
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): January 23, 2020

INTUITIVE SURGICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-30713
(Commission
File Number)

77-0416458
(I.R.S. Employer
Identification No.)

1020 Kifer Road
Sunnyvale, California 94086
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (408) 523-2100

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

ISRG

The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On January 23, 2020, Intuitive Surgical, Inc. (“Intuitive”) issued a press release announcing its financial results for the quarter ended December 31, 2019. A copy of the press release is furnished hereto as Exhibit 99.1.

The information in this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that section and shall not be deemed to be incorporated by reference into any filing of Intuitive under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

d) Exhibits.

Exhibit No. Description

99.1	Press release issued by Intuitive Surgical, Inc., dated January 23, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INTUITIVE SURGICAL, INC.

Date: January 23, 2020

By: */s/ Marshall L. Mohr*

Name: Marshall L. Mohr

Title: Executive Vice President and Chief Financial Officer

Contact: Investor Relations
(408) 523-2161

INTUITIVE ANNOUNCES FOURTH QUARTER EARNINGS

SUNNYVALE, CALIF. January 23, 2020 – Intuitive (the “Company”) (Nasdaq: ISRG), a global technology leader in minimally invasive care and the pioneer of robotic-assisted surgery, today announced financial results for the quarter ended December 31, 2019. Reported revenue and procedure results are consistent with the Company’s press release on January 9, 2020.

Q4 Highlights

- Worldwide da Vinci procedures grew approximately 19% compared with the fourth quarter of 2018, driven primarily by growth in U.S. general surgery procedures and worldwide urologic procedures.
- The Company shipped 336 da Vinci Surgical Systems, an increase of 16% compared with 290 in the fourth quarter of 2018.
- The Company grew its da Vinci Surgical System installed base to 5,582 systems as of December 31, 2019, an increase of 12% compared with 4,986 as of the end of the fourth quarter of 2018.
- Fourth quarter 2019 revenue of \$1.28 billion grew 22% compared with \$1.05 billion in the fourth quarter of 2018.
- Fourth quarter 2019 GAAP net income was \$358 million, or \$2.99 per diluted share, compared with \$293 million, or \$2.45 per diluted share, in the fourth quarter of 2018.
- Fourth quarter 2019 non-GAAP* net income was \$417 million, or \$3.48 per diluted share, compared with \$353 million, or \$2.96 per diluted share, in the fourth quarter of 2018.

Q4 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.

Fourth quarter 2019 revenue was \$1.28 billion, an increase of 22% compared with \$1.05 billion in the fourth quarter of 2018. Higher fourth quarter revenue was driven by increased procedures and systems placements.

Fourth quarter 2019 instruments and accessories revenue increased by 24% to \$671 million, compared with \$539 million in the fourth quarter of 2018, primarily driven by approximately 19% growth in da Vinci procedure volume.

Fourth quarter 2019 systems revenue increased by 22% to \$416 million, compared with \$341 million in the fourth quarter of 2018. The Company shipped 336 da Vinci Surgical Systems in the fourth quarter of 2019, compared with 290 in the fourth quarter of 2018. The fourth quarter 2019 system shipments included 126 systems shipped under operating lease and usage-based arrangements, compared with 84 in the fourth quarter of 2018.

Fourth quarter 2019 GAAP income from operations increased to \$398 million, compared with \$332 million in the fourth quarter of 2018. Fourth quarter 2019 GAAP income from operations included intangible asset charges of \$16 million, compared with \$9 million in the fourth quarter of 2018, and share-based compensation expense of \$89 million, compared with \$70 million in the fourth quarter of 2018. Fourth quarter 2019 non-GAAP* income from operations increased to \$506 million, compared with \$412 million in the fourth quarter of 2018.

Fourth quarter 2019 GAAP net income was \$358 million, or \$2.99 per diluted share, compared with \$293 million, or \$2.45 per diluted share, in the fourth quarter of 2018. Fourth quarter 2019 GAAP net income included excess tax benefits of \$34 million, or \$0.28 per share, compared with \$16 million, or \$0.13 per share, in the first quarter of 2018.

Fourth quarter 2019 non-GAAP* net income was \$417 million, or \$3.48 per diluted share, compared with \$353 million, or \$2.96 per diluted share, in the fourth quarter of 2018.

The Company ended the fourth quarter of 2019 with \$5.8 billion in cash, cash equivalents, and investments, an increase of \$415 million during the quarter, primarily driven by cash generated from operations.

Additional supplemental financial and procedure information has been posted to the Investor Relations section of the Intuitive website at <https://isrg.gcs-web.com/>.

Webcast and Conference Call Information

Intuitive will hold a teleconference at 1:30 p.m. PST today to discuss the fourth quarter 2019 financial results. The call will be webcast by Nasdaq OMX and can be accessed on Intuitive's website at www.intuitive.com or by dialing (844) 721-7241 or (409) 207-6955 using the access code 2014590.

About Intuitive

Intuitive (Nasdaq: ISRG), headquartered in Sunnyvale, California, is a global technology leader in minimally invasive care and the pioneer of robotic-assisted surgery. At Intuitive, we believe that minimally invasive care is life-enhancing care. Through ingenuity and intelligent technology, we expand the potential of physicians to heal without constraints.

Intuitive brings more than two decades of leadership in robotic-assisted surgical technology and solutions to its offerings and develops, manufactures, and markets the da Vinci[®] surgical system and the Ion[™] endoluminal system.

Da Vinci[®] and Ion[™] are trademarks or registered trademarks of Intuitive Surgical, Inc.

For more information, please visit the Company's website at www.intuitive.com.

Forward-Looking Statements

This press release contains forward-looking statements. 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 timing and success of product development and market acceptance of developed products, including, but not limited to, Intuitive's Ion endoluminal system, da Vinci SP surgical system, and 3rd generation stapling platform; the impact of global and regional economic and credit market conditions on healthcare spending; competition in the medical device industry and in the specific markets of surgery in which the Company operates; risks associated with our operations outside of the United States; product liability and other litigation claims; adverse publicity regarding the Company and the safety of the Company's products and adequacy of training; unanticipated manufacturing disruptions or the inability to meet demand for products; the results of legal proceedings to which the Company is or may become a party; the Company's reliance on sole and single source suppliers; the results of any collaborations, in-licensing arrangements, joint ventures, strategic alliances, or partnerships, including the joint venture with Shanghai Fosun Pharmaceutical (Group) Co., Ltd.; the Company's completion of and ability to successfully integrate the acquisition of Schöolly Fiberoptic's robotic endoscope business; 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; 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; the Company's ability to expand into foreign markets; the impact of changes to tax legislation, guidance, and interpretations; changes in tariffs, trade barriers, and regulatory requirements; and other risk factors identified under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, 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 and recoveries.

Non-GAAP income from operations. The Company defines non-GAAP income from operations as income from operations, excluding intangible asset charges, certain acquisition-related items for the re-measurement of contingent consideration, 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 (loss), excluding intangible asset charges, non-cash impairment charges and recoveries, certain acquisition-related items for the re-measurement of contingent consideration, expenses related to SBC, litigation charges and recoveries, adjustments attributable to noncontrolling interest in joint venture, net of the related tax effects, and tax adjustments, including the excess tax benefits or deficiencies associated with SBC arrangements, the one-time impact of the enactments of the 2017 Tax Act and the 2019 Swiss tax reform, and the net tax effects related to intra-entity transfers of non-inventory assets. The Company excludes the one-time impact of the enactments of the 2017 Tax Act and the 2019 Swiss tax reform, because they are discrete in nature, and excludes the excess tax benefits or deficiencies associated with SBC arrangements as well as the tax effects associated with non-cash amortization of deferred tax assets related to intra-entity non-inventory transfers, because 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, re-measurement of contingent consideration, SBC, excess tax benefits or deficiencies associated with SBC 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 for 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 (loss) and net income (loss) per share calculated in accordance with GAAP.

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

	Three months ended		
	December 31, 2019	September 30, 2019	December 31, 2018
Revenue:			
Instruments and accessories	\$ 671.2	\$ 606.2	\$ 539.3
Systems	416.2	338.6	340.6
Services	190.3	183.4	166.6
Total revenue	1,277.7	1,128.2	1,046.5
Cost of revenue:			
Product	312.0	277.3	251.5
Service	69.7	65.3	59.3
Total cost of revenue	381.7	342.6	310.8
Gross profit	896.0	785.6	735.7
Operating expenses:			
Selling, general and administrative (1)	341.8	284.0	283.8
Research and development	156.6	135.9	119.9
Total operating expenses	498.4	419.9	403.7
Income from operations (2)	397.6	365.7	332.0
Interest and other income, net	34.1	33.3	26.8
Income before taxes	431.7	399.0	358.8
Income tax expense (3)	69.0	0.3	67.5
Net income	362.7	398.7	291.3
Less: net income (loss) attributable to noncontrolling interest in joint venture	5.0	1.9	(1.2)
Net income attributable to Intuitive Surgical, Inc.	\$ 357.7	\$ 396.8	\$ 292.5
Net income per share attributable to Intuitive Surgical, Inc.:			
Basic	\$ 3.09	\$ 3.44	\$ 2.56
Diluted (4)	\$ 2.99	\$ 3.33	\$ 2.45
Weighted average shares outstanding:			
Basic	115.8	115.4	114.3
Diluted	119.7	119.3	119.2
(1) Selling, general and administrative includes the effect of the following item:			
Contributions to the Intuitive Foundation	\$ 5.0	\$ —	\$ 25.2
(2) Income from operations includes the effect of the following item:			
Intangible asset charges	\$ 15.7	\$ 10.7	\$ 9.4
(3) Income tax expense includes the effect of the following items:			
Excess tax benefits related to share-based compensation arrangements	\$ (33.7)	\$ (28.8)	\$ (15.8)
One-time tax benefit related to the enactment of Swiss tax reform	\$ —	\$ (51.3)	\$ —
(4) Diluted net income per share includes the effect of the following items:			
Contributions to the Intuitive Foundation, net of tax	\$ (0.03)	\$ —	\$ (0.16)
Intangible asset charges, net of tax	\$ (0.11)	\$ (0.08)	\$ (0.07)
Excess tax benefits related to share-based compensation arrangements	\$ 0.28	\$ 0.24	\$ 0.13
One-time tax benefit related to the enactment of Swiss tax reform	\$ —	\$ 0.43	\$ —

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

	Twelve months ended	
	December 31,	
	2019	2018
Revenue:		
Instruments and accessories	\$ 2,408.2	\$ 1,962.0
Systems	1,346.1	1,127.1
Services	724.2	635.1
Total revenue	4,478.5	3,724.2
Cost of revenue:		
Product	1,119.1	906.2
Service	249.2	213.9
Total cost of revenue	1,368.3	1,120.1
Gross profit	3,110.2	2,604.1
Operating expenses:		
Selling, general and administrative (1)	1,178.4	986.6
Research and development	557.3	418.1
Total operating expenses	1,735.7	1,404.7
Income from operations (2)	1,374.5	1,199.4
Interest and other income, net	127.7	80.1
Income before taxes	1,502.2	1,279.5
Income tax expense (3)	120.4	154.5
Net income	1,381.8	1,125.0
Less: net income (loss) attributable to noncontrolling interest in joint venture	2.5	(2.9)
Net income attributable to Intuitive Surgical, Inc.	\$ 1,379.3	\$ 1,127.9
Net income per share attributable to Intuitive Surgical, Inc.:		
Basic	\$ 11.95	\$ 9.92
Diluted (4)	\$ 11.54	\$ 9.49
Weighted average shares outstanding:		
Basic	115.4	113.7
Diluted	119.5	118.8
(1) Selling, general and administrative includes the effect of the following items:		
Litigation charges	\$ 0.2	\$ 45.2
Contributions to the Intuitive Foundation	\$ 5.0	\$ 25.2
(2) Income from operations includes the effect of the following item:		
Intangible asset charges	\$ 67.2	\$ 31.6
(3) Income tax expense includes the effect of the following items:		
Certain one-time tax benefits	\$ —	\$ (7.1)
Excess tax benefits related to share-based compensation arrangements	\$ (146.5)	\$ (116.2)
One-time tax benefit related to the enactment of Swiss tax reform	\$ (51.3)	\$ —
(4) Diluted net income per share includes the effect of the following items:		
Litigation charges, net of tax	\$ —	\$ (0.29)
Contributions to the Intuitive Foundation, net of tax	\$ (0.03)	\$ (0.16)
Intangible asset charges, net of tax	\$ (0.49)	\$ (0.22)
Certain one-time tax benefits	\$ —	\$ 0.06
Excess tax benefits related to share-based compensation arrangements	\$ 1.23	\$ 0.98
One-time tax benefit related to the enactment of Swiss tax reform	\$ 0.43	\$ —

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

	December 31, 2019	December 31, 2018
Cash, cash equivalents, and investments	\$ 5,845.2	\$ 4,834.4
Accounts receivable, net	645.2	682.3
Inventory	595.5	409.0
Property, plant, and equipment, net	1,272.9	812.0
Goodwill	307.2	240.6
Deferred tax assets	425.6	428.6
Other assets	641.6	439.8
Total assets	<u>\$ 9,733.2</u>	<u>\$ 7,846.7</u>
Accounts payable and other accrued liabilities	\$ 1,083.3	\$ 831.9
Deferred revenue	365.2	327.3
Total liabilities	1,448.5	1,159.2
Stockholders' equity	8,284.7	6,687.5
Total liabilities and stockholders' equity	<u>\$ 9,733.2</u>	<u>\$ 7,846.7</u>

INTUITIVE SURGICAL, INC.
UNAUDITED RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(IN MILLIONS, EXCEPT PER SHARE DATA)

	Three months ended			Twelve months ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
GAAP gross profit	\$ 896.0	\$ 785.6	\$ 735.7	\$ 3,110.2	\$ 2,604.1
Share-based compensation expense	17.1	17.8	13.5	66.0	52.5
Intangible asset charges	9.5	8.8	2.0	35.2	6.1
Non-GAAP gross profit	<u>\$ 922.6</u>	<u>\$ 812.2</u>	<u>\$ 751.2</u>	<u>\$ 3,211.4</u>	<u>\$ 2,662.7</u>
GAAP income from operations	\$ 397.6	\$ 365.7	\$ 332.0	\$ 1,374.5	\$ 1,199.4
Share-based compensation expense	89.2	88.9	70.4	335.8	261.2
Intangible asset charges	15.7	10.7	9.4	67.2	31.6
Litigation charges	—	—	—	—	45.2
Acquisition-related items	3.1	(3.0)	—	7.2	—
Non-GAAP income from operations	<u>\$ 505.6</u>	<u>\$ 462.3</u>	<u>\$ 411.8</u>	<u>\$ 1,784.7</u>	<u>\$ 1,537.4</u>
GAAP net income attributable to Intuitive Surgical, Inc.	\$ 357.7	\$ 396.8	\$ 292.5	\$ 1,379.3	\$ 1,127.9
Share-based compensation expense	89.2	88.9	70.4	335.8	261.2
Intangible asset charges	15.7	10.7	9.4	67.2	31.6
Litigation charges	—	—	—	—	45.2
Impairment charges	—	—	1.2	0.7	1.2
Acquisition-related items	3.1	(3.0)	—	7.2	—
Tax adjustments (1)	(44.9)	(83.2)	(20.3)	(251.7)	(162.0)
Adjustments attributable to noncontrolling interest in joint venture	(3.8)	(1.4)	—	(13.2)	—
Non-GAAP net income attributable to Intuitive Surgical, Inc.	<u>\$ 417.0</u>	<u>\$ 408.8</u>	<u>\$ 353.2</u>	<u>\$ 1,525.3</u>	<u>\$ 1,305.1</u>
GAAP net income per share attributable to Intuitive Surgical, Inc. - diluted	\$ 2.99	\$ 3.33	\$ 2.45	\$ 11.54	\$ 9.49
Share-based compensation expense	0.75	0.75	0.59	2.81	2.20
Intangible asset charges	0.13	0.09	0.08	0.56	0.27
Litigation charges	—	—	—	—	0.38
Impairment charges	—	—	0.01	0.01	0.01
Acquisition-related items	0.02	(0.03)	—	0.06	—
Tax adjustments (1)	(0.38)	(0.70)	(0.17)	(2.11)	(1.36)
Adjustments attributable to noncontrolling interest in joint venture	(0.03)	(0.01)	—	(0.11)	—
Non-GAAP net income per share attributable to Intuitive Surgical, Inc. - diluted	<u>\$ 3.48</u>	<u>\$ 3.43</u>	<u>\$ 2.96</u>	<u>\$ 12.76</u>	<u>\$ 10.99</u>

(1) For the three months ended December 31, 2019, tax adjustments included: (a) excess tax benefits associated with share-based compensation arrangements of \$(33.7) million, or \$(0.28) per diluted share; (b) tax impact related to intra-entity transfers of non-inventory assets of \$10.2 million, or \$0.09 per diluted share; and (c) other tax adjustments effects determined by applying a calculated non-GAAP effective tax rate of \$(21.4) million, or \$(0.19) per diluted share.

For the twelve months ended December 31, 2019, tax adjustments included: (a) excess tax benefits associated with share-based compensation arrangements of \$(146.5) million, or \$(1.23) per diluted share; (b) a tax benefit from the re-measurement of Swiss deferred tax assets of \$(51.3) million, or \$(0.43) per share; (c) tax impact related to intra-entity transfers of non-inventory assets of \$40.8 million, or \$0.34 per diluted share; and (d) other tax adjustments effects determined by applying a calculated non-GAAP effective tax rate of \$(94.7) million, or \$(0.79) per diluted share.