

Buy Intuitive Surgical

David Gardner | January 9, 2020 | [Buy Recommendation](#)

CURRENT PRICE: [ISRG](#) \$ 555.11 ↑ \$ 0.15 (0.0%)

Here are the three bullet points we led off with when we first recommended robotic surgery pioneer **Intuitive Surgical** ([NASDAQ: ISRG](#)) back in March 2005 (imagine them in olde-tyme script):

- Holds a near-monopoly in robotic technology that brings the benefits of minimally invasive surgery to many procedures.*
- Sales growth of 51% in 2004 with solid prospects for years to come.*
- Future growth will be driven by increasing cost-benefit for hospitals and by patient demand.*

A decade and a half later, we can pretty much say the same. By necessity, Intuitive's growth rate has come down — it will close out 2019 with top-line gains of "only" about 19%. But its "near-monopoly" remains, for all intents and purposes, a complete monopoly when it comes to soft-tissue procedures. And future expansion will be driven by the value that procedures add for physicians, patients, and insurers — through greater precision, less pain and scarring, shorter hospital stays, and more.

Oh, and we also mentioned back then that the stock, then trading at \$14.72 a share, was quite pricey against its reported earnings. [You'll see that a lot](#) with great young companies growing into massive opportunities, and needless to say, history has justified our confidence with this one. This is the seventh time we've urged you to buy Intuitive — and every single one of those past six recommendations is thrashing the market, outpacing the S&P 500 by anywhere from 56 percentage points (our most recent nod in 2013) to 3,578 (our original 2005 recommendation).

Intuitive Surgical has been a poster child for the *Rule Breakers* way since near its inception, and it's been a perennial Starter Stock — one of our recommended

INTUITIVE SURGICAL IN 1 MINUTE

WHAT IT DOES

Intuitive Surgical designs, manufactures, and markets the da Vinci robotic surgical system, along with related instruments, accessories, and service.

WHY BUY

- Intuitive has maintained monopoly power since launching its first product in 1999, and it has an enormous head start on would-be rivals.
- Steady procedure volume growth continues, with another upbeat forecast for 2020.
- Intuitive is pushing into new areas, from new tools to diagnostic systems to better visualization and analytic tools, with more to come.

BUYER'S GUIDE

- Industry:** Healthcare
- Size:** Large Cap
- Region:** Global
- Jan. 8 Price:** \$581.78
- Allocation:** Many Fools choose to fill out their positions incrementally, starting with a small amount — 2% of their portfolio's overall value, for instance — and adding a little at a time.

Beyond the 2%

Intuitive and the da Vinci made their initial mark in prostatectomy — the surgical removal of the prostate — because the procedure offered clear advantages over a traditional open procedure in terms of blood loss, pain, recovery time, and hospital stay. And the system's ease of use meant more surgeons could perform the procedure, to the point that it became by far the dominant way of doing this procedure. That was followed by the use of the da Vinci in gynecologic procedures, particularly various forms of hysterectomy. More recently, the system has come to be used increasingly in hernia repair and colorectal procedures, areas the company lumps together under "general surgery." And there are more procedures — like gall bladder removal, transoral procedures, and surgeries of the kidneys, heart, and stomach — that show surgeons continue to explore the system for more applications.

It's not unreasonable to imagine Intuitive grabbing the crown one day. Right now, the company relies almost entirely on the da Vinci system and related products and service, making it far less diversified than its peers and giving it comparatively lower revenue. But no other company comes close to rivaling its operating and profit margins, or its ability to generate cash flow. Intuitive's revenue over the past year — about \$4.4 billion versus about \$15 billion for Stryker, \$19 billion for dialysis giant **Fresenius** ([NYSE: FMS](#)), and over \$31 billion for Medtronic — illustrates both how much value the company has created from da Vinci sales and how much potential the company has to grow. As Bob White says, only about 2% of surgeries are performed with robots; "there's 98% out there that needs to be done via robotically assisted surgery, but aren't today because of the cost and utilization burdens."

Competition Could Be Good

Current and future da Vinci machines can tackle more procedures, while improvements in visualization, analytics, and artificial intelligence

- **Headquarters:** Sunnyvale, California
- **Website:** [Intuitive Surgical investor relations](#)
- **Market Cap:** \$67.2 billion
- **Cash/Debt:** \$2.9 billion / \$77 million
- **Revenue (2017/'18/TTM):** \$3.1 billion / \$3.7 billion / \$4.2 billion
- **Earnings (2017/'18/TTM):** \$670.9 million / \$1.1 billion / \$1.3 billion

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- [See why Intuitive Surgical scores a 7 on our unique 25-point Risk Rating.](#)

promise to make surgeries better and improve outcomes over time. Some diagnostic surgeries (like biopsies) can be rethought entirely — as with Intuitive's new Ion platform, a flexible catheter system first being employed to take deep lung tissue samples, avoiding what is otherwise a dangerous (and too often unperformed) procedure.

- See how you can tell if this investment is going right — or wrong. (*Coming soon!*)

That's the vision not just of Intuitive, but also Medtronic, which hoped to launch the competitive Hugo system last year (but has since delayed until late 2021). It's the focus of Verb Surgical, the joint venture of **Alphabet's** ([NASDAQ: GOOG](#)) Verily and **Johnson & Johnson** ([NYSE: JNJ](#)) that hasn't been as clear about its product, but which appears to be more focused on harnessing data and machine learning. These are legitimate competitive threats from well-funded players, but they also promise to expand the market for robotic market surgery beyond whatever market share they grab.

Meanwhile, Intuitive moves along with seemingly unstoppable growth. System placements — the number of da Vincis sold — used to be the key metric in measuring the company's success. They're still important, but the company hopes to move increasingly toward leasing rather than selling systems, as this creates both a steady revenue stream and makes upgrades easier. At present, about a third of new placements are done via lease. Instead, procedure volume is the key metric, one with which the company manages to keep surprising Wall Street. 2018 marked the first year when more than 1 million procedures were performed, up 18% from the prior year. Then in 2019, procedure volume went up 18% again. And in 2020? Intuitive — notorious for lowballing its estimates — predicts procedure volume growth of 17% to 18%.

Risks and When We'd Sell

We don't think that 15 years from now — or even two years from now — we'll describe Intuitive as holding a monopoly. It is clear that meaningful competition is coming. We believe that will ultimately lift Intuitive's boat higher, but the weather could certainly get stormy. As one Intuitive executive put it at a recent conference: "We will see lengthening of sales cycles as [competitors] try to stall purchases of da Vinci in order to see if they can sell their product. There likely ... will be price pressures. It is not uncommon in other industries that when there is competition, and regardless of the capability of that competition, that purchasers or buyers will use that as leverage to squeeze on prices."

In other words, competitors don't have to offer a better system, or even a better value, to put pressure on Intuitive. That might mean the company's impressive margins come back down to earth. Our vision of the future is a company that remains the leader in robotic surgery even at the cost of sales growing more quickly than profits for a time. If that comes to pass, investors should be rewarded. But if its margins crumble as it struggles to keep its position, investors may come to see the company in a less favorable light.

It's also worth noting that Intuitive is already butting heads with Verb Surgical around the latter company's Monarch system, a competitor to Intuitive's Ion flexible catheter system that Verb got through its acquisition of Auris Health last year. We think the Ion system is better — it has a thinner catheter that can go seven branches into the lung, deeper than the Monarch. But Intuitive isn't first mover here and certainly doesn't enjoy monopoly status.

The Foolish Bottom Line

We can say once again, as we have for the past 15 years, that Intuitive's stock isn't cheap. At about 46 times anticipated 2019 earnings per share, Intuitive's multiple has come way down from where it was back in 2005, but it's still pretty lofty.

We can also say that this is a company that has had very few missteps over its existence and hasn't eased up on innovation despite its monopoly advantage — it's still stepping up R&D. Intuitive deserves its premium price. But more than that, it is preparing to enter the next phase of its existence from a position of strength. Intuitive may not convert over all the other 98% of surgeries to the da Vinci, but we think it will remain a winner.

Karl Thiel contributed to this report.

DAVID CALLED IT AGAIN: Do you agree that Intuitive Surgical will beat the market over the next 3-5 years? (After voting, buy shares to invest right away or add ISRG to your Favorites for alerts later.)

Not Sure

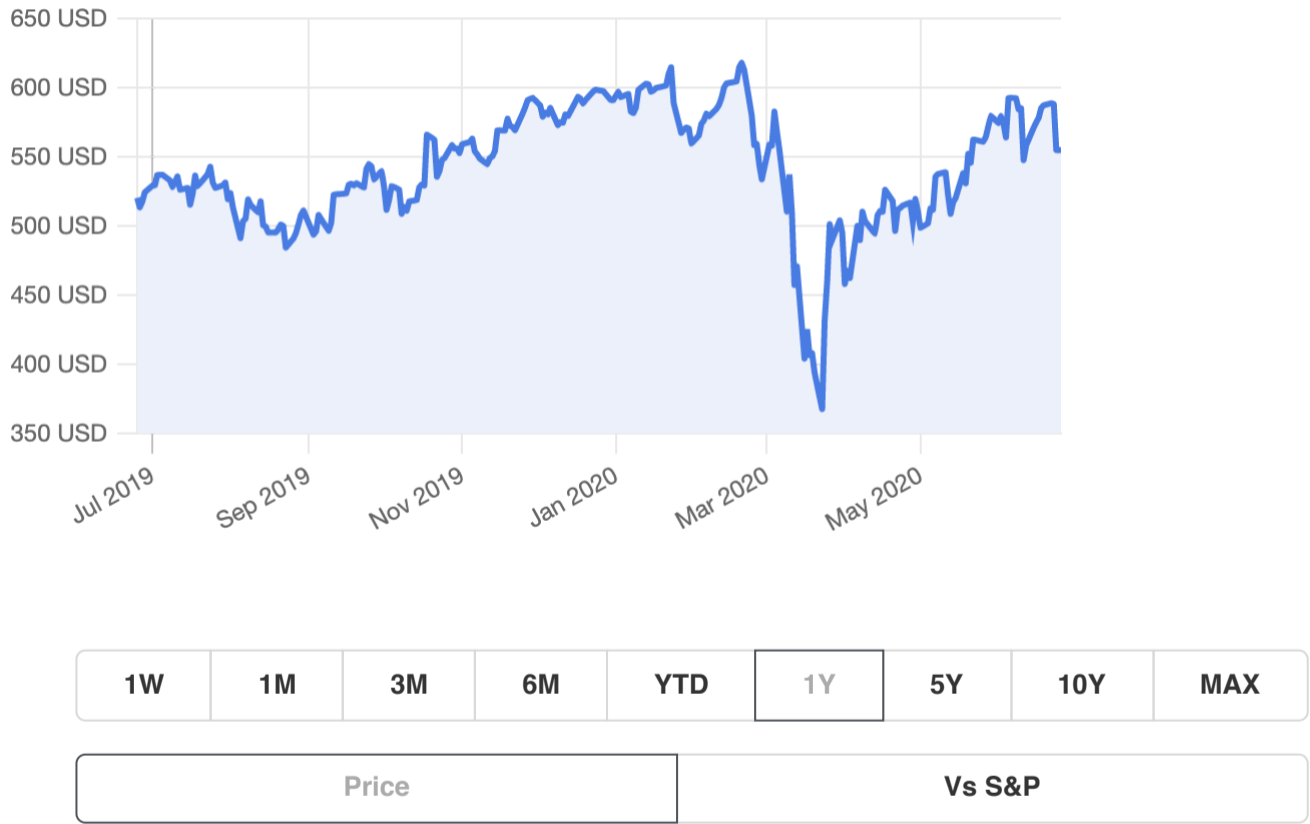
No

Yes

Suzanne Frey, an executive at Alphabet, is a member of The Motley Fool’s board of directors.
[David Gardner](#) owns shares of Alphabet (A shares), Alphabet (C shares), and Intuitive Surgical.
[Tom Gardner](#) owns shares of Alphabet (A shares), Alphabet (C shares), and Intuitive Surgical.
The Motley Fool owns shares of Alphabet (A shares), Alphabet (C shares), and Intuitive Surgical.
The Motley Fool has a [disclosure policy](#).

See the Trends

The Motley Fool thinks buying and holding for at least 3-5 years sets you up for success.



From the Company Page

Last updated June 25, 4:30 p.m.

Current Price	\$555.11	Today's Change	\$0.15 (0.0%)
Exchange / Symbol	NASDAQ: ISRG	Market Cap	\$65B
Beta	0.905756	Price/Earnings Ratio	46.3367414306
Earnings Per Share (Trailing 12 Months)	\$11.98		



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Market data provided by FactSet and Web Financial Group.