

Intuitive Surgical

Da Vinci 5 takes robotics to standard of care

Maintain Rating: BUY | PO: 450.00 USD | Price: 391.85 USD

Da Vinci 5: platform to push robotics to standard of care

We previously discussed how Da Vinci 5 can drive ISRG's [2025/2026 EPS higher](#) and how it can [segment the market ahead of competition](#). In this note we lay out our view that Da Vinci 5 is the platform that moves robotic surgery to standard of care - accelerating procedure growth & market penetration/year. Robotics proved itself out in certain procedures and certain high-volume centers over the last decade as a fast growing segment of surgery but the next decade is about making it standard of care. In January ISRG said the future starts now – the future is standard of care, in our view. ISRG remains our top pick (still day zero of Da Vinci 5). We maintain our Buy rating.

Better outcomes with robotics accelerates shift from lap

Da Vinci 5 likely makes it clearer to hospital administrators over time that robotics can generate better outcomes vs lap/open. There's much debate in the field on the cost of robotic surgery and whether it has better outcomes or not to achieve standard of care. However, Da Vinci 5 could give the definitive evidence, we believe. AI/Machine learning/sensing technology can help reduce surgeon error. It could identify sources of variation in surgery and help reduce clinically relevant variations to improve outcomes. Having definitively better outcomes vs lap materially accelerates the shift to robotics.

Make the hospital CFO say yes to robotic surgery

If robotic surgery gets to standard of care there must be more reasons for hospitals CFOs to say yes to robotic surgery. We think Da Vinci 5 will bring more attractive overall economics with hard data to prove the economic argument. Da Vinci 5 will find ways to lower resources / case. It can help standardize the OR and drive optimization/cost savings (see inside for more on this). Better workflow, faster turnover, less staffing/case, higher utilization, less ancillary/supporting product spend, longer lasting instrumentation, fewer costly adverse events are all ways to lower the overall cost of surgery.

Need more robotic trained surgeons to be standard of care

Every surgeon needs to be able to be a robotic surgeon to reach standard of care. ISRG has said in past it wanted to improve stick rates – the % of surgeons who get trained on robot but ultimately do not adopt. It's not only a waste of money (\$10s of thousands of dollars on training) but it also makes it even harder to get to standard of care if every surgeon and surgical team can't be proficiently trained in robotics. We think Da Vinci 5 could accelerate the learning curve for both the surgeon and the entire surgical team. There are 50k+ robotically trained surgeons today but to get to standard of care this number needs to multiply many times. There is massive variation between surgeon skill and care teams' skill, and ISRG likely wants to do something about that variation.

Better tech enabled instrumentation deepens penetration

Da Vinci 5 will be able to use Xi instrumentation (endoscope just needs to change) but better tech enabled instrumentation that only works on Da Vinci 5 will come over time that can help push robotic surgery to standard of care. ISRG has talked about going deeper in a few procedure categories by getting right instruments. See inside for more.

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Stock Data

Price	391.85 USD
Price Objective	450.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-9
52-Week Range	222.65 USD - 403.00 USD
Mkt Val (mn) / Shares Out (mn)	137,959 USD / 352.1
Free Float	99.5%
Average Daily Value (mn)	587.38 USD
BofA Ticker / Exchange	ISRG / NAS
Bloomberg / Reuters	ISRG US / ISRG.OQ
ROE (2023E)	16.7%
Net Dbt to Eqty (Dec-2022A)	-14.3%
ESGMeter™	High

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Abbreviation:

AI: artificial intelligence

ISRG: Intuitive Surgical

OR: operating room

lap: laparoscopic surgery

Standard of care needs industrial scale and high reliability

We think Da Vinci 5 will improve ISRG's already impressive uptime, performance and reliability which helps it be the platform to get to standard of care. ISRG's current platforms have 99.9% uptime but ISRG has spent a lot of time over the past year talking about improving reliability as it moves to industrial scale. Already some type of outage would mean that most prostate surgeries could not be performed, or a large number of gynecological procedures could not be performed given how many are already done on ISRG's robots. This importance of reliability just magnifies as other robotic procedures reach standard of care.

Da Vinci 5 can help standardize the operating room

There are some ISRG patents that talk about all the various auxiliary function equipment that is used during minimally invasive surgery (insufflation supply, cautery smoke evacuation, ultrasonic energy, generation, etc) and that this equipment comes with electrical cables, tubes etc. As a result, the operating room becomes a complex and crowded environment during surgery with no standardization. Each auxiliary unit may be in a different location and each unit has a different user interface. It is difficult to access and quickly change settings especially for surgeons who are remote from the patient operating at a robot and not in the sterile field. This requires extra operating room staff to operate the auxiliary functions and they may have to move to various locations and work around various electrical cables and fluid supply tubes to change settings.

We see Da Vinci 5 helping incorporate a lot of the auxiliary units used in surgery so they are in the same tower, same place, in every operating room. We think some of the settings could be automated and where settings do need changing it will be faster/easier/standardized and may be done more by surgeon from the operating console instead of operating room staff.

We think this is an example of one of the many ways ISRG can help reduce staffing needed in a robotic case and how they can help speed up each case to get higher utilization on each robot. We also think it is one of the important ways how ISRG can drive better outcomes – automating settings and reducing variability in the OR with standardization likely results in less user error.

Price objective basis & risk

Intuitive Surgical (ISRG)

Our \$450 PO is based on roughly 50x our 2026E EPS. We think the premium multiple relative to average large cap peers is justified given ISRG's expected mid-teens top-line growth over the next several years, nearly 3x that of the medtech market, and ISRG is well ahead vs competition in one of the most significant growth markets in medtech (soft tissue robotics). ISRG pipeline also justifies our multiple as ISRG is spending over \$500m a year in R&D and it's a matter of time before the fruits of these investments show up in estimates.

Downside risks are 1) lower surgical volumes due to covid, 2) slowdown in hospital capital spending, 3) other competitive entrants and 4) supply chain headwinds.

Analyst Certification

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Intuitive Surgical (ISRG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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