Roper Technologies (ROP)

Updated January 27th, 2023 by Nikolaos Sismanis

dKey Metrics

Current Price:	$441	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$41.9 B
Fair Value Price:	$401	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	03/17/22
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date[1]:**	04/05/22
Dividend Yield:	0.6%	**5 Year Price Target**	$646	**Years Of Dividend Growth:**	30
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 $5.4 billion in annual revenues, and is based in Sarasota, Florida.

On November 10th, 2022, Roper raised its dividend for the 30th consecutive year by 10.1% to a quarterly rate of $0.6825.

On January 27th, 2023, Roper reported its Q4-2022 and full-year results for the period ending December 31st, 2022. On a continuing operations basis, quarterly revenues and adjusted EPS were $1.26 billion and $3.92, indicating a year-over-year increase of 14% and 17%, respectively. The company's momentum during the quarter remained strong, with organic growth coming in at 7%. Organic growth was once again driven by broad-based strength across its portfolio of niche-leading businesses. Note that adjusted EPS of $14.28 for the year actually grew 15% compared to last year taking into account recent divestures. The minor margin in our tables between the two years reflects discontinued operations.

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 initiated its adjusted EPS guidance for the FY2023, expecting it to land between $15.90 and $16.20. We have utilized the midpoint of this range in our estimates, which implies a year-over-year growth of 12.4%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.65	$6.42	$6.68	$6.60	$9.42	$11.81	$13.05	$11.55	$14.18	$14.28	***$16.05***	***$25.85***
DPS	$0.70	$0.85	$1.05	$1.25	$1.46	$1.70	$1.90	$2.10	$2.31	$2.54	***$2.73***	***$4.40***
Shares[2]	100	100	101	102	103	104	105	106	107	107	***107***	***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 10.9%. 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 30 years of consecutive dividend increases, which earns the company the Dividend Aristocrat title. The company's latest dividend hike upheld its previous rate of growth (10.1% compared to the previous hike of 10.2%), further illustrating the company's "double-digit-growth" motto.

Over the past decade, DPS has grown annually by an average of 15.4%. 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.

Roper Technologies (ROP)

Updated January 27th, 2023 by Nikolaos Sismanis

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.2	22.5	25.6	18.8	29.7	22.6	24.2	33.8	31.7	30.1	***27.5***	***25.0***
Avg. Yld.	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.6%	***0.6%***	***0.7%***

While Roper's P/E expanded notably between 2020 and 2022, the stock's recent stagnation allowed for earnings to somewhat catch up to the valuation. Nevertheless, we do believe Roper remains modestly 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 likely a contributing factor towards its 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

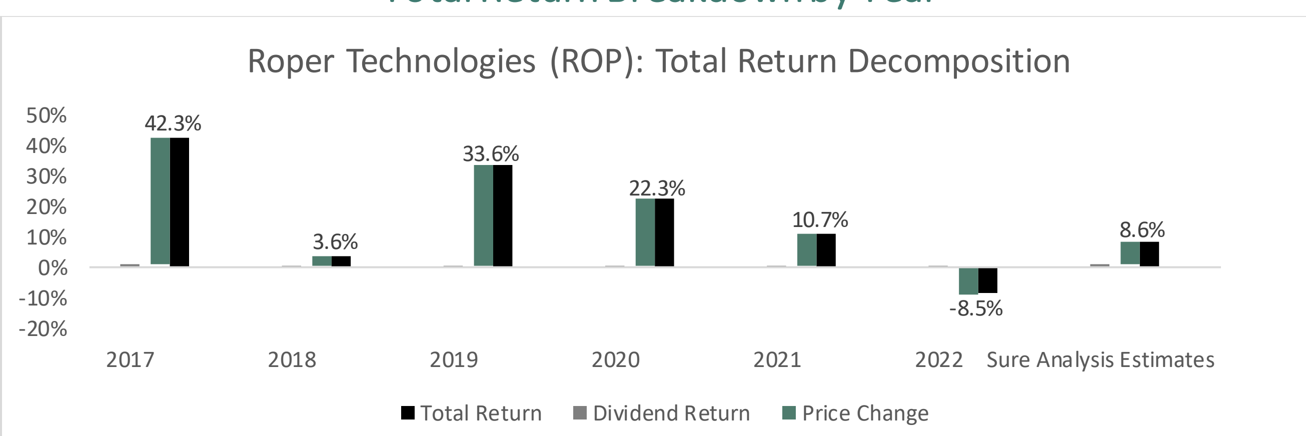
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	12%	13%	16%	19%	15%	14%	15%	18%	16%	18%	***17%***	***17%***

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 further strengthened the company's portfolio and reduced 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 8.6% through 2028, powered by Roper's EPS growth and dividend, offset by the possibility of modest 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



Click here to rate and review this research report. Your feedback is important to us.

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.

Roper Technologies (ROP)

Updated January 27th, 2023 by Nikolaos Sismanis

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.