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Investments Holdings Limited

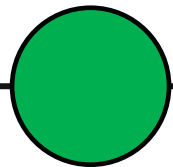
Archive Copy 2023

SRS Illustrative Research Report-Intuitive Surgical

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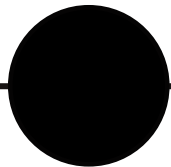


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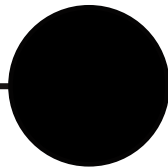
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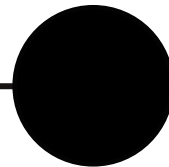
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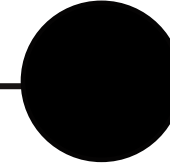
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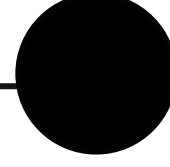


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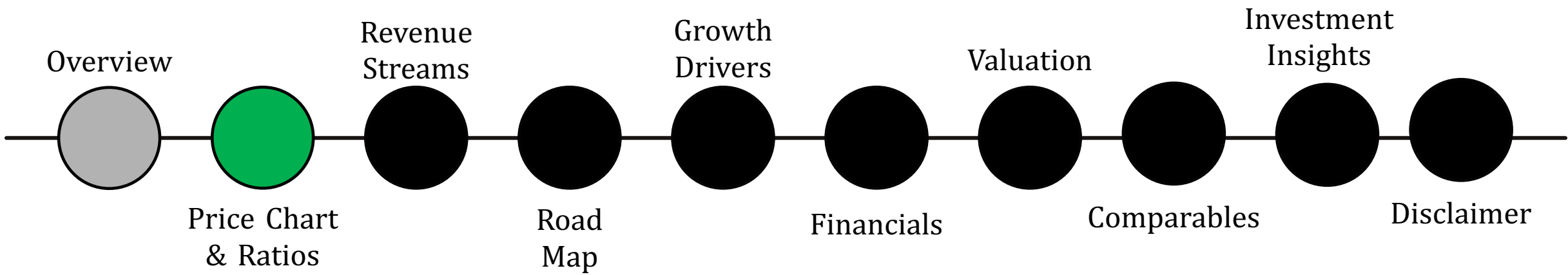
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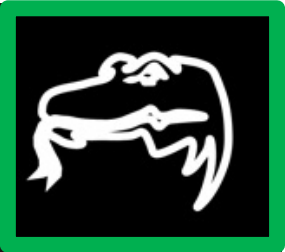
OVERVIEW



- Intuitive Surgical is the global leader in robotic-assisted minimally invasive surgery.
- The company's Da Vinci platform has established a dominant installed base, generating recurring revenue through instruments, accessories, and service contracts.
- Intuitive Surgical is what we term as a disruptor, building the future of tomorrow today.



PRICE CHART AND RATIOS



- **PE Ratio:** 69
- **TTM EPS:** 3.65
- **Asset/Liability:** 5.26
- **Market Cap:** USD\$ 90.95B
- **RSI:** 47.66
- **IPO:** 2000
- **Public Age:** Mid/23 years
- **Total Age:** 28 years
- **Founder:** Fredrick Moll
- **CEO:** Gary S Guthart (2010-present)

2020-2023 Intuitive Surgical (source: YahooFinance)

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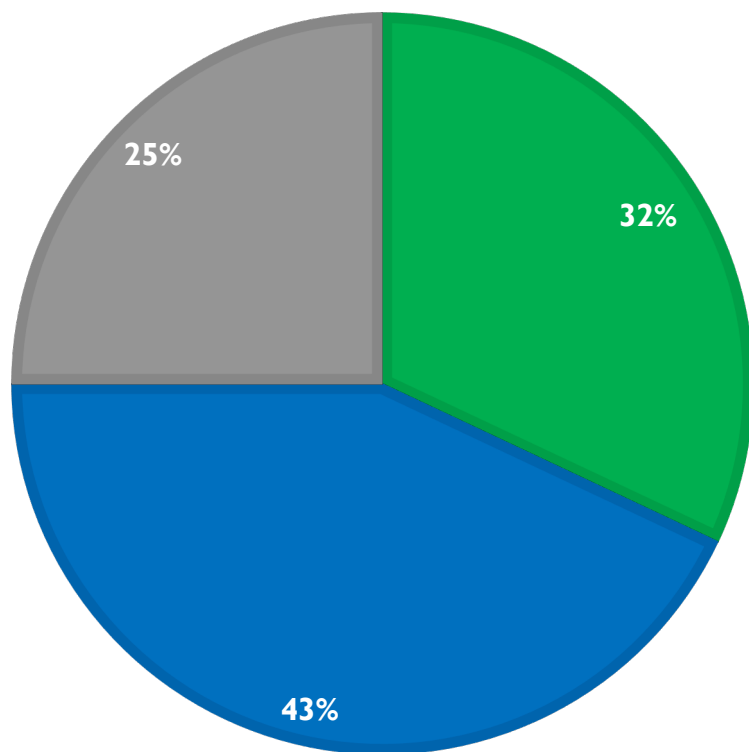
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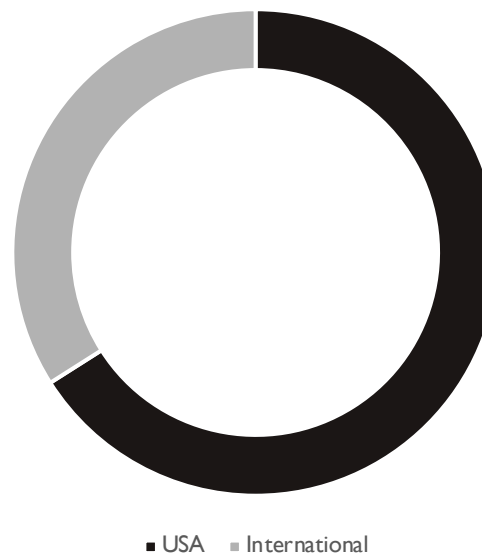
REVENUE STREAMS



■ Systems ■ Instruments ■ Services



Geographic Split

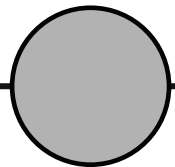


- Intuitive Surgical is a pioneer in robotic assisted surgeries.
- Double digit growth of the installed base in a high barrier to entry industry with high stickiness and high switching costs.
- Instruments and Services makes up over 60% revenue stream which supports the high margins and cash flow stability as high recurring revenue segments.
- Next phase of technological revolution leads to a physical revolution through robotics, improving the efficiency and accuracy of healthcare through the hardest physical aspect of surgery.

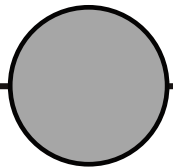
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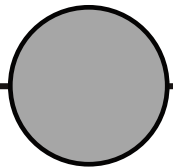
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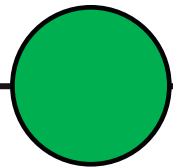
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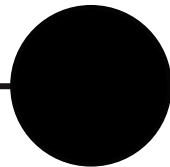
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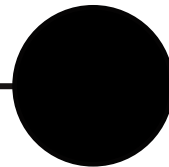
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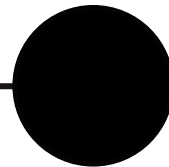
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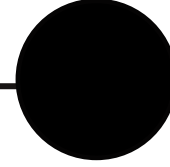
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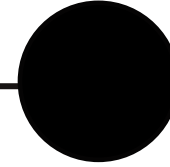
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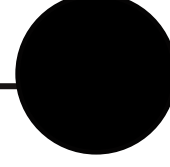
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ROAD MAP



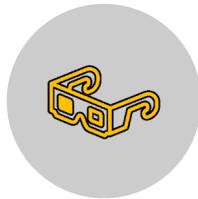
Accelerating Adoption

Procedure volume and installed base dual expansion through global markets and post pandemic procedure returns. Adding new verticals for general surgery, colorectal and thoracic surgery as well as other narrow field surgeries, such as lung and deep lung based surgeries.



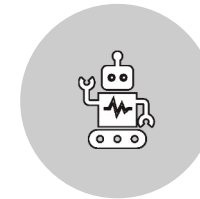
Digital & AI ecosystem integration:

Expanding the clinical value through imaging and data analytics integration. Additionally, haptic style force feedback to reduce tissue force during surgery and more informed robotic procedures. Data flywheel affect of over 10 million+ case database to provide feedback and intraoperative assistance.

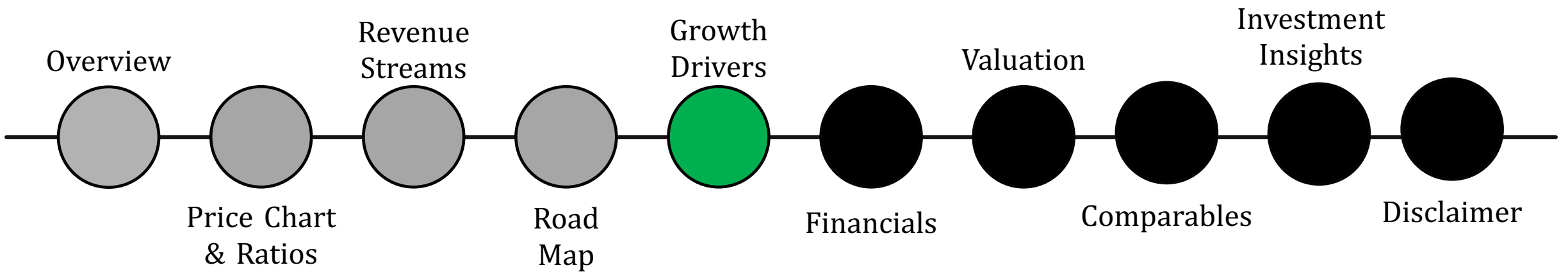


Da-Vinci platform advancement:

Significant RnD in developing the next model of Da Vinci. The Da-Vinci 5, a next-gen multiport platform with 10^3 times more compute power, enabling AI driven real time analytics such as Case Insights. Integrated electrosurgical system, reducing dependency on third party systems.



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GROWTH DRIVERS



Q1 Installed Base Growth:

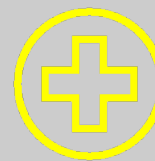
Total installed base grew to 7,779 up 12% YOY as more hospitals adopted the DaVinci systems. 312 systems placed vs 311 in 2022 with another 131 as leases



Intuitive Ecosystem Growth: The Services segment grew over 22% YOY as maintenance, predictive support and training and education grew through adoption rates.



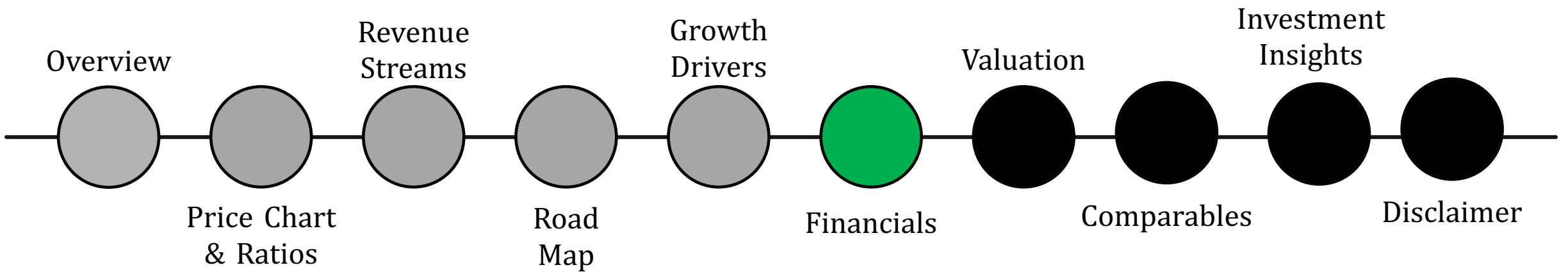
Q1 DaVinci Procedures: 26% YOY growth in procedures performed through the DaVinci Systems.



FDA Approvals:

DaVinci 5 multiport system, general surgery and other broader surgical procedures

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FINANCIALS



Quarterly Data Millions of US \$ except per share data		2021-03-31	2020-12-31	2020-09-30	2020-06-30	2020-03-31	2019-12-31	2019-09-30	2019-06-30
Revenue	📊	\$1,292.1	\$1,329.1	\$1,077.7	\$852.1	\$1,099.5	\$1,277.7	\$1,128.2	\$1,098.9
Cost Of Goods Sold	📊	\$389.5	\$433.3	\$353.4	\$349.2	\$361.3	\$381.7	\$342.6	\$339.9
Gross Profit	📊	\$902.6	\$895.8	\$724.3	\$502.9	\$738.2	\$896	\$785.6	\$759
Research And Development Expenses	📊	\$159.8	\$149.8	\$155	\$143.2	\$147.1	\$156.6	\$135.9	\$120.8
SG&A Expenses	📊	\$326	\$330.2	\$298.9	\$279.1	\$308.1	\$341.8	\$284	\$279.2
Other Operating Income Or Expenses		-	-	-	-	-	-	-	-
Operating Expenses	📊	\$485.8	\$480	\$453.9	\$422.3	\$455.2	\$498.4	\$419.9	\$400
Operating Income	📊	\$416.8	\$415.8	\$270.4	\$80.6	\$283	\$397.6	\$365.7	\$359
Total Non-Operating Income/Expense	📊	\$32	\$20.7	\$84.8	\$26.6	\$25.1	\$34.1	\$33.3	\$32.8
Pre-Tax Income	📊	\$448.8	\$436.5	\$355.2	\$107.2	\$308.1	\$431.7	\$399	\$391.8
Income Taxes	📊	\$13.6	\$72.9	\$38.4	\$37	\$-8.1	\$69	\$0.3	\$75.4
Income After Taxes	📊	\$435.2	\$363.6	\$316.8	\$70.2	\$316.2	\$362.7	\$398.7	\$316.4
Other Income		-	-	-	-	-	-	-	-
Income From Continuous Operations	📊	\$435.2	\$363.6	\$316.8	\$70.2	\$316.2	\$362.7	\$398.7	\$316.4
Income From Discontinued Operations		-	-	-	-	-	-	-	-
Net Income	📊	\$426.3	\$365.2	\$313.9	\$68	\$313.5	\$357.7	\$396.8	\$318.3
EBITDA	📊	\$493.4	\$500.3	\$343.8	\$148.3	\$350.7	\$465.3	\$419.9	\$410
EBIT	📊	\$416.8	\$415.8	\$270.4	\$80.6	\$283	\$397.6	\$365.7	\$359
Basic Shares Outstanding	📊	354	351	352	350	349	346	346	346
Shares Outstanding	📊	364	361	362	359	359	358	358	358
Basic EPS	📊	\$1.20	\$1.04	\$0.89	\$0.19	\$0.90	\$1.02	\$1.15	\$0.92
EPS - Earnings Per Share	📊	\$1.17	\$1.01	\$0.87	\$0.19	\$0.87	\$1.00	\$1.11	\$0.89

2019-2021
Intuitive Surgical
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(source: Macrotrends)

FINANCIALS



Quarterly Data Millions of US \$ except per share data		2023-03-31	2022-12-31	2022-09-30	2022-06-30	2022-03-31	2021-12-31	2021-09-30	2021-06-30
Revenue		\$1,696.2	\$1,655	\$1,557.4	\$1,522.1	\$1,487.7	\$1,550.7	\$1,403.3	\$1,464
Cost Of Goods Sold		\$583.2	\$544.1	\$505.3	\$498.8	\$478	\$489.9	\$431.9	\$440.3
Gross Profit		\$1,113	\$1,110.9	\$1,052.1	\$1,023.3	\$1,009.7	\$1,060.8	\$971.4	\$1,023.7
Research And Development Expenses		\$244.9	\$244.1	\$217.1	\$207.3	\$210.5	\$183.4	\$165.5	\$162.3
SG&A Expenses		\$480.5	\$494.3	\$436.1	\$418.4	\$391.1	\$427	\$363.3	\$350.2
Other Operating Income Or Expenses		-	-	-	-	-	-	-	-
Operating Expenses		\$725.4	\$738.4	\$653.2	\$625.7	\$601.6	\$610.4	\$528.8	\$512.5
Operating Income		\$387.6	\$372.5	\$398.9	\$397.6	\$408.1	\$450.4	\$442.6	\$511.2
Total Non-Operating Income/Expense		\$34.2	\$22.2	\$3.9	\$9.3	\$-5.7	\$3.8	\$18.5	\$15
Pre-Tax Income		\$421.8	\$394.7	\$402.8	\$406.9	\$402.4	\$454.2	\$461.1	\$526.2
Income Taxes		\$61	\$58	\$78.1	\$93.3	\$33	\$71.5	\$73.9	\$3.2
Income After Taxes		\$360.8	\$336.7	\$324.7	\$313.6	\$369.4	\$382.7	\$387.2	\$523
Other Income		-	-	-	-	-	-	-	-
Income From Continuous Operations		\$360.8	\$336.7	\$324.7	\$313.6	\$369.4	\$382.7	\$387.2	\$523
Income From Discontinued Operations		-	-	-	-	-	-	-	-
Net Income		\$355.3	\$324.9	\$324	\$307.8	\$365.6	\$380.6	\$380.5	\$517.2
EBITDA		\$487.7	\$484.6	\$495.8	\$490.6	\$498.5	\$548.4	\$530.1	\$591.9
EBIT		\$387.6	\$372.5	\$398.9	\$397.6	\$408.1	\$450.4	\$442.6	\$511.2
Basic Shares Outstanding		350	356	355	358	358	356	357	356
Shares Outstanding		356	362	361	364	367	366	367	365
Basic EPS		\$1.01	\$0.93	\$0.91	\$0.86	\$1.02	\$1.07	\$1.07	\$1.45
EPS - Earnings Per Share		\$1.00	\$0.90	\$0.90	\$0.85	\$1.00	\$1.03	\$1.04	\$1.42

2021-2023
Intuitive Surgical
Financials
(source: Macrotrends)

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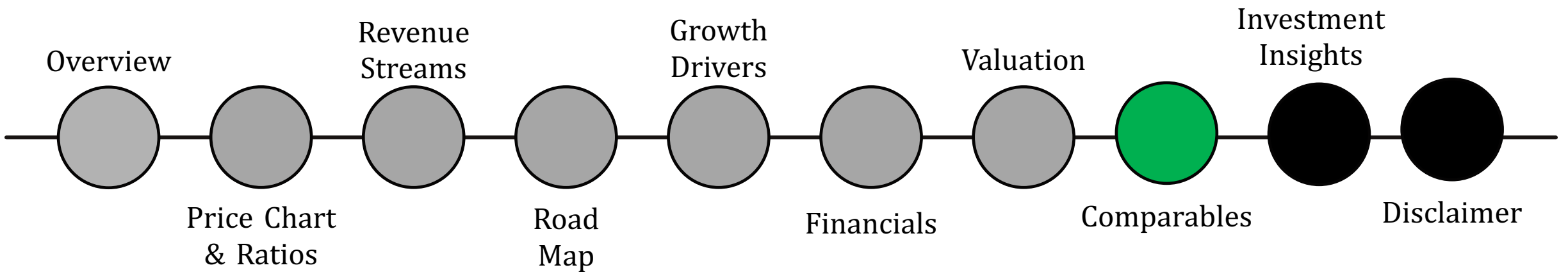
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VALUATION



- Revenue Growth of circa **80%** in 3 years (2019-2022), with massive surge post pandemic revenue due to automated robotic surgery demand and procedure rates increasing especially in the field of non-invasive or minimally invasive surgery and resilient pandemic revenue as services and instrument segment maintain the high recurring revenue.
- Gross Profit growth of circa **60%** in 3 years (2019-2022), as high margin recurring revenue takes a larger slice of the revenue segment while costs stabilise as systems reach scale.
- Net income and EPS stabilizing with consistent revenue increases and stabilizing cost as the DaVinci model reaches scale as well as the services segment turns stickier, boosting recurring revenue streams to boost income and stabilise costs from the current cyclical nature. Net profit margin remaining in the high 20s, improving efficiency with high margin recurring revenue taking a larger segment of revenue.
- Current price of USD\$232 is undervalued from a forward earnings and structural shift perspective, however fairly valued from a historical perspective. Intrinsic value is in the structural shift to more automated and robotic assisted surgery as healthcare aims to turn more efficient, the new DaVinci model represents a shift to more generalized applications and more accurate surgery capabilities. Additionally, with improving adoption and stabilising costs as well as a larger inflow of high margin software and platform recurring revenue, earnings growth looks to maintain high double digit growth.
- We see Intuitive as a **buy** now more than before for a long term investment horizon of 5-10 year + as we see them not only recovering to their late 2022 levels, but being undervalued from an intrinsic and fundamental perspective, we see them driving the physical technology revolution in healthcare with a high installed base and upgrade cycle of an engineering and technology moat. We see further gains as they emerge to be a leader in the space as a pioneer and growth driver for safer and more accurate future of surgery. We see growth coming from an expanded geographic region as well as high adoption rates for their latest daVinci systems both from a physical compute standpoint as well as a software platform ecosystem. Surgeries and healthcare will no longer remain bottlenecked by the number of personnel that are adequately skilled, rather we see a future where skill is broadened out through efficiency and technology allowing for better care across a wider scope. We see Intuitive as being a major proponent of that future.

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COMPARABLES



Financials (2019-2023)	ISRG	MDT	BSX	SYK
Market Cap 2023	USD\$ 91B	USD\$ 109B	USD\$ 84B	USD\$ 106B
Rev Growth (%)	20,3,31,9,14	2,-10.1,4.16,5.21,5.6	9.3,-7.7,15.4,6.7,14	9.4,-3.58,19.2,7.8,11.1
Net Income (USD\$B)	1.37,1.06,1.70,1.32,1.8	4.6,4.8,3.6,5.0,3.7	4.7,-0.1,0.9,0.6,1.5	2.08,1.59,1.99,2.35,3.16

*JNJ is a comparable firm, however the financial metrics are not applicable here as their revenue streams are far more diversified than robotics, which takes up a small slice of their overall financial and fundamental makeup.

- Intuitive surgical has the most consistent revenue growth across all 3 comparable firms. Additionally, they have the most consistent net income. While cyclical net income, it is consistently growing rather than remaining range bound or erratic such as the other firms.
- Intuitive is a focused firm on surgical soft tissue robotics, expanding its moat across surgery types as well as adoption across hospitals and geographies, the other comparable firms are far more diverse, focusing on robotics, however related to surgery/healthcare in a more emerging or experimental way.
- Intuitive is an effective monopoly in surgical robotics, with a consistent revenue stream through a razor blade model, of service, maintenance and a platform offering to increase clinical value and provide a long term solution feeding into the world of efficient automation and productivity expanded through robotics , a physical side to the imminent technological revolution.

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SCENARIO MAPPING - 3 YEARS



Scenario	Revenue CAGR	2026 Revenue	Net Margin	Net Income	Implied P/E	Market Cap
Bull	18%	~\$11.7B	32%	~\$3.7B	45×	~\$166B
Base	14%	~\$10.5B	30%	~\$3.1B	38×	~\$118B
Bear	8%	~\$9.0B	25%	~\$2.2B	30×	~\$66B

- **Bull:** Rapid global procedure expansion, the DaVinci 5 adoption cycle and expansion into general surgery, adding to the family of surgeries.
- **Base:** Stable procedure growth, continued replacement and maintenance cycle through the platform and systems segment
- **Bear:** Slower procedure expansion through hospitals, slows adoption cycle, rising competition from Medtronic and JNJ.

SCENARIO MAPPING - 5 YEARS



Scenario	Revenue CAGR	2028 Revenue	Net Margin	Net Income	Implied P/E	Market Cap
Bull	17%	~\$15.6B	33%	~\$5.1B	45×	~\$230B
Base	13%	~\$13.0B	30%	~\$3.9B	38×	~\$150B
Bear	7%	~\$10.0B	25%	~\$2.5B	28×	~\$70B

- **Bull:** Robotic and robotic assisted surgery becomes close to standard of care due to lower human error rates, faster and less invasive surgery, expansion into biopsies such as lung biopsy and traditionally hard to get surgeries, minimising error rates significantly, maintaining high market share
- **Base:** Strong procedure growth continues, competitive landscape escalates, market turns oligopolistic
- **Bear:** Hospitals slow adoption, competitors narrow technology gap and pricing pressures add downward pressure to margins, moat compresses

INVESTMENT RISKS



- **Competitors (Medtronic Hugo, J&J Ottava, Stryker Mako) entering market**
 - If competitors successfully launch platforms with comparable performance and lower cost, hospitals may gain bargaining power and Intuitive's pricing power could weaken. Initially Intuitive as a pioneer acted as a monopoly, however with the new entrants, with larger more diversified revenue streams, more cash and RnD spend, could usurp their lead.
- **Hospital capex slowdown**
 - Each machine represents a large capex of \$1-\$2M per machine for hospitals which are affected by economic conditions and funding as well, a slowdown in capex could put the adoption rates at risk.
- **Pricing pressure on instruments**
 - With new entrants into the field, robotic surgery and its related services could be subject to pricing pressure when hospitals have a larger choice bank.
- **Regulatory and reimbursement risks**
 - If insurers or healthcare systems reduce reimbursement rates for robotic procedures, hospitals may be less incentivized to invest in robotic systems.
- **Procedure growth slowdown**

INVESTMENT CATALYSTS



- **da Vinci platform upgrades**
 - Improved visualization, better ergonomics for surgeons, more advanced instrumentation, multi port capabilities, as well as real time built in AI analytics and surgery feedback expand the technological and engineering moat, further raising the barriers to entry for new competition.
- **Expansion into new procedures (general surgery, thoracic)**
 - Intuitive has focused on the existing minimally invasive procedures like gynecology and urology, however, entering into general surgery and expanding the surgery fleet such as general and thoracic surgery turning traditional invasive surgeries to minimally invasive ones will solidify it as a disruptive leader. Procedures such as hernia repair, thoracic surgery and colorectal surgery will lead to a procedure explosion over time with millions of procedures globally.
- **International adoption and installed base expansion**
 - With close to 8,000 active systems, every new system is a one time revenue coupled with ongoing recurring revenue through new hospitals consumables, such as specialized instruments, disposable components and service contracts and replacement cycles, like upgrades for their da Vinci systems. Additionally, the wave for minimally invasive robotic and robotic assisted surgery is growing with international markets continuing to adopt robotic surgery opening up markets such as China, India, Japan, Europe etc.
- **Lung biopsy robotics (Ion platform)**
 - Designed for minimally invasive lung biopsies which addresses a large and growing market in lung cancer diagnostics.

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