The Henry Fund
Henry B. Tippie College of Business
Sean Haggerty [sean-haggerty@uiowa.edu]

HF RESEARCH HenryFund.Org

Intuitive Surgical Inc. (ISRG)
Healthcare Equipment – Healthcare

INTUITIVE

September 29, 2025
Stock Rating: HOLD

Investment Thesis

Price Target: $607

We recommend a hold rating for Intuitive Surgical Inc. (ISRG) with a target price of $607, offering approximately 6% upside from the current price of $572. ISRG's leadership in robotic-assisted surgery, anchored by its da Vinci and Ion platforms, combined with its recurring revenue model and high switching costs, positions it as a dominant player in the industry. Expected strong adoption of next-generation systems like the da Vinci 5 and expanding placements of the Ion system support continued growth in minimally invasive procedures. While margin pressures from tariffs and premium valuation pose short-term headwinds, ISRG's sticky revenue streams, operational efficiency, and technological innovation provide confidence in sustained long-term value creation for investors.

Drivers of Thesis

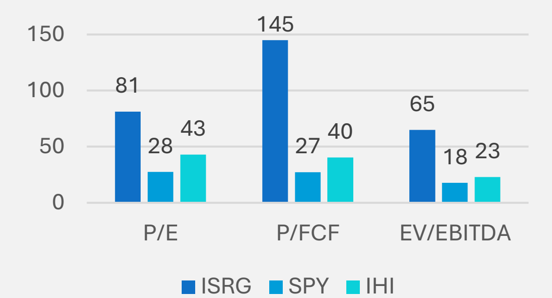
- **Market Leadership**: Early mover advantage led to dominant installed base supporting forecasted revenue to reach $19 billion by 2030
- **Sticky Product:** Substantial switching costs keep hospitals committed to ISRG systems in turn fueling the razor-and-blades revenue model
- **Innovation & Adoption**: The growing adoption of da Vinci 5 and Ion systems drives procedure growth and surgeon loyalty

Risks to Thesis

- **Tariff & Cost Pressures**: Tariffs on components/inputs could compress margins straining ISRG's revenue stream
- **Premium Valuation**: Trading at a P/E of 74.8x makes ISRG stock sensitive to downward guidance or market concerns
- **Competitive & Execution Risk**: Rise of meaningful competition or any missteps in execution by ISRG could result in punishing stock movements

Henry Fund DCF	$607
Henry Fund DDM	$403
Relative Multiple	$168
HF % Upside	6%
Price Data	
Current Price	$572.33
Date of Price	11/12/2025
52wk Range	$425 – 616
Consensus Price Target	$603
Consensus % Upside	5%
Key Statistics	
Market Cap (B)	202.83
Diluted Shares Out. (M)	363.40
Institutional Ownership	85.7%
Beta	1.34
Dividend Yield	-
LT Growth Rate	12.3%

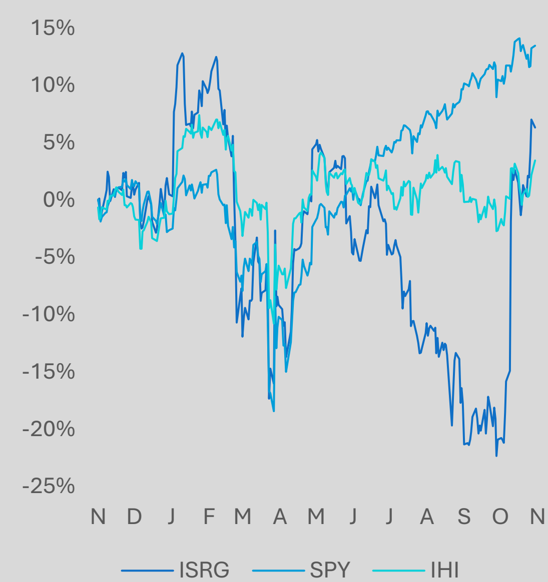
ISRG vs. SPY & IHI



Earnings / EBITDA Estimates

Year	2022	2023	2024	2025e	2026e	2027e
HF EPS	3.72	5.12	6.54	7.65	9.63	11.68
% Growth	-	38%	28%	17%	26%	21%
Street EPS	3.65	5.03	6.42	8.65	9.68	11.15
% Growth	-	38%	28%	35%	12%	15%
HF EBITDA	1,961	2,207	2,847	3,301	4,069	4,868
% Growth	-	13%	29%	16%	23%	20%
Street EBITDA	2,483	2,796	3,531	4,244	4,728	5,487
% Growth	-	13%	26%	20%	11%	16%
Balance Sheet / Cash Flow Snapshot						
Net Debt	-	-	-	-	-	-
Debt/Equity	0.18	0.16	0.14	0.15	0.15	0.14
FCF	958	750	1,303	2,379	2,703	3,530
IC	5,496	7,019	8,818	9,022	9,512	9,967
Profitability						
Gross Margin	67%	66%	67%	64%	66%	67%
Net Margin	21%	25%	28%	28%	31%	34%
ROA	10%	12%	12%	12%	13%	13%
ROE	11%	16%	17%	17%	18%	19%
ROIC	25%	24%	22%	28%	33%	39%

Price Performance



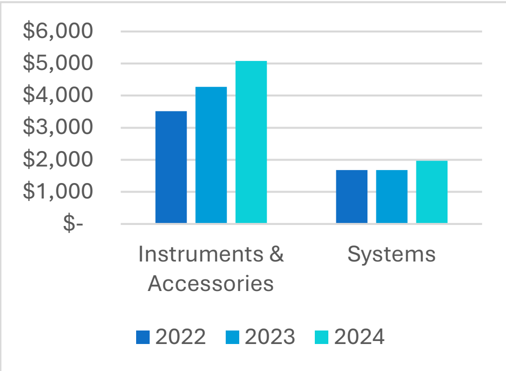
Company Description

Intuitive Surgical (ISRG), founded in 1995, was built on the vision that future patient care should be less invasive and deliver better outcomes. The company recognized early that robotics could enhance surgical precision by translating a surgeon's movements into steady, controlled actions inside the patient. This approach aimed to improve the overall care experience for both patients and providers. Since its founding, ISRG has consistently delivered on this mission by combining innovative technology with clinical expertise to advance the field of minimally invasive surgery.[1]

The company's flagship product, the da Vinci Surgical System, has undergone multiple generations of development, with the most recent iteration, the da Vinci 5, introduced in 2024. ISRG also expanded its portfolio in 2019 with the launch of Ion, a robotic-assisted platform designed specifically for minimally invasive lung biopsies. These innovations highlight ISRG's position as one of the earliest and most successful companies in robotic-assisted surgery, allowing them to establish and maintain market leadership, strong brand recognition, and broad adoption across healthcare systems.[1]

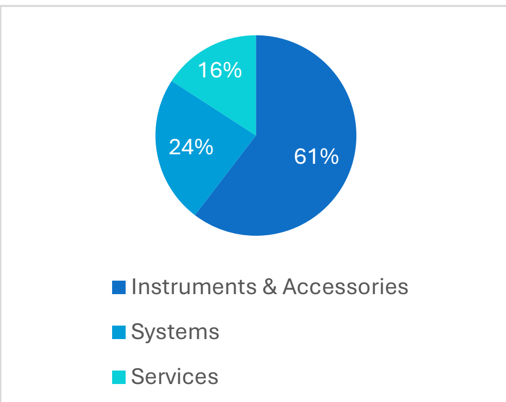
While ISRG is not highly diversified in terms of products, its business model generates multiple revenue streams tied to its core platforms. Beyond the initial sale or placement of da Vinci systems, the company generates recurring revenue through instruments and accessories, training and education, services, and digital solutions. Each of these revenue streams is anchored by system adoption, creating a cycle of ongoing revenue once a system is installed. Further detail on these segments is provided below.

Figure #1: Revenue by Product ($M)



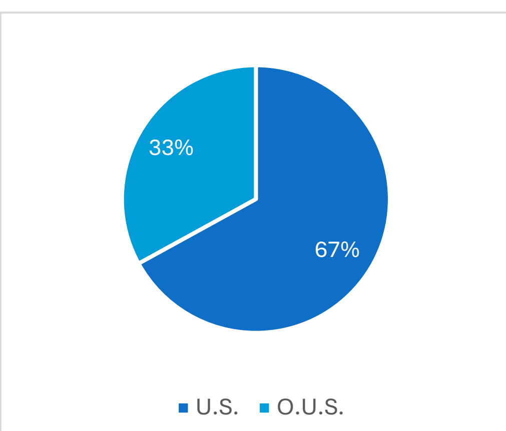
Source: ISRG 10K

Figure #2: Revenue by Product Line (%)



Source: ISRG 10K

Figure #3: Revenue by Geography (%)



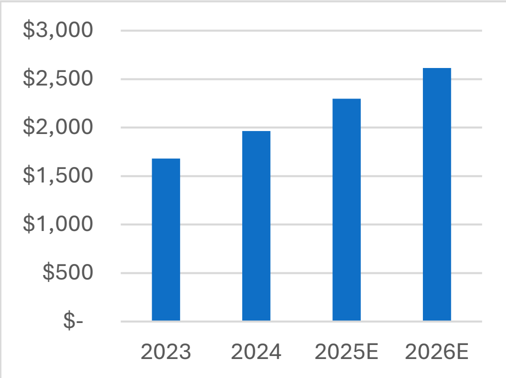
Source: ISRG 10K

Systems

ISRG generates revenue from advanced robotic platforms designed to expand minimally invasive care. The company's flagship da Vinci Surgical Systems, first launched in 1999, enable a wide range of procedures across general surgery, urology, gynecology, cardiothoracic, and head and neck specialties. These systems integrate high-definition 3D vision, wristed instruments, and computer-assisted controls to improve surgical precision, ergonomics, and patient outcomes. Multiple models are in use globally, including the recently released fifth-generation da Vinci 5, along with the Xi, X, SP, and Si systems. Key features include dual-surgeon consoles, multi-arm patient-side carts, Firefly fluorescence imaging, integrated table motion, and single-port access capabilities.

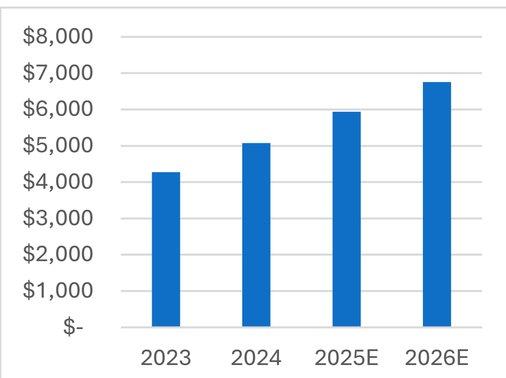
In addition, Intuitive offers the Ion Endoluminal System, FDA-cleared in 2019, which expands its portfolio into diagnostic procedures. Ion is a flexible, robotic-assisted catheter platform that enables minimally invasive lung biopsies, allowing physicians to access hard-to-reach lesions and potentially support earlier diagnosis of lung disease.

Figure #4: Systems Revenue ($M)



Source: ISRG 10K, HF Model

Figure #5: Instruments & Accessories Revenue ($M)



Source: ISRG 10K, HF Model

Together, these systems form the foundation of ISRG's revenue in robotic systems, serving as both procedural enablers and platforms for recurring instrument and service sales.[1]

We forecast the systems revenue segment for ISRG to maintain double-digit growth moving forward driven by strong adoption and increasing clinical applications. Specifically, we forecast systems revenue to reach $4.62 billion by 2030, representing a CAGR of about 18% given $1.96 billion in 2024. Systems will remain a strong segment that is the foundation to further growth and benefits from technological advancements and increased adoption.

Instruments and Accessories

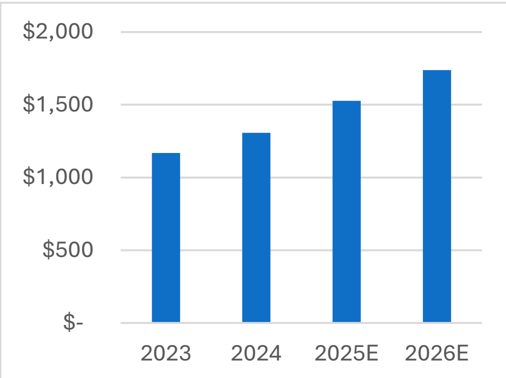
ISRG generates a significant portion of recurring revenue from its portfolio of instruments and accessories, which follow a classic razor-and-blades business model. While the da Vinci and Ion systems are capital equipment purchases, ongoing procedures require specialized, single-use or limited-use tools, creating a steady stream of revenue tied directly to surgical volumes.

For the da Vinci surgical systems, the company offers a broad suite of stapling, energy, and core instruments designed to replicate and enhance the dexterity of open surgery with robotic precision. These include wristed forceps, scissors, scalpels, electrocautery tools, and stapling devices such as the SureForm and EndoWrist staplers, which support a wide range of procedures from thoracic and colorectal surgery to bariatrics. Intuitive also provides advanced energy products, including the Vessel Sealer Extend and SynchroSeal, powered by its proprietary electrosurgical generators (E-100 and E-200). These tools enable efficient sealing, cutting, and dissection, enhancing surgeon autonomy and surgical outcomes. Beyond core instrumentation, ISRG offers a variety of accessory products such as sterile drapes, vision system replacements, endoscopes, camera heads, and light guides, which are all necessary for the ongoing operation of its robotic platforms.

For the Ion endoluminal system, instruments include fully articulating catheters for navigating narrow airways, peripheral vision probes for real-time visualization, and Flexision biopsy needles for tissue sampling. Accessories such as cleaning tools and ancillary devices support continued functionality and maintenance. Because most instruments and accessories are either single-use or have limited lifespans with programmed usage tracking, hospitals must continually repurchase them for each procedure. This dynamic is the foundation of ISRG's high margin recurring revenue stream, providing stability and growth that scale with increased adoption and utilization of da Vinci and Ion systems.[1]

The instruments and accessories segment of ISRG's revenue is attractive from the investment standpoint as it offers a reliable recurring revenue stream. We forecast the instruments and accessories segment for ISRG to reach $11.93 billion by 2023, representing a CAGR of about 18% given $5 billion in 2024. This segment directly tracks with the amount of system placements, where we expect to see solid growth, as there is no reason to buy instruments or accessories for a device you don't own. Overall, the instruments and accessories segment provides a sustainable, high margin cash flow for ISRG.

Figure #6: Services Revenue ($M)



Source: ISRG 10K, HF Model

Services

IRSG generates service revenue primarily through its comprehensive ecosystem of support, learning, and digital solutions designed to maximize customer value throughout the lifecycle of its surgical systems. This segment includes field service, training and education, perioperative consulting, analytics, and integrated digital platforms. Together, these offerings provide recurring, high margin revenue streams that strengthen customer relationships and expand utilization.

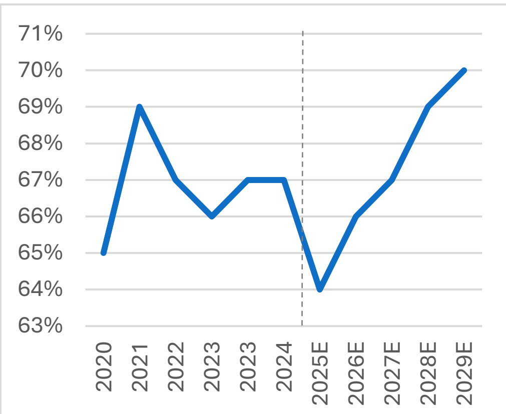
- **Learning**: ISRG delivers structured training pathways and role-specific curricula to surgeons, residents, care teams, and administrators. Learning engagements include case observations, proctoring, simulation and skills training, in-service sessions, and advanced courses taught at Intuitive training centers. Technology-enabled solutions, such as Intuitive Learning and SimNow, support virtual education, simulation, remote proctoring, and real-time performance tracking to ensure progressive skill development.
- **Services & Support**: ISRG maintains a global network of field service engineers and customer support teams that provide installation, repair, preventive maintenance, and 24/7 technical support. Service offerings include readiness support for new system onboarding, flexible maintenance plans, software upgrades, OnSite real-time monitoring, and a customer portal for system analytics, orders, and maintenance history. Perioperative consulting helps hospitals optimize efficiency and access, while Custom Hospital Analytics enables health systems to benchmark KPIs, identify gaps, and implement process improvements.
- **Digital Solutions**: ISRG has expanded into digital products that integrate data, insights, and informatics to enhance hospital and surgeon performance. Cloud-enabled and secure by design, these offerings include proactive system monitoring, 3D Modeling Services for surgical planning, and My Intuitive, a mobile and web app that centralizes program-level analytics and learning content. Intuitive Hub further integrates operating room data and video workflows, enabling telepresence, collaboration, and personalized post-procedure learning.

By combining service plans, education, and digital capabilities, ISRG's services segment not only supports system reliability and surgeon proficiency but also embeds ISRG's technology deeply into hospital operations, driving customer retention and long-term program adoption.[1]

We forecast the growth and development of the services segment to continue to expand to fulfil the growing needs of the client. Therefore, we forecast services revenue to reach $3 billion in 2030, representing a CAGR of about 18% given $1.3 billion in 2024. This revenue forecast assumption bakes in the expectations for ISRG to continue to spend resources to expand the solutions to addressable needs for hospitals. Becoming increasingly more integrated within the operations within a hospital's surgery room will present a solid growth strategy for ISRG to take advantage of.

Cost Structure Analysis

Figure #7: Gross Margin (2020-2029E)



Source: ISRG 10K, HF Model

ISRG has historically maintained a strong cost structure, supported by high margin recurring revenue from Instruments and Accessories and Services. Gross margins ranged between 65% and 69%, while operating margins have been somewhat more variable at 35% to 40%, influenced largely by R&D spending to maintain leadership and expand applications of robotic-assisted surgery. Key expense categories include R&D, which will remain significant but should not compress margins materially, and COGS, which is expected to stay stable due to manufacturing efficiencies and the growing installed base. Additionally, margins could face compression if tariffs from the current administration become material and increases the key components that ISRG utilizes as inputs.

Overall, ISRG's cost structure is positioned to support sustainable profitability. Forecasted margins reflect the company's operational efficiency, recurring revenue model, and strong market position, with modest improvements expected as global adoption of minimally invasive surgery grows, given that the tariff impact is short-lived.

da Vinci Surgical System

Figure #8: da Vinci System

Source: Fortune

The da Vinci Surgical System, first launched by ISRG in 1999 and FDA-cleared for general laparoscopic surgery in 2000, represents a leading platform for minimally invasive surgery. The system is designed to enhance surgical precision, improve visualization, and reduce surgeon fatigue, enabling a wide range of procedures across general surgery, urology, gynecology, cardiothoracic, and head and neck specialties.

Multiple models are currently in use, including the fifth-generation da Vinci 5, fourth-generation da Vinci X, Xi, and SP systems, the third-generation da Vinci Si, and the second-generation da Vinci S. These platforms provide surgeons with three-dimensional high-definition (3DHD) vision, magnified views, and robotic assistance, allowing fine tissue manipulation through wristed instruments such as scissors, scalpels, and forceps. The da Vinci system consists of several key components[1]:

- **Surgeon Console**: Ergonomically designed, the console translates the surgeon's hand movements into precise micro-movements of instruments inside the patient. Most systems support a second console, enabling dual-surgeon operation or training, and incorporate 3D virtual pointers to enhance collaboration. The seated design and robotic instrument stabilization reduces fatigue and improves control.

- **Patient-Side Cart**: Equipped with up to four robotic arms (depending on the system), the cart manipulates surgical instruments and the endoscope. The da Vinci SP system features a single arm with three fully wristed instruments and a 3DHD camera that passes through a single cannula, optimizing triangulation and avoiding collisions in confined surgical spaces.
- **3DHD Vision System**: Provides two independent vision channels for high-resolution, high-contrast 3D imaging, with digital zoom that minimizes interference between instruments and endoscope.
- **Firefly Fluorescence Imaging**: Available on most systems, Firefly combines a fluorescent dye with specialized optics to visualize blood vessels, tissue perfusion, and biliary ducts in real-time, aiding complex procedures in urology, gynecology, and general surgery.
- **Integrated Table Motion**: Coordinates robotic arm movements with an advanced operating room table, allowing dynamic patient positioning without undocking the system. This feature enhances surgical access, approach flexibility, and anesthesiologist management during procedures.

The da Vinci Surgical System provides the basis for ISRG's high margin, recurring revenue model. Hospitals purchase the systems and generate ongoing revenues from instruments, accessories, services, and digital solutions. The system's complexity, integration into hospital workflows, and reliance on training and support create a strong competitive moat, driving customer stickiness, long-term adoption, and sustainable growth potential.

Ion Platform

Figure #9: Ion System

Source: Great Falls Clinic

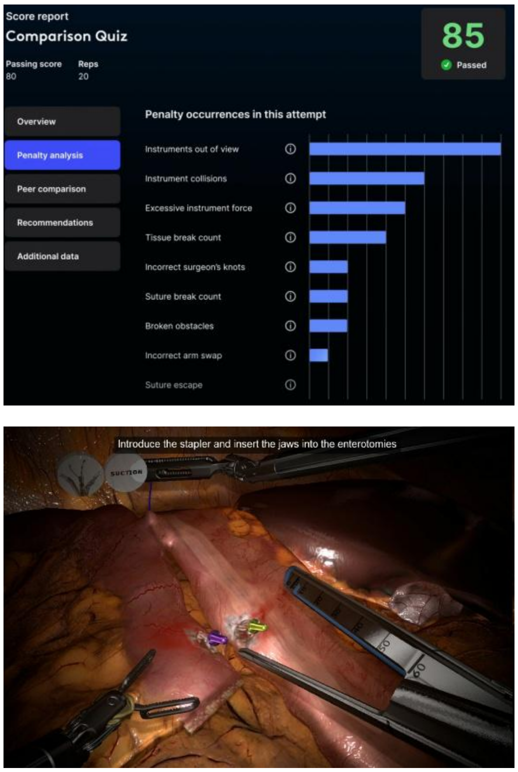
The Ion endoluminal robotic bronchoscopy system is ISRG's platform for minimally invasive lung biopsies. It is designed to navigate deep into the peripheral lung through the airways to reach small nodules, even those less than a centimeter in size, that are often difficult to access with traditional tools. Using preplanned 3D airway maps from CT scans, a flexible and ultrathin catheter, and advanced shape-sensing technology, Ion provides precision and stability during navigation and sampling. Once at the target, the system allows physicians to take multiple biopsies from different angles, improving diagnostic accuracy while minimizing patient risk. The procedure is typically performed under general anesthesia but is often outpatient, enabling patients to return home the same day and making it attractive for hospitals from both a clinical and cost perspective standpoint.[13]

Although ISRG does not disclose detailed financial results for Ion, early clinical and market reception suggests growing traction. Its ability to improve diagnostic yield in lung cancer detection, combined with the shift toward minimally invasive and outpatient care, gives Ion strong long-term potential. As adoption broadens, the system is expected to benefit from network effects, recurring revenue from instruments and services, and increasing clinical validation through published studies. Continued growth will depend on reimbursement acceptance, real-world evidence of cost-effectiveness, and physician training, but with the rising importance of early and accurate lung cancer diagnosis, Ion is well-positioned to contribute meaningfully to ISRG's long-term growth trajectory.[1]

Platform Stickiness and Switching Costs

The healthcare industry is highly competitive, with companies investing heavily to gain a sustainable edge. ISRG benefits from a razor-and-blades recurring revenue model that not only generates consistent cash flows but also establishes significant switching costs for customers. This creates what is often described as a "sticky" product, where the cost, effort, and operational disruption of switching platforms make alternatives unattractive for hospitals and surgeons.

Figure #10: SimNow Training Platform

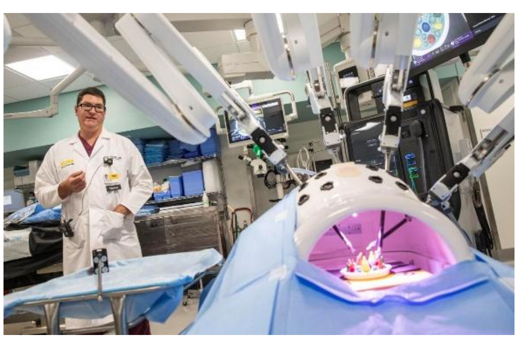


Source: ISRG SimNow

ISRG's stickiness stems in part from its early-mover advantage. As the first company to establish itself as a clear innovator in robotic-assisted minimally invasive surgery, ISRG became the default choice for providers seeking best-in-class technology. Adoption, however, involves more than simply acquiring the system. Surgeons must complete training programs tailored to da Vinci models, while hospitals commit to recurring expenditures on instruments, accessories, and service contracts to ensure operational readiness. This dynamic creates a long-term revenue stream for ISRG and raises the economic and operational barriers to switching, even as new competitors enter the market.

Surgeon loyalty further strengthens this entrenchment. The da Vinci platform has been in use for over two decades, meaning many of today's practitioners were first trained on it during residency. As a result, surgeons tend to remain loyal to the system they know best, reinforcing institutional preference for da Vinci. Additionally, there is a training barrier present for these systems as a surgeon must be trained to a point of confidence to successfully operate the surgical system. The numerous hours spent with ISRG's robotic surgical systems getting reps under a surgeon's belt further adds to the cost of switching as now the surgeon will have to start from fresh and learn a whole new system and ecosystem. Unless the platform's efficacy is materially challenged, there is little incentive for hospitals or practitioners to transition away from ISRG's ecosystem. Together, these financial, operational, and human-capital factors position ISRG as the leader in robotic-assisted surgery.

Figure #11: Iowa Health Care da Vinci 5



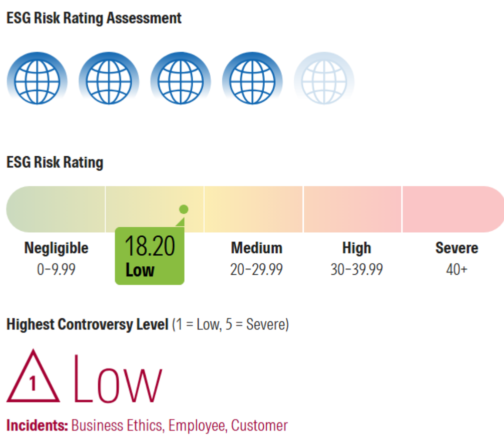
Source: UI Health Care

Surgeon Testimonials

One of the most important aspects for ISRG is how their product is received for the population that it is aimed at, the surgeons providing surgical care. Since the beginning, surgeons have played a large role in showing excitement and demand for a surgical system, such as the da Vinci. The University of Iowa Health Care, ranked #1 in the state of Iowa, has had every generation of the Intuitive Surgical robot dating back to 2002.[4] This behavior has continued as earlier this year, the University of Iowa announced the acquisition of 3 da Vinci 5 systems (the latest model), quoting surgeon's remarks on the system's precision, force-sensing feedback, and transformative impact on patient care.[4]

Such endorsements from respected clinicians validate that ISRG's latest generation is not only incrementally better on paper but tangibly perceived in the operating room. This kind of advocacy from high-visibility academic medical centers helps drive further adoption, strengthens hospital switching costs, and supports confidence in growth projections beyond pure install numbers.

Figure #12: Morningstar ESG Rating



Source: [Morningstar]

Debt Maturity Analysis

ISRG maintains a conservative balance sheet and does not rely on long-term debt financing. The company has historically funded operations, R&D, and strategic initiatives through internally generated cash flows rather than external borrowing. As a result, ISRG carries no material debt maturities, which eliminates refinancing risk and provides significant financial flexibility to reinvest in growth, pursue innovation, and return capital to shareholders.[1]

ESG Analysis

ISRG holds an ESG Risk Score of 18.2, indicating a low risk profile. Their Environmental Risk Score is 3.2, Social Risk Score is 9.9, and Governance Risk Score is 5.1, all of which are considered low risk.[3]

While ISRG's ESG scores are impressive, investors should consider these metrics as part of a broader investment analysis. The company's strong governance and social responsibility practices may contribute to its long-term stability and appeal to ESG-conscious investors.

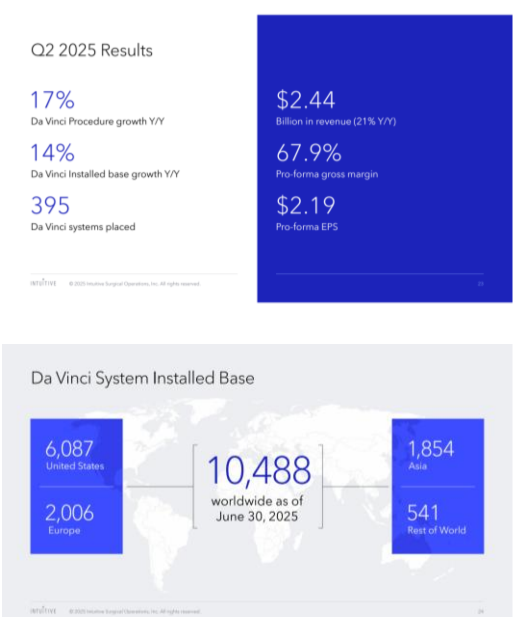
Recent Developments

Q2 2025 Earnings

ISRG reported Q2 2025 earnings on July 22, 2025. CEO David Rosa highlighted strong procedure growth, robust adoption of the da Vinci 5 platform, and continued expansion of the installed base. The company reported adjusted (non-GAAP) EPS of $2.19, up 23% year-over-year, and beating the prior year's $1.78. Total revenue for the quarter was $2.44 billion, representing 21% growth from $2.01 billion in Q2 2024. Key results and commentary from the call include:

- da Vinci procedure growth: 17% year-over-year, with approximately 775,000 procedures performed in the quarter. The installed base of da Vinci systems grew 14% to 10,488 units globally. System utilization increased 2%.
- da Vinci 5 adoption: 180 da Vinci 5 systems placed in Q2 (up from 70 a year ago), bringing the installed base to 689. The U.S. saw a broad launch, with measured launches beginning in Europe and Japan following regulatory clearances.
- Ion platform: Ion procedures grew 52% to approximately 35,000 in Q2. The installed base reached 905 systems.
- SP platform: SP procedures grew 88%, with strong adoption in Korea, Europe, and Japan. 23 SP systems were placed in Q2.

Figure #13: Relevant Info/Graphics from Earnings Release



Source: ISRG Q2 2025 Earnings Presentation

Figure #14: da Vinci 5

Vision Cart

Surgeon Console

Patient-Side Cart

Source: ISRG Investor Slides

- Revenue breakdown: Instruments and accessories revenue rose 18% to $1.47 billion. Systems revenue increased 28% to $575 million.
- GAAP net income: $658 million ($1.81 per diluted share), up from $527 million ($1.46 per share) in Q2 2024.
- Gross margin: Non-GAAP gross profit margin was 66.3%, down from 68.3% a year ago, reflecting higher facility costs, a greater mix of lower-margin Ion and da Vinci 5 revenue, and tariff impacts.
- Capital placements: 395 da Vinci systems placed (up 16% year-over-year), including 180 da Vinci 5 systems. U.S. placements were strong, while international markets faced macro challenges.

Regulatory and product updates:

- da Vinci 5: Received European certification for adult and pediatric use in minimally invasive endoscopic procedures (excluding force feedback). Regulatory clearance was also obtained in Japan for all surgical specialties except cardiac.
- Single Port platform: Received clearance for a 50-use endoscope and 510(k) clearance for transanal local excision and resection.
- Advanced energy instruments: 510(k) clearance for vessel sealer curved and a new procedure clearance for tracheal bronchoplasty

ISRG's Q2 2025 call emphasized a strong future outlook driven by innovation and global expansion, but also highlighted margin pressures and tariff headwinds. These factors, especially the downward revision in gross margin guidance and tariff commentary, weighed on investor sentiment and negatively impacted the stock price after the report.

Adoption of da Vinci 5

Since its introduction in mid-2024, the da Vinci 5 surgical system has been met with positive reception across various healthcare institutions. Strong Memorial Hospital, part of UR Medicine, became one of the first hospitals in Upstate New York to adopt the da Vinci 5 system. The platform offers enhanced precision, real-time visualization, and improved ergonomics, which are expected to improve patient outcomes and streamline surgical workflows.[5]

Nationally, the adoption of the da Vinci 5 has been notable. For instance, the University of Iowa Health Care system acquired three da Vinci 5 robots, aiming to attract top-tier surgical talent and enhance their surgical capabilities.[4] Similarly, Ascension Florida integrated the da Vinci 5 across multiple hospitals, highlighting its versatility in performing complex procedures such as gynecologic, urologic, and general surgeries.[6]

Financially, the adoption of the da Vinci 5 has positively impacted ISRG's performance. In the third quarter of 2024, the company reported a 17% year-over-year revenue increase to $2.04 billion, with 110 of the 379 da Vinci units installed being the new da Vinci 5 model. This surge in adoption contributed to a significant rise in the company's stock price, reflecting investor confidence in the system's market acceptance and potential for future growth.[7]

Overall, the da Vinci 5 system has experienced a successful rollout, with widespread adoption across leading medical institutions and a positive impact on ISRG's financial performance, excluding tariff headwinds. This positions the company favorably in the competitive landscape of surgical robotics going forward.

Industry Trends

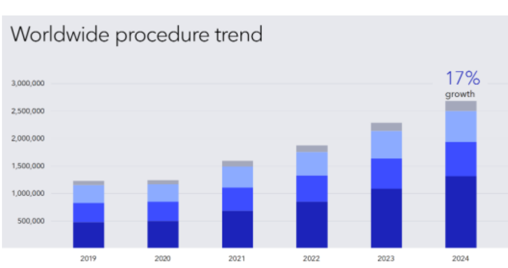
FDA Approval

ISRG operates in a dynamic and evolving landscape, where industry trends and regulatory processes significantly influence its growth trajectory. A notable trend is the expanding applications of the da Vinci surgical system beyond its initial FDA-approved uses. While the system is currently approved for specific procedures, its potential for broader applications remains substantial. The FDA's approval process plays a crucial role in determining the scope of these applications. Devices like the da Vinci system typically undergo a 510(k) premarket notification, demonstrating substantial equivalence to existing devices, which can expedite the approval process to approximately 90 days.[8] However, for new or significantly modified devices, a more rigorous Premarket Approval (PMA) process may be required, involving extensive clinical data and potentially extending the approval timeline.[9]

By proactively pursuing FDA approvals for additional indications, ISRG can unlock new revenue streams and enhance the value proposition of its robotic systems. This strategic approach not only broadens the clinical utility of the da Vinci platform but also strengthens its competitive position in the market. Continued investment in research and development, coupled with a robust regulatory strategy, will be pivotal in realizing the full potential of ISRG's surgical technologies.

Procedures

Figure #15: da Vinci Procedures

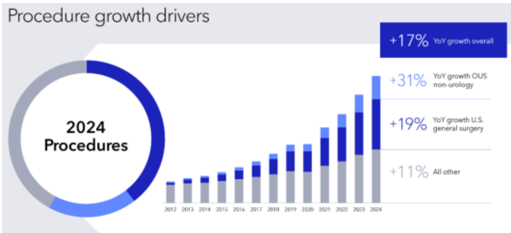


Source: ISRG Earnings

Robotic surgery adoption has grown significantly in recent years, highlighting its importance to ISRG's business. According to a large national study, use of robotic surgery in common general procedures rose from 1.8 percent in 2012 to 15.1 percent in 2018. This 8.4-fold increase highlights a steady shift away from traditional laparoscopic techniques as hospitals expand robotic programs and surgeons gain experience with the technology. The study also notes that hospitals introducing robotics often see a rapid rise in utilization across multiple procedures, suggesting that adoption can accelerate once the systems are in place.[14]

For ISRG, procedure growth is the core driver of recurring revenue, as each surgery generates demand for instruments, accessories, and services linked to the da Vinci platform. The continued substitution of laparoscopy with robotics broadens the company's long-term growth outlook by expanding the installed base and deepening surgeon

Figure #16: Procedure Growth Drivers



Source: ISRG Earnings

Figure #17: AI Benefits

- 25% reduction in operative time
- 30% decrease in intraoperative complications compared to manual methods
- 40% increase in surgical precision
- 15% shorter patient recovery times
- 20% increase in surgeon workflow efficiency
- 10% reduction in healthcare costs over the conventional procedures

Source: Rise of Robotics & AI Assisted Surgery

Figure #18: Peer Group

Company	Mkt Cap (B)	R&D (M)	Sales (M)	R&D % Sales	Inv. Turnover
ISRG	200	1,145	8,352	13.7%	2.01
JNJ	470	17,265	88,819	19.4%	2.36
MDT	122	2,732	33,357	8.2%	2.52
SYK	142	1,414	22,595	6.3%	1.79
ZBH	17	437	7,678	5.7%	1.24

Company	% International Sales	% Domestic (U.S.) Sales
ISRG	33%	67%
JNJ	43%	57%
MDT	49%	51%
SYK	25%	75%
ZBH	42%	58%

Source: FactSet

reliance on its systems. Based on current trends, procedures are likely to keep rising as clinical evidence accumulates and robotic surgery becomes more integrated into standard practice. We see this as a positive trend moving forward that will act as a tailwind for greater adoption of robotic surgery systems. With ISRG being at the forefront of innovation and market saturation, we believe ISRG is well positioned to take advantage of this moving forward.

Artificial Intelligence (AI)

The global AI-based surgical robots market was valued at approximately $6.4 billion in 2022 and is projected to reach $25.2 billion by 2030, growing at a CAGR of 18.9%.[10] This growth is driven by advancements in AI algorithms, machine learning, and data analytics, which enhance surgical precision, reduce human error, and improve patient outcomes.

ISRG has positioned itself at the forefront of this revolution. The company has developed a robust AI-powered platform that integrates data from its da Vinci surgical systems to provide surgeons with real-time insights and analytics. In July 2023, ISRG launched "Case Insights," an AI-driven digital tool that analyzes surgical data to identify correlations between surgical techniques, patient demographics, and outcomes. This tool enables surgeons to refine their approaches and improve patient care.[11] Furthermore, ISRG's commitment to AI is evident in its development of the da Vinci 5 platform, which boasts over 150 design innovations and 10,000 times the computing power of its predecessors. This enhanced computational capability supports advanced AI applications, such as real-time image processing and predictive analytics, facilitating more autonomous and efficient surgical procedures.[12]

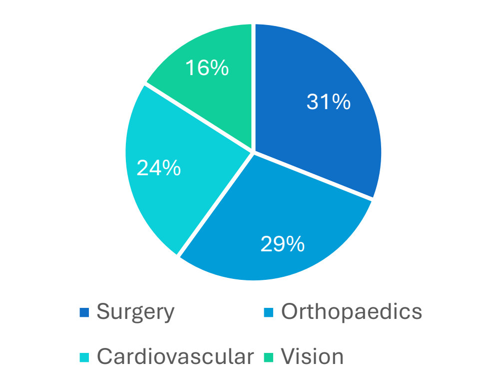
While ISRG benefits from a massive dataset collected from its installed base, competitors with AI-native platforms or superior algorithms could potentially disrupt the market. If a competitor develops a more advanced AI-driven system that improves surgical outcomes or efficiency, it could capture market share and capitalize on the strong tailwinds from recent investments in AI. Thus, ISRG must continue to innovate and expand its AI capabilities to defend its competitive moat and fully leverage the growth potential of robotic-assisted surgery.

Markets and Competition

ISRG's Peer Group

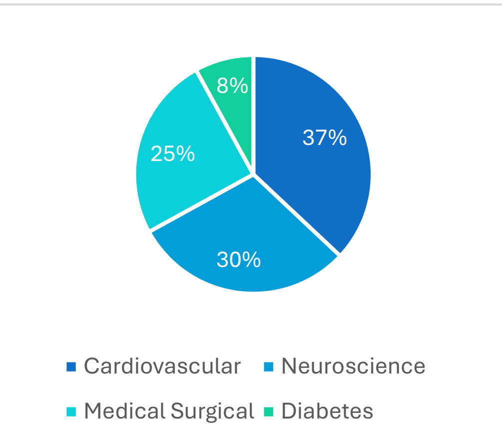
ISRG operates within the surgical robotics and broader medical device industry, where competition is driven by technological innovation, clinical outcomes, and regulatory approvals. Key peers include Johnson & Johnson (JNJ), Medtronic (MDT), Stryker (SYK), and Zimmer Biomet (ZBH). These companies were selected based on their substantial presence in medical devices and surgical solutions, as well as their competitive positioning relative to ISRG in the robotic surgery space.

Figure #19: JNJ Medtech Revenue Chart



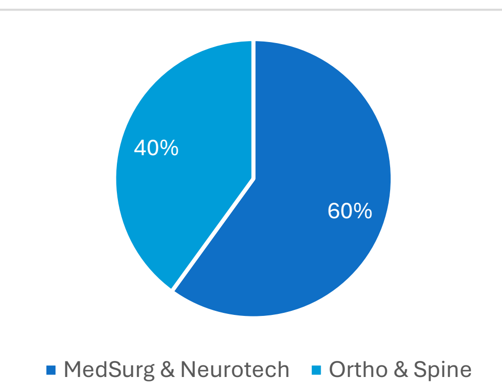
Source: JNJ 10K

Figure #20: MDT Revenue Chart



Source: MDT 10K

Figure #21: SYK Revenue Chart



Source: SYK 10K

While ISRG is the clear market leader in robotic-assisted surgery, its peers focus on different niches or broader medical device portfolios, providing varying levels of direct competition. For example, Stryker and Zimmer Biomet are strong in orthopedic robotics, while Medtronic and J&J have broader surgical robotics ambitions. This peer group provides context for evaluating ISRG's market positioning, competitive advantages, and potential areas of growth or disruption.

Johnson & Johnson (JNJ)

Johnson & Johnson is a diversified healthcare company with operations spanning pharmaceuticals, medical devices, and recently a narrowed focus following the consumer health spinoff. Within medical devices, J&J has been investing heavily in surgical robotics through its Ottava platform, which has entered early clinical trials but remains several years away from full commercialization. While J&J has the scale, capital, and established surgical presence to become a credible competitor, ISRG maintains a significant lead with its da Vinci system, deep installed base, and recurring revenue model tied to high procedure volumes. As a result, J&J represents a long-term competitive consideration but does not currently pose a strong threat to ISRG's position or near-term growth trajectory.[15]

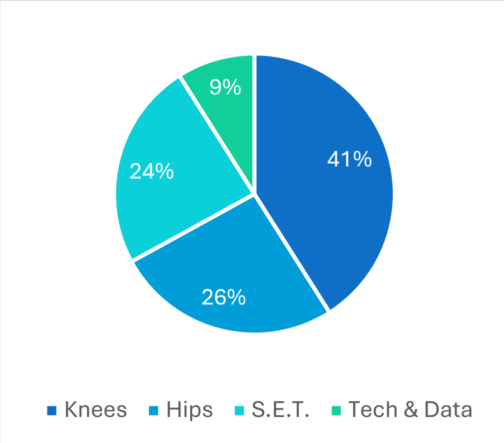
Medtronic (MDT)

Medtronic is one of the world's largest medical technology companies, with a broad portfolio spanning cardiovascular, diabetes, neurological, and surgical solutions. Within surgical robotics, its flagship system is the Hugo robotic-assisted surgery platform, which has launched in select international markets and is positioned as a direct competitor to ISRG's da Vinci system. Hugo leverages Medtronic's extensive surgical device portfolio and global distribution network, but adoption has been gradual, with regulatory progress in the U.S. still ongoing. Compared to ISRG, Medtronic faces the challenge of overcoming ISRG's entrenched installed base, surgeon training programs, and strong recurring revenue model. While Hugo emphasizes Medtronic's intent to capture share in robotic-assisted surgery, its impact remains limited in the near term, suggesting that Medtronic is a notable competitor but not yet a material threat to ISRG's leadership.[16]

Stryker (SYK)

Stryker Corporation is a leading medical technology company specializing in orthopedics, surgical equipment, and neurotechnology. Its surgical robotics presence is centered on the Mako system, which is primarily focused on orthopedic procedures such as joint replacement rather than soft-tissue surgeries, giving it a narrower scope compared to ISRG's da Vinci system. While Mako has achieved strong adoption within its targeted segments, Stryker's robotics business does not directly compete with ISRG in general or urologic surgery. As a result, Stryker represents a limited competitive concern for ISRG, serving more as a peer in terms of innovation and surgical robotics growth rather than a direct threat to ISRG's core soft-tissue procedure dominance.[17]

Figure #22: ZBH Revenue Chart



Source: ZBH 10K

Zimmer Biomet (ZBH)

Zimmer Biomet is a global medical device company focused primarily on musculoskeletal healthcare, including joint reconstruction, spine, and dental solutions. Its robotics efforts are centered on orthopedic applications, such as the ROSA robotic platform for joint replacement and spine procedures. Similar to Stryker, Zimmer Biomet's robotics business targets a different procedural set than ISRG's soft-tissue focus with the da Vinci system. While Zimmer Biomet is advancing adoption of robotics in orthopedics, it does not pose a direct threat to ISRG's core market or installed base. Thus, Zimmer Biomet is a relevant peer in terms of innovation and robotics adoption but does not significantly impact ISRG's near-term competitive position or growth trajectory.[18]

Economic Outlook

Tariffs

Tariffs have broad implications for the global economy, particularly for companies operating within highly internationalized supply chains. Tariffs on medical devices and related components can raise input costs, disrupt sourcing strategies, and reduce competitiveness in foreign markets. For firms with significant exposure to international sales and cross-border manufacturing, these trade barriers can create both pricing pressure and margin volatility. The healthcare sector is especially sensitive, as increased costs can either be absorbed by the manufacturer, eroding profitability, or passed along to hospitals and healthcare systems, potentially dampening demand.

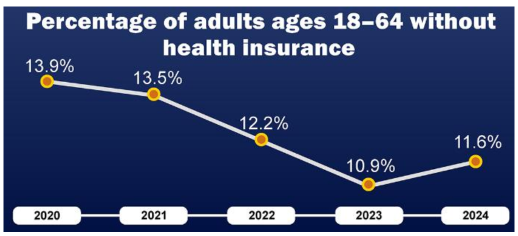
For Intuitive Surgical, tariffs represent a tangible risk given their global manufacturing footprint and reliance on international sales, which account for a substantial portion of revenue. The company has previously acknowledged tariff-related pressures, particularly with its da Vinci systems and related instruments, which are manufactured and distributed through cross-border operations. Rising costs tied to tariffs can compress gross margins if ISRG is unable to fully pass those costs on to hospitals and surgical centers. In addition, tariffs can exacerbate already-lengthy purchasing decisions by customers, as higher upfront system costs may create greater friction in capital allocation.

Bull Case: In the favorable scenario, tariff impacts ease over time due to renegotiated trade agreements, policy reversals, or strategic adjustments in ISRG's supply chain. If tariffs remain stable or are reduced, ISRG's margins are unlikely to see further compression, and the company could resume operating leverage as its installed base expands. Under this case, ISRG continues to capitalize on global demand for minimally invasive surgery without meaningful structural cost pressures from trade policy.

Bear Case: In the less favorable scenario, tariffs persist or expand, leading to sustained margin compression for ISRG. Rising costs may force the company to absorb a larger share of tariff-related expenses, while competitive pressures prevent significant price increases. In this environment, ISRG could face the need to repeatedly revise margin forecasts downward, with profitability weighed down by external cost pressures rather than operational inefficiency. This outcome would limit ISRG's ability to fully realize the benefits of its recurring revenue model and could dampen investor sentiment.

Uninsured Rate

Figure #23: Uninsured Rate

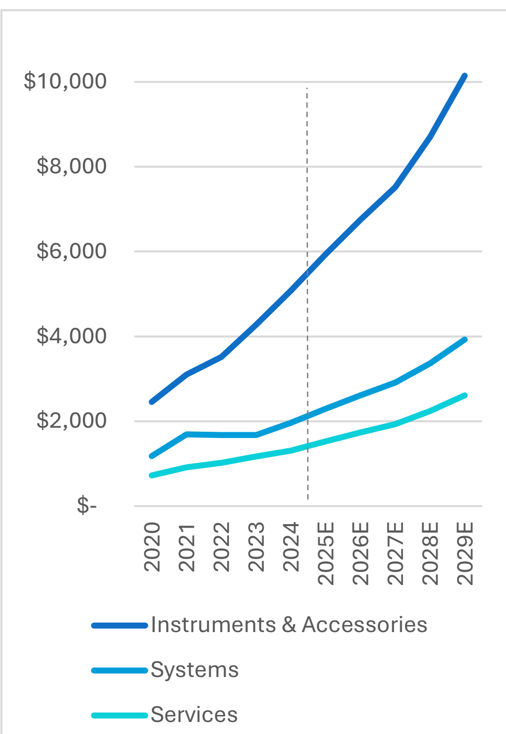


Source: CDC

The uninsured rate is a critical economic measure to monitor as it directly affects access to healthcare services in the United States and other major markets. A lower proportion of uninsured individuals generally translates to increased utilization of medical procedures since insurance coverage reduces the out-of-pocket burden for patients. Conversely, increases in the uninsured rate can create barriers to care as patients may delay or forgo procedures due to cost concerns. From a macro perspective, fluctuations in insurance coverage can therefore influence overall healthcare demand, hospital revenue stability, and capital investment in surgical technologies.

For ISRG, the insured rate is particularly relevant given the high upfront costs associated with robotic assisted procedures. Hospitals and surgical centers rely heavily on patient demand and reimbursement certainty to justify investment in the da Vinci system and related instruments. If insurance coverage is broad and reimbursement rates remain favorable, hospitals are more willing to adopt and expand robotic assisted surgery programs which directly support ISRG's growth. On the other hand, any growth in the uninsured rate, whether due to policy changes, affordability issues, or broader economic pressures, could dampen demand for elective and minimally invasive procedures. This would not only affect procedure volumes but could also slow adoption of new systems. Monitoring insurance coverage trends is therefore essential for projecting ISRG's growth trajectory. Strong insured rates create a favorable backdrop for utilization and adoption while weaker coverage levels represent a potential headwind to the company's ability to scale its technology.

Figure #24: Revenue (2022-2029E) ($M)



Source: ISRG 10K, HF Model

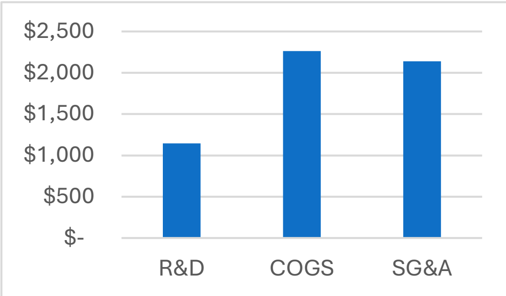
Valuation

Revenue Assumptions

Our revenue forecasts for ISRG are primarily driven by the size and growth of its installed base across the company's three segments: Systems, Instruments and Accessories, and Services. This approach reflects the fundamental nature of ISRG's business, as hospitals will only purchase instruments, accessories, or service contracts if they have a da Vinci or Ion system installed and need to maintain or expand its use. Therefore, growth in the installed base directly dictates overall revenue potential.

For our forecast, we assume continued strong demand for the new da Vinci 5 system, as well as growth in placement of the Ion system. Technological advancements and improvements in surgeon experience and patient outcomes make both systems attractive to hospitals and healthcare providers, supporting ongoing adoption. We project the number of units placed to grow at a compound annual growth rate of approximately 7.6% over the next ten years. Revenue for Instruments and Accessories and Services is then modeled as a function of the installed base, while system revenue is tied to new units placed. This approach ensures that our revenue forecasts are directly linked to the fundamental driver of ISRG's business, the expansion and utilization of its installed systems.

Figure #25: Cost Chart (2024)

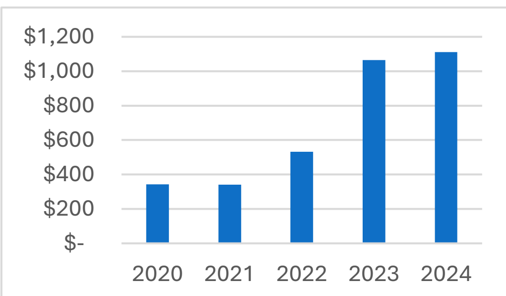


Source: ISRG 10K

Cost Assumptions

Our cost forecasts for ISRG follow a standard methodology, with expenses modeled as a percentage of revenue for each segment. We also incorporate an economies of scale factor, reflecting that as production and the installed base grow, incremental costs per unit decline within reasonable limits. This approach allows us to capture the benefits of scale while maintaining conservative assumptions for R&D, COGS, and operating expenses.

Figure #26: Historical CapEx

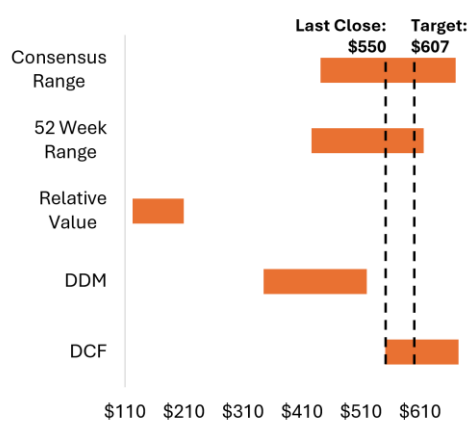


Source: ISRG 10K

CapEx Assumptions

Our CapEx forecasts for ISRG assume steady, routine spending consistent with historical trends. Given the company's focused product portfolio and defensive business model, we do not anticipate any extraordinary capital investments. CapEx is primarily allocated to maintaining existing operations, supporting incremental production capacity, and funding ongoing R&D initiatives. This conservative approach aligns with ISRG's operational strategy and allows for predictable cash flow planning.

Figure #27: Valuation Football Field



Source: HF Model, FactSet

WACC Calculation

The calculated weighted average cost of capital (WACC) estimate for ISRG is 10.77%. The cost of equity was derived using a risk-free rate of 4.11% (the 10- year U.S. Treasury yield to maturity), a beta of 1.34 (5-year weekly raw beta from Bloomberg), and an equity risk premium of 5.00% (Henry Fund estimation). These assumptions resulted in a cost of equity of 10.8%. Due to ISRG not issuing any debt, the after-tax cost of debt is 0. However, we do adjust for the PV of operating leases when calculating MV of debt. The market value weights used in the WACC calculation were 99.6% for equity and 0.4% for debt.

DCF/EP

Our enterprise discounted cash flow (DCF) and economic profit (EP) models suggest an implied price of $607.64 per share. The key inputs used in the models included a 7.00% CV growth in NOPLAT, a CV year ROIC of 99.3%, a WACC of 10.77%, and a cost of equity of 10.8%. We discounted free cash flow and economic profit using the WACC, resulting in a total value of operating assets of $195,015 million. After adjusting for non-operating assets (such as excess cash, investments, the present value of operating leases, non-controlling interests, and employee stock options) the value of equity was calculated to be $198,278 million. This was divided by shares outstanding (357 million), giving us an intrinsic value of $556.02 per share at 2024 FYE. Finally, after accounting for the time elapsed since the last fiscal year-end, the implied price as of today is $607.64 per share.

DDM/Fundamental P/E

Our dividend discount model (DDM) resulted in an intrinsic value per share of $403.86. The primary inputs used in this model consisted of CV growth of 7.00% for EPS, a CV ROE of 22.29%, and a cost of equity of 10.8%. For our CV, we leveraged a P/E multiple of 18.06x that was multiplied by our CV EPS estimate of $51.48. Although ISRG does not pay dividends, this approach allows us to estimate a price using the fundamental relationship between earnings and valuation.

Figure #28: Relative Multiple Values

Ticker	P/E 25	P/E 26	EV/EBITDA 25	EV/EBITDA 26
ISRG	74.8	59.4	60.0	48.1
JNJ	16.09	15.68	13.39	12.82
MDT	22.89	20.50	13.42	13.98
SYK	37.50	30.99	22.09	20.04
ZBH	25.03	19.95	9.76	9.37

Implied Relative Value:

P/E (EPS25)	$	194.07
P/E (EPS26)	$	209.71
EV/EBITDA 2025E	$	122.74
EV/EBITDA 2026E	$	147.29

Source: HF Model, FactSet

Relative Multiple

The relative valuation model utilized P/E 2025 and 2026 multiples of 74.8 x and 59.4x respectively, paired with EV/EBITDA 2025 and 2026 multiples of 60 and 48.1 respectively. This suggests ISRG is trading at a premium to peers, reflecting both its leadership position in robotic-assisted surgery and the limited diversification of its competitors. Many peers are not as focused on high margin recurring revenue streams or do not have the same scale in installed systems, which helps justify the premium investors are willing to pay for ISRG.

The relative valuation model is the least central method for determining a price target in this case, as it assumes that peer companies are correctly valued by the market. While it provides helpful context for understanding investor sentiment, it does not fully capture ISRG's unique growth drivers, including the expansion of its installed base, recurring revenue from instruments and accessories, and high-margin services. As a result, this method carries little to no weight in our final target price and serves primarily as a tool to understand how ISRG is currently perceived relative to its peer group.

Conclusion

ISRG stands as a leader in the robotic-assisted surgery market, with a highly scalable business model driven by its installed base and recurring revenue streams from Instruments, Accessories, and Services. The company's focus on technological innovation, particularly through the da Vinci 5 and Ion systems, positions it to capture ongoing adoption in minimally invasive procedures. This focus, combined with high-margin revenue streams and operational efficiency, supports strong and sustainable profitability. Revenue growth is closely tied to the expansion of the installed base, providing visibility into future performance, while economies of scale help support stable cost structures and operating margins.

The primary headwind facing ISRG is potential margin compression from tariffs on medical devices or key components. However, this impact is likely to be short term, and we believe the company's fundamentals remain intact. The stock has recently underperformed, driven largely by high multiples, a premium valuation relative to peers, and downward revisions to near-term guidance, which raised investor concerns about whether the premium is justified. In our view, these concerns are largely short-term and create a compelling entry point. ISRG's strong installed base, recurring revenue model, and continued innovation provide confidence that the company can weather these pressures and deliver a rebound. For long-term investors, ISRG offers significant upside potential, and current market weakness may present an attractive opportunity to gain exposure to a market-leading, high-quality healthcare company.

References

1. ISRG 10K
2. Quartr ISRG Article
3. Yahoo!Finance ISRG ESG
4. UI Health Care
5. UR Medical Center
6. Ascension
7. Investopedia
8. FDA Device Approvals and Clearances
9. FDA Device Development Process
10. Grand View Research AI-Based Surgical Robots
11. MedTechDive ISRG AI
12. ISRG da Vinci 5
13. ISRG Ion System
14. NIH Trends in the Adoption of Robotic Surgery
15. JNJ 10K
16. MDT 10K
17. SYK 10K
18. ZBH 10K
19. Bloomberg
20. FactSet
21. US Government Treasury

Disclaimer

Intuitive Surgical
Revenue Decomposition

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
DA VINCI SURGICAL SYSTEM PLACEMENTS BY REGION													
U.S. unit placements	692	666	800	880	959	1,017	1,098	1,186	1,281	1,370	1,466	1,554	1,648
growth	-20%	-4%	20%	*10%*	*9%*	*6%*	*8%*	*8%*	*8%*	*7%*	*7%*	*6%*	*6%*
International unit placements	572	704	726	770	800	840	899	971	1,059	1,154	1,269	1,396	1,536
growth	19%	23%	3%	*6%*	*4%*	*5%*	*7%*	*8%*	*9%*	*9%*	*10%*	*10%*	*10%*
Total unit placements	1,264	1,370	1,526	1,650	1,760	1,857	1,997	2,157	2,339	2,524	2,736	2,950	3,183
growth	-6%	8%	11%	*8%*	*7%*	*6%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
PRODUCT REVENUE													
Instruments and accessories	3,518	4,277	5,079	5,935	6,753	7,522	8,701	10,148	11,936	13,898	16,322	18,987	22,102
growth	13%	22%	19%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Systems	1,680	1,680	1,966	2,297	2,614	2,912	3,368	3,928	4,620	5,380	6,318	7,349	8,555
growth	-1%	0%	17%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Total product revenue	5,198	5,956	7,045	8,232	9,366	10,434	12,068	14,077	16,556	19,277	22,640	26,336	30,658
growth	8%	15%	18%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
SERVICE REVENUE													
Services	1,024	1,168	1,307	1,527	1,738	1,936	2,239	2,612	3,072	3,577	4,200	4,886	5,688
growth	12%	14%	12%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Total revenue	6,222	7,124	8,352	9,759	11,104	12,370	14,307	16,688	19,628	22,854	26,840	31,223	36,346
growth	9%	14%	17%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
TOTAL REVENUE BY REGION													
% of Revenue in U.S.	67%	66%	67%	66%	66%	66%	65%	65%	64%	64%	63%	63%	63%
growth	-1%	-2%	2%	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*
% of Revenue Internationally	33%	34%	33%	34%	34%	35%	35%	36%	36%	37%	38%	38%	39%
growth	2%	3%	-3%	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
OPERATING LEASE PLACEMENTS													
*Fixed-payment placements	276	304	309	334	356	376	404	437	474	511	554	597	645
growth		10%	2%	*8%*	*7%*	*6%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
*Usage-based placements	216	355	467	505	538	568	611	660	716	772	837	903	974
% of Total Unit Placements	17%	26%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
growth		64%	32%	*8%*	*7%*	*6%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
Systems placed under operating leases	492	659	776	839	895	944	1,016	1,097	1,190	1,284	1,391	1,500	1,619
% of total placements	39%	48%	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%
growth	-5%	34%	18%	*8%*	*7%*	*6%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
RECURRING REVENUE													
Instruments and accessories	3,518	4,277	5,079	5,935	6,753	7,522	8,701	10,148	11,936	13,898	16,322	18,987	22,102
growth	13%	22%	19%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Services	1,024	1,168	1,307	1,527	1,738	1,936	2,239	2,612	3,072	3,577	4,200	4,886	5,688
growth	12%	14%	12%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Operating lease revenue	377	501	654	764	870	969	1,121	1,307	1,537	1,790	2,102	2,446	2,847
growth	36%	33%	31%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*
Total recurring revenue	4,919	5,945	7,040	8,227	9,360	10,427	12,060	14,067	16,545	19,264	22,624	26,319	30,637
% of Total revenue	79%	83%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
growth	15%	21%	18%	*17%*	*14%*	*11%*	*16%*	*17%*	*18%*	*16%*	*17%*	*16%*	*16%*

Intuitive Surgical
Income Statement

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue													
Product revenue	5,198	5,956	7,045	8,232	9,366	10,434	12,068	14,077	16,556	19,277	22,640	26,336	30,658
Service revenue	1,024	1,168	1,307	1,527	1,738	1,936	2,239	2,612	3,072	3,577	4,200	4,886	5,688
Total Revenue	6,222	7,124	8,352	9,759	11,104	12,370	14,307	16,688	19,628	22,854	26,840	31,223	36,346
Cost of Revenue	1,672	1,992	2,262	2,977	3,218	3,406	3,742	4,146	4,633	5,125	5,718	6,319	6,988
Depreciation expense	326	382	439	488	544	606	678	762	861	975	1,110	1,267	1,450
Amortization expense	28	20	17	12	5	3	1	1	0	0	0	0	0
Total Cost of Revenue	2,026	2,395	2,718	3,477	3,767	4,015	4,421	4,909	5,494	6,100	6,828	7,586	8,438
Gross Profit	4,196	4,730	5,634	6,282	7,337	8,355	9,886	11,779	14,134	16,753	20,012	23,636	27,908
Operating Expenses													
Selling, general & administrative expense	1,740	1,964	2,140	2,376	2,568	2,717	2,986	3,309	3,697	4,089	4,562	5,042	5,576
Research & development expense	879	999	1,145	1,157	1,317	1,467	1,697	1,979	2,327	2,710	3,183	3,702	4,310
Total Operating Expenses	2,619	2,963	3,285	3,533	3,884	4,184	4,682	5,287	6,024	6,799	7,745	8,744	9,886
Operating Profit													
Income (loss) from operations [EBIT]	1,577	1,767	2,349	2,749	3,452	4,171	5,204	6,492	8,110	9,954	12,267	14,892	18,022
Interest & other income (expense), net	30	192	325	340	448	574	732	929	1,167	1,467	1,843	2,314	2,895
Income (loss) before taxes [EBT]	1,607	1,959	2,674	3,089	3,901	4,745	5,935	7,421	9,276	11,421	14,110	17,206	20,917
Income tax expense (benefit)	262	142	336	338	426	519	649	811	1,014	1,248	1,542	1,880	2,286
Net income	1,344	1,817	2,338	2,751	3,475	4,227	5,287	6,610	8,263	10,173	12,568	15,325	18,631
Less: net income (loss) attributable to noncontrolling interest in joint venture	22	19	15	20	26	31	39	49	61	76	93	114	139
Net income attributable to Intuitive Surgical, Inc.	1,322	1,798	2,323	2,731	3,449	4,195	5,247	6,561	8,201	10,097	12,475	15,211	18,492
Share Information (Basic)													
Earnings Per Share (EPS)	3.72	5.12	6.54	7.65	9.63	11.68	14.56	18.18	22.74	28.03	34.67	42.31	51.48
Year End Shares Outstanding	350	352	357	358	359	360	361	361	360	360	360	359	359
Weighted Average Shares Outstanding	356	351	355	357	358	359	360	361	361	360	360	360	359

Intuitive Surgical
Balance Sheet

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
ASSETS													
Current Assets:													
Cash & cash equivalents	1,581	2,750	2,027	4,577	7,566	11,361	16,179	22,034	29,502	38,942	50,803	65,535	83,691
Short-term investments	2,537	2,473	1,986	2,062	2,142	2,224	2,310	2,398	2,491	2,587	2,686	2,789	2,897
Accounts receivable, net	942	1,130	1,225	1,519	1,728	1,925	2,226	2,597	3,054	3,556	4,176	4,858	5,655
Inventory	893	1,221	1,487	1,398	1,590	1,772	2,049	2,390	2,811	3,273	3,844	4,472	5,206
Prepaids & other current assets	300	314	385	423	481	536	620	723	850	990	1,163	1,353	1,575
Total Current Assets	6,253	7,888	7,111	9,979	13,507	17,818	23,384	30,143	38,708	49,348	62,673	79,008	99,024
Gross property, plant, & equipment	3,612	5,100	6,528	6,972	7,417	7,861	8,306	8,750	9,194	9,639	10,083	10,528	10,972
Less: accumulated depreciation	1,238	1,562	1,881	2,369	2,913	3,519	4,197	4,959	5,820	6,795	7,906	9,173	10,623
Property, plant & equipment, net	2,374	3,538	4,647	4,603	4,503	4,342	4,108	3,791	3,375	2,844	2,178	1,355	349
Long-term investments	2,624	2,120	4,819	5,017	5,224	5,438	5,662	5,895	6,137	6,390	6,652	6,926	7,211
Deferred tax assets	751	993	1,141	1,347	1,608	1,925	2,322	2,818	3,438	4,201	5,144	6,294	7,693
Deferred tax assets adjustment	0	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets, net	751	993	1,141	1,347	1,608	1,925	2,322	2,818	3,438	4,201	5,144	6,294	7,693
Intangible & other assets, net	710	637	774	762	756	753	752	751	751	751	750	750	750
Goodwill	349	349	348	348	348	348	348	348	348	348	348	348	348
Total Assets	13,060	15,524	18,839	22,055	25,946	30,624	36,575	43,745	52,756	63,880	77,745	94,681	115,374
LIABILITIES AND STOCKHOLDERS' EQUITY													
Current Liabilities:													
Accounts payable	147	189	193	236	268	299	346	403	474	552	648	754	878
Accrued compensation & employee benefits	402	436	536	553	629	701	811	946	1,112	1,295	1,521	1,769	2,059
Deferred revenue	397	446	469	727	827	922	1,066	1,243	1,462	1,703	2,000	2,326	2,708
Other accrued liabilities	476	588	548	614	699	778	900	1,050	1,235	1,438	1,688	1,964	2,286
Total Current Liabilities	1,422	1,659	1,745	2,130	2,423	2,699	3,122	3,642	4,283	4,987	5,857	6,814	7,932
Deferred tax liabilities	86	82	95	113	135	162	196	238	290	355	435	533	651
Other long-term liabilities	439	386	468	600	769	985	1,262	1,617	2,072	2,654	3,401	4,357	5,582
Total Liabilities	1,948	2,126	2,309	2,843	3,327	3,846	4,580	5,496	6,645	7,996	9,693	11,703	14,165
Stockholders' Equity:													
Common stock & additional paid-in capital	7,704	8,577	9,682	10,013	10,345	10,677	11,008	11,051	11,051	11,051	11,051	11,051	11,051
Retained earnings	3,500	4,743	6,803	9,134	12,183	15,978	20,826	26,987	34,788	44,485	56,559	71,371	89,463
Accumulated other comprehensive income (loss)	(163)	(12)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
Total Intuitive Surgical, Inc. Stockholders' Equity	11,042	13,308	16,434	19,096	22,477	26,604	31,783	37,987	45,788	55,485	67,559	82,371	100,463
Noncontrolling interest in joint venture	71	90	96	116	142	174	213	262	324	399	493	607	745
Total Stockholders' Equity	11,113	13,397	16,530	19,213	22,619	26,777	31,996	38,249	46,111	55,884	68,052	82,977	101,208
Total Liabilities and Stockholders' Equity	13,060	15,524	18,839	22,055	25,946	30,624	36,575	43,745	52,756	63,880	77,745	94,681	115,374

Intuitive Surgical
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Activites:										
Net income (loss)	589	736	660	1,125	1,382	1,067	1,728	1,344	1,817	2,338
Adjustments to reconcile net income to net cash provided by operating activites:										
Depreciation & loss on disposal of property, plant & equipment, net	65	74	86	109	160	226	283	338	402	445
Amortization of intangible assets	24	18	13	14	43	50	27	28	20	17
Loss (gain) on sale of business	-	-	-	-	-	-	-	(4)	-	(1)
Loss (gain) on investments, accretion of discounts & amortization of premiums on investments, net	26	36	21	2	(6)	(55)	11	49	7	(43)
Deferred income taxes	5	19	63	32	(8)	58	(63)	(185)	(281)	(135)
Income tax benefits from employee stock plans	22	30	-	-	-	-	-	-	-	-
Excess tax benefit from employee stock plans	(34)	(44)	-	-	-	-	-	-	-	-
Share-based compensation expense	168	178	209	261	336	395	449	513	593	677
Amortization of contract acquisition assets	-	-	-	11	13	17	22	27	33	38
Changes in operating assets and liabilites, net of effects of acquisitons:										
Accounts receivable	(79)	(36)	(82)	(161)	39	6	(142)	(159)	(186)	(96)
Inventory	(11)	(47)	(116)	(279)	(361)	(170)	(256)	(547)	(713)	(830)
Prepaids & other assets	(11)	(29)	(29)	(78)	(117)	(112)	(205)	(129)	24	(232)
Accounts payable	(11)	16	14	17	12	(32)	36	21	42	(0)
Accrued compensation & employee benefits	22	19	31	26	57	(17)	115	52	35	99
Deferred revenue	8	20	53	54	36	15	33	22	53	31
Other liabilities	(11)	54	219	37	12	37	51	122	(33)	108
Net cash provided by operating activites	772	1,043	1,144	1,170	1,598	1,485	2,089	1,491	1,814	2,415
Net cash flows from operating activities	772	1,043	1,144	1,170	1,598	1,485	2,089	1,491	1,814	2,415
difference	-	-	-	-	-	-	-	-	-	-
Investing Activities:										
Purchase of investments	(1,827)	(2,586)	(1,995)	(2,582)	(3,346)	(4,293)	(6,452)	(1,400)	(2,207)	(5,140)
Proceeds from sales of investments	233	390	1,861	274	107	801	85	61	230	100
Proceeds from maturities of investments	826	970	703	1,534	2,570	2,931	4,268	3,254	2,690	2,879
Purchase of property, plant, & equipment	(81)	(54)	(191)	(187)	(426)	(342)	(340)	(532)	(1,064)	(1,111)
Acquisition of businesses, net of cash, & intellectual property & other investing activities	-	-	-	(88)	(60)	(38)	(23)	(13)	(9)	(1)
Net cash provided by (used in) investing activities:	(850)	(1,279)	379	(1,050)	(1,154)	(941)	(2,462)	1,371	(360)	(3,273)
Net cash flows from investing activities	(850)	(1,279)	379	(1,050)	(1,154)	(941)	(2,462)	1,371	(360)	(3,273)
difference	-	-	-	-	-	-	-	-	-	-
Financing Activities:										
Proceeds from issuance of common stock relating to employee stock plans	361	581	416	237	273	309	277	234	296	429
Excess tax benefit from employee stock plans	34	44	-	-	-	-	-	-	-	-
Taxes paid related to net share settlement of equity awards	(11)	(24)	(57)	(120)	(159)	(175)	(212)	(194)	(165)	(270)
Repurchase common stock	(184)	(43)	(2,274)	-	(270)	(134)	-	(2,607)	(416)	-
Capital contribution from noncontrolling interest	-	-	-	10	10	-	-	-	-	-
Cash dividends paid by joint venture to noncontrolling interest	-	-	-	-	-	-	-	-	-	(8)
Payment of deferred purchase consideration	-	-	-	(0)	(23)	(85)	(22)	(5)	(3)	(1)
Other financing activities	(7)	-	2	-	-	-	-	-	-	-
Net cash provided by (used in) financing activites	193	559	(1,913)	126	(168)	(86)	43	(2,572)	(288)	151
Net cash flows from financing activities	193	559	(1,913)	126	(168)	(86)	43	(2,572)	(288)	151
difference	-	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes on cash, cash equivalents, & restricted cash	(2)	-	2	(0)	(2)	(3)	(3)	5	3	(1)
Net increase (decrease) in cash, cash equivalents, & restricted cash	114	322	(388)	246	273	456	(333)	295	1,169	(708)
Cash, cash equivalents, & restricted cash, beginning of year	600	715	1,052	663	909	1,183	1,639	1,306	1,601	2,770
Cash, cash equivalents, & restricted cash, end of year	715	1,052	663	909	1,183	1,639	1,306	1,601	2,770	2,062

Intuitive Surgical

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Operating Cash Flow										
Net Income	2,731	3,449	4,195	5,247	6,561	8,201	10,097	12,475	15,211	18,492
(+) Depreciation	488	544	606	678	762	861	975	1,110	1,267	1,450
(+) Amortization	12	5	3	1	1	0	0	0	0	0
Change in A/R, net	(293)	(209)	(197)	(302)	(370)	(457)	(502)	(620)	(682)	(797)
Change in Inventory	89	(193)	(181)	(278)	(341)	(421)	(462)	(571)	(628)	(734)
Change in Prepaids & other current assets	(38)	(58)	(55)	(84)	(103)	(127)	(140)	(173)	(190)	(222)
Change in Deferred tax assets	(206)	(261)	(317)	(397)	(496)	(620)	(763)	(943)	(1,150)	(1,398)
Change in Deferred tax liabilites	18	22	27	34	42	53	65	80	98	119
Change in A/P	42	32	31	47	58	71	78	96	106	124
Change in Accrued compensation & employee benefits	17	76	72	110	135	167	183	226	248	290
Change in Deferred revenue	258	100	94	144	177	219	240	297	326	382
Change in Other Accrued liabilities	66	85	80	122	150	185	203	251	276	322
Change in Other Long-term Liabilites	132	169	216	277	355	455	583	746	956	1,225
Net Cash Flow from Operating Activities:	3,317	3,761	4,574	5,601	6,929	8,585	10,557	12,974	15,840	19,254
Investing Cash Flow										
Change in Short-term Investments	(76)	(79)	(82)	(86)	(89)	(92)	(96)	(100)	(103)	(107)
Change in Gross PPE	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)
Change in Noncontrolling Interests	20	26	31	39	49	61	76	93	114	139
Net Cash Flows from Investing Activities	(500)	(498)	(495)	(491)	(484)	(475)	(465)	(450)	(434)	(413)
Financing Cash Flow										
Change in Long-term Investments	(198)	(206)	(215)	(224)	(233)	(242)	(252)	(263)	(274)	(285)
Change in Common Stock & APIC	332	332	332	332	43	-	-	-	-	-
Change in Retained Earnings (Stock Repurchase)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)
Net Cash Flows from Financing Activities	(267)	(275)	(283)	(292)	(590)	(642)	(652)	(663)	(674)	(685)
Net Increase in Cash & Cash Equivalents	2,550	2,989	3,795	4,818	5,855	7,467	9,440	11,861	14,732	18,156
Cash & Cash Equivalents at the Beginning of the Period	2,027	4,577	7,566	11,361	16,179	22,034	29,502	38,942	50,803	65,535
Cash & Cash Equivalents at the End of the Period	4,577	7,566	11,361	16,179	22,034	29,502	38,942	50,803	65,535	83,691

Intuitive Surgical

Common Size Income Statement

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue													
Product revenue	83.54%	83.61%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%	84.35%
Service revenue	16.46%	16.39%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%	15.65%
Total Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Revenue	26.88%	27.97%	27.09%	30.51%	28.98%	27.53%	26.15%	24.85%	23.60%	22.42%	21.30%	20.24%	19.23%
Depreciation expense	5.24%	5.36%	5.26%	5.00%	4.90%	4.90%	4.74%	4.57%	4.38%	4.27%	4.14%	4.06%	3.99%
Amortization expense	0.45%	0.28%	0.20%	0.13%	0.05%	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Cost of Revenue	32.56%	33.61%	32.54%	35.63%	33.93%	32.45%	30.90%	29.42%	27.99%	26.69%	25.44%	24.30%	23.22%
Gross Profit	67.44%	66.39%	67.46%	64.37%	66.07%	67.55%	69.10%	70.58%	72.01%	73.31%	74.56%	75.70%	76.78%
Operating Expenses													
Selling, general & administrative expense	27.96%	27.57%	25.62%	24.34%	23.12%	21.97%	20.87%	19.83%	18.83%	17.89%	17.00%	16.15%	15.34%
Research & development expense	14.13%	14.02%	13.71%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%
Total Operating Expenses	42.09%	41.59%	39.34%	36.20%	34.98%	33.83%	32.73%	31.68%	30.69%	29.75%	28.86%	28.01%	27.20%
Operating Profit													
Income (loss) from operations [EBIT]	25.35%	24.80%	28.12%	28.17%	31.09%	33.72%	36.37%	38.90%	41.32%	43.56%	45.70%	47.70%	49.59%
Interest & other income (expense), net	0.48%	2.70%	3.89%	3.48%	4.04%	4.64%	5.12%	5.57%	5.94%	6.42%	6.87%	7.41%	7.96%
Income (loss) before taxes [EBT]	25.82%	27.50%	32.01%	31.65%	35.13%	38.36%	41.48%	44.47%	47.26%	49.97%	52.57%	55.11%	57.55%
Income tax expense (benefit)	4.22%	1.99%	4.03%	3.46%	3.84%	4.19%	4.53%	4.86%	5.16%	5.46%	5.75%	6.02%	6.29%
Net income	21.61%	25.51%	27.99%	28.19%	31.29%	34.17%	36.95%	39.61%	42.10%	44.51%	46.83%	49.08%	51.26%
Less: net income (loss) attributable to noncontrolling interest in joint venture	0.36%	0.27%	0.18%	0.21%	0.23%	0.25%	0.27%	0.29%	0.31%	0.33%	0.35%	0.37%	0.38%
Net income attributable to Intuitive Surgical, Inc.	21.25%	25.24%	27.81%	27.98%	31.06%	33.92%	36.68%	39.31%	41.78%	44.18%	46.48%	48.72%	50.88%

Intuitive Surgical
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
ASSETS													
Current Assets:													
Cash & cash equivalents	25.41%	38.60%	24.27%	46.90%	68.14%	91.85%	113.08%	132.04%	150.31%	170.40%	189.28%	209.90%	230.26%
Short-term investments	40.77%	34.71%	23.78%	21.13%	19.29%	17.98%	16.14%	14.37%	12.69%	11.32%	10.01%	8.93%	7.97%
Accounts receivable, net	15.14%	15.86%	14.67%	15.56%	15.56%	15.56%	15.56%	15.56%	15.56%	15.56%	15.56%	15.56%	15.56%
Inventory	14.36%	17.13%	17.81%	14.32%	14.32%	14.32%	14.32%	14.32%	14.32%	14.32%	14.32%	14.32%	14.32%
Prepaids & other current assets	4.82%	4.41%	4.61%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%
Total Current Assets	100.50%	110.72%	85.14%	102.25%	121.64%	144.04%	163.44%	180.62%	197.21%	215.93%	233.50%	253.05%	272.45%
Gross property, plant, & equipment	58.05%	71.58%	78.16%	71.44%	66.79%	63.55%	58.05%	52.43%	46.84%	42.18%	37.57%	33.72%	30.19%
Less: accumulated depreciation	19.89%	21.93%	22.52%	24.28%	26.24%	28.45%	29.34%	29.72%	29.65%	29.73%	29.45%	29.38%	29.23%
Property, plant & equipment, net	38.16%	49.66%	55.63%	47.16%	40.56%	35.10%	28.71%	22.72%	17.19%	12.44%	8.11%	4.34%	0.96%
Long-term investments	42.17%	29.76%	57.70%	51.41%	47.04%	43.96%	39.57%	35.32%	31.27%	27.96%	24.79%	22.18%	19.84%
Deferred tax assets	12.06%	13.93%	13.66%	13.80%	14.48%	15.56%	16.23%	16.88%	17.51%	18.38%	19.17%	20.16%	21.17%
Deferred tax assets adjustment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred tax assets, net	12.07%	13.93%	13.66%	13.80%	14.48%	15.56%	16.23%	16.88%	17.51%	18.38%	19.17%	20.16%	21.17%
Intangible & other assets, net	11.41%	8.94%	9.27%	7.80%	6.81%	6.09%	5.26%	4.50%	3.83%	3.28%	2.80%	2.40%	2.06%
Goodwill	5.60%	4.89%	4.16%	3.56%	3.13%	2.81%	2.43%	2.08%	1.77%	1.52%	1.29%	1.11%	0.96%
Total Assets	209.90%	217.90%	225.56%	225.99%	233.66%	247.57%	255.64%	262.13%	268.78%	279.52%	289.66%	303.24%	317.43%
LIABILITIES AND STOCKHOLDERS' EQUITY													
Current Liabilities:													
Accounts payable	2.36%	2.65%	2.32%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%
Accrued compensation & employee benefits	6.45%	6.13%	6.41%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%
Deferred revenue	6.39%	6.26%	5.61%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%
Other accrued liabilities	7.65%	8.25%	6.56%	6.29%	6.29%	6.29%	6.29%	6.29%	6.29%	6.29%	6.29%	6.29%	6.29%
Total Current Liabilities	22.86%	23.28%	20.90%	21.82%	21.82%	21.82%	21.82%	21.82%	21.82%	21.82%	21.82%	21.82%	21.82%
Deferred tax liabilities	1.39%	1.15%	1.14%	1.16%	1.22%	1.31%	1.37%	1.42%	1.48%	1.55%	1.62%	1.71%	1.79%
Other long-term liabilities	7.06%	5.41%	5.61%	6.15%	6.92%	7.96%	8.82%	9.69%	10.55%	11.61%	12.67%	13.95%	15.36%
Total Liabilities	31.30%	29.85%	27.65%	29.13%	29.96%	31.09%	32.01%	32.94%	33.86%	34.99%	36.11%	37.48%	38.97%
Stockholders' Equity:													
Common stock & additional paid-in capital	123.82%	120.39%	115.92%	102.60%	93.16%	86.31%	76.94%	66.22%	56.30%	48.36%	41.17%	35.39%	30.41%
Retained earnings	56.25%	66.58%	81.46%	93.59%	109.72%	129.17%	145.56%	161.71%	177.24%	194.65%	210.73%	228.59%	246.14%
Accumulated other comprehensive income (loss)	-2.61%	-0.17%	-0.61%	-0.53%	-0.46%	-0.41%	-0.36%	-0.31%	-0.26%	-0.22%	-0.19%	-0.16%	-0.14%
Total Intuitive Surgical, Inc. Stockholders' Equity	177.46%	186.80%	196.76%	195.67%	202.42%	215.07%	222.14%	227.62%	233.28%	242.78%	251.71%	263.82%	276.41%
Noncontrolling interest in joint venture	1.14%	1.26%	1.15%	1.19%	1.28%	1.40%	1.49%	1.57%	1.65%	1.75%	1.84%	1.94%	2.05%
Total Stockholders' Equity	178.60%	188.06%	197.91%	196.86%	203.70%	216.47%	223.63%	229.20%	234.93%	244.53%	253.55%	265.76%	278.46%
Total Liabilities and Stockholders' Equity	209.90%	217.90%	225.56%	225.99%	233.66%	247.57%	255.64%	262.13%	268.78%	279.52%	289.66%	303.24%	317.43%

Intuitive Surgical
Value Driver Estimation

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
NOPLAT:													
Revenue	6,222	7,124	8,352	9,759	11,104	12,370	14,307	16,688	19,628	22,854	26,840	31,223	36,346
Less: Cost of Revenue	1,672	1,992	2,262	2,977	3,218	3,406	3,742	4,146	4,633	5,125	5,718	6,319	6,988
Less: Depreciation	326	382	439	488	544	606	678	762	861	975	1,110	1,267	1,450
Less: Amortization	28	20	17	12	5	3	1	1	0	0	0	0	0
Less: Selling, General, & Administrative	1,740	1,964	2,140	2,376	2,568	2,717	2,986	3,309	3,697	4,089	4,562	5,042	5,576
Less: Research & Development	879	999	1,145	1,157	1,317	1,467	1,697	1,979	2,327	2,710	3,183	3,702	4,310
Plus: Implied Interest on Operating Leases	30	38	42	51	67	88	115	151	198	259	339	444	582
EBIT:	1,607	1,805	2,391	2,801	3,520	4,259	5,319	6,643	8,307	10,213	12,606	15,337	18,604
Income Tax Provision:	262	142	336	338	426	519	649	811	1,014	1,248	1,542	1,880	2,286
Plus: Tax Shield on Interest & Other Expense	7	44	75	80	105	135	171	218	273	344	432	542	678
Plus: Tax Shield on Operating Leases	203	173	181	6	7	10	13	17	22	28	37	49	64
Adjusted Tax:	472	359	592	423	539	663	833	1,045	1,309	1,620	2,011	2,471	3,028
Deferred Tax Assets	751	993	1,141	1,347	1,608	1,925	2,322	2,818	3,438	4,201	5,144	6,294	7,693
Deferred Tax Liabilites	86	82	95	113	135	162	196	238	290	355	435	533	651
Changes in Deferred Taxes:	223	246	135	189	239	290	363	454	567	699	863	1,053	1,280
NOPLAT:	1,358	1,692	1,934	2,567	3,220	3,887	4,849	6,052	7,566	9,292	11,458	13,918	16,856
Invested Capital (IC):													
Operating Current Assets:													
Normal Cash	1,289	1,476	1,730	2,022	2,300	2,563	2,964	3,457	4,066	4,734	5,560	6,468	7,530
Accounts Receivable	942	1,130	1,225	1,519	1,728	1,925	2,226	2,597	3,054	3,556	4,176	4,858	5,655
Inventories	893	1,221	1,487	1,398	1,590	1,772	2,049	2,390	2,811	3,273	3,844	4,472	5,206
Prepaids & Other Current Assets	300	314	385	423	481	536	620	723	850	990	1,163	1,353	1,575
Total Operating Current Assets	3,424	4,141	4,828	5,361	6,100	6,795	7,859	9,167	10,782	12,554	14,744	17,151	19,966
Operating Current Liabilites:													
Accounts Payable	147	189	193	236	268	299	346	403	474	552	648	754	878
Accrued Compensation & Employee Benefits	402	436	536	553	629	701	811	946	1,112	1,295	1,521	1,769	2,059
Deferred Revenue	397	446	469	727	827	922	1,066	1,243	1,462	1,703	2,000	2,326	2,708
Other Accrued Liabilities	476	588	548	614	699	778	900	1,050	1,235	1,438	1,688	1,964	2,286
Total Operating Current Liabilities	1,422	1,659	1,745	2,130	2,423	2,699	3,122	3,642	4,283	4,987	5,857	6,814	7,932
Net Operating Working Capital:	2,002	2,482	3,083	3,231	3,677	4,096	4,737	5,525	6,499	7,567	8,887	10,338	12,034
Property, Plant & Equipment, Net:	2,374	3,538	4,647	4,603	4,503	4,342	4,108	3,791	3,375	2,844	2,178	1,355	349
Other Operating Assets:													
Intangible Assets, Net	710	637	774	762	756	753	752	751	751	751	750	750	750
PV of Operating Leases	849	748	784	1,026	1,344	1,761	2,306	3,020	3,956	5,182	6,787	8,889	11,643
Net Other Operating Assets	1,559	1,385	1,558	1,788	2,101	2,514	3,058	3,772	4,707	5,932	7,537	9,639	12,393
Other Operating Liabilities:													
Other LT Liabilities	439	386	468	600	769	985	1,262	1,617	2,072	2,654	3,401	4,357	5,582
Invested Capital (IC):	5,496	7,019	8,818	9,022	9,512	9,967	10,642	11,471	12,509	13,688	15,201	16,975	19,193
Free Cash Flow (FCF):													
NOPLAT	1,358	1,692	1,934	2,567	3,220	3,887	4,849	6,052	7,566	9,292	11,458	13,918	16,856
Change in IC	1,001	1,523	1,799	204	490	455	675	830	1,038	1,180	1,512	1,774	2,219
FCF	**357**	**169**	**134**	**2,363**	**2,730**	**3,432**	**4,174**	**5,222**	**6,528**	**8,112**	**9,946**	**12,144**	**14,637**
Return on Invested Capital (ROIC):													
NOPLAT	1,358	1,692	1,934	2,567	3,220	3,887	4,849	6,052	7,566	9,292	11,458	13,918	16,856
Beginning IC	4,495	5,496	7,019	8,818	9,022	9,512	9,967	10,642	11,471	12,509	13,688	15,201	16,975
ROIC	**30.20%**	**30.78%**	**27.55%**	**29.11%**	**35.68%**	**40.86%**	**48.66%**	**56.87%**	**65.96%**	**74.28%**	**83.71%**	**91.56%**	**99.30%**
Economic Profit (EP):													
Beginning IC	4,495	5,496	7,019	8,818	9,022	9,512	9,967	10,642	11,471	12,509	13,688	15,201	16,975
x (ROIC - WACC)	19.43%	20.01%	16.78%	18.34%	24.91%	30.09%	37.89%	46.10%	55.19%	63.51%	72.94%	80.79%	88.53%
EP	**874**	**1,100**	**1,178**	**1,617**	**2,248**	**2,862**	**3,776**	**4,905**	**6,331**	**7,944**	**9,984**	**12,281**	**15,028**

Intuitive Surgical

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*	
Risk-Free Rate	4.11%	*10y Treasury YTM*	U.S. Treasury
Beta	1.34	*5yr Raw Beta (Weekly)*	Bloomberg
Equity Risk Premium	5.00%	*Henry Fund Estimate*	
Cost of Equity	**10.80%**		
Cost of Debt:			
Risk-Free Rate	4.11%	*10y Treasury YTM*	U.S. Treasury
Implied Default Premium	0.89%		
Pre-Tax Cost of Debt	5.00%		
Marginal Tax Rate	23%		
After-Tax Cost of Debt	**3.83%**		

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	356.6	
Current Stock Price	$572.33	
MV of Equity	**204,092.88**	99.62%
Market Value of Debt:		
Short-Term Debt	-	
Current Portion of LTD	-	
Long-Term Debt	-	
PV of Operating Leases	783.61	
MV of Total Debt	**783.61**	0.38%
Market Value of the Firm	**204,876.48**	100.00%

Estimated WACC	**10.77%**

Intuitive Surgical

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:	
CV Growth of NOPLAT	7.00%
CV Year ROIC	99.30%
WACC	10.77%
Cost of Equity	10.80%

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
DCF Model:										
Free Cash Flow (FCF)	2,363	2,730	3,432	4,174	5,222	6,528	8,112	9,946	12,144	14,637
Continuing Value (CV)										415,551
PV of FCF	2,133	2,225	2,525	2,773	3,131	3,534	3,964	4,388	4,837	165,506

Value of Operating Assets:	195,015
Non-Operating Adjustments	
Plus: Excess Cash	297
Plus: Short-Term Investments	1,986
Plus: Long-Term Investments	4,819
Less: PV of Op. Lease Liabilities	(784)
Less: Noncontrolling Interest	(96)
Less: ESOP	(2,960)
Value of Equity	198,278
Shares Outstanding	357
Intrinsic Value of Last FYE	$ 556.02
Implied Price as of Today	$ 607.64

EP Model:	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Economic Profit (EP)	1,617	2,248	2,862	3,776	4,905	6,331	7,944	9,984	12,281	15,028
Continuing Value (CV)										398,576
PV of EP	1,460	1,832	2,106	2,508	2,941	3,427	3,882	4,405	4,891	158,745

Total PV of EP	186,197
Invested Capital (last FYE)	8,818
Value of Operating Assets:	195,015
Non-Operating Adjustments	
Plus: Excess Cash	297
Plus: Short-Term Investments	1,986
Plus: Long-Term Investments	4,819
Less: PV of Op. Lease Liabilities	(784)
Less: Noncontrolling Interest	(96)
Less: ESOP	(2,960)
Value of Equity	198,278
Shares Outstanding	357
Intrinsic Value of Last FYE	$ 556.02
Implied Price as of Today	$ 607.64

Intuitive Surgical

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EPS	$ 7.65	$ 9.63	$ 11.68	$ 14.56	$ 18.18	$ 22.74	$ 28.03	$ 34.67	$ 42.31	$ 51.48
Key Assumptions										
CV growth of EPS	7.00%									
CV Year ROE	22.29%									
Cost of Equity	10.80%									
Future Cash Flows										
P/E Multiple (CV Year)										18.06
EPS (CV Year)										$ 51.48
Future Stock Price										$ 929.90
Dividends Per Share	-	-	-	-	-	-	-	-	-	
Discounted Cash Flows	-	-	-	-	-	-	-	-	-	369.56
Intrinsic Value as of Last FYE	$ 369.56									
Implied Price as of Today	**$ 403.86**									

Intuitive Surgical
Relative Valuation Models

Ticker	Company	Price	EPS 2025E	EPS 2026E	P/E 25	P/E 26	EV 2025E	EBITDA 2025E	EV/EBITDA 2025E	EV 2026E	EBITDA 2026E	EV/EBITDA 2026E
JNJ	Johnson & Johnson	$177.95	$11.06	$11.35	16.09	15.68	$466,216.12	$34,817.51	13.39	$466,194.12	$36,378.20	12.82
MDT	Medtronic	$94.52	$4.13	$4.61	22.89	20.50	$130,224.92	$9,703.00	13.42	$142,391.12	10,182.20	13.98
SYK	Stryker	$383.66	$10.23	$12.38	37.50	30.99	$157,979.77	7,152.24	22.09	$157,979.77	7,883.64	20.04
ZBH	Zimmer Biomet	$103.12	$4.12	$5.17	25.03	19.95	$26,505.89	2,714.60	9.76	$26,499.31	2,828.93	9.37
				Average	**25.38**	**21.78**		Average	**14.67**		Average	**14.05**
ISRG	Intuitive Surgical	$572.33	$7.65	$9.63	74.8	59.4	$198,036.94	$3,300.81	60.0	$195,591.39	$4,068.98	48.1

Implied Relative Value:

P/E (EPS25)	**$**	**194.07**
P/E (EPS26)	**$**	**209.71**
EV/EBITDA 2025E	**$**	**122.74**
EV/EBITDA 2026E	**$**	**147.29**

Intuitive Surgical
Key Management Ratios

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Liquidity Ratios:													
Current Ratio *(Current Assets/Current Liabilities)*	4.40	4.76	4.07	4.69	5.57	6.60	7.49	8.28	9.04	9.89	10.70	11.60	12.48
Quick Ratio *((Cash + Marketable Securities + Receivables)/Current Liabilities)*	3.56	3.83	3.00	3.83	4.72	5.75	6.63	7.42	8.18	9.04	9.85	10.74	11.63
Cash Ratio *((Cash + Marketable Securities)/Current Liabilites)*	2.90	3.15	2.30	3.12	4.01	5.03	5.92	6.71	7.47	8.33	9.13	10.03	10.92
Asset-Management Ratios:													
Inventory Turnover Ratio *(COGS/Inventory)*	2.27	1.96	1.83	2.49	2.37	2.27	2.16	2.05	1.95	1.86	1.78	1.70	1.62
Receivables Turnover *(Revenue/Receivables)*	6.60	6.30	6.82	6.43	6.43	6.43	6.43	6.43	6.43	6.43	6.43	6.43	6.43
Payables Turnover *(COGS/Accounts Payable)*	13.78	12.69	14.05	14.75	14.04	13.43	12.79	12.18	11.59	11.05	10.53	10.06	9.61
Total Asset Turnover *(Revenue/Total Assets)*	0.48	0.46	0.44	0.44	0.43	0.40	0.39	0.38	0.37	0.36	0.35	0.33	0.32
Financial Leverage Ratios:													
Debt-To-Capital Ratio *(Total Liabilities/(Total Liabilities + Total Shareholders' Equity))*	0.15	0.14	0.12	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.12	0.12	0.12
Debt-To-Equity Ratio *(Total Liabilities/Total Shareholders' Equity)*	0.18	0.16	0.14	0.15	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Financial Leverage Ratio *(Total Assets/Total Shareholders' Equity)*	1.18	1.16	1.14	1.15	1.15	1.14	1.14	1.14	1.14	1.14	1.14	1.14	1.14
Profitability Ratios:													
Return on Equity *(Net Income/Beginning Total Shareholders' Equity)*	11.06%	16.18%	17.34%	16.52%	17.95%	18.55%	19.60%	20.51%	21.44%	21.90%	22.32%	22.35%	22.29%
Return on Assets *(Net Income/Total Assets)*	10.12%	11.58%	12.33%	12.38%	13.29%	13.70%	14.35%	15.00%	15.55%	15.81%	16.05%	16.07%	16.03%
Gross Profit Margin *(Gross Profit/Revenue)*	67.44%	66.39%	67.46%	64.37%	66.07%	67.55%	69.10%	70.58%	72.01%	73.31%	74.56%	75.70%	76.78%
Net Profit Margin *(Net Income/Revenue)*	21.25%	25.24%	27.81%	27.98%	31.06%	33.92%	36.68%	39.31%	41.78%	44.18%	46.48%	48.72%	50.88%
Return on Invested Capital *(NOPLAT/Invested Capital)*	24.70%	24.11%	21.93%	28.45%	33.85%	39.00%	45.57%	52.75%	60.49%	67.88%	75.38%	81.99%	87.82%

Intuitive Surgical

Valuation of Options Granted under ESOP

Current Stock Price	$572.33	
Risk Free Rate	4.11%	
Current Dividend Yield	0.00%	
Annualized St. Dev. of Stock Returns	28.01%	Mean daily Hist Vol past 10 years

Range of Outstanding Options	Number of Shares (M)	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
51.86-77.00	1.0	65.25	1.10	$ 509.97	$ 510
77.04-139.52	1.0	109.40	2.60	$ 474.02	$ 474
143.49-174.26	0.9	169.07	4.20	$ 430.48	$ 387
175.53-182.83	0.8	179.98	4.60	$ 424.10	$ 339
182.90-229.39	1.1	217.17	4.90	$ 396.96	$ 437
235.20-245.60	0.8	243.86	5.80	$ 384.99	$ 308
249.83-304.67	1.1	296.46	5.00	$ 339.61	$ 374
313.16-340.27	0.0	318.18	5.40	$ 329.81	$ -
341.16-341.16	0.0	341.16	6.70	$ 331.91	$ -
347.42-347.42	0.4	347.42	6.60	$ 327.01	$ 131
Total	7.1	$ 192.94	4.13	$ 410.34	**$ 2,960**

Intuitive Surgical

Sensitivity Tables

DCF — Equity Risk Premium (rows: Beta)

607.64	4.85%	4.90%	4.95%	5.00%	5.05%	5.10%	5.15%
1.19	823.49	805.53	788.29	771.73	755.82	740.50	725.76
1.24	754.48	738.59	723.31	708.61	694.47	680.84	667.71
1.29	695.57	681.36	667.68	654.51	641.82	629.57	617.75
1.34	644.71	631.90	619.55	607.64	596.15	585.05	574.34
1.39	600.38	588.73	577.49	566.64	556.17	546.05	536.27
1.44	561.40	550.73	540.44	530.50	520.90	511.61	502.62
1.49	526.86	517.05	507.57	498.41	489.55	480.98	472.67

DCF — COGS % Sales (2025E-2034E) (rows: R&D % Sales (2025E-2034E))

607.64	29.11%	30.11%	31.11%	32.11%	33.11%	34.11%	35.11%
11.56%	636.59	628.27	619.95	611.63	603.30	594.98	586.66
11.66%	635.26	626.94	618.62	610.30	601.97	593.65	585.33
11.76%	633.93	625.61	617.29	608.97	600.64	592.32	584.00
11.86%	632.60	624.28	615.96	607.64	599.31	590.99	582.67
11.96%	631.27	622.95	614.63	606.31	597.99	589.66	581.34
12.06%	629.94	621.62	613.30	604.98	596.66	588.33	580.01
12.16%	628.61	620.29	611.97	603.65	595.33	587.00	578.68

DCF — Risk-Free Rate (rows: Effective Tax Rate)

607.64	3.81%	3.91%	4.01%	4.11%	4.21%	4.31%	4.41%
7.93%	675.46	655.02	635.71	617.42	600.10	583.65	568.01
8.93%	671.87	651.54	632.33	614.15	596.91	580.55	565.00
9.93%	668.30	648.08	628.97	610.88	593.74	577.47	562.00
10.93%	664.75	644.64	625.63	607.64	590.58	574.40	559.01
11.93%	661.21	641.21	622.30	604.40	587.44	571.34	556.04
12.93%	657.69	637.79	618.98	601.18	584.31	568.30	553.08
13.93%	654.18	634.39	615.68	597.98	581.20	565.27	550.13

DCF — A/R % Sales (2025E-2034E) (rows: Inv. % Sales (2025E-2034E))

607.64	14.06%	14.56%	15.06%	15.56%	16.06%	16.56%	17.06%
11.32%	612.92	612.34	611.75	611.16	610.57	609.99	609.40
12.32%	611.75	611.16	610.57	609.99	609.40	608.81	608.22
13.32%	610.57	609.99	609.40	608.81	608.22	607.64	607.05
14.32%	609.40	608.81	608.22	607.64	607.05	606.46	605.87
15.32%	608.22	607.64	607.05	606.46	605.87	605.29	604.70
16.32%	607.05	606.46	605.87	605.29	604.70	604.11	603.52
17.32%	605.87	605.29	604.70	604.11	603.52	602.94	602.35

DCF — CV Growth of NOPLAT (rows: WACC)

607.64	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%
10.47%	502.51	544.95	598.07	666.51	757.99	886.49	1,080.22
10.57%	490.95	531.26	581.48	645.77	730.99	849.38	1,024.94
10.67%	479.85	518.18	565.70	626.18	705.72	815.06	974.77
10.77%	469.18	505.66	550.68	607.64	682.01	783.24	929.05
10.87%	458.92	493.66	536.35	590.07	659.73	753.66	887.21
10.97%	449.05	482.16	522.68	573.40	638.75	726.08	848.78
11.07%	439.54	471.13	509.62	557.57	618.95	700.32	813.36

DDM — Cost of Equity (rows: CV EPS Growth)

403.86	10.50%	10.60%	10.70%	10.80%	10.90%	11.00%	11.10%
5.50%	344.55	335.30	326.42	317.91	309.72	301.85	294.29
6.00%	371.45	360.69	350.41	340.58	331.18	322.17	313.53
6.50%	405.09	392.29	380.12	368.54	357.51	347.00	336.96
7.00%	448.34	432.66	417.86	403.86	390.61	378.04	366.11
7.50%	506.03	486.08	467.41	449.90	433.44	417.96	403.36
8.00%	586.82	560.06	535.33	512.39	491.07	471.19	452.63
8.50%	708.06	669.33	634.16	602.09	572.73	545.75	520.89