

# Intuitive Surgical

## The future starts now

Reiterate Rating: BUY | PO: 450.00 USD | Price: 371.41 USD

### Now that it's official – what to do with stock

Last night ISRG officially confirmed it filed its next-gen multiport platform Da Vinci 5 with the FDA in August 2023. We had outlined the impact of a new system last month (see [our Dec 19 report](#)). We didn't learn enough details about Da Vinci 5 to fine tune the model but do raise our 2026E EPS to \$9.00 (from \$8.25). ISRG called the new system substantive. Our guess is this system helps get robotic surgery to industrial scale - accelerating penetration of robotic surgery. Given many inputs of a new launch are initially dilutive we think investors would quickly move to value the stock on 2026 EPS when a launch is at full scale. We agree expectations for a new system announcement are mostly factored into the stock (which we got last night) but the totality of what a new system can bring is not fully appreciated yet and we see ISRG moving higher as this becomes more apparent. ISRG's 2024 sales force meeting was titled "the future starts now" and we believe it's too early to not have exposure to the most significant 5+ year product cycle in medtech. We reiterate our Buy rating.

### 2024 approval likely; full launch by 2026

ISRG did not give an expected approval date but said its hope was to have a 2024 launch. We also note ISRG included the first phase of da Vinci 5 launch as part of its 2024 priorities. ISRG said timing from filing to approval on prior system launches are not the best rule given how different the FDA environment is today but we'd guess approval anywhere from 8-12 months post filing is most likely. ISRG is in the Q&A process with the filing right now. ISRG decided to disclose the update on the earnings call given where it was with the FDA process and given it started training its 2k sales people at its January sales meeting and then started talking with large IDN customers. All Gen 4 instruments and accessories will work on Da Vinci 5 but the endoscope will need to change and there are possibilities for incremental innovation in instruments and imaging that only work on Da Vinci 5. ISRG said approval timing would determine if the system is visible at SAGES.

### New model...\$7.16 in 2025E and \$9.00 in 2026E

We assume a late 2024 approval and limited launch into 2025 and full scale launch in 2026. We model \$6.00 in 2024E EPS; \$7.05 in 2025E EPS; and \$9.00 in 2026E EPS. We raise our PO to \$450 from \$400 (based on 50x 2026E EPS vs 53x 2025E prior).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.96	4.68	5.71	6.00	7.05
EPS Change (YoY)	46.3%	-5.6%	22.0%	5.1%	17.5%
Consensus EPS (Bloomberg)			5.59	6.26	7.24
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	74.9x	79.4x	65.0x	61.9x	52.7x
EV / EBITDA*	48.8x	50.9x	45.5x	42.3x	34.8x
Free Cash Flow Yield*	1.3%	0.7%	1.1%	1.3%	1.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Timestamp: 24 January 2024 06:01AM EST

24 January 2024

#### Equity

##### Key Changes

(US\$)	Previous	Current
Price Obj.	400.00	450.00
2024E Rev (m)	7,934.7	7,855.4
2025E Rev (m)	9,068.0	9,189.8
2023E EPS	5.61	5.71
2024E EPS	6.01	6.00

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#### Stock Data

Price	371.41 USD
Price Objective	450.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-9
52-Week Range	222.65 USD - 379.39 USD
Mrkt Val (mn) / Shares Out (mn)	130,763 USD / 352.1
Free Float	99.5%
Average Daily Value (mn)	654.53 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 <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

ISRG = Intuitive Surgical  
IDN = integrated delivery network  
SAGES = Society of American  
Gastrointestinal and Endoscopic Surgeons

# iQprofile<sup>SM</sup> Intuitive Surgical

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.3%	14.4%	16.2%	14.6%	14.9%
Return on Equity	16.8%	14.8%	16.7%	14.9%	15.2%
Operating Margin	40.5%	34.5%	33.6%	31.8%	34.2%
Free Cash Flow	1,737	958	1,381	1,721	2,308

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	0.9x	1.1x	1.3x	1.2x
Asset Replacement Ratio	1.3x	1.6x	2.4x	2.2x	1.5x
Tax Rate	22.2%	21.8%	20.6%	23.0%	23.0%
Net Debt-to-Equity Ratio	-10.8%	-14.3%	-30.7%	-34.2%	-39.4%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,710	6,222	7,124	7,855	9,190
% Change	31.0%	9.0%	14.5%	10.3%	17.0%
Gross Profit	4,066	4,306	4,855	5,298	6,178
% Change	36.4%	5.9%	12.7%	9.1%	16.6%
EBITDA	2,598	2,487	2,784	2,996	3,635
% Change	49.2%	-4.3%	12.0%	7.6%	21.3%
Net Interest & Other Income	55	51	201	300	140
<b>Net Income (Adjusted)</b>	<b>1,816</b>	<b>1,695</b>	<b>2,042</b>	<b>2,137</b>	<b>2,506</b>
<b>% Change</b>	<b>48.5%</b>	<b>-6.6%</b>	<b>20.5%</b>	<b>4.7%</b>	<b>17.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,816	1,695	2,042	2,137	2,506
Depreciation & Amortization	283	338	387	494	494
Change in Working Capital	(367)	(619)	(499)	(177)	(409)
Deferred Taxation Charge	(63)	(185)	(61)	0	0
Other Adjustments, Net	422	262	431	367	452
Capital Expenditure	(354)	(532)	(918)	(1,100)	(735)
<b>Free Cash Flow</b>	<b>1,737</b>	<b>958</b>	<b>1,381</b>	<b>1,721</b>	<b>2,308</b>
<b>% Change</b>	<b>51.9%</b>	<b>-44.8%</b>	<b>44.1%</b>	<b>24.6%</b>	<b>34.1%</b>
Share / Issue Repurchase	277	(2,374)	(20)	(600)	(600)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,291	1,581	4,104	5,225	6,933
Trade Receivables	783	942	1,044	1,169	1,377
Other Current Assets	3,771	3,730	4,411	4,499	4,749
Property, Plant & Equipment	1,876	2,374	3,263	3,868	4,110
Other Non-Current Assets	5,834	4,347	2,728	2,707	2,687
<b>Total Assets</b>	<b>13,555</b>	<b>12,974</b>	<b>15,549</b>	<b>17,469</b>	<b>19,856</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,150	1,422	1,670	1,705	1,754
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	NA	NA	NA	NA	NA
<b>Total Liabilities</b>	<b>1,604</b>	<b>1,861</b>	<b>2,082</b>	<b>2,118</b>	<b>2,167</b>
<b>Total Equity</b>	<b>11,901</b>	<b>11,042</b>	<b>13,383</b>	<b>15,266</b>	<b>17,604</b>
<b>Total Equity &amp; Liabilities</b>	<b>13,505</b>	<b>12,903</b>	<b>15,465</b>	<b>17,384</b>	<b>19,771</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Medical Technology

## Company Description

Intuitive Surgical is the soft tissue surgical robotics pioneer and market leader that first received FDA clearance more than 20 years ago. ISRG sells robotic systems and accompanying instruments that can be used in a broad range of surgical procedures. ISRG has a global installed base of close to 8,000 robots.

## Investment Rationale

We expect ISRG to deliver robust procedure growth in the US and internationally as the company drives deeper penetration across a broader range of surgical procedures. ISRG has a near monopoly globally on soft tissue surgical robotics today and we feel confident that the company has adapted its business model and increased other competitive barriers to sustain robust growth even as new competitors potentially enter the market.

## Stock Data

Average Daily Volume 1,762,278

## Quarterly Earnings Estimates

	2022	2023
Q1	1.13A	1.23E
Q2	1.14A	1.42E
Q3	1.19A	1.46E
Q4	1.23A	1.60E

## 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

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
<b>NEUTRAL</b>				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
<b>UNDERPERFORM</b>				
	Embecka	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed



## US - Medical Technology &amp; Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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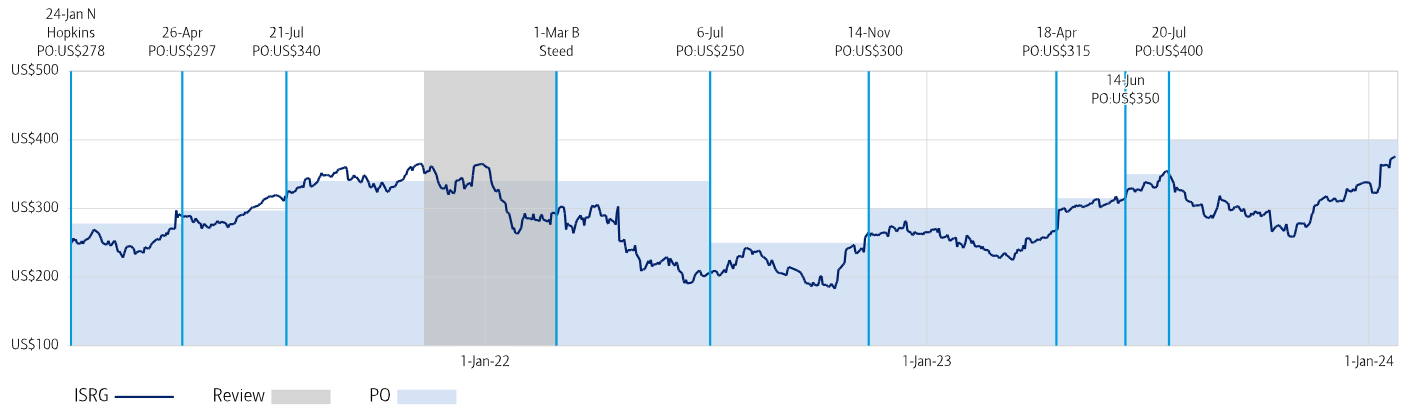
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### Intuitive Surgical (ISRG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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