Roper Technologies (ROP)

Updated December 13th, 2019 by Kay Ng

Key Metrics

Current Price:	$351	**5 Year CAGR Estimate:**	1.4%	**Market Cap:**	$36B
Fair Value Price:	$247	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/08/20
% Fair Value:	142%	**5 Year Valuation Multiple Estimate:**	-6.8%	**Dividend Payment Date:**	01/23/20
Dividend Yield:	0.5%	**5 Year Price Target**	$363	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.6%

Overview & Current Events

Roper Technologies (ROP) 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. The company was founded in 1981.

Roper Technologies reported its third-quarter earnings results on 10/24/19. The company reported revenues of $1.4 billion for the quarter, which was 3% higher than the comparable quarter of 2018. The adjusted gross margins improved by 80 basis points to 64.6%. Adjusted net earnings increased 7% to $346 million. Adjusted diluted earnings-per-share increased by 6% to $3.29. Additionally, EBITDA, a cash flow proxy, increased by 5% to $498 million. Notably, operating cash flow fell 3% to $404 million and free cash flow fell 4% to $387 million.

During the quarter, Roper deployed $1.8 billion to acquire two quality, niche software businesses -- iPipeline and ComputerEase. On August 8, Roper announced a $1.625-billion all-cash acquisition of iPipeline, a provider of cloud-based software solutions for the life insurance industry. Roper expects iPipeline to contribute roughly $200 million of revenue and $70 million of after-tax free cash flow in 2020. It also expects the acquisition to be immediately cash accretive and deliver high single-digit organic revenue growth. Moreover, the company divested its Gatan business to AMETEK (AME). Roper tightened its full-year adjusted earnings-per-share guidance range from $12.94 - $13.06 to $12.98 - $13.02. We maintain the midpoint of $13.00 as our 2019 estimate. In November, Roper increased its quarterly dividend, payable in January, by 10.6%.

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	***$13.00***	***$19.10***
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[1]	94	95	95	99	100	100	101	102	103	104	***105***	***108***

Roper has grown at a compelling pace in the past. From 2009 to 2018, 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 rate was quite solid as well, at 16%, but this included one-time tailwinds from tax law changes. Roper's growth has been attributable to a number of factors. Revenues have been growing organically, which is mainly because the software and technology markets that Roper addresses keep growing. Therefore, the company can produce increasing revenues even without growing its market share.

The company also has been growing inorganically via acquisitions. Roper has acquired more than 10 companies since 2014. Roper Technologies' most recent takeovers are iPipeline and ComputerEase. Its acquisitions lead to amortization expenses in the years following the respective takeovers, which lower's Roper's GAAP earnings, but since those are non-cash expenses, it makes sense for Roper to exclude those costs from its adjusted earnings-per-share numbers. The company's yield and payout ratio are very low. Consequently, the dividend growth rate through 2024 can be greater than the earnings growth rate.

1. Shares in millions.

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	***27.0***	***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 currently trades for 27 times 2019's forecasted earnings, which is a quite high valuation in absolute terms. The current valuation also presents a huge premium from Roper's average valuation 21.7 times earnings 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%	12%	11%	12%	12%	13%	16%	19%	15%	14%	***14%***	***16%***

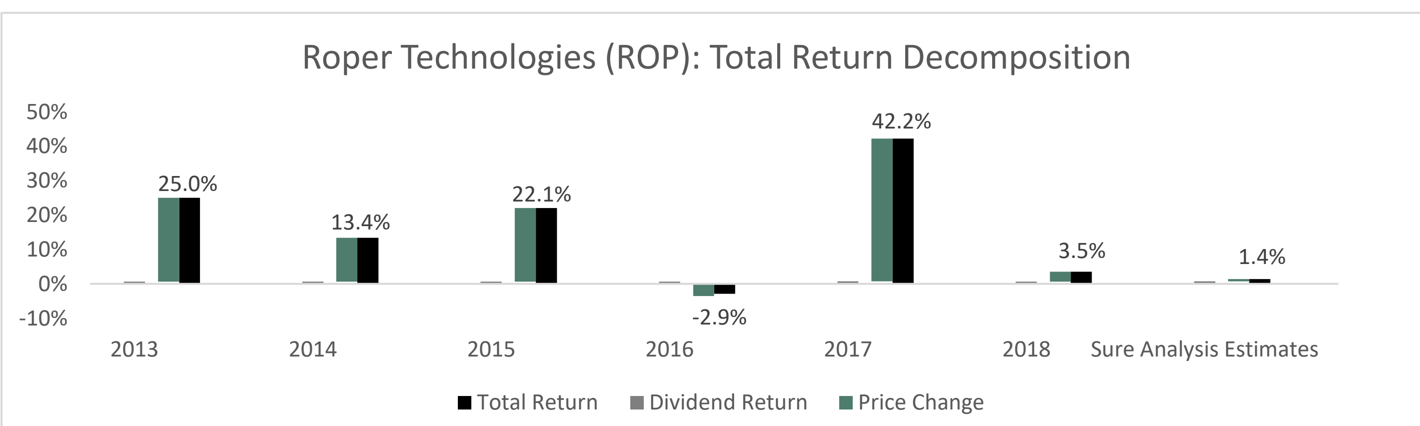
Roper's dividend payout ratio has been quite low during all of the last decade, even in the midst of the last financial crisis. The payout ratio declined during 2017 and 2018, due to Roper's above-average earnings growth during those years. We believe that Roper Technologies will increase its dividend 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 remained highly profitable, although its earnings did decline by about 15%. Roper 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 economies of scale.

Final Thoughts & Recommendation

Roper 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, although 2019's earnings growth will be lower than the long-term average according to Roper's management. The company's shares look massively overvalued here, which is why the forecasted total returns are expected to be low. Specifically, we estimate total returns of only 1.4% per year through 2024 based on an 8% growth rate, -6.8% valuation headwind, and a 0.5% yield. As a result, Sure Dividend recommends selling Roper 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.