Profile of a Small Cap Tenbagger

by Tom Tresnowski

Throughout the meltdown of the markets in 2000, a small quiet health care company went public that was offering products for hospitals that was proving to be profitable. The stock price of this company during this time was floating in the low teens, even though this company was consistently beating EPS estimates. After 9/11, this stock was beaten down to the mid-single digits like so many other small caps. It remained in the single digits throughout the dismal markets of 2002. Then in late 2003, when the bull market started, this small cap came up life where it moved from the single digits to the upper teens through the end of 2003. In mid-2004, it made its move to the 20s. Then it rapidly moved to the 30s and 40s in early 2005. Then it made its biggest move in late 2005 where it was trading in the 110s.

Even though this company produced a nice tenbagger during this five year timeframe, the three years from 2000 through late 2003 showed this stock moving sideways and down at many times from the upper teens to the mid-single digits. Many investors would have gotten stopped out during this time and for those that really believed in their products, they could have bought and sold many times during this three year timeframe with mounting losses. Why did this company linger for three years yet showed great fundamentals? As pointed out in my previous article about the importance of the markets, small caps during bear markets/corrections often correct with the market and many times can correct up to twice the downside of the markets. This is what happened with this company. The astute investor would have saved it on their watch list and only bought when the bear market was over, which was in 2003. It was during mid to late 2003 when the health care products industry group become one of the top industry groups, which combined with the new bull market and the outstanding fundamentals of this company, that big institutions started buying it. This buying continued on through 2005 where most of the big gains occurred.

During the tech bubble of 1999, Geoffrey Moore, Paul Johnson & Tom Kippola produced a widely acclaimed book called The Gorilla Game. In it, these authors described how to identify and invest in potential gorillas of this new plethora of technology that came about at that time. A gorilla in a forest dominates all that live in it and therefore sets the rules, actions and direction for the area it lives in. Gorillas in technology create products that become standards, make it hard for competitors to imitate and companies/processes eventually adapt to the rules of the new gorilla. This company became a gorilla in a market that had few competitors other than the usual processes used in hospitals for decades. Gorillas often create what is called discontinuous innovation, which is a new technology applied to solve an existing need in a new way. As the authors pointed out: “Discontinuity is the new idea. It means not compatible with the existing systems”. There were many clues that this company was doing something special, most of which was its consistent upward climb in its financials - revenue, margin and EPS. Granted, most small caps never become gorillas in their industry, but many have their shining moment(s) usually during the introduction of new products and services. For this company, growth continues to occur through today, but at a much smaller pace because of its large cap status.

The name of this company is Intuitive Surgical Inc. (ISRG) and its product is called the da Vinci Surgical System. Most people still have never heard of this company, some have heard of the Da Vinci products and many have heard of the robotic-assisted minimally invasive surgery it has performed on a friend, co-worker, relative or themselves.

About the Author

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