



Roper Technologies (ROP)

Updated January 31st, 2024 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---|----------|
| Current Price: | \$548 | 5 Year CAGR Estimate: | 7.2% | Market Cap: | \$58.4 B |
| Fair Value Price: | \$468 | 5 Year Growth Estimate: | 10.0% | Ex-Dividend Date¹: | 04/05/24 |
| % Fair Value: | 117% | 5 Year Valuation Multiple Estimate: | -3.1% | Dividend Payment Date¹: | 04/22/24 |
| Dividend Yield: | 0.5% | 5 Year Price Target | \$754 | Years Of Dividend Growth: | 31 |
| 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 \$6.2 billion in annual revenues, and is based in Sarasota, Florida.

On November 9th, 2023, Roper increased its dividend by 9.9% to a quarterly rate of \$0.75.

On January 31st, 2024, Roper reported its Q4 and full-year results for the period ending December 31st, 2023. On a continuing operations basis, quarterly revenues and adjusted EPS were \$1.61 billion and \$4.37, indicating a year-over-year increase of 13% and 11%, respectively. The company's momentum during the quarter remained strong, with organic growth coming in at 8%. Organic growth was once again driven by broad-based strength across its portfolio of niche-leading businesses. For the year, adjusted EPS landed at \$16.71, up 17% compared to fiscal 2022.

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 introduced its adjusted EPS guidance for FY2024, expecting it to land between \$17.85 and \$18.15. We have utilized the midpoint of the updated range in our estimate, which implies a year-over-year increase of 7.7%.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$6.42 | \$6.68 | \$6.60 | \$9.42 | \$11.81 | \$13.05 | \$11.55 | \$14.18 | \$14.28 | \$16.71 | \$18.00 | \$28.99 |
| DPS | \$0.85 | \$1.05 | \$1.25 | \$1.46 | \$1.70 | \$1.90 | \$2.10 | \$2.31 | \$2.54 | \$2.73 | \$3.00 | \$4.83 |
| Shares² | 100 | 101 | 102 | 103 | 104 | 105 | 106 | 107 | 107 | 107 | 107 | 111.0 |

Roper has proven consistent growth in its profitability over the years. Over the past ten years, the company has grown its adjusted EPS by an annualized rate of 11.2%. 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%. While this year's projected growth of 7.7% points to a deceleration, keep in mind that it follows a year of outsized adjusted EPS growth (17% in 2023).

Roper also has a tremendous dividend growth record, numbering 31 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 (9.9% compared to the previous hike of 10.1%).

Over the past decade, DPS has grown annually by an average of 13.8%. 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, results could end up being stronger than our estimates 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|-------------|
| Avg. P/E | 22.5 | 25.6 | 18.8 | 29.7 | 22.6 | 24.2 | 33.8 | 31.7 | 30.1 | 27 | 30.4 | 26.0 |
| Avg. Yld. | 0.60% | 0.60% | 0.70% | 0.60% | 0.60% | 0.60% | 0.60% | 0.50% | 0.60% | 0.60% | 0.5% | 0.6% |

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 26 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

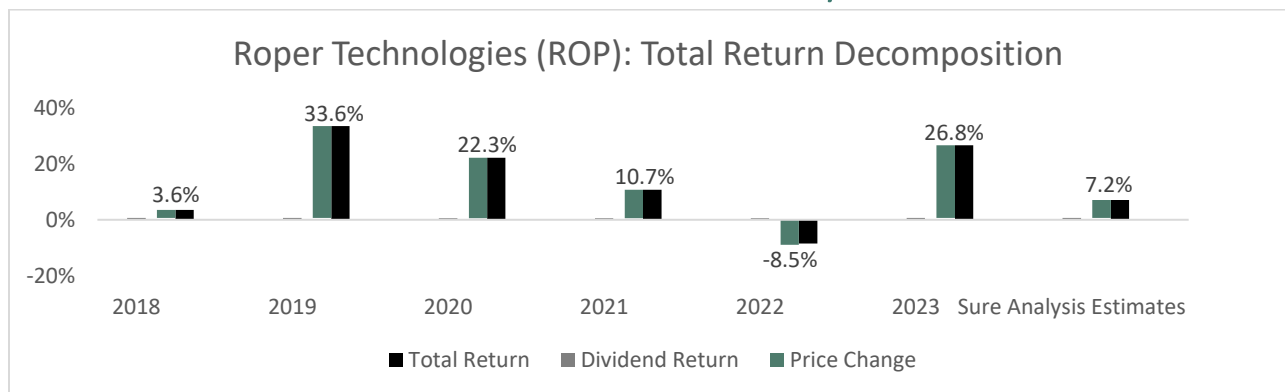
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 13% | 16% | 19% | 15% | 14% | 15% | 18% | 16% | 18% | 16% | 17% | 17% |

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 7.2% through 2029, 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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