

Intuitive Surgical Announces Second Quarter Earnings

July 19, 2018

SUNNYVALE, Calif., July 19, 2018 (GLOBE NEWSWIRE) -- Intuitive Surgical, Inc. ("Intuitive") (Nasdaq:ISRG), a global technology leader in robotic-assisted, minimally invasive surgery, today announced financial results for the quarter ended June 30, 2018.

Q2 Highlights

- Worldwide da Vinci procedures grew approximately 18% compared with the second quarter of 2017, driven primarily by growth in U.S. general surgery procedures and worldwide urologic procedures.
- The Company shipped 220 da Vinci Surgical Systems compared with 166 in the second quarter of 2017.
- Second quarter 2018 revenue of \$909 million grew approximately 20% compared with \$759 million for the second quarter of 2017.
- Second quarter 2018 GAAP net income was \$255 million, or \$2.15 per diluted share, compared with \$223 million, or \$1.94 per diluted share, for the second quarter of 2017.
- Second quarter 2018 non-GAAP* net income was \$327 million, or \$2.76 per diluted share, compared with \$230 million, or \$2.00 per diluted share, for the second quarter of 2017.
- The Company received U.S. Food and Drug Administration clearance for the Vessel Sealer Extend, the da Vinci SP Surgical System for use in certain urology procedures, and the SureForm 60, a single-patient use 60mm stapler, in April 2018, May 2018, and July 2018, respectively.

Q2 Financial Summary

Gross profit, income from operations, net income, net income per diluted share, and diluted shares are reported on a GAAP and non-GAAP* basis. The non-GAAP* measures are described below and are reconciled to the corresponding GAAP measures at the end of this release.

Second quarter 2018 revenue was \$909 million, an increase of approximately 20% compared with \$759 million in the second quarter of 2017.

Second quarter 2018 instrument and accessory revenue increased by approximately 20% to \$476 million, compared with \$398 million for the second quarter of 2017, primarily driven by approximately 18% growth in da Vinci procedure volume.

Second quarter 2018 systems revenue increased by approximately 25% to \$277 million, compared with \$221 million for the second quarter of 2017. The Company shipped 220 da Vinci Surgical Systems in the second quarter of 2018, compared with 166 in the second quarter of 2017. The second quarter 2018 system shipments included 44 systems shipped under operating lease arrangements, compared with 27 during the second quarter of 2017.

Second quarter 2018 service revenue increased by approximately 11% to \$156 million, compared with \$140 million for the second quarter of 2017.

Second quarter 2018 GAAP income from operations increased to \$277 million, compared with \$260 million in the second quarter of 2017. Second quarter 2018 GAAP income from operations included the previously announced pre-tax litigation charge of \$43 million. Second quarter 2018 non-GAAP* income from operations increased to \$389 million, compared with \$315 million in the second quarter of 2017.

Second quarter 2018 GAAP net income was \$255 million, or \$2.15 per diluted share, compared with \$223 million, or \$1.94 per diluted share, for the second quarter of 2017.

Second quarter 2018 non-GAAP* net income was \$327 million, or \$2.76 per diluted share, compared with \$230 million, or \$2.00 per diluted share, for the second quarter of 2017.

The Company ended the second quarter of 2018 with \$4.3 billion in cash, cash equivalents, and investments, an increase of \$191 million during the quarter, primarily driven by cash generated from operations.

Commenting on the announcement, Gary Guthart, President and CEO of Intuitive Surgical, said, "We are pleased with our customers' increased use of da Vinci in the second quarter and the financial results that follow. We remain dedicated to working with our customers to deliver superior programs, while continuing to build on our record of innovation - including the recent clearances of our SP surgical system and 3rd generation stapling platform."

Additional supplemental financial and procedure information has been posted to the Investor Relations section of the Intuitive Surgical website at: <http://phx.corporate-ir.net/phoenix.zhtml?c=122359&p=irol-IRHome>.

Webcast and Conference Call Information

Intuitive Surgical will hold a teleconference at 1:30 p.m. PDT today to discuss the second quarter 2018 financial results. The call is being webcast by Nasdaq OMX and can be accessed at Intuitive Surgical's website at www.intuitivesurgical.com or by dialing (800) 230-1085 or (612) 234-9960.

About Intuitive Surgical, Inc.

Intuitive Surgical, Inc. (Nasdaq:ISRG), headquartered in Sunnyvale, California, is a global technology leader in robotic-assisted, minimally invasive surgery. Intuitive Surgical develops, manufactures, and markets robotic technologies designed to improve clinical outcomes and help patients return more quickly to active and productive lives. The Company's mission is to extend the benefits of minimally invasive surgery to the broadest possible base of patients. Intuitive Surgical - Taking surgery beyond the limits of the human hand™.

About the da Vinci Surgical System

There are several models of the da Vinci surgical system. The da Vinci surgical systems are designed to help surgeons perform minimally invasive surgery. Da Vinci systems offer surgeons high-definition 3D vision, a magnified view, and robotic and computer assistance. They use specialized instrumentation, including a miniaturized surgical camera and wristed instruments (i.e., scissors, scalpels and forceps) that are designed to help with precise dissection and reconstruction deep inside the body.

Da Vinci®, da Vinci SP®, and SureForm 60™ are trademarks or registered trademarks of Intuitive Surgical, Inc.

For more information, please visit the company's website at www.intuitivesurgical.com.

Forward-Looking Statements

This press release contains forward-looking statements, including statements regarding the Company's dedication to working with customers to deliver superior programs while continuing to build on its record of innovation. These forward-looking statements are necessarily estimates reflecting the best judgment of the Company's management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including, but not limited to, the following: the impact of global and regional economic and credit market conditions on healthcare spending; healthcare reform legislation in the United States and its impact on hospital spending, reimbursement and fees levied on certain medical device revenues; changes in hospital admissions and actions by payers to limit or manage surgical procedures; the timing and success of product development and market acceptance of developed products, including, but not limited to, the recently cleared SP surgical system and 3rd generation stapling platform; the results of any collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships; procedure counts; regulatory approvals, clearances and restrictions or any dispute that may occur with any regulatory body; guidelines and recommendations in the healthcare and patient communities; intellectual property positions and litigation; competition in the medical device industry and in the specific markets of surgery in which the Company operates; unanticipated manufacturing disruptions; the inability to meet demand for products; the results of legal proceedings to which the Company is or may become a party; product liability and other litigation claims; adverse publicity regarding the Company and the safety of the Company's products and adequacy of training; the Company's ability to expand into foreign markets; the impact of changes to tax legislation, guidance, and interpretations; and other risk factors under the heading "Risk Factors" in the Company's report on Form 10-K for the year ended December 31, 2017, as updated by the Company's other filings with the Securities and Exchange Commission. Statements using words such as "estimates," "projects," "believes," "anticipates," "plans," "expects," "intends," "may," "will," "could," "should," "would," "targeted" and similar words and expressions are intended to identify forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company undertakes no obligation to publicly update or release any revisions to these forward-looking statements, except as required by law.

*About Non-GAAP Financial Measures

To supplement its consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States ("GAAP"), the Company uses the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income, non-GAAP net income per diluted share ("EPS"), and non-GAAP diluted shares. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

The Company uses these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. The Company believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance and liquidity by excluding items such as intangible asset charges, share-based compensation ("SBC") expenses, and other special items. Intangible asset charges consist of non-cash charges, such as the amortization of intangible assets, as well as in-process R&D charges. The Company believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing its performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to its historical performance and liquidity. The Company believes these non-GAAP financial measures are useful to investors because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by institutional investors and the analyst community to help them analyze the performance of the Company's business.

Non-GAAP gross profit. The Company defines non-GAAP gross profit as gross profit excluding intangible asset charges, expenses related to SBC, and litigation charges.

Non-GAAP income from operations. The Company defines non-GAAP income from operations as income from operations excluding intangible asset charges, expenses related to SBC, and litigation charges and recoveries.

Non-GAAP net income and EPS. The Company defines non-GAAP net income as net income excluding intangible asset charges; expenses related to SBC; litigation charges and recoveries, net of the related tax effects; and tax adjustments including the excess tax benefits or deficiencies associated with share-based compensation arrangements, the provisional income tax expense related to the Tax Cuts and Jobs Act ("2017 Tax Act"), and the net tax effects related to intra-entity transfers of non-inventory assets. The Company excludes income tax expense related to the 2017 Tax Act because of its one-time nature as well as the excess tax benefits or deficiencies associated with share-based compensation arrangements and the tax effects associated with non-cash amortization of deferred tax assets related to intra-entity non-inventory transfers as the Company does not believe these items correlate with the on-going results of its core operations. The tax effects of the non-GAAP items are determined by applying a calculated non-GAAP effective tax rate, which is commonly referred to as the with-and-without method. Without excluding these tax effects, investors would only see the gross effect that these non-GAAP adjustments had on the Company's operating results. The Company's calculated non-GAAP effective tax rate is generally higher than its GAAP effective tax rate. The Company defines non-GAAP EPS as non-GAAP net income divided by non-GAAP diluted shares which are calculated as GAAP weighted average outstanding shares plus dilutive potential shares outstanding during the period.

There are a number of limitations related to the use of non-GAAP measures versus measures calculated in accordance with GAAP. Non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income, and non-GAAP EPS exclude items such as intangible asset charges, SBC, excess tax benefits or deficiencies associated with share-based compensation arrangements, and non-cash amortization of deferred tax assets related to intra-entity transfer of non-inventory assets, which are primarily recurring items. SBC has been and will continue to be the foreseeable future a significant recurring expense in the Company's business. In addition, the components of the costs that the Company excludes in its calculation of non-GAAP net income and non-GAAP EPS may differ from the components that its peer companies exclude when they report their results of operations. Management addresses these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP EPS and evaluating non-GAAP net income and non-GAAP EPS together with net income and net income per share calculated in accordance with GAAP.

INTUITIVE SURGICAL, INC.
UNAUDITED QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)

<i>In millions (except per share data)</i>	June 30, 2018	March 31, 2018	June 30, 2017
Revenue:			
Instruments and accessories	\$ 476.1	\$ 460.3	\$ 397.8
Systems	277.4	234.5	221.1
Services	155.8	152.7	139.9
Total revenue	909.3	847.5	758.8
Cost of revenue:			
Product	228.1	201.5	184.7
Service	48.9	52.2	44.0
Total cost of revenue	277.0	253.7	228.7
Gross profit	632.3	593.8	530.1
Operating expenses:			
Selling, general and administrative (1)	259.8	221.6	185.6
Research and development	95.1	95.5	84.6
Total operating expenses	354.9	317.1	270.2
Income from operations	277.4	276.7	259.9
Interest and other income, net	18.2	13.2	10.1
Income before taxes	295.6	289.9	270.0
Income tax expense (2)	41.0	2.6	47.0
Net income	254.6	287.3	223.0
Less: net loss attributable to noncontrolling interest	(0.7)	(0.3)	—
Net income attributable to Intuitive Surgical, Inc.	\$ 255.3	\$ 287.6	\$ 223.0
Net income per share attributable to Intuitive Surgical, Inc.:			
Basic	\$ 2.25	\$ 2.55	\$ 2.01
Diluted (3)	\$ 2.15	\$ 2.44	\$ 1.94
Weighted average shares outstanding:			
Basic	113.5	112.8	111.0
Diluted	118.5	118.0	115.2
(1) Selling, general and administrative includes the effect of the following item:			
Litigation charges (recoveries)	\$ 42.5	\$ 4.5	\$ (4.5)
(2) Income tax expense includes the effect of the following item:			
Excess tax benefits related to share-based compensation arrangements	\$ (21.6)	\$ (54.7)	\$ (30.6)
(3) Diluted net income per share includes the effect of the following items:			
Litigation recoveries (charges), net of tax	\$ (0.27)	\$ (0.03)	\$ 0.02
Excess tax benefits related to share-based compensation arrangements	\$ 0.18	\$ 0.46	\$ 0.27

INTUITIVE SURGICAL, INC.
UNAUDITED SIX MONTHS ENDED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)

<i>In millions (except per share data)</i>	June 30, 2018	2017
Revenue:		
Instruments and accessories	\$ 936.4	\$ 778.6
Systems	511.9	381.9
Services	308.5	277.9
Total revenue	1,756.8	1,438.4
Cost of revenue:		
Product	429.6	350.2
Service	101.1	88.3
Total cost of revenue	530.7	438.5
Gross profit	1,226.1	999.9
Operating expenses:		
Selling, general and administrative (1)	481.4	388.5
Research and development	190.6	158.1
Total operating expenses	672.0	546.6
Income from operations	554.1	453.3
Interest and other income, net	31.4	18.8
Income before taxes	585.5	472.1
Income tax expense (2)	43.6	68.3
Net income	541.9	403.8
Less: net loss attributable to noncontrolling interest	(1.0)	—
Net income attributable to Intuitive Surgical, Inc.	\$ 542.9	\$ 403.8
Net income per share attributable to Intuitive Surgical, Inc.:		
Basic	\$ 4.80	\$ 3.62
Diluted (3)	\$ 4.59	\$ 3.50
Weighted average shares outstanding:		
Basic	113.2	111.6
Diluted	118.3	115.5
(1) Selling, general and administrative includes the effect of the following item:		
Litigation charges	\$ 47.0	\$ 9.0
(2) Income tax expense includes the effect of the following item:		
Excess tax benefits related to share-based compensation arrangements	\$ (76.3)	\$ (63.2)
(3) Diluted net income per share includes the effect of the following items:		
Litigation charges, net of tax	\$ (0.30)	\$ (0.05)
Excess tax benefits related to share-based compensation arrangements	\$ 0.64	\$ 0.55

INTUITIVE SURGICAL, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

<i>In millions</i>	June 30, 2018	December 31, 2017
Cash, cash equivalents, and investments	\$ 4,259.6	\$ 3,846.5
Accounts receivable, net	532.5	507.9
Inventory	331.5	241.2
Property, plant, and equipment, net	688.8	613.1
Goodwill	210.9	201.1

Deferred tax assets	415.4	72.0
Other assets	410.9	295.0
Total assets	\$ 6,849.6	\$ 5,776.8
Accounts payable and other accrued liabilities	\$ 678.2	\$ 727.8
Deferred revenue	302.2	268.6
Total liabilities	980.4	996.4
Stockholders' equity	5,869.2	4,780.4
Total liabilities and stockholders' equity	\$ 6,849.6	\$ 5,776.8

INTUITIVE SURGICAL, INC.

**UNAUDITED RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(IN MILLIONS, EXCEPT PER SHARE DATA)**

	Three months ended	Six months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2017
<i>In millions (except per share data)</i>				
GAAP gross profit				
Share-based compensation expense	\$ 632.3	\$ 593.8	\$ 530.1	\$ 1,226.1
Intangible asset charges	12.8	11.9	10.1	24.7
Litigation charges	1.3	1.0	1.5	2.3
—	—	—	—	7.8
Non-GAAP gross profit	\$ 646.4	\$ 606.7	\$ 541.7	\$ 1,253.1
 GAAP income from operations				
Share-based compensation expense	\$ 277.4	\$ 276.7	\$ 259.9	\$ 554.1
Intangible asset charges	63.2	57.5	50.4	120.7
Litigation charges (recoveries)	5.6	7.6	9.1	13.2
—	42.5	4.5	(4.5)) 47.0
Non-GAAP income from operations	\$ 388.7	\$ 346.3	\$ 314.9	\$ 735.0
 GAAP net income attributable to Intuitive Surgical, Inc.				
Share-based compensation expense	\$ 255.3	\$ 287.6	\$ 223.0	\$ 542.9
Intangible asset charges	63.2	57.5	50.4	120.7
Litigation charges (recoveries)	5.6	7.6	9.1	13.2
—	42.5	4.5	(4.5)) 47.0
Tax adjustments (1)	(39.2)	(69.7)	(48.1)) (108.9)
Non-GAAP net income attributable to Intuitive Surgical, Inc.	\$ 327.4	\$ 287.5	\$ 229.9) (104.3)
 GAAP net income per share attributable to Intuitive Surgical, Inc. - diluted				
Share-based compensation expense	\$ 2.15	\$ 2.44	\$ 1.94	\$ 4.59
Intangible asset charges	0.53	0.49	0.44	1.02
Litigation charges (recoveries)	0.05	0.06	0.08	0.11
—	0.36	0.04	(0.04)) 0.40
Tax adjustments (1)	(0.33)	(0.59)	(0.42)) (0.92)
Non-GAAP net income per share attributable to Intuitive Surgical, Inc. - diluted	\$ 2.76	\$ 2.44	\$ 2.00	\$ 5.20
				\$ 3.70

(1) For the three months ended June 30, 2018, tax adjustments included: (1) excess tax benefits associated with share-based compensation arrangements of \$(21.6) million, or \$(0.18) per diluted share; (2) tax benefits related to intra-entity transfers of non-inventory assets of \$10.2 million, or \$0.09 per diluted share; and (3) other tax adjustments effects determined by applying a calculated non-GAAP effective tax rate of \$(27.8) million, or \$(0.24) per diluted share.

For the six months ended June 30, 2018, tax adjustments included: (1) excess tax benefits associated with share-based compensation arrangements of \$(76.3) million, or \$(0.64) per diluted share; (2) tax benefits related to intra-entity transfers of non-inventory assets of \$20.4 million, or \$0.17 per diluted share; and (3) other tax adjustments effects determined by applying a calculated non-GAAP effective tax rate of \$(53.0) million, or \$(0.45) per diluted share.

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Intuitive Surgical, Inc.