

Intuitive Surgical (ISRG)

\$580.48 (As of 07/02/20)

Price Target (6-12 Months): **\$610.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

Intuitive Surgical witnessed increase in procedures and systems placements along with higher service and operating lease revenues. Intuitive Surgical continues to gain from the flagship da Vinci system. Notably, da Vinci procedures registered solid growth in recent times, thereby driving the company's core Instrument & Accessories arm. Overall, the company enjoys a significant international presence. The company ended the first quarter on a solid note. On the flip side, the da Vinci system is in the early stages of adoption in some of the markets outside the United States, which is likely to impede placements. Intense competition in the global MedTech space is concerning as well. Meanwhile, the company witnessed contraction in gross and operating margins in the quarter. Year-to-date, Intuitive Surgical has underperformed the industry.

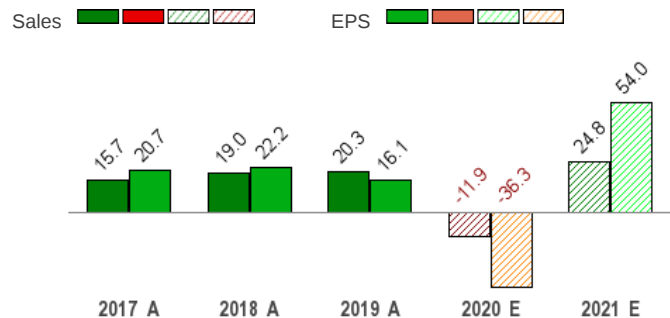
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$619.00 - \$360.50
20 Day Average Volume (sh)	645,424
Market Cap	\$67.7 B
YTD Price Change	-1.8%
Beta	0.93
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 45% (139 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	6.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/21/2020
Earnings ESP	-33.0%
P/E TTM	45.2
P/E F1	71.4
PEG F1	5.9
P/S TTM	14.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,215 E	1,100 E	1,250 E	1,547 E	4,925 E
2020	1,100 A	663 E	939 E	1,228 E	3,947 E
2019	974 A	1,099 A	1,128 A	1,278 A	4,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.08 E	\$3.01 E	\$3.50 E	\$4.19 E	\$12.52 E
2020	\$2.69 A	\$0.43 E	\$2.01 E	\$2.99 E	\$8.13 E
2019	\$2.61 A	\$3.25 A	\$3.43 A	\$3.48 A	\$12.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/02/2020. The reports text is as of 07/03/2020.

Overview

Headquartered Sunnyvale, CA, Intuitive Surgical Inc (ISRG) designs, manufactures and markets the da Vinci surgical system and related instruments and accessories, which is an advanced robot-assisted surgical system. The surgical system comprises a surgeon's console, patient-side cart, 3-D vision system, da Vinci Skills Simulator and Firefly Fluorescence Imaging.

Intuitive Surgical's robot-based da Vinci surgical system enables minimally-invasive surgery that reduces the trauma associated with open surgery. The da Vinci System is powered by robotic technology which has provided the company with a solid exposure to Mechatronics, Robotics and Artificial Intelligence for healthcare. The system provides 3-D High Definition vision, which helps surgeons gain superior visual clarity of target tissue and anatomy.

It also manufactures EndoWrist instruments, such as forceps, scissors, electrocautery tools, scalpels, and other surgical tools, which incorporate wrist joints for natural dexterity for various surgical procedures. Additionally, the company sells various accessories comprising sterile drapes for ensuring sterile field during surgery; and vision products that include replacement 3D stereo endoscopes, camera heads, light guides, and other items that facilitate use of the da Vinci Surgical System, as well as Ion endoluminal system for biopsies.

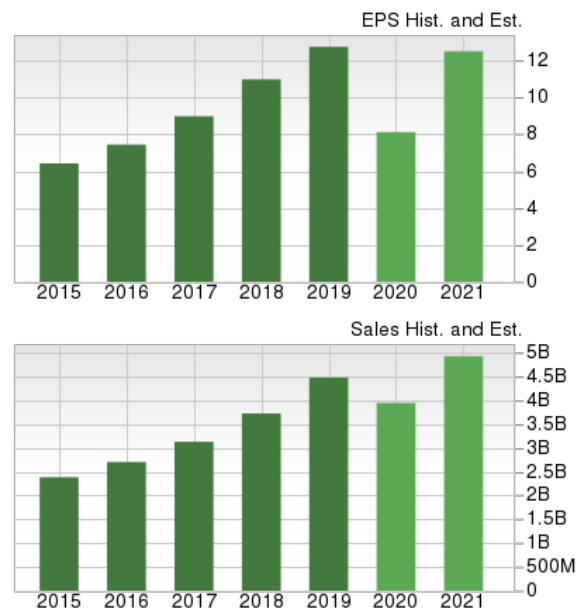
The company operates through three segments:

- Instruments and Accessories
- Systems
- Services

2019 Results at a Glance

Intuitive Surgical's 2019 revenues totaled \$4.48 billion, up 20.3% from 2018.

The company's Instruments & Accessories sales were \$2.41 billion (53.8% of net revenues), Systems revenues were \$1.35 billion (30%) and Services revenues grossed \$724.2 million (16.2%).



Reasons To Buy:

▲ **Strength in Robotics – da Vinci Surgical System:** Intuitive Surgical's robot-based da Vinci surgical system enables minimally-invasive surgery that reduces the trauma associated with open surgery. The da Vinci System is powered by robotic technology which has provided the company with a solid exposure to medical mechatronics, robotics and AI for healthcare. The company launched an upgrade to its flagship Vinci Xi technology – da Vinci X. Notably, the Xi suite is designed to seamlessly integrate future innovations, such as advanced instrumentation, surgical skills simulation, software upgrades, and other advancements into one dynamic platform.

Growing adoption of the company's da Vinci system, increasing procedure volumes, continuous innovation and solid recurring revenue base are key catalysts.

In the first quarter of 2020, da Vinci procedures grew 10% globally compared to the first quarter of last year. The upside was driven by growth in U.S. General Surgery procedures and worldwide urologic procedures. In the first quarter, Intuitive Surgical placed 237 da Vinci surgical systems, with the installed base growing 11% year over year.

▲ **Operational Performance:** Intuitive Surgical witnessed favorable operational performance in the first quarter.

Notably, adjusted gross profit in the reported quarter was \$765.9 million, up 10.5% year over year. Adjusted operating income totaled \$384.3 million, up 6.3% year over year.

▲ **Global Foothold:** Intuitive Surgical is gradually gaining prominence in markets outside the United States. In the first quarter 2020, international revenues totaled \$317.9 million, up 12.7% on a year-over-year basis. The improvement can be attributed to higher instruments and accessory revenues, driven by procedure growth and customer buying patterns. Outside the United States, Intuitive Surgical placed 55 systems in the first quarter compared with 81 in the first quarter of 2019. Of these, 25 were in Europe, 10 in Japan and 9 in China.

▲ **Innovative Technologies:** Intuitive Surgical continuously introduces technologies for surgical systems. The company launched an upgrade to its flagship Vinci Xi technology – da Vinci X recently. The company has also been a constant outperformer in Mature and Growth procedures, especially in general and thoracic surgery. Management at Intuitive Surgical aims to advance its new platforms of imaging, advanced instruments, da Vinci SP and the flexible catheter platform. Notably, the company has announced that it is in the Phase I launch of the da Vinci SP, having installed six systems in the fourth quarter of 2019. Management expects a full launch in 2020.

Additionally, Intuitive Surgical announced that it is making progress on its flexible robotics platform, which targeted to address the acute need in diagnosis of lung cancer. The company has also initiated the early launch of SureForm 60-millimeter stapler for use with our fourth-generation systems. In the fourth quarter of 2019, the company initiated the launch of SynchroSeal sealing and transection device for use in general surgery.

▲ **Plethora of Regulatory Approvals:** Favorable tidings on the regulatory front have always favored Intuitive Surgical. Of the latest ones, the company submitted 510(k) for the second indication of TransOral Robotic Surgery. It is also working through supply chain optimization, as Intuitive Surgical begins to ramp up production for SP. Additionally, the company received FDA nod for its Ion endoluminal system to enable minimally-invasive biopsy in the peripheral lung. Last November, Intuitive Surgical announced the FDA approval of two of the company's da Vinci surgical systems to help improve procedures that require sealing — E-100 generator and SynchroSeal.

Further, a suite of regulatory approvals for the Vessel Sealer Extend — the da Vinci SP Surgical System — and the Sure Form 60 buoys optimism. Intuitive Surgical also gained significantly on the CE Mark approval for da Vinci X in Europe. The stock has got a further boost from the recent FDA approval of the same.

▲ **Solid Recurring Revenue Base:** Intuitive Surgical's business model ensures that it continues to generate revenues from both the initial capital sales of da Vinci Surgical Systems and subsequent sales of instruments, accessories and services. In the first quarter, total recurring revenues were \$855.3 million, up 14.6% year over year and representing a whopping 78% of total revenues. The company gains recurring revenues when a consumer purchases its EndoWrist, Single-Site instrument or other accessory products, which are exclusively used in performing procedures with the da Vinci Surgical System. Recurring revenues, as a proportion of total revenues continue to grow at a much higher rate as compared with system sales. This ensures a regular stream of income even in testing times. Moreover, Intuitive Surgical operates in a niche MedTech market with no direct competition, which is a major positive in our view.

▲ **Rides on AI Trends:** Per management, the rise of medical mechatronics, powerful computing, improved sensing, microfabrication and molecular imaging has enabled new approaches to old problems for Intuitive Surgical. Artificial Intelligence (AI) has been enhancing Intuitive Surgical's product portfolio with clinical applications, diagnostic support, operational efficiency, Electronic Health Record systems, practice workflows and supply chain management. The growing adoption of minimally-invasive robot-assisted surgeries, self-automated home-based care, use of IT for quick and improved patient care and shift of the payment system to a value-based model indicate the high prevalence of AI in the MedTech space. Lately, the company signed a definitive agreement with InTouch Health, the leading enterprise telehealth platform to enhance its Internet of Medical Things (IoMT) services.

▲ **Stable Liquidity Position:** Intuitive Surgical is well capitalized having exited the first quarter of 2020 with cash and cash equivalents of \$3.25 billion, up from \$3.22 billion sequentially. Moreover, the company finished the quarter with no debt on its balance sheet.

The company's cash flow trends also remain robust. Net cash provided by operating activities through the first quarter was \$352.8 million, up from \$333.2 million in the year-ago period.

Reasons To Sell:

- ▼ **Shares Down:** Year-to-date, shares of the company lost 1.8% against the industry's 4.8% rise. Meanwhile, the S&P 500 index lost 5.4%.

Intense competition and risk of procedure adoption continue to weigh on the stock. Also, the ongoing economic volatility on account of the global coronavirus outbreak might put pressure on the stock.

Cutthroat competition in the MedTech space and increasing regulatory headwinds are major concerns for Intuitive Surgical at the moment

- ▼ **Cutthroat Competition in the MedTech Space:** Intuitive Surgical used to enjoy a monopoly stature in the market for robots used in abdominal surgery since the launch of its flagship device called da Vinci back in 2000. But after the regulatory approval of Transenterix's surgical robot for abdominal surgery in 2017, competition for Intuitive Surgical intensified.

Further, Verb Surgical, a joint venture formed between Alphabet and Johnson & Johnson, is also said to be working on integrating big data and machine learning with robotic surgery.

- ▼ **Risk of Procedure Adoption:** Intuitive Surgical faces the risk of adoption of its procedures. Adoption growth takes time, as each procedure needs to gain credibility. Furthermore, broad use of the company's products requires training of surgical teams. Market acceptance could be delayed by the time required to complete such training.

- ▼ **Long Sale & Purchase Order Cycle:** The da Vinci Surgical System has a long sale and purchase order cycle as it is a major capital investment for hospitals that requires the approval of senior management at purchasing institutions. The time lag may act against the interests of the company.
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Last Earnings Report

Intuitive Surgical Q1 Earnings Beat Estimates, Up Y/Y

Intuitive Surgical, Inc. reported first-quarter 2020 adjusted earnings per share of \$2.69, beating the Zacks Consensus Estimate of \$2.54 by 5.9%. Adjusted EPS improved 3.1% year over year.

The company reported revenues of \$1.09 billion, which improved 12.9% from the prior-year quarter. The figure also outpaced the Zacks Consensus Estimate of \$1.03 billion.

Segment Details

Instruments & Accessories

Revenues at the segment came in at \$617.5 million, reflecting a year-over-year increase of 11.8% owing to 10% growth in da Vinci procedure volume.

Systems

In the reported quarter, System revenues improved 14.5% year over year to \$283.3 million. Notably, the company shipped 237 da Vinci Surgical Systems in the quarter, up 1% from the prior-year quarter.

Services

Services revenues came in at \$198.7 million, up 14.3% from the year-ago quarter.

Outside the United States, revenues totaled \$317.9 million, up 12.7% on a year-over-year basis.

Outside the United States, Intuitive Surgical placed 55 systems in the first quarter compared with 81 in the prior-year quarter. Of these, 25 were in Europe, 10 in Japan and nine in China.

Margins

Adjusted gross profit in the reported quarter was \$765.9 million, up 10.5% year over year. As a percentage of revenues, gross margin in the quarter was 67.1%, down 170 basis points (bps).

Adjusted operating income totaled \$384.3 million, up 6.3% year over year. As a percentage of revenues, operating margin in the quarter was 25.7%, down 20 bps.

Outlook

Per the preliminary announcement, the company has withdrawn full-year 2020 outlook and procedure guidance on account of the uncertainty surrounding the global pandemic and the timing of global recovery and economic normalization. As a result, the company cannot provide the future impact on its operations and financial performance during this time.

Quarter Ending **03/2020**

Report Date	Apr 16, 2020
Sales Surprise	6.26%
EPS Surprise	5.91%
Quarterly EPS	2.69
Annual EPS (TTM)	12.85

Recent News

On **Feb 10**, Intuitive Surgical announced that it has acquired privately held Orpheus Medical to deepen and expand its integrated informatics platform.

Valuation

Intuitive Surgical's shares are down 1.8% in the year-to-date period and up 8.1% in the trailing 12-month periods. Stocks in the Zacks sub-industry and the Zacks Medical Market are up 4.8% and down 1% in the year-to-date period, respectively. Over the past year, stocks in the Zacks sub-industry and sector are up 5.2% and 1.8%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period and up 4.7% in the past year.

The stock is currently trading at 56.1X Forward 12-months earnings, which compares to 41.3X for the Zacks sub-industry, 22.7X for the Zacks sector and 22.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 72.8X and as low as 26.9X, with a 5-year median of 47.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$610 price target reflects 58.9X forward 12-months earnings.

The table below shows summary valuation data for ISRG.

Valuation Multiples - ISRG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	56.13	41.26	22.69	22.18
	5-Year High	72.83	41.26	23.15	22.18
	5-Year Low	26.85	23.42	15.93	15.25
	5-Year Median	47.53	28.25	18.94	17.52
P/S F12M	Current	15.25	4.19	2.79	3.47
	5-Year High	16.12	4.19	3.74	3.47
	5-Year Low	6.62	2.53	2.21	2.53
	5-Year Median	12.2	3.01	2.9	3.02
P/B TTM	Current	7.94	4.08	4.3	4.27
	5-Year High	11.13	4.69	5.06	4.56
	5-Year Low	4.13	2.71	2.93	2.83
	5-Year Median	7.96	3.83	4.28	3.69

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Bottom 45% (139 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
ABIOMED, Inc. (ABMD)	Neutral	4
Edwards Lifesciences Corporation (EW)	Neutral	3
HillRom Holdings, Inc. (HRC)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Teleflex Incorporated (TFX)	Neutral	3
Varian Medical Systems, Inc. (VAR)	Neutral	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	ISRG	X Industry	S&P 500	HRC	JNJ	MDT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	A	C	C
Market Cap	67.69 B	130.52 M	21.98 B	7.43 B	371.40 B	124.96 B
# of Analysts	7	2	14	5	9	14
Dividend Yield	0.00%	0.00%	1.91%	0.79%	2.87%	2.49%
Value Score	D	-	-	A	B	C
Cash/Price	0.05	0.09	0.07	0.04	0.05	0.09
EV/EBITDA	37.50	-1.39	12.74	18.00	15.36	17.42
PEG Ratio	5.85	4.23	2.89	1.31	3.08	3.43
Price/Book (P/B)	7.94	3.48	2.98	4.79	6.06	2.45
Price/Cash Flow (P/CF)	47.90	21.49	11.75	13.66	12.24	14.08
P/E (F1)	71.40	47.08	21.41	20.46	18.37	26.58
Price/Sales (P/S)	14.70	3.81	2.30	2.54	4.49	4.32
Earnings Yield	1.40%	-4.06%	4.42%	4.88%	5.45%	3.77%
Debt/Equity	0.00	0.09	0.76	1.20	0.41	0.43
Cash Flow (\$/share)	12.12	-0.12	6.94	8.17	11.52	6.62
Growth Score	B	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	20.43%	13.55%	10.93%	18.04%	9.40%	5.13%
Proj. EPS Growth (F1/F0)	-36.27%	-4.68%	-9.56%	7.32%	-11.57%	-23.64%
Curr. Cash Flow Growth	11.44%	6.03%	5.51%	3.86%	3.68%	-9.02%
Hist. Cash Flow Growth (3-5 yrs)	18.49%	11.09%	8.62%	18.02%	7.62%	7.68%
Current Ratio	4.96	2.58	1.30	1.52	1.31	2.13
Debt/Capital	0.00%	13.66%	44.46%	54.62%	29.29%	30.21%
Net Margin	30.11%	-14.56%	10.62%	5.04%	24.47%	16.56%
Return on Equity	17.40%	-14.83%	15.75%	22.60%	39.71%	12.17%
Sales/Assets	0.49	0.57	0.55	0.63	0.53	0.32
Proj. Sales Growth (F1/F0)	-11.87%	0.00%	-2.54%	1.21%	-2.59%	-5.08%
Momentum Score	C	-	-	C	D	F
Daily Price Chg	0.86%	0.00%	0.47%	1.00%	0.42%	0.91%
1 Week Price Chg	-6.41%	-2.89%	-3.90%	9.70%	-4.19%	-5.47%
4 Week Price Chg	2.88%	-1.50%	-3.77%	9.40%	-3.93%	-3.95%
12 Week Price Chg	15.22%	15.25%	8.02%	0.40%	-0.18%	-7.79%
52 Week Price Chg	8.06%	-19.38%	-7.59%	5.43%	-0.82%	-5.72%
20 Day Average Volume	645,424	254,278	2,649,865	810,585	7,932,685	6,436,337
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.04%	0.00%	0.00%
(F1) EPS Est 12 week change	-26.99%	-15.00%	-9.53%	0.56%	-10.38%	-38.81%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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