



# Roper Technologies (ROP)

Updated October 29<sup>th</sup>, 2020 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$369	<b>5 Year CAGR Estimate:</b>	6.5%	<b>Market Cap:</b>	\$38.8B
<b>Fair Value Price:</b>	\$328	<b>5 Year Growth Estimate:</b>	8.5%	<b>Ex-Dividend Date<sup>1</sup>:</b>	01/08/21
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.4%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/23/21
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$493	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 and is based in Sarasota, Florida.

The company reported its Q3 results on October 27th, 2020. Quarterly revenues and EPS were \$1.35B and \$2.64, indicating a year-over-year increase of 1% and a decrease of 4%, respectively. The company's software solutions offset the decline in sales in its other segments, resulting in a strong top line that didn't suffer due to COVID-19. Despite recording a slight EBITDA growth, the drop in EPS was the result of higher interest and one-off expenses, related to its acquisition of Vertafone, an insurance software vendor.

Seeing great results from its software COVID-19-proof businesses, it makes sense that Roper would want to expand its portfolio of companies in the sector. The \$5.35 billion purchase highlights the company's financial resilience, as it was entirely funded using cash on hand, its credit facility, and debt. Instead of diluting shareholders, using cheap debt by leveraging its AAA balance-sheet, management should be able to maximize the acquisition's return potential. Additionally, considering the company is expected to contribute ~\$590M million of revenue, and \$290M million of EBITDA, Roper has likely not overpaid for the software company.

Roper updated its 2020 guidance to a more narrow range of \$12.55-\$12.65 (previously: \$11.90 - \$12.40), which indicates slightly lower profitability than FY2019, by just 3.4%. We use the midpoint of \$12.60 for our 2020 EPS guidance.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$3.34	\$4.34	\$4.96	\$5.65	\$6.42	\$6.68	\$6.60	\$9.42	\$11.81	\$13.05	<b>\$12.60</b>	<b>\$18.95</b>
<b>DPS</b>	\$0.40	\$0.47	\$0.58	\$0.70	\$0.85	\$1.05	\$1.25	\$1.40	\$1.65	\$1.85	<b>\$2.05</b>	<b>\$3.15</b>
<b>Shares<sup>1</sup></b>	95	95	99	100	100	101	102	103	104	105	<b>106</b>	<b>111</b>

Roper has proven consistent growth in its profitability over the years. From 2010 to 2019, the company increased its EPS by 18.5%. While the Great Financial Crisis's recovery may have boosted this figure, the company's 5-year EPS CAGR is also 12.8%, indicating robust profitability growth. In the earnings report, management stated that they remain confident in growing the company as they see an active pipeline of high-quality acquisition opportunities, in addition to its subsidiaries growing organically. Vertafone is one such case which should significantly boost profitability based on size and projected EBITDA. We are retaining our medium-term EPS growth expectations to 8.5%.

Additionally, Roper has a tremendous dividend growth record, with 27 years of consecutive dividend increases. This means that the company is proudly standing as a dividend aristocrat. Over the past decade, DPS has grown annually by nearly 20%, on average. We will stick with 9% in our projections, based on the company's latest, more reserved dividend increase, as the company has taken on additional debt, increasing its future interest expenses.

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	<b>29.3</b>	<b>26.0</b>
Avg. Yld.	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	<b>0.6%</b>	<b>0.6%</b>

Roper currently trades for around 29 times 2020's forecasted earnings. The stock's valuation is a high one both in absolute terms, as well as compared to its five-year average of around 24X earnings. We believe that the stock could face a significant downside potential under a multiple compression, which could severely affect its total returns, despite its attractive growth rates. At the same time, increasing its tech exposure in tech, which could result in higher growth, may partially justify the premium. As a result, we maintain our expected medium-term P/E ratio to around 26. The stock's dividend aristocrat status is an additional factor towards a higher valuation, as dividend aristocrat funds see huge cash inflows during such times.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

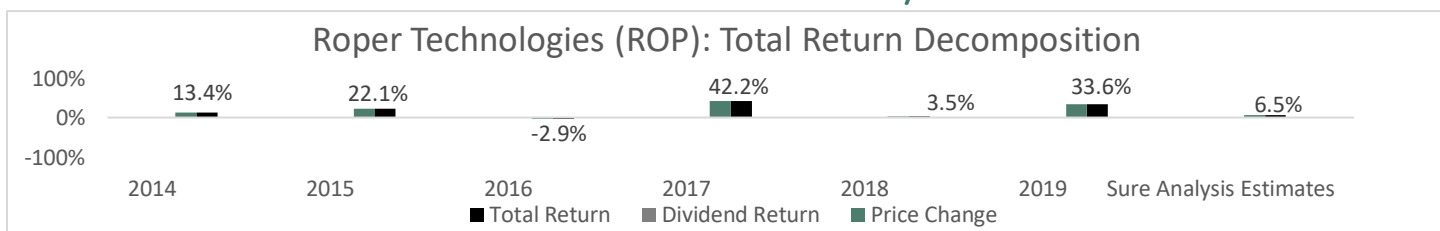
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12%	11%	12%	12%	13%	16%	19%	15%	14%	14%	<b>16%</b>	<b>17%</b>

Roper's dividend payout ratio has been incredibly low during the last decade, even in the midst of the previous financial crisis. The payout ratio declined during 2017 and 2018 due to Roper's above-average earnings growth in 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 and the company's stable profits. 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 similar to Vertafone, which will further strengthen the company's portfolio and reduce competitive risks at the same time. Roper's inorganic growth will also improve its scale advantages over its peers, leading to improving economies of scale, as it's already visible through its decade-long gross margins expansion. Overall, Roper makes for a resilient company and a great defensive stock. Still, its current high valuation multiple could potentially harm an otherwise compelling investment opportunity.

## Final Thoughts & Recommendation

Roper has been delivering strong earnings growth over the past decade. Going forward, the company's growth will rely on organic growth and its ability to buy fitting acquisitions for the right price and integrate it well. While shares have significantly declined since our last report, increasing the total return potential for current investors, the stock's weak yield and potential valuation headwinds still point towards limited annualized expected returns, around 6.5%, primarily through capital gains. Investors looking to buy into a low-risk, resilient company with the potential for growth may find Roper fitting for their portfolios. Income investors, however, are likely to find more attractive opportunities elsewhere.

## 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.

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