



Intuitive Surgical, Inc.

ISRG

EQUITY RESEARCH REPORT

July 20, 2026

ISRG — Intuitive Surgical, Inc.

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Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	see current market quote
Fair Value (Base Case)	Not anchored to a EUR figure — valuation-driven HOLD (see Section 4)
Margin of Safety	Negative at prevailing multiples (~45-50x earnings)
Target Entry (if HOLD)	~25-30% below prevailing quote (re-rate toward 32-35x forward earnings)

Return Profile	Value
Dividend Yield	0.0% (no dividend)
Expected Dividend Growth	N/A
Expected Price Appreciation (Base)	~6-8% CAGR
Total Expected Return (Base)	~6-8% CAGR
Bear Case Total Return	~ -3% to -5% CAGR
Bull Case Total Return	~12-14% CAGR
Probability-Weighted Return	~6.0% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	55 / 100
Quality Score	72 / 100
Risk Level	MODERATE (business) / ELEVATED (valuation)
Probability of >50% Loss	~8%
Recession Profile	SENSITIVE

One-Line Thesis:

Intuitive owns the best business in surgical robotics with a fortress balance sheet and a recurring-revenue flywheel, but the stock prices in a decade of flawless execution, leaving no margin of safety and a bear case that

breaches the capital-preservation mandate.

INVESTMENT THESIS

Intuitive Surgical runs the kind of business a wealth-preservation investor wants to own. You place a da Vinci system inside a hospital, surgeons train on it and build their careers around it, and every procedure afterward pulls proprietary instruments and service revenue for a decade. Recurring revenue reached about 84% of the roughly \$10.1 billion the company booked in 2025. Revenue nearly doubled from \$5.7 billion in 2021, procedure volume grew 19% year over year, and the company carries around \$8.6 billion in cash against almost no debt. This is a fortress balance sheet attached to a genuine moat built on switching costs, clinical evidence, and a widening data advantage.

The problem is price, not quality. At roughly \$200 billion in market capitalization against \$2.86 billion of net income, you pay somewhere near 45-50x trailing earnings and a rich premium on every other metric. The company yields nothing, so your entire return depends on earnings compounding and the multiple holding. Both need to go right. If procedure growth normalizes toward the low double digits (competition from J&J's OTTAVA, Medtronic's Hugo, and CMR's Versius is real and accelerating), and the market re-rates ISRG from ~48x toward a still-generous 32-35x, you can lose money for years even as the underlying business grows. That is the specific mechanism that disqualifies a BUY under our framework: the bear case total return is negative, and there is no dividend to cushion the wait.

What could go wrong is manageable at the business level and painful at the valuation level. GLP-1 drugs threaten roughly 4-5% of procedures (bariatrics). China placements fell in 2025 on anti-corruption scrutiny and industrial policy. The FDA cleared remanufactured third-party da Vinci instruments, a direct poke at the consumables margin engine. A Class I recall hit da Vinci stapler components. None of these breaks the company. All of them chip at the growth-and-margin story the current multiple demands. Against a 4% HYSYA and our inflation-plus-4% hurdle (~7%), a probability-weighted ~6% CAGR with real downside does not clear the bar. We want to own this company. We want to own it 25-30% cheaper.

1. BUSINESS QUALITY ASSESSMENT

Sector screening (Stage 1):

- **Understandable?** Yes. Razor-and-blade capital equipment plus consumables.
- **Secular decline?** No. Robotic surgery penetration is still rising across general surgery and international markets.
- **Defensive or cyclical?** Moderately cyclical. Healthcare demand is defensive, but hospital capital-equipment budgets are cyclical, and system placements fall in downturns (demonstrated in COVID).
- **Tailwinds:** Rising robotic penetration in general surgery; international adoption; new platforms (da Vinci 5, SP, Ion). Largely priced in.
- **Sector valuation vs. history:** Med-tech premium names trade rich; ISRG sits above its own long-run multiple range.

Sector Verdict: CONTINUE — defensive-leaning, understandable, no secular headwind, but cyclical in capital placements requires balance-sheet scrutiny (which ISRG passes easily).

2. FINANCIAL FORTRESS ANALYSIS

Solvency (Stage 2.1):

Metric	Value	Threshold	Pass?
Debt-to-Equity	~0.0-0.05x (minimal debt)	<0.5x	■
Interest Coverage	Not meaningful (negligible debt)	>8x	■
Current Ratio	Strong (large cash/investments, 1.5x 1.5x liabilities)	>1.5x	■
FCF positive 5/5 years	Yes (2021-2025)	4/5	■
Cash / Total Debt	>20% (cash ~\$8.6B, debt near zero)	>20%	■

Stress test (revenue -30% for 2 years): ISRG remains solvent with ease. No debt to service, ~\$8.6B cash buffer, no dividend to defend, no dilutive raise needed. The operating model would compress margins on lower system placements, but the recurring consumable base cushions the fall.

Solvency Assessment: FORTRESS

Earnings Quality (Stage 2.2):

- Operating cash flow (\$3.03B 2025) exceeds net income (\$2.86B) — OCF/Ni >100%. HIGH quality.
- No restatements, no going-concern flags, unqualified audit opinion.
- Watch: SG&A up 23% YoY in a recent period; investment-portfolio mark-to-market introduces some GAAP earnings noise.

Earnings Quality: HIGH

Dilution (Stage 2.3):

- Company repurchases shares (0.9M for ~\$0.38B in a recent quarter), partially offsetting SBC.
- Net share count relatively contained; insider vesting is routine.
- Med-tech-typical SBC bears monitoring but is not value-extractive at current scale.

Dilution Assessment: ACCEPTABLE

Dividend (Stage 2.4): None. No income cushion. This matters — see downside scoring.

Capital Efficiency (Stage 2.5):

- ROE from live metrics is healthy; ROIC comfortably exceeds WACC given high margins and low capital intensity relative to returns.
- Operating margin ~29-30% in 2025, expanding.
- **Estimated ROIC: >20% | vs. WACC ~8-9% | Trend: Improving | Verdict: Value Creating**

3. DIVIDEND ANALYSIS

Not applicable. ISRG pays no dividend and reinvests in capex (\$800M-\$1B/yr) and buybacks. For a wealth-preservation mandate this is a material negative: your return carries zero income floor and depends entirely on price appreciation, which removes the downside cushion our framework prizes.

Dividend Sustainability: N/A

4. VALUATION ANALYSIS

Metric	Current (approx.)	Assessment
P/E (trailing)	~45-50x (\$200B / \$2.86B NI)	EXPENSIVE
P/FCF	~80x (\$200B / \$2.5B FCF)	EXPENSIVE
EV/EBITDA	~54x (\$200B less net cash / \$3.6B)	FULL to EXPENSIVE
P/S	~20x (\$200B / \$10.1B)	EXPENSIVE
Dividend yield	0%	No income support

Margin of Safety: Negative. Normalized earnings at a historically generous 32-35x multiple imply fair value materially below the prevailing quote. Even crediting 20%+ earnings growth, the multiple leaves no buffer against multiple compression.

Valuation: EXPENSIVE | Margin of Safety: negative (~ -25% to -35% to a fair 33x multiple)

Under our own rule — "Trading >40% above historical average — Avoid regardless of quality" — the valuation alone caps this at HOLD/AVOID. The business quality pulls it to HOLD rather than AVOID.

5. SCENARIO ANALYSIS (10-Year, Total Return)

No dividend, so total return = earnings growth × multiple path.

BEAR CASE (25%): Competition (OTTAVA/Hugo/Versius) pressures placements and consumable pricing; third-party instruments erode margin; China stays soft; procedure growth normalizes to ~8-10%. Multiple compresses from ~48x toward ~28x.

- 10-Yr Total Return CAGR: ~ **-3% to -5%**

BASE CASE (50%): Procedure growth ~12-14%, EPS CAGR ~13-15%, but multiple mean-reverts from ~48x toward ~33x, netting most of the earnings gain against de-rating.

- 10-Yr Total Return CAGR: ~ **6-8%**

BULL CASE (25%): General-surgery and international adoption accelerate, da Vinci 5 drives an upgrade cycle, data/AI moat deepens, EPS CAGR ~16-18%, multiple holds near ~40x.

- 10-Yr Total Return CAGR: ~ **12-14%**

Scenario	Total CAGR	Weight	Contribution
Bear	-4.0%	25%	-1.0%
Base	7.0%	50%	3.5%
Bull	13.0%	25%	3.25%
Expected			**~5.75%**

Downside Protection: Historical max drawdowns for ISRG have exceeded 40% during multiple-compression episodes. With no dividend, a bear-case price decline of 30%+ is not cushioned. Probability of >50% permanent loss (not recovered within 5 years) estimated at ~8% — under the 10% threshold, but the negative bear-case return is the binding failure.

6. RISK ASSESSMENT

- **Competition:** J&J OTTAVA (first clinical cases ~April 2025), Medtronic Hugo (~\$0.9-1.2M, undercuts da Vinci), CMR Versius (FDA cleared). Pricing and share risk is real and rising.
- **Margin erosion:** FDA approval of remanufactured third-party da Vinci instruments threatens the consumables engine.
- **GLP-1:** ~4-5% of procedures (bariatrics) exposed to weight-loss-drug substitution.
- **China:** Lower 2025 placements from anti-corruption scrutiny and industrial policy.
- **Product safety:** Class I recall on da Vinci stapler components; ongoing product-liability and IP litigation exposure.
- **Macro/cyclical:** Hospital capital-spending cycles; tariff cost pressure (partially offset by IEEPA refunds).
- **Valuation:** The dominant risk. A premium multiple with zero income means multiple compression alone can produce years of negative return.

7. MANAGEMENT & GOVERNANCE

- Disciplined, growth-oriented, low-leverage stewardship. Revenue doubled in four years; margins expanded.
- Heavy reinvestment (\$800M-\$1B/yr capex, sustained R&D into da Vinci 5, SP, Ion, AI/data).
- CEO David J. Rosa; routine insider vesting and small open-market sales — no red flags.
- No restatements, no governance scandals, unqualified audit, no going-concern language.
- **Management Quality: EXCELLENT | Capital Allocation: STRONG** (though shareholder-return mix is buyback-only; no income return).

8. PEER COMPARISON

Dimension	ISRG	Medtronic	J&J MedTech
Balance sheet	Fortress (net cash)	Levered	Levered
Robotic share	60%+ (leader)	Emerging (Hugo)	Emerging (OTTAVA)
Recurring mix	~84%	Mixed	Mixed
Operating margin	~29-30%	Lower	Lower
ROIC	>20%	Lower	Lower
Dividend	None	Yes	Yes
Valuation	Highest premium	Cheaper	Cheaper

ISRG is the highest-quality operator in the cohort by a wide margin. It is also the most expensive and the only one offering no income cushion.

Wealth Preservation Quality Score: 72/100 (strong balance sheet and capital efficiency; docked heavily on zero dividend and top-percentile valuation).

9. KEY METRICS SUMMARY

Metric	Value
Revenue 2025	~\$10.07B (+20.5%)
Net income 2025	\$2.86B (+23%)
Operating margin	~29-30%
FCF 2025	~\$2.5B
Cash & investments	~\$8.6B
Debt	Minimal
ROIC	>20%
Dividend	None

10. MONITORING CHECKLIST

Item	Trigger	Action
Multiple	Falls below ~33x forward EPS	Upgrade toward BUY
Procedure growth	Sustained <10% YoY	Cut bull weighting; re-review
Competitive share	OTTAVA/Hugo win material placements	Lower base-case growth

Item	Trigger	Action
Consumables margin	Third-party instrument adoption dents gross margin	Revisit recurring economics
China placements	Continued decline	Trim geographic growth assumptions

11. MARKET EXPECTATIONS & CONSENSUS

The current price implies sustained high-teens earnings growth for a decade with a premium multiple intact — a demanding bar. Consensus bull narrative: general-surgery and international penetration extend the flywheel, da Vinci 5 drives upgrades, AI/data deepens the moat. Consensus bear narrative: growth normalizes, competition compresses margins, and the multiple de-rates.

- **What validates consensus:** Procedure growth staying >13%, margin expansion continuing, competitor placements staying immaterial.
- **What disappoints:** Procedure growth into single digits, gross-margin slippage from third-party instruments, further China weakness.

Forward Valuation (live metrics unavailable in provided data — do not fabricate):

Metric	Value	Assessment
Fwd P/E	not provided	Trailing ~45-50x implies rich forward
PEG	not provided	Likely >2 at these multiples
EV/EBITDA	~54x (derived)	Expensive
Beta	not provided	Historically >1 (growth/cyclical placement exposure)

12. KEY BUSINESS DRIVERS

Driver 1: da Vinci procedure growth (YoY %)

- Why it matters: Recurring consumable revenue scales directly with procedures.
- Current level: +19% (2025).
- Bull threshold: >13% sustained. Bear threshold: <10%.
- Next data point: Next quarterly earnings.

Driver 2: Recurring gross margin

- Why it matters: Consumables are the profit engine; third-party instruments threaten it.
- Current level: ~67-69% blended gross margin.
- Bull threshold: stable/rising. Bear threshold: <65% trend.
- Next data point: Quarterly gross profit disclosure.

Driver 3: System placements (net, by region)

- Why it matters: Leading indicator of future procedure base; most exposed to competition and China.
- Bull threshold: growth ex-China plus China recovery. Bear threshold: continued placement declines.
- Next data point: Quarterly placement metrics.

Driver 4: Forward P/E multiple

- Why it matters: With no dividend, the multiple path drives most of the return.
- Bull threshold: holds >40x. Bear threshold: compresses <30x.
- Next data point: Continuous.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker/Symbol	Relationship	Signal
Med-device sector	IHI (US Medical Devices ETF)	correlates	Bearish if IHI breaks down on rate/valuation
Medtronic	MDT	competing/robotic proxy	Bullish for ISRG if Hugo placements stall
Hospital capex proxy	Large hospital operator equities (e.g. HCA)	leads hospital-equipment demand	Bearish if hospital capex guidance softens
Rates	10-Yr Treasury yield	inverse to long-duration multiples	Bearish for ISRG multiple if yields spike

Monitoring rule: If the 10-Yr yield rises sharply or IHI breaks its 200-day moving average, expect multiple compression risk on ISRG and re-evaluate within one week.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Current Price: see current market quote

Target Entry Price: approximately 25-30% below prevailing quote (re-rate toward ~32-35x forward earnings)

Why Hold: Best-in-class business, fortress balance sheet, durable moat — but the valuation offers no margin of safety, the bear case produces a negative total return, and there is no dividend to cushion the wait. This fails two absolute BUY requirements: bear-case total return $\geq 0\%$ and a $\geq 10\%$ margin of safety.

Trigger for Upgrade: 25-30% price decline, multiple compression to ~33x forward, or evidence procedure growth remains resilient (>13%) after a de-rating.

Absolute Requirement Check:

- [] Bear case total return $\geq 0\%$ — **FAIL (~ -4%)**
- [x] Base case $\geq 7\%$ — marginal (~6-8%)
- [x] Solvency FORTRESS
- [] Dividend sustainability — N/A (no income cushion — counts against)
- [x] Probability of >50% loss <10% (~8%)

One failed absolute requirement (negative bear case) precludes BUY.

ANALYST NOTES

Key Assumptions:

- Market cap ~\$200B, 2025 net income \$2.86B, revenue ~\$10.07B, FCF ~\$2.5B, cash ~\$8.6B, minimal debt (all from provided research data).
- Multiples derived from these figures; live price and live forward metrics were unavailable and were not fabricated.
- 10-year scenario CAGRs are estimates built on stated growth history and competitive/valuation dynamics.

Limitations:

- No live price; specific EUR fair value not anchored. Forward P/E, PEG, and beta not provided in source data.
- EBITDA and FCF are vendor-reconstructed, not GAAP line items.

Confidence Level: MEDIUM — high confidence in business quality and balance-sheet strength; the HOLD verdict rests on valuation and the absence of income cushion, which are the binding constraints under the wealth-preservation mandate.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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