Roper Technologies (ROP)

Updated February 13th, 2020 by Kay Ng

Key Metrics

Current Price:	$389	**5 Year CAGR Estimate:**	0.0%	**Market Cap:**	$40.5B
Fair Value Price:	$256	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	04/05/20
% Fair Value:	152%	**5 Year Valuation Multiple Estimate:**	-8.1%	**Dividend Payment Date[1]:**	04/22/20
Dividend Yield:	0.5%	**5 Year Price Target**	$375	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.8%

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 Q4 and full-year results on 01/30/20. In Q4, the company reported adjusted revenue of $1.4 billion, which was 2% higher than the comparable quarter of 2018. The adjusted gross margins improved by 60 basis points to 64.1%. Adjusted EBITDA increased by 4% to $518 million, adjusted free cash flow went up 1% to $453 million, adjusted net earnings climbed 6% to $356 million, and adjusted diluted earnings-per-share (EPS) rose 5% to $3.39.

For 2019, Roper Technologies reported adjusted revenue of $5.4 billion, which was 3% higher against 2018. The adjusted gross margins improved by 70 basis points to 63.9%. Adjusted EBITDA increased by 7% to $1.9 billion, adjusted free cash flow went up 5% to $1.4 billion, adjusted net earnings climbed 11% to $1.4 billion, and adjusted diluted EPS rose 10% to $13.05.

Roper expects 2020 to continue with a mix of organic growth and contributions from acquisitions such as iPipeline and Foundry. Since it sold the Gatan and Scientific Imaging businesses, it also has the financial capacity to make new acquisitions. Management has an initial 2020 EPS guidance range of $13.30 - $13.60 based on full-year organic revenue growth of 6-7%. We use the midpoint of that range for our 2020 EPS guidance.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.34	$4.34	$4.96	$5.65	$6.42	$6.68	$6.60	$9.42	$11.81	$13.05	***$13.45***	***$19.76***
DPS	$0.40	$0.47	$0.58	$0.70	$0.85	$1.05	$1.25	$1.40	$1.65	$1.85	***$2.05***	***$3.30***
Shares[1]	95	95	99	100	100	101	102	103	104	105	***106***	***110***

Roper has grown at a compelling pace. 2010 to 2019, the company increased its EPS by 16.3% 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 about 15%, 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.

Additionally, Roper has been growing inorganically via acquisitions. Roper has acquired more than 10 companies since 2014. 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 EPS numbers. The company's yield and payout ratio are very low. Consequently, the dividend growth rate through 2025 can be greater than the earnings growth rate.

1. Estimated Dividend Dates. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.4	18.5	20.5	22.2	22.5	25.6	18.8	29.7	22.6	24.2	***28.9***	***19.0***
Avg. Yld.	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	***0.5%***	***0.9%***

Roper currently trades for about 29 times 2020's forecasted earnings, which is a high valuation in absolute terms. The valuation also presents a huge premium from Roper's average valuation 22.3 times earnings from 2010 to 2019 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12%	11%	12%	12%	13%	16%	19%	15%	14%	14%	***15%***	***17%***

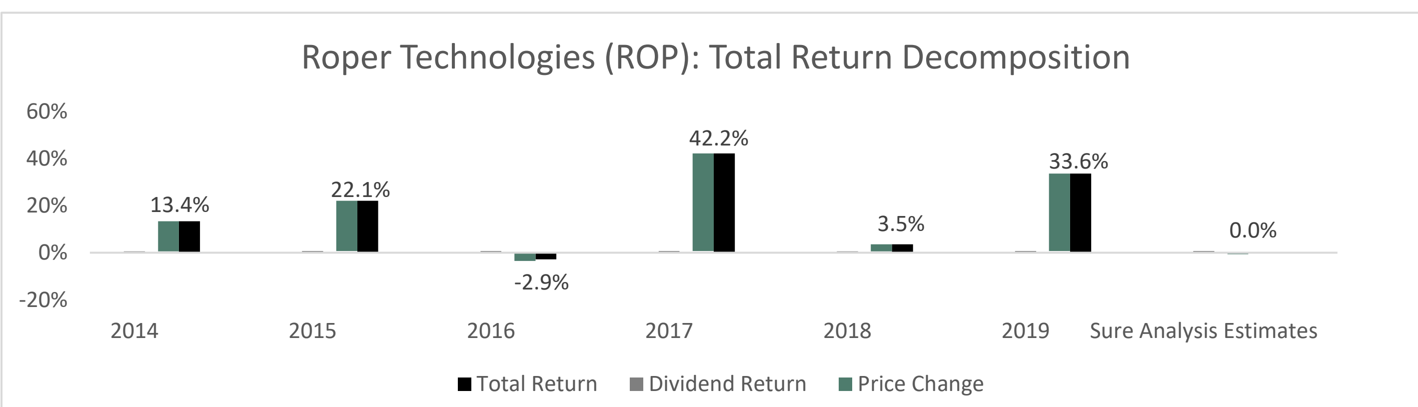
Roper's dividend payout ratio has been quite low during all of the last decade, even in the midst of the last financial crisis. The payout ratio declined during 2017 and 2018, due to Roper's above-average earnings growth during those years. We believe that Roper Technologies will increase its dividend slightly more quickly than its EPS 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. Going forward, the company's growth will rely on organic growth as well as its ability to buy fitting acquisitions for the right price and integrate it well. The company's shares look massively overvalued here, which is why the forecasted total returns are expected to be 0%. Specifically, we estimate an 8% growth rate, -8.1% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2386	2797	2993	3238	3549	3582	3790	4608	5191	5367
Gross Profit	1275	1516	1672	1883	2102	2165	2332	2865	3280	3427
Gross Margin	53.4%	54.2%	55.8%	58.1%	59.2%	60.4%	61.5%	62.2%	63.2%	63.9%
SG&A Exp.	761	855	914	1041	1102	1137	1278	1655	1883	1929
D&A Exp.	123	140	155	189	197	204	241	345	367	416
Operating Profit	514	661	758	842	999	1028	1055	1210	1396	1498
Operating Margin	21.6%	23.6%	25.3%	26.0%	28.2%	28.7%	27.8%	26.3%	26.9%	27.9%
Net Profit	323	427	483	538	646	696	659	972	944	1,768
Net Margin	13.5%	15.3%	16.1%	16.6%	18.2%	19.4%	17.4%	21.1%	18.2%	32.9%
Free Cash Flow	471	561	639	760	800	890	924	1,175	1,372	1,399
Income Tax	126	178	203	216	275	306	282	63	254	460

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5070	5319	7071	8185	8400	10168	14325	14316	15250	18109
Cash & Equivalents	270	338	371	460	610	779	757	671	364	710
Accounts Receivable	403	439	526	519	512	488	620	642	701	792
Inventories	179	205	191	205	194	190	182	205	191	199
Goodwill & Int. Ass.	3832	3961	5568	6589	6689	8354	12303	12296	13189	15483
Total Liabilities	2319	2124	3383	3972	3645	4869	8536	7453	7511	8617
Accounts Payable	138	142	138	150	144	140	152	171	165	162
Long-Term Debt	1341	1085	2022	2465	2201	3271	6210	5156	4942	5275
Shareholder's Equity	2751	3195	3688	4213	4755	5299	5789	6864	7739	9492
D/E Ratio	0.49	0.34	0.55	0.59	0.46	0.62	1.07	0.75	0.64	0.56

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.9%	8.2%	7.8%	7.1%	7.8%	7.5%	5.4%	6.8%	6.4%	10.6%
Return on Equity	12.5%	14.4%	14.0%	13.6%	14.4%	13.8%	11.9%	15.4%	12.9%	20.5%
ROIC	8.4%	10.2%	9.7%	8.7%	9.5%	9.0%	6.4%	8.1%	7.6%	12.9%
Shares Out.	95	95	99	100	100	101	102	103	104	105
Revenue/Share	24.69	28.43	30.07	32.31	35.18	35.26	36.97	44.52	49.72	51.06
FCF/Share	4.87	5.70	6.42	7.58	7.93	8.76	9.01	11.35	13.14	13.31

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