

ERMC5900 Capstone Section 4

Summer 2022

Intuitive Surgical (ISRG) Company Overview and Simulated ERM Program

Company Overview

Intuitive Surgical, Inc., (Intuitive), headquartered in Sunnyvale, California, is a global technology leader in minimally invasive care and the pioneer of robotic-assisted surgery company. It develops, manufactures, and markets da Vinci Surgical system to enable complex surgery using minimal invasive approach; and Ion endoluminal system, which extends its commercial offerings beyond surgery into diagnostic procedures enabling minimally invasive biopsies in the lung. It also provides a comprehensive suite of stapling, energy, and core instrumentation for its surgical systems. Intuitive was incorporated in 1995 and it completed an Initial Public Offering raising \$46 million in 2010.

As of December 31, 2021, Intuitive Surgical had approximately 9,793 employees across 27 countries, including 1,294 employees engaging directly in research and development, 3,682 in manufacturing operations, 3,354 in commercial and service operations, and 1,463 in administrative activities.

Intuitive (ISRG: NASDAQ) is a component of the NASDAQ-100 and S&P 500.

Business Operations Summary

Intuitive Surgical develops, manufactures, and markets da Vinci surgical systems and Ion endoluminal system. da Vinci surgical systems were designed to enable surgeons to perform a wide range of surgical procedures using a minimally invasive approach. As of December 31, 2021, there were more than 6730 da Vinci surgical systems installed worldwide in 69 countries, including 4,139 in the U.S., 1,199 in Europe, 1,050 in Asia, and 342 in the rest of the world. Currently, more than 55,000 surgeons have been trained on the use of da Vinci systems, and more than 10 million surgical procedures have been performed using da Vinci surgical systems worldwide. In addition, Intuitive Surgical owns or processes the exclusive field-of-use licenses for more than 4200 U.S. and foreign patents.

The Ion endoluminal system, which was cleared by FDA in 2019, is Intuitive's robotic-assisted platform for minimally invasive biopsies in the lung. As of December 31, 2021, 129 Ion endoluminal bases installed worldwide and 2950 Ion procedures have been performed.

Intuitive also offers learning portfolio to support the safe and effective use of its technology, including role-specific Training Pathways, Learning Engagements, and Learning Technology. In addition, Intuitive also provides comprehensive support and assistance services to its customers to make sure that customers and care teams maximize program performance. Services provided include readiness support, maintenance support, OR consulting, Customer Hospital Analytics, and market consulting optimization.

Description of Simulated Enterprise Risk Management (ERM) Program

The information provided in this document is hypothetical and is not reflective of Intuitive's current risk management program, even though names of actual employees/officers and other extracts from company documents may have been used in the hypothetical. This information is to be used for this course to illustrate ERM concepts and provide students the opportunity to recommend enhancements.

Intuitive Surgical conducts its business by its employees, managers, and officers under the direction of the Chief Executive Office and the oversight of the Board. Intuitive faces many risks, including strategic risks, operational risks, financial risks, economic risks, competitive risks, etc. Management has the full responsibility for the day-to-day management of the risks, while the Board, through its committees, is responsible for the oversight of Intuitive's risk management. The Board currently maintains three committees: an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. The Board has the right to form a new committee or disband a current committee from time to time depending on the circumstances. Each committee oversees different types of risks that are appropriate per their chartered roles and responsibilities. Outside of these committees, the board agenda often includes risk topics as part of the quarterly board meetings and selected senior management team will lead discussions based on their roles at the company. Senior management team consists of the following team members.

- [Gary S. Guthart](#), Chief Executive Officer and Board Director
- [Jamie Samath](#), Chief Financial Officer
- [Myriam J. Curet](#), Executive VP and Chief Medical Officer
- [Dave Rosa](#), Executive VP, Chief Strategy and Growth Officer
- [Bob DeSantis](#), Executive VP, Chief Product Officer
- [Marshall L. Mohr](#), Executive VP, Global Business Services
- [Michele DiMartino](#), Chief Human Resources Officer
- [Brian Miller](#), Chief Digital Officer
- [Kara Andersen Reiter](#), Senior VP, General Counsel and Chief Compliance Officer

Risk Governance

The role of Intuitive Board of Directors and the overall responsibilities of the board committees are defined in the Corporate Governance Guidelines. In addition, each board committee also has its own charter that defines the detailed authority and responsibilities for the committee to perform its duties. The Board, through its committees, is responsible for the oversight of Intuitive's risk management. The full Board has the ultimate oversight responsibility for risk

management, and the three committees of the Board have responsibilities for various aspects of risk oversight. Risks that were discussed at each committee are selected and escalated to the quarterly board meeting where the Board will provide their directions and make risk decisions from the entire board members.

Audit Committee

The Audit Committee comprises of 3 or more independent directors appointed by the Board. The Board makes sure that each committee member satisfies the independence and experience requirements of the Nasdaq Stock Market LLC ("Nasdaq"). The Committee meets with the management, internal auditors, and the independent auditor on a quarterly basis.

The Audit Committee plays a crucial role in monitoring and assessing Intuitive's financial reporting and internal controls. It supports the board of directors in fulfilling its oversight responsibilities with respect to Intuitive's major financial, cybersecurity, information technology and data security risk exposures and steps management has taken to monitor and control these exposures, including the review and approve of any programs and policies, related party transactions, as well as oversight of its enterprise risk management program. In addition, the Audit Committee monitors certain key risks on a regular basis throughout the fiscal year, such as risks associated with internal controls over financial reporting, liquidity, credit, cybersecurity, information technology and data security. Furthermore, the Audit Committee monitors compliance with legal and regulatory requirements and the performance of Intuitive's internal audit function, as well as oversees its independent auditor.

Compensation Committee

The Compensation Committee monitors and assesses risks associated with Intuitive's compensation policies and oversees the development of incentives that encourage a level of risk-taking consistent with the Company's overall strategy. It assesses risks created by the incentives inherent in Intuitive's compensation programs, policies, and practices. The Committee is appointed by the Board with the recommendation made by the Governance and Nominating Committee. It comprises of at least two board members, and each of whom is required to satisfy the independence requirements of the Nasdaq Stock Market LLC ("Nasdaq"). The Committee meets as often as it deems necessary to fulfill its responsibilities and may request to meet with management or individual directors when appropriate.

Governance and Nominating Committee

The Governance and Nominating Committee fulfills its oversight responsibilities with respect to the management of risk associated with board organization, membership and structure, and corporate governance. It is responsible for identifying, selecting, recommending qualified individuals to the Board of nominees for election as directors. It also oversees the evaluation of the Board and each committee and the corporate governance risks. The Committee is appointed by the Board and comprised of at least three board members, each of whom must

be confirmed by the Board to be “independent” under the rules of the Nasdaq Stock Market LLC (“Nasdaq”). The Committee meets as often as it deems necessary to fulfill its responsibilities, but at least once during each fiscal year.

Risk Identification and Assessment

Intuitive Surgical has used an annual risk identification and assessment process for the past several years, which is led by two acting CROs, Jamie Samath, Chief Financial Officer and Kara Andersen Reiter, Senior VP, General Counsel and Chief Compliance Officer.

The risk identification and assessment process consists of the following steps:

1. Survey: An electronic survey is distributed to the C-suite team plus senior management members as well as various mid-to-senior level managers (approximately 50 in total):
2. Compilation: Each of C-suite and senior management team member (“management team”) then gets a compilation of all the survey results that they and the people underneath them submitted. The sales and marketing business units are specifically excluded from this process as their focus is on identifying, cultivating, and executing growth opportunities. Each of the management team is then responsible for compiling a list of their top 10-15 risks that they believe the organization faces. This information is then submitted to the two co-CROs whose team members compile the information into a consolidated report of around 150 potential risks. The team who supports the co-CROs are part of their executive supporting teams which is additional roles and responsibilities to their normal scope of work.
3. Consensus: At an all-day executive off site meeting, the risks are discussed in summary, and each team member scores the risks one at a time, based upon their view of each risk’s impact and likelihood (on 5-point scales). The impact is multiplied by the likelihood, resulting in a score from 1 to 25 for each risk. Then for the top 50 risks, the team members again vote on their view of the effectiveness of the controls currently implemented by the company for each risk. The top 50 risks are identified as the key risks for Intuitive Surgical and are selected for additional mitigation and advanced to the risk decision-making stage.
4. The 100 risks remaining from the 150 discussed at the consensus meeting are considered the non-key risks, and these are monitored with key risk indicators to see if, over time, either the likelihood and/or severity is increasing to the level which would result in one of these being elevated to a key risk.

Risk Reporting

All risk reports generated from the Risk Identification and Assessment process are aggregated to the co-CROs, and then presented to the Audit Committee.

In each quarterly board meeting, in addition to the risk reports presented by each Committee, the following risk reports are also developed by each risk related area:

- Information Security provides an update on system vulnerabilities and action plans for

addressing them

- Internal Audit reports on Sarbanes-Oxley controls testing results and remediation activities
- Legal provides updates on key litigation pending
- Compliance reports on product areas and activities out of compliance with regulations by geographic region.
- Accounting reports on actual versus plan results with explanations of deviations
- Treasury reports on balance sheet and liquidity measures
- Vendor Management reports on third-party service provider compliance with service level agreements
- Operations reports on speed to market of new products

Current risk reporting process of Intuitive Surgical is centralized to meet the board's reporting requirements. COVID19 increases in concerns around the effectiveness of risk reporting across the company which would impact risk decisions at all levels.

Risk Decision Making

Risk reports submitted by both risk committees and business units are reviewed and discussed in the quarterly board meetings. Both co-CROs will lead all discussions to determine risk appetite and limits of the company. A set of risk-based action items is agreed to by the senior management team and the Board for implementation during the following year. Members of the senior management team are then assigned specific action items which are then further delegated within their respective teams.

In general, the Board is very concerned about the reputational damage to the Intuitive brand and wants the management team to do everything within their power to ensure that anything could impact share price, especially earning volatility, was properly managed. The Board is very interested in research and development efforts of the company that would drive future revenue growth as the competition concerns are growing and technology innovations play an imperative role in maintain its market leadership in surgical robotics market.