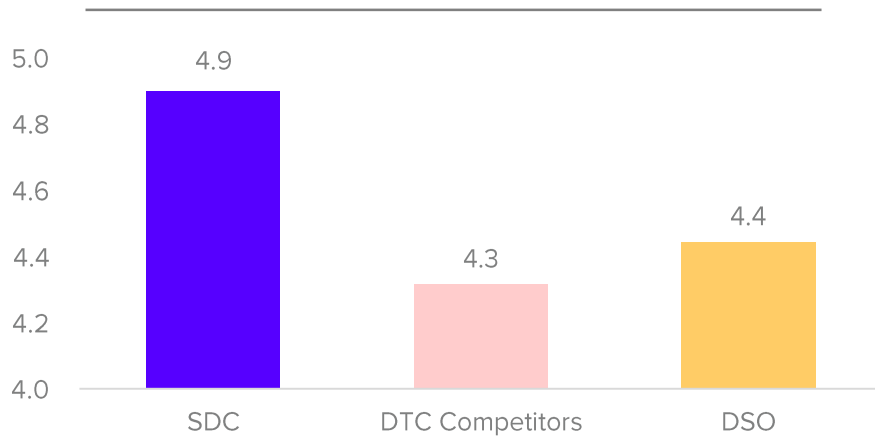
SDC has built a brand at scale that our members love.

We compared our member satisfaction scores with those of other DTC competitors and traditional DSO providers and consistently tracked higher than the competition.

Google Reviews & Member Sentiment



Customer Rating⁽¹⁾



NPS 53⁽²⁾ - one of the highest in spec. healthcare industry.

Approx. 20% of members come from referrals.

BBB rating of **A-**.

Average rating 4.6 / 5.0 with approx. 170K member reviews⁽³⁾.

Where SDC is today.

LARGE FOOTPRINT

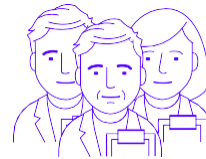
SMILESHOPS



391 SmileShops

across 46 states, Puerto Rico, Canada, Australia, New Zealand, U.K, Ireland, & Hong Kong.

DOCTOR NETWORK



**~250 licensed
orthodontists and
dentists**

in proprietary network across all 50 states, Puerto Rico, Canada, Australia, New Zealand, U.K, Ireland, & Hong Kong.

BUSINESS SCALE



~5MM unique visits
to our website per month.



850K+ members
treated with aligners.

TEAM



6,300 team members

- 2,800 in TN.
- 1,800 in Costa Rica.
- 1,700 in SmileShops across the U.S., Puerto Rico, Canada, Australia, New Zealand, U.K, Ireland & Hong Kong.

RETAIL



3,800 Wal-Mart stores

Full line of oral care products.

Includes patent-pending toothbrush, BrightOn premium whitening, toothpaste, SmileSpa, and water flosser.

2020 Guidance and Long- Term Targets.



2020 guidance.

- For fiscal year 2020, we expect the following:
 - Revenue between \$1.00 billion to \$1.10 billion representing growth of 40% year-over-year at the mid-point of the range.
 - Adjusted EBITDA⁽¹⁾ for the fiscal year is expected between negative \$50 million to negative \$75 million. Including turning adj. EBITDA positive by Q4 2020.

Revenue Assumptions ⁽²⁾	FY 2020	
Revenue	\$1.00 billion	\$1.10 billion
Unique Orders Shipped	591k	650k
ASP	\$1,725	\$1,725
Implicit Price Concession	(8.5%)	(8.5%)
Reserves & adjustments	(6.5%)	(6.5%)
Financing Revenue	6.5%	6.5%
Other Revenue	6.5%	6.5%

	FY 2020
Adj. EBITDA	\$(50) - \$(75) million

Financial components beyond 2020 – Revenue.

Controlling growth in existing markets to position us for long-term global growth.

North America



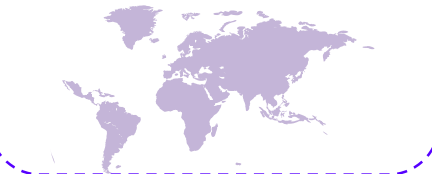
- Anticipated growth rate of 10% - 20%.
- Low end of the range assumes no further penetration into new age demographics.
- High end of the range assumes further penetration of the teen market which represents 2/3 of industry case starts.
- Focus on driving demand through existing SmileShop footprint and leveraging new customer acquisition channels, including wholesale and Walmart.
- Opportunity to enter into partnerships with additional insurers.

International Existing Markets



- Growth rate of 20% to 30% annually.
- Includes the following countries: Australia, U.K., New Zealand, Ireland, Hong Kong.
- 46 shops outside of North America as of Dec. 31, 2019.

International New Markets



- Massive global opportunity of ~500mm people.
- Anticipated revenue contribution of \$100mm from new countries each year.
- Continue to execute on proven international expansion roadmap.

Growth rate of 20% to 30% annually on a global basis

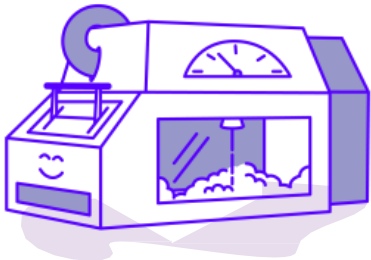
Financial components beyond 2020 – Costs.

Leveraging automation, our existing SmileShop footprint and cost discipline to drive towards profitability.

Long Term% of Revenue

**Gross
Margin:
85%**

Automation



- Continued advancement in automation and streamlining of our manufacturing process.
- Efforts to increase the use of automation in both treatment planning and aligner manufacturing process.
- Manufacturing automation will boost gross margins, improve our customer experience and allow us to keep pace with demand.

Leverage existing shop footprint



- Focus on driving demand across our existing network of SmileShops.
- Current footprint of SmileShops has already been scaled and is equipped to handle future demand. Only 25% utilized today.

**Sales &
Marketing:
40-45%**

Leveraging G&A Spend



- Continued rigorous cost discipline across the business.
- Rightsizing our spend to conform to our business priorities and long-term growth targets.

**G&A:
15%**

Financial Results.



Gross to net revenue bridge.

(\$ in millions; except for Aligners Shipped and ASP)

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Total Unique Aligner Orders Shipped⁽¹⁾	42,827	66,692	72,387	76,372	109,894	122,047	106,070	115,042
Average Aligner Gross Sales Price ("ASP")	\$1,731	\$1,739	\$1,773	\$1,797	\$1,767	\$1,761	\$1,788	\$1,771
Aligner Gross Revenue	\$ 74.2	\$ 116.0	\$ 128.3	\$ 137.3	\$ 194.1	\$ 214.9	\$ 189.6	\$ 203.7
Implicit Price Concession ⁽²⁾	(7.5)	(11.9)	(13.3)	(13.8)	(17.3)	(18.9)	(15.5)	(16.3)
Reserves and other adjustments ⁽³⁾	(2.6)	(4.5)	(5.3)	(6.5)	(11.6)	(14.6)	(12.0)	(12.9)
Aligner Revenue⁽⁴⁾	\$ 64.1	\$ 99.6	\$ 109.7	\$ 117.0	\$ 165.2	\$ 181.5	\$ 162.2	\$ 174.5
Financing Revenue ⁽⁵⁾	3.6	5.9	7.2	8.4	9.1	10.6	11.5	12.7
Other Revenue and adjustments ⁽⁶⁾	0.7	1.1	2.8	3.1	3.4	3.8	6.5	9.5
Total Net Revenue	\$ 68.4	\$ 106.6	\$ 119.7	\$ 128.5	\$ 177.7	\$ 195.8	\$ 180.2	\$ 196.7

(1) Each unique aligner order shipped represents a single contracted member.

(2) Estimated based on historical write-off percentages and expected net collections. Excludes implicit price concessions associated with financing revenue starting in 2019 of \$1.035mm for Q1, \$1.851mm for Q2, \$1.817mm for Q3, and \$2.005mm for Q4. See footnote 5 below.

(3) Includes impression kit revenue, refunds and sales tax.

(4) As defined in quarterly and annual filings (Aligner Gross Revenue less IPC and Reserves and other adjustments).

(5) Represents interest income earned on our SmilePay financing program, net of IPC starting in 2019, as noted in footnote 2 above.

(6) Includes net revenue related to retainers, whitening, and other ancillary products.

Q4 2019 results.

- Revenue for the quarter was \$197 million, which represents an increase of 53% over the fourth quarter of 2018.
 - This increase was driven primarily by a 51% YoY increase in aligner shipments which came in at 115,042.
 - Had we been able to keep pace with Q4 orders from a manufacturing perspective, revenue would have come in at the high end of our range.
- Gross margin for the quarter was 73%, an over 200-basis point improvement versus the prior year.
 - Gross margin improvement was driven by manufacturing 100% of aligners in house.
- Q4 Adjusted EBITDA⁽¹⁾ loss came in at negative \$60 million.
 - Adjusted EBITDA came in under expectation due to a miss on gross margin and higher than expected G&A spend.

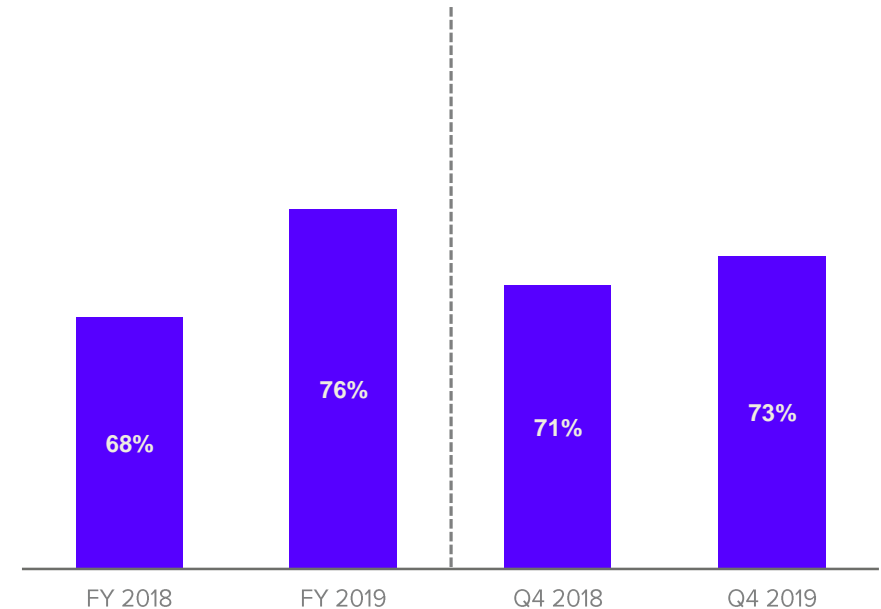
	Q4 2019	YoY
Net Revenue	\$ 196.7mm	+53%
Gross Profit	\$ 143.3mm	+58%
Gross Margin %	73%	+217bps
Adjusted EBITDA ⁽²⁾	\$ (60.0)mm	NM
EPS, Diluted	\$ (0.25)	NA

	FY 2019	YoY
Net Revenue	\$ 750.4mm	+77%
Gross Profit	\$ 572.0mm	+98%
Gross Margin %	76%	+788bps
Adjusted EBITDA ⁽²⁾	\$ (102.9)mm	NM
EPS, Diluted	\$ (1.14)	NA

Gross margin.

- Gross margin for the quarter was 73%, an over 200-basis point improvement versus the prior year.
 - Gross margin for FY 2019 was 76%, an almost 800-basis point improvement versus the prior year.
 - This was driven by manufacturing 100% of our aligners in-house.
- We were unable to keep pace with order demand in Q4 2019 due to certain challenges in manufacturing automation.
 - This resulted in increased costs and a 415-basis point sequential decline in gross margin.
- We remain very focused on improving our strong gross margin profile through continued advancements in our technology, and further automation of our core manufacturing processes.

Gross margin %

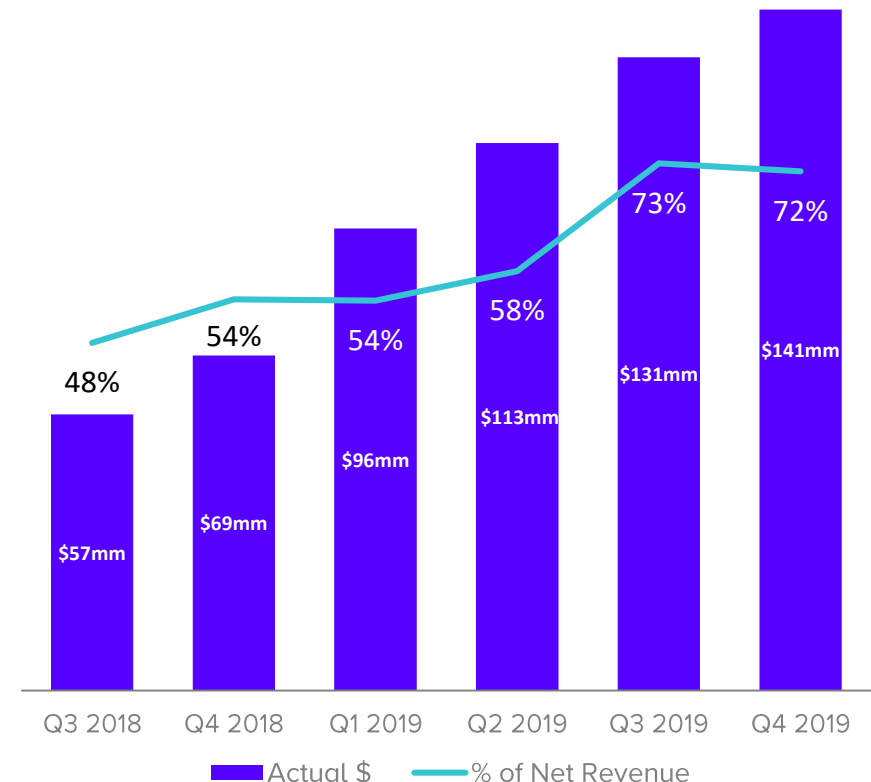


Marketing & selling.

- Marketing and selling expenses were \$141 million, in line with our expectation, or 72% of net revenue.
- We continued to make significant strategic investments in launching international markets, and building on our already strong brand recognition.
- We expect to begin to leverage our SmileShop footprint in 2020 and beyond, with our marketing and selling long-term target being 40-45% of revenue.

Quarter	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Referrals as a % of Aligner Orders	19%	19%	20%	20%	20%	20%
SmileShop Count	139	190	223	310	366	391

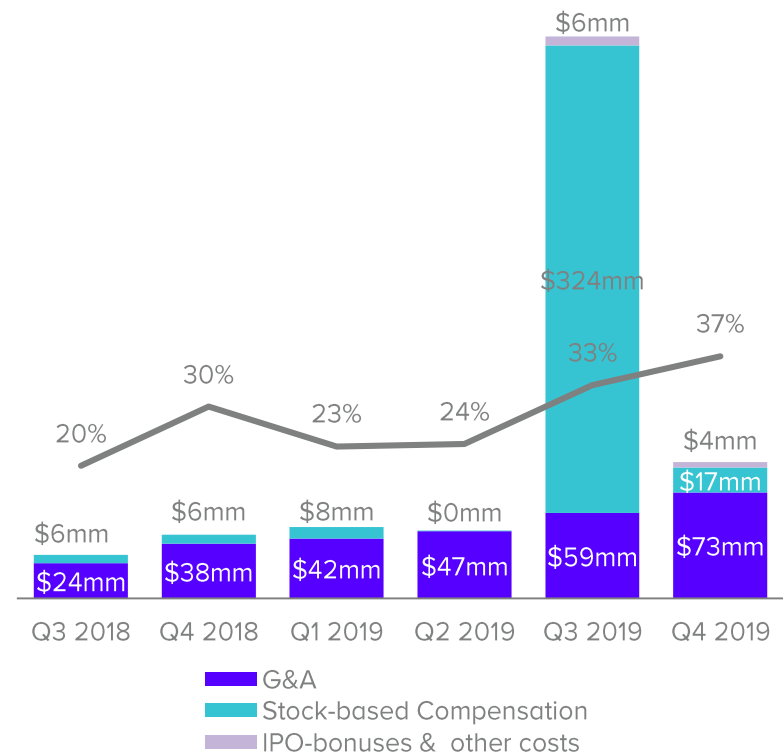
Marketing & selling expenses



General & administrative.

- General and administrative expenses were \$95 million in Q4 compared to \$44 million in the prior year period.
- Legal and lobbying expenses increased ~18% sequentially.
 - We expect continued elevated legal spend as we maintain our proactive stance in defending our mission and improving customers access to care.
- Our overall G&A structure was based on an aggressive hiring plan designed to conform to an earlier 2020 revenue outlook.
- We saw higher than expected spend across the following categories: legal, technology, consulting, D&O insurance coverage, and international expansion.
 - Some of these were one time in nature such as D&O IPO insurance, SOX compliance, and lease accounting standards.
 - The other expense items are associated with the need for broader cost controls that we will be implementing in 2020 and beyond.

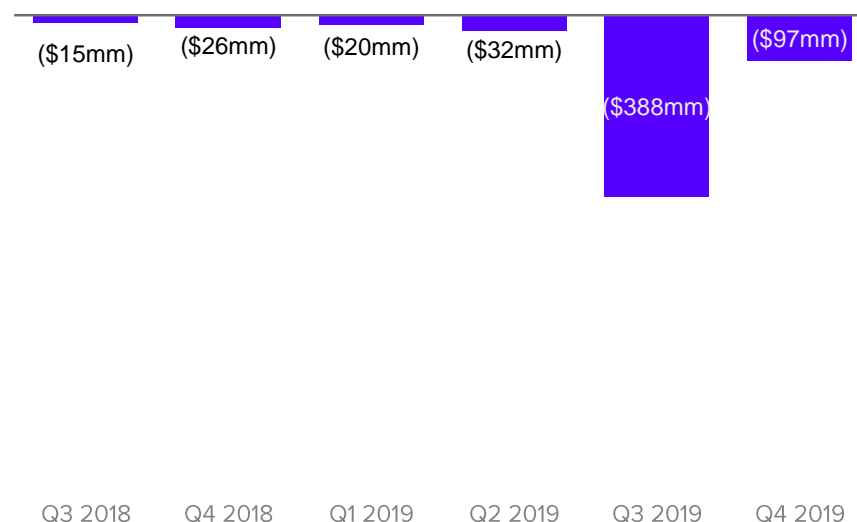
General & administrative expenses⁽¹⁾



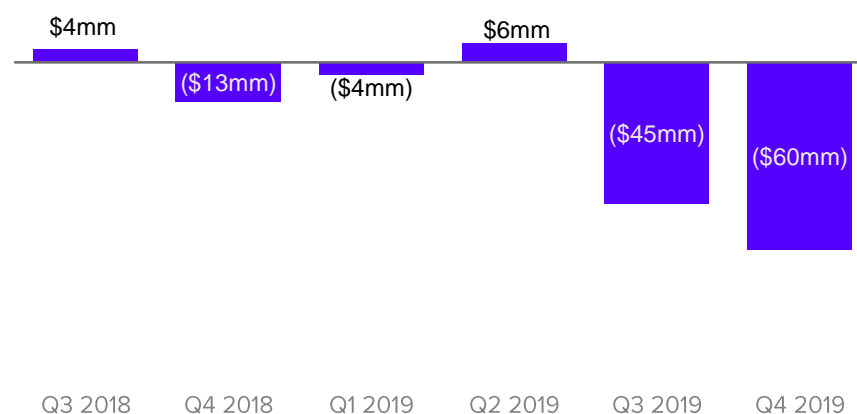
Adjusted EBITDA & net income.

- Interest Expense:
 - Interest expense was \$4 million in the fourth quarter, associated with borrowings on indebtedness from our credit facility.
 - The interest rate on our facility is LIBOR + 320bps.
- Taxes:
 - Our provision for income tax was \$1.7 million in the fourth quarter.
 - We generated \$22 million of deferred tax assets related to net operating losses in 2019, of which \$11 million relates to Federal, \$10 million relates to State and \$1 million relates to Foreign.
 - No liability was recorded under our Tax Receivable Agreement as part of our Up-C structure during 2019.
- Other:
 - Other expense (benefit) was (\$0.6mm) in the fourth quarter, primarily related to foreign currency transactions.

Net income



Adj. EBITDA⁽¹⁾



Balance sheet highlights.

- We ended the fourth quarter with \$318 million in cash and cash equivalents.
- Debt as of the end of Q4 was \$209 million. This is primarily associated with our credit facility, which finances our SmilePay program.
- Cash from operations for the fourth quarter was negative \$141 million, driven by negative \$60 million of Adjusted EBITDA⁽¹⁾ and an increase in accounts receivable of \$34 million.
- Cash spent on investing for the fourth quarter was \$40 million, mainly associated with leasehold improvements, capitalized software and building our manufacturing automation.

(\$ in millions)	Q4 2018	Q2 2019	Q3 2019	Q4 2019
Cash	\$313.9	\$149.1	\$547.6 ⁽²⁾	\$318.5
Debt	\$156.8	\$205.0	\$219.4	\$208.5
Accounts Receivable, Net	\$174.2	\$275.1	\$311.7	\$345.7
Cash Flow from Operations	\$(31.6)	\$(65.9)	\$(94.1)	\$(141.2)
Cash Flow from Investing	\$(21.9)	\$(10.7)	\$(28.2)	\$(40.0)
Free Cash Flow	\$(53.5)	\$(76.7)	\$(122.3)	\$(181.2) ⁽³⁾

Appendix.



Net Income to adjusted EBITDA.

	Three Months Ended December 31,		Years Ended December 31,	
(In thousands)	2019	2018	2019	2018
Net loss	\$(97,326)	\$(26,014)	\$(537,805)	\$(74,771)
Depreciation and amortization	11,099	3,894	27,336	8,861
Total interest expense	4,052	3,176	15,734	13,705
Income tax expense	1,672	67	2,268	361
Loss on disposal of property, plant, & equipment	--	--	--	617
Fair value adjustment of warrant derivative	--	--	--	14,500
Loss on extinguishment of debt	--	--	29,672	--
Equity-based compensation	17,363	6,213	350,122	19,839
IPO related costs	3,746	--	9,892	--
Other	(644)	13	(142)	31
Adjusted EBITDA	\$(60,038)	\$(12,651)	\$(102,923)	\$(16,857)

