



Roper Technologies (ROP)

Updated February 8th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$406	5 Year CAGR Estimate:	9.0%	Market Cap:	\$42.7B
Fair Value Price:	\$378	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	04/07/21
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date¹:	04/22/21
Dividend Yield:	0.6%	5 Year Price Target	\$609	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	9.8%

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.

Roper reported its Q4 and full-year results on January 29th, 2021, for the period ending December 31st, 2020. Quarterly revenues and adjusted EPS were \$1.51B and \$3.56, indicating a year-over-year increase of 8% and 5%, respectively. The company's software solutions performed as expected, posting boosted recurring revenues. Roper keeps on expanding its portfolio, and by taking advantage of the current ultra-low rates environment, the company deployed a massive (for its size) \$6 billion of capital towards high-quality software acquisitions through the year.

The \$5.35 billion purchase of Vertafone 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. Management updated its FY2021 guidance, expecting EPS of \$14.35-\$14.75, with first quarter adjusted EPS of \$3.26-\$3.32. Mr. Hunn, Roper's CEO mentioned that the company is set to continue delivering double-digit cash flow compounding going forward, which confirms our prediction that Vertifone's is likely a cash flow gem bought on the cheap.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.34	\$4.96	\$5.65	\$6.42	\$6.68	\$6.60	\$9.42	\$11.81	\$13.05	\$12.74	\$14.55	\$23.43
DPS	\$0.47	\$0.58	\$0.70	\$0.85	\$1.05	\$1.25	\$1.46	\$1.70	\$1.90	\$2.10	\$2.30	\$3.70
Shares²	95	99	100	100	101	102	103	104	105	105	105	111

Roper has proven consistent growth in its profitability over the years. From 2015 to 2020, the company grew its EPS by an annualized rate of 17.1%. The company's pipeline of high-quality acquisition opportunities remains robust, and its existing software subsidiaries keep growing organically, adding to its recurring revenues. The Vertafone acquisition initially felt cheap, and the recent results confirm of such a case, with the company guiding for double-digit cash flow growth going forward. We are raising our medium-term EPS growth expectations to 10%, to reflect these estimates.

Roper has also a tremendous dividend growth record, numbering 28 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 24%, on average. We are slightly raising our DPS growth projection to 10%, which is in line with its latest increase, and easily supported by the underlying net income. Finally, while the company's debt increase to fund its acquisition raised interest expenses by 30.6% to \$64 million for FY2020, they are covered by 8.5X its EBITDA, evaporating our previously minor concerns in regards to the expenses growing. Hence, dividend grow is even likely to accelerate in the future.

1. Estimated Dividend Dates.
2. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.5	20.5	22.2	22.5	25.6	18.8	29.7	22.6	24.2	33.8	27.9	26.0
Avg. Yld.	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%

Last year, the stock was trading at a P/E ratio above its historical average, at around 33. It turns out that the premium was justified as the company's profitability is expected to be indeed significantly boosted. By expanding its exposure in tech further through its Vertafone acquisition, which could result in higher growth long-term, investors should not expect to have an opportunity to cherry-pick the stock cheaply. Hence, our expected medium-term P/E ratio stands at around 26, to reflect the company's resilient growth prospects, at a fair price. The stock's dividend aristocrat status is an additional factor towards a higher valuation, as investors are more often than not happy to "overpay" for high-quality companies with a proven long-term track record of robust performance.

Safety, Quality, Competitive Advantage, & Recession Resiliency

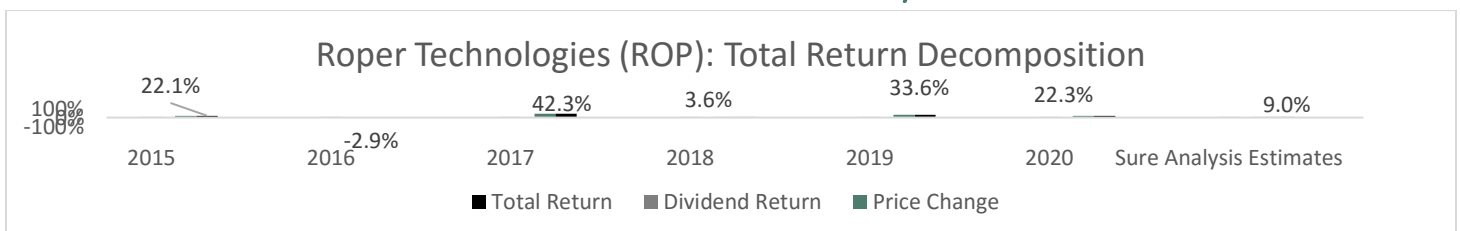
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	12%	12%	13%	16%	19%	15%	14%	15%	16%	16%	16%

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 continue growing its DPS in line EPS, retaining its miniature yield and payout ratio. The dividend should be considered exceptionally safe. 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. Its cash flow remained resilient under COVID-19, which should further reassure investors of this.

Final Thoughts & Recommendation

Roper has been delivering strong earnings growth over the past decade. Going forward, the company's prosperity will rely on organic growth and its ability to buy fitting acquisitions for the right price and integrate it well. We expect annualized returns of around 9% in the medium term, reflecting Roper's growth prospects and possibility for a slight valuation compression. Investors looking to buy into a low-risk, resilient company with the potential for growth may find Roper fitting for their portfolios. Hence we rate the stock a Buy. Income investors, however, are likely to find more attractive opportunities elsewhere, due to the stock's miniature yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2797	2993	3238	3549	3582	3790	4608	5191	5367	5527
Gross Profit	1516	1672	1883	2102	2165	2332	2865	3280	3427	3543
Gross Margin	54.2%	55.8%	58.1%	59.2%	60.4%	61.5%	62.2%	63.2%	63.9%	64.1%
SG&A Exp.	855	914	1041	1102	1137	1278	1655	1883	1929	2112
D&A Exp.	140	155	189	197	204	241	345	367	416	521
Operating Profit	661	758	842	999	1028	1055	1210	1396	1498	1431
Operating Margin	23.6%	25.3%	26.0%	28.2%	28.7%	27.8%	26.3%	26.9%	27.9%	25.9%
Net Profit	427	483	538	646	696	659	972	944	1,768	950
Net Margin	15.3%	16.1%	16.6%	18.2%	19.4%	17.4%	21.1%	18.2%	32.9%	17.2%
Free Cash Flow	561	639	760	800	890	924	1,175	1,372	1,399	14765
Income Tax	178	203	216	275	306	282	63	254	460	260

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5319	7071	8185	8400	10168	14325	14316	15250	18109	24020
Cash & Equivalents	338	371	460	610	779	757	671	364	710	308
Accounts Receivable	439	526	519	512	488	620	642	701	792	863
Inventories	205	191	205	194	190	182	205	191	199	198
Goodwill & Int. Ass.	3961	5568	6589	6689	8354	12303	12296	13189	15483	21600
Total Liabilities	2124	3383	3972	3645	4869	8536	7453	7511	8617	13540
Accounts Payable	142	138	150	144	140	152	171	165	162	178
Long-Term Debt	1085	2022	2465	2201	3271	6210	5156	4942	5275	9566
Shareholder's Equity	3195	3688	4213	4755	5299	5789	6864	7739	9492	10480
D/E Ratio	0.34	0.55	0.59	0.46	0.62	1.07	0.75	0.64	0.56	0.91

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.2%	7.8%	7.1%	7.8%	7.5%	5.4%	6.8%	6.4%	10.6%	4.5%
Return on Equity	14.4%	14.0%	13.6%	14.4%	13.8%	11.9%	15.4%	12.9%	20.5%	9.5%
ROIC	10.2%	9.7%	8.7%	9.5%	9.0%	6.4%	8.1%	7.6%	12.9%	5.5%
Shares Out.	95	99	100	100	101	102	103	104	105	106
Revenue/Share	28.43	30.07	32.31	35.18	35.26	36.97	44.52	49.72	51.06	52.29
FCF/Share	5.70	6.42	7.58	7.93	8.76	9.01	11.35	13.14	13.31	13.97

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

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