

## FMEA Interview Documentation – Intuitive Surgical Simulated Case

**Interviewee:** Christine Rosa, Chief Accounting Officer

**Date/Time:** July 5, 2022, 6-8PM

**Interviewers:** Sixth Sense Consulting Team

**Risk Category:** Operational – Disaster

**Risk:** Now the world is in the third year of covid 19 pandemic. After the last Omicron variant surge, the daily infected cases had been declining in both US and globally. As we have seen that recently variants are able to breakthrough after vaccination and infection, I am still very concerned with the uncertainties associated with covid 19, such as duration of the pandemic, virus mutations and variants, the availability and efficacy of vaccines and boosters, and other disease outbreaks such as the recent monkeypox outbreak. I am worried that the implication of these uncertainties could impact our business operations.

**Scenario:** 2-A (credible worst-case)

**Scenario Description:** A new and highly contagious variant of covid 19 emerges and quickly spreads to the world, which causes another very bad wave globally. Hospitals are required to cancel or postpone elective operations and divert resources and priorities to fight against this new variant. Therefore, the usage of our products and the number of da Vinci procedures are reduced significantly, and the results of our operations are impacted adversely. In addition, we would cut our expenses to weather the covid 19 storm. This scenario could impact us for 5 years.

**Likelihood:** 5% likelihood, or about 1 in 20

**Impact(s):** 1. Due to the impact of this new variant, the hospitals decide to delay or cancel their capital expenditures for our products in responses to uncertainties caused by the new variant outbreak.

As the number of infected cases in U.S. is significantly higher than the rest of the world, For Systems US business segment, revenue decreases from baseline

1. 8% in Y1
2. 6% in Y2
3. 4% in Y3
4. 2% in Y4
5. 2% in Y5
6. Back to normal from year 6

For Systems OUS business segment, revenue decreases from baseline

1. 6% in Y1
2. 4% in Y2
3. 3% in Y3
4. 2% in Y4
5. 1% in Y5
6. Back to normal from year 6

As hospitals have to divert resources and personnel to fight against this new variant, we experienced a significant decline in procedure volume in the U.S. and globally, the demand for our Instruments & Accessories and services decline.

Therefore, for Instruments & Accessories US business segment, the revenue would decrease from baseline

1. 6% in Y1

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2. 5% in Y2
3. 4% in Y3
4. 3% in Y4
5. Back to normal from year 5

For Instruments & Accessories OUS business segment, the revenue would decrease from baseline

1. 5% in Y1
2. 3% in Y2
3. 2% in Y3
4. 1% in Y4
5. Back to normal from year 5

For Service US and OUS segments,

1. 5% in Y1
2. 3% in Y2
3. 2% in Y3
4. 2% in Y4
5. 1% in Y5
6. Back to normal from Y6

2. Selling, General and Admin expenses decrease 4% below baseline from Y1 to Y3, 2% in Y4 and 1% in Y5.

3. R&D expenses decrease 3% below baseline from Y1 to Y2, and 1% from Y3 to Y5.

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**Scenario:** 2-B (moderately pessimistic)

**Scenario Description:** Less severe version of Scenario 1. The outbreak lasts for 3 years, and new vaccine starts to roll out and we are able to recover to our baseline in year 4.

**Likelihood:** 10% likelihood, or about 1 in 10

**Impact(s):** 1. Due to the impact of this new variant, the hospitals decide to postpone their capital expenditure for our products in responses to uncertainties caused by the new variant outbreak.

As the number of infected cases in U.S. is significantly higher than the rest of the world, for Systems U.S. business segment, revenue decreases from baseline

1. 4% in Y1
2. 2% in Y2
3. 2% in Y3
4. Back to normal from year 4

For Systems OUS business segment, revenue decreases from baseline

1. 3% in Y1
2. 2% in Y2
3. 1% in Y3
4. Back to normal from year 4

As hospitals have to divert resources and personnel to fight against this new variant, we experienced a significant decline in procedure volume in the U.S. and globally, the demand for our Instruments & Accessories as well as services.

Therefore, for Instruments & Accessories US business segment, the revenue would decrease from baseline

1. 4% in Y1
2. 3% in Y2
3. Back to normal from year 3

For Instruments & Accessories OUS business segment, the revenue would decrease from baseline

1. 3% in Y1
2. 1% in Y2
3. Back to normal from year 3

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For Service US and OUS segments,

1. 3% in Y1
  2. 2% in Y2
  3. 1% in Y3
  4. Back to normal from Y4
2. Selling, General and Admin expenses decrease 2% below baseline from Y1 to Y3.
3. R&D expenses decrease 2% below baseline from Y1 to Y2, and 1% in Y3.

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**Scenario:** 2-C (mildly optimistic)

**Scenario Description:** Although we experience slightly reduction in the demand of products and services, through our cost cutting strategies, we are able to negotiate our key parts/components at much lower prices and reduce our expense spending. In addition, we experience a strong recovery after the vaccine rollout in year 3.

**Likelihood:** 5% likelihood, or about 1 in 20

**Impact(s):** 1. Due to the impact of this new variant, the hospitals decide to postpone their capital expenditure for our products in responses to uncertainties caused by the new variant outbreak. For Systems U.S. business segment, revenue decreases from baseline

1. 5% in Y1
2. 4% in Y2

Starting in year 3, our revenue starts to increase

3. 5% in Y3
4. 5% in Y4
5. 4% in Y5
6. 3% in Y6

For Systems OUS business segment, revenue decreases from baseline

1. 3% in Y1
2. 3% in Y2

Starting in year 3, our revenue starts to increase

3. 4% in Y3
4. 3% in Y4
5. 3% in Y5
6. 2% in Y6

For Instruments & Accessories US business segment, the revenue would decrease from baseline

1. 4% in Y1
2. 3% in Y2

Starting in year 3, our revenue starts to increase

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3. 6% in Y3
4. 5% in Y4
5. 4% in Y5

For Instruments & Accessories OUS business segment, the revenue would decrease from baseline

1. 3% in Y1
2. 1% in Y2

Starting in year 3, our revenue starts to increase

3. 3% in Y3
4. 2% in Y4
5. 1% in Y5

For Service US and OUS segments,

1. 5% in Y1
2. 4% in Y2

Starting in year 3, our revenue starts to increase

3. 5% in Y3
4. 5% in Y4
5. 4% in Y5

2. Selling, General and Admin expenses will decrease 4% below baseline from Y1 to Y3.

3. R&D expenses will decrease 3% below baseline from Y1 to Y3.