

The Henry Fund

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Intuitive Surgical (ISRG)

November 18, 2024

Healthcare – Medical Instruments & Supplies

Stock Rating

Buy

Investment Thesis

Target Price

\$590

We recommend a buy rating on ISRG with a price target of \$590, representing potential upside of 11%. ISRG is well-positioned to capitalize on the increasing adoption of minimally invasive procedures. da Vinci will continue to be a market leader, supported by a growing installed base. We believe ISRG's continued innovation and robust recurring revenue will drive sustained growth in a growing TAM.

Investment Positives

- Fundamentals:** As the installed base grows, we expect a five-year revenue CAGR of 16.0%. Revenue will benefit from an increasing ASP, growing from \$1.2 million in FY 2023 to \$1.7 million in FY 2028.
- Fundamentals:** Annual recurring revenue will reach 88.4% of total revenue by FY 2028, driven by high margin instruments and service. We expect revenue to average around \$770,961 per da Vinci system.
- Expectations:** We expect strong growth (+140bps > consensus) in the installed base of da Vinci, driven by the commercialized rollout of da Vinci 5 in 2025. Shipments will grow at a five-year CAGR of 6.7%, resulting in an installed base of 17,166 in FY 2028.

Risks to Thesis:

- Increasing Competition:** ISRG's market position is linked to da Vinci being one of few to have a strong installed base. As competitors progress on Ottava, Hugo, Mako and Rosa, ISRG may lose market share.
- Valuation:** ISRG trades at a lofty premium relative to our peer group, SPX, and VHT. Any shifts in ISRG's growth outlook may make that premium unjustified.
- Technological & Regulatory Challenges:** ISRG faces challenges from rapid technological advancements and shifting regulatory frameworks, such as a stricter FDA approval process and changing international MedTech regulations.

Henry Fund DCF	\$590
Henry Fund DDM	\$561
Relative Multiple	\$179

Price Data

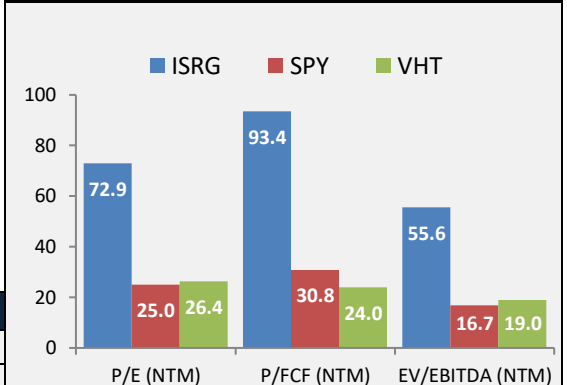
Current Price	\$532
52wk Range	\$291 – 544
Consensus 1yr Target	\$548

Key Statistics

Market Cap (B)	\$188
Shares Outstanding (M)	356
Institutional Ownership	86.1%
Beta	1.12
Dividend Yield	0.0%
LT Growth Rate Est.	17.9%
Price/Earnings (TTM)	103.6
Price/Earnings (NTM)	72.9
Price/Sales (TTM)	26.0
Price/Book (mrq)	11.9

Profitability

Operating Margin	24.8%
Net Margin	25.2%
Return on Assets (TTM)	8.0%
Return on Equity (TTM)	15.0%



EPS Estimates

Quarter / Year	2024e	2025e	2026e	2027e	2028e
HF EPS	\$6.36	\$7.89	\$9.35	\$10.90	\$12.82
Street EPS	\$6.01	\$7.00	\$8.21	\$9.69	\$10.49

BS / CF Snapshot

Debt	-	-	-	-	-
FCF	357	608	1,264	1,802	2,382
FCF Conversion	13.1%	18.1%	31.7%	38.6%	43.6%

Profitability

HF EBITDA	2,729	3,363	3,994	4,667	5,463
Street EBITDA	2,824	3,306	3,981	4,694	-
ROA	13.0%	13.3%	13.2%	13.0%	12.9%
ROE	14.9%	15.1%	15.0%	14.7%	14.6%
ROIC	31.1%	30.2%	29.1%	29.0%	29.8%

Company Description

ISRG is an innovator in the field of robotic assisted, minimally invasive surgery. ISRG designs, manufacturers, and markets robotic systems, instruments, and accessories through its flagship da Vinci Surgical System. The company's strategy focuses on driving procedural adoption, developing next-generation surgical systems, and expanding the range of robotic-assisted procedures.

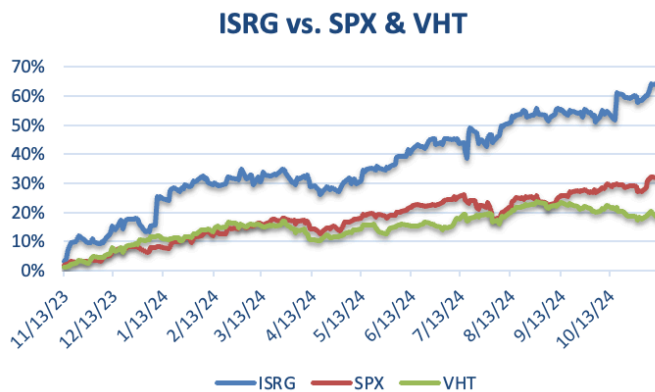
Important disclosures appear on the last page of this report.

COMPANY DESCRIPTION

Intuitive Surgical (ISRG) is a leading innovator in the field of robotic assisted, minimally invasive surgery. ISRG designs, manufactures, and markets robotic systems, instruments, and accessories primarily through its flagship da Vinci Surgical System¹. The company's growth strategy focuses on driving procedural adoption, developing next-generation surgical platforms, expanding the range of robotic-assisted procedures, and increasing its global footprint¹. By investing heavily in R&D and capitalizing on the rapid shift in consumer preference, ISRG has a strong advantage relative to peers (JNJ, MDT, SYK, ZBH), both in market share and the excruciatingly long FDA approval process. In our view, the company's integrated business model, combining high upfront sales with significant recurring revenue streams, positions ISRG as a sustainable leader in a TAM that is rapidly expanding.

ISRG vs. SPX & VHT

The chart below displays ISRG's performance relative to SPX and VHT. SPX is our benchmark, and VHT is a broad healthcare index fund created/managed by Vanguard.



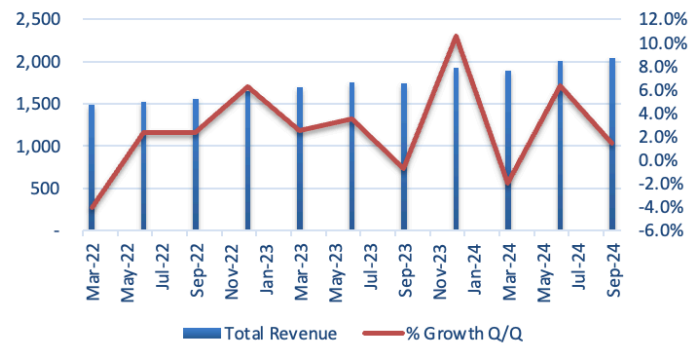
Source: Data from Yahoo Finance², Pulled via Jupyter Notebook³

In our view, ISRG has more room for price appreciation (1-year return of 64.3%), even after the strong outperformance relative to SPX (31.8%) and VHT (18.4%). ISRG is and will continue to be a leader in surgical robotic systems as the TAM expands. We note that roughly 300 million procedures occur annually worldwide, while only 15% are conducted using technology such as da Vinci. As the technology continues to develop and as the population continues to age, we see potential for surgical robotic systems to have between 30%-40% share in global procedures – and with ISRG holding 57% share, da Vinci could be used in between 51M-68M procedures annually.

Business Segments

ISRG operates through three segments: Instruments & Accessories (62% of sales), Systems (22%), and Services (16%)¹. Instruments & Accessories and Systems represent the company's product revenue (84%). FY23 revenues totaled \$7.1 billion, up 15% YoY, while Q3 FY24 revenues totaled \$2.0 billion, up 17% YoY.

Net Revenue (Q1 '22 - Q3 '24)



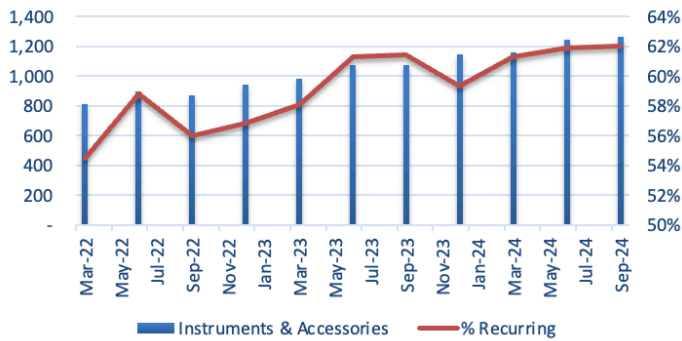
Source: ISRG 10K

Instruments & Accessories

The Instruments & Accessories segment is a crucial part of the company's revenue model, comprising single-use products used in each robotic-assisted surgery performed with the da Vinci system. The segment includes a wide range of specialized instruments, such as forceps, scissors, scalpels, and energy-based devices specific to da Vinci¹. Accessories include drapes, vision products, and other items to enhance the da Vinci system's functionality during procedures¹. The recurring nature of this segment's revenue (72% of recurring revenue, 62% of total revenue) is driven by increased utilization of the installed base of da Vinci systems, as hospitals and surgical centers continually replenish these products for each operation.

Below, we display the segment's revenue on a quarterly basis from Q1 '22 to Q3 '24. Given the highly recurring nature of revenue, it is important to note the increasing proportion in recent quarters (+756bps to 62%).

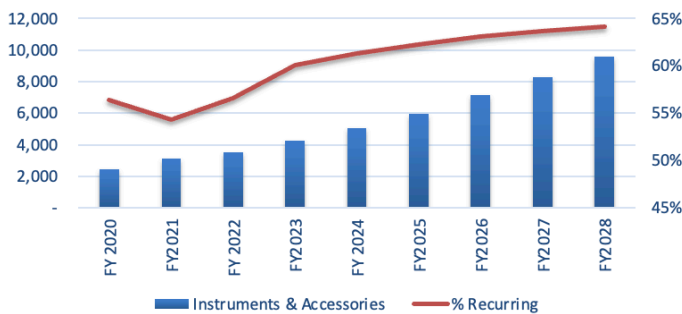
Instruments & Accessories Revenue (Q1 '22 - Q3 '24)



Source: ISRG Financial Statements

For our Instruments & Accessories revenue forecast, we blend our view on an aging demographic and increasing utilization of the da Vinci installed base. Given the highly recurring nature of this segment's revenue, we assume a slightly higher growth rate in each quarter/year as it relates to our Systems forecast. By FY 2028, we expect Instruments & Accessories revenue to hit roughly \$9.6 billion, up \$5.3 billion from the FY 2023 actual, representing a 5-year CAGR of 17.5%. We expect recurring revenue attributable to Instruments & Services as a percentage of total revenue to hit 64.0%.

Instruments & Accessories Forecasted Revenue



Source: HF Model

Systems

The Systems segment encompasses the sale of da Vinci Surgical System. This segment solely includes revenues generated from the initial purchase of the system. The da Vinci Surgical System consists of multiple components: a surgeon console, a patient-side cart, and a vision system¹. ISRG continuously updates the systems to enhance surgical capabilities, including advancements to imaging, instrumentation, and system connectivity. We note that revenue from this segment is more cyclical, as it is

influenced by the capital decisions of hospitals and surgical centers.

Below, we display the segment's revenue and da Vinci shipments on a quarterly basis from Q1 '22 to Q3 '24. It is important to note that the graph is displaying in millions for revenue. For total shipments, the graph is displaying in actuals (i.e. Q3 '24 shipments of 379 systems).

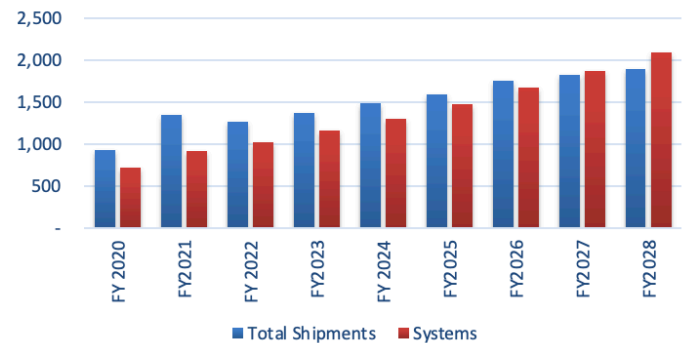
Systems Revenue & Shipments (Q1 '22 - Q3 '24)



Source: ISRG Financial Statements

Our forecast for Systems revenue considers our belief that the da Vinci Surgical System will continue to be the leading system for minimally invasive procedures. Our research into surgeon and patient testimonials confirmed our belief. We expect strong growth in the installed base of da Vinci as the latest version faces its commercial rollout in mid-2025. By FY 2028, we expect Systems revenue to hit roughly \$3.3 billion, up \$1.6 billion from the FY 2023 actual, representing a 5-year CAGR of 14.1%. We expect annual shipments of da Vinci to hit 1,893 by FY 2028, representing a five-year CAGR of 6.7%. This translates into an installed base of 17,166 vs. the FY 2023 installed base of 8,606.

Systems Forecasted Revenue & Shipments

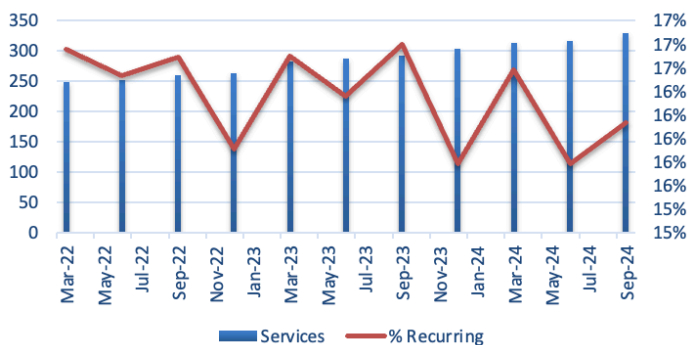


Source: HF Model

Services

The Services segment includes revenue generated from providing support and maintenance for the da Vinci Surgical System¹. The segment covers service contracts, preventative maintenance, and system upgrades, ensuring the optimal performance and reliability of the installed systems¹. Contracts are often tailored and include potential add-ons such as on-site technical support, remote diagnostics and training for surgical teams. Similarly to the Instruments & Accessories segment, the majority of revenue is recurring in nature as it is tied to the expanding installed base and the ongoing need for system upkeep. In our view, this segment's operations play a crucial role in maintaining long-term relationships with healthcare institutions as da Vinci scales.

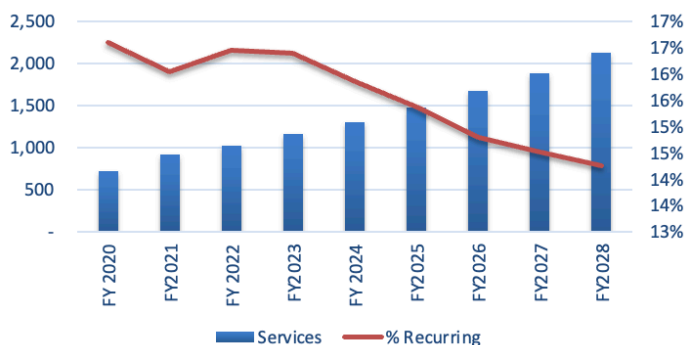
Services Revenue (Q1 '22 - Q3 '24)



Source: ISRG Financial Statements

Services revenue is directly tied to the installed base of da Vinci. Given our annual shipments forecast, we expect strong growth as the installed base continues to be maintained. By FY 2028, we expect Services revenue to hit roughly \$2.1 billion, up \$966 million from FY 2023 actual, representing a 5-year CAGR of 12.8%. We expect recurring revenue attributable to Services as a percentage of total revenue to fall to 14.3%.

Services Forecasted Revenue



Source: HF Model

Cost Structure Analysis

ISRG has historically maintained a strong and consistent margin profile. Over the past four years, the company's gross margin has ranged between 65% and 69%, driven by high-margin recurring revenues streams (Instruments and Accessories and Services). Operating margin shows a similar pattern over the past four years; however, it is important to note that operating margins have compressed from a 35% to 40% range, which is largely attributable to increased R&D spend. Net margin shows a similar trend.

ISRG Historical Margins

Year	2020	2021	2022	2023
GPM	65.1%	69.0%	67.3%	66.3%
OPM	24.1%	31.9%	25.3%	24.8%
NPM	24.3%	29.9%	21.3%	25.2%

Source: ISRG Financial Statements

In our view, given an increasing TAM associated with minimally invasive procedures and ISRG's strong market share (57%), margins are bound for an expansion cycle. Our view is centered around Instruments and Accessories, along with Services, as the company's margins are highly leveraged to its installed base. The scalability of ISRG's business model gives us confidence the company will benefit from volume-driven operating leverage, especially as the global adoption of minimally invasive surgery continues. Our margin forecast through 2027 is displayed below:

JNJ Forecasted Margins

Year	2024e	2025e	2026e	2027e
GPM	67.3%	67.4%	67.3%	67.4%
OPM	27.5%	28.7%	28.8%	29.3%
NPM	27.2%	28.6%	28.6%	28.8%

Source: HF Model

da Vinci Surgical System

The da Vinci Surgical System is a state-of-the-art robotic platform designed to facilitate minimally invasive surgeries⁴. Since its initial FDA clearance in 2000, the system has undergone several advancements, with the latest iteration, the da Vinci 5 (discussed further below), introduced in 2024. The system comprises a surgeon's console, a patient-side cart with multiple robotic arms, and a 3D vision system⁴. Surgeons operate from the console, controlling the robotic arms which translate their

hand movements into precise micro-movements⁴.

The system is utilized across various surgical specialties, including urology, gynecology, general surgery, cardiothoracic surgery, and head and neck surgery⁴. It has also been used in groundbreaking procedures, such as the world's first fully robotic lung transplant.

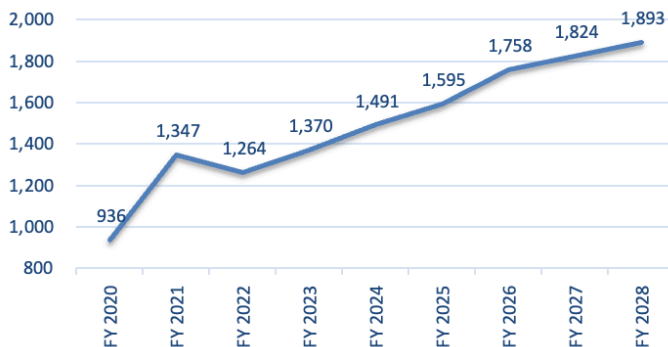
The cost of acquiring a da Vinci system is significant. The da Vinci XI model is priced at roughly \$2.2 million, while the more cost-effective model is priced at roughly \$1.4 million. Below, we display three key statistics relating to da Vinci: 1) Average Selling Price (ASP), 2) Volume, and 3) Number of Procedures completed.

da Vinci ASP



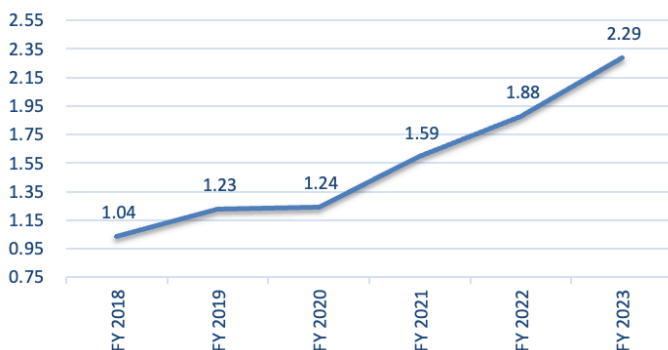
Source: ISRG Financial Statements, HF Model, Displayed in Millions

da Vinci Shipment Volume



Source: ISRG Financial Statements, HF Model, Displayed in Actuals

Total Procedures with da Vinci



Source: ISRG Financial Statements, Displayed in Millions

What is the Competition?

In our view, da Vinci stands out as the leading product for robotic-assisted surgery, benefiting from over two decades of experience and a built out installed base. In contrast, competitors such as JNJ, MDT, SYK, and ZBH are still in the development/trial stages of their own robotic platforms^{5,6}. We believe from a regulatory perspective, ISRG has a significant competitive advantage which will allow the company to further strengthen its market position and expand upon its ecosystem while new entrants face delays and hurdles.

Additionally, da Vinci's built out installed base is sticky in our view given that hospitals and surgical centers face substantial switching costs after investing in da Vinci systems, as these costs include not only the initial capital outlay but also extensive training for surgeons and staff.

da Vinci Testimonials

At this point in ISRG's build out of da Vinci, surgeons and medical centers have expressed a deep praise, which in our view, will incentive those who have yet to purchase one. As such, we believe it is crucial to provide insights into what surgeons who use da Vinci on a regular basis have to say:

- Dr. David Bender, a gynecologic oncologist at UI Hospital and Clinics (UIHC has performed 10,000+ robot-assisted surgeries) said, "As soon as I got my hands on it, I couldn't get enough... I thought it was just such a remarkable device because it really reproduced your own hand movements so well and with such precision. I couldn't find anything that was even remotely close."⁷

Furthermore, patient experience is also key:

- Cyndie Hampton, an individual who suffered from anemia, had this to say "I was running against time for my recovery, to start getting my blood cells back to a good oxygen-carrying capacity... He told me (her surgeon) I could go back to work in three weeks. Those were the magic words... I am amazed at how good I've felt about the whole thing... I had little to no pain, and I never spent a day in bed."⁸

Debt Maturity Analysis

ISRG has historically carried little to no debt on its balance

sheet. Starting in FY 2019, the company started to borrow roughly \$60 million per year; however, they do pay down this debt in the year it is incurred. We do not see any issues with the company's ability to repay this debt. On the date of our model, ISRG carried no debt on its balance sheet. As such, we assume no debt in our forecast.

From our understanding, ISRG management has generally focused on maintaining a strong balance sheet and financial flexibility. We were unable to find specific comments as it relates to an optimal capital structure.

ESG Analysis

ESG Peer Comparison		
Company	Risk Score	Risk Rating
JNJ	20.1	Medium
MDT	22.2	Medium
SYK	23.6	Medium
ZBH	26.2	Medium
ISRG	18.0	Low

Source: Morningstar Sustainalytics

ISRG stands out in terms of its ESG Score and Rating, which in our view, is primarily due to social and governance initiatives. Socially, ISRG has continued to train surgeons and assistants on their da Vinci system (9,000 training sessions and 4,800 surgeons trained in 2023)¹⁰, showcasing the commitment to "expanding the potential of physicians to heal without constraints." From a governance perspective, there is no CEO-duality, and the Board of Directors has a 58%/42% male-to-female ratio¹⁰.

We believe one of ISRG's notable ESG challenges is the environmental impact of its single-use instruments. ISRG's instruments are mostly single-use to preserve the precision of da Vinci – repeated use or sterilization can affect the reliability of the instruments. Despite this challenge, we believe it is unlikely to materially affect ISRG in the future.

What is Smart Money Doing?

We feel it is crucial to assess the expectations within the market. Doing so allows us to identify any expectations gaps that may impact our model or outlook for JNJ.

Since August 2021, sell-side recommendations have shifted from 40/60 to 70/30 (buy/hold & sell)¹¹. The company has a notable history of beating EPS expectations Q/Q, with June & December 2022 being the only quarters

to not beat since 4Q 2019¹¹. A similar pattern is shown through revenue. In our view, this could indicate that management consistently provides conservative guidance. See the "Henry Fund vs. Consensus" section below to see where we differ through 2027.

On the buy-side, growth and value strategies have seen a net inflow over the past six months. Short interest has elevated in recent months from 0.78% in January to 1.09% in October, indicating that some fund managers are growing more negative on JNJ's outlook.

RECENT DEVELOPMENTS

Recent Earnings Announcement

ISRG reported Q3 2024 earnings on October 17th. CEO Gary Guthart noted strong utilization in da Vinci's installed base and the strong uptake in the recently launched da Vinci 5. The company reported adjusted EPS of \$1.84, beating the consensus estimate of \$1.64 by 12.3%. Total revenue for the quarter was \$2.01 billion, beating the consensus estimate of \$1.97 billion by 1.88%. Crucial comments and results within the transcript include:

- Five-year procedure CAGR of 17%, with approximately 16 million total patients treated with da Vinci multiport platforms (10 million in past 5 years)¹¹.
- Placed 379 da Vinci systems, compared to 312 a year ago. This included 110 da Vinci 5 systems, which are expected to fully roll out in 2025¹¹.
- Ion procedures grew 73% to approximately 25,000 in Q3¹¹.
- Various regulatory clearances in South Korea and Europe for the da Vinci 5 system for use in urologic, general, gynecologic, thoracoscopic, and transoral otolaryngology procedures¹¹.

Below, we lay out managements' guidance for the full year:

- Procedure growth between 16% and 17% (up from 15.5% and 17%).
- Pro forma gross profit margin within a range of 68.5% and 69%.
- Pro forma operating expense growth within a range of 10% and 12% (down from 10% and 13%).
- Non-cash stock compensation expense between \$670 million and \$690 million.
- Other income between \$325 million and \$345 million.

- CAPEX between \$1 billion and \$1.2 billion (planned facility construction).
- Pro forma income tax rate between 22% and 23%.

da Vinci 5

In our view, da Vinci 5 is a key catalyst for ISRG in 2025 as the company builds upon the existing da Vinci platform. The da Vinci 5 system received FDA 510(k) clearance in March 2024¹². New functions and capabilities include improved accuracy and precision, improved 3D display and image processing, force-sensing technology, and expanded computing power¹².



Source: ISRG Q3 Investor Presentation¹³

Following FDA approval, ISRG has begun to rollout da Vinci 5 in a phased manner, providing the new system to early adopter hospitals. As we move into 2025, we expect a broader commercial launch. Given that da Vinci is priced approximately 30% higher than its predecessor, we expect pricing to be a key driver for top-line revenue growth, as shown through our forecasted ASP.

INDUSTRY TRENDS

Minimally Invasive Procedures

Minimally invasive procedures are performed through tiny incisions rather than the large incisions that are required in traditional open surgeries. Patients have increasingly elected to have these procedures, as they often reduce trauma and scarring, and lead to quicker recovery times and a lower risk of complications.

Provided that more than 300 million procedures occur throughout the world each year, and with an increasing focus on improving patient success timelines and overall consumer interest, we expect ISRG to continue to be a leader in minimally invasive/robotic-assisted surgery.

Generative AI and Machine Learning (ML)

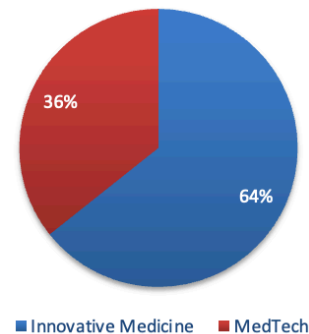
Generative AI and ML are transforming the minimally invasive surgery market by enhancing surgical precision. ML algorithms analyze vast amounts of medical data, assisting in preoperative planning by identifying optimal surgical paths and predicting potential complications. Generative AI is driving advancements by enabling systems to autonomously learn and adapt based on past procedures.

MARKETS AND COMPETITION

Johnson & Johnson (JNJ)

JNJ is a diversified global healthcare company headquartered in New Brunswick, NJ. It operates through two main segments: Innovative Medicine and MedTech. JNJ's MedTech segment specializes in cardiovascular, orthopedics, surgery, and vision. One of the most anticipated developments is JNJ's robotic-assisted surgical platform, Ottava, which aims to compete directly with da Vinci. On November 12th, JNJ received FDA approval to begin clinical trials with Ottava¹⁴.

JNJ Revenue Decomposition (2023)



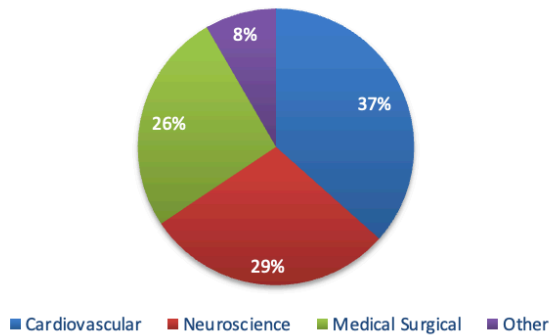
Source: JNJ 10K

Medtronic (MDT)

MDT is a global medical technology company headquartered in Dublin, Ireland. The company operates through four segments: Cardiovascular, Neuroscience, Medical Surgical, and Other. MDT's Medical Surgical segment is known for its advanced surgical tools, including minimally invasive technologies and robotic-assisted platforms. The company has developed Hugo, a robotic-assisted surgery system, which has been designed to directly compete with da Vinci. On September 15th, MDT announced the completion of 10,000 Hugo procedures

(compared to 16 million for da Vinci)¹⁵.

MDT Revenue Decomposition (2023)

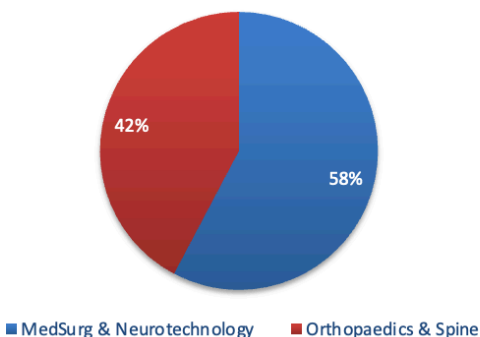


Source: MDT 10K

Stryker (SYK)

SYK is a global medical technology company headquartered in Kalamazoo, MI. The company operates through two segments: MedSurg & Neurotechnology and Orthopedics & Spine. SYK has taken a unique approach with its Mako robotic-assisted surgery system. The product specifically targets the orthopedic surgery space, providing surgeons with precision in knee and hip replacements¹⁶. As the company continues to expand Mako and investing in robotic systems, we see SYK as a strong competitor in the orthopedics market.

SYK Revenue Decomposition (2023)



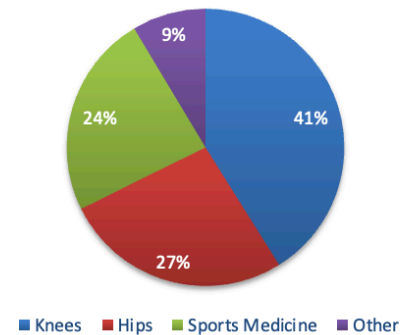
Source: SYK 10K

Zimmer Biomet (ZBH)

ZBH is a global medical device company headquartered in Warsaw, IN. The company specializes in musculoskeletal healthcare, operating through segments that focus on joint replacement, robotics, and digital health. ZBH is known for its Rosa robotic surgery platform, which provides assistance in orthopedic procedures¹⁷. The Rosa system directly competes with SYK's Mako platform. The company continues to advance its capabilities, reinforcing

its position as a key player in the robotic-assisted space.

ZBH Revenue Decomposition (2023)



Source: ZBH 10K

Profitability

	Net Margin	Op. Margin	Gross Margin	FCF Margin
Johnson & Johnson (JNJ)	15.7%	26.0%	69.0%	21.4%
Medtronic (MDT)	11.4%	17.7%	60.1%	16.1%
Stryker (SYK)	15.4%	20.9%	61.0%	15.3%
Zimmer Biomet (ZBH)	13.9%	18.8%	63.1%	13.2%
Harmonic Average	13.8%	20.4%	63.1%	16.0%
Intuitive Surgical (ISRG)	25.2%	24.8%	66.4%	10.5%

Source: FactSet, 2023

	ROIC	ROE	ROA	Invest. Cap.
Johnson & Johnson (JNJ)	13.3%	18.3%	7.5%	100,272
Medtronic (MDT)	4.9%	7.2%	4.1%	75,841
Stryker (SYK)	10.8%	18.0%	8.2%	29,340
Zimmer Biomet (ZBH)	5.9%	8.4%	4.8%	17,431
Harmonic Average	7.3%	10.9%	5.6%	34,901
Intuitive Surgical (ISRG)	14.7%	14.8%	12.6%	12,242

Source: FactSet, 2023

ISRG demonstrates a strong profitability profile relative to the peer group. The company exceeds the peer group in terms of net margin, operating margin, and gross margin. On the other hand, ISRG lags in terms of FCF margin (10.5% vs. the peer harmonic average of 16.0%).

In terms of return metrics, ISRG stands out with an ROIC of 14.7%, more than doubling the peer group harmonic average. The company's ROE of 14.8% is slightly higher than the peer group average; however, falls behind JNJ and SYK individually. The company also exceeds every peer while looking at ROA.

BS / CF Snapshot

	Net Debt	D/E	FCF	FCF Conv.
Johnson & Johnson (JNJ)	7,505	44.3%	18,248	61.5%
Medtronic (MDT)	18,042	51.9%	5,200	62.1%
Stryker (SYK)	10,441	72.6%	3,136	59.1%
Zimmer Biomet (ZBH)	5,579	48.0%	979	41.9%
Harmonic Average	8,626	52.3%	2,520	54.7%
Intuitive Surgical (ISRG)	(5,133)	0.0%	750	37.5%

Source: FactSet, 2023

ISRG holds a net cash position, while each peer is in a net debt position. The company's 0.0% debt-to-equity ratio reflects the company's lack of debt and leverage.

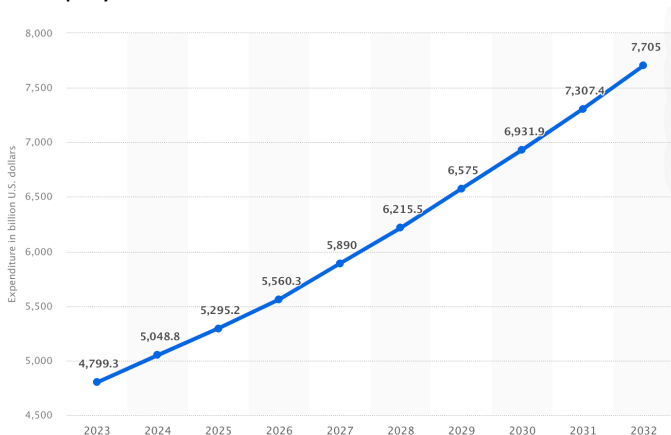
In terms of FCF, ISRG generated \$750 million in 2023 – well below the peer groups harmonic average of \$2.5 billion. We expect FCF to continue to grow over our forecast, hitting \$2.4 billion by FY 2028. Our forecast for ISRG's FCF conversion also improves to 43.6%.

ECONOMIC OUTLOOK

U.S. National Healthcare Expenditures

U.S. National healthcare Expenditures (NHE) have consistently outpaced GDP growth, driven by an aging population, higher medical service costs, and ongoing advancements in healthcare technology. However, inflation and cost pressures force hospitals and surgery centers to balance the need for cutting-edge investments with budget constraints and reimbursement uncertainties.

Looking forward, we expect U.S. NHE to continue to outpace GDP, fueled by demographic shifts. For ISRG, we believe this presents a favorable outlook. As healthcare budgets grow, hospitals will have more resources to potentially invest in technologies such as da Vinci. Below, we display a forecast for U.S. NHE:



Source: Statista

Demographics

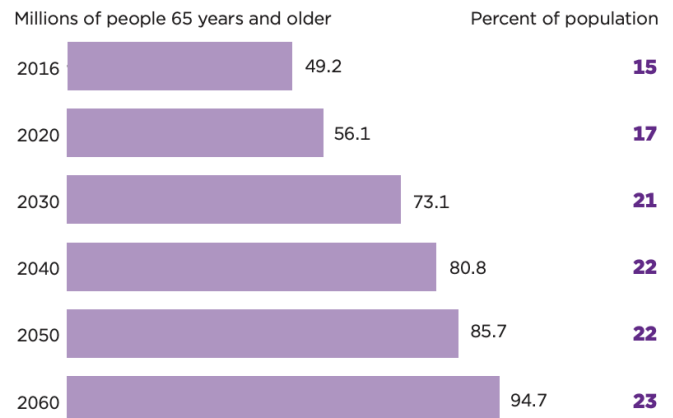
We view the current demographic dynamic as a key driver for ISRG going forward. According to the U.S. Census Bureau, 2030 will mark the key demographic turning point, as beginning in 2030, all baby boomers will be over the age of 65. By 2034, their forecast displays that for the first time in U.S. history, older individuals will outnumber children.

Below, we display their forecast:

Figure 1.

Projections of the Older Adult Population: 2020 to 2060

By 2060, nearly one in four Americans is projected to be an older adult.



Source: U.S. Census Bureau

This trend is also evident while looking internationally, specifically in Europe and Asia. In the EU, the number of individuals aged 75-84 years is projected to expand by 56.1% by 2050, while the number of individuals aged 65-74 years is projected to increase by 16.6%²⁰. In Asia, over a third of the population is expected to be aged 60 years or older by 2050²¹.

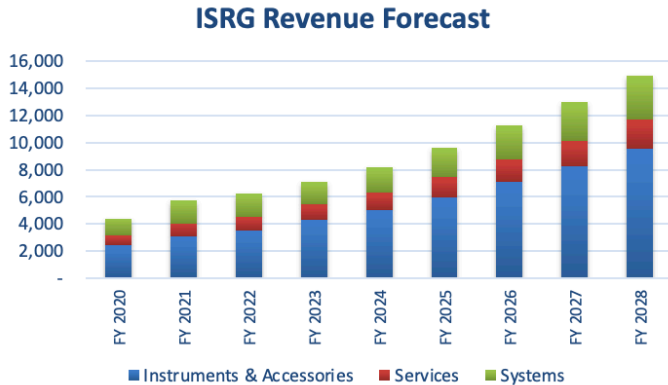
We recognize that many of these forecasts are extended in nature (2050+). Our focus is on the fact that older individuals simply tend to have more surgeries, and that the uptick in demand is closer than one may think. Currently, individuals aged 65 or older account for 34% of physician demand; by 2034, they will account for 42% of the demand²². Given the high recurring revenue nature of da Vinci, which benefits from single-use instruments, ISRG is positioned to capture significant revenue growth as it stands to benefit from each additional surgery performed on da Vinci.

VALUATION

Revenue Assumptions

Our revenue assumptions by segment are explained in greater detail under the "Company Description" section of this report. Our forecast for FY 2024 and FY 2025 closely resembles consensus growth estimates. From FY 2026 onward, we incorporate our growth expectations. On a

firm wide basis, our revenue forecasts reflect a five-year CAGR of 16.0%. The image below displays both historical revenues and our forecasted revenues:



Source: ISRG Financial Statements, HF Model

WACC

Our discount rate for ISRG is 8.22%. The cost of equity was calculated using the risk-free rate of 4.30%, a beta of 1.12 (2-year beta calculated via Python), and an equity risk premium of 3.50%. These inputs resulted in a cost of equity of 8.22%. The after-tax cost of debt was calculated using a pre-tax cost of debt of 5.05% (sourced from FactSet) and a tax rate of 11%. These inputs resulted in an after-tax cost of debt of 4.51%. The weight of equity and debt were calculated to be 100% and 0%, respectively.

DCF and EP

Our enterprise discounted cash flow (DCF) and economic profit (EP) models resulted in an intrinsic value per share of \$590. The primary inputs used in these models consisted of TV growth of 7.00% for NOPLAT, a TV ROIC of 29.82%, a cost of equity of 8.22%, and a discount rate of 8.22%.

DDM

Our dividend discount model (DDM) resulted in an intrinsic value per share of \$562. The primary inputs used in this model consisted of TV growth of 7.25% for EPS, a TV ROE of 15.91%, and a cost of equity of 8.22%.

For our TV, we leveraged a P/E multiple of 56.1x that was multiplied by our TV EPS estimate of \$12.8.

Relative Valuation

Our relative valuation model leveraged a FY1 and FY2 P/E

multiple from the peer group. We used a harmonic mean to mitigate the impact of larger P/E's. This resulted in multiples of 26.9x and 22.6x, respectively.

Our EPS estimates of \$6.36 and \$7.89 were then multiplied by the multiples mentioned above, resulting in the following implied relative values:

Implied Relative Value:

P/E (EPS24)	\$ 171.05
P/E (EPS25)	\$ 178.65

Source: HF Model

We also feel it is necessary to provide insights into additional multiples for the peer group. The following table displays EV/REV, EV/EBITDA, and P/E estimates for 2024:

Ticker	Company	EV/REV	EV/EBITDA	P/S
JNJ	Johnson & Johnson	4.4	12.7	4.2
MDT	Medtronic	4.0	14.1	3.3
SYK	Stryker Corporation	7.2	26.3	6.6
ZBH	Zimmer Biomet	3.8	11.1	2.9
Harmonic Average		4.5	14.4	3.9
ISRG		22.9	55.6	23.1
Premium (Discount)		403.4%	286.1%	499.1%

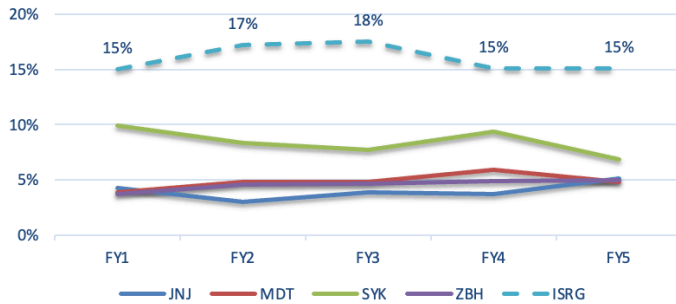
Source: HF Model, FactSet

As shown above, ISRG clearly trades at a premium relative to our peer group. We believe this premium can be justified for two key reasons:

1. We are forecasting significant revenue and EPS growth relative to consensus forecasts for our peer group.
2. ISRG holds a 57% market share and is one of few that has the installed base built out. We believe this is a significant advantage, and in our view, creates a sticky product in an area that is heavily influenced by hospital and medical center budgets.

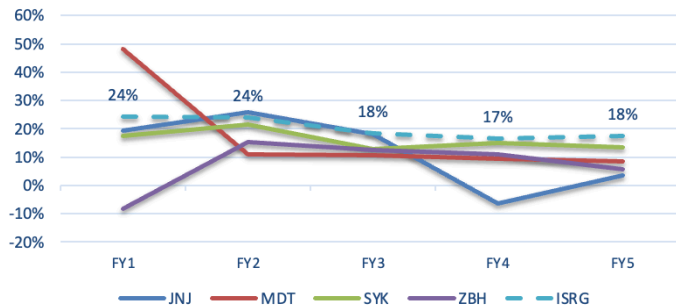
Below, we display our forecasts for revenue and EPS growth as it compares to consensus forecasts for our peer group:

ISRG Revenue Growth Consistently > Than Peers



Source: HF Model, FactSet

ISRG EPS Growth Consistently > Than Peers



Source: HF Model, FactSet

Henry Fund vs. Consensus

Estimates			
	Rev	2024E EPS	EBITDA
HF	8198	6.36	2729.48
Consensus	8145	6.01	2824.00
% Difference	0.6%	5.8%	-3.3%
% Growth Y/Y (HF)	15.1%	24.2%	25.2%

Source: HF Model, FactSet

Estimates			
	Rev	2025E EPS	EBITDA
HF	9609	7.89	3362.71
Consensus	9525	7.00	3306.00
% Difference	0.9%	12.8%	1.7%
% Growth Y/Y (HF)	17.2%	24.1%	23.2%

Source: HF Model, FactSet

Estimates			
	Rev	2026E EPS	EBITDA
HF	11294	9.35	3993.98
Consensus	11006	8.21	3981.00
% Difference	2.6%	13.9%	0.3%
% Growth Y/Y (HF)	17.5%	18.5%	18.8%

Source: HF Model, FactSet

Summary

We have a buy recommendation on ISRG with a price

target of \$590, resulting in upside of 11%. We believe the company's growth profile justifies the premium that ISRG trades at relative to the peer group and the healthcare sector in general. In our view, the da Vinci Surgical System installed base will continue to scale, leading to roughly \$770,961 in annual recurring revenue per da Vinci system.

CATALYST FOR GROWTH

da Vinci Installed Base

In our view, the build out of da Vinci's installed base is the critical growth catalyst. As the number of da Vinci systems placed in hospitals and surgical centers continues to expand globally, it will drive higher utilization rates and increased recurring revenue from instruments, accessories, and services. Each installed system creates a long-term opportunity as surgeons become more proficient and perform a broader range of minimally invasive procedures. The growing installed base will allow ISRG to capitalize on each additional surgery performed on da Vinci as awareness of the benefits of minimally invasive procedures become more well-known.

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Intuitive Surgical
Revenue Decomposition

\$ in millions Fiscal Years Ending Dec. 31	Mar-22 1Q	Jun-22 2Q	Sep-22 3Q	Dec-22 4Q	Mar-23 1Q	Jun-23 2Q	Sep-23 3Q	Dec-23 4Q	Mar-24 1Q	Jun-24 2Q	Sep-24 Q3	Dec-24 Q4E	Mar-25 Q1E	Jun-25 Q2E	Sep-25 Q3E	Dec-25 Q4E	Mar-26 Q1E	Jun-26 Q2E	Sep-26 Q3E	Dec-26 Q4E
Instruments & Accessories	810	895	872	941	986	1,076	1,071	1,144	1,159	1,244	1264	1361	1379	1481	1504	1620	1641	1762	1790	1927
% Growth Q/Q	-3.9%	10.5%	-2.6%	7.9%	4.8%	9.2%	-0.4%	6.7%	1.3%	7.4%	1.6%	7.7%	1.3%	7.4%	1.6%	7.7%	1.3%	7.4%	1.6%	7.7%
% Growth Y/Y	14.8%	12.4%	15.4%	11.6%	21.6%	20.2%	22.9%	21.6%	17.6%	15.7%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Systems	428	375	426	451	427	393	379	480	418	448	445	557	481	515	512	641	567	598	594	743
% Growth Q/Q	-8.9%	-12.4%	13.5%	5.9%	-5.2%	-8.1%	-3.4%	26.6%	-12.9%	7.2%	-0.7%	25.2%	-13.7%	7.2%	-0.7%	25.2%	-11.4%	5.4%	-0.7%	25.2%
% Growth Y/Y	16.1%	-14.7%	2.6%	-4.0%	-0.2%	4.7%	-10.9%	6.5%	-2.2%	14.1%	17.3%	16.0%	15.0%	15.0%	15.0%	15.0%	18.0%	16.0%	16.0%	16.0%
Total Product Revenue	1,238	1,270	1,298	1,392	1,413	1,469	1,451	1,624	1,577	1,693	1,709	1,918	1,860	1,996	2,016	2,260	2,209	2,360	2,384	2,670
% Growth Q/Q	-5.7%	2.6%	2.1%	7.3%	1.5%	3.9%	-1.2%	11.9%	-2.9%	7.3%	1.0%	12.2%	-3.0%	7.3%	1.0%	12.1%	-2.3%	6.9%	1.0%	12.0%
% Growth Y/Y	15.2%	2.8%	10.8%	6.0%	14.1%	15.6%	11.8%	16.7%	11.6%	15.3%	17.8%	18.1%	17.9%	17.9%	18.0%	17.8%	18.7%	18.2%	18.2%	18.1%
Services	249	252	260	263	283	287	293	304	314	317	329	341	351	355	378	392	404	409	424	435
% Growth Q/Q	4.7%	1.0%	3.3%	1.3%	7.6%	1.4%	1.9%	3.9%	3.0%	1.2%	3.7%	3.7%	3.0%	1.2%	6.4%	3.7%	3.0%	1.2%	3.7%	2.7%
% Growth Y/Y	14.6%	10.4%	11.7%	10.6%	13.6%	14.1%	12.7%	15.6%	10.7%	10.4%	12.3%	12.0%	12.0%	12.0%	15.0%	15.0%	15.0%	15.0%	12.0%	11.0%
Total Revenue	1,488	1,522	1,557	1,655	1,696	1,756	1,744	1,928	1,891	2,010	2,038	2,259	2,211	2,352	2,394	2,652	2,612	2,769	2,807	3,106
% Growth Q/Q	-4.1%	2.3%	2.3%	6.3%	2.5%	3.5%	-0.7%	10.6%	-2.0%	6.3%	1.4%	10.8%	-2.1%	6.4%	1.8%	10.8%	-1.5%	6.0%	1.4%	10.6%
% Growth Y/Y	15.1%	4.0%	11.0%	6.7%	14.0%	15.4%	12.0%	16.5%	11.5%	14.5%	16.9%	17.1%	17.0%	17.0%	17.5%	17.4%	18.1%	17.7%	17.3%	17.1%
% of Revenue in U.S.	65%	66%	70%	67%	65%	65%	68%	66%	66%	66%	68%	67%	65%	66%	68%	67%	65%	66%	68%	67%
% of Revenue Internationally	35%	34%	30%	33%	35%	35%	32%	34%	34%	34%	32%	33%	35%	34%	32%	33%	35%	34%	31%	33%
Da Vinci ASP (U.S. + International)	1.38	1.34	1.40	1.22	1.37	1.19	1.22	1.16	1.34	1.31	1.17	1.22	1.46	1.42	1.26	1.29	1.63	1.47	1.32	1.35
Instruments & Accessories	810	895	872	941	986	1076	1071	1144	1159	1244	1264	1,361	1,379	1,481	1,504	1,620	1,641	1,762	1,790	1,927
Services	249	252	260	263	283	287	293	304	314	317	329	341	351	355	378	392	404	409	424	435
Operating Lease Revenue	83	93	98	103	112	123	127	139	148	157	168	196	201	208	222	266	270	272	292	366
Total Recurring Revenue	1,143	1,240	1,229	1,307	1,381	1,486	1,491	1,587	1,620	1,719	1,761	1,898	1,931	2,044	2,105	2,278	2,315	2,443	2,506	2,728
% Growth Q/Q	-1.4%	8.5%	-0.9%	6.3%	5.7%	7.6%	0.4%	6.4%	2.1%	6.1%	2.5%	7.8%	1.8%	5.8%	2.9%	8.2%	1.6%	5.5%	2.6%	8.9%
% Growth Y/Y	16.3%	13.6%	15.9%	12.8%	20.8%	19.8%	21.4%	21.4%	17.4%	15.7%	18.1%	19.6%	19.2%	19.0%	19.5%	20.0%	19.9%	19.5%	19.1%	19.8%
% of Total Revenue	76.8%	81.5%	78.9%	79.0%	81.4%	84.6%	85.5%	82.3%	85.7%	85.5%	86.4%	84.0%	87.3%	86.9%	87.9%	85.9%	88.6%	88.2%	89.3%	87.8%
Da Vinci Surgical Systems Shipments by Region											62%									
U.S. Shipments	186	150	175	181	141	157	159	209	148	149	160	218	137	134	223	215	125	129	246	228
Seq. Chg.	(49)	(36)	25	6	(40)	16	2	50	(61)	1	70	(1)	(80)	(3)	89	(8)	(90)	4	116	(17)
% Growth Q/Q	-20.9%	-19.4%	16.7%	3.4%	-22.1%	11.3%	1.3%	31.4%	-29.2%	0.7%	47.0%	-0.6%	-36.8%	-2.5%	66.4%	-3.6%	-41.7%	3.2%	89.9%	-7.1%
% Growth Y/Y	-2.1%	-29.6%	-22.9%	-23.0%	-24.2%	4.7%	-9.1%	15.5%	5.0%	-5.1%	37.7%	4.1%	-7.1%	-10.0%	1.9%	-1.1%	-8.8%	-3.5%	10.2%	6.2%
International Shipments	125	129	130	188	171	174	153	206	165	192	160	241	192	229	182	282	224	278	204	323
Seq. Chg.	(25)	4	1	58	(17)	3	(21)	53	(41)	27	(32)	81	(49)	37	(47)	100	(58)	54	(74)	119
% Growth Q/Q	-16.7%	3.2%	0.8%	44.6%	-9.0%	1.8%	-12.1%	34.6%	-19.9%	16.4%	-16.7%	50.3%	-20.2%	19.2%	-20.4%	54.8%	-20.7%	24.2%	-26.5%	58.2%
% Growth Y/Y	15.7%	12.2%	19.3%	25.3%	36.8%	34.9%	17.7%	9.6%	-3.5%	10.3%	4.6%	16.8%	16.3%	19.1%	13.8%	17.2%	16.5%	21.5%	12.0%	14.5%
Total Shipments	311	279	305	369	312	331	312	415	313	341	379	458	329	363	405	497	349	407	450	551
Seq. Chg.	(74)	(32)	26	64	(57)	19	(19)	103	(102)	28	38	79	(129)	33	42	92	(148)	58	43	101
% Growth Q/Q	-19.2%	-10.3%	9.3%	21.0%	-15.4%	6.1%	-5.7%	33.0%	-24.6%	8.9%	11.1%	20.9%	-28.1%	10.1%	11.7%	22.7%	-29.8%	16.6%	10.5%	22.5%
% Growth Y/Y	4.4%	-14.9%	-9.2%	-4.2%	0.3%	18.6%	2.3%	12.5%	0.3%	3.0%	21.5%	10.4%	5.3%	6.4%	6.9%	8.5%	6.0%	12.2%	11.0%	10.9%

Intuitive Surgical
Revenue Decomposition

\$ in millions Fiscal Years Ending Dec. 31	Dec-20 FY 2020	Dec-21 FY 2021	Dec-22 FY 2022	Dec-23 FY 2023	Dec-24 FY 2024	Dec-25 FY 2025	Dec-26 FY 2026	Dec-27 FY 2027	Dec-28 FY 2028
Instruments & Accessories	2,456	3,101	3,518	4,277	5,029	5,984	7,121	8,260	9,582
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	26.3%	13.5%	21.6%	17.6%	19.0%	19.0%	16.0%	16.0%
Systems	1,179	1,693	1,680	1,680	1,868	2,149	2,502	2,852	3,252
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	43.6%	-0.8%	0.0%	11.2%	15.0%	16.4%	14.0%	14.0%
Total Product Revenue	3,635	4,794	5,198	5,956	6,897	8,133	9,623	11,113	12,834
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	31.9%	8.4%	14.6%	15.8%	17.9%	18.3%	15.5%	15.5%
Services	724	916	1,024	1,168	1,301	1,477	1,671	1,889	2,134
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	26.6%	11.8%	14.0%	11.4%	13.5%	13.2%	13.0%	13.0%
Total Revenue	4,358	5,710	6,222	7,124	8,198	9,609	11,294	13,001	14,968
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	31.0%	9.0%	14.5%	15.1%	17.2%	17.5%	15.1%	15.1%
% of Revenue in U.S.	68%	68%	67%	66%	67%	66%	66%	67%	67%
% of Revenue Internationally	32%	33%	33%	34%	33%	33%	33%	33%	33%
Da Vinci ASP (U.S. + International)	1.26	1.26	1.33	1.23	1.25	1.35	1.42	1.56	1.72
Instruments & Accessories	2,456	3,101	3,518	4,277	5,029	5,984	7,121	8,260	9,582
Services	724	916	1,024	1,168	1,301	1,477	1,671	1,889	2,134
Operating Lease Revenue	177	277	377	501	669	898	1,200	1,380	1,518
Total Recurring Revenue	3,356	4,294	4,919	5,945	6,998	8,358	9,992	11,529	13,234
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	27.9%	14.6%	20.9%	17.7%	19.4%	19.5%	15.4%	14.8%
% of Total Revenue	77.0%	75.2%	79.0%	83.4%	85.4%	87.0%	88.5%	88.7%	88.4%
Da Vinci Surgical Systems Shipments by Region									
U.S. Shipments	600	865	692	666	734	710	729	744	759
Seq. Chg.	-	265	(173)	(26)	68	(24)	19	15	15
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	44.2%	-20.0%	-3.8%	10.2%	-3.2%	2.7%	2.0%	2.0%
International Shipments	336	482	572	704	758	885	1,029	1,080	1,134
Seq. Chg.	-	146	90	132	54	127	144	51	54
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	43.5%	18.7%	23.1%	7.6%	16.8%	16.2%	5.0%	5.0%
Total Shipments	936	1,347	1,264	1,370	1,491	1,595	1,758	1,824	1,893
Seq. Chg.	-	411	(83)	106	121	104	163	66	69
% Growth Q/Q	-	-	-	-	-	-	-	-	-
% Growth Y/Y	-	43.9%	-6.2%	8.4%	8.8%	6.9%	10.2%	3.8%	3.8%

Intuitive Surgical
Income Statement

\$ in millions Fiscal Years Ending Dec. 31	Mar-22 1Q	Jun-22 2Q	Sep-22 3Q	Dec-22 4Q	Mar-23 1Q	Jun-23 2Q	Sep-20 3Q	Dec-23 4Q	Mar-24 1Q	Jun-24 2Q	Sep-24 Q3	Dec-24 Q4E	Mar-25 Q1E	Jun-25 Q2E	Sep-25 Q3E	Dec-25 Q4E	Mar-26 Q1E	Jun-26 Q2E	Sep-26 Q3E	Dec-26 Q4E
Product Revenue	1,238	1,270	1,298	1,392	1,413	1,469	1,451	1,624	1,577	1,693	1,709	1,918	1,860	1,996	2,016	2,260	2,209	2,360	2,384	2,670
Service Revenue	249	252	260	263	283	287	293	304	314	317	329	341	351	355	378	392	404	409	424	435
Total Revenue	1488	1522	1557	1655	1696	1756	1744	1928	1891	2010	2038	2259	2211	2352	2394	2652	2612	2769	2807	3106
Q/Q Chg.	-4.1%	2.3%	2.3%	6.3%	2.5%	3.5%	-0.7%	10.6%	-2.0%	6.3%	1.4%	10.8%	-2.1%	6.4%	1.8%	10.8%	-1.5%	6.0%	1.4%	10.6%
Y/Y Chg.	15.1%	4.0%	11.0%	6.7%	14.0%	15.4%	12.0%	16.5%	11.5%	14.5%	16.9%	17.1%	17.0%	17.0%	17.5%	17.4%	18.1%	17.7%	17.3%	17.1%
Cost of Revenue	(397)	(415)	(418)	(434)	(492)	(488)	(468)	(537)	(536)	(525)	(548)	(599)	(584)	(618)	(630)	(698)	(684)	(725)	(736)	(814)
Depreciation	(78)	(80)	(82)	(99)	(88)	(92)	(104)	(99)	(104)	(107)	(113)	(130)	(135)	(143)	(151)	(161)	(168)	(176)	(184)	(191)
Amortization	(6)	(6)	(8)	(14)	(5)	(5)	(5)	(16)	(5)	(5)	(4)	(5)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Gross Profit	1007	1021	1050	1109	1111	1170	1167	1277	1245	1373	1374	1526	1488	1586	1609	1790	1756	1863	1884	2096
Margin	67.7%	67.1%	67.4%	67.0%	65.5%	66.7%	66.9%	66.2%	65.9%	68.3%	67.4%	67.5%	67.3%	67.5%	67.2%	67.5%	67.2%	67.3%	67.1%	67.5%
Y/Y Chg. BPS	(195)	(244)	(163)	(91)	(219)	(42)	(49)	(76)	35	164	47	129	141	(84)	(21)	(6)	(7)	(16)	(9)	3
Operating Expenses																				
SG&A	(390)	(417)	(435)	(493)	(480)	(464)	(452)	(567)	(492)	(525)	(511)	(566)	(552)	(584)	(595)	(659)	(647)	(685)	(695)	(769)
R&D	(210)	(207)	(217)	(243)	(244)	(244)	(249)	(260)	(285)	(280)	(286)	(316)	(307)	(324)	(330)	(366)	(357)	(379)	(384)	(425)
Total Operating Expenses	(599)	(623)	(651)	(736)	(724)	(707)	(701)	(827)	(776)	(805)	(797)	(882)	(859)	(909)	(925)	(1,025)	(1,004)	(1,064)	(1,079)	(1,194)
EBIT	408	398	399	373	388	463	466	450	469	567	577	644	629	678	684	765	752	799	805	903
Margin	27.4%	26.1%	25.6%	22.5%	22.9%	26.4%	26.7%	23.3%	24.8%	28.2%	28.3%	28.5%	28.4%	28.8%	28.6%	28.8%	28.8%	28.9%	28.7%	29.1%
Other Income (Expense)	5	(12)	(11)	42	31	27	56	87	73	80	122	123	124	126	127	128	130	131	132	134
Investments	(17)	(1)	(3)	0	0	(6)	-	(4)	(3)	7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Hedges/Derivatives	7	22	18	(20)	3	15	-	(17)	-	-	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)
EBT	402	407	403	395	422	499	522	516	539	655	671	739	725	775	783	865	853	902	909	1008
Margin	27.0%	26.7%	25.9%	23.8%	24.9%	28.4%	29.9%	26.8%	28.5%	32.6%	32.9%	32.7%	32.8%	33.0%	32.7%	32.6%	32.7%	32.6%	32.4%	32.5%
Income Tax Expense	(33)	(93)	(78)	(58)	(61)	(73)	(102)	95	9	(123)	(100)	(140)	(31)	(142)	(126)	(83)	(48)	(136)	(157)	(82)
Tax Rate	8.2%	22.9%	19.4%	14.7%	14.5%	14.7%	19.6%	-18.4%	-1.7%	18.8%	15.0%	19.0%	4.3%	18.3%	16.2%	9.6%	5.7%	15.1%	17.2%	8.1%
Noncontrolling Interest	(4)	(6)	(1)	(12)	(6)	(5)	(4)	(5)	(3)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Net Income	366	308	324	325	355	421	416	606	545	527	565	593	689	628	651	777	799	761	747	921
Margin	24.6%	20.2%	20.8%	19.6%	20.9%	24.0%	23.8%	31.4%	28.8%	26.2%	27.7%	26.2%	31.1%	26.7%	27.2%	29.3%	30.6%	27.5%	26.6%	29.6%
Shares Outstanding	358	358	355	351	350	351	352	352	354	355	356	351	350	349	348	348	347	347	347	347
Seq. Chg.	1	(0)	(3)	(4)	(1)	1	1	0	1	2	1	(5)	(1)	(1)	(1)	(1)	(1)	-	-	-
EPS	1.02	0.86	0.91	0.93	1.01	1.20	1.18	1.72	1.54	1.48	1.59	1.69	1.97	1.80	1.87	2.23	2.30	2.19	2.15	2.65
Q/Q Chg. (Y/Y Chg.)	-4.2%	-15.7%	6.1%	1.5%	9.6%	18.2%	-1.4%	45.7%	-10.5%	-3.7%	7.0%	6.5%	16.4%	-8.6%	3.9%	19.6%	3.1%	-4.8%	-1.8%	23.3%

Intuitive Surgical
Income Statement

\$ in millions Fiscal Years Ending Dec. 31	Dec-20 FY 2020	Dec-21 FY2021	Dec-22 FY 2022	Dec-23 FY2023	Dec-24 FY 2024	Dec-25 FY2025	Dec-26 FY2026	Dec-27 FY2027	Dec-28 FY2028
Product Revenue	3,635	4,794	5,198	5,956	6,897	8,133	9,623	11,113	12,834
Service Revenue	724	916	1,024	1,168	1,301	1,477	1,671	1,889	2,134
Total Revenue	4,358	5,710	6,222	7,124	8,198	9,609	11,294	13,001	14,968
Q/Q Chg.	-	-	-	-	-	-	-	-	-
Y/Y Chg.	-	31.0%	9.0%	14.5%	15.1%	17.2%	17.5%	15.1%	15.1%
Cost of Revenue	(1,240)	(1,454)	(1,663)	(1,985)	(2,208)	(2,529)	(2,959)	(3,380)	(3,862)
Depreciation	(221)	(280)	(338)	(382)	(453)	(590)	(718)	(837)	(942)
Amortization	(59)	(36)	(34)	(31)	(18)	(18)	(17)	(16)	(14)
Gross Profit	2,839	3,940	4,187	4,726	5,518	6,473	7,599	8,768	10,150
Margin	65.1%	69.0%	67.3%	66.3%	67.3%	67.4%	67.3%	67.4%	67.8%
Y/Y Chg. BPS	-	388	-170	-95	96	5	-7	15	37
Operating Expenses									
SG&A	(1,209)	(1,459)	(1,734)	(1,962)	(2,093)	(2,390)	(2,796)	(3,198)	(3,652)
R&D	(579)	(660)	(876)	(997)	(1,167)	(1,327)	(1,546)	(1,755)	(1,991)
Total Operating Expenses	(1,789)	(2,119)	(2,610)	(2,960)	(3,260)	(3,717)	(4,341)	(4,953)	(5,643)
EBIT	1,050	1,821	1,577	1,767	2,258	2,755	3,258	3,814	4,507
Margin	24.1%	31.9%	25.3%	24.8%	27.5%	28.7%	28.8%	29.3%	30.1%
Other Income (Expense)	169	57	24	201	398	506	527	549	572
Investments	-	0	(21)	(10)	2	(4)	(4)	(4)	(4)
Hedges/Derivatives	(12)	12	27	1	(55)	(109)	(109)	(109)	(109)
EBT	1,207	1,890	1,607	1,959	2,603	3,148	3,672	4,251	4,967
Margin	27.7%	33.1%	25.8%	27.5%	31.7%	32.8%	32.5%	32.7%	33.2%
Income Tax Expense	(140)	(162)	(262)	(142)	(355)	(382)	(423)	(489)	(572)
Tax Rate	11.6%	8.6%	16.3%	7.2%	13.6%	12.1%	11.5%	11.5%	11.5%
Noncontrolling Interest	(6)	(24)	(22)	(19)	(18)	(22)	(22)	(22)	(22)
Net Income	1,061	1,705	1,322	1,798	2,230	2,744	3,228	3,739	4,373
Margin	24.3%	29.9%	21.3%	25.2%	27.2%	28.6%	28.6%	28.8%	29.2%
Shares Outstanding	351	356	356	351	351	348	345	343	341
Seq. Chg.	-	5	(0)	(5)	(1)	(3)	(2)	(2)	(2)
EPS	3.02	4.79	3.72	5.12	6.36	7.89	9.35	10.90	12.81
Q/Q Chg. (Y/Y Chg.)	-	58.4%	-22.3%	37.7%	24.2%	24.1%	18.5%	16.6%	17.5%

Intuitive Surgical Balance Sheet

\$ in millions	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-20	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Fiscal Years Ending Dec. 31	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Q4E	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Cash & Equivalents	1,103	1,536	1,538	1,581	2,143	3,435	3,602	2,750	2,840	3,037	2,413	3,047	3,467	3,680	3,986	4,375	4,969	5,406	5,873	6,411
ST Investments	2,883	2,901	2,776	2,537	2,549	2,364	2,874	2,473	1,961	1,721	1,818	1,837	1,856	1,876	1,895	1,915	1,934	1,954	1,975	1,995
Accounts Receivable	906	839	850	942	925	904	963	1,130	1,128	1,109	1,153	1,263	1,240	1,334	1,364	1,505	1,471	1,564	1,585	1,756
Inventory	653	724	837	893	947	1,005	1,148	1,221	1,299	1,384	1,482	1,460	1,457	1,579	1,612	1,801	1,771	1,872	1,878	2,088
Prepays & Other CA	259	293	293	300	313	323	317	314	405	404	349	420	411	438	447	504	488	511	524	580
Total Current Assets	5803	6293	6293	6253	6877	8032	8903	7888	7633	7654	7216	8027	8431	8906	9304	10099	10633	11307	11835	12830
PPE, Net	1,968	2,109	2,244	2,374	2,580	2,831	3,077	3,538	3,800	4,117	4,433	4,735	5,034	5,328	5,617	5,898	6,176	6,448	6,715	6,977
LT Investments	4,416	3,738	3,078	2,624	1,886	1,333	1,045	2,120	2,523	2,926	4,080	4,123	4,167	4,211	4,255	4,300	4,346	4,392	4,438	4,485
Deferred Tax Assets	485	516	587	665	645	667	701	911	918	947	997	1,037	1,045	1,085	1,121	1,145	1,158	1,197	1,241	1,264
Intangible & Other Assets	662	700	710	710	716	693	638	637	607	658	670	665	660	656	652	647	643	638	634	630
Goodwill	343	349	348	349	349	349	348	349	348	348	348	348	348	348	348	348	348	348	348	348
Total Assets	13678	13705	13261	12974	13053	13903	14713	15442	15828	16650	17743	18934	19686	20535	21297	22438	23304	24330	25211	26534
Accounts Payable	128	150	164	147	164	200	196	189	194	194	219	235	232	244	245	274	270	288	291	322
Accrued Compensation & Employee Benefits	220	279	308	402	261	347	375	436	238	321	378	452	442	470	479	530	522	554	561	621
Deferred Revenue	386	376	359	397	418	405	395	446	438	434	426	501	485	509	519	580	569	602	611	677
Other Accrued Liabilities	378	370	402	476	465	587	711	588	505	538	655	702	699	737	719	794	795	857	864	954
Total Current Liabilities	1112	1175	1233	1422	1307	1538	1676	1659	1375	1488	1677	1890	1859	1961	1962	2178	2156	2301	2328	2574
Other LT Liabilities	409	448	453	439	452	405	413	386	407	366	389	445	434	450	464	516	507	536	545	603
Total Liabilities	1521	1623	1687	1861	1759	1944	2089	2044	1782	1853	2066	2335	2293	2411	2426	2695	2663	2837	2872	3177
Common Stock	7,355	7,484	7,685	7,704	7,928	8,151	8,386	8,576	8,903	9,150	9,440	9,804	9,895	9,986	10,077	10,168	10,259	10,351	10,442	10,533
Retained Earnings	4,858	4,683	4,018	3,500	3,397	3,808	4,209	4,743	5,068	5,582	6,130	6,723	7,411	8,039	8,690	9,168	10,266	11,027	11,774	12,694
Accumulated OCI	(111)	(144)	(188)	(163)	(109)	(80)	(57)	(12)	(9)	(24)	13	(28)	(19)	(13)	(13)	(14)	(12)	(17)	(15)	(14)
Noncontrolling Interest	55	59	59	71	77	81	85	90	84	88	94	100	105	111	116	122	127	133	138	144
Total Shareholders' Equity	12157	12082	11574	11112	11294	11959	12623	13397	14046	14796	15677	16599	17392	18123	18870	19743	20640	21493	22339	23357
Liabilites + Equity	13678	13705	13260	12974	13053	13903	14712	15441	15828	16650	17743	18934	19685	20535	21297	22438	23303	24330	25211	26533
CHECK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Intuitive Surgical Balance Sheet

[illegible]

Intuitive Surgical
Historical Cash Flow Statement

<i>\$ in millions</i>	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Fiscal Years Ending Dec. 31	FY 2020	FY2021	FY 2022	FY2023	Q1-Q3
Cash Flow from Operations					
Net Income	1,067	1,728	1,344	1,817	1,650
Depreciation	226	283	338	402	324
Amortization	50	27	28	20	14
Gain on Sale of Investments	-	-	(4)	-	-
Gain / Loss on Investments	(55)	11	49	7	(38)
Deferred Income Taxes	58	(63)	(185)	(281)	(105)
Share-based compensation expense	395	449	513	593	500
Amortization of contract acquisition asset	17	22	27	33	27
Accounts receivable	6	(142)	(159)	(186)	(22)
Inventory	(170)	(256)	(547)	(713)	(651)
Prepays and other assets	(112)	(205)	(129)	24	(80)
Accounts payable	(32)	36	21	42	21
Accrued compensation and employee benefits	(17)	115	52	35	(59)
Deferred revenue	15	33	22	53	(6)
Other liabilities excluding deferred revenue	37	51	122	(33)	18
Net Cash Flow from Operations	1,485	2,089	1,491	1,814	1,592
Cash Flow from Investing					
Purchase of investments	(4,293)	(6,452)	(1,400)	(2,207)	(3,710)
Proceeds from sales of investments	801	85	61	230	100
Proceeds from maturities of investments	2,931	4,268	3,254	2,690	2,400
Purchase of property, plant and equipment, intellectual property and business	(379)	(362)	(545)	(1,073)	(799)
Net Cash Flow from Investing	(941)	(2,462)	1,371	(360)	(2,009)
Cash Flow from Financing					
Proceeds from issuance of common stock relating to employee stock plans	309	277	234	296	368
Taxes paid related to net share settlement of equity awards	(175)	(212)	(194)	(165)	(258)
Repurchase and retirement of common stock	(134)	-	(2,607)	(416)	-
Cash Dividend from JV	-	-	-	-	(8)
Payment of deferred purchase consideration	(85)	(22)	(5)	(3)	(1)
Net Cash Flow from Financing	(86)	43	(2,572)	(288)	102
Exchange Rate Effect	(18)	(3)	1	3	(23)
Change in Cash	441	(333)	290	1,169	(338)
Cash Beginning of Period	1,183	1,623	1,291	1,581	2,750
Cash End of Period	1,623	1,291	1,581	2,750	2,413
BS Cash	1,623	1,291	1,581	2,750	2,413
CHECK	OK	OK	OK	OK	OK

Intuitive Surgical
Forecasted Cash Flow Statement

\$ in millions	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26		Dec-24	Dec-25	Dec-26	Dec-27	Dec-28
Fiscal Years Ending Dec. 31	Q4E	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E		Q4E	FY2025	FY2026	FY2027	FY2028
Cash Flow from Operations															
Net Income	593	689	628	651	777	799	761	747	921		593	2,744	3,228	3,739	4,373
D&A	134	140	147	156	165	172	180	188	196		134	607	736	853	956
Receivables	(110)	22	(94)	(30)	(141)	34	(93)	(21)	(171)		(110)	(242)	(251)	(265)	(306)
Inventory	22	3	(122)	(33)	(189)	30	(102)	(6)	(209)		22	(341)	(287)	(315)	(363)
Prepays & Other	(70)	8	(27)	(9)	(57)	17	(24)	(13)	(56)		(70)	(85)	(75)	(88)	(101)
Accounts Payable	16	(3)	12	1	28	(4)	19	3	31		16	39	48	49	56
Accrued Compensation	74	(10)	28	9	52	(8)	31	8	60		74	79	91	94	108
Deferred Revenue	75	(16)	24	10	61	(11)	33	9	66		75	79	97	102	118
Other Accrued Liabilities	48	(3)	38	(19)	76	0	62	7	90		48	92	160	144	166
Deferred Taxes	(40)	(9)	(40)	(36)	(23)	(14)	(38)	(44)	(23)		(40)	(108)	(119)	(138)	(161)
LT Liabilities	56	(11)	17	14	52	(9)	29	9	58		56	71	86	91	105
Net Cash Flow from Operations	799	811	611	713	800	1,006	858	887	961		799	2,936	3,712	4,266	4,950
Cash Flow from Investing															
PPE, Gross	(432)	(434)	(437)	(440)	(442)	(445)	(448)	(451)	(453)		(432)	(1,753)	(1,797)	(1,842)	(1,888)
ST Investments	(19)	(19)	(19)	(19)	(20)	(20)	(20)	(20)	(20)		(19)	(77)	(81)	(84)	(88)
LT Investments	(43)	(44)	(44)	(45)	(45)	(46)	(46)	(46)	(47)		(43)	(177)	(185)	(193)	(201)
Net Cash Flow from Investing	(494)	(497)	(500)	(504)	(507)	(510)	(514)	(517)	(521)		(494)	(2,008)	(2,062)	(2,119)	(2,177)
Cash Flow from Financing															
Common Stock	364	91	91	91	91	91	91	91	91		364	364	364	364	364
Accumulated OCI	(41)	9	6	(0)	(1)	2	(4)	2	1		(41)	14	(0)	-	-
Noncontrolling Interest	6	6	6	6	6	6	6	6	6		6	22	22	22	22
Net Cash Flow from Financing	329	105	103	96	96	98	92	98	97		329	400	386	386	386
Change in Cash	634	420	213	306	389	594	437	468	538		634	1,328	2,036	2,533	3,160
Cash Beginning of Period	2,413	3,047	3,467	3,680	3,986	4,375	4,969	5,406	5,873		2,413	3,047	4,375	6,411	8,944
Cash End of Period	3,047	3,467	3,680	3,986	4,375	4,969	5,406	5,873	6,411		3,047	4,375	6,411	8,944	12,104
BS Cash	3,047	3,467	3,680	3,986	4,375	4,969	5,406	5,873	6,411		3,047	4,375	6,411	8,944	12,104
CHECK	OK	OK	OK	OK	OK	OK	OK	OK	OK		OK	OK	OK	OK	OK

Intuitive Surgical
Common Size Income Statement

\$ in millions Fiscal Years Ending Dec. 31	Mar-22 1Q	Jun-22 2Q	Sep-22 3Q	Dec-22 4Q	Mar-23 1Q	Jun-23 2Q	Sep-20 3Q	Dec-23 4Q	Mar-24 1Q	Jun-24 2Q	Sep-24 Q3E	Dec-24 Q4E	Mar-25 Q1E	Jun-25 Q2E	Sep-25 Q3E	Dec-25 Q4E	Mar-26 Q1E	Jun-26 Q2E	Sep-26 Q3E	Dec-26 Q4E
Product Revenue	83.2%	83.5%	83.3%	84.1%	83.3%	83.6%	83.2%	84.2%	83.4%	84.2%	83.9%	84.9%	84.1%	84.9%	84.2%	85.2%	84.5%	85.2%	84.9%	86.0%
Service Revenue	16.8%	16.5%	16.7%	15.9%	16.7%	16.4%	16.8%	15.8%	16.6%	15.8%	16.1%	15.1%	15.9%	15.1%	15.8%	14.8%	15.5%	14.8%	15.1%	14.0%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	26.7%	27.3%	26.8%	26.2%	29.0%	27.8%	26.8%	27.8%	28.3%	26.1%	26.9%	26.5%	26.4%	26.3%	26.3%	26.3%	26.2%	26.2%	26.2%	26.2%
Depreciation	5.2%	5.2%	5.3%	6.0%	5.2%	5.3%	5.9%	5.1%	5.5%	5.3%	5.5%	5.7%	6.1%	6.1%	6.3%	6.1%	6.4%	6.3%	6.5%	6.2%
Amortization	0.4%	0.4%	0.5%	0.8%	0.3%	0.3%	0.3%	0.8%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Gross Profit	67.7%	67.1%	67.4%	67.0%	65.5%	66.7%	66.9%	66.2%	65.9%	68.3%	67.4%	67.5%	67.3%	67.5%	67.2%	67.5%	67.2%	67.3%	67.1%	67.5%
SG&A	26.2%	27.4%	27.9%	29.8%	28.3%	26.4%	25.9%	29.4%	26.0%	26.1%	25.1%	25.1%	25.0%	24.9%	24.9%	24.9%	24.8%	24.8%	24.8%	24.8%
R&D	14.1%	13.6%	13.9%	14.7%	14.4%	13.9%	14.3%	13.5%	15.0%	13.9%	14.0%	14.0%	13.9%	13.8%	13.8%	13.8%	13.7%	13.7%	13.7%	13.7%
EBIT	27.4%	26.1%	25.6%	22.5%	22.9%	26.4%	26.7%	23.3%	24.8%	28.2%	28.3%	28.5%	28.4%	28.8%	28.6%	28.8%	28.8%	28.9%	28.7%	29.1%
Other Income (Expense)	0.3%	-0.8%	-0.7%	2.5%	1.8%	1.6%	3.2%	4.5%	3.8%	4.0%	6.0%	5.5%	5.6%	5.3%	5.3%	4.8%	5.0%	4.7%	4.7%	4.3%
Investments	-1.2%	-0.1%	-0.2%	0.0%	0.0%	-0.3%	0.0%	-0.2%	-0.2%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hedges/Derivatives	0.5%	1.4%	1.1%	-1.2%	0.2%	0.8%	0.0%	-0.9%	0.0%	0.0%	-1.3%	-1.2%	-1.2%	-1.2%	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%	-0.9%
EBT	27.0%	26.7%	25.9%	23.8%	24.9%	28.4%	29.9%	26.8%	28.5%	32.6%	32.9%	32.7%	32.8%	33.0%	32.7%	32.6%	32.7%	32.6%	32.4%	32.5%
Income Tax Expense	-2.2%	-6.1%	-5.0%	-3.5%	-3.6%	-4.2%	-5.9%	4.9%	0.5%	-6.1%	-4.9%	-6.2%	-1.4%	-6.0%	-5.3%	-3.1%	-1.8%	-4.9%	-5.6%	-2.6%
Noncontrolling Interest	-0.3%	-0.4%	0.0%	-0.7%	-0.3%	-0.3%	-0.2%	-0.2%	-0.1%	-0.2%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Net Income	24.6%	20.2%	20.8%	19.6%	20.9%	24.0%	23.8%	31.4%	28.8%	26.2%	27.7%	26.2%	31.1%	26.7%	27.2%	29.3%	30.6%	27.5%	26.6%	29.6%

Intuitive Surgical

Common Size Income Statement

\$ in millions Fiscal Years Ending Dec. 31	Dec-20 FY 2020	Dec-21 FY2021	Dec-22 FY 2022	Dec-23 FY2023	Dec-24 FY 2024	Dec-25 FY2025	Dec-26 FY2026	Dec-27 FY2027	Dec-28 FY2028
Product Revenue	83.4%	84.0%	83.5%	83.6%	84.1%	84.6%	85.2%	85.5%	85.7%
Service Revenue	16.6%	16.0%	16.5%	16.4%	15.9%	15.4%	14.8%	14.5%	14.3%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	28.5%	25.5%	26.7%	27.9%	26.9%	26.3%	26.2%	26.0%	25.8%
Depreciation	5.1%	4.9%	5.4%	5.4%	5.5%	6.1%	6.4%	6.4%	6.3%
Amortization	1.4%	0.6%	0.5%	0.4%	0.2%	0.2%	0.2%	0.1%	0.1%
Gross Profit	65.1%	69.0%	67.3%	66.3%	67.3%	67.4%	67.3%	67.4%	67.8%
SG&A	27.7%	25.6%	27.9%	27.5%	25.5%	24.9%	24.8%	24.6%	24.4%
R&D	13.3%	11.6%	14.1%	14.0%	14.2%	13.8%	13.7%	13.5%	13.3%
EBIT	24.1%	31.9%	25.3%	24.8%	27.5%	28.7%	28.8%	29.3%	30.1%
Other Income (Expense)	3.9%	1.0%	0.4%	2.8%	4.9%	5.3%	4.7%	4.2%	3.8%
Investments	0.0%	0.0%	-0.3%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Hedges/Derivatives	-0.3%	0.2%	0.4%	0.0%	-0.7%	-1.1%	-1.0%	-0.8%	-0.7%
EBT	27.7%	33.1%	25.8%	27.5%	31.7%	32.8%	32.5%	32.7%	33.2%
Income Tax Expense	-3.2%	-2.8%	-4.2%	-2.0%	-4.3%	-4.0%	-3.7%	-3.8%	-3.8%
Noncontrolling Interest	-0.1%	-0.4%	-0.4%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%
Net Income	24.3%	29.9%	21.3%	25.2%	27.2%	28.6%	28.6%	28.8%	29.2%

Intuitive Surgical

Common Size Balance Sheet

\$ in millions	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Fiscal Years Ending Dec. 31	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Cash & Equivalents	74.1%	100.9%	98.8%	95.5%	126.3%	195.6%	206.6%	142.6%	150.2%	151.1%	118.4%	134.9%	156.8%	156.5%	166.5%	165.0%	190.2%	195.2%	209.2%	206.4%
ST Investments	193.8%	190.6%	178.2%	153.3%	150.3%	134.6%	164.8%	128.3%	103.7%	85.6%	89.2%	81.3%	84.0%	79.8%	79.1%	72.2%	74.0%	70.6%	70.3%	64.2%
Accounts Receivable	60.9%	55.1%	54.6%	56.9%	54.6%	51.5%	55.2%	58.6%	59.7%	55.2%	56.6%	55.9%	56.1%	56.7%	57.0%	56.7%	56.3%	56.5%	56.5%	56.5%
Inventory	43.9%	47.6%	53.7%	54.0%	55.8%	57.2%	65.8%	63.3%	68.7%	68.9%	72.7%	64.6%	65.9%	67.1%	67.3%	67.9%	67.8%	67.6%	66.9%	67.2%
Prepays & Other CA	17.4%	19.2%	18.8%	18.1%	18.4%	18.4%	18.2%	16.3%	21.4%	20.1%	17.1%	18.6%	18.6%	18.6%	18.7%	19.0%	18.7%	18.5%	18.7%	18.7%
Total Current Assets	390.1%	413.4%	404.1%	377.8%	405.4%	457.4%	510.6%	409.1%	403.7%	380.8%	354.0%	355.3%	381.3%	378.7%	388.6%	380.8%	407.0%	408.4%	421.6%	413.1%
PPE, Net	132.3%	138.6%	144.1%	143.5%	152.1%	161.2%	176.5%	183.5%	201.0%	204.8%	217.5%	209.6%	227.7%	226.6%	234.6%	222.4%	236.4%	232.9%	239.2%	224.7%
LT Investments	296.8%	245.6%	197.6%	158.5%	111.2%	75.9%	59.9%	109.9%	133.4%	145.6%	200.2%	182.5%	188.4%	179.1%	177.7%	162.1%	166.4%	158.6%	158.1%	144.4%
Deferred Tax Assets	32.6%	33.9%	37.7%	40.2%	38.0%	38.0%	40.2%	47.2%	48.5%	47.1%	48.9%	45.9%	47.3%	46.2%	46.8%	43.2%	44.3%	43.2%	44.2%	40.7%
Intangible & Other Assets	44.5%	46.0%	45.6%	42.9%	42.2%	39.5%	36.6%	33.0%	32.1%	32.7%	32.9%	29.4%	29.9%	27.9%	27.2%	24.4%	24.6%	23.1%	22.6%	20.3%
Goodwill	23.1%	22.9%	22.4%	21.1%	20.6%	19.9%	20.0%	18.1%	18.4%	17.3%	17.1%	15.4%	15.8%	14.8%	14.5%	13.1%	13.3%	12.6%	12.4%	11.2%
Total Assets	919.4%	900.4%	851.5%	783.9%	769.6%	791.8%	843.8%	800.8%	837.2%	828.4%	870.6%	838.2%	890.3%	873.2%	889.5%	846.0%	892.0%	878.7%	898.0%	854.4%
Accounts Payable	8.6%	9.8%	10.5%	8.9%	9.7%	11.4%	11.3%	9.8%	10.3%	9.7%	10.7%	10.4%	10.5%	10.4%	10.2%	10.3%	10.3%	10.4%	10.4%	10.4%
Accrued Compensation & Employee Benefits	14.8%	18.3%	19.8%	24.3%	15.4%	19.7%	21.5%	22.6%	12.6%	16.0%	18.5%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Deferred Revenue	25.9%	24.7%	23.0%	24.0%	24.6%	23.1%	22.6%	23.1%	23.1%	21.6%	20.9%	22.2%	22.0%	21.7%	21.7%	21.9%	21.8%	21.7%	21.8%	21.8%
Other Accrued Liabilities	25.4%	24.3%	25.8%	28.8%	27.4%	33.4%	40.8%	30.5%	26.7%	26.8%	32.1%	31.1%	31.6%	31.4%	30.0%	30.0%	30.4%	30.9%	30.8%	30.7%
Total Current Liabilities	74.8%	77.2%	79.2%	85.9%	77.1%	87.6%	96.1%	86.0%	72.7%	74.0%	82.3%	83.7%	84.1%	83.4%	81.9%	82.1%	82.5%	83.1%	82.9%	82.9%
Other LT Liabilities	27.5%	29.4%	29.1%	26.5%	26.6%	23.1%	23.7%	20.0%	21.5%	18.2%	19.1%	19.7%	19.6%	19.2%	19.4%	19.5%	19.4%	19.4%	19.4%	19.4%
Total Liabilities	102.3%	106.6%	108.3%	112.5%	103.7%	110.7%	119.8%	106.0%	94.2%	92.2%	101.4%	103.4%	103.7%	102.5%	101.3%	101.6%	101.9%	102.5%	102.3%	102.3%
Common Stock	494.4%	491.7%	493.4%	465.5%	467.4%	464.2%	480.9%	444.8%	470.9%	455.2%	463.2%	434.0%	447.5%	424.7%	420.9%	383.4%	392.7%	373.8%	371.9%	339.1%
Retained Earnings	326.5%	307.7%	258.0%	211.5%	200.3%	216.9%	241.4%	246.0%	268.1%	277.7%	300.8%	297.6%	335.2%	341.9%	362.9%	356.9%	393.0%	398.2%	419.4%	408.8%
Accumulated OCI	-7.4%	-9.5%	-12.0%	-9.8%	-6.4%	-4.5%	-3.2%	-0.6%	-0.5%	-1.2%	0.6%	-1.2%	-0.9%	-0.6%	-0.6%	-0.5%	-0.5%	-0.6%	-0.5%	-0.5%
Noncontrolling Interest	3.7%	3.9%	3.8%	4.3%	4.5%	4.6%	4.8%	4.7%	4.4%	4.4%	4.6%	4.4%	4.8%	4.7%	4.9%	4.6%	4.9%	4.8%	4.9%	4.6%
Total Shareholders' Equity	817.1%	793.8%	743.1%	671.4%	665.8%	681.1%	723.9%	694.8%	742.9%	736.2%	769.2%	734.8%	786.6%	770.7%	788.1%	744.4%	790.1%	776.3%	795.7%	752.1%
Liabilities + Equity	919.4%	900.4%	851.4%	783.9%	769.5%	791.8%	843.7%	800.8%	837.2%	828.4%	870.6%	838.2%	890.3%	873.2%	889.4%	846.0%	892.0%	878.7%	898.0%	854.4%
CHECK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Common Size Balance Sheet

[illegible]

Intuitive Surgical
Value Driver Estimation

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
NOPLAT:								
Revenue	5,710	6,222	7,124	8,198	9,609	11,294	13,001	14,968
Less: D&A	316	372	413	472	607	736	853	956
Less: COGS	1,454	1,663	1,985	2,208	2,529	2,959	3,380	3,862
Less: SG&A	1,459	1,734	1,962	2,093	2,390	2,796	3,198	3,652
Less: R&D	660	876	997	1,167	1,327	1,546	1,755	1,991
Plus: Implied Interest on Operating Leases	24	61	36	91	109	138	159	175
EBITA	1,845	1,639	1,803	2,349	2,864	3,396	3,973	4,682
Tax Rate	8.6%	16.3%	7.2%	13.6%	12.1%	11.5%	11.5%	11.5%
Income Tax Expense	162	262	142	355	382	423	489	572
Less: Tax Shield on Other Income	5	4	15	54	61	61	63	66
Less: Tax Shield on Investments	0	(3)	(1)	0	(0)	(0)	(0)	(0)
Less: Tax Shield on Hedging/Derivatives	1	4	0	(7)	(13)	(13)	(13)	(13)
Plus: Tax Shield on Leases	2	10	3	12	13	16	18	20
Adjusted Taxes	158	268	130	320	348	391	457	539
Changes in Deferred Tax	74	223	246	126	108	119	138	161
NOPLAT	1,760	1,594	1,919	2,155	2,625	3,125	3,654	4,305
Invested Capital (IC):								
Normal Cash	2,204	2,402	2,750	3,164	3,710	4,360	5,019	5,778
Receivables	783	942	1,130	1,263	1,505	1,756	2,021	2,327
Inventory	587	893	1,221	1,460	1,801	2,088	2,403	2,767
Prepays & Other	271	300	314	420	504	580	667	768
Operating Current Assets	3,845	4,537	5,415	6,307	7,519	8,783	10,111	11,640
Accounts Payable	121	147	189	235	274	322	370	426
Accrued Compensation & Employee Benefits	350	402	436	452	530	621	715	823
Deferred Revenue	377	397	446	501	580	677	779	897
Other Accrued Liabilities	301	476	588	702	794	954	1,098	1,264
Operating Current Liabilities	1,150	1,422	1,659	1,890	2,178	2,574	2,963	3,411
Net Operating Working Capital	2,695	3,115	3,756	4,417	5,341	6,209	7,148	8,229
PPE, Net	1,876	2,374	3,538	4,735	5,898	6,977	7,982	8,928
Other LT Operating Liabilities	454	439	386	445	516	603	694	799
Invested Capital	4,118	5,050	6,908	8,707	10,723	12,583	14,435	16,358
Free Cash Flow (FCF):								
NOPLAT	1,760	1,594	1,919	2,155	2,625	3,125	3,654	4,305
Change in IC	754	932	1,858	1,798	2,016	1,860	1,852	1,922
FCF	1,007	662	60	357	608	1,264	1,802	2,382
Return on Invested Capital (ROIC):								
NOPLAT	1,760	1,594	1,919	2,155	2,625	3,125	3,654	4,305
Beginning IC	3,364	4,118	5,050	6,908	8,707	10,723	12,583	14,435
ROIC	52.32%	38.71%	37.99%	31.19%	30.15%	29.14%	29.04%	29.82%
Economic Profit (EP):								
Beginning IC	3,364	4,118	5,050	6,908	8,707	10,723	12,583	14,435
x (ROIC - WACC)	44.10%	30.49%	29.77%	22.97%	21.93%	20.92%	20.82%	21.60%
EP	1,484	1,256	1,503	1,587	1,909	2,243	2,620	3,118

Intuitive Surgical

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		
Risk-Free Rate	4.30%	<i>ASSUMPTIONS:</i>
Beta	1.12	<i>10yr. U.S. Treasury</i>
Equity Risk Premium	3.50%	<i>2yr Beta - Calculated via Python Script</i>
Cost of Equity	8.22%	<i>HF Estimate</i>
Cost of Debt:		
Risk-Free Rate	4.30%	<i>10yr. U.S. Treasury</i>
Implied Default Premium	0.75%	
Pre-Tax Cost of Debt	5.05%	<i>FactSet</i>
Marginal Tax Rate	11%	<i>3yr Average</i>
After-Tax Cost of Debt	4.51%	
Market Value of Common Equity:		
Total Shares Outstanding	356	MV Weights
Current Stock Price	\$534.00	
MV of Equity	189,997.20	100.00%
Market Value of Debt:		
Short-Term Debt	-	
Current Portion of LTD	-	
Long-Term Debt	-	
PV of Operating Leases	-	
MV of Total Debt	-	0.00%
Market Value of the Firm	189,997.20	100.00%
Estimated WACC		8.22%

Intuitive Surgical

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

Key Inputs:

CV Growth of NOPLAT	7.00%
CV Year ROIC	29.82%
WACC	8.22%
Cost of Equity	8.22%
CV Year NOPLAT	4,305

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2038E
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DCF Model:

Free Cash Flow (FCF)	357	608	1264	1802	2382
Continuing Value (CV)					270009
PV of FCF	329	519	998	1314	196856

Value of Operating Assets:	200,016
Non-Operating Adjustments	
Less: ESOP	(3,971)
Less: Noncontrolling Interest	(94)

Value of Equity	195,951
Shares Outstanding	356
Intrinsic Value of Last FYE	\$ 550.73
Implied Price as of Today	\$ 589.48

EP Model:

Economic Profit (EP)	1587	1909	2243	2620	3118
Continuing Value (CV)					255574
PV of EP	1466	1630	1770	1910	186332

Total PV of EP	193,108
Invested Capital (last FYE)	6,908
Value of Operating Assets:	200,016
Non-Operating Adjustments	
Less: ESOP	(3,971)
Less: Noncontrolling Interest	(94)

Value of Equity	195,951
Shares Outstanding	356
Intrinsic Value of Last FYE	\$ 550.73
Implied Price as of Today	\$ 589.48

Intuitive Surgical

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

<i>Fiscal Years Ending</i>	2024E	2025E	2026E	2027E	2028E
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EPS	\$ 6.36	\$ 7.89	\$ 9.35	\$ 10.90	\$ 12.81
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Key Assumptions

CV growth of EPS	7.25%
CV Year ROE	15.91%
Cost of Equity	8.22%

Future Cash Flows

P/E Multiple (CV Year)					56.12
EPS (CV Year)					\$ 12.81
Future Stock Price					\$ 718.81
Dividends Per Share	-	-	-	-	
Discounted Cash Flows	-	-	-	-	\$ 524.07

Intrinsic Value as of Last FYE	\$ 524.07
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Implied Price as of Today	\$ 560.94
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Intuitive Surgical

Relative Valuation Models

Ticker	Company	Price	EPS FY1	EPS FY2	P/E FY1	P/E FY2
JNJ	Johnson & Johnson	\$154.00	\$6.67	\$8.39	23.09	18.36
MDT	Medtronic	\$87.53	\$4.09	\$4.54	21.40	19.28
SYK	Styker Corporation	\$390.08	\$9.80	\$11.92	39.80	32.72
ZBH	Zimmer Biomet	\$112.54	\$4.83	\$5.57	23.30	20.20
Harmonic Average					26.90	22.64

ISRG	Intuitive Surgical	\$534.00	\$6.36	\$7.89	84.0	67.7
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Implied Relative Value:

P/E (EPS24) \$ 171.05

P/E (EPS25) \$ 178.65

Intuitive Surgical*Key Management Ratios*

Fiscal Years Ending Dec. 31	FY2021	FY 2022	FY2023	FY 2024	FY2025	FY2026	FY2027	FY2028
Liquidity Ratios:								
Current Ratio (CA/CL)	5.1	4.4	4.8	4.2	4.6	5.0	5.4	5.9
Quick Ratio ((Cash + A/R)/CL)	1.8	1.8	2.3	2.3	2.7	3.2	3.7	4.2
Cash Ratio (Cash/CL)	1.1	1.1	1.7	1.6	2.0	2.5	3.0	3.5
Asset-Management Ratios:								
Inventory Turnover (COGS/Avg. Inventory)	2.4	2.2	1.9	1.6	1.6	1.5	1.5	1.5
Receivables Turnover (Revenue/Avg. Receivables)	8.0	7.2	6.9	6.9	6.9	6.9	6.9	6.9
Payables Turnover (COGS/Avg. Payables)	14.3	12.4	11.8	10.4	10.0	9.9	9.8	9.7
CCC (DSO + DOH - #DP)	169.4	183.6	216.6	239.8	251.1	255.8	258.1	259.7
Financial Leverage Ratios:								
Debt/Equity (Debt / Avg. SE)	NM	NM	NM	NM	NM	NM	NM	NM
Debt/TC (Debt/(Debt + Avg. SE))	NM	NM	NM	NM	NM	NM	NM	NM
Financial Leverage Ratio (TA/Avg. SE)	1.2	1.1	1.3	1.3	1.2	1.2	1.2	1.2
Profitability Ratios:								
Return on Equity (NI/Avg. TSE)	15.7%	11.5%	14.7%	14.9%	15.1%	15.0%	14.7%	14.6%
Return on Assets (NI/Avg. TA)	13.8%	10.0%	12.7%	13.0%	13.3%	13.2%	13.0%	12.9%
FCF Conversion (FCF/EBITDA)	47.1%	34.0%	2.8%	13.1%	18.1%	31.7%	38.6%	43.6%

Intuitive Surgical

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	10
Average Time to Maturity (years):	4.21
Expected Annual Number of Options Exercised:	2

Current Average Strike Price:	\$ 156.59
Cost of Equity:	8.22%
Current Stock Price:	\$534.00

Fiscal Years Ending Dec. 31	FY 2024	FY2025	FY2026	FY2027	FY2028
Increase in Shares Outstanding:	2	2	2	2	2
Average Strike Price:	\$ 156.59	\$ 156.59	\$ 156.59	\$ 156.59	\$ 156.59
Increase in Common Stock Account:	364	364	364	364	364
Share Repurchases (\$)	4,000	3,000	3,000	3,000	3,000
Expected Price of Repurchased Shares:	\$ 534.00	\$ 577.89	\$ 625.40	\$ 676.81	\$ 732.44
Number of Shares Repurchased:	7	5	5	4	4
Shares Outstanding (beginning of the year)	356	351	348	345	343
Plus: Shares Issued Through ESOP	2	2	2	2	2
Less: Shares Repurchased in Treasury	7	5	5	4	4
Shares Outstanding (end of the year)	351	348	345	343	341

Intuitive Surgical

Valuation of Options Granted under ESOP

Current Stock Price	\$534.00
Risk Free Rate	4.30%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	35.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
\$39.22 - \$57.11	1.1	53.14	0.80	\$ 482.66	\$ 531
\$57.85 - \$77.00	1.3	65.86	2.20	\$ 474.08	\$ 616
\$77.04 - \$130.52	1.3	108.66	3.60	\$ 441.11	\$ 573
\$143.39 - \$174.26	1.1	169.00	5.10	\$ 401.66	\$ 442
\$175.53 - \$182.83	1.0	179.98	5.60	\$ 397.46	\$ 397
\$182.90 - \$229.39	1.3	216.85	5.90	\$ 375.35	\$ 488
\$235.20 - \$262.70	1.0	244.47	6.80	\$ 367.16	\$ 367
\$271.22 - \$304.67	1.2	297.47	6.00	\$ 328.55	\$ 394
\$313.64 - \$341.16	0.0	323.28	6.60	\$ 322.72	-
\$347.42 - \$347.42	0.5	347.42	7.60	\$ 324.19	\$ 162
Total	10	\$ 156.59	4.21	\$ 405.07	\$ 3,971

Intuitive Surgical
Sensitivity Tables

CV% NOPLAT	DCF		WACC					
	589.48	7.92%	8.02%	8.12%	8.22%	8.32%	8.42%	8.52%
	6.25%	449.19	422.06	397.84	376.07	356.42	338.58	322.31
	6.50%	523.10	486.67	454.74	426.53	401.42	378.93	358.68
	6.75%	628.60	576.72	532.42	494.15	460.76	431.37	405.31
	7.00%	791.44	710.91	644.77	589.48	542.57	502.27	467.28
	7.10%	884.37	785.01	705.13	639.53	584.68	538.15	498.18
	7.20%	1,003.12	877.18	778.62	699.39	634.32	579.92	533.76
	7.30%	1,160.18	994.95	870.02	772.26	693.68	629.14	575.18

Beta	DCF		ERP					
	589.48	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%
	1.12	589.48	474.96	396.48	339.35	295.89	261.73	234.17
	1.17	512.52	419.53	354.02	305.39	267.85	238.01	213.71
	1.22	452.72	375.18	319.36	277.24	244.34	217.93	196.26
	1.27	404.92	338.91	290.52	253.53	224.34	200.71	181.21
	1.32	365.83	308.68	266.16	233.29	207.12	185.79	168.08
	1.37	333.28	283.11	245.30	215.80	192.14	172.74	156.55
	1.42	305.75	261.19	227.25	200.55	178.99	161.22	146.32

CV% EPS	DDM		Cost of Equity					
	560.94	7.92%	8.02%	8.12%	8.22%	8.32%	8.42%	8.52%
	5.75%	296.84	282.91	270.15	258.43	247.63	237.64	228.37
	6.00%	327.24	310.10	294.58	280.46	267.56	255.74	244.85
	6.25%	366.74	344.97	325.54	308.08	292.32	278.00	264.96
	6.50%	420.15	391.32	366.05	343.73	323.87	306.07	290.05
	6.75%	496.38	455.91	421.36	391.51	365.47	342.55	322.22
	7.00%	614.04	552.16	501.35	458.86	422.82	391.86	364.98
	7.25%	819.51	710.92	627.30	560.94	506.98	462.25	424.57

Risk-Free Rate	DCF		Beta					
	589.48	1.12	1.17	1.22	1.27	1.32	1.37	1.42
	3.85%	948.14	768.10	644.34	554.03	485.22	431.06	387.32
	4.00%	789.60	659.57	565.38	494.01	438.06	393.02	355.99
	4.15%	675.51	577.19	503.10	445.27	398.89	360.85	329.09
	4.30%	589.48	512.52	452.72	404.92	365.83	333.28	305.75
	4.45%	522.28	460.40	411.12	370.95	337.57	309.39	285.30
	4.60%	468.35	417.51	376.20	341.96	313.12	288.50	267.23
	4.75%	424.10	381.59	346.46	316.93	291.77	270.06	251.16

CV% Revenue	DCF		COGS % of Sales					
	589.48	24.30%	24.80%	25.30%	25.80%	26.30%	26.80%	27.30%
	13.00%	610.98	598.84	586.70	574.56	562.42	550.28	538.14
	14.00%	616.15	603.95	591.74	579.53	567.33	555.12	542.91
	15.00%	621.33	609.06	596.78	584.51	572.23	559.96	547.68
	16.00%	626.51	614.17	601.82	589.48	577.14	564.79	552.45
	17.00%	631.69	619.27	606.86	594.45	582.04	569.63	557.22
	18.00%	636.86	624.38	611.90	599.42	586.94	574.47	561.99
	19.00%	642.04	629.49	616.94	604.40	591.85	579.30	566.75

SG&A % Sales	DCF		R&D % Sales					
	589.48	12.70%	12.90%	13.10%	13.30%	13.50%	13.70%	13.90%
	23.80%	619.10	614.17	609.23	604.29	599.35	594.42	589.48
	24.00%	614.17	609.23	604.29	599.35	594.42	589.48	584.54
	24.20%	609.23	604.29	599.35	594.42	589.48	584.54	579.60
	24.40%	604.29	599.35	594.42	589.48	584.54	579.60	574.67
	24.60%	599.35	594.42	589.48	584.54	579.60	574.67	569.73
	24.80%	594.42	589.48	584.54	579.60	574.67	569.73	564.79
	25.00%	589.48	584.54	579.60	574.67	569.73	564.79	559.86