Roper Technologies (ROP)

Updated April 15th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$273	**5 Year CAGR Estimate:**	6.2%	**Quality Percentile:**	N/A
Fair Value Price:	$241	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	N/A
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Total Return Percentile:**	N/A
Dividend Yield:	0.6%	**5 Year Price Target**	$353	**Valuation Percentile:**	

Overview & Current Events

Roper Technologies is a specialized industrial company that manufactures products such as medical and scientific imaging equipment, pumps, material analysis equipment, etc. Roper Technologies also develops software solutions for the healthcare, transportation, food, energy and water industries. Roper Technologies was founded in 1981 and has a market capitalization of $28 billion.

In its most recent quarterly results Roper Technologies showed excellent revenue growth (up 21% year-over-year) and recorded earnings per share of $2.70, a 23% increase over the prior year's quarter. Roper Technologies also recorded strong revenue gains during the rest of fiscal 2017. Cash flows during the most recent quarter were up by 36%.

Roper Technologies' guidance calls for earnings-per-share (EPS) of $10.88 to $11.20 for fiscal 2018. A lower tax rate moving forward is one of the key drivers for Roper's expected 2018 earnings growth.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.06	$2.58	$3.34	$4.34	$4.96	$5.65	$6.42	$6.68	$6.43	$7.41	***$11.05***	***$16.20***
DPS	$0.30	$0.34	$0.40	$0.47	$0.58	$0.70	$0.85	$1.05	$1.25	$1.46	***$1.72***	***$2.52***

Roper Technologies not only has a strong growth outlook for 2018, the company has also successfully grown in the past. Over the last five years EPS grew by 8% annually, and earnings have increased in almost every year over the last decade.

Roper's growth has been based on a multitude of factors. Revenues have been growing organically, which is mainly due to the fact that the software and technology markets Roper addresses are growth markets where the company can produce increasing revenues even without growing its market share. The company also has been growing inorganically via acquisitions. Roper Technologies has acquired 10 companies since 2014, including a $2.8 billion acquisition made in 2016 (Deltek).

These acquisitions lead to amortization expenses in the years following the respective takeover, which lower's Roper's GAAP earnings, but since those are non-cash expenses it makes sense that Roper Technologies excludes those from its adjusted EPS numbers.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.0	18.1	18.4	18.5	20.5	22.2	22.5	25.6	18.8	31.2	***24.7***	***21.8***
Avg. Yld.	0.5%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	***0.6%***	***0.7%***

Roper Technologies is operating a successful business with strong growth rates, it is thus not a surprise that the company's shares have always been trading at a relatively high valuation. Over the last decade shares became even more expensive, though, with the PE ratio peaking in 2017. The long term average PE ratio of roughly 22 means that there is some downside potential if the valuation normalizes over the coming years.

Roper Technologies has been raising its dividend at a strong pace (17% annually over the last decade), but as the share price has been growing at a high pace as well, its dividend yield never reached a high level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.9%	24.0%	25.3%	28.6%	23.6%	23.0%	25.0%	21.2%	16.3%	20.3%	***21.0%***	***21.0%***
Debt/A	49.6%	44.1%	45.8%	39.8%	47.8%	48.5%	43.3%	47.9%	59.6%	52.0%	***51.0%***	***50.0%***
Int. Cov.	8.1	6.8	7.7	10.5	11.2	9.6	12.7	12.2	9.5	6.7	***7.5***	***8.0***
Payout	9.8%	13.2%	12.0%	10.8%	11.7%	12.4%	13.2%	15.7%	19.4%	19.7%	***15.6%***	***15.7%***
Std. Dev.	58.1%	40.4%	24.4%	31.1%	18.8%	17.8%	17.8%	19.2%	19.8%	13.5%	***20.0%***	***21.0%***

Roper Technologies produces a solid amount of gross profits relative to its assets, which are about 50% financed via debt. The acquisitions Roper Technologies has been making have led to deviations in both the gross profit to asset ratio as well as in the debt to asset ratio, especially the relatively big Deltek takeover in 2016. Debt levels have been shrinking since, though, and the interest coverage ratio shows that Roper Technologies is not overleveraged.

The company does not pay out a big amount of its earnings, even though its dividend payout ratio has risen over the last decade. The fact that the payout ratio remains under 20% makes the dividend extremely safe.

During the last financial crisis Roper Technologies remained highly profitable, its earnings went down by about 15%. Roper Technologies is well positioned in the niches it services, thus there are little competitive risks. It is highly likely that Roper will continue to make acquisitions where such moves are viable, which will further strengthen the company's portfolio and reduce competitive risks at the same time.

Final Thoughts & Recommendation

Roper Technologies has produced solid growth rates in the last few years, this year its profitability will rise substantially. That is mainly due to tax rate changes and the impact of acquisitions, but going forward the growth outlook remains strong.

Roper Technologies' low dividend yield makes shares of the company relatively uninteresting for income focused investors, but those investors that are looking for a growth investment should take a closer look at Roper Technologies *when it trades at fair or better prices*. The company will benefit from growth in the niche markets it services and will likely continue to grow through acquisitions as well going forward.

Total Return Breakdown by Year