



Roper Technologies (ROP)

Updated May 10th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$355	5 Year CAGR Estimate:	1.3%	Volatility Percentile:	18.6%
Fair Value Price:	\$244	5 Year Growth Estimate:	8.0%	Momentum Percentile:	85.8%
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.2%	Growth Percentile:	75.9%
Dividend Yield:	0.5%	5 Year Price Target	\$359	Valuation Percentile:	7.6%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	7.8%

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 \$36.6 billion.

Roper Technologies reported its first quarter earnings results on April 25. The company reported revenues of \$1.29 billion during the first quarter, which beat the analyst consensus marginally, and which was 7.5% ahead of the revenues that Roper Technologies was able to generate during the first quarter of fiscal 2018. Roper Technologies' revenues were positively impacted by acquisitions, but even when we back that out and look at the company's organic revenue growth rate of 6%, the growth of the company's business is still quite solid. Roper Technologies grew across all of its segments, but the growth rates varied quite a lot. Process Technologies, which is Roper's smallest segment, grew by only 1% organically, whereas Measurement & Analytical Solutions, the biggest segment, saw its organic sales grow 6%.

Roper Technologies was able to grow its margins on top of that, which is why EBITDA rose by 13% compared to the prior year's quarter, almost twice the revenue growth rate. Management points out that margins rose across all of the company's segments. Roper Technologies generated earnings-per-share of \$3.30 during the quarter, which beat the consensus estimate by a massive 15%, and which was 26% above the prior year's level.

Roper Technologies guides for earnings-per-share of \$3.00 to \$3.04 during the second quarter of fiscal 2019, while full-year earnings-per-share guidance has been raised to \$12.70 to \$13.00; we've raised our estimate accordingly.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.58	\$3.34	\$4.34	\$4.96	\$5.65	\$6.42	\$6.68	\$6.60	\$9.42	\$11.81	\$12.85	\$18.90
DPS	\$0.34	\$0.40	\$0.47	\$0.58	\$0.70	\$0.85	\$1.05	\$1.25	\$1.40	\$1.65	\$1.85	\$2.98
Shares	94	95	95	99	100	100	101	102	103	104	105	108

Roper Technologies has grown at a compelling pace in the past. Since 2009 the company has increased its earnings-per-share by 18% a year, but this included the recovery from the financial crisis. Over the last five years Roper Technologies' earnings-per-share growth was quite solid as well, at 16%, but this included one-time tailwinds from tax law changes.

Roper's growth has been based on a number of factors. Revenues have been growing organically, which is mainly due to the fact that the software and technology markets that Roper addresses keep growing, which means that 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 more than 10 companies since 2014. Roper Technologies' most recent takeover is Foundry, which closed in April of 2019, after the end of the first quarter. Roper Technologies plans to sell Gatan to Thermo Fisher Scientific during the second quarter, and the impact of this asset sale is included in the company's guidance. Roper's 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 costs from its adjusted earnings-per-share numbers.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.1	18.4	18.5	20.5	22.2	22.5	25.6	18.8	29.7	22.6	27.6	19.0
Avg. Yld.	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.5%	0.8%

Roper Technologies is currently trading for more than 27 times 2019's forecasted earnings, which is a quite high valuation in absolute terms. The current valuation also presents a huge premium compared to how Roper Technologies' shares were valued throughout the last decade, and is well above our fair value estimate. We see huge downside potential, and believe that multiple compression will be a major headwind for the company's total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	13.2%	12.0%	10.8%	11.7%	12.4%	13.2%	15.7%	18.9%	14.9%	14.0%	14.4%	15.8%

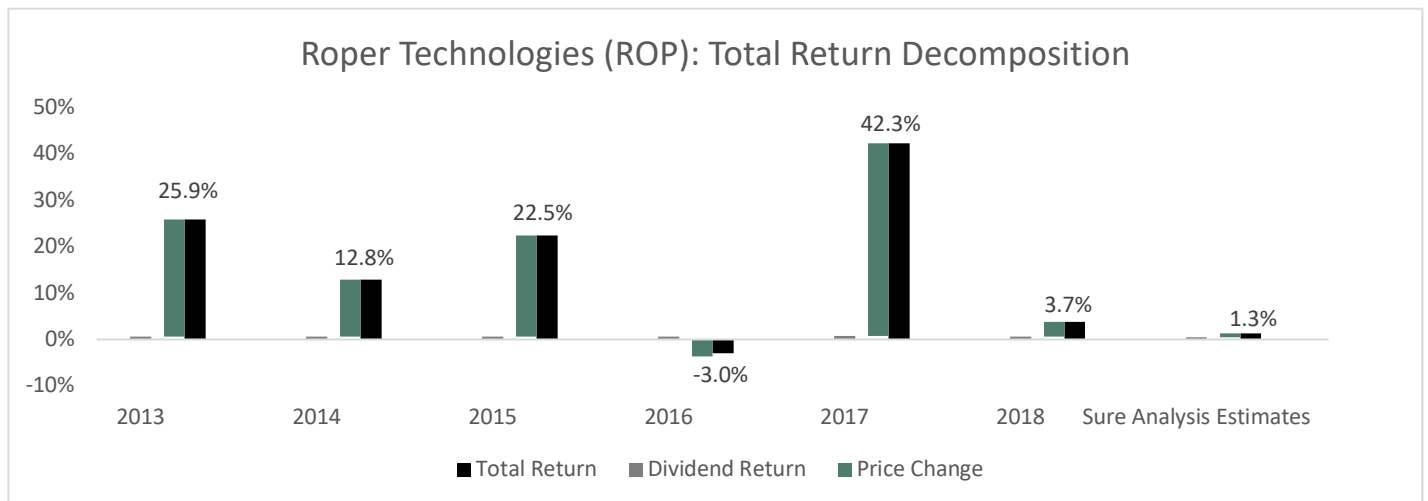
Roper Technologies' dividend payout ratio has been quite low during all of the last decade, even in the midst of the last financial crisis. The payout ratio declined during 2017 and 2018, due to Roper Technologies' above-average earnings growth during those years. We believe that Roper Technologies will increase its dividend slightly more quickly than its earnings-per-share going forward. The dividend looks very safe due to the very low dividend payout ratio.

During the last financial crisis, Roper Technologies remained highly profitable, although its earnings did decline by about 15%. Roper Technologies is well positioned in the niche markets it serves, 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. Roper's inorganic growth will also improve the company's scale advantages over its peers, and lead to improving economics of scale.

Final Thoughts & Recommendation

Roper Technologies delivered strong earnings growth during the last decade, as well as during the last couple of years. The company's growth outlook going forward is not bad, either, although 2019's earnings growth will be lower than the long-term average according to Roper Technologies' management. The company's shares look massively overvalued here, though, which is why the forecasted total returns are not looking strong. Due to these low projected returns, Roper Technologies earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2050	2386	2797	2993	3238	3549	3582	3790	4607	5191
Gross Profit	1043	1275	1516	1672	1883	2102	2165	2332	2865	3280
Gross Margin	50.9%	53.4%	54.2%	55.8%	58.1%	59.2%	60.4%	61.5%	62.2%	63.2%
SG&A Exp.	648	761	855	914	1041	1102	1137	1278	1655	1883
D&A Exp.	103	123	140	155	189	197	204	240	345	367
Operating Profit	395	514	661	758	842	999	1028	1055	1210	1396
Operating Margin	19.3%	21.6%	23.6%	25.3%	26.0%	28.2%	28.7%	27.8%	26.3%	26.9%
Net Profit	239	323	427	483	538	646	696	659	972	944
Net Margin	11.7%	13.5%	15.3%	16.1%	16.6%	18.2%	19.4%	17.4%	21.1%	18.2%
Free Cash Flow	342	471	561	639	760	800	890	924	1175	1372
Income Tax	100	126	178	203	216	275	306	282	63	254

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4328	5070	5319	7071	8185	8400	10168	14325	14316	15250
Cash & Equivalents	168	270	338	371	460	610	779	757	671	364
Accounts Receivable	382	403	439	526	519	512	488	620	642	701
Inventories	179	179	205	191	205	194	190	182	205	191
Goodwill & Int. Ass.	3257	3832	3961	5568	6589	6689	8354	12303	12296	13189
Total Liabilities	1906	2319	2124	3383	3972	3645	4869	8536	7453	7511
Accounts Payable	110	138	142	138	150	144	140	152	171	165
Long-Term Debt	1154	1341	1085	2022	2465	2201	3271	6210	5156	4942
Shareholder's Equity	2421	2751	3195	3688	4213	4755	5299	5789	6864	7739
D/E Ratio	0.48	0.49	0.34	0.55	0.59	0.46	0.62	1.07	0.75	0.64

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.8%	6.9%	8.2%	7.8%	7.1%	7.8%	7.5%	5.4%	6.8%	6.4%
Return on Equity	10.8%	12.5%	14.4%	14.0%	13.6%	14.4%	13.8%	11.9%	15.4%	12.9%
ROIC	7.0%	8.4%	10.2%	9.7%	8.7%	9.5%	9.0%	6.4%	8.1%	7.6%
Shares Out.	94	95	95	99	100	100	101	102	103	104
Revenue/Share	22.08	24.69	28.43	30.07	32.31	35.18	35.26	36.99	44.51	49.72
FCF/Share	3.68	4.87	5.70	6.42	7.58	7.93	8.76	9.01	11.35	13.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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