

Intuitive Surgical (ISRG)

\$571.41 (As of 01/29/20)

Price Target (6-12 Months): **\$657.00**

Long Term: 6-12 Months

Zacks Recommendation: Outperform

(Since: 01/20/20)

Prior Recommendation: Neutral

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 fourth quarter on a solid note. The flagship da Vinci procedures registered solid growth in the quarter, which drove the core Instrument & Accessories arm. For 2020 as well, management continues to expect strong procedure growth. The company looks to accelerate business in China, which saw a solid fourth quarter as well. Overall international sales surged in the quarter. Expansion in gross and operating margins is an added positive. 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. Reflective of these, the stock has underperformed the industry in a year's time. The stock is overvalued at the moment.

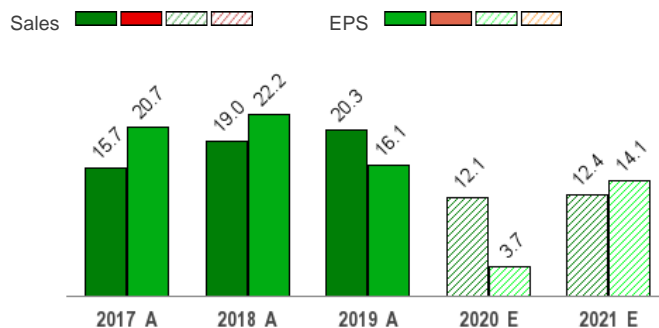
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$616.56 - \$455.15
20 Day Average Volume (sh)	778,245
Market Cap	\$66.0 B
YTD Price Change	-3.3%
Beta	1.12
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 38% (159 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-6.8%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	44.8
P/E F1	43.2
PEG F1	3.5
P/S TTM	14.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,276 E	1,375 E	1,394 E	1,582 E	5,645 E
2020	1,124 E	1,219 E	1,255 E	1,408 E	5,023 E
2019	974 A	1,099 A	1,128 A	1,278 A	4,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.27 E	\$3.76 E	\$3.85 E	\$4.30 E	\$15.10 E
2020	\$2.82 E	\$3.30 E	\$3.44 E	\$3.69 E	\$13.23 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 01/29/2020. The reports text is as of 01/30/2020.

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.

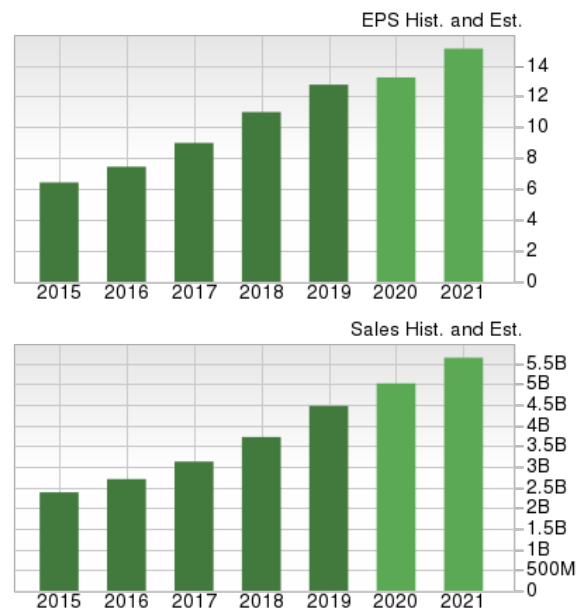
The company operates through three segments:

- Instruments and Accessories
- Systems
- Services

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 fourth quarter of 2019, da Vinci procedures grew 19% globally compared to the fourth quarter of last year. The upside was driven by healthy growth in U.S. General Surgery. In the quarter, Intuitive Surgical placed 336 da Vinci surgical systems, with the installed base growing 12% year over year.

▲ **Margins Expand:** Intuitive Surgical witnessed solid margin expansion in the fourth quarter.

Notably, the company's adjusted gross profit in the quarter was \$922.6 million, up 22.8% year over year. As a percentage of revenues, gross margin in the quarter was 72.2%, up 40 basis points (bps).

Adjusted operating income totaled \$505.6 million, up 22.8% year over year. As a percentage of revenues, operating margin in the quarter was 39.6%, up 20 bps.

▲ **Global Foothold:** Intuitive Surgical is gradually gaining prominence in markets outside the United States. In the fourth quarter of 2019, international revenues totaled \$422 million, up 37% 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 140 systems in the fourth quarter compared with 115 in the fourth quarter of 2018. Of these, 54 were in Europe, 26 in Japan and 39 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 fourth quarter, total recurring revenues were \$896 million, up 24% year over year and representing a whopping 70% 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.

Risks

- **Share Price Performance:** Shares of Intuitive Surgical have underperformed the industry in a year's time. The stock rallied 12.4% compared with the industry's 12.7% rise. Meanwhile, the S&P 500 index rose 21.4%.

Cutthroat competition in the MedTech space is a headwind.

- **Valuation Looks Dull:** Intuitive Surgical's P/E (TTM basis) ratio currently stands at 49.47 over the past year, which compares with 20.5 and 40.79 for the S&P 500 index and the industry, respectively.
- **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 Q4 Earnings Top, International Sales Up

Intuitive Surgical reported adjusted earnings per share of \$3.48 in the fourth quarter of 2019, beating the Zacks Consensus Estimate of \$3.26. Adjusted EPS improved 17.6% year over year.

The company recorded revenues of \$1.28 billion, which improved 22.1% from the prior-year quarter. The figure also outpaced the Zacks Consensus Estimate of \$1.23 billion.

Segment Details

Instruments & Accessories

Revenues at the segment came in at \$671.2 million, reflecting a year-over-year increase of 24.5% on 19% growth in da Vinci procedure volumes.

Systems

In the reported quarter, System revenues increased 22.2% year over year to \$416.2 million. Notably, the company shipped 336 da Vinci Surgical Systems in the quarter.

Services

Services revenues came in at \$190.3 million, up 14.2% from the year-ago quarter.

International Sales Up

Outside the United States, revenues totaled \$422 million, up 37% on a year-over-year basis. The improvement can be attributed to higher instruments and accessory revenues, driven by procedure growth and favorable customer buying patterns.

Outside the United States, Intuitive Surgical placed 140 systems in the fourth quarter compared with 115 in the fourth quarter of 2018. Of these, 54 were in Europe, 26 in Japan and 39 in China.

Margins

Adjusted gross profit in the reported quarter was \$922.6 million, up 22.8% year over year. As a percentage of revenues, gross margin in the quarter was 72.2%, up 40 basis points (bps).

Adjusted operating income totaled \$505.6 million, up 22.8% year over year. As a percentage of revenues, operating margin in the quarter was 39.6%, up 20 bps.

Outlook

For 2020, the company expects full-year procedure growth within 13% to 16%, driven by U.S. general surgery and procedures outside the United States.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	3.70%
EPS Surprise	6.75%
Quarterly EPS	3.48
Annual EPS (TTM)	12.77

Recent News

On **Nov 26**, 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.

Valuation

Intuitive Surgical's shares are up 10% and 12.4% in the past six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 6.7% while the Zacks Medical Market is up 7.1% in the past six months. Over the past year, the Zacks sub-industry is up 11.5% and sector is up 6.7%.

The S&P 500 index is up 10.4% in the past six months period and 21.4% in the past year.

The stock is currently trading at 40.88X Forward 12-months earnings, which compares to 34.04X for the Zacks sub-industry, 21.2X for the Zacks sector and 18.81X 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 43.65X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$657 price target reflects 46.9X 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	40.88	34.04	21.2	18.81
	5-Year High	59.21	34.04	21.22	19.34
	5-Year Low	26.85	23.22	15.85	15.18
	5-Year Median	43.65	27.4	18.92	17.45
P/S F12M	Current	13.06	3.63	2.82	3.49
	5-Year High	16.12	3.63	3.82	3.49
	5-Year Low	6.62	2.16	2.43	2.54
	5-Year Median	11.12	2.51	2.95	3
P/B TTM	Current	7.97	4.17	4.52	4.48
	5-Year High	11.13	4.27	5.02	4.55
	5-Year Low	4.13	2.54	3.43	2.85
	5-Year Median	7.83	3.3	4.29	3.62

As of 01/29/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (159 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 Outperform	X Industry	S&P 500	HRC Neutral	JNJ Neutral	MDT Neutral
VGM Score	D	-	-	C	D	C
Market Cap	66.04 B	113.96 M	23.91 B	7.30 B	396.20 B	158.66 B
# of Analysts	8	2	13	6	9	13
Dividend Yield	0.00%	0.00%	1.77%	0.77%	2.52%	1.82%
Value Score	D	-	-	B	B	C
Cash/Price	0.09	0.09	0.04	0.03	0.05	0.07
EV/EBITDA	42.60	-0.55	14.07	17.71	15.62	18.60
PEG Ratio	3.51	2.63	2.00	1.77	2.50	2.87
Price/Book (P/B)	7.97	4.48	3.27	4.51	6.81	3.13
Price/Cash Flow (P/CF)	51.87	23.74	13.48	13.35	13.81	16.29
P/E (F1)	42.79	30.17	18.76	19.65	16.61	21.14
Price/Sales (P/S)	14.75	3.42	2.61	2.51	4.83	5.14
Earnings Yield	2.32%	-0.58%	5.32%	5.09%	6.02%	4.73%
Debt/Equity	0.00	0.10	0.72	1.09	0.46	0.49
Cash Flow (\$/share)	11.02	-0.06	6.88	8.17	10.90	7.27
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	21.15%	13.25%	10.68%	18.70%	9.27%	6.06%
Proj. EPS Growth (F1/F0)	3.71%	20.39%	7.73%	9.19%	4.39%	7.30%
Curr. Cash Flow Growth	33.15%	10.14%	12.29%	3.86%	13.87%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	10.23%	8.78%	8.78%	18.02%	7.92%	15.58%
Current Ratio	4.89	2.68	1.23	1.52	1.26	2.77
Debt/Capital	0.00%	17.32%	43.16%	52.18%	31.62%	32.80%
Net Margin	30.80%	-15.15%	11.59%	5.15%	22.18%	15.11%
Return on Equity	18.16%	-17.95%	17.38%	21.87%	39.30%	14.52%
Sales/Assets	0.50	0.60	0.54	0.63	0.53	0.34
Proj. Sales Growth (F1/F0)	12.15%	10.95%	4.05%	1.01%	4.68%	3.17%
Momentum Score	F	-	-	D	F	C
Daily Price Chg	0.29%	0.00%	-0.21%	0.63%	0.70%	-0.68%
1 Week Price Chg	-1.80%	0.00%	-1.09%	-5.28%	-0.57%	0.19%
4 Week Price Chg	-3.34%	0.00%	-0.01%	-4.02%	3.20%	4.34%
12 Week Price Chg	3.11%	2.28%	4.14%	5.57%	14.95%	10.76%
52 Week Price Chg	12.38%	-10.52%	17.24%	9.37%	14.36%	34.77%
20 Day Average Volume	778,245	124,447	1,824,613	466,965	6,760,362	3,891,178
(F1) EPS Est 1 week change	-7.38%	0.00%	0.00%	0.27%	-0.14%	0.00%
(F1) EPS Est 4 week change	-6.80%	0.00%	0.00%	0.27%	-0.46%	0.00%
(F1) EPS Est 12 week change	-8.60%	0.00%	-0.11%	1.25%	-0.93%	0.69%
(Q1) EPS Est Mthly Chg	-6.21%	0.00%	0.00%	-6.85%	-4.85%	-0.03%

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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