Intuitive Surgical (ISRG)

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Medical Technology | NASDAQ | Buy: Installed Base Compounder, Ion Optionality

Recommendation: BUY

Price Target: US$582 | Upside: +38.2% from US$421

Investment Horizon: 12 Months | Risk Rating: Medium-Low

NASDAQ: ISRG | 52-wk: US$341 - US$543 | Mkt Cap: US$149.2bn

All figures are analyst estimates unless otherwise stated.

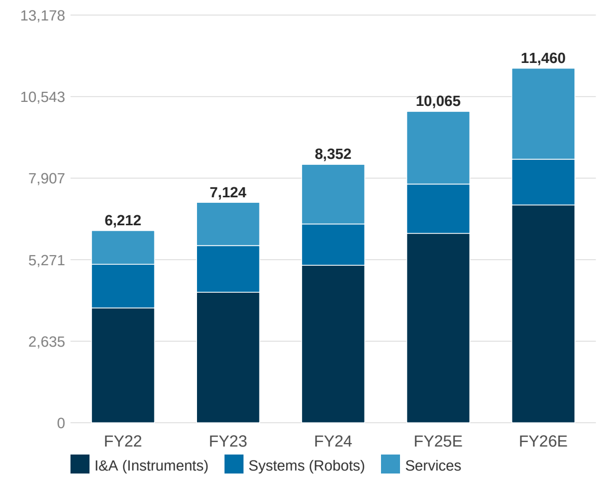
Financial Snapshot

Metric	FY23A	FY24A	FY25E	FY26E
Revenue (US$m)	7,124	8,352	10,065	11,460E
Revenue YoY (%)	+14%	+17%	+21%	+14%E
Gross Margin (%)	68.2	68.5	69.0E	69.5E
EBITDA (US$m)	2,222	2,788	3,503E	4,137E
EBITDA Margin (%)	31.2	33.4	34.8E	36.1E
Diluted EPS (US$)	6.69	7.50	9.14E	10.43E
FCF (US$bn)	1.8	2.1	2.7E	3.3E
Net Cash (US$bn)	5.4	6.5	7.2E	8.0E
Proc. Growth YoY	+22%	+17%	+18%E	+15%E

Company Overview

Intuitive Surgical (ISRG) designs, manufactures, and markets the da Vinci (dV) robotic-assisted minimally invasive surgery (RAMIS) platform, with 11,106 systems installed globally across 75+ countries as of FY25. Revenue is driven by a razor/razor-blade model: dV system placements generate a durable stream of instruments & accessories (I&A) revenue (~$1,400/procedure) and multi-year service contracts, producing highly predictable cash flows. The Ion endoluminal system addresses the lung biopsy market and represents a nascent but high-growth adjacency. ISRG holds >65% global RAMIS market share, with over 20 years of clinical evidence, FDA clearances across 400+ indications, and surgeon training programs creating deep switching costs for hospital customers. The dV5 platform, launched FY24, adds Insights analytics and improved visualization, driving upgrade cycles within the existing installed base.

Figure 1: Revenue by Segment (US$m)



Source: ISRG company filings, analyst estimates

Component	YOY FY24	YOY FY25	5Y CAGR	% Total
I&A (Instruments)	+21%	+20%	+13%	61%
Systems (Robots)	-12%	+20%	+1%	16%
Services	+38%	+22%	+16%	23%

Source: ISRG filings, analyst estimates

I&A revenue (the annuity stream) constitutes 61% of total revenue and grew +21% in FY24, driven by procedure volume growth of +17% globally. Services revenue is accelerating as the installed base matures, with FY24 growth of +38% driven by multi-year service contracts on the expanding dV fleet. The I&A + Services mix of ~84% makes ISRG's revenue profile more recurring than any major medtech peer.

The global robotic-assisted surgery market is estimated at ~US$8bn (2026E), growing at 15-18% CAGR through 2030 driven by procedure adoption across colorectal, gynecological, thoracic, and general surgery indications. ISRG's 65%+ market share reflects 20+ years of installed base, surgeon credentialing programs, and >400 FDA cleared indications. Competitive entrants (Medtronic Hugo, J&J Ottava) face a 5-10 year runway to match ISRG's procedure breadth, I&A ecosystem depth, and clinical data archive, limiting near-term share risk materially.

Investment Thesis

1. **Installed base compounding**
11,106 dV systems in 75+ countries; each system generates ~$1,400/procedure in I&A annuity revenue. Each system adds $300K+ in lifetime recurring revenue at current procedure rates. Management guides 12-14% annual placement growth through FY27E, creating a self-reinforcing annuity flywheel where every new placement adds a permanent income stream. The installed base has doubled since FY19, with no observable churn or displacement.

2. **Procedure volume re-acceleration**
Global soft-tissue RAMIS procedures grew +17% YoY in FY24; dV5 adoption, multiport general surgery expansion into APAC, and new colorectal indications support +15-18% CAGR through FY27E. Each 1% of additional procedure penetration in the total addressable surgical market represents ~$300-400m of incremental I&A revenue. Japan dV5 approval in Q3'26E opens the world's second-largest RAMIS market with minimal current penetration.

3. **Ion platform option value**
995 Ion systems in early lung biopsy market; 30%+ annual Ion placements. The $2bn+ incremental TAM by FY29E is largely unmodeled in consensus estimates. Ion colorectal IDE study data expected H2'26 could add an additional $1.5-2bn in TAM. Ion represents a free call option on a structurally attractive adjacency where ISRG can leverage its existing hospital relationships, sales force, and service infrastructure with minimal incremental fixed-cost investment.

4. **Margin expansion & FCF quality**
Adj gross margin guided 67-68% FY25E with +100-150bps EBIT expansion per year as I&A mix grows and fixed-cost leverage kicks in. US$7bn+ net cash enables strategic M&A optionality with no balance sheet risk. FCF conversion exceeds 94%, among the highest in medtech, and growing absolute FCF ($2.7bn FY25E) provides capital for share repurchases and potential large-scale M&A.

Adjusted Operating Margin (%)

Company	FY24 (%)	FY25E (%)
ISRG	33.4	34.8E
Stryker	19.1	19.8
Boston Scientific	16.2	17.1
Becton Dickinson	18.3	19.0
Peer Median	18.5	19.3

Source: Bloomberg, company filings. Adj. operating margin as reported.

Cash Flow Metrics

Metric	FY24A	FY25A/E
FCF (US$bn)	2.1	2.7E
FCF Conversion (%)	94%	96%E
FCF Yield (%)	1.4%	1.8%E
Net Cash (US$bn)	6.5	7.2E

Source: ISRG filings, analyst estimates

Intuitive Surgical

Installed Base & Procedure Growth

dV Installed Base (units)

5,582 -> 11,106

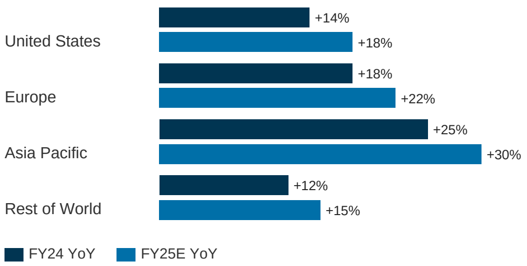
FY19 FY25

Procedure Growth CAGR

~17% -> ~18%

FY19-24 FY25E

Figure 4: Revenue Growth by Geography (%)



Source: ISRG company filings, analyst estimates

Valuation

ISRG trades at ~40x FY26E earnings vs. medtech peers at 20-30x, justified by structurally higher ROIC, superior recurring revenue mix (~84%), and the only scaled RAMIS franchise globally with 65%+ market share. At US$421, the stock offers +38.2% upside to our US$582 target, derived as: 40% weight on 14x EV/Rev FY27E (US$596), 40% weight on 55x P/E FY27E (US$571), and 20% weight on 2.2% FCF yield (US$588). Ion platform option value is entirely unmodeled in this target and represents incremental upside of US$30-60/share on bear-to-base Ion scenarios. On a P/E basis, ISRG at 40x compares to Boston Scientific at 38x and Stryker at 28x, both with substantially inferior recurring revenue profiles and ROIC.

Peer Valuation

Company	Fwd P/E	Fwd P/FCF	FCF Yield	PEG
ISRG	13.4x	46x	1.8%	2.5
Stryker	4.1x	28x	3.6%	2.1
Boston Sci	7.2x	38x	2.6%	2.3
Becton Dick	3.3x	18x	5.6%	1.6
Peer Median	5.0x	28x	3.3%	N/A

Source: Bloomberg consensus, analyst estimates. FY25A/FY26E.

EPS Growth (%)

Company	FY23A	FY24A	FY25A/E
ISRG	+12.1%	+17.5%	+21.9%
Stryker	+8.4%	+9.3%	+10.5%E
Boston Sci	+12.1%	+14.2%	+15.0%E

Source: Bloomberg, company filings

PT Scenario Analysis (Procedure Growth)

Scenario	WTI/Key Assumption	Implied Price	Upside
Bear	+10% proc growth, 33x P/E FY27	US$440	+5%
Base	+17% proc growth, 55x P/E FY27	US$582	+38%
Bull	+22% proc growth + Ion ramp	US$720	+71%

Source: Analyst estimates. Procedure growth annual CAGR basis.

Business Drivers

Metric	FY23	FY24	FY25A	FY26E
ISRG Procedure & Install Growth				
Proc. growth YoY (%)	+22%	+17%	+18%E	+15%E
Installed base (units)	8,606	9,902	11,106	12,650E
dV placements	1,370	1,296	1,204	1,544E
ISRG vs Medtronic Hugo				
ISRG system placements	1,370	1,296	1,204	1,544E
Medtronic Hugo (est.)	~50	~150	~300	~500E
ISRG market share est.	>92%	>88%	>80%	>75%E

Source: Company filings, Bloomberg, analyst estimates

Risks & Mitigants

Risk	Mitigant
Competition	Medtronic Hugo and J&J Ottava gaining regulatory clearances in EU and US markets; however ISRG's 65%+ RAMIS share, dV5 differentiation, 400+ FDA indications, and installed base switching costs (training, service, I&A ecosystem) limit near-term displacement risk. Hugo currently cleared for only 5 indications vs. 400+.
US tariff exposure	~20% of COGS has China-sourced components; tariff escalation could compress gross margins by 50-100bps based on management sensitivity guidance. Management is guiding to 67-68% gross margin in FY25E, absorbing partial tariff impact; ISRG's pricing power allows partial pass-through to hospital systems.
Hospital capex cycles	dV system ASP of ~US$1.5-2.5M is a capital budget item; economic slowdowns can delay or defer placements. However, recurring I&A and services (~84% of rev) provide meaningful buffer. Hospital relationships and multi-year service contracts also provide lead-time visibility for placement planning.
Regulatory delay	dV5 Japan approval (Q3'26E) and Ion colorectal IDE study delays are key watch items. Japan represents the world's second-largest RAMIS market at near-zero current dV5 penetration; a 2-quarter delay would push ~$80-120m of system revenue from FY26E into FY27E but not impair the long-term thesis.
Procedure deceleration	Any sustained slowdown below +12% procedure growth would compress I&A assumptions and pressure FY26-27 revenue targets by 3-7%; this is the most sensitive line item in our model. Current consensus at +15% for FY26E appears achievable given new indication approvals and APAC geographic expansion underway.

Source: Analyst assessment, ISRG risk disclosures, FDA clearance data

Catalysts

Q2'26 earnings: Procedure vol print: expects +15-18% YoY; outperformance vs +15% consensus re-rates forward estimates and drives multiple expansion.

dV5 Japan approval: Q3'26 target; opens 2nd largest RAMIS market for dV5 upgrade cycle and new system placements with minimal current penetration.

Ion colorectal IDE: H2'26 data from IDE study could add $2bn+ TAM for Ion platform; any positive interim read would be an unmodeled upside catalyst.

RAMIS FDA clearance: New soft-tissue (bariatric, hernia) indications widen procedure TAM and drive utilization per installed system upward.

Source: ISRG management guidance, FDA clearance pipeline, analyst estimates

Conclusion

Reiterating BUY at US$582 (+38.2%). ISRG's compounding installed base, durable I&A annuity (~$1,400/procedure), and Ion platform optionality form a rare combination in medtech. At ~40x FY26E earnings, we believe the re-rating opportunity is material as dV5 Japan approval and procedure volume acceleration materialize through FY26-27. The US$7bn+ net cash position provides strategic optionality and downside protection. Ion optionality (~US$30-60/share) is entirely unmodeled in our base-case target, making US$582 a conservative floor for investors with a 2-3 year time horizon. At any price below ~US$460, we would consider the risk/reward asymmetric to the upside.

Price Target Derivation

Multiple/Ratio	Weight (%)	Implied Price
EV/Rev FY27E (40%)	40%	US$596
P/E FY27E (40%)	40%	US$571
FCF Yield 2.2% (20%)	20%	US$588
Current Price		US$421
WA Implied Price	100%	US$582
Upside / (Downside)		+38.2% Upside