Roper Technologies (ROP)

Updated July 31st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$298	**5 Year CAGR Estimate:**	5.1%	**Volatility Percentile:**	23.1%
Fair Value Price:	$250	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	78.2%
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Valuation Percentile:**	30.7%
Dividend Yield:	0.6%	**5 Year Price Target**	$368	**Total Return Percentile:**	28.2%

Overview & Current Events

Roper Technologies is a specialized industrial company that manufactures products such as medical and scientific imaging equipment, pumps, and material analysis equipment. 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 $30 billion.

Roper Technologies' second quarter earnings results were announced on July 26. The company earned $2.89 during Q2, an increase of 29% year over year. This very compelling earnings growth was driven by revenue gains of 12% to $1.3 billion. Roper has upped its guidance for fiscal 2018. The company now expects earnings per share of $11.40 to $11.56, which means an outstanding growth rate of more than 50% compared to fiscal 2017.

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	***$11.48***	***$16.87***
DPS	$0.30	$0.34	$0.40	$0.47	$0.58	$0.70	$0.85	$1.05	$1.25	$1.46	***$1.72***	***$2.85***

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 the $2.8 billion Deltek acquisition that Roper Technologies made in 2016.

Roper Technologies' most recent takeover is PowerPlan. This $1.1 billion acquisition was announced in May 2018 and is expected to generate $150 million in revenues during the first year after the acquisition has closed.

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	***26.0***	***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 has successfully grown over the last couple of years. It is not surprising that the market rewarded Roper Technologies with a relatively high valuation in the past. Right now shares are looking too expensive, though. We forecast that Roper's earnings multiple will decline towards the low 20s over the coming five years.

Roper Technologies does not offer a high dividend yield at all, but its dividend growth rate over the last decade has been very high at 17%. We believe that the dividend will continue to grow at a substantial pace going forward.

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%	***15.0%***	***16.9%***
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. This is especially true for 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.

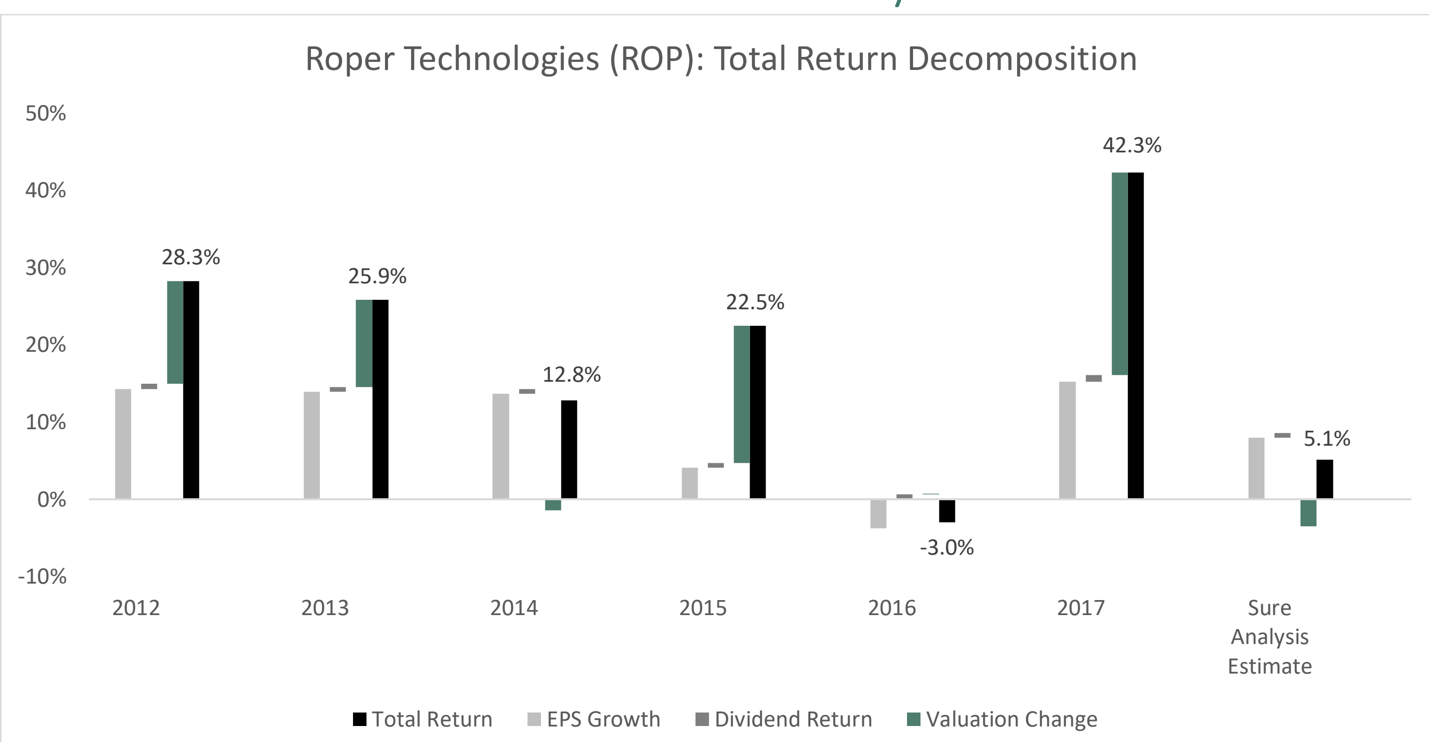
During the last financial crisis Roper Technologies remained highly profitable, though its earnings did decline by about 15%. Roper Technologies is well positioned in the niches it services, thus there are little competitive risks. It is highly likely that Roper will continue to make acquisitions where 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 will grow its profits at a massive pace during 2018. One-time items such as tax rate changes and acquisitions mean that the growth rate will slow down beyond 2018, though. Roper Technologies should still be able to produce solid high-single digits earnings per share growth over the coming years. The company will benefit from growth in the niche markets it services and will likely continue to grow through acquisitions as well going forward

Roper Technologies does not look like a compelling income stock due to the low dividend yield. Growth-oriented investors should take a closer look at Roper once it trades at or below fair value. Right now, shares are too expensive. The company earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.