



Intuitive Surgical Inc

Precision Profits Under Pressure

\$ISRG remains the undisputed global leader in robotic assisted surgery. However, the slowdown of system placements, rising R&D expenses, and increasing competition from Johnson & Johnson and Medtronic bring challenges for \$ISRG, with their premium valuation – trading over 60x forward earnings leaves little room for error. We initiate coverage on \$ISRG with a SELL rating and a one-year price target of \$410.

Threats to Growth Momentum

After two decades of near-monopoly dominance, Intuitive Surgical now faces rising competition. Medtronic's Hugo RAS and Johnson & Johnson's Ottava platforms are entering the market with lower-cost, modular designs targeting hospitals without existing robotic systems, particularly in cost-sensitive regions like Europe and Asia. While \$ISRG's 9,000+ installed da Vinci systems and extensive surgeon training network create strong barriers to entry, increased competition could slow new system placements and pressure pricing. Recurring revenue from instruments, accessories, and services accounts for 75–80% of total sales, growing 12–14% year-over-year—down from over 20% before 2022. We expect recurring revenue growth to moderate to mid-single digits as hospitals delay upgrades and adopt lower-cost alternatives, leading to a more mature, slower-growth revenue mix over time.

Margin Pressure From Reinvestment

ISRG has aggressively invested in innovation, with the launch of da Vinci 5 and continued development of Ion, its lung biopsy platform. However, these initiatives are testing the company's margins due to higher R&D and training expense, which rose 18% year-over-year, contributing to an approximate 200-basis-point decline in operating margin. The revenue mix of the company continues to shift toward lower margin consumables and international sales, both of which have expanded to over 55% of total revenue. \$ISRG's rush to support new surgeons and international system adoption increases the proportion of consumable and service-based revenue, pressuring profitability in the short term. We see limited score for near term margin expansion due to inflationary costs and ongoing technology reinvestment.

Company Overview

Intuitive Surgical, Inc. develops, manufactures, and markets robotic systems for minimally invasive surgeries. Founded in 1995 and headquartered in Sunnyvale, California, the company's flagship da Vinci Surgical System enables surgeons to perform complex procedures with greater precision and control. Intuitive operates across three revenue segments: Instruments & Accessories (55%), System Sales (25%), and Services (20%). Intuitive is the clear leader in robotic-assisted surgery, holding roughly 60–65% global market share with an installed base of over 10,000 systems worldwide. The global surgical robotics market is valued around \$4–5 billion and is growing at a double-digit rate as adoption expands across specialties such as urology, gynecology, and general surgery. Hospitals continue to choose Intuitive's systems despite their high cost due to strong clinical outcomes, a comprehensive surgeon training network, and the company's large installed base, which together create significant switching costs and reinforce its competitive advantage.

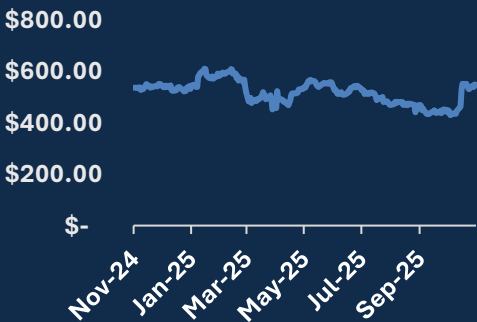
Risk to our thesis 1: Faster Adoption

If Intuitive Surgical's da Vinci 5 or Ion platforms gain adoption faster than expected, procedure growth could reaccelerate, offsetting competitive pressures. Faster adoption could be driven by several catalysts, including new FDA procedure approvals, hospital cost savings from shorter recovery times and reduced complications, and increased surgeon demand for minimally invasive techniques. Intuitive's systems also have technological advantages that could accelerate adoption relative to competitors with superior imaging and instrument precision, integration with existing da Vinci infrastructure, and a comprehensive surgeon training network that lowers the learning curve. If adoption exceeds expectations by even 2–3 percentage points annually, Intuitive could maintain double-digit recurring revenue growth and preserve its mid-30s operating margin, reinforcing its leadership position in the surgical robotics market.

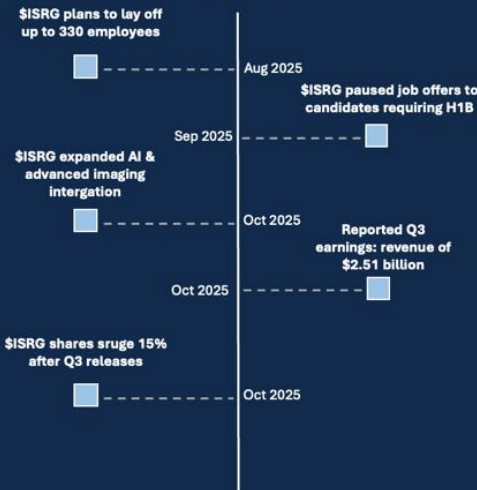
INTUITIVE SURGICAL®

TICKER:	\$ISRG
RATING:	SELL
PRICE:	\$538
PRICE TARGET:	\$410
MARKET CAP:	\$190bn
52-W RANGE:	\$425 - \$616
P/E:	70x
IMPLIED DOWNSIDE:	-23.59%

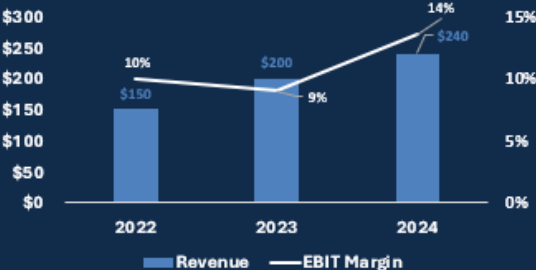
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk to our thesis 2: Delayed Competitive Impact

Although Medtronic’s Hugo and Johnson & Johnson’s Ottava platforms present competitive threats, regulatory and technical delays could slow their market entry. Both systems have already faced setbacks as Medtronic’s Hugo has struggled with FDA clearance for key procedures and slower-than-expected adoption due to integration and training challenges, while Johnson & Johnson has delayed the launch of Ottava multiple times, most recently pushing commercialization to the late 2020s amid design and regulatory adjustments. A prolonged ramp-up period for these competitors would allow ISRG to further expand its installed base, deepen its procedure ecosystem, and strengthen its data and training advantages. This would support sustained recurring revenue growth and help preserve Intuitive’s premium valuation multiples.

Catalysts

We see potential downside catalysts from slower procedure growth and weaker system placements over the next few quarters, especially if hospital capital spending remains constrained. U.S. hospital capital expenditures have grown only ~2–3% annually since 2022, well below pre-pandemic levels of 5–6% growth, as higher interest rates, labor costs, and supply expenses continue to pressure budgets. Any margin compression tied to increased R&D spending or a greater international revenue mix, along with signs that competitive systems are winning tenders in key regions, could weigh on sentiment and drive multiple contraction from ISRG’s current premium valuation.

Valuation

DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Revenue	8,352	9,145	9,877	10,568	11,202	11,762	12,233
Revenue Growth	17%	9%	8%	7%	6%	5%	4%
Surgical & Medical Equi	8,352	9,145	9,877	10,568	11,202	11,762	12,233
EBIT	2,370	2,655	2,667	2,748	2,801	2,823	2,814
EBIT Margin	28%	29%	27%	26%	25%	24%	23%
Tax Expense	336	355	373	385	392	395	394
Effective Tax Rate	14%	13%	14%	14%	14%	14%	14%
NOPAT	2,033.80	2,300.00	2,293.35	2,363.00	2,408.44	2,427.71	2,419.61
D&A	2,323	2,608	2,864	3,144	3,417	3,676	3,914
Capex	2,415	2,826	3,062	3,329	3,585	3,823	4,037
Changes in NWC	1,197	1,825	1,975	2,166	2,352	2,529	2,691
UFCF	744	257	120	12	(112)	(248)	(394)
PV of FCF		255	112	10	(84)	(166)	(236)

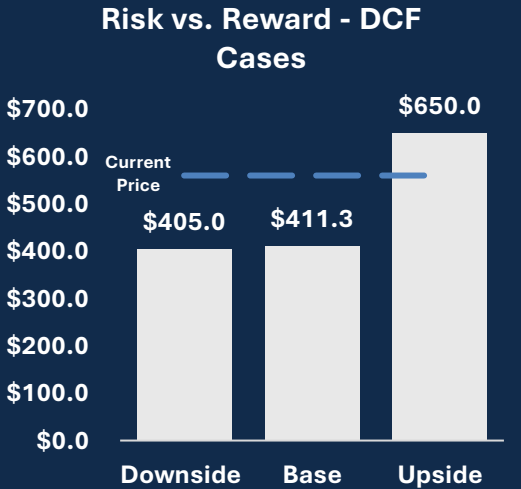
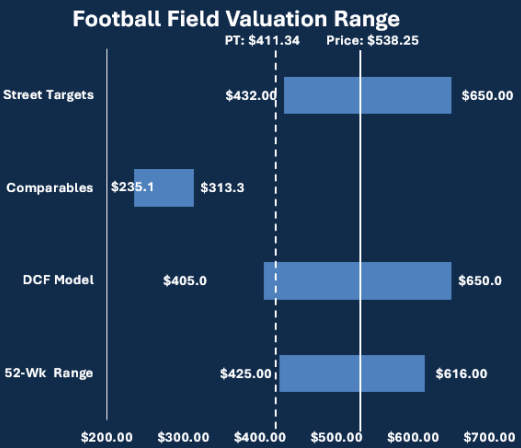
Our base case DCF valuation of Intuitive Surgical (ISRG) incorporates moderating revenue growth of approximately 6.5%, reflecting slower system placements and rising competition from Medtronic and Johnson & Johnson. We apply a 35x EV/EBITDA multiple, below \$ISRG’s historical average to reflect margin pressure from higher R&D and training costs tied to da Vinci 5 and Ion. Recurring revenue from instruments and services should support stability but grow at a more moderate pace. Our model yields a \$410 one-year price target, supporting our SELL rating.

Conclusion

In Intuitive Surgical, investors see a proven leader in robotic-assisted surgery, facing a maturing growth cycle. Rising competition, higher reinvestment costs, and slowing procedure volume growth limit near-term upside. We initiate \$ISRG with a SELL rating and a price target of \$410, representing modest downside over the next year.



Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$6,728
EV/EBITDA Exit Multiple	35.0x
Terminal Value	\$235,478
PV of Terminal Value	\$140,601
PV of Projection Period	-\$108
PV of Terminal Value	\$140,601
Implied TEV	\$140,494
(-) Debt	\$0
(+) Cash	\$5,327
Implied Equity Value	\$145,820
Diluted Shares Outstanding	354
Implied Share Price	\$411.34
Upside/Downside	-23.8%



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	8,352	9,145	9,877	10,568	11,202	7.6%
EBITDA	4,693	5,263	5,531	5,892	6,217	7.3%
EBIT	2,370	2,655	2,667	2,748	2,801	4.3%
NOPAT	2,034	2,300	2,293	2,363	2,408	4.3%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	56.2%	57.5%	56.0%	55.8%	55.5%	56.2%
EBIT Margin	28.4%	29.0%	27.0%	26.0%	25.0%	27.1%
Revenue Growth	17.2%	9.5%	8.0%	7.0%	6.0%	9.5%
EBIT Growth	34.1%	12.0%	0.4%	3.0%	1.9%	10.3%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	257.2x	745.4x	1588.6x	16466.3x	-1708.8x	3469.7x
EV/Sales	22.3x	20.3x	18.8x	17.6x	16.6x	19.1x
EV/EBITDA	39.7x	35.4x	33.6x	31.6x	29.9x	34.0x
FCF Yield	0.4%	0.1%	0.1%	0.0%	-0.1%	0.1%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Edwards Lifesciences Corporation (NYSE:EV)	\$48,770	\$45,467	36.3x	\$5,884	\$1,777
Boston Scientific Corporation (NYSE:BSX)	\$146,154	\$157,160	52.7x	\$19,349	\$5,071
Zimmer Biomet Holdings, Inc. (NYSE:ZBH)	\$19,786	\$26,960	24.3x	\$7,834	\$2,589
Stryker Corporation (NYSE:SYK)	\$136,969	\$150,759	47.1x	\$24,381	\$6,592
Intuitive Surgical Inc.	\$192,920	\$188,124	72.0x	\$9,612	\$3,412

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth	Rate L F
Edwards Lifesciences Corporation (NYSE:EV)	25.6x	78.2%	30.2%	27.5%		10.6%
Boston Scientific Corporation (NYSE:BSX)	31.0x	68.3%	26.2%	19.2%		21.6%
Zimmer Biomet Holdings, Inc. (NYSE:ZBH)	10.4x	71.2%	33.0%	19.8%		4.1%
Stryker Corporation (NYSE:SYK)	22.9x	65.0%	27.0%	22.4%		11.0%
Intuitive Surgical Inc.	55.1x	66.4%	35.5%	29.5%		22.2%

High	55.14x	78.2%	35.5%	29.5%	22.2%
75th Percentile	30.99x	71.2%	33.0%	27.5%	21.6%
Average	29.00x	69.8%	30.4%	23.7%	13.9%
Median	25.59x	68.3%	0.0%	22.4%	11.0%
25th Percentile	22.87x	66.4%	27.0%	19.8%	10.6%
Low	10.41x	65.0%	26.2%	19.2%	4.1%

Intuitive Surgical Inc.

Implied Enterprise Value (25th Percentile)	\$	78,030
Implied Enterprise Value (Median)	\$	87,313
Implied Enterprise Value (75th Percentile)	\$	105,741

Implied Share Price (25th Percentile)	\$	235.14
Implied Share Price (Median)	\$	261.33
Implied Share Price (75th Percentile)	\$	313.31

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.69
Risk Free Rate	4.39%
Cost of Equity	11.71%
Weighted Average Cost of Debt	4.40%
Tax Rate	14.00%
Cost of Debt	0.22%
Total Equity	\$191,417
Total Debt	(\$5,327)
Equity/Total Capitalization	100%
Debt/Total Capitalization	0.00%
WACC	8.84%

Upside Case: Our upside case assumes slower procedure growth and weaker system demand as hospitals delay capital purchases amid tighter budgets. Competitive pressure from Medtronic and Johnson & Johnson drives further price erosion, with margins contracting from higher R&D and training expenses. We apply a **50x EV/EBITDA multiple**, resulting in a **downside valuation of \$411**.

Downside Case: Our downside case assumes stronger adoption of the **da Vinci 5** and **Ion** platforms, along with faster recovery in international demand. Margin expansion returns as R&D spending normalizes and procedure volumes accelerate. We apply a **30x EV/EBITDA multiple**, yielding an **upside valuation of \$650**.