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<<Tom Stephan, Analyst, Stifel>>

Okay, great. Good morning, everyone. Tom Stephan, Stifel Research. Really excited to have STAAR Surgical here at the conference this year. Warren, Deborah, thank you guys so much for joining. I am going to dive right in, 30 minutes, a lot of questions I want to try to get to. And so Warren, I will start off on kind of China trends. In-market ICL shipments year-to-date, you noted on the call, up a little over 12%, an acceleration from full year '25, up mid-single digits. So very encouraging. To kick things off, Warren, can you elaborate a bit more on the ICL demand picture in China and what you are seeing on the ground from a volume standpoint?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Sure. First of all, thanks for having us. Great conference. Good to see everybody. Look, we are excited about, and it is tepid excitement because you think about the China market and the way the economy has been challenged each of the last couple of years. Starting in 2023, we saw a pretty sharp decline. That same metric around ICL volume shipments in that time period was down about 14.5% by our numbers. 2025 was up 6%. So the 12.5% needs to be put in context. Again, that is just volume shipments, but it is more closely a proxy for what we believe is happening because as inventory levels have come down from 2023, we had far too much inventory in the country. Now Deborah and I have a real commitment. We look at it on a weekly basis.

Inventory is very healthy now, healthy in a good way from a low volume of inventory, just enough for service levels. So I think that speaks to the refractive market in China, which is pretty widely publicized as probably flat if you listen to Zeiss and if you listen to Aier and Bright Eye and Huaxia and all the public reporting that goes on. The market's flat and folks are taking advantage of the higher average selling price products. So you see Aier say they've moved a higher percentage of their procedural mix to higher priced products, Toric being one, EVO+ being another, I think the most notable, which is why we feel we're in a position of taking share and also having a little better than market performance.

<<Tom Stephan, Analyst, Stifel>>

Got it. That's great. On the call, you noted that 3Q in-market shipments were even higher than that 12 plus percent year-to-date figure. So it sounds like summer high season, from an in-market shipment standpoint, finished strong for you in the third quarter. 4Q is seasonally weaker in China, but from a year-over-year standpoint, I guess for the fourth quarter, what factors are most important that we should be considering in assessing, I'll call it the sustainability of recent trends?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Sure. Yeah, so Q3 we are trying to provide as much transparency as we can. So the data that we use to manage the business is the data that we're providing. So when we say that those are the in-market shipments, that's distributor numbers that they report to us. Looking at them on a quarterly basis, which is why we didn't give the quarter because it's kind of an eye-popping number. But the reality is the underlying in-market volume's pretty good for us right now. To your question, how does that apply to Q4? Q4 last year was pretty soft for a bunch of reasons. We've said we believe we're going to grow bigger than what we had Q4 last year. When you think about advantages that we have this Q4 that we didn't have last Q4, mix is a big piece of that.

When we say price, what we really mean is mix. It's average selling price based on percentage of V5, which is growing, and percentage of Toric procedures. Does everyone know what a Toric is? So when you have an astigmatism, many of us do, probably half the population does. When you put an ICL in, a monofocal ICL essentially is for a patient with an eye that is shaped like a basketball. Think of it that way. When you have an astigmatism, your eye is getting more and more shaped just slightly like a football, which means that the steep axis on your eye is slightly different than the steep axis on my eye. We're willing to manufacture all the way 360 degrees to that steep axis as a custom lens for a patient, which is different than most of our competitors.

Even the ones that provide a Toric typically do it only on a made-to-order. It's a competitive moat for us. So the higher the percentage of Toric procedures, the more revenue we get because we charge a premium for that. So mix is higher Toric and higher V5. That's happening in Q4. We already know that. And the difference in Q4 versus Q3 is we're going to be able to supply what they need because we were unable to fully supply in Q3. And last year, the same quarter, we didn't have V5 available to the market.

<<Tom Stephan, Analyst, Stifel>>

Okay.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

That's beyond the fact that we're taking share. I think there's that dynamic that's going to be helpful.

<<Tom Stephan, Analyst, Stifel>>

Got it. And the supply dynamic I will revisit very shortly. Maybe last one, just on trends. You mentioned the mix of V5 is growing. I think you said exiting 2Q, it was close to a third. Roughly what was the V5 mix in China exiting the third quarter, roughly speaking?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

So we got scolded a little bit by our distributors and by some of our hospitals because they compete. Remember, price is a component of that. We charge more for these things. And so the reality is they've asked us, just like share, they've asked us to keep that confidential. So what I'll say is we did say exit share at Q2 was 30% V5. That's true. It grew in Q3, so it's more. We're going to see continued adoption of V5 because patients want it. There's no shortage. There's 1.5 billion patients

or people in China, and V5 is the first offer that the practices are giving because it's their highest economics. If a patient can't afford it, then they go down to V4 or they go down to a SMILE Pro if the patient's appropriate. So we believe it's going to continue.

To the extent that we have a large premium between V5 and V4, I think simple pricing economics would tell you that as long as we're able to charge a premium, we will continue to do that. And you do not want, in that scenario, to get all of the patients on V5. I mean, you would want that, but in order to have a premium, you would need to have a difference. So the higher the mix comes, the more the price will slightly come down. There will always be a premium until we get to some point distant in the future where it just makes sense financially to stop manufacturing it.

<<Tom Stephan, Analyst, Stifel>>

Right.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

We will be good shareholder capital investors that way and make sure that we titrate that. But for now, we are going to continue to grow it, but we do not anticipate growing it all the way.

<<Tom Stephan, Analyst, Stifel>>

Okay, okay. That is great. And then shifting back to kind of China inventory, in-market ICL volume has been outpacing, or did outpace your ability to supply in 3Q with price being all of the year-over-year growth in the quarter in China. So Warren, for you, can you talk about the path forward operationally to better support downstream demand, and how should investors think about the relationship between distributor shipments, STAAR's sell-in, and channel inventory? Sorry, I packed in a lot of questions.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

No, it is okay, and you may have to help me with it if I do not answer it all. When you think about the impact, Deborah will talk a little bit about gross margin, but as we were scaling up our supply, strategically, we want to supply China out of Switzerland because that is in our best interest, both from a perception of the product for the premium, but also because it eradicates the tariff that we have been paying for years, and it improves our economics. So one of the hidden opportunities for us is the fact that now that we are fully manufacturing product destined for China in Switzerland, from now on when we ship, there won't be tariffs associated with it.

Now, there's still a tail of inventory that we have sitting in our warehouses in Brugg, Switzerland, that were U.S.-made, that when it goes to China, they'll still pay a tariff. We'll share in that tariff, and that's a cost to gross margin. The reality is that's going to start to decline fast, so we'll start to see that go away more in Q4, and then as we go into '27, it'll be a benefit to us from less tariff on products going to China. When you think about we were standing up our Swiss manufacturing to supply China, we have to determine how much is Toric, we have to determine how much is V4, how much is V5 Toric, so there's a complicated supply chain associated with this. What we realized

is that when we launched V5 in Q1 with low volume expectation, we had higher-than-expected demand.

And then as we had the price premium still fairly extreme in our view, we started that way because we knew that that would limit the adoption, but it didn't. And so then we had to scale our – wee had to change over the demand plan for Switzerland to build more V5, and that slowed down our production, because the idea was build as much V5 as we needed to. Think about it in two dimensions. We started scaling manufacturing in Switzerland with no ability to produce, and by the end of the year of '26, we would be able to produce 300,000 or 400,000 units, but that doesn't start in January. It finishes by the end of December. That can stay on track, assuming that you are able to produce the right mix. When the mix changed, then it changed our trajectory there.

So now that we've gotten V5 under control, because Q3 we weren't able to fully supply V5, now that we believe we'll be able to do that for Q4, we're building V4c also. So we think as we go into Q4 and then as we go into next year, we'll be out in front of that demand.

<<Tom Stephan, Analyst, Stifel>>

Got it. Okay.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Does that make sense?

<<Tom Stephan, Analyst, Stifel>>

Yeah. No, that is super helpful. So I guess, you stated for 4Q China, you expect year-over-year revenue growth. So is that all price, or do you expect some positive volume growth contribution as well? Or maybe if you can just, I guess, speak to pricing mix and volume factors that kind of support that 4Q China outlook.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Mix feels like it is in our favor, certainly for Q4, no doubt. Q1 and Q2 even seems in our favor, if you are just logical that we did not have full boat of V5 at launch time in Q1 of last year. So the high season in China, the shape of the demand in China now, two years in a row, and we believe will hold, is Q1 and Q2 are strongest, Q3 is a slight step down, and Q4 is a further step down, although we continue to show strength, and so we are excited about that. So it is hard to predict, and we are not giving guidance, but Q4 will grow. Q4 will have the dynamic where we have increasing amount of mix, V5 and Toric, so we will benefit from that on price.

To your question about units, there is no reason to believe that if our ability to supply is there, that we should have a slowdown in units. But we acknowledge we are getting the biggest benefit from increase in price because people are adopting V5 at rates higher than we expected. But the other thing that was unique about Q3 that was pleasing to us was, we were getting a lot of our growth, some now from the public hospital, and we were getting growth at lower diopter, which tells us

that dynamic of the hospitals promoting higher-priced procedures, V5, instead of SMILE Pro, LASIK, WaveLight LASIK, et cetera, that is happening, and that is causing lower diopter adoption.

<<Tom Stephan, Analyst, Stifel>>

Got it. Okay. So, maybe to wrap that up, so 3Q, kind of all price and mix, per your comments on the earnings call. 4Q, it sounds like the year-over-year growth, you feel confident it can extend beyond just being price and mix, and given your improved ability to supply, there is confidence that unit volume shipment can also grow year-over-year?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

That is right. And that is all China, of course.

<<Tom Stephan, Analyst, Stifel>>

Yep.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

We had 13% growth ex-China, and that is both volume and price.

<<Tom Stephan, Analyst, Stifel>>

Got it. So, for 4Q, confidence in positive China volume.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Correct.

<<Tom Stephan, Analyst, Stifel>>

Okay. Perfect. And then this is a little bit of a random aside, but I think it sticks with the theme of China inventory. I will just ask it kind of upfront. I mean, could STAAR shift to direct selling in China? Is this something the company could feasibly execute on at some point in the future? And if so, what would that take? I feel like it would certainly improve visibility for all parties. I would imagine there should be a margin benefit, but there is obviously a lot of complexities in China. You have been doing business there for a long time. But talk about kind of that dynamic of potentially shifting to selling direct in China.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Sure. So we enjoy a great relationship with our two distributors in China. They are importers and distributors, and they are fantastic. So we are very pleased with them. The reality is, there is a lot of margin that is sitting in the channel that could otherwise belong to STAAR. It is logical. I had the privilege of running J&J Vision for four years, and we were a direct model. I think Alcon is,

and B&L and others. You get to a certain scale, and it makes sense for you to be direct. You control compliance, you control economics, you control messaging, and so on. I think the company in the past has had a view of short term. It was not the company. It was not building infrastructure for the future. It was not building pipeline and portfolio for the future, and we have taken a much different approach.

We have a board that is now supportive of the long-term. The ERP system enables us to do things like what you are talking about, to be able to take markets that make sense around the world and to tie them in in a direct fashion. So yes, we absolutely have the capability. Is it amongst the things that is on a board of considerations? Of course. And when you think about the long-term future of a market like China, which represents half our business, as we want to build out infrastructure there, these are things that are on the table. But we are not in any way saying that we are going to do that. We are not in any way saying that that is underway. We just know it is an option, and of course, there is margin opportunity there.

<<Tom Stephan, Analyst, Stifel>>

Really helpful. And then I will shift gears, stick with China, shift gears a bit, and talk about competition. And I will kind of just start with what is topical. Zeiss introduced its new phakic IOL, LUNANA, if I am pronouncing that correctly.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Yep, LUNANA.

<<Tom Stephan, Analyst, Stifel>>

In China over the weekend, it is now NMPA approved. I guess high level, Warren, how does the product compare to ICL from what you are aware of? What do STAAR investors need to know about that product?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Yes, so we are actually happy to have more competition because there is a global. We actually put out a report. We surveyed about 7,000 or 8,000 patients or people and found out what people thought about the laser vision correction market versus the ICL market. And what they flagged for us, we know that the global market for LASIK is on a double-digit decline three years in a row. People are getting their information from social media, and when you look for LASIK as a potential option, you see scary things. You see removal of cornea, you see melted corneas, you see pain and neuropathy, and so on. And as a result, they are looking for an alternative, and EVO being reversible and removable seems to be the biggest thing. What you are seeing is a proliferation of companies, even the laser companies now, who are bringing forward competitive options.

We actually think that is going to be really helpful because it is going to get people off of the sidelines into a category. So there is going to be a category lift here. Now, there will be some short-term dynamics. We will see how those play out. If history is any indicator, there have been. Does

anybody have any idea how many competitive ICLs have launched in the past, in the last 20 years? Probably 20. They are acrylic. They are non-Collamer. We created Collamer. So we actually, interestingly, we are an optics company because we have EVO, but the reality is we are a material science company that created Collamer.

We took polymers and inextricably, covalently bonded them with collagen, creating a Jurassic Park material that is elegant in the eye, that can stay in the eye for 30 years and then be removed in advance of cataract surgery, and it literally looks like it was just put in today, with the exception of maybe the foot plates out on the periphery. But the optic is pristine. And so the fact that we can. In an IOL, I describe it, you are probably tired of me saying it. I describe it, think of an M&M, and you open it up and you take the peanut out and you put a new synthetic peanut in and it is protected. That is an IOL. It sits in a capsular bag. It has been irrigated and aspirated, and it sits there sort of comfortably.

In an ICL, you make a 2.5 millimeter incision, you inject the lens, and you tuck it into just under the iris, and it sits there almost free-floating in what they call the sulcus. And unless the material is really biologically friendly, over time, sometimes three, four, five years, it rubs against the posterior surface of your cornea, and it creates endothelial cell damage, and it causes cataracts, and it causes damage, and it causes iris pigmentation, all of which are reasons to remove the device, and they impact your vision.

Because of that history from companies like J&J, where I worked, like Alcon, who tried to buy us, they have tried and they have failed because they do not have the material. So I think that history is important when you talk about LUNANA. I am not suggesting they are going to fail. I am just saying Eyebright launched, they are an IOL company.

They launched over a year ago now. They have made virtually no impact, and they don't have a Toric, which we already know is when your eye gets shaped like a football and you make a custom lens. They have not done that.

<<Tom Stephan, Analyst, Stifel>>

LUNANA. LUNANA?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

LUNANA does not have a Toric either. Now, I suspect they will pursue a Toric. A company like Zeiss and Wuxi together, they can probably pursue one. You need hundreds of thousands of SKUs to manufacture at the discrete diopter. Hundreds of thousands of SKUs. That is a moat for manufacturing because the cost associated with that. So we will see what they do.

<<Tom Stephan, Analyst, Stifel>>

Okay.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Candidly, I am more excited about market uplift than I am concerned about the impact of competition, because we know the material advantage that we have had for so many years. Now, we are not arrogant about that. We're not discounting competition. And the reality is when a new product launches, they typically give away thousands of lenses which means thousands of lenses that would otherwise be EVO might not be implanted. So we'll face that on a short-term basis, but on the long-term, I think we benefit from market lift.

<<Tom Stephan, Analyst, Stifel>>

Got it. That's super helpful. Then maybe to follow up quickly. So LUNANA is acrylic, is that correct?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Yes.

<<Tom Stephan, Analyst, Stifel>>

Aquaflex, is it taking any sort of unique angle or spin from what you are aware of, or too soon to say?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

It is probably too soon to say. What it sounds like, they are taking the point of view that there is no biological product in it, which is an interesting take, I think, because I think that is a good thing. I think anyone who injects collagen into their face and otherwise, they would say the same. But they are going to say it is a soft material. They are going to say it is Collamer-like.

These are the things that all of the competitors say. They will likely go on things like, they will create more sizes. We don't think sizes are so important because the material is so elegant. What companies are doing now is they are coming and saying, we have more sizes. We think that introduces more complexity, not less. So we will see how the market reacts to that. But you will hear the standard things.

You will hear soft, you will hear high water content, which does not have a clinical benefit. That just means it is a softer material. It does give it the downside benefit of it could fold over when you inject it. But who knows? I am not saying anything negative about that lens. They will be formidable competitors, and we are happy to have them.

<<Tom Stephan, Analyst, Stifel>>

Got it. Okay. And then maybe last one here on kind of competition more broadly. LUNANA does add another phakic IOL to China, I think bringing the market to maybe four phakic IOLs, possibly more maybe on the come. So my question here is, does an expanding competitive field in China change how investors should assess potential VBP risk in phakic IOLs?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

That's a good question. Those of you that are familiar with VBP, it almost is exclusively, not entirely, but almost exclusively to government reimbursed products. IOLs have been hit hard. Cardiology was crushed. Orthopedics, where I lived for a long time, it actually caused the exit of some of the big multinationals. This isn't that, so I don't see. There were a couple of places, the Western provinces, for example, where they did it for Ortho-K. They did a VBP for Ortho-K, which was unusual. So there's been a few places where they've gone into the consumer cash pay only, but we are entirely cash pay. We are 75% or so in the private sector, so it's private hospital systems, Aier, Bright Eye, Huaxia, EuroEyes, et cetera. So it's unlikely.

But you also, before you go down that road, you have to say, do we have four competitors? Because we do not even have competitors that have Torics available. So it's more than half the market is Torics. So until you have multi-competitors, and it's probably, there's no golden rule of four.

<<Tom Stephan, Analyst, Stifel>>

Right.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Until you have multiple competitors that are putting impact against the Chinese society, and you have like-for-like products, I don't think you'll have a VBP. It's curious that they've had LASIK for years and SMILE and other lenticular procedures, and they've not done a VBP there. So I think you can point at things like that. Doesn't mean it could never happen. You asked a question earlier, though, that I think is connected to this. Gosh, the time that you would take margin out of the channel is whenever a VBP would be launched, wouldn't it? Because that would be a good offset to things like that. So I'm not so concerned about VBP. I still think that the benefit of the – when you think about the small impact of ICLs from a percentage of the refractive error population, more noise in the system is going to be a really good thing.

<<Tom Stephan, Analyst, Stifel>>

Okay. Fantastic. I want to spend a little time on ex-China. Growth was really nice there in 3Q at 13%, accelerated, I think off of comp as well. And that was despite softness in key markets, relative softness in key markets like Japan and South Korea. So can you talk about the areas of strength in your ex-China revenues more broadly, and what markets in particular do you view as the most exciting growth drivers in the near term as well as, I would say more importantly, the long-term?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Yeah, I mean, look, Europe has been a delighter now for quite a few quarters in a row, despite some of the challenges with the Middle East, which when you take the Middle East out of it, you see 50% plus growth. Is that sustainable? No, I do not think so. But I think we are going to continue to get high growth in Europe. You are seeing the same thing. You are seeing the – it is a bit of a

die-off of lasers. Lasers are now getting more and more niched for a post-IOL adjustment of half a diopter to a diopter or so that is remaining of refractive error post the IOL procedure. For patients that come in that have full transparency from the clinicians around what their options are, if the pricing is even reasonably close, and that is a big lever for these practices, they are choosing a reversible option.

If you describe LASIK and you say, okay, I am going to take a 270-degree arc. I am going to flap your eye back. I am going to ablate your cornea irreversibly. It might cause neuropathy and pain, and you can potentially get endothelial cells that are going to grow back. So it is going to – you have heard about LASIK wearing off? That is when it happens. It is the endothelial cells grow back. Or I can give you a reversible procedure that is you are going to be able to see on day one, and you do not wear a bandage contact, et cetera. If a patient is fully informed, then they typically are going to choose that if they can afford it. So we are seeing that. As I said, globally, lasers are declining double-digits two years, three years in a row now. So Western Europe is going to be a good market for us.

U.S., look, U.S. continues to trot along. It's been less exciting than people thought, I think, originally. If you remember back in 2023, STAAR scaled up the U.S. organization, had about 50 people almost in the organization, embarked upon a $10 million Jonas Brothers campaign, drove patients to practices. And guess what? When the patient showed up and said, I want what Joe Jonas got, guess what the practice said? I don't know what you're talking about. Because it's like building a website, but you haven't built it yet, and you start driving traffic to the website, and people show up and go, Holy smokes, there's nothing here. That was sort of what happened. So now we have a strategy where it's very clear. We cut our organization in half, yet we're still growing beyond where we were growing in '23 and '24.

Now the base is around $25 million to $26 million. We're getting customers clinically confident who are operating in a site of care that's advantageous to them. Think if I'm a surgeon and I'm seeing patients and I'm doing LASIK or IOLs all day long, and then to do an ICL, I have to get in my car, leave my practice, go through traffic, go two miles away, and pay $1,900 an eye to perform a procedure, I'm not going to do that very often. And if I do, I'm going to have to charge the patient 10 grand. That's not our customer. Our customer is clinically confident, that has site of care economics either in their office, in office suite, or in a surgeon-owned ASC. So we've now triaged our customers that way, and that's who we're attacking.

And then those are the customers we're partnering with from a marketing standpoint. Locally, we're helping those surgeons attract patients. They come in, they get offered EVO ICL adjacent to LASIK as an option. Then at some diopter, they get offered EVO as the primary procedure, and we're seeing that work. So we think the U.S. will continue to grow. And then for the future, Taiwan's growing hugely for us. This is a market with 80,000 or 90,000 procedures. It's SMILE only. We just went into that market. So you see a little bit of our APAC other growing. That's because largely Taiwan.

Southeast Asia should be similar. We just hired a new Chief Commercial Officer who was a former CEO of STAAR, so we're bringing back some real capability from a commercial standpoint. He has hired Pascal Aeschlimann, who's living in Singapore, who has experience in the region. He's

going to help us grow out our Southeast Asia. The number of patients or potential patients that exist in those markets is massive.

<<Tom Stephan, Analyst, Stifel>>

Yep.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

This is hundreds of millions of people with high refractive error. Now, it's lower on the economics, but we're going to see that grow over time, of course, and this is a long-term discussion, not a next quarter discussion. But we think there's high growth coming from those markets. Then lastly, I'll say Africa's going to be huge in the next 15, 20 years. So the next China is probably sitting in Africa. Several of the world's largest cities will be right there in Africa in 20 years.

<<Tom Stephan, Analyst, Stifel>>

I guess with that in mind, I mean, do you believe ex-China revenue can be a durable double-digit plus growth segment of the business, or are there maybe some growth offsets that would maybe support a different average growth profile?

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

We're not giving guidance, so it's hard to predict. I'll just say the fundamentals are low share of ICLs against a declining base in lasers. The refractive landscape, the number one point I have to make while we're here, the refractive landscape is shifting. Lasers are being really relegated to low diopter correction of IOL procedures, and the surgeons that are comprehensive refractive surgeons are offering ICLs now, and it's still a fraction of the percentage of market share. Japan is an example, 70% market share in Japan. No other country touches that, and there's a bunch of reasons why, and there's dynamics, but it shows you what's possible. And so when you think about a global share rate, I don't know exactly what it is, and we don't, but you can probably assume it's 15%, something in that neighborhood. There's real opportunity for growth here in the next five to 10 years.

<<Tom Stephan, Analyst, Stifel>>

Absolutely. Last minute or two, I'm going to squeeze in some on profitability. Gross margin, Deborah, for you, can you kind of touch on what happened with gross margin in the quarter, and more importantly, what are the drivers of the gross margin recovery, and how should investors think about the timing there?

<<Deborah Andrews, Executive Vice President and Chief Financial Officer, STAAR Surgical Company>>

Well, Warren already touched on the big issues impacting our gross margin this year, which were the transition of manufacturing from the U.S. to Switzerland of our China business. And the

volumes were very low in the beginning as we ramped up, which resulted in low overhead absorption of those units and a very high cost per unit. That was exacerbated in the second quarter when we launched our ERP system and had to shut down for a couple weeks as we transitioned from one ERP system to the next ERP system. So we've had very high unit costs in the first half of the year. And we expect that to improve going forward. We now manufacture all of our lenses out of Switzerland, and that result means there will be no tariffs on those units that we ship to China.

<<Tom Stephan, Analyst, Stifel>>

To China.

<<Deborah Andrews, Executive Vice President and Chief Financial Officer, STAAR Surgical Company>>

So those two factors, lower unit costs and reduced tariffs, will significantly improve our gross margins going forward.

<<Tom Stephan, Analyst, Stifel>>

Okay, great. I am going to squeeze in one or two more. I guess, how does the company view kind of long-term adjusted EBITDA margins? I think 26% margin in 1Q, 20% to 25% in the first half. How do you think about, I guess, yeah, that longer term adjusted EBITDA margin opportunity for the business?

<<Deborah Andrews, Executive Vice President and Chief Financial Officer, STAAR Surgical Company>>

I think 20% is a nice round number that we can target going forward, and we should be able to achieve that kind of level.

<<Tom Stephan, Analyst, Stifel>>

Got it. Okay, perfect. Last one, I'll squeeze this in. Recent share repurchase authorization, really encouraging to see that. Clearly a sign of confidence in the business, including cash generation. I guess like, why now with this authorization? And then what specifically do you view, or I guess did you view with shares around $20 as, I think the quote in the PR was substantially undervalued, or was that maybe a broader statement? And then we can wrap up.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

So the board continues to believe that the price remains pretty dislocated and substantially undervalued. When the authorization happened originally, it was for that purpose. When the reauthorization happened, it was a bit of a double down of we'd made some share repurchase previously, but now if the stock is going to continue to be depressed in our view, we get a lot of feedback that we don't give guidance, and therefore, because we're not giving guidance, people

have a hard time getting on board. We've given guidance in the past and not delivered on our goals and objectives. Now we've been trying to give commentary and try to be helpful about what we should expect, but we've not been giving guidance, but we've been beating estimates and also beating our internal plans. So I think the board's position is let's reauthorize, then let's take advantage. As long as the stock stays in a place where they believe or we believe that it is substantially undervalued, then we're going to take actions against it.

<<Tom Stephan, Analyst, Stifel>>

Got it. That's a great note to end on. Warren, Deborah, thank you so much.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

All right.

<<Deborah Andrews, Executive Vice President and Chief Financial Officer, STAAR Surgical Company>>

Thank you.

<<Warren Foust, President and Chief Executive Officer, STAAR Surgical Company>>

Thank you, everybody.

<<Tom Stephan, Analyst, Stifel>>

Appreciate it.