



# Roper Technologies (ROP)

Updated October 26<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$396	<b>5 Year CAGR Estimate:</b>	8.1%	<b>Market Cap:</b>	\$41.9 B
<b>Fair Value Price:</b>	\$353	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	01/06/22
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.3%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/24/22
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$568	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 October 26<sup>th</sup>, 2022, Roper reported its Q3-2022 results for the period ending September 30<sup>th</sup>, 2022. On a continuing operations basis, quarterly revenues and adjusted EPS were \$1.35 billion and \$3.67, indicating a year-over-year increase of 10% and 18%, respectively. The company's momentum during the quarter remained strong, with organic growth coming in at 10% (i.e., year-over-year growth was all organic). Organic growth was once again driven by broad-based strength across its portfolio of niche-leading businesses. It was also powered by 7% software recurring revenue growth amid robust bookings and positive SaaS momentum from new customers and existing customer migrations.

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. Roper raised its adjusted EPS guidance for the full year, expecting it to land between \$14.09 and \$14.13 (up from \$13.46 and \$13.62 previously). We have utilized the midpoint of the updated range in our estimates.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$4.96	\$5.65	\$6.42	\$6.68	\$6.60	\$9.42	\$11.81	\$13.05	\$11.55	\$14.18	<b>\$14.11</b>	<b>\$22.72</b>
<b>DPS</b>	\$0.58	\$0.70	\$0.85	\$1.05	\$1.25	\$1.46	\$1.70	\$1.90	\$2.10	\$2.30	<b>\$2.48</b>	<b>\$3.99</b>
<b>Shares<sup>2</sup></b>	99	100	100	101	102	103	104	105	105.7	106.5	<b>106.8</b>	<b>111.0</b>

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	<b>28.0</b>	<b>25.0</b>
Avg. Yld.	0.6%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	<b>0.6%</b>	<b>0.7%</b>

Over the past couple of years, the stock's P/E has expanded, currently standing at 28 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

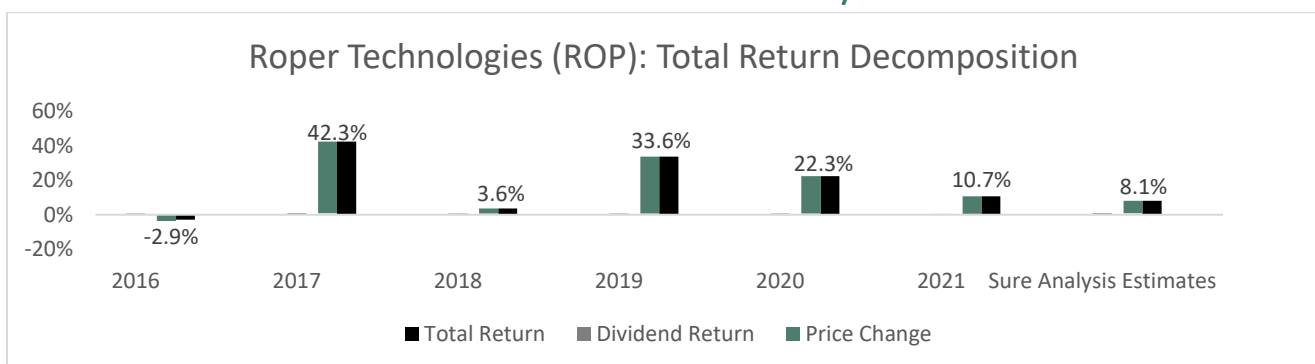
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	12%	12%	13%	16%	19%	15%	14%	15%	18%	16%	<b>18%</b>	<b>18%</b>

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 continues to deliver robust earnings growth. We expect annualized returns of around 8.1% 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
<b>Revenue</b>	2993	3238	3549	3582	3790	4608	5191	5367	5527	5778
<b>Gross Profit</b>	1672	1883	2102	2165	2332	2865	3280	3427	3543	3917
<b>Gross Margin</b>	55.8%	58.1%	59.2%	60.4%	61.5%	62.2%	63.2%	63.9%	64.1%	67.8%
<b>SG&amp;A Exp.</b>	914	1041	1102	1137	1278	1655	1883	1929	2112	2338
<b>D&amp;A Exp.</b>	155	189	197	204	241	345	367	416	521	634
<b>Operating Profit</b>	758	842	999	1028	1055	1210	1396	1498	1431	1580
<b>Operating Margin</b>	25.3%	26.0%	28.2%	28.7%	27.8%	26.3%	26.9%	27.9%	25.9%	27.3%
<b>Net Profit</b>	483	538	646	696	659	972	944	1,768	950	1153
<b>Net Margin</b>	16.1%	16.6%	18.2%	19.4%	17.4%	21.1%	18.2%	32.9%	17.2%	20.0%
<b>Free Cash Flow</b>	639	760	800	890	924	1,175	1,372	1,399	14765	1949
<b>Income Tax</b>	203	216	275	306	282	63	254	460	260	288

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	7071	8185	8400	10168	14325	14316	15250	18109	24020	23710
<b>Cash &amp; Equivalents</b>	371	460	610	779	757	671	364	710	308	352
<b>Accounts Receivable</b>	526	519	512	488	620	642	701	792	863	839
<b>Inventories</b>	191	205	194	190	182	205	191	199	198	176
<b>Goodwill &amp; Int. Ass.</b>	5568	6589	6689	8354	12303	12296	13189	15483	21600	20680
<b>Total Liabilities</b>	3383	3972	3645	4869	8536	7453	7511	8617	13540	12150
<b>Accounts Payable</b>	138	150	144	140	152	171	165	162	178	151
<b>Long-Term Debt</b>	2022	2465	2201	3271	6210	5156	4942	5275	9566	7922
<b>Shareholder's Equity</b>	3688	4213	4755	5299	5789	6864	7739	9492	10480	11560
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	7.8%	7.1%	7.8%	7.5%	5.4%	6.8%	6.4%	10.6%	4.5%	4.8%
<b>Return on Equity</b>	14.0%	13.6%	14.4%	13.8%	11.9%	15.4%	12.9%	20.5%	9.5%	10.5%
<b>ROIC</b>	9.7%	8.7%	9.5%	9.0%	6.4%	8.1%	7.6%	12.9%	5.5%	5.8%
<b>Shares Out.</b>	99	100	100	101	102	103	104	105	106	106.5
<b>Revenue/Share</b>	30.07	32.31	35.18	35.26	36.97	44.52	49.72	51.06	52.29	54.25
<b>FCF/Share</b>	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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