

Intuitive Surgical (ISRG)

\$675.33 (As of 07/24/20)

Price Target (6-12 Months): **\$709.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Intuitive Surgical ended the second quarter on a solid note. Also, overall international sales improved in the quarter. The company unveiled its Extended Use Program, which represents some of its higher volume instruments that can be utilized across numerous da Vinci surgeries during the second quarter. Meanwhile, the company witnessed decline in procedures and systems placements due to the substantial disruption caused by the pandemic. The flagship da Vinci procedures experienced significant deterioration in the quarter. The company witnessed weak performance across its segments in the quarter under review. Intense competition in the global MedTech space remains a concern. Moreover, the company witnessed contraction in gross and operating margins in the quarter. Year to date, Intuitive Surgical has underperformed the industry.

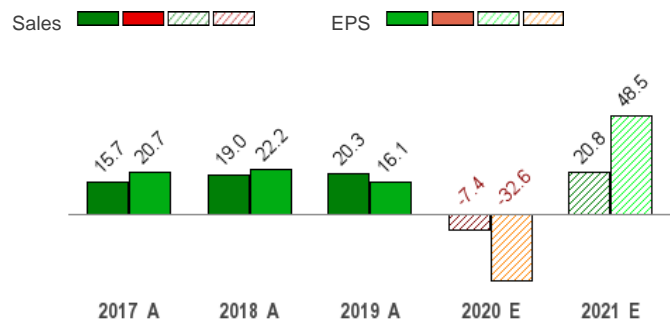
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$699.72 - \$360.50
20 Day Average Volume (sh)	664,464
Market Cap	\$78.8 B
YTD Price Change	14.2%
Beta	0.93
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 35% (164 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	226.5%
Last Sales Surprise	26.2%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	63.1
P/E F1	78.5
PEG F1	6.4
P/S TTM	18.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,178 E	1,095 E	1,244 E	1,526 E	5,010 E
2020	1,100 A	852 A	968 E	1,254 E	4,147 E
2019	974 A	1,099 A	1,128 A	1,278 A	4,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.89 E	\$2.92 E	\$3.32 E	\$3.94 E	\$12.77 E
2020	\$2.69 A	\$1.11 A	\$2.01 E	\$2.93 E	\$8.60 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 07/24/2020. The reports text is as of 07/27/2020.

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.

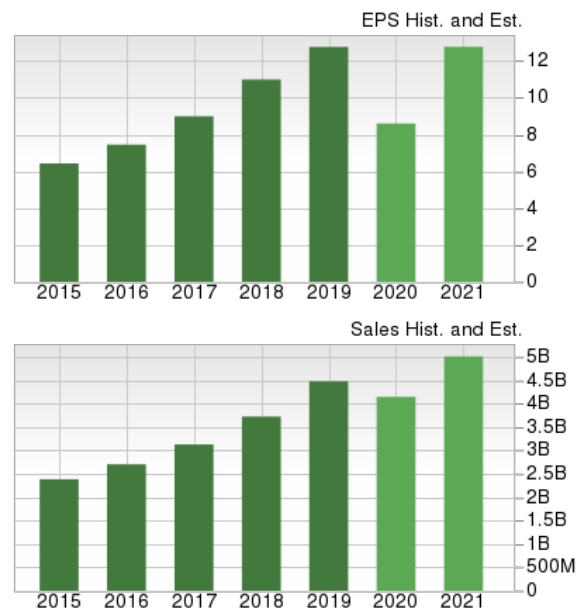
The company operates through three segments:

- 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.

Although in the first quarter of 2020, da Vinci procedures grew 10% globally compared with the prior-year quarter, there was a decline of 19% in the procedure volume in the second quarter primarily owing to the COVID-19 pandemic-induced disruption. Nonetheless, Intuitive Surgical placed 5764 da Vinci surgical systems in the second quarter, with the installed base growing 9% year over year.

▲ **Global Foothold:** Intuitive Surgical is gradually gaining prominence in markets outside the United States. In second-quarter 2020, international revenues were \$316.6 million, up 1% on a year-over-year basis. The improvement can be attributed to solid procedure growth in Asia. Outside the United States, Intuitive Surgical placed 72 systems in the second quarter compared with 80 in the prior-year quarter. Of these, 18 were in Europe, 18 in Japan and 21 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.

During the second quarter, the company unveiled its Extended Use Program that represents some of its higher volume instruments, which exclude stapling, monopolar and advanced energy instruments that can be utilized across numerous da Vinci surgeries. Under this program, the company intends to launch select Xi/X instruments having 12 to 18 uses in comparison to the current 10 use instruments.

Additionally, Intuitive Surgical announced that it is making progress on its flexible robotics platform, which aimed at addressing the acute need in diagnosis of lung cancer. The company has also initiated the early launch of SureForm 60-millimeter stapler for use with fourth-generation systems. In second-quarter 2020, the company initiated its first commercial cases for E-100 and SynchroSeal in Japan and also its 45 millimeter SureForm stapler was launched in Europe in the quarter under review. Additionally, the company's Ion program continues to move ahead despite challenges faced by COVID-19. In the second quarter itself, three systems were placed and its clinical is making progress.

▲ **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 buoy 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. 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 \$4.49 billion, up from \$3.25 billion sequentially. Moreover, the company finished the second quarter with no debt on its balance sheet. However, the company's cash flow trends remain slightly weak in the first quarter. Net cash provided by operating activities through the second quarter was \$230 million, down from \$353 sequentially. Nonetheless, the company has sufficient cash that indicates a stable financial health and solvency during such uncertain times.

Reasons To Sell:

▼ **Shares Down:** Year to date, shares of the company gained 14.2% compared with the industry's growth of 15.3%. Intense competition and risk of procedure adoption continue to weigh on the stock. Also, the ongoing economic volatility on account of the coronavirus pandemic might put pressure on the stock.

▼ **Weak Operational Performance:** Intuitive Surgical witnessed dismal operational performance in the second quarter.

Notably, gross profit in the reported quarter was \$531.9 million, down 32.1% year over year. As a percentage of revenues, gross margin in the quarter was 59%, down 1010 basis points (bps).

Adjusted operating income totaled \$193.3.3 million, down 57.5% year over year. As a percentage of revenues, operating margin in the quarter was 9.5%, down 2320 bps.

▼ **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.

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

Last Earnings Report

Intuitive Surgical Q2 Earnings Top Estimates, Down Y/Y

Intuitive Surgical, Inc. reported second-quarter 2020 adjusted earnings per share of \$1.11, which beat the Zacks Consensus Estimate of 34 cents. However, adjusted EPS plunged 65.8% year over year.

The company reported revenues of \$852.1 million, which declined 22.5% from the prior-year quarter. Nonetheless, the figure outpaced the Zacks Consensus Estimate of \$675.2 million.

Quarter Ending **06/2020**

Report Date	Jul 21, 2020
Sales Surprise	26.21%
EPS Surprise	226.47%
Quarterly EPS	1.11
Annual EPS (TTM)	10.71

Segment Details

Instruments & Accessories

Revenues at the segment came in at \$460.8 million, reflecting a year-over-year decline of 20.3%. This can be attributed to decrease of 19% in da Vinci procedure volume primarily due to the substantial disruption caused by the COVID-19 pandemic.

Systems

In the reported quarter, System revenues fell 24.1% year over year to \$261 million. Notably, the company shipped 178 da Vinci Surgical Systems in the quarter, down 35% from the prior-year quarter.

Services

Services revenues came in at \$130.3 million, down 26.2% from the year-ago quarter.

Outside the United States, revenues totaled \$316.6 million, up 1% on a year-over-year basis.

Outside the United States, Intuitive Surgical placed 72 systems in the second quarter compared with 80 in the prior-year quarter. Of these, 18 were in Europe, 18 in Japan and 21 in China.

Margins

Adjusted gross profit in the reported quarter was \$531.9 million, down 32.1% year over year. As a percentage of revenues, gross margin in the quarter was 59%, down 1010 basis points (bps).

Adjusted operating income totaled \$193.3.3 million, down 57.5% year over year. As a percentage of revenues, operating margin in the quarter was 9.5%, down 2320 bps.

Outlook

Due to the persistent uncertainty surrounding the extent and duration of the pandemic and the timing of global recovery and economic normalization, the company cannot ascertain the future impact on its operations and financial performance during this time. Hence, the company has not issued any guidance for 2020.

Valuation

Intuitive Surgical's shares are up 14.2% and 27.5% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and the Zacks Medical Market are up 15.3% and 0.3% in the year-to-date period, respectively. Over the past year, stocks in the Zacks sub-industry and sector are up 15.5% and 5.6%, respectively.

The S&P 500 index is up 0.03% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 61.5X Forward 12-months earnings, which compares to 40.8X for the Zacks sub-industry, 22.8X for the Zacks sector and 22.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 82.1X and as low as 26.9X, with a 5-year median of 47.8X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$709 price target reflects 64.6X 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	61.54	40.78	22.82	22.51
	5-Year High	82.08	41.5	23.17	22.51
	5-Year Low	26.85	23.23	15.89	15.25
	5-Year Median	47.8	28.04	18.98	17.52
P/S F12M	Current	17.15	4.36	2.82	3.55
	5-Year High	17.98	4.36	3.74	3.55
	5-Year Low	6.62	2.49	2.22	2.53
	5-Year Median	12.31	2.98	2.9	3.02
P/B TTM	Current	9.02	4.44	4.38	4.4
	5-Year High	11.13	4.67	5.07	4.56
	5-Year Low	4.13	2.69	2.94	2.83
	5-Year Median	7.98	3.83	4.3	3.71

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 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	4
Stryker Corporation (SYK)	Neutral	3
Teleflex Incorporated (TFX)	Neutral	3
Varian Medical Systems, Inc. (VAR)	Neutral	4

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)	3	-	-	3	3	4
VGM Score	D	-	-	A	C	C
Market Cap	78.76 B	133.87 M	22.16 B	7.74 B	390.24 B	129.23 B
# of Analysts	7	2	14	5	9	14
Dividend Yield	0.00%	0.00%	1.81%	0.76%	2.73%	2.41%
Value Score	D	-	-	A	B	C
Cash/Price	0.04	0.08	0.06	0.04	0.05	0.08
EV/EBITDA	43.94	-1.26	13.07	18.62	16.13	17.97
PEG Ratio	6.44	4.47	3.03	1.37	3.28	3.65
Price/Book (P/B)	8.98	3.83	3.11	4.99	6.37	2.54
Price/Cash Flow (P/CF)	55.72	22.40	12.27	14.24	12.86	14.56
P/E (F1)	78.53	45.51	21.88	21.38	18.87	28.25
Price/Sales (P/S)	18.07	4.25	2.38	2.65	4.85	4.47
Earnings Yield	1.27%	-3.76%	4.34%	4.68%	5.30%	3.54%
Debt/Equity	0.00	0.09	0.76	1.20	0.41	0.43
Cash Flow (\$/share)	12.12	-0.13	7.01	8.17	11.52	6.62
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	20.43%	13.32%	10.82%	18.04%	8.66%	5.13%
Proj. EPS Growth (F1/F0)	-32.60%	-5.63%	-9.01%	7.05%	-9.55%	-25.69%
Curr. Cash Flow Growth	11.44%	5.04%	5.47%	3.86%	3.68%	-9.02%
Hist. Cash Flow Growth (3-5 yrs)	18.49%	11.49%	8.55%	18.02%	7.62%	7.68%
Current Ratio	5.41	2.64	1.31	1.52	1.31	2.13
Debt/Capital	0.00%	13.54%	44.41%	54.62%	29.29%	30.21%
Net Margin	26.07%	-14.56%	10.46%	5.04%	22.69%	16.56%
Return on Equity	13.62%	-14.20%	15.13%	22.60%	35.70%	12.17%
Sales/Assets	0.45	0.58	0.54	0.63	0.52	0.32
Proj. Sales Growth (F1/F0)	-7.40%	0.00%	-2.06%	1.08%	-1.46%	-5.08%
Momentum Score	F	-	-	D	D	D
Daily Price Chg	-1.63%	-0.31%	-0.65%	0.00%	-1.00%	-0.23%
1 Week Price Chg	13.00%	3.47%	3.82%	1.33%	4.90%	8.56%
4 Week Price Chg	21.66%	3.93%	4.96%	10.08%	6.05%	8.43%
12 Week Price Chg	32.19%	10.74%	9.30%	3.33%	-1.28%	-1.31%
52 Week Price Chg	27.02%	-11.91%	-2.82%	9.02%	12.97%	-5.62%
20 Day Average Volume	664,464	237,540	2,026,477	542,480	6,459,484	4,632,645
(F1) EPS Est 1 week change	2.83%	0.00%	0.00%	0.00%	0.24%	0.00%
(F1) EPS Est 4 week change	0.41%	0.00%	0.15%	-0.26%	2.29%	-2.69%
(F1) EPS Est 12 week change	-5.75%	-10.08%	-3.24%	1.39%	2.29%	-34.05%
(Q1) EPS Est Mthly Chg	-6.60%	0.00%	0.00%	-0.16%	-2.23%	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	C
Momentum Score	F
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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