



Roper Technologies (ROP)

Updated October 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$484	5 Year CAGR Estimate:	7.3%	Market Cap:	\$51.6 B
Fair Value Price:	\$416	5 Year Growth Estimate:	10.0%	Ex-Dividend Date¹:	01/05/24
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date¹:	01/24/24
Dividend Yield:	0.6%	5 Year Price Target	\$670	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 October 25th, 2023, Roper reported its Q3 results for the period ending September 30th, 2023. On a continuing operations basis, quarterly revenues and adjusted EPS were \$1.56 billion and \$4.32, indicating a year-over-year increase of 24% and 18%, respectively. The company's momentum during the quarter remained strong, with organic growth coming in at 6%. Organic growth was once again driven by broad-based strength across its portfolio of niche-leading businesses.

Backed by Roper's growth momentum, balance sheet strength, and a large pipeline of high-quality acquisition opportunities, management continues to believe Roper is well positioned for continued double-digit cash flow growth. Roper upgraded its adjusted EPS guidance for FY2023, expecting it to land between \$16.62 and \$16.66 (up from \$16.36 to \$16.50 previously). We have utilized the midpoint of the updated range in our estimate, which implies a year-over-year increase of 16.5%.

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	\$16.64	\$26.80
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
Shares²	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.



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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	29.1	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%

Roper's strong earnings and growth have impressed investors in recent years, with shares retaining a premium valuation despite most equities facing compressed multiples due to higher interest rates. While we believe Roper does deserve to trade with a somewhat premium valuation, we also see the stock as 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

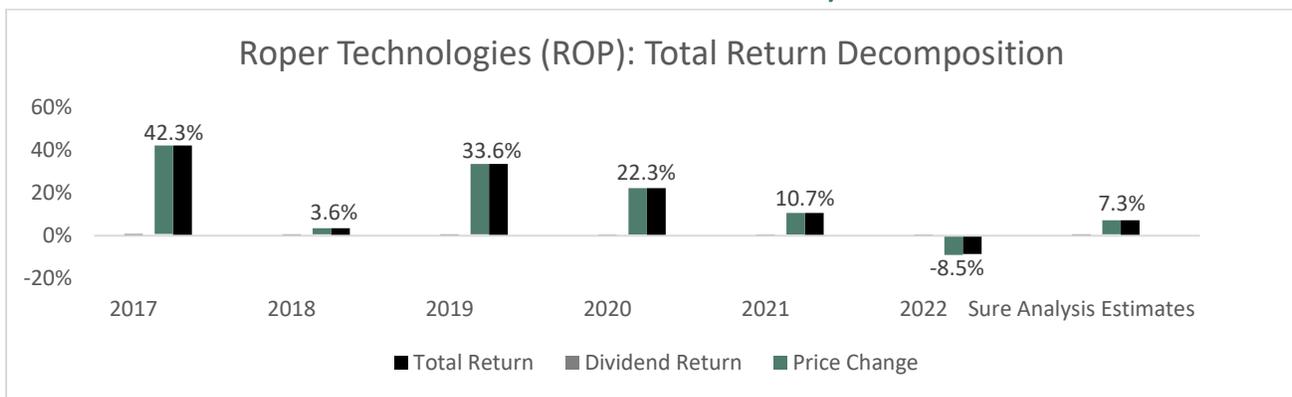
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	12%	13%	16%	19%	15%	14%	15%	18%	16%	18%	16%	16%

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, 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 7.3% 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



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3238	3549	3582	3790	4608	5191	5367	5527	5778	5372
Gross Profit	1883	2102	2165	2332	2865	3280	3427	3543	3917	3753
Gross Margin	58.1%	59.2%	60.4%	61.5%	62.2%	63.2%	63.9%	64.1%	67.8%	69.9%
SG&A Exp.	1041	1102	1137	1278	1655	1883	1929	2112	2338	2228
D&A Exp.	189	197	204	241	345	367	416	521	634	650
Operating Profit	842	999	1028	1055	1210	1396	1498	1431	1580	1524
Operating Margin	26.0%	28.2%	28.7%	27.8%	26.3%	26.9%	27.9%	25.9%	27.3%	28.4%
Net Profit	538	646	696	659	972	944	1,768	950	1153	4545
Net Margin	16.6%	18.2%	19.4%	17.4%	21.1%	18.2%	32.9%	17.2%	20.0%	84.6%
Free Cash Flow	760	800	890	924	1,175	1,372	1,399	14765	1949	664
Income Tax	216	275	306	282	63	254	460	260	288	296

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8185	8400	10168	14325	14316	15250	18109	24020	23710	26980
Cash & Equivalents	460	610	779	757	671	364	710	308	352	793
Accounts Receivable	519	512	488	620	642	701	792	863	839	725
Inventories	205	194	190	182	205	191	199	198	176	111
Goodwill & Int. Ass.	6589	6689	8354	12303	12296	13189	15483	21600	20680	23980
Total Liabilities	3972	3645	4869	8536	7453	7511	8617	13540	12150	10940
Accounts Payable	150	144	140	152	171	165	162	178	151	123
Long-Term Debt	2465	2201	3271	6210	5156	4942	5275	9566	7922	6662
Shareholder's Equity	4213	4755	5299	5789	6864	7739	9492	10480	11560	16040
LTD/E Ratio	0.59	0.46	0.62	1.07	0.75	0.64	0.56	0.91	0.69	0.42

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.1%	7.8%	7.5%	5.4%	6.8%	6.4%	10.6%	4.5%	4.8%	17.9%
Return on Equity	13.6%	14.4%	13.8%	11.9%	15.4%	12.9%	20.5%	9.5%	10.5%	32.9%
ROIC	8.7%	9.5%	9.0%	6.4%	8.1%	7.6%	12.9%	5.5%	5.8%	21.6%
Shares Out.	100	100	101	102	103	104	105	106	106.5	106.8
Revenue/Share	32.31	35.18	35.26	36.97	44.52	49.72	51.06	52.29	54.25	50.30
FCF/Share	7.58	7.93	8.76	9.01	11.35	13.14	13.31	13.97	18.30	6.22

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

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