



Roper Technologies (ROP)

Updated July 22th, 2022 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|-------|--------------------------------------------|-------|-------------------------------------------|----------|
| Current Price: | \$415 | 5 Year CAGR Estimate: | 6.2% | Market Cap: | \$44.2 B |
| Fair Value Price: | \$339 | 5 Year Growth Estimate: | 10.0% | Ex-Dividend Date¹: | 10/05/22 |
| % Fair Value: | 123% | 5 Year Valuation Multiple Estimate: | -4.0% | Dividend Payment Date¹: | 10/20/22 |
| Dividend Yield: | 0.6% | 5 Year Price Target | \$545 | Years Of Dividend Growth: | 29 |
| Dividend Risk Score: | A | Retirement Suitability Score: | C | Rating: | Hold |

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.

On June 1st, 2022, Roper announced the sale of its majority stake in its industrial businesses for pre-tax cash proceeds of roughly \$2.6B while retaining a 49% minority interest in the new standalone entity.

On July 22nd, 2022, Roper reported its Q2-2022 results for the period ending June 30th, 2022. On a continuing operations basis, quarterly revenues and adjusted EPS were \$1.31 billion and \$3.95, indicating a year-over-year increase of 10% and 15%, respectively. The company's momentum during the quarter remained strong, with organic growth coming in at 11%. Organic growth was once again driven by broad-based strength across its portfolio of niche-leading businesses. It was also powered by double-digit software recurring revenue growth amid robust product demand.

Backed by Roper's growth momentum, balance sheet strength, and a large pipeline of high-quality acquisition opportunities, management believes Roper is well positioned for continued double-digit cash flow growth. However, due to the recent sale of its industrial businesses' majority stake, the company adjusted its guidance lower. The company now expects to achieve adjusted EPS between \$13.46 and \$13.62 for the full year. We have utilized the midpoint of this range in our estimates.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$4.96 | \$5.65 | \$6.42 | \$6.68 | \$6.60 | \$9.42 | \$11.81 | \$13.05 | \$11.55 | \$14.18 | \$13.54 | \$21.81 |
| DPS | \$0.58 | \$0.70 | \$0.85 | \$1.05 | \$1.25 | \$1.46 | \$1.70 | \$1.90 | \$2.10 | \$2.30 | \$2.48 | \$3.99 |
| Shares² | 99 | 100 | 100 | 101 | 102 | 103 | 104 | 105 | 105.7 | 106.5 | 106.8 | 111.0 |

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 12.4%. The company's pipeline of high-quality acquisition opportunities remains robust, and its existing software subsidiaries keep growing organically, adding to its recurring revenues.

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 creation. Roper also has a tremendous dividend growth record, numbering 29 years of consecutive dividend increases, which earns the company the Dividend Aristocrat title. The latest dividend hike implied growth acceleration (10.2% compared to the previous hike of 9.8%), which is very encouraging considering that Roper's management is typically quite prudent. Over the past decade, DPS has grown annually by an average of 16.5%. 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 cautious.

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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 20.5 | 22.2 | 22.5 | 25.6 | 18.8 | 29.7 | 22.6 | 24.2 | 33.8 | 31.7 | 30.6 | 25.0 |
| Avg. Yld. | 0.6% | 0.6% | 0.6% | 0.6% | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% | 0.5% | 0.6% | 0.7% |

Over the past couple of years, the stock's P/E has expanded, currently standing at 30.6 times management's guidance. By boosting its M&A firepower to more than \$7 billion following the sale of its majority stake in its industrial businesses, Roper should be able to accelerate its large pipeline of high-quality acquisition opportunities. The elevated multiple may therefore reflect this potential. However, we do believe the stock is relatively overvalued at the moment. We believe that a P/E of 25 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 low due to Roper's low dividend payouts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

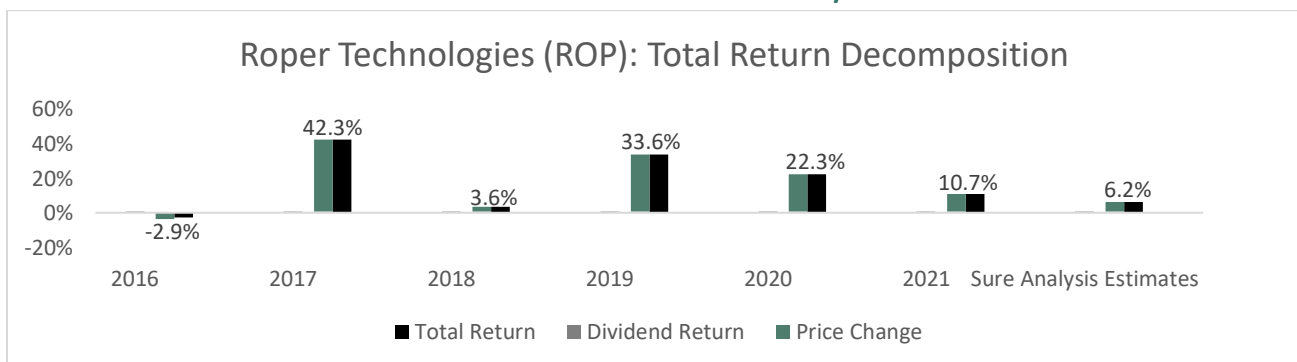
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 12% | 12% | 13% | 16% | 19% | 15% | 14% | 15% | 18% | 16% | 18% | 18% |

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, which reassured investors of Roper'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. We expect annualized returns of around 6.2% through 2027, powered by Roper's EPS growth and dividend, offset by the possibility of notable valuation headwinds. As a result, we maintain a hold rating on the name. Income investors are likely to find more attractive opportunities elsewhere due to the stock's miniature yield. We do, however, believe that Roper is a high-quality company.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2993 | 3238 | 3549 | 3582 | 3790 | 4608 | 5191 | 5367 | 5527 | 5778 |
| Gross Profit | 1672 | 1883 | 2102 | 2165 | 2332 | 2865 | 3280 | 3427 | 3543 | 3917 |
| Gross Margin | 55.8% | 58.1% | 59.2% | 60.4% | 61.5% | 62.2% | 63.2% | 63.9% | 64.1% | 67.8% |
| SG&A Exp. | 914 | 1041 | 1102 | 1137 | 1278 | 1655 | 1883 | 1929 | 2112 | 2338 |
| D&A Exp. | 155 | 189 | 197 | 204 | 241 | 345 | 367 | 416 | 521 | 634 |
| Operating Profit | 758 | 842 | 999 | 1028 | 1055 | 1210 | 1396 | 1498 | 1431 | 1580 |
| Operating Margin | 25.3% | 26.0% | 28.2% | 28.7% | 27.8% | 26.3% | 26.9% | 27.9% | 25.9% | 27.3% |
| Net Profit | 483 | 538 | 646 | 696 | 659 | 972 | 944 | 1,768 | 950 | 1153 |
| Net Margin | 16.1% | 16.6% | 18.2% | 19.4% | 17.4% | 21.1% | 18.2% | 32.9% | 17.2% | 20.0% |
| Free Cash Flow | 639 | 760 | 800 | 890 | 924 | 1,175 | 1,372 | 1,399 | 14765 | 1949 |
| Income Tax | 203 | 216 | 275 | 306 | 282 | 63 | 254 | 460 | 260 | 288 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 7071 | 8185 | 8400 | 10168 | 14325 | 14316 | 15250 | 18109 | 24020 | 23710 |
| Cash & Equivalents | 371 | 460 | 610 | 779 | 757 | 671 | 364 | 710 | 308 | 352 |
| Accounts Receivable | 526 | 519 | 512 | 488 | 620 | 642 | 701 | 792 | 863 | 839 |
| Inventories | 191 | 205 | 194 | 190 | 182 | 205 | 191 | 199 | 198 | 176 |
| Goodwill & Int. Ass. | 5568 | 6589 | 6689 | 8354 | 12303 | 12296 | 13189 | 15483 | 21600 | 20680 |
| Total Liabilities | 3383 | 3972 | 3645 | 4869 | 8536 | 7453 | 7511 | 8617 | 13540 | 12150 |
| Accounts Payable | 138 | 150 | 144 | 140 | 152 | 171 | 165 | 162 | 178 | 151 |
| Long-Term Debt | 2022 | 2465 | 2201 | 3271 | 6210 | 5156 | 4942 | 5275 | 9566 | 7922 |
| Shareholder's Equity | 3688 | 4213 | 4755 | 5299 | 5789 | 6864 | 7739 | 9492 | 10480 | 11560 |
| LTD/E Ratio | 0.55 | 0.59 | 0.46 | 0.62 | 1.07 | 0.75 | 0.64 | 0.56 | 0.91 | 0.69 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 7.8% | 7.1% | 7.8% | 7.5% | 5.4% | 6.8% | 6.4% | 10.6% | 4.5% | 4.8% |
| Return on Equity | 14.0% | 13.6% | 14.4% | 13.8% | 11.9% | 15.4% | 12.9% | 20.5% | 9.5% | 10.5% |
| ROIC | 9.7% | 8.7% | 9.5% | 9.0% | 6.4% | 8.1% | 7.6% | 12.9% | 5.5% | 5.8% |
| Shares Out. | 99 | 100 | 100 | 101 | 102 | 103 | 104 | 105 | 106 | 106.5 |
| Revenue/Share | 30.07 | 32.31 | 35.18 | 35.26 | 36.97 | 44.52 | 49.72 | 51.06 | 52.29 | 54.25 |
| FCF/Share | 6.42 | 7.58 | 7.93 | 8.76 | 9.01 | 11.35 | 13.14 | 13.31 | 13.97 | 18.30 |

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

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