



Intuitive Surgical Announces Second Quarter Earnings

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SUNNYVALE, Calif., July 20, 2017 (GLOBE NEWSWIRE) -- Intuitive Surgical, Inc. (NASDAQ:ISRG), a global technology leader in robotic-assisted, minimally invasive surgery, today announced financial results for the quarter ended June 30, 2017.

Q2 Highlights

- Worldwide *da Vinci* procedures grew approximately 16% compared with the second quarter of 2016, driven primarily by growth in U.S. general surgery procedures and worldwide urologic procedures.
- The Company shipped 166 *da Vinci* Surgical Systems compared with 130 in the second quarter of 2016.
- The Company launched a new *da Vinci* model, the *da Vinci X*, which provides surgeons and hospitals with access to some of the most advanced robotic-assisted surgery technology at a lower price.
- Second quarter 2017 revenue of \$756 million grew approximately 13% compared with \$670 million for the second quarter of 2016.
- Second quarter 2017 GAAP net income was \$222 million, or \$5.77 per diluted share, compared with \$185 million, or \$4.71 per diluted share, for the second quarter of 2016.
- Second quarter 2017 non-GAAP* net income was \$228 million, or \$5.95 per diluted share, compared with \$220 million, or \$5.62 per diluted share, for the second quarter of 2016.

Q2 Financial Summary

Gross profits, income from operations, net income, and net income per share 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 2017 revenue was \$756 million, an increase of approximately 13% compared with \$670 million in the second quarter of 2016. Higher second quarter revenue was driven by growth in recurring instrument, accessory, and service revenue, and higher systems revenue.

Second quarter 2017 instrument and accessory revenue increased by approximately 17% to \$398 million, compared with \$339 million for the second quarter of 2016, primarily driven by approximately 16% growth in *da Vinci* procedure volume. Second quarter 2017 service revenue increased by approximately 11% to \$142 million, compared with \$128 million for the first quarter of 2016.

Second quarter 2017 systems revenue increased by approximately 7% to \$216 million, compared with \$203 million for the second quarter of 2016. Intuitive Surgical shipped 166 *da Vinci* Surgical Systems in the second quarter of 2017, compared with 130 in the second quarter of 2016. A total of 27 of the second quarter 2017 *da Vinci* Surgical Systems were shipped under operating lease arrangements, compared with 15 during the second quarter of 2016.

Second quarter 2017 income from operations increased to \$258 million, compared with \$245 million in the second quarter of 2016. Second quarter 2017 non-GAAP* income from operations increased to \$313 million, compared with \$297 million in the second quarter of 2016.

Second quarter 2017 GAAP net income was \$222 million, or \$5.77 per diluted share, compared with \$185 million, or \$4.71 per diluted share, for the second quarter of 2016. Second quarter 2017 GAAP net income benefited from the adoption of a new accounting standard in first quarter of 2017, which required that \$30.6 million, or \$0.80 per share, of excess tax benefits related to employee share-based compensation awards be recorded as a component of income tax expense.

Second quarter 2017 non-GAAP* net income was \$228 million, or \$5.95 per diluted share, compared with \$220 million, or \$5.62 per diluted share, for the second quarter of 2016. Non-GAAP* net income excludes the excess tax benefits mentioned above, as well as litigation benefits, share-based compensation expense and intangible asset charges.

Intuitive Surgical ended the second quarter of 2017 with \$3.4 billion in cash, cash equivalents, and investments, an increase of \$277 million during the quarter, primarily driven by cash generated from operations and employee stock option exercises.

Commenting on the announcement, Dr. Gary Guthart, President and CEO of Intuitive Surgical, said, "We are pleased with our second quarter financial results, procedure growth, and *da Vinci* System placements. During the quarter we expanded our systems' product line, while offering hospitals increasing economic flexibility to establish or expand their robotics programs."

Additional supplemental financial and procedure information has been posted to the Investor Relations section of the Intuitive 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 2017 financial results. The call is being webcast by NASDAQ OMX and can be accessed at Intuitive Surgical's website at <https://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

The *da Vinci* Surgical System is a surgical platform designed to enable complex surgery using a minimally invasive approach. The *da Vinci* Surgical System consists of an ergonomic surgeon console or consoles, a patient-side cart with three or four interactive arms, a high-performance vision system and proprietary *EndoWrist* instruments. Powered by state-of-the-art technology, the *da Vinci* Surgical System is designed to scale, filter, and seamlessly translate the surgeon's hand movements into more precise movements of the *EndoWrist* instruments. The net result is an intuitive interface with improved surgical capabilities. By providing surgeons with superior visualization, enhanced dexterity, greater precision, and ergonomic comfort, the *da Vinci* Surgical System makes it possible for skilled surgeons to perform more minimally invasive procedures involving complex dissection or reconstruction. Surgeons, hospitals, and patients benefit from a large community of users and the Company's robotic-assisted surgical ecosystem, beginning with the robotic platforms, and also including the broad instrument product line, imaging solutions, training programs and technology, clinical validation, field clinical support, field technical support, and program optimization. For more information about clinical evidence related to *da Vinci* Surgery, please visit www.intuitivesurgical.com/company/clinical-evidence/.

da Vinci® and *EndoWrist*® are trademarks of Intuitive Surgical, Inc.

Forward-Looking Statements

This press release contains forward-looking statements, including statements regarding providing surgeons and hospitals with access to some of the most advanced robotic-assisted surgery technology at a lower price and offering hospitals increasing economic flexibility to establish or expand their robotics programs. These forward-looking statements are necessarily estimates reflecting the best judgment of our 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; 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 we operate; unanticipated manufacturing disruptions or the inability to meet demand for products; the results of legal proceedings to which we are or may become a party; product liability and other litigation claims; adverse publicity regarding the Company and the safety of our products and adequacy of training; our ability to expand into foreign markets; and other risk factors under the heading "Risk Factors" in our report on Form 10-K for the year ended December 31, 2016, as updated by our 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. We undertake 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 our consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States ("GAAP"), we use the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income, and non-GAAP net income per diluted share ("EPS"). 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.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our 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 and also non-recurring in-process R&D charges. Other non-cash charges include SBC expenses. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to our historical performance and liquidity. We believe 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 our institutional investors and the analyst community to help them analyze the performance of our business.

Non-GAAP gross profit. We define non-GAAP gross profit as gross profit excluding intangible asset charges, expenses related to SBC, and litigation charges.

Non-GAAP income from operations. We define 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. We define non-GAAP net income as net income excluding intangible asset charges, expenses related to SBC, and litigation charges and recoveries, net of the related tax effects; and the excess tax benefits or deficiencies associated with share-based compensation arrangements. Other tax adjustments represent tax effects 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 our operating results. We define non-GAAP EPS as non-GAAP net income divided by the weighted average outstanding shares, on a fully-diluted basis.

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 intangible asset charges and SBC, which are primarily recurring expenses. SBC has been and will continue to be for the foreseeable future a significant recurring expense in our business. In addition, the components of the costs that we exclude in our calculation of non-GAAP net income and non-GAAP EPS may differ from the components that our

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 EPS calculated in accordance with GAAP.

INTUITIVE SURGICAL, INC.

**UNAUDITED QUARTERLY CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)**

<i>In millions (except per share data)</i>	Three months ended		
	June 30, 2017	March 31, 2017	June 30, 2016
Revenue:			
Instruments and accessories	\$ 397.8	\$ 380.8	\$ 339.3
Systems	216.4	153.2	202.7
Services	142.0	140.2	128.1
Total revenue	756.2	674.2	670.1
Cost of revenue:			
Product	184.3	163.8	165.8
Service	44.0	44.3	33.4
Total cost of revenue	228.3	208.1	199.2
Gross profit	527.9	466.1	470.9
Operating expenses:			
Selling, general and administrative	185.8	201.1	170.8
Research and development	84.6	73.5	54.7
Total operating expenses	270.4	274.6	225.5
Income from operations	257.5	191.5	245.4
Interest and other income, net	10.1	8.7	8.0
Income before taxes	267.6	200.2	253.4
Income tax expense (1)	46.1	20.4	68.9
Net income	\$ 221.5	\$ 179.8	\$ 184.5
Net income per share:			
Basic	\$ 5.99	\$ 4.82	\$ 4.82
Diluted (2)	\$ 5.77	\$ 4.67	\$ 4.71
Shares used in computing net income per share:			
Basic	37.0	37.3	38.3
Diluted	38.4	38.5	39.2

(1) Income tax expense includes the effect of the following items:

Excess tax benefits related to share-based compensation arrangements*	\$ 30.6	\$ 32.6	\$ —
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(2) Diluted net income per share includes the effect of the following items:

Excess tax benefits related to share-based compensation arrangements*	\$ 0.80	\$ 0.85	\$ —
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(*) In the first quarter of 2017, the Company adopted Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which requires that all excess tax benefits and tax deficiencies related share-based compensation arrangements be recognized as income tax benefit or expense, instead of in stockholders' equity as previous guidance required.

INTUITIVE SURGICAL, INC.

**UNAUDITED SIX MONTHS ENDED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE DATA)**

**Six months ended
June 30,**

<i>In millions (except per share data)</i>	2017	2016
Revenue:		
Instruments and accessories	\$ 778.6	\$ 661.4
Systems	369.6	350.6
Services	282.2	252.6
Total revenue	1,430.4	1,264.6
Cost of revenue:		
Product	348.1	317.4
Service	88.3	71.3
Total cost of revenue	436.4	388.7
Gross profit	994.0	875.9
Operating expenses:		
Selling, general and administrative	386.9	343.6
Research and development	158.1	107.9
Total operating expenses	545.0	451.5
Income from operations	449.0	424.4
Interest and other income, net	18.8	13.5
Income before taxes	467.8	437.9
Income tax expense (1)	66.5	117.0
Net income	\$ 401.3	\$ 320.9
Net income per share:		
Basic	\$ 10.79	\$ 8.44
Diluted (2)	\$ 10.42	\$ 8.25
Shares used in computing net income per share:		
Basic	37.2	38.0
Diluted	38.5	38.9

(1) Income tax expense includes the effect of the following items:

Excess tax benefits related to share-based compensation arrangements*	\$ 63.2	\$ —
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(2) Diluted net income per share includes the effect of the following items:

Excess tax benefits related to share-based compensation arrangements*	\$ 1.64	\$ —
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(*) In the first quarter of 2017, the Company adopted Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which requires that all excess tax benefits and tax deficiencies related share-based compensation arrangements be recognized as income tax benefit or expense, instead of in stockholders' equity as previous guidance required.

INTUITIVE SURGICAL, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

<i>In millions</i>	June 30, 2017	December 31, 2016
Cash, cash equivalents and investments	\$ 3,423.3	\$ 4,837.9
Accounts receivable, net	481.1	430.2
Inventory	214.2	182.3
Property, plant and equipment, net	540.1	458.4
Goodwill	201.1	201.1
Deferred tax assets	115.1	150.9
Other assets	275.9	226.1
Total assets	\$ 5,250.8	\$ 6,486.9
Accounts payable and other accrued liabilities	\$ 430.5	\$ 459.2
Deferred revenue	298.0	249.9
Total liabilities	728.5	709.1

Stockholders' equity	4,522.3	5,777.8
Total liabilities and stockholders' equity	\$ 5,250.8	\$ 6,486.9

INTUITIVE SURGICAL, INC.

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

<i>In millions (except per share data)</i>	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
GAAP gross profit	\$ 527.9	\$ 466.1	\$ 470.9	\$ 994.0	\$ 875.9
Share-based compensation expense	10.1	9.9	9.1	20.0	17.8
Intangible asset charges	1.5	1.7	2.1	3.2	4.3
Litigation charges	—	7.8	—	7.8	—
Non-GAAP gross profit	\$ 539.5	\$ 485.5	\$ 482.1	\$ 1,025.0	\$ 898.0
GAAP income from operations	\$ 257.5	\$ 191.5	\$ 245.4	\$ 449.0	\$ 424.4
Share-based compensation expense	50.4	47.4	42.7	97.8	85.5
Intangible asset charges	9.1	3.7	4.6	12.8	9.7
Litigation charges (recoveries)	(4.5)	21.3	4.4	16.8	6.6
Non-GAAP income from operations	\$ 312.5	\$ 263.9	\$ 297.1	\$ 576.4	\$ 526.2
GAAP net income	\$ 221.5	\$ 179.8	\$ 184.5	\$ 401.3	\$ 320.9
Share-based compensation expense	50.4	47.4	42.7	97.8	85.5
Intangible asset charges	9.1	3.7	4.6	12.8	9.7
Litigation charges (recoveries)	(4.5)	21.3	4.4	16.8	6.6
Tax adjustments - excess tax benefits (1)	(30.6)	(32.6)	—	(63.2)	—
Tax adjustments - other	(17.5)	(23.6)	(15.8)	(41.1)	(32.0)
Non-GAAP net income	\$ 228.4	\$ 196.0	\$ 220.4	\$ 424.4	\$ 390.7
GAAP net income per share - diluted	\$ 5.77	\$ 4.67	\$ 4.71	\$ 10.42	\$ 8.25
Share-based compensation expense	1.31	1.23	1.09	2.54	2.20
Intangible asset charges	0.24	0.10	0.12	0.33	0.25
Litigation charges (recoveries)	(0.12)	0.55	0.11	0.44	0.17
Tax adjustments - excess tax benefits (1)	(0.80)	(0.85)	—	(1.64)	—
Tax adjustments - other	(0.45)	(0.61)	(0.41)	(1.07)	(0.83)
Non-GAAP net income per share - diluted	\$ 5.95	\$ 5.09	\$ 5.62	\$ 11.02	\$ 10.04

(1) In the first quarter of 2017, the Company adopted Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which requires that all excess tax benefits and tax deficiencies related share-based compensation arrangements be recognized as income tax benefit or expense, instead of in stockholders' equity as previous guidance required.

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