

Intuitive Surgical

Strong signal for 2024

Maintain Rating: BUY | PO: 400.00 USD | Price: 350.55 USD

2024 procedure guide above expectations

We caught up with ISRG this morning after last night's strong Q4 pre announcement and 2024 procedure guidance that came in ahead of expectations. ISRG expects procedures to increase 13-16% in 2024 and ISRG typically beats the high end of the initial procedure guide by 2-4 points. To provide more color on the procedure guidance, the low end assumes bariatrics sees a modest decline, the anti-corruption campaign in China continues to impact tender process which can impact installed base and therefore procedure volumes, and no backlog in 2024 (in 2023 saw an elevated level of patients in the healthcare system/backlog). The high end assumes bariatrics continues at current mid single digit growth rates, activities in China around anti-corruption do not have a significant impact on procedures or on business broadly, and some level of patient backlog still helps in early 2024 but less than 2023. A reminder when thinking about the cadence of growth through the year, Q123 had 26% procedure growth and Q223 had 22% which creates a steeper comp in first half 2024.

Q4 procedures 21% (bariatrics +MSD)

ISRG Q4 procedure growth of 21% was ahead of Street's 18.6%. US procedures grew 17% and OUS procedures grew 29%. OUS growth of 29% was largely attributed to China which grew above the OUS average partly off an easier comp due to covid in the prior period. But OUS non-urology procedures also grew 35% as international continues to see growth in benign procedures. Bariatrics growth slowed to positive mid single digit growth, a modest decline from prior growth (bariatrics grew 19% in Q223 and grew double digits in Q323). There were 44 lon systems placed in Q4 which was a bit below prior quarters (55-59 lon placements in Q1-Q3) but this was intentional due to supply constraints on the catheter (ISRG did not want new customers to get a new system and not have catheters to use). ISRG has been addressing the supply constraints and saw a nice backlog of signed lon contacts exiting Q4.

Q4 systems at record levels

System placements were strong at 415 placements vs Street's 368 placements. New system placements of 321 (415 less 94 trade-ins and retirements) were up 78% y/y and the highest ever based on our model. ISRG attributes the strong capital performance to continued demand for procedure volumes but there was nothing one time to call out on the strong Q4 system placements. Japan had 70 system placements though in Q4 (and we think more procedure reimbursement is likely in Japan in 2024). Q4 System selling price was \$1.42m. ISRG will give more details on the Q4 call on gross margin and opex growth.

We maintain our Buy rating on ISRG and still see it as one of our top ideas for 2024 as it has 2024 catalysts that drive 2025 upside and can still grow EPS double digits sustainably

10 January 2024

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Stock Data

Price	350.55 USD
Price Objective	400.00 USD
Date Established	20-Jul-2023
Investment Opinion	B-1-9
52-Week Range	222.65 USD - 358.07 USD
Mrkt Val (mn) / Shares Out (mn)	123,167 USD / 351.4
Free Float	99.5%
Average Daily Value (mn)	521.75 USD
BofA Ticker / Exchange	ISRG / NAS
Bloomberg / Reuters	ISRG US / ISRG.OQ
ROE (2023E)	16.4%
Net Dbt to Eqty (Dec-2022A)	-14.3%
ESGMeter™	High

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Price objective basis & risk

Intuitive Surgical (ISRG)

Our \$400 PO is based on roughly 53x our 2025E 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.

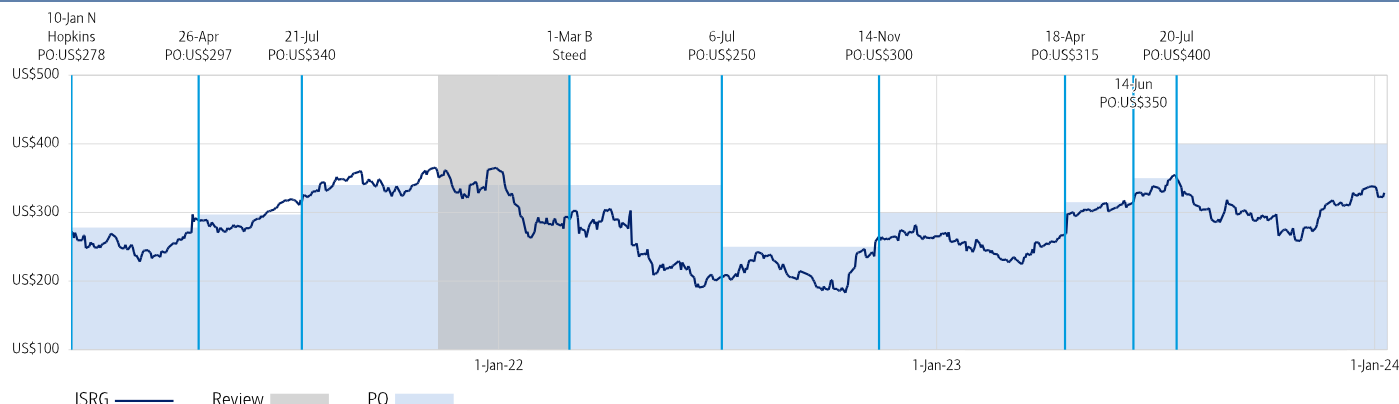
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Intuitive Surgical (ISRG) Price Chart



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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%

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