

**BUY : ISRG**

**Price : \$272.02**

**PT : \$298**

**Upside : 10%**

Intuitive Surgical [NASDAQ: ISRG]

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INTUITIVE

Analyst: Katherine Bennorth

Industry Overview

Company Overview

Shifting Standards of Care

Growth of Ion Systems

Capitalization of International Markets

Valuation

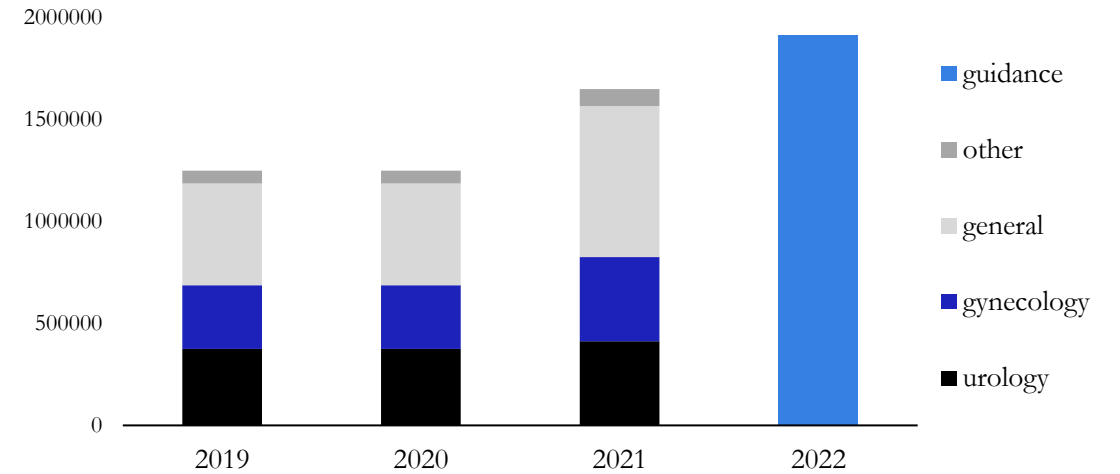
Bear and Bull Case

# Industry Overview

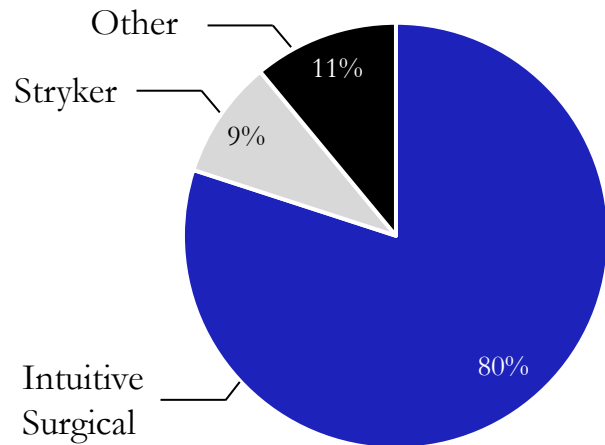
## Robotic Assisted Surgery Market

- **17.6% CAGR** driven by growing geriatric population and proof of accuracy compared to open surgery
- Minimally invasive surgeries preferred for elective procedures due to less pain, blood loss, recovery time, and re-emergence
- Robotic surgery systems used for general surgery procedures, cardiac, colorectal, gynecological, head/neck, thoracic, urologic

## Procedure Growth by Segment



## Market Share



Intuitive Surgical has established large moat

Will remain largely unaffected for next few years

## New Competition Entering the Market



Medtronic's Hugo technology likely to be launch 2024 after approval by FDA



J&J Ottawa platform expected to launch in 2026 after delay of trials due to Covid-19

# Company Overview

INTUITIVE

## Products

### da Vinci



Fourth gen. technology and instruments enables complex surgeries

### Ion



Catheter based platform that enables minimally invasive lung biopsies

6,500+ systems placed in approximately 70 countries

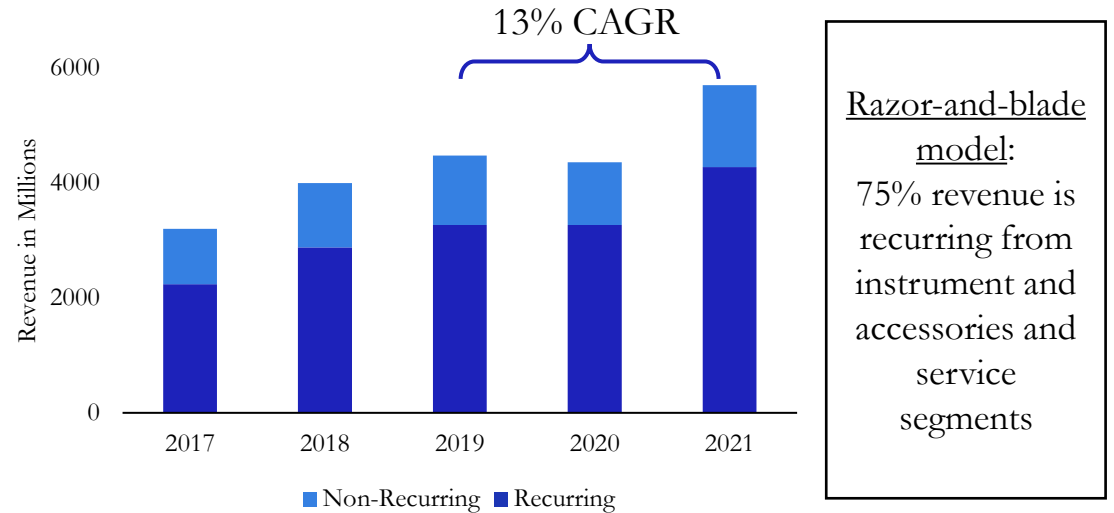
## Experienced Management



Gary Guthart

- Member of the first engineering team for the da Vinci robot
- Stock +400% since taking over as CEO in 2010
- Grew da Vinci system placements ~5,000 and oversaw development of new platform
- Ph.D. in engineering from California Institute of Technology

## Revenue



## Stock Performance



## Shift of Standards

As automation takes over the healthcare industry, the precision of care exerted by minimally invasive equipment are becoming the standard of care for different surgical procedures.

## Ion System Growth

Ion, approved in 2019 by the FDA, is experiencing rapid growth domestically and has pending approvals across the world to meet demand for cutting edge imaging technology

## International Growth

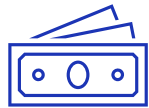
There is exponential room for growth in the international sphere, particularly Asia, England, and Australia, for da Vinci and Ion systems to serve a market only 3% penetrated

# Shifting Standards of Care

## Medical Malpractice



250,000 die annually from medical malpractice- 3<sup>rd</sup> leading cause of death in US



Average payout of a medical malpractice claim is \$309,908



98% effective rate for robotic surgery, 80% open surgery rate

## Robotic Surgery as the Standard

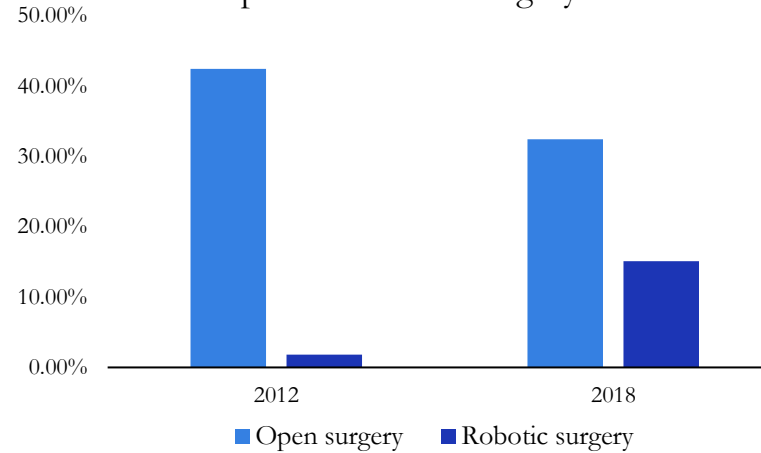
Prostatectomies first RAS standard of care

85% procedures performed using robots

- Gynecology and urology procedures next as 75% robotic surgeries fall within categories
- 10 million+ procedures performed with reduced in-room-to-surgery duration, complications, and recurrence
- 60,000+ surgeons trained on SimNow cloud-based learning content, remote case proctoring, VR training

## Automation in Hospitals

Open vs Robotic Surgery Use



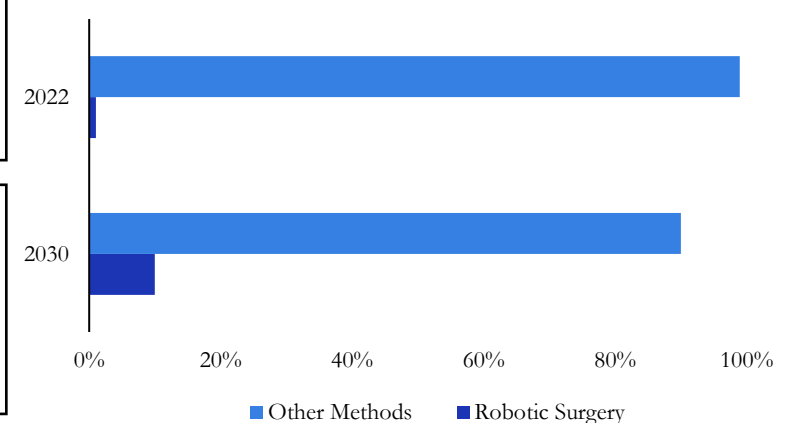
~30% penetration addressable for procedures, opportunity of 6M procedures annually in US, 20M including OUS segment

## Movement into Emergency Settings

10% of all surgeries are unavailable to RAS market

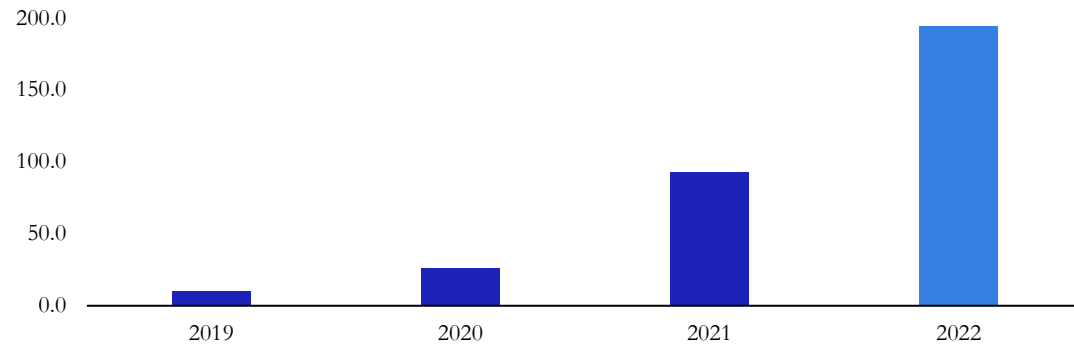
Positive studies indicate future potential in ~\$10 billion space

Emergency Procedure Methods



# Growth of Ion Systems

## Placement of Ion Systems



Over **200%** 2022 growth rate expected based on y-o-y average with each system priced at \$600,000

## Approval in Europe

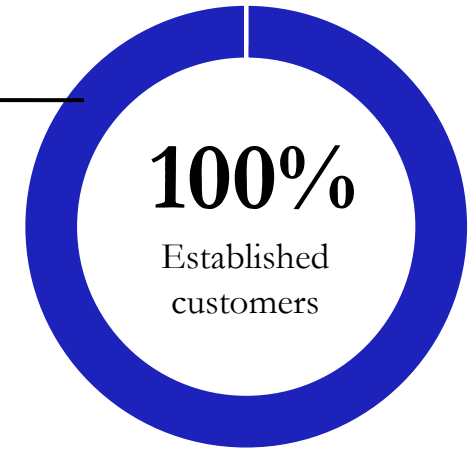


- Lung cancer leads cancer deaths in Europe
- 90% of cases detected too late to be treated effectively
- Countries with highest lung cancer mortality rates: Hungary, Denmark, Serbia, France, and Ireland

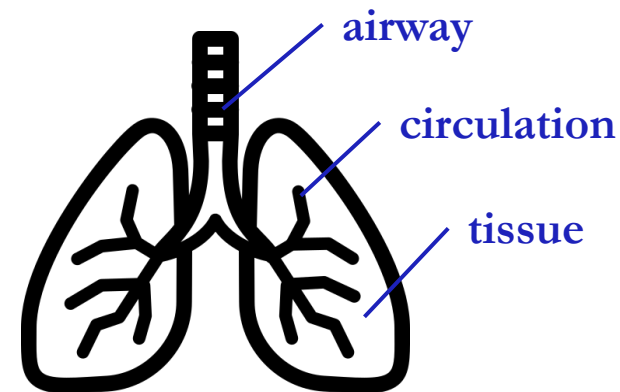
## Demographic of Customers

“Sticky” Ecosystem: All Ion customers currently have a da Vinci product

Potential of 5,000+ placements within established customer base alone



## Expansion of Lung Capabilities



Company plans to lead market R&D investments, indicating strong instrument pipeline

Likely another robot will be added to Ion platform, creating a significant revenue stream

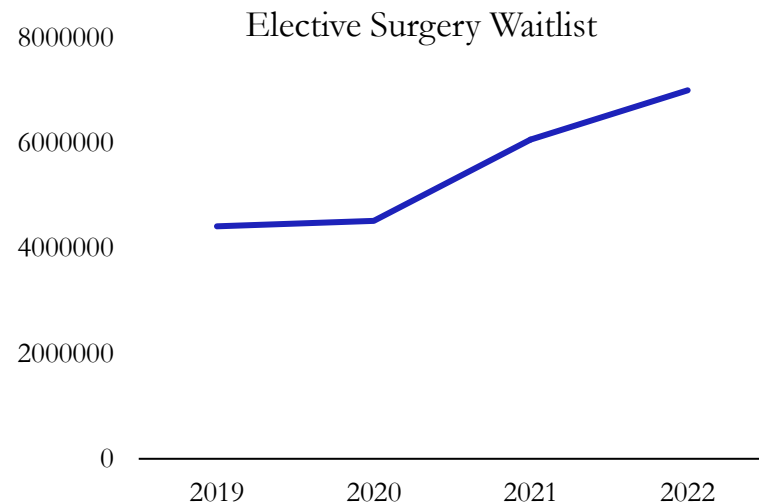
# Capitalization of International Market

## Undervalued Asia-Pacific Outlook

### Market CAGR 10% compared to US 6%

- JV to capture regional sales and build Shanghai manufacturing base to break through in 2025
- Launch of staplers and Endoscope instruments late 2022- largest segments of instrument & accessory revenue
- da Vinci SP Japan approval in Q2 and government set purchase quotas will drive consistent placements

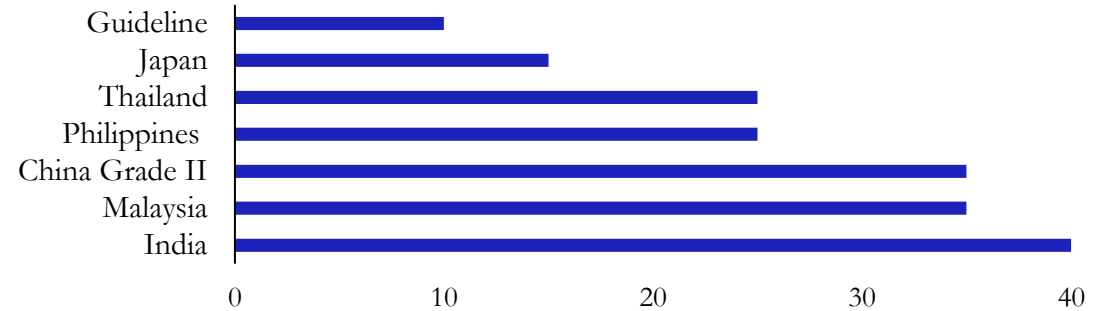
## Targeting England's Waitlist



NHS Capacity Framework combines public and private funding to broaden digital investments in hospitals

## Ion Launch for Asian Pollution Crisis

PM 2.5 micrograms/cubic meter



Ambient PM<sub>2.5</sub> pollution resulted in 1.4 million premature deaths in China in one year alone

## Fighting Australia's Cardiac Burden

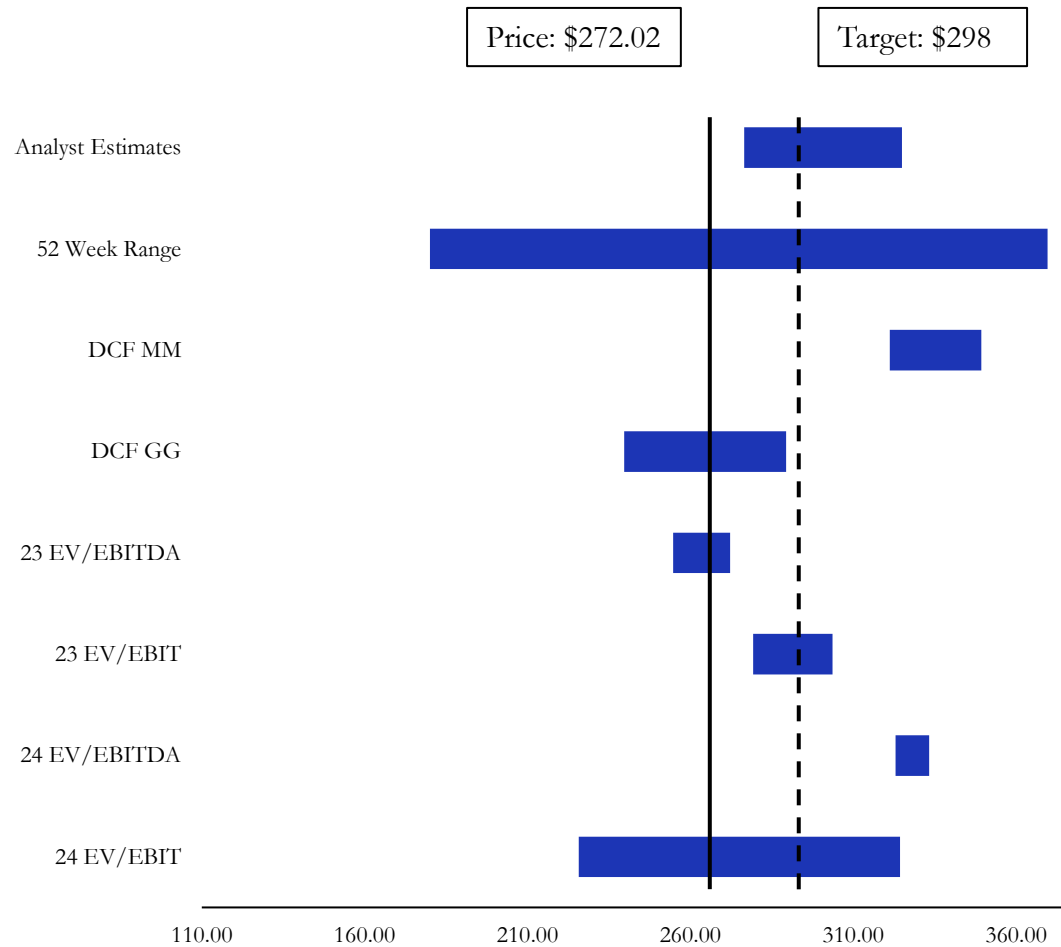


Da Vinci systems lead to less readmission, faster rehabilitation

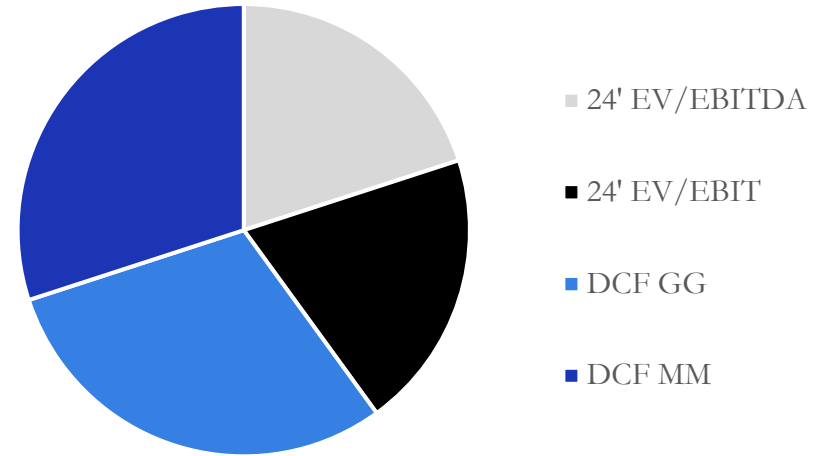
Lower late mortality compared to traditional open-heart surgery



## Football Field



## Share Price Weighting



## Analyst Ratings

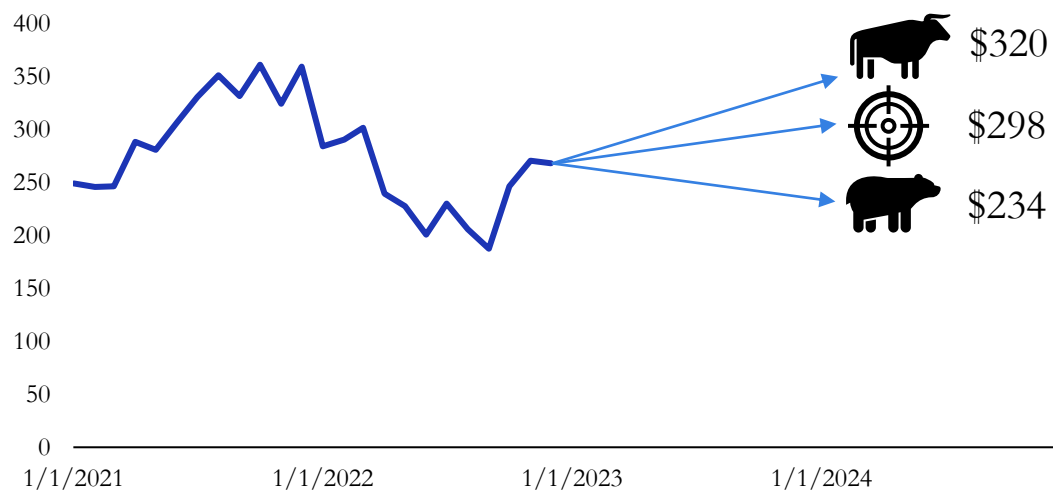
Morgan Stanley	\$235
RBC Capital	\$285
Wells Fargo	\$262
Bernstein	\$325
JP Morgan	\$280
Goldman Sachs	\$273

# Bear Base Bull Case

## Case Overview

Bear	Base	Bull
<ul style="list-style-type: none"> <li>System placements suffer as hospitals cut budgets</li> <li>Covid-19 cases around the world begin to rise at rapid rates</li> <li>Ion placements do not have as much demand as anticipated in international markets</li> </ul>	<ul style="list-style-type: none"> <li>Hospitals purchase systems on lease agreements to keep sales high despite recessionary environment</li> <li>Current customers adopt Ion platforms at high y-o-y rate</li> <li>Surgery waitlists will continue to grow, warranting higher demand</li> </ul>	<ul style="list-style-type: none"> <li>Hospitals resolve budget issues, resulting in greater placements</li> <li>China's regional lockdowns lessen</li> <li>Ion launch in Europe has greater placements than US growth rate</li> <li>MIS deemed standard for more procedure types</li> </ul>

## Forecast



## Assumptions

### Bear

12.07% WACC	17x EV / EBIT	50% GG / 50% TM
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### Bull

11.57% WACC	25.5x EV / EBIT	30% GG / 70% TM
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**BUY : ISRG**

**Price : \$272.02**

**PT : \$298**

**Upside : 10%**

**Thank You!**

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**Questions?**

# Appendix

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# Appendix A: Income Statement

Intuitive Surgical Inc. (NASDAQ: ISRG)									
<i>Consolidated Statements Of Income</i>									
<i>In millions</i>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY 2027E</u>
<b>Revenue:</b>									
Total revenue	\$ 4,478.5	\$ 4,358.4	\$ 5,710.1	\$ 6,318.2	\$ 7,352.9	\$ 8,729.5	\$ 10,504.9	\$ 12,646.1	\$ 14,919.6
<b>Cost of revenue:</b>									
Total cost of revenue	1,368.3	1,497.2	1,751.6	1,926.8	2,138.7	2,395.3	2,706.7	3,085.7	3,548.5
% Growth		9%	17%	10%	11%	12%	13%	14%	15%
<b>Gross profit</b>	3,110.2	2,861.2	3,958.5	4,391.4	5,214.2	6,334.2	7,798.2	9,560.4	11,371.0
<b>Operating expenses:</b>									
Selling, general and administrative	1,178.4	1,216.3	1,466.5	1,554.5	1,678.8	1,846.7	2,049.9	2,295.9	2,594.3
Research and development	557.3	595.1	671.0	731.4	804.5	885.0	973.5	1,070.8	1,177.9
<b>Total operating expenses</b>	1,735.7	1,811.4	2,137.5	2,285.9	2,483.4	2,731.7	3,023.4	3,366.7	3,772.2
<b>Income from operations (EBIT)</b>	1,374.5	1,049.8	1,821.0	2,105.6	2,730.9	3,602.5	4,774.8	6,193.7	7,598.8
Interest and other income, net	127.7	157.2	69.3	71.1	73.2	75.4	77.7	80.0	82.4
% Sales	3%	4%	1%	3%	3%	3%	3%	3%	3%
Income before taxes (EBT)	1,502.2	1,207.0	1,890.3	2,176.6	2,804.1	3,677.9	4,852.5	6,273.7	7,681.2
Income tax expense	120.4	140.2	162.2	180.0	199.8	221.8	246.2	273.3	303.4
<i>Tax Rate</i>	9%	13%	9%	11%	11%	11%	11%	11%	11%
<b>Net income</b>	1,381.8	1,066.8	1,728.1	1,996.6	2,604.2	3,456.0	4,606.3	6,000.4	7,377.8
Less: net income attributable to noncontrolling interest in joint venture	2.5	6.2	23.5						
<b>Net income attributable to Intuitive Surgical, Inc.</b>	\$ 1,379.3	\$ 1,060.6	\$ 1,704.6	\$ 1,996.6	\$ 2,604.2	\$ 3,456.0	\$ 4,606.3	\$ 6,000.4	\$ 7,377.8

# Appendix B: Balance Sheet

## Intuitive Surgical Inc. (NASDAQ: ISRG)

### Consolidated Balance Sheets

<i>In millions</i>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY 2027E</u>
<b>Current assets:</b>									
Cash and cash equivalents	\$ 1,167.6	\$ 1,622.6	\$ 1,290.9						
Short-term investments	2,054.1	3,488.8	2,913.1						
Accounts receivable	645.2	645.5	782.7	895.7	1,020.6	1,177.5	1,388.3	1,628.8	1,885.1
Inventory	595.5	601.5	587.1	746.0	839.6	953.4	1,111.4	1,261.5	1,406.1
Prepays and other current assets	200.2	267.5	271.1	297.8	315.7	334.7	368.1	404.9	437.3
Total current assets	4,662.6	6,625.9	5,844.9						
Property, plant, and equipment, net	1,272.9	1,577.3	1,876.4						
Long-term investments	2,623.5	1,757.7	4,415.5						
Deferred tax assets	425.6	367.7	441.4						
Intangible and other assets, net	441.4	503.6	633.2						
Goodwill	307.2	336.7	343.6						
<b>Total assets</b>	<b>9,733.2</b>	<b>11,168.9</b>	<b>13,555</b>						
<b>Current liabilities:</b>									
Accounts payable	123.5	81.6	121.2	141.1	160.8	185.5	218.7	256.6	297.0
Accrued compensation and employee benefits	251.6	235	350.1						
Deferred revenue	337.8	350.3	377.2						
Other accrued liabilities	317.3	298.3	301.3	383.4	431.6	490.0	571.2	648.4	722.7
Total current liabilities	1,030.2	965.2	1,149.8						
Other long-term liabilities	418.3	444.6	453.7						
<b>Total liabilities</b>	<b>1,448.5</b>	<b>1,409.8</b>	<b>1,603.5</b>						
<b>Stockholders' equity:</b>									
Preferred stock	0	0	0						
Common stock	0.1	0.4	0.4						
Additional paid-in capital	5,756.8	6,444.9	7,164						
Retained earnings	2,494.5	3,261.3	4,760.9						
Accumulated other comprehensive income (loss)	12.4	24.9	(24.2)						
Total Intuitive Surgical, Inc. stockholders' equity	8,263.7	9,731.1	11,900.7						
Noncontrolling interest in joint venture	20.9	27.6	50.4						
<b>Total stockholders' equity</b>	<b>8,284.6</b>	<b>9,758.7</b>	<b>11,951.1</b>						
Total liabilities and stockholders' equity	\$ 9,733.1	\$ 11,168.5	\$ 13,554.6						

# Appendix C: Cash Flow Statement

**Intuitive Surgical Inc. (NASDAQ: ISRG)**

**Consolidated Statements Of Cash Flows**

*In Millions*

	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022E</b>	<b>FY 2023E</b>	<b>FY 2024E</b>	<b>FY 2025E</b>	<b>FY 2026E</b>	<b>FY 2027E</b>
<b>Operating activities:</b>									
Net income	\$ 1,381.8	\$ 1,066.8	\$ 1,728.1						
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>									
Depreciation and loss on disposal of property, plant, and equipment, net	160.0	226.4	282.8						
Amortization of intangible assets	43.0	49.8	27.4						
D&A	203.0	276.2	310.2	327.7	348.4	373.7	404.6	437.4	472.9
% of Capex	48%	81%	88%	90%	92%	94%	96%	97%	98%
Loss (gain) on investments, accretion of discounts, and amortization of premiums on investments, net	(6.0)	(55.1)	10.6						
Deferred income taxes	(8.0)	57.6	(62.6)						
Share-based compensation expense	335.8	395.4	449.2						
Amortization of contract acquisition assets	13.1	17.1	22.0						
<b>Changes in operating assets and liabilities, net of effects of acquisitions:</b>									
Accounts receivable	38.8	5.7	(142.3)						
Inventory	(360.5)	(170.1)	(256.0)						
Prepays and other assets	(116.9)	(111.8)	(204.9)						
Accounts payable	12.3	(32.3)	36.0						
Accrued compensation and employee benefits	57.4	(16.6)	115.1						
Deferred revenue	35.5	15.0	32.6						
Other liabilities	11.9	36.9	51.4						
<b>Net cash provided by operating activities</b>	<b>1,801.7</b>	<b>1,761.8</b>	<b>2,400.5</b>						
<b>Investing activities:</b>									
Purchase of investments	(3,346.2)	(4,292.9)	(6,452.0)						
Proceeds from sales of investments	107.3	800.7	84.9						
Proceeds from maturities of investments	2,569.8	2,930.8	4,267.8						
Purchase of property, plant, and equipment and intellectual property	(425.6)	(341.5)	(353.5)	(364.1)	(378.7)	(397.6)	(421.5)	(451.0)	(482.5)
% of Revenue	10%	8%	6%	3%	4%	5%	6%	7%	7%
Acquisition of businesses, net of cash	59.7	37.7	8.7						
<b>Net cash used in investing activities</b>	<b>(1,154.4)</b>	<b>(940.6)</b>	<b>(2,461.5)</b>						
<b>Financing activities:</b>									
Proceeds from issuance of common stock relating to employee stock plans	272.8	308.8	276.5						
Taxes paid related to net share settlement of equity awards	(159.1)	(175.2)	(211.6)						
Repurchase of common stock	(269.5)	(134.3)	0.0						
Capital contribution from noncontrolling interest	10	0	0						
Payment of deferred purchase consideration	(22.6)	(85.0)	(21.9)						
<b>Net cash provided by (used in) financing activities</b>	<b>(168.4)</b>	<b>(85.7)</b>	<b>43.0</b>						
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2.2)	(2.6)	(3.4)						
<b>Net increase (decrease) in cash, cash equivalents, and restricted cash</b>	<b>273.2</b>	<b>455.9</b>	<b>(332.5)</b>						
<b>Cash and Cash Equivalents:</b>									
Cash, cash equivalents, and restricted cash, beginning of year	909.4	1,182.6	1,638.5						
Cash, cash equivalents, and restricted cash, end of year	\$ 1,182.6	\$ 1,638.5	\$ 1,306.0						

# Appendix D: Revenue Build

## Intuitive Surgical Inc. (NASDAQ: ISRG)

### Revenue Build

<i>In millions</i>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY 2027E</u>
US									
Instruments and Accessories	\$ 1,790.4	\$ 1,785.1	\$ 2,225.1	\$ 2,536.6	\$ 2,917.1	\$ 3,442.2	\$ 4,130.6	\$ 4,874.1	\$ 5,654.0
% Growth		-0.3%	25%	14%	15%	18%	20%	18%	16%
Systems	830.7	695.0	1024.8	994.1	1182.9	1407.7	1661.1	1960.1	2273.7
% Growth		-16%	47%	-3%	19%	19%	18%	18%	16%
Services	508.4	482.6	603.3	669.7	736.6	810.3	891.3	980.5	1078.5
% Growth		-5%	25%	11%	10%	10%	10%	10%	10%
OUS									
Instruments and Accessories	617.8	670.6	875.4	1015.5	1218.6	1492.7	1851.0	2313.7	2892.2
% Growth		9%	31%	16%	20%	23%	24%	25%	25%
Systems	515.4	483.9	668.6	748.8	891.1	1105.0	1414.4	1838.7	2206.4
% Growth		-6%	38%	12%	19%	24%	28%	30%	20%
Services	215.8	241.2	312.9	353.6	406.6	471.7	556.6	679.0	814.8
% Growth		12%	30%	13%	15%	16%	18%	22%	20%
<b>Total Revenue</b>	<b>\$ 4,478.5</b>	<b>\$ 4,358.4</b>	<b>\$ 5,710.1</b>	<b>\$ 6,318.2</b>	<b>\$ 7,352.9</b>	<b>\$ 8,729.5</b>	<b>\$ 10,504.9</b>	<b>\$ 12,646.1</b>	<b>\$ 14,919.6</b>
% Growth		-3%	31%	11%	16%	19%	20%	20%	18%



# Appendix E: NWC

Intuitive Surgical Inc. (NASDAQ: ISRG)									
<i>Net Working Capital Assumptions</i>									
<i>In millions</i>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY 2027E</u>
<b>Current Assets:</b>									
Accounts Receivable	645.2	645.5	782.7	904.0	1,052.0	1,248.9	1,502.9	1,809.3	2,134.5
Inventory	595.5	601.5	587.1	752.8	847.3	962.1	1,102.1	1,273.3	1,483.7
Prepays and other current assets	200.2	267.5	271.1	297.8	321.7	353.8	392.8	439.9	497.1
<b>Total Current Assets</b>	<b>1440.9</b>	<b>1514.5</b>	<b>1640.9</b>	<b>1954.6</b>	<b>2221.0</b>	<b>2564.9</b>	<b>2997.7</b>	<b>3522.4</b>	<b>4115.3</b>
<b>Current Liabilities:</b>									
Accounts Payable	123.5	81.6	121.2	142.4	165.7	196.8	236.8	285.1	336.3
Other accrued liabilities	317.3	298.3	301.3	386.9	435.5	494.5	566.5	654.5	762.6
<b>Total current liabilities</b>	<b>440.8</b>	<b>379.9</b>	<b>422.5</b>	<b>529.4</b>	<b>601.3</b>	<b>691.3</b>	<b>803.3</b>	<b>939.5</b>	<b>1098.9</b>
<b>NWC</b>	<b>1000.1</b>	<b>1134.6</b>	<b>1218.4</b>	<b>1425.2</b>	<b>1619.7</b>	<b>1873.6</b>	<b>2194.5</b>	<b>2582.9</b>	<b>3016.4</b>
<b>Change in NWC</b>		<b>134.5</b>	<b>83.8</b>	<b>206.8</b>	<b>194.5</b>	<b>253.9</b>	<b>320.9</b>	<b>388.4</b>	<b>433.5</b>
<b>Drivers:</b>									
<b>Current Assets:</b>									
Sales	4,479	4,358	5,710	6,318	7,353	8,730	10,505	12,646	14,920
Accounts receivable	645	646	783	904	1,052	1,249	1,503	1,809	2,135
<i>AR Days</i>	<i>52.58</i>	<i>54.06</i>	<i>50.03</i>	<i>52.22</i>	<i>52.22</i>	<i>52.22</i>	<i>52.22</i>	<i>52.22</i>	<i>52.22</i>
COGS	1,368	1,497	1,752	1,927	2,139	2,395	2,707	3,086	3,549
Inventories	596	602	587	753	847	962	1,102	1,273	1,484
<i>Inventory Days</i>	<i>158.85</i>	<i>146.64</i>	<i>122.34</i>	<i>142.61</i>	<i>144.61</i>	<i>146.61</i>	<i>148.61</i>	<i>150.61</i>	<i>152.61</i>
SG&A	1,178	1,216	1,467	1,554	1,679	1,847	2,050	2,296	2,594
Prepaid expenses and other current assets	200	268	271	298	322	354	393	440	497
<i>As a % of SG&amp;A</i>	<i>16.99%</i>	<i>21.99%</i>	<i>18.49%</i>	<i>19.16%</i>	<i>19.16%</i>	<i>19.16%</i>	<i>19.16%</i>	<i>19.16%</i>	<i>19.16%</i>
<b>Current Liabilities:</b>									
COGS	645	646	783	904	1,052	1,249	1,503	1,809	2,135
Accounts Payable	124	82	121	142	166	197	237	285	336
<i>AP Days</i>	<i>69.87</i>	<i>46.14</i>	<i>56.52</i>	<i>57.51</i>	<i>57.51</i>	<i>57.51</i>	<i>57.51</i>	<i>57.51</i>	<i>57.51</i>
SG&A	596	602	587	753	847	962	1,102	1,273	1,484
Other accrued liabilities	317	298	301	387	436	495	566	654	763
<i>As a % of SG&amp;A</i>	<i>53.28%</i>	<i>49.59%</i>	<i>51.32%</i>	<i>51.40%</i>	<i>51.40%</i>	<i>51.40%</i>	<i>51.40%</i>	<i>51.40%</i>	<i>51.40%</i>

# Appendix F: WACC

## WACC Calculation

*(in millions)*

Market Value of Equity	99071.78
<i>Share Price</i>	272.25
<i>Shares Outstanding</i>	363.90
Weight of Equity	100%
Risk-free Rate	3.60%
Equity Risk Premium	5.50%
Beta	1.29
Cost of Equity	10.67%
Market Value of Debt	0
Weight of Debt	0%
Cost of Debt	0%
WACC	10.67%

# Appendix G: Comparable Companies Analysis 1

## Intuitive Surgical- Comparable Companies Analysis

Company	Ticker	Price	Shares	Market Cap	Cash	Total Debt	Minority Interest	EV	EPS	EV/EBIT	EV/EBITDA	EV/Revenue	P/E
Intuitive Surgical	ISRG	272.02	363.9	98,988.1	4,437.4	0.0	50.4	94,601.1	4.7	54.40	45.67	15.86	58.07
Stryker	SYK	247.84	382.2	94,724.4	1,127.0	13,852.0	0.0	107,449.4	7.9	28.75	22.20	6.10	31.37
Boston Scientific	BSX	46.32	1437.8	66,598.9	276.0	9,329.0	0.0	75,651.9	1.2	32.68	22.02	6.14	40.28
Edwards Lifesciences	EW	72.48	626.7	45,423.2	1,466.8	682.8	0.0	44,639.2	2.3	27.10	25.04	8.34	31.93
IDEXX Labs	IDXX	428.54	84.1	36,040.2	99.2	1,419.8	0.0	37,360.8	7.9	42.87	36.85	11.19	54.45
Minimum										27.10	22.02	6.10	31.37
Quartile 1										28.75	22.20	6.14	31.93
Median										32.68	25.04	8.34	40.28
Mean										37.16	30.36	9.52	43.22
Quartile 3										42.87	36.85	11.19	54.45
Maximum										54.40	45.67	15.86	58.07

24 EV/EBIT	24 EV/EBITDA	24 EV/Rev	24 P/E	23 EV/EBIT	23 EV/EBITDA	23 EV/Rev	23 P/E
44.93	29.16	10.84	42.70	38.58	33.65	13.53	50.47
20.20	18.28	5.15	21.86	22.14	20.04	5.51	24.13
18.82	16.78	5.16	20.77	21.51	18.88	5.55	23.63
20.31	17.38	6.63	23.84	22.87	21.28	7.36	26.94
32.00	28.79	9.49	39.75	36.08	32.02	10.37	45.59
18.82	16.78	5.15	20.77	21.51	18.88	5.51	23.63
20.20	17.38	5.16	21.86	22.14	20.04	5.55	24.13
20.31	18.28	6.63	23.84	22.87	21.28	7.36	26.94
27.25	22.08	7.45	29.79	28.24	25.18	8.46	34.15
32.00	28.79	9.49	39.75	36.08	32.02	10.37	45.59
44.93	29.16	10.84	42.70	38.58	33.65	13.53	50.47

# Appendix H: Comparable Companies Analysis 2

INTUITIVE

24 Comps Output	EV	Debt	Cash	Minority	Equity	Shares	Per Share
EBIT	3602.48						
Min	18.82	67796.3	0	4437.4	50.4	72183.3	363.9
Q1	20.20	72771.1	0	4437.4	50.4	77158.1	363.9
Med	20.31	73172.7	0	4437.4	50.4	77559.7	363.9
Q3	32.00	115262.0	0	4437.4	50.4	119649.0	363.9
Max	44.93	161855.8	0	4437.4	50.4	166242.8	363.9
EBITDA	3987.53						
Min	16.78	66926.5	0	4437.4	50.4	71313.5	363.9
Q1	17.38	69287.8	0	4437.4	50.4	73674.8	363.9
Med	22.08	88040.4	0	4437.4	50.4	92427.4	363.9
Q3	28.79	114818.9	0	4437.4	50.4	119205.9	363.9
Max	29.16	116269.6	0	4437.4	50.4	120656.6	363.9
Revenue	8729.54						
Min	5.15	44970.4	0	4437.4	50.4	49357.4	363.9
Q1	5.16	45075.5	0	4437.4	50.4	49462.5	363.9
Med	7.45	65064.8	0	4437.4	50.4	69451.8	363.9
Q3	9.49	82811.0	0	4437.4	50.4	87198.0	363.9
Max	10.84	94601.1	0	4437.4	50.4	98988.1	363.9
P/E		EPS	Per Share				
Min	20.77	4.7	97.30				
Q1	21.86	4.7	102.38				
Med	23.84	4.7	111.68				
Q3	39.75	4.7	186.21				
Max	42.70	4.7	200.03				

# Appendix I: Comparable Companies Analysis 3

INTUITIVE

23 Output		EV	Debt	Cash	Minority	Equity	Shares	Per Share
EBIT	2730.86067							
Min	21.51	58736.8	0.0	4437.4	50.4	63123.8	363.9	173.46
Q1	22.14	60451.1	0.0	4437.4	50.4	64838.1	363.9	178.18
Med	22.87	62447.4	0.0	4437.4	50.4	66834.4	363.9	183.66
Q3	36.08	98538.9	0.0	4437.4	50.4	102925.9	363.9	282.84
Max	38.58	105364.2	0.0	4437.4	50.4	109751.2	363.9	301.60
EBITDA	2811.4							
Min	18.88	53091.0	0.0	4437.4	50.4	57478.0	363.9	157.95
Q1	20.04	56353.6	0.0	4437.4	50.4	60740.6	363.9	166.92
Med	21.28	59835.4	0.0	4437.4	50.4	64222.4	363.9	176.48
Q3	32.02	90013.0	0.0	4437.4	50.4	94400.0	363.9	259.41
Max	33.65	94601.1	0.0	4437.4	50.4	98988.1	363.9	272.02
Revenue	7352.94247							
Min	5.51	40484.4	0.0	4437.4	50.4	44871.4	363.9	123.31
Q1	5.55	40834.2	0.0	4437.4	50.4	45221.2	363.9	124.27
Med	7.36	54109.7	0.0	4437.4	50.4	58496.7	363.9	160.75
Q3	10.37	76268.6	0.0	4437.4	50.4	80655.6	363.9	221.64
Max	13.53	99456.1	0.0	4437.4	50.4	103843.1	363.9	285.36

# Appendix J: Discounted Cash Flow Analysis

**Intuitive Surgical Inc. (NASDAQ: ISRG)**

**Discounted Cash Flow**

<i>In millions</i>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>	<u>FY 2027E</u>
Revenue	4478.5	4358.4	5710.1	6318.2	7353	8729.5	10504.9	12646.1	14919.6
% Growth		-3%	31%	11%	16%	19%	20%	20%	18%
EBIT	1374.5	1049.8	1821.0	2105.6	2730.9	3602.5	4774.8	6193.7	7598.8
EBIT Margin	31%	24%	32%	33%	37%	41%	45%	49%	51%
NOPAT	1254.1	909.6	1658.8	1874.0	2430.5	3206.2	4249.6	5512.4	6762.9
Tax Rate	9%	13%	9%	11%	11%	11%	11%	11%	11%
Plus: D&A	203	276.2	310.2	331	347	385	408	441	482
Less: Capex	425.6	341.5	353.5	367.6	386.0	405.3	429.6	459.7	491.9
Less: Change in NWC	0	134.5	83.8	206.8	194.5	253.9	320.9	388.4	433.5
FCFF	1031.5	709.8	1531.7	1630.4	2197.4	2932.1	3907.2	5105.6	6319.6
Discount Factor				0.50	1.50	2.50	3.50	4.50	5.50
Cash Flows (growth)				1,630	2,197	2,932	3,907	5,106	6,320
Cash Flows (multiple)				1,630	2,197	2,932	3,907	5,106	6,320
PV of CF (growth)				1,550	1,887	2,276	2,740	3,235	3,619
PV of CF (multiple)				1,550	1,887	2,276	2,740	3,235	3,619

Terminal Growth Rate	2.25%
Terminal Multiple (EV/EBIT)	20.31
WACC	10.7%

Gordon Growth	
Terminal CF	6319.6
WACC	10.7%
Terminal Growth Rate	2.3%
Terminal Value	76,745
PV of Terminal Value	67,905
Enterprise Value	83,212
Less: Debt	0
Add: Cash	4,437
Minority Interest	50
Equity Value	87,600
DSO	363.9
Price	\$ 240.72

Terminal Multiple	
Terminal EBIT	8,081
EV/EBITDA	20.31
Terminal Value	164,137
PV of Terminal of Value	93,982
Enterprise Value	109,289
Less: Debt	0
Add: Cash	4,437
Minority Interest	50
Equity Value	113,676
DSO	363.9
Price	\$ 312.38

# Appendix K: Sensitivity Tables

		gordon growth perpetuity growth				
		1.25%	1.75%	2.25%	2.75%	3.25%
WACC	9.67%	249.16	256.93	265.87	276.24	288.37
	10.17%	238.23	244.89	252.51	261.28	271.45
	10.67%	228.46	234.19	240.72	248.20	256.80
	11.17%	219.67	224.63	230.26	236.67	244.00
	11.67%	211.73	216.04	220.91	226.44	232.73

		multiples method				
		19.31	19.81	20.31	20.81	21.31
WACC	9.67%	313.59	320.28	326.96	333.64	340.33
	10.17%	306.53	313.05	319.57	326.08	332.60
	10.67%	299.67	306.03	312.38	318.74	325.10
	11.17%	293.00	299.20	305.40	311.61	317.81
	11.67%	286.52	292.57	298.62	304.67	310.72

# Appendix L: Bear Case

		gordon growth perpetuity growth				
		1.25%	1.75%	2.25%	2.75%	3.25%
WACC	11.07%	221.35	226.46	232.26	238.86	246.43
	11.57%	213.25	217.69	222.70	228.39	234.87
	12.07%	205.90	209.76	214.12	219.04	224.62
	12.57%	199.19	202.57	206.37	210.64	215.48
	13.07%	193.06	196.01	199.33	203.06	207.26

		multiples method				
		16.00	16.50	17.00	17.50	18.00
WACC	11.07%	253.03	259.27	265.50	271.73	277.96
	11.57%	247.53	253.61	259.69	265.77	271.85
	12.07%	242.17	248.10	254.04	259.97	265.90
	12.57%	236.97	242.76	248.55	254.34	260.12
	13.07%	231.91	237.56	243.21	248.86	254.51



# Appendix M: Bull Case

WACC	gordon growth perpetuity growth				
	1.25%	1.75%	2.25%	2.75%	3.25%
	10.57%	230.32	236.23	242.96	250.67
11.07%	221.35	226.46	232.26	238.86	246.43
11.57%	213.25	217.69	222.70	228.39	234.87
12.07%	205.90	209.76	214.12	219.04	224.62
12.57%	199.19	202.57	206.37	210.64	215.48

WACC	multiples method				
	24.50	25.00	25.50	26.00	26.50
	10.57%	367.32	373.71	380.10	386.49
11.07%	358.99	365.22	371.45	377.69	383.92
11.57%	350.89	356.97	363.05	369.13	375.22
12.07%	343.03	348.96	354.89	360.83	366.76
12.57%	335.38	341.17	346.96	352.75	358.54

# Appendix N: Q3 Earnings Highlights

INTUITIVE

## Business Developments



Da Vinci SP approved in Japan, first ever single port approval



Largest provider of robotic-assisted surgical technology training accredited by the Royal College of Surgeons of England



Ion submitted for approval in China, a lengthy but rewarding process

## By The Numbers

### Revenue

Prediction:  
\$1.5 billion

Actual:  
\$1.56 billion  
**+2.63%**

### EPS

Prediction:  
\$1.13

Actual:  
\$1.19  
**+6.30%**

### Procedures

Ion:  
**+211%**

da Vinci:  
**+20%**  
SP: **+46%**

## Share Buybacks

### Buyback of \$1 billion shares in Q3 2022

Progressive buyback over past few quarters indicate management is confident that the stock is undervalued

# Appendix O: Annotated Stock Performance

ISRG Historical Stock Performance



Binghamton Investment Fund

1

2008 Recession: Stock drops under old management

2

2016: First robot in da Vinci 4<sup>th</sup> generation approved by FDA

3

Attractive Discount: Supply and budget constraints led to emotional trading

# Appendix P: Recessionary Outlook

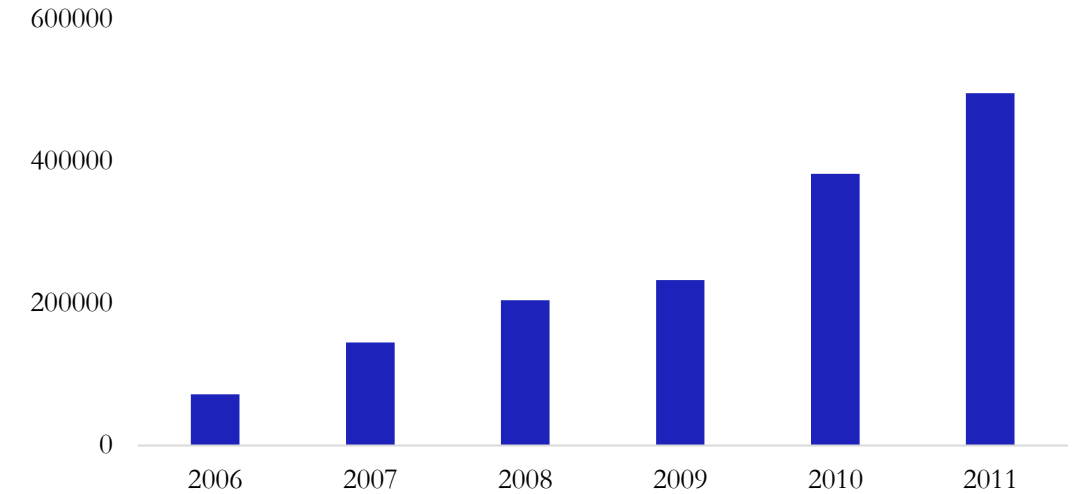
## Impact of Recession on Fundamentals

- 1 Leveraging cash to fuel R&D makes company less susceptible to rising interest rates
- 2 Lease offerings keep sales high as hospitals won't have to expend \$1.5 million+ up front
- 3 75% revenue is recurring (instruments and service) that doesn't rely on pricy system placements

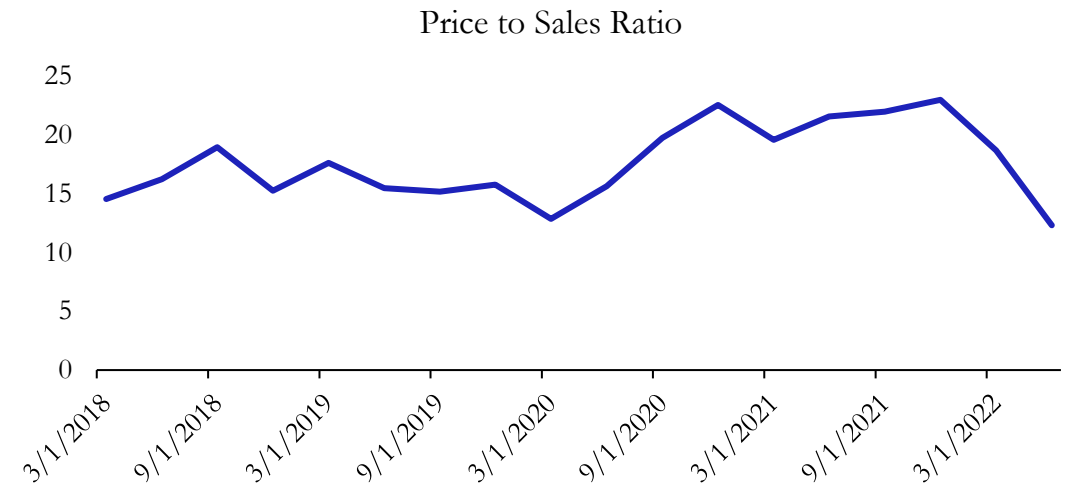
## Intuitive Surgical vs. Stryker Recessionary Impact



## Net Income During 2008



## Current Price to Sales Discount



# Appendix Q: ESG

Overall ESG Score:  
23.8

Environment Risk:  
4

Social Risk:  
9.8

Governance Risk:  
9.6

## Environment

535 metric tons of waste collected and recycled (up 42%)

517,000 gallons of water saved (up 294%)

500 kilowatt hours of renewable energy capacity added

## Social

\$2.9 million donated from Intuitive Foundation programs

Retired laptops donated to a non-profit in CA

Education Outreach via FIRST Robotics, Project Invent, Health Career Collaborative

## Governance

36% Board female representation

27% Board POC representation

>99% compliance training completion rate

# Appendix R: C-Suite



**Gary Guthart**

- Chief Executive Officer since 2010
- Member of first engineering team in 1996, promotions to VP of engineering and COO
- Ph.D. in engineering from California Institute of Technology, bachelors from UC Berkeley
- Stock performance up 400% since his onboarding as CEO



**Dave Rosa**

- Chief Strategy and Growth Officer
- Held leadership positions in commercial, engineering, clinical development, marketing, and product development since companies' inception
- Chairman of the board of JV between Intuitive Surgical and Fosun Pharma



**Myriam Curet**

- Executive Vice President and Chief Medical Officer
- M.D. from Harvard Medical School, general surgery residency at University of Chicago
- Faculty position at Stanford University School of Medicine, serving as a clinical professor of surgery since 2015

# Appendix S: Key Performance Indicators

## Procedure Growth

Increasing procedures signal more use of systems, translating to higher volume in purchases, upgrades, and instrument purchases

2019: +18%

2020: +1%

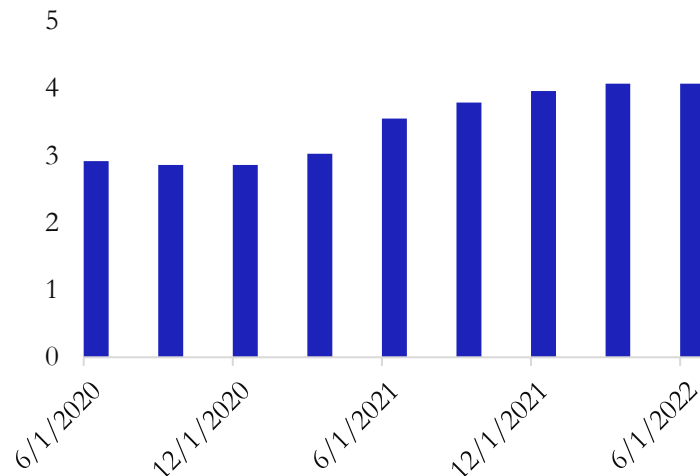
2021: +28%

2022: +17-18%

## Gross Profit

Significant SG&A and R&D expenses required for Intuitive Surgical to develop and sell its systems, gross profit must remain high

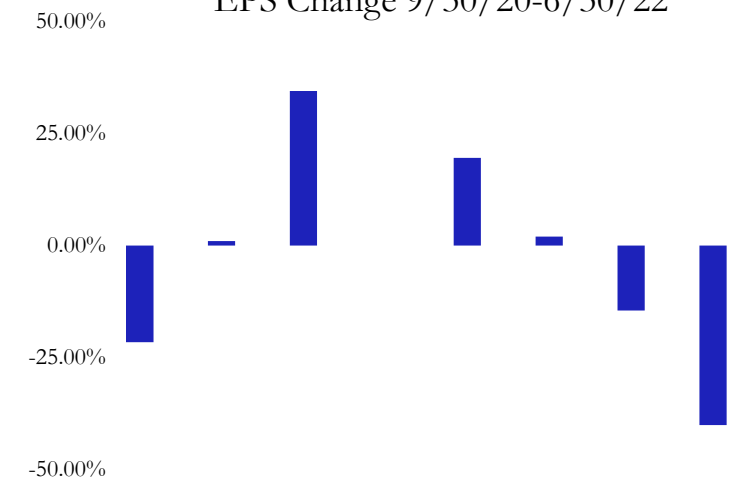
Gross Profit in Billions



## Ion and SP Placement

Management believes future EPS strength will be driven largely by Ion system and Single Port placements.

EPS Change 9/30/20-6/30/22



# Appendix T: Sticky Business Model

## Surgeon Training

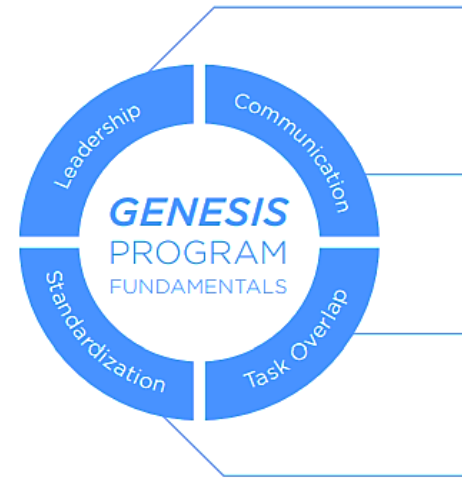
**35,000+**  
Worldwide

**25,000+**  
United States

Over 20 years education curriculum development

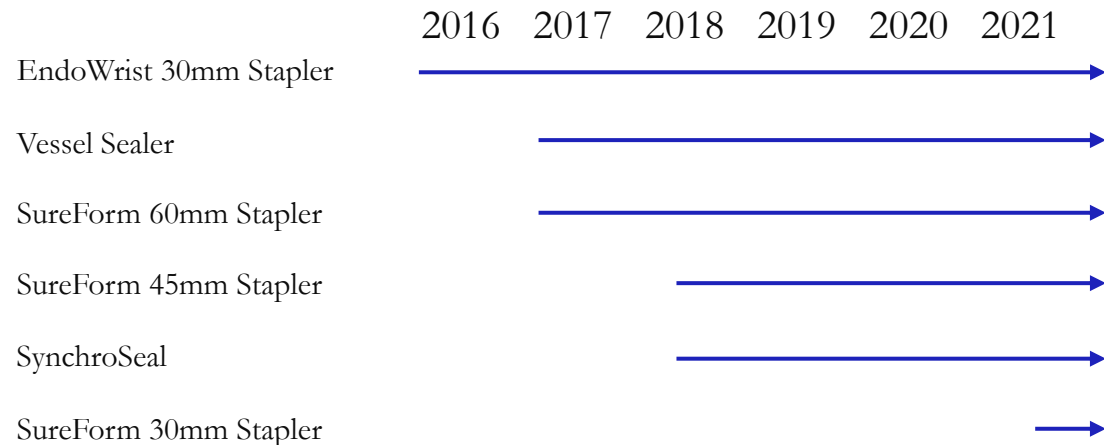
SimNow cloud-based learning content, remote case proctoring, VR training

## Customer Service



- Solidify Executive Sponsorship
- Determine Vision & Goals
- Establish Leadership Roles & Responsibilities
- Oversee Progress Towards Goals
- Establish Clear Channels Across All Levels
- Improve Team Awareness through Closed-Loop Communication
- Implement O.R. Efficiency Model
- Define Shared & Individual Responsibilities
- Create Pick Lists & Trays
- Outline *da Vinci* System Room Configuration
- Establish Expert Teams

## Interchangeable Instruments



## Ecosystem Connected By AI

My Intuitive App

Used to study data from procedures performed on da Vinci, follow training modules, and compare personal performance with national benchmarks

Intuitive Hub

Software system that allows surgeons to share/store video from procedures, making virtual collaboration easier