Intuitive Surgical Inc

Stock Report | October 12, 2013 | NNM Symbol: ISRG | ISRG is in the S&P 500

UPDATE: PLEASE SEE THE ANALYST’S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION

Summary This company has developed the da Vinci Surgical System, which uses advanced robotics and computerized visualization technology for minimally invasive surgeries.

Key Stock Statistics (Source S&P, Vickers, company reports)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500, EPS 2012</td>
<td>$15.40</td>
</tr>
<tr>
<td>Beta</td>
<td>1.57</td>
</tr>
<tr>
<td>S&amp;P 3-Yr. Proj. EPS CAGR%</td>
<td>7</td>
</tr>
<tr>
<td>Dividend Rate/Share</td>
<td>Nil</td>
</tr>
<tr>
<td>Institutional Ownership (%)</td>
<td>92</td>
</tr>
</tbody>
</table>

Our risk assessment reflects risks that we see as specific to a maker of medical devices such as ISRG, including those associated with protecting its intellectual property rights, compliance with regulations of U.S. and foreign health agencies, and legal liability for injury that may result from use of the company’s products, such as inappropriate or “off-label” use.

Revenue/Earnings Data

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>Year</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>611.4</td>
<td>578.5</td>
<td>--</td>
<td>--</td>
<td>--</td>
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<tr>
<td>2012</td>
<td>495.2</td>
<td>536.5</td>
<td>537.8</td>
<td>609.3</td>
<td>2,179</td>
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<tr>
<td>2011</td>
<td>388.1</td>
<td>425.7</td>
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<td>2010</td>
<td>328.6</td>
<td>350.7</td>
<td>344.4</td>
<td>389.3</td>
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<td>2009</td>
<td>188.4</td>
<td>260.6</td>
<td>280.1</td>
<td>323.0</td>
<td>1,052</td>
</tr>
<tr>
<td>2008</td>
<td>118.2</td>
<td>219.2</td>
<td>236.0</td>
<td>291.8</td>
<td>874.9</td>
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Earnings Per Share ($)

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
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<tr>
<td>2013</td>
<td>4.56</td>
<td>3.90</td>
<td>E3.28</td>
<td>E3.66</td>
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<tr>
<td>2012</td>
<td>3.50</td>
<td>3.75</td>
<td>4.46</td>
<td>4.25</td>
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<tr>
<td>2011</td>
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<td>3.05</td>
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<td>2010</td>
<td>2.12</td>
<td>2.19</td>
<td>2.14</td>
<td>3.02</td>
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<tr>
<td>2009</td>
<td>0.72</td>
<td>1.62</td>
<td>1.64</td>
<td>1.95</td>
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<tr>
<td>2008</td>
<td>1.12</td>
<td>1.28</td>
<td>1.44</td>
<td>1.27</td>
</tr>
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</table>

Fiscal year ended Dec. 31. Next earnings report expected: Mid October. EPS Estimates based on S&P Operating Earnings, historical GAAP earnings are as reported.

Dividend Data

No cash dividends have been paid.

Highlights

➤ We forecast sales to rise by about 5% in 2013, following the 24% growth achieved in 2012. Specifically, we see a mid-single-digit systems sales decline for 2013 as a whole, with a U.S. volume decline starting in the second quarter and accelerating in the second half outweighing any international gains. ISRG now sees 15%-18% growth in robotic procedures, compared to the low end of the 20%-23% range it saw previously, mainly reflecting slower growth of benign procedures. We see this trend, along with capital expenditure concerns, reducing demand for new $1M-plus da Vinci surgical robots. We also see low-double-digit growth of instruments and accessories sales, with 22% growth in the first followed by modest second-half growth, as lower system demand also reduces stocking orders.

➤ We look for gross margins to narrow in 2013, mainly on the new medical device tax and reduced average selling prices, on a less-favorable product mix. We expect the full-year operating cost ratio to rise on reduced revenue leverage.

➤ We forecast adjusted EPS of $15.40 in 2013, versus $15.05 in 2012, and look for $16.05 in 2014.

Investment Rationale/Risk

➤ While we think ISRG’s robotic technology represents the leading edge in minimally invasive surgery, we expect demand trends for the robot to moderate. While general da Vinci surgical procedures continue to ramp, benign hysterectomies, which account for a high proportion of utilization, are experiencing slower growth. We think recent negative press, including statements on the overuse and high cost of robotic benign procedures, the shift of inpatient services to outpatient ones, and reduced hospital admissions have been having an impact. We expect U.S. hospital capital spending constraints and the freed-up capacity of existing robots to pressure ISRG’s U.S. systems sales over the near to intermediate term.

➤ Risks to our recommendation and target price include higher system sales than we project, positive publicity, and liberal hospital capital budgets.

➤ Our 12-month target price of $315 assumes a multiple of 18.9X our 2014 EPS estimate. This multiple is well below ISRG’s recent historical averages, owing to the recent string of negative publicity and the drop in U.S. systems sales we see.

Analysis prepared by Equity Analyst Phillip Seligman on Jul 22, 2013, when the stock traded at $399.20.

Please read the Required Disclosures and Analyst Certification on the last page of this report.
Intuitive Surgical (ISRG) has designed the da Vinci Surgical System, a product that incorporates advanced robotics and computerized visualization technologies to improve the ability of surgeons to perform complex, minimally invasive procedures. As of 2012 year end, the company had an installed base of 2,585 da Vinci Surgical Systems. During 2012, surgeons using the company’s technology successfully completed about 450,000 surgical procedures of various types, including urologic, gynecologic, cardiothoracic and general surgery, up from 359,000 in 2011.

The da Vinci Surgical System consists of a surgeon’s console, a patient-side cart, a high performance vision system, and proprietary wristed instruments. By placing computer-enhanced technology between the surgeon and patient, ISRG believes da Vinci lets surgeons perform better surgery in a manner never before experienced. The system translates a surgeon’s natural hand movements on instrument controls on a console into corresponding micro-movements of instruments positioned inside the patient through small puncture incisions (ports). It gives a surgeon the intuitive control, range of motion, fine tissue manipulation capability, and 3-D visualization characteristics of open surgery, while simultaneously allowing use of the small ports of minimally invasive surgery. During 2012, surgeons using ISRG products performed about 184,000 hysterectomy procedures worldwide.

Intuitive’s strategy is targeted at establishing Intuitive surgery as the standard for complex surgical procedures and many other procedures. Over time, the company hopes to broaden the number of procedures performed using the da Vinci Surgical System and to educate surgeons and hospitals about the benefits of Intuitive surgery.

As of December 31, 2012, ISRG held ownership or exclusive field-of-use licenses for more than 1,300 U.S. and foreign patents and more than 1,100 U.S. and foreign patent applications. The manufacture, marketing, and use of Class II medical devices such as the da Vinci System is governed by extensive regulations administered by the FDA, which we think act as significant barriers to entry by competitors.

In May 1998, surgeons using company technology successfully performed what ISRG believes were the first computer-enhanced closed-chest heart surgeries. In early 2000, surgeons using this technology successfully completed what the company believes was the world’s first beating heart bypass procedure using only small ports. In July 2000, FDA clearance was obtained for the system to assist in control of Intuitive Surgical endoscopic instruments during laparoscopic procedures such as cholecystectomy (gall bladder removal) or Nissen fundoplication (correction of esophageal reflux).


In the second quarter of 2003, ISRG launched a fourth surgical arm upgrade option for the da Vinci System. The arm allows for more complex procedures. In January 2006, ISRG introduced the da Vinci S, which shares the same core technology of the da Vinci standard, but with several enhanced features. During the first quarter of 2006, it launched the da Vinci Tenaculum for use in hysterectomy and myomectomy gynecological procedures. In early 2007, it launched a high definition (3-D HD) vision system that provides enhanced visualization of tissue planes and critical anatomy.

In April 2009, ISRG introduced the da Vinci Si system, which includes enhanced 3-D HD resolution, greater compatibility with operating room suite technology, an upgradable architecture, and the option of a dual console for a second surgeon to provide a da Vinci enabled assist. In early 2011, it launched the da Vinci Skills Simulator, a practice tool that gives a user the opportunity to practice his or her facility with the surgeon console controls. In the first quarter of 2011, it launched its Firefly Fluorescence Imaging product, which allows surgeons to identify vasculature in three dimensions beneath tissue surfaces to visualize critical anatomy. Meanwhile, in February 2011, it received the CE mark for its da Vinci Single-Site instrument kit, which allows da Vinci Si systems to work through a single incision, rather than multiple incisions. In December 2011, it received FDA approval to market Single-Site instrumentation in the U.S. for cholecystectomies.

As of 2009 year end, ISRG had $81.3 million of student loan-backed auction rate securities (ARS) on the balance sheet as current assets. In November 2008, ISRG accepted UBS’s offer to buy back those securities with a par value of about $69.9 million at any time during the two-year period beginning on June 30, 2010. (The remaining ARS are held by another investment bank, which did not make a similar offer.) ISRG exercised this right on June 30, 2010, at the then par value of $34.40. As of December 31, 2012, it had $7.4 million in ARS remaining on its books.

We think the company will continue to allocate operating cash flow toward the growth of its surgical robotics business, rather than considering acquisitions outside this area.
Intuitive Surgical Inc

### Quantitative Evaluations

<table>
<thead>
<tr>
<th>S&amp;P Fair Value Rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lowest</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Highest</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on S&P’s proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

#### Fair Value Calculation

| $398.30 | Analysis of the stock's current worth, based on S&P’s proprietary quantitative model suggests that ISRG is slightly undervalued by $8.12 or 2.1%. |

#### Investability Quotient

<table>
<thead>
<tr>
<th>96</th>
<th>LOWEST = 1 HIGHEST = 100</th>
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</thead>
<tbody>
<tr>
<td>ISRG scored higher than 96% of all companies for which an S&amp;P Report is available.</td>
<td></td>
</tr>
</tbody>
</table>

#### Volatility

<table>
<thead>
<tr>
<th>LOW</th>
<th>AVERAGE</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

#### Technical Evaluation

| BEARISH | Since July, 2013, the technical indicators for ISRG have been BEARISH. |

#### Insider Activity

<table>
<thead>
<tr>
<th>NA</th>
<th>UNFAVORABLE</th>
<th>NEUTRAL</th>
<th>FAVORABLE</th>
</tr>
</thead>
</table>

### Expanded Ratio Analysis

<table>
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<tr>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price/Sales</td>
<td>9.25</td>
<td>10.59</td>
<td>7.35</td>
</tr>
<tr>
<td>Price/EBITDA</td>
<td>21.53</td>
<td>25.15</td>
<td>17.47</td>
</tr>
<tr>
<td>Price/Pretax Income</td>
<td>22.55</td>
<td>26.23</td>
<td>18.15</td>
</tr>
<tr>
<td>P/E Ratio</td>
<td>30.69</td>
<td>37.59</td>
<td>27.21</td>
</tr>
<tr>
<td>Avg. Diluted Shares Outstg (M)</td>
<td>41.1</td>
<td>40.2</td>
<td>40.3</td>
</tr>
</tbody>
</table>

Figures based on calendar year-end price

### Key Growth Rates and Averages

<table>
<thead>
<tr>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>9 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>23.99</td>
<td>27.15</td>
<td>28.69</td>
</tr>
<tr>
<td>Net Income</td>
<td>36.22</td>
<td>40.12</td>
<td>35.83</td>
</tr>
</tbody>
</table>

### Ratio Analysis (Annual Avg.)

| Net Margin (%) | 30.14 | 28.44 | 26.16 | 25.83 |
| % LT Debt to Capitalization | Nil | Nil | Nil | Nil |
| Return on Equity (%) | 21.09 | 21.20 | 19.83 | 18.38 |

### Income Statement Analysis (Million $)

- **Revenue**: $2,179, $1,757, $1,413, $1,052, $875, $601, $373, $227, $149, $129.
- **Operating Income**: $936, $740, $595, $412, $321, $220, $117, $73.6, $26.3, $26.3.
- **Depreciation**: $57.8, $46.5, $40.4, $34.6, $25.1, $13.0, $10.0, $4.86, $5.10, $4.15.
- **Pretax Income**: $894, $710, $572, $396, $335, $237, $120, $73.8, $24.2, $24.2.
- **Effective Tax Rate**: 26.6%, 30.2%, 33.3%, 41.3%, 39.1%, 39.1%, 40.0%, 35.6%, 15.08, 7.34.
- **Net Income**: $657, $495, $382, $233, $204, $145, $72.0, $94.1, $23.5, $18.9.
- **S&P Core Earnings**: $655, $493, $382, $233, $204, $145, $72.0, $80.1, $13.6, $13.6.

### Balance Sheet & Other Financial Data (Million $)

- **Cash**: $1,324, $2,172, $1,609, $1,172, $902, $427, $24.4, $5.51, $7.77, $11.3.
- **Current Assets**: $1,893, $2,582, $1,943, $847, $704, $610, $374, $209, $177, $152.
- **Total Assets**: $4,059, $3,063, $2,390, $1,810, $1,475, $1,040, $672, $502, $354, $315.
- **Current Liabilities**: $402, $418, $226, $203, $165, $132, $80.7, $58.0, $38.4, $34.2.
- **Long Term Debt**: Nil, Nil, Nil, NA, Nil, Nil, Nil, Nil, Nil, 0.70.
- **Common Equity**: $3,580, $2,466, $2,037, $1,357, $1,267, $889, $590, $443, $315, $279.
- **Total Capital**: $3,580, $2,466, $2,037, $1,357, $1,267, $889, $590, $443, $315, $280.
- **Capital Expenditures**: $142, $82.9, $96.0, $53.4, $62.5, $20.3, $15.9, $30.1, $22.4, $2.53.
- **Cash Flow**: $714, $542, $422, $267, $229, $159, $82.1, $99.0, $28.6, $5.47.
- **% Long Term Debt of Capitalization**: Nil, Nil, Nil, NA, Nil, Nil, Nil, Nil, Nil, 0.2.
- **% Return on Assets**: 18.4%, 18.2%, 18.2%, 14.2%, 16.3%, 16.9%, 12.3%, 22.0%, 7.0%, 0.0.
- **% Return on Equity**: 21.1%, 21.1%, 21.4%, 16.6%, 19.0%, 19.6%, 14.0%, 24.7%, 9.6%, 0.0.

Our fundamental outlook for the health care equipment sub-industry for the next 12 months is neutral. We continue to view many product categories as historically recession-resistant, and we expect they will continue to grow, albeit more slowly and more irregularly than they did prior to the recent recession. We remain concerned about continued weak demand for elective medical procedures. In addition, growth in procedure rates has slowed in areas we normally view as non-elective, such as cardiac rhythm management, interventional cardiology and orthopedics. On the other hand, some orthopedic product makers believe that procedure rates for their products may be stabilizing in certain categories.

We believe the new medical device tax required by the health care reform law and that took effect this year has prompted the sub-industry to align its cost structure to partially offset the impact of the tax. However, since the levy is income tax deductible, its after-tax effect will be lower, and we therefore view the impact of health care reform as manageable. Many equipment makers have implemented cost reduction initiatives to help offset the levy.

We expect 2013 and 2014 revenues to rise in constant currency at a mid- to upper-single digit pace, aided by new products, expansion into emerging markets, and, in some cases, acquisitions. Still, we expect extended replacement cycles at U.S. hospitals in some areas, pricing pressures, European austerity measures, lower demand in certain product categories and unfavorable currency exchange to continue to affect reported growth. In addition, until recently, we had seen sales gains in equipment that hospitals believe can differentiate them from one another and/or offer a possible high return on investment. We now think U.S. hospitals have become more cautious regarding their capital budgets amid the shift in some procedures from inpatient to outpatient settings and pending 2014 health care reform rules.

We see positive longer-term fundamentals, including increasing global demand for quality health care, aging populations and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products.

Year to date to September 20, the S&P Health Care Equipment Index grew 18.2%, versus a 20.3% rise in the S&P 1500 Composite Index. In 2012, the sub-industry index rose 16.8%, versus a 13.7% increase in the 1500. The gains so far in 2013 suggest to us that investors have been less pleased with the health care equipment makers’ performance. It is the second slowest advancer in the Health Care group of indices year to date, due, we believe, to the aforementioned headwinds.

--Phillip M. Seligman
Intuitive Surgical Inc

S&P Analyst Research Notes and Other Company News

July 29, 2013
10:08 am ET ... S&P REITERATES STRONG SELL OPINION ON SHARES OF INTUITIVE SURGICAL (ISRG 399.12*): ISRG adds $779M to its share buyback program, boosting the total to $1.1B. It is also using $500M of the total in an accelerated share repurchase program with Goldman, Sachs, the majority of which will be repurchased and retired in two weeks and the rest by Oct 29. We believe this decision was made in response to the pressure the stock has been under since ISRG provided less-than-favorable H2 ‘13 guidance. While the buyback should benefit EPS, it does not help the fundamentals, in our view, and we expect U.S. sales trends to be soft for the foreseeable future. /P. Seligman

July 19, 2013
ISRG posts $3.90 vs. $3.75 Q2 EPS on 7.8% revenue rise. Capital IQ consensus forecast was $4.04. Co. reportedly gets FDA warning letter. JMP Securities reportedly downgrades.

July 19, 2013
09:15 am ET ... S&P DOWNGRADES OPINION ON SHARES OF INTUITIVE SURGICAL TO STRONG SELL FROM HOLD (ISRG 421.47*): We cut our ‘13 EPS estimate $1.40 to $15.40, ‘14’s by $2.50 to $16.65 and our target price by $122 to $315 on revised P/E analysis. Q2 EPS of $3.90, vs. $3.75, is $0.01 above our estimate, which was based on ISRG’s pre-announcement. Our view has become less sanguine. ISRG sees 15%-18% ‘13 robotic procedure growth, vs. the low end of its prior 20%-23% range. We see this, hospital capex concerns, and moderating hospital utilization, yielding fewer U.S. systems sales. We think overseas sales growth will pick up the U.S. slack, but see unfavorable revenue/EPS comps through Q1 ‘14. /P. Seligman

July 9, 2013
09:14 am ET ... INTUITIVE SURGICAL, INC. (ISRG 421.47) UNCHANGED, INTUITIVE SURGICAL (ISRG) POSTS Q2, JMP CUTS TO UNDERPERFORM FROM MARKET PERFORM... Analyst J.T. Harcoso says ISRG’s Q2 disappointed many investors for second time in so many weeks. Notes actual results were not a surprise of course, but news of FDA warning letter, new reimbursement guidelines in Japan in ‘14, lower than expected guidance, and tangible lack of visibility did little to satiate the need for clarity. While he still believes robotic surgery will play a central role in delivery of medicine, he believes some of the underlying assumptions that define the market potential are questionable, if not outright invalid. Sets $275 target. B.Brodie

July 9, 2013
ISRG sees Q2 revenue of approximately $575M vs. Capital IQ consensus forecast of $572.9M, net income of approximately $160M vs. Capital IQ consensus forecast of $176.6M. Says slowdown in benign gynecological procedures reflected a number of factors including, but not limited to, reduced hospital admissions and a trend by payers toward encouraging conservative management and treatment in outpatient settings.

July 9, 2013
10:45 am ET ... S&P KEEPS HOLD RECOMMENDATION ON SHARES OF INTUITIVE SURGICAL (ISRG 414.55***): We are cutting our ‘13 EPS estimate $0.45 to $18.00, but keep ‘14’s at $20.25 and our $509 target price. Earnings are benefiting from higher da Vinci system and instrument sales and an improved product mix, partly offset by the medical device tax. However, benign hysterectomies have slowed amid gains by other procedure types. We do not see a recovery for da Vinci hysterectomies anytime soon amid a decline in hospital admissions, hospital budget pressures and negative publicity. We keep our $509 target price. /P. Seligman

July 9, 2013
10:43 am ET ... INTUITIVE SURGICAL, INC. (ISRG 414.58) DOWN 85.5, INTUITIVE SURGICAL (ISRG) SEES Q2 BELOW ESTS, GOLDMAN CUTS TO NEUTRAL FROM BUY... Analyst David Roman tells salesforce healthcare reform uncertainty and weak procedure volumes are placing increased pressure on purchasing, elongating decision timelines, and driving y/d decline in equipment provider revenue. Now sees upside case in ISRG stock as increasingly challenged. Notes co.’s growth rate is becoming increasingly tethered to weak macro trends, which he thinks will pressure ISRG’s premium multiple. Cuts $17.53 ‘13 EPS estimate to $16.53, $21.21 ‘14 to $19.77. Cuts $870 12-month target to $500. B.Brodie
Intuitive Surgical Inc

Analysts’ Recommendations

- **Monthly Average Trend**
  - **Buy**: B
  - **Buy/Hold**: BH
  - **Hold**: H
  - **Weak Hold**: WH
  - **Sell**: S
  - **No Opinion**: NS
  - **ISRG Trend**

**Wall Street Average**

**Number of Analysts Following Stock**

- **Stock Price ($)**
  - 300
  - 400
  - 500
  - 600

- Of the total 37 companies following ISRG, 21 analysts currently publish recommendations.

- **No. of Ratings**
  - **% of Total**
  - **1 Mo. Prior**
  - **3 Mos. Prior**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No. of Ratings</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
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<td>Buy</td>
<td>7</td>
<td>33%</td>
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<tr>
<td>Buy/Hold</td>
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<td>14%</td>
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<tr>
<td>Hold</td>
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<td>Weak Hold</td>
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<tr>
<td>Sell</td>
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<tr>
<td>Total</td>
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<td>100%</td>
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**Wall Street Consensus Estimates**

- **Fiscal Years**
  - **2014**
    - **Avg Est.**: 17.42
    - **High Est.**: 19.49
    - **Low Est.**: 16.10
    - **# of Est.**: 18
    - **Est. P/E**: 22.4
  - **2013**
    - **Avg Est.**: 15.71
    - **High Est.**: 16.37
    - **Low Est.**: 15.23
    - **# of Est.**: 19
    - **Est. P/E**: 24.8
  - **2014 vs. 2013**
    - **▲ 11%**
    - **▲ 19%**
    - **▲ 6%**
    - **▲ -5%**
    - **▲ -10%**

- **Q3’14**
  - **2013**: 4.17
  - **2014**: 4.46
  - **High Est.**: 4.46
  - **Low Est.**: 3.91
  - **# of Est.**: 9
  - **Est. P/E**: 93.6
- **Q3’13**
  - **2013**: 3.37
  - **2014**: 3.73
  - **High Est.**: 3.73
  - **Low Est.**: 3.09
  - **# of Est.**: 18
  - **Est. P/E**: NM

- **Q3’14 vs. Q3’13**
  - **▲ 24%**
  - **▲ 20%**
  - **▲ 27%**
  - **▲ -50%**
  - **NA**

**Wall Street Consensus vs. Performance**

- **For fiscal year 2013**, analysts estimate that ISRG will earn $15.71. For the 2nd quarter of fiscal year 2013, ISRG announced earnings per share of $3.90, representing 25% of the total annual estimate. For fiscal year 2014, analysts estimate that ISRG’s earnings per share will grow by 11% to $17.42.

A company’s earnings outlook plays a major part in any investment decision. Standard & Poor’s organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Source: S&P Capital IQ Estimates, Inc.
S&P STARS
Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12 Month Target Price
The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification
Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P Capital IQ EPS Estimates
S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections from future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings
S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Qualitative Risk Assessment
The S&P Capital IQ equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P Capital IQ U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations
In contrast to our qualitative STARS recommendations, which are assigned by S&P Capital IQ analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P Capital IQ analysts assign many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking (also known as S&P Earnings & Dividend Rankings)
Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's Earnings and Dividend Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>Highest</td>
</tr>
<tr>
<td>A</td>
<td>High</td>
</tr>
<tr>
<td>A-</td>
<td>Above Average</td>
</tr>
<tr>
<td>B+</td>
<td>Average</td>
</tr>
<tr>
<td>B</td>
<td>Below Average</td>
</tr>
<tr>
<td>B-</td>
<td>Below Average</td>
</tr>
<tr>
<td>C</td>
<td>Lower</td>
</tr>
<tr>
<td>D</td>
<td>Lowest</td>
</tr>
</tbody>
</table>

S&P Fair Value Rank
Using S&P Capital IQ's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 1, the most undervalued issues, to Group 5, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation
The price at which a stock should trade at, according to S&P Capital IQ's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity
Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Funds From Operations FFO
FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)
The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P Capital IQ proprietary measures.

S&P’s IQ Rational
Intuitive Surgical

<table>
<thead>
<tr>
<th>Raw Score</th>
<th>Max Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary &amp; P&amp;ME</td>
<td>20</td>
</tr>
<tr>
<td>Technical Indicators</td>
<td>18</td>
</tr>
<tr>
<td>Liquidity/Volatility Measures</td>
<td>20</td>
</tr>
<tr>
<td>Quantitative Measures</td>
<td>74</td>
</tr>
<tr>
<td>IQ Total</td>
<td>132</td>
</tr>
</tbody>
</table>

Volatility
Rates the volatility of the stock's price over the past year.

Technical Evaluation
In researching the past market history of prices and trading volume for each company, S&P Capital IQ's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank
Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P Capital IQ's universe on a rolling 13-week basis.

**Global Industry Classification Standard (GICS)**

**S&P Issuer Credit Rating**
A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

**Exchange Type**
ASE - American Stock Exchange; AU - Australia Stock Exchange; BB - Bulletin Board; NGM - Nasdaq Global Market; NNM - Nasdaq Global Select Market; NSC - Nasdaq Capital Market; NYS - New York Stock Exchange; OTN - Other OTC (Over the Counter); OTC - Over the Counter; QB - OTCQB; QX - OTCQX; TS - Toronto Stock Exchange; TXV - TSX Venture Exchange; NEX - NEX Exchange.

**S&P Capital IQ Equity Research**

**Abbreviations Used in S&P Capital IQ Equity Research Reports**
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).
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In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P Capital IQ equity analysts, S&P Capital IQ ranking stocks in accordance with three other ranking methodologies: (a) S&P’s Capital IQ’s quantitative evaluations are derived from S&P Capital IQ’s proprietary Fair Value ranking model. The Fair Value Ranking methodology is a relative ranking methodology. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity. (b) Global Markets Intelligence uses two different quantitative methodologies to determine recommendations for the Trade Detector research report. One methodology is based on a target price model, while the other methodology is based on four separate quantitative strategies. The STARS, quantitative evaluations and Trade Detector methodologies reflect different criteria, assumptions and analytical methods and may have differing recommendations.

S&P Capital IQ Global STARS Distribution as of September 30, 2013

<table>
<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>36.5%</td>
<td>33.5%</td>
<td>32.3%</td>
<td>35.8%</td>
</tr>
<tr>
<td>Hold</td>
<td>54.2%</td>
<td>43.5%</td>
<td>59.5%</td>
<td>53.1%</td>
</tr>
<tr>
<td>Sell</td>
<td>9.3%</td>
<td>23.0%</td>
<td>6.2%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>46.1%</td>
<td>38.5%</td>
<td>54.9%</td>
<td>46.5%</td>
</tr>
<tr>
<td>Hold</td>
<td>20.0%</td>
<td>23.5%</td>
<td>17.9%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Sell</td>
<td>39.9%</td>
<td>38.0%</td>
<td>27.2%</td>
<td>33.6%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Trade Detector Recommendations Distribution as of March 31, 2013

The Trade Detector research report was published after March 31, 2013. Ranking distributions will be provided as of June 30, 2013.

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