

## Intuitive Surgical (ISRG)

**\$601.65** (As of 01/21/20)

Price Target (6-12 Months): **\$692.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

### Summary

Intuitive Surgical has outperformed the industry over the past six months. Notably, flagship da Vinci procedures recorded solid growth in the last reported quarter which drove the core Instrument & Accessories arm. In fact, management continues to expect strong procedure growth in 2019. The company looks to accelerate its business in China, which saw a solid third quarter as well. Overall international sales surged in the quarter. Expansion in gross margin is an added positive. On the flip side, contraction in operating margin is worrisome. Additionally, 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.

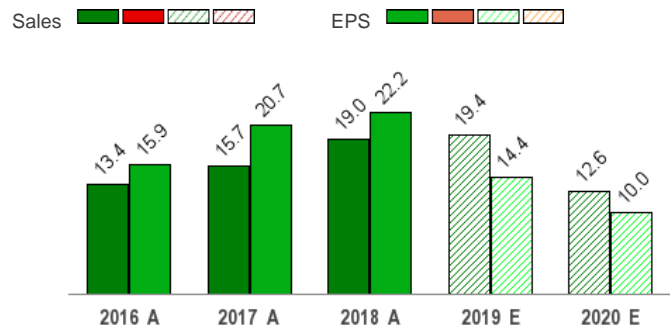
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$616.56 - \$455.15
20 Day Average Volume (sh)	524,861
Market Cap	\$69.5 B
YTD Price Change	1.8%
Beta	1.12
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Instruments</a>
Zacks Industry Rank	Bottom 36% (164 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.9%
Last Sales Surprise	6.6%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	01/23/2020
Earnings ESP	12.6%
P/E TTM	49.1
P/E F1	43.5
PEG F1	3.6
P/S TTM	16.4

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,128 E	1,225 E	1,259 E	1,391 E	5,003 E
2019	974 A	1,099 A	1,128 A	1,232 E	4,445 E
2018	848 A	909 A	921 A	1,047 A	3,724 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.08 E	\$3.52 E	\$3.67 E	\$3.85 E	\$13.83 E
2019	\$2.61 A	\$3.25 A	\$3.43 A	\$3.26 E	\$12.57 E
2018	\$2.44 A	\$2.76 A	\$2.83 A	\$2.96 A	\$10.99 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 01/21/2020. The reports text is as of 01/22/2020.

## 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.

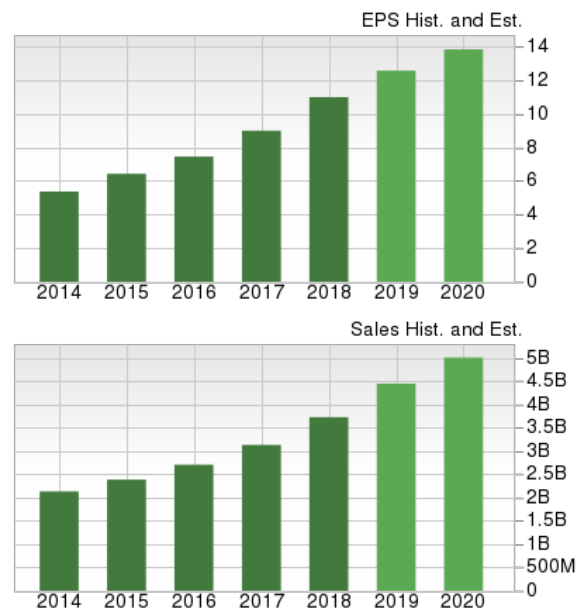
The company operates through three segments:

- Instruments and Accessories
- Systems
- Services

### 2018 Results at a Glance

On a full-year basis, the company reported adjusted earnings of \$10.99 which grew 20.9% from 2017. Full-year revenues totaled \$3.72 billion, up 18.7% from 2017.

For 2018, Instruments & Accessories revenues were \$1.96 billion (52.7% of net revenues), Systems sales were \$1.13 billion (30.3%) and Services sales totaled \$635.1 million (17%).



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## Reasons To Buy:

- ▲ **Shares Up:** Over the past six months, shares of Intuitive Surgical have rallied 11.9%, compared with the industry's 7% rise. The current level is also higher than the S&P 500 index's 11.5% rally.

Focus on robotic surgeries and solid prospects of the flagship da Vinci surgical devices currently favor the stock.

- ▲ **View Solid:** Intuitive Surgical now forecasts 2019 procedure growth in the range of 17% to 18%, compared with the previous 16% to 17%. The company has also raised the forecast for 2019 gross margin to 71-71.5% of revenues.

- ▲ **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 Artificial Intelligence 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.

In the third quarter of 2019, da Vinci procedures grew 20% globally compared to the third quarter of last year. The upside was driven by healthy growth in U.S. General Surgery. In the quarter, Intuitive Surgical placed 275 da Vinci surgical systems, with the installed base growing 12% year over year.

- ▲ **Global Foothold:** Intuitive Surgical is gradually gaining prominence in markets outside the United States. In the third quarter of 2019, international revenues totaled \$332 million, up 36% 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 80 systems in the third quarter compared with 90 in the third quarter of 2018. Of these, 36 were in Europe, 27 in Japan, and 10 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.

In recent times, 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, one of the most commonly diagnosed forms of cancer in the world. The company has also initiated the early launch of SureForm 60-millimeter stapler for use with our fourth-generation systems. Intuitive Surgical's imaging teams continue to develop new ways to identify tissue including progress in the company's molecular imaging program as well as improvements for endoscopes and image processing algorithms.

- ▲ **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. Earlier in 2019, the company received FDA approval for its Auris augmented reality product and anticipates its first clinical use in 2019.

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 third quarter, total recurring revenues were \$817 million, up 24% year over year and representing a whopping 72% 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.

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

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## Reasons To Sell:

- ▼ **Valuation Looks Dull:** Intuitive Surgical's P/E (TTM basis) ratio currently stands at 54.65 over the past year, which compares with 20.83 and 41.46 for the S&P 500 index and the industry, respectively.
- ▼ **Margins Pressed:** Intuitive Surgical has been witnessing low margins for a couple of quarters now. In the third quarter of 2019, the company's operating margin in the quarter was 41%, down 140 bps.

Management expects margins to fluctuate based on a mix of new products and systems. Further, Intuitive Surgical is incurring additional costs for expansion in markets outside the United States. Management also expects margins to fluctuate in the future based on the aforementioned factors.

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

## Last Earnings Report

### Intuitive Surgical Beats on Q3 Earnings & Revenues Estimates

Intuitive Surgical reported adjusted earnings per share of \$3.43 in the third quarter of 2019, beating the Zacks Consensus Estimate of \$2.96. The figure improved 21.2% year over year.

The company recorded revenues of \$1.13 billion which improved 22.5% from the prior-year quarter. The figure also outpaced the Zacks Consensus Estimate of \$1.06 billion.

### Segment Details

#### *Instruments & Accessories*

Revenues at the segment came in at \$606.2 million, reflecting a year-over-year increase of 24.7% on 20% growth in da Vinci procedure volumes.

#### *Systems*

In the reported quarter, System revenues increased 23.3% year over year to \$338.6 million. Notably, the company shipped 275 da Vinci Surgical Systems in the quarter.

#### *Services*

Services revenues came in at \$183.4 million, up 14.6% from the year-ago quarter.

### International Sales Up

Outside the United States, revenues totaled \$332 million, up 36% 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 80 systems in the third quarter compared with 90 in the third quarter of 2018. Of these, 36 were in Europe, 27 in Japan, and 10 in China.

### Margins

Adjusted gross profit in the reported quarter was \$812.2 million, up 23.4% year over year. As a percentage of revenues, gross margin in the quarter was 72%, up 50 basis points (bps).

Adjusted operating income totaled \$463.3 million, up 18.4% year over year. As a percentage of revenues, operating margin in the quarter was 41%, down 140 bps.

### Guidance

Intuitive Surgical now forecasts 2019 procedure growth in the range of 17% to 18%, compared with the previous 16% to 17%. The company has also raised the forecast for 2019 gross margin to 71-71.5% of revenues.

**Quarter Ending** **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	6.62%
EPS Surprise	15.88%
Quarterly EPS	3.43
Annual EPS (TTM)	12.25

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## Valuation

Intuitive Surgical's shares are up 11.9% and 13.5% in the past six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 7% while the Zacks Medical Market is up 8.4% in the past six months. Over the past year, the Zacks sub-industry is up 15.2% and sector is up 5.8%.

The S&P 500 index is up 11.5% in the past six months period and 25.4% in the past year.

The stock is currently trading at 43.1X Forward 12-months earnings, which compares to 34.46X for the Zacks sub-industry, 21.77X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 59.21X and as low as 26.85X, with a 5-year median of 43.38X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$692 price target reflects 49.57X 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	43.1	34.46	21.77	19.18
	5-Year High	59.21	34.46	21.77	19.34
	5-Year Low	26.85	23.22	15.85	15.17
	5-Year Median	43.38	27.4	18.91	17.44
P/S F12M	Current	13.79	3.69	2.88	3.57
	5-Year High	16.12	3.69	3.82	3.57
	5-Year Low	6.62	2.16	2.43	2.54
	5-Year Median	11.07	2.51	2.94	3
P/B TTM	Current	8.94	4.23	4.61	4.55
	5-Year High	11.13	4.23	5.03	4.55
	5-Year Low	4.13	2.54	3.43	2.85
	5-Year Median	7.81	3.3	4.29	3.61

As of 01/21/2020

## Industry Analysis Zacks Industry Rank: Bottom 36% (164 out of 255)



## Top Peers

ABIOMED, Inc. (ABMD)	Neutral
Edwards Lifesciences Corporation (EW)	Neutral
Hill-Rom Holdings, Inc. (HRC)	Neutral
Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	Neutral
Stryker Corporation (SYK)	Neutral
Teleflex Incorporated (TFX)	Neutral
Varian Medical Systems, Inc. (VAR)	Neutral

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	ISRG <b>Neutral</b>	X Industry	S&P 500	HRC <b>Neutral</b>	JNJ <b>Neutral</b>	MDT <b>Neutral</b>
<b>VGM Score</b>	<b>D</b>	-	-	<b>A</b>	<b>B</b>	<b>C</b>
Market Cap	69.53 B	114.83 M	24.43 B	7.71 B	392.86 B	161.27 B
# of Analysts	8	2	13	6	8	13
Dividend Yield	0.00%	0.00%	1.75%	0.73%	2.55%	1.80%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Cash/Price	0.04	0.09	0.04	0.08	0.05	0.07
EV/EBITDA	47.16	-0.55	14.00	17.71	15.50	18.88
PEG Ratio	3.57	2.75	2.06	1.78	2.40	2.92
Price/Book (P/B)	8.94	4.48	3.39	4.89	6.75	3.18
Price/Cash Flow (P/CF)	54.61	23.73	13.69	14.10	13.69	16.55
P/E (F1)	43.50	31.02	19.00	20.82	16.43	21.48
Price/Sales (P/S)	16.37	3.38	2.68	2.65	4.81	5.22
Earnings Yield	2.30%	-0.66%	5.26%	4.80%	6.08%	4.65%
Debt/Equity	0.00	0.10	0.72	1.13	0.46	0.49
Cash Flow (\$/share)	11.02	-0.06	6.94	8.17	10.90	7.27
<b>Growth Score</b>	<b>C</b>	-	-	<b>A</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	21.26%	13.25%	10.60%	19.21%	9.06%	6.06%
Proj. EPS Growth (F1/F0)	10.07%	20.35%	7.57%	8.89%	4.83%	7.30%
Curr. Cash Flow Growth	33.15%	9.84%	14.00%	3.86%	13.87%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	10.23%	8.78%	9.00%	18.02%	7.92%	15.58%
Current Ratio	4.64	2.68	1.23	1.31	1.26	2.77
Debt/Capital	0.00%	17.32%	42.99%	53.13%	31.62%	32.80%
Net Margin	30.94%	-15.15%	11.15%	5.24%	21.09%	15.11%
Return on Equity	18.26%	-17.95%	17.16%	21.67%	39.81%	14.52%
Sales/Assets	0.50	0.60	0.55	0.64	0.53	0.34
Proj. Sales Growth (F1/F0)	13.41%	11.70%	4.05%	1.12%	4.28%	3.17%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Daily Price Chg	0.27%	0.00%	-0.27%	-0.53%	0.07%	1.08%
1 Week Price Chg	0.22%	0.00%	2.29%	0.18%	2.83%	0.33%
4 Week Price Chg	0.47%	2.47%	2.13%	1.12%	2.29%	5.76%
12 Week Price Chg	8.18%	6.59%	6.99%	13.72%	15.60%	11.87%
52 Week Price Chg	12.09%	-10.22%	21.25%	19.05%	15.89%	38.30%
20 Day Average Volume	524,861	104,839	1,415,064	252,323	4,988,881	3,291,602
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.62%	0.00%	0.00%	0.00%	0.05%	0.00%
(F1) EPS Est 12 week change	-1.32%	-0.41%	-0.34%	0.91%	-0.43%	0.69%
(Q1) EPS Est Mthly Chg	0.41%	0.00%	0.00%	0.00%	0.00%	-0.03%

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## 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.

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### 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	C
Momentum Score	B
VGM Score	D

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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### Disclosures

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