



Roper Technologies (ROP)

Updated October 25th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$487	5 Year CAGR Estimate:	7.4%	Market Cap:	\$51.3B
Fair Value Price:	\$423	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	01/07/21
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date¹:	01/22/21
Dividend Yield:	0.5%	5 Year Price Target	\$681	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, generates around \$5.5 billion in annual revenues, and is based in Sarasota, Florida.

Roper reported its Q3 results on October 22nd, 2021, for the period ended September 30th, 2021. Quarterly revenues and adjusted EPS were \$1.46 billion and \$3.91, indicating a year-over-year increase of 21.7% and 23%, respectively. The company's software solutions performance came in quite strong once again, with solid growth in recurring revenues powered by solid underlying market fundamentals and the ever-enhancing quality of Roper's portfolio. Aided by its outstanding EBITDA growth of 21% during the quarter and its net debt reduction of approximately \$1.2 billion, Roper lowered its net debt-to-EBITDA ratio to 3.5x from 4.7x at the start of the year.

As per Roper's continuous goal to transform and optimize its business portfolio, during and subsequent to Q3, the company agreed to divest its TransCore, Zetec, and CIVCO Radiotherapy businesses. The financial results for these businesses are reported as discontinued operations. To account for these changes, Roper adjusted its full-year guidance for adjusted EPS from continuing operations of \$14.08 - \$14.12. Previous full-year adjusted EPS guidance was \$15.00 - \$15.20, which included the businesses now reported in discontinued operations (on a comparable basis, the new guidance would be \$15.26 - \$15.30).

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	\$14.10	\$22.71
DPS	\$0.47	\$0.58	\$0.70	\$0.85	\$1.05	\$1.25	\$1.46	\$1.70	\$1.90	\$2.10	\$2.25	\$3.62
Shares²	95	99	100	100	101	102	103	104	105	105	105	111

Roper has proven consistent growth in its profitability over the years. Over the past five years, the company has grown its EPS by an annualized rate of 16%. 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 H1-2021 results confirm such a case, with the company guiding for EPS growth of 18.5% YoY. We retain our medium-term EPS growth expectations to 10%, in line with Mr. Hunn's (Roper's CEO) comments on double-digit compounding of shareholder value retention.

Roper also has 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 retain our DPS growth projection to 10%, which aligns with Roper's latest increase and is easily supported by the underlying net income. Due to the company constantly reducing its debt, which should translate to lower financial expenses, our estimates could end up being stronger in the medium term, though we remain prudent.

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	34.6	30.0
Avg. Yld.	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%

Over the past couple of years, the stock’s P/E has expanded, currently standing at 34.6. By strengthening its exposure in tech through its Vertafone acquisition, which could result in higher profitability growth long-term, investors should not expect to have an opportunity to cherry-pick the stock at lower valuations. However, we do believe the stock is slightly overvalued at the moment. We believe that a P/E of 30 reflects the company’s resilient growth and quality financials, but at a fairer price. It’s noteworthy that the stock’s dividend aristocrat status is an additional factor towards a premium valuation, as investors could be more willing to “overpay” for high-quality companies with a proven long-term track record of robust performance. We expect the stock’s yield to remain tiny due to Roper’s humble dividend payouts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

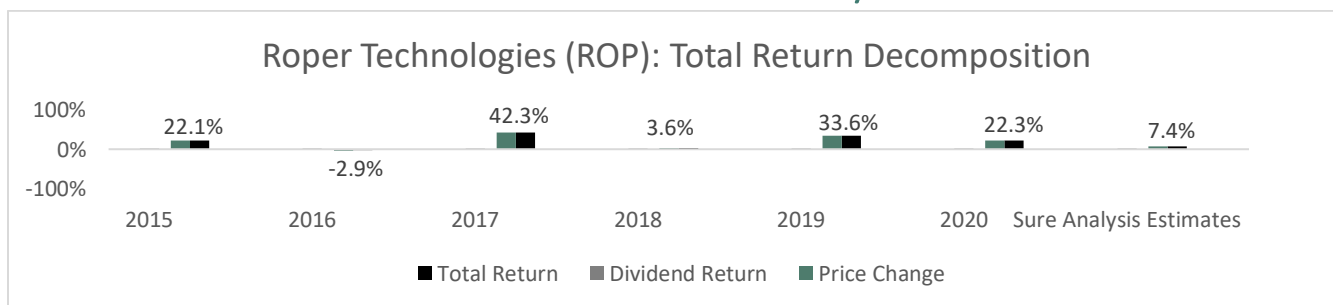
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	12%	12%	13%	16%	19%	15%	14%	15%	16%	16%	16%

Roper’s dividend payout ratio has been incredibly low during the last decade, even in the midst of the previous financial crisis. It should be considered exceptionally safe. During the last financial crisis, Roper remained highly profitable, although its earnings did decline by about 15%. During the pandemic, earnings increased, reassuring the company’s ability to generate robust results even in harsh environments. Roper is well-positioned in the niche markets it serves. Thus there are few 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 high-quality company.

Final Thoughts & Recommendation

Roper has delivered strong earnings growth over the past decade. Going forward, the company’s prosperity will rely on organic growth and its ability to acquire and integrate new businesses following the recent disposals. We expect annualized returns of around 7.4% in the medium term, powered by Roper’s EPS growth and dividend, offset by the possibility of valuation headwinds. As a result, we have downgrade our rating to a hold. Income investors are likely to find more attractive opportunities elsewhere due to the stock’s miniature yield. We do, however, highlight that Roper is a high-quality company.

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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