

Roper Technologies (ROP)

\$364.12 (As of 05/11/20)

Price Target (6-12 Months): **\$386.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Roper is poised to benefit from strength across its network software and medical product businesses. Going forward, the company's unique niche market strategy, strong operational execution and cost-control measures will likely help it drive profitability and maintain a healthy margin performance. Also, strong cash flows allow it to effectively deploy capital for making acquisitions and paying out dividends. However, over the past three months, the company's shares have recorded a decline, which is narrower than that of the industry. It anticipates the coronavirus outbreak to have an adverse impact on demand for its products and project timings across most of its segments. Weakness in the Process Technologies segment, with organic sales predicted to decline in double digits, is concerning. High costs and huge debts are other headwinds.

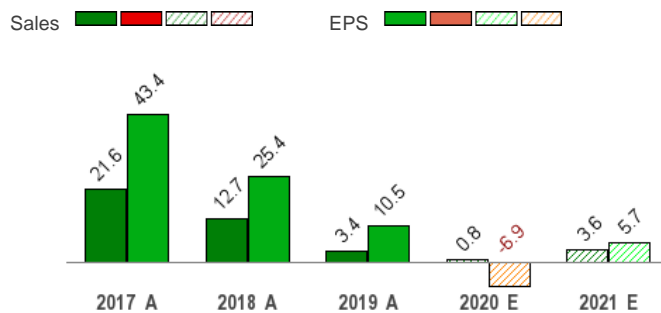
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$395.00 - \$240.00
20 Day Average Volume (sh)	670,287
Market Cap	\$38.0 B
YTD Price Change	2.8%
Beta	1.03
Dividend / Div Yld	\$2.05 / 0.6%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 23% (196 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	5.0%
EPS F1 Est- 4 week change	-5.2%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	28.5
P/E F1	30.0
PEG F1	2.7
P/S TTM	7.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,404 E	1,298 E	1,439 E	1,478 E	5,603 E
2020	1,351 A	1,257 E	1,373 E	1,454 E	5,408 E
2019	1,287 A	1,330 A	1,355 A	1,395 A	5,367 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.25 E	\$3.03 E	\$3.35 E	\$3.43 E	\$12.84 E
2020	\$3.05 A	\$2.67 E	\$3.09 E	\$3.38 E	\$12.15 E
2019	\$3.30 A	\$3.07 A	\$3.29 A	\$3.39 A	\$13.05 A

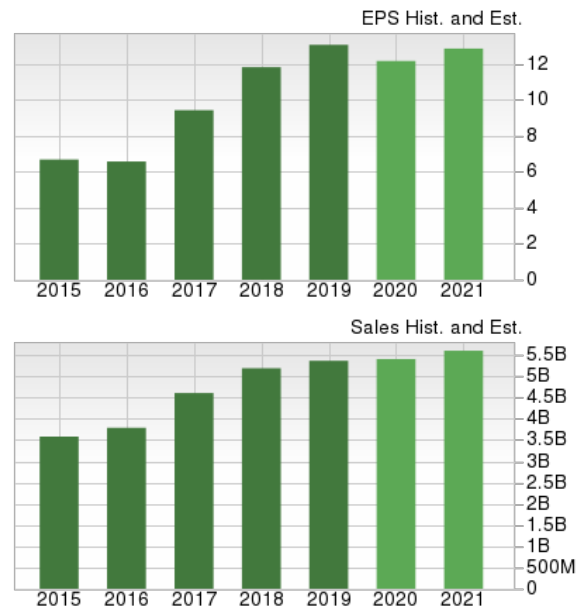
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/11/2020. The reports text is as of 05/12/2020.

Overview

Roper Technologies, Inc. designs, manufactures, and distributes engineered products and solutions as well as softwares. It caters to selected segments of a broad range of markets, which include legal, healthcare, government, food, transportation, oil & gas, medical, and other niche industries. In March 2019, the company restructured its business segments and currently operates under these four segments — Application Software, Network Software & Systems, Measurement & Analytical Solutions, and Process Technologies. The new segments will support the company's diversified, niche market strategy by emphasizing business models.

- Application Software (30% of revenues in the first quarter of 2020) segment offers application management software, integrated security solutions, commerce platforms, and housing management systems to government contractors, professional services firms, as well as law and other professional services firms.
- Network Software & Systems (32.4%) offers transportation management software, broker logistics software, fleet compliance, distribution and intermodal services that are designed to serve brokers, carriers, shippers in the United States and Canada. It also offers creative software technologies for design, visualization and entertainment industries.
- Measurement & Analytical Solutions (27.1%) sells high-resolution cameras and sensors, rugged handheld computers and patient-centric radiotherapy solutions for medical industries. It also offers valves and controls for industrial refrigeration systems apart from optical and electromagnetic measurement systems for industrial test and measurement type businesses.
- Process Technologies (10.5%) offers control, safety solutions for engines, turbines, compressors, marine & other industrial applications. It also provides various flow meters, flow controllers, and ancillary electronics for automotive & industrial markets.



Reasons To Buy:

- ▲ In the first quarter of 2020, Roper's revenues grew 5% and increased 4% on an organic basis. Also, the metric surpassed the Zacks consensus estimate by 5%. The upside stemmed from broad-based growth across its network software businesses along with rise in demand for medical products. Going forward, the company expects the Network Software & Systems segment to show resilience during the coronavirus-led global market downturn, backed by strength across its RF Ideas, iTrade, DAT and ConstructConnect businesses. Also, a surge in demand for the medical products at its Verathon business will likely be tailwinds for the Measurement & Analytical Solutions segment. The company anticipates organic revenues for the Network Software & Systems segment to grow in a mid-single to low-double-digit range for 2020, while that for the Measurement & Analytical Solutions segment is expected to be flat to up in mid-single digits.
- ▲ Roper's adjusted gross profit margin expanded 50 basis points (bps) to 63.5% year over year in the first quarter on the back of strong operating leverage. In the quarters ahead, the company's unique niche market strategy, strong operational execution and cost-control measures will help it to drive its profitability and maintain a healthy margin performance amid the crisis. Also, strong cash flows allow the company to effectively deploy capital for making acquisitions and paying out dividends. For instance, in the first three months of 2020, the company generated net cash of \$363.9 million from operating activities, marking growth of 25.4% from the year-ago comparable period.
- ▲ Acquisitions have been Roper's preferred mode of business expansion over time. In 2019, the company used \$2.4 billion for making acquisitions, surging 87% from the previous year. In August 2019, it acquired iPipeline Holdings, a provider of cloud-based software solutions to customers in financial services and the life insurance industry. The company believes that the buyout will help generate revenues of \$200 million and free cash flow (after-tax) of \$70 million in 2020. Also, it added ComputerEase Software to its portfolio in the same month. In April 2019, the company acquired Foundry. Beside acquisition, Roper believes in divesting businesses for the best interest of shareholders. It divested Gatan to AMTEK in October 2019. Notably, acquisitions had a positive contribution of 2% of revenue growth in the first quarter.
- ▲ Roper remains committed to rewarding shareholders handsomely through dividend payments. In the first quarter of 2020, the company distributed \$53.1 million as dividends. It is worth mentioning here that it increased the quarterly dividend rate by 11% or 5 cents per share to 51.25 cents in November 2019. On an annualized basis, the dividend increased to \$2.05 per share from \$1.85. We believe that such initiatives are reflective of a strong cash position.

Strength in the network software businesses, unique niche market strategy, and acquisitions are likely to boost Roper's near-term results.

Reasons To Sell:

- ▼ In the past three months, Roper shares have lost 6.3%. Notably, the industry has also recorded a decline of 20.8% over the same time frame. Going forward, the company anticipates the coronavirus outbreak to have adverse impacts on demand for its products and project timings across most of its segments. Notably, organic revenues of the Application Software segment are anticipated to be up or down in a low-single-digit range in 2020 due to lower anticipated bookings for its software products. Also, for 2020, the company predicts organic sales of the Process Technologies segment to decline 20-25% due to continued weakness in upstream oil & gas businesses.
- ▼ On a P/E (TTM) basis, Roper's shares seem overvalued compared with the industry, with respective tallies of 28.45x and 19.09x. Notably, the company's multiple is higher than the industry's three-month highest level of 21.17x. This makes us cautious about the stock. In addition, analysts have become increasingly bearish about the company over the past 30 days. Its earnings estimates have been lowered by 5.3% for 2020 on account of six downward estimate revisions versus one upward.
- ▼ Over time, Roper has been dealing with the adverse impacts of high cost of sales and operating expenses. From 2017 to 2019, the company's cost of sales increased 3.6% (CAGR) and operating expenses jumped 5.2% (CAGR). Notably, in the first quarter of 2020, its cost of sales expanded 3.6% year over year to \$493.9 million, and selling, general and administrative expenses rose 9.3% to \$507.6 million. Escalation in costs and operating expenses, if not controlled, can severely affect margins and profitability.
- ▼ Roper has a highly leveraged balance sheet. In the last three years (2017-2019), the company's long-term debt jumped 2.4% (CAGR) year over year. At the end of the first quarter of 2020, its long-term debt was \$4,674.2 million. Also, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio is 12.2, lower than 12.9 recorded at the end of the previous quarter. We believe that further issuances of long-term debts will make the company more leveraged and can also inflate its financial obligations, hurting profitability. Further, it believes in adding complementary businesses to the portfolio via acquisitions. In 2019, it completed several buyouts, including that of Foundry, ComputerEase and iPipeline. However, we believe that frequent acquisitions can be a distraction for management's regular activities, posing a threat to organic growth and raising integrations risks.

Coronavirus-led market downturn, escalating cost of sales, high level of debt and integration risks associated with business acquisitions might dent Roper's near-term profitability.

Last Earnings Report

Roper Earnings Surpass Estimates in Q1, Decline Y/Y

Roper delivered a positive earnings surprise of 7% in first-quarter 2020. Adjusted earnings were \$3.05 per share, surpassing the Zacks Consensus Estimate of \$2.85. However, the bottom line decreased 7.6% from the year-ago quarter number of \$3.30 per share.

Inside the Headlines

Roper's net revenues were \$1,350.7 million, up 5% year over year. Notably, adjusted revenues totaled \$1,353 million, up 5% year over year. The rise was primarily driven by 4% organic growth and 2% gain from acquired assets. Also, the top line beat the Zacks Consensus Estimate of \$1,286 million.

The company reports revenues under four segments. A brief discussion of the quarterly results is provided below.

Application Software's revenues totaled \$405.1 million, representing 30% of the quarter's revenues. On a year-over-year basis, the segment's revenues grew 6.3%.

Network Software & Systems generated revenues of \$438.2 million, accounting for 32.4% of first-quarter revenues. Sales grew 26.6% year over year.

Measurement & Analytical Solutions generated revenues of \$365.2 million, accounting for roughly 27% of the quarter's revenues. Sales declined 9.1% year over year.

Process Technologies generated revenues of \$142.2 million, accounting for 10.6% of the quarter's revenues. Sales were down 10.3% year over year.

Margin Details

In the first quarter, Roper's cost of sales increased 3.6% year over year to \$493.9 million. Cost of sales was 36.6% of the quarter's revenues compared with 37% a year ago. Adjusted gross profit increased 6% to \$859 million, with margin of 63.5% reflecting an expansion of 50 basis points (bps).

Selling, general and administrative expenses increased 9.3% to \$507.6 million. It represented 37.6% of total revenues compared with 36.1% in the year-ago quarter. Operating profit improved 2.3% to \$393.6 million, with margin of 29.1%, down 80 bps year over year.

Balance Sheet & Cash Flow

Exiting the first quarter, Roper had cash and cash equivalents of \$999.8 million compared with \$709.7 million recorded on Dec 31, 2019. Long-term debt was \$4,674.2 million compared with \$4,673.1 million at the end of 2019.

In the first three months of 2020, the company generated net cash of \$363.9 million from operating activities, up 25.4% year over year.

Capital expenditure during the first quarter totaled \$7.9 million, lower than the year-ago figure of \$15.8 million. Adjusted free cash flow in the quarter was up 13% to \$353 million on a year-over-year basis.

Outlook

For 2020, adjusted earnings per share are anticipated to be \$11.60-\$12.60.

For the second quarter of 2020, earnings are projected to be \$2.50-\$2.70 per share.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	5.03%
EPS Surprise	7.02%
Quarterly EPS	3.05
Annual EPS (TTM)	12.80

Recent News

Dividend

On **Apr 22, 2020**, Roper paid out a quarterly cash dividend of 51.25 cents per share to shareholders of record as of Apr 8, 2020.

Valuation

Roper shares are up 2.8% and 4.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are down 16.7%, while the Zacks Industrial Products sector decreased 20.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector decreased 6.9% and 13.1%, respectively.

The S&P 500 index has declined 9% year to date and increased 4% in the past year.

The stock is currently trading at 29.36X forward 12-month earnings per share, which compares to 23.84X for the Zacks sub-industry, 19.16X for the Zacks sector and 21.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.36X and as low as 18.81X, with a 5-year median of 24.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$386 price target reflects 31.12X forward 12-month earnings per share.

The table below shows summary valuation data for ROP.

Valuation Multiples - ROP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.36	23.84	19.16	21.14
	5-Year High	29.36	23.84	19.93	21.14
	5-Year Low	18.81	15.6	12.55	15.19
	5-Year Median	24.64	19.46	16.65	17.45
EV/EBITDA F12M	Current	17.61	10.89	16.39	12.29
	5-Year High	22.26	11.34	18.05	12.65
	5-Year Low	12.68	7.64	10.56	9.09
	5-Year Median	17.09	9.71	14.08	10.82
EV/Sales F12M	Current	7.61	2.9	2.31	3.07
	5-Year High	8.05	3.28	3.12	3.51
	5-Year Low	4.63	1.81	1.76	2.3
	5-Year Median	6.24	2.59	2.3	2.82

As of 05/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Colfax Corporation (CFX)	Neutral	4
Dover Corporation (DOV)	Neutral	4
GEA GROUP AG SP (GEAGY)	Neutral	4
Metso Corp (MXCYY)	Neutral	3
Xylem Inc (XYL)	Neutral	5
Applied Industrial Technologies Inc (AIT)	Underperform	4
Flowserve Corporation (FLS)	Underperform	5
The Middleby Corporation (MIDD)	Underperform	5

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROP	X Industry	S&P 500	FLS	GEAGY	XYL
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	4	5
VGM Score	D	-	-	B	A	F
Market Cap	38.01 B	1.05 B	19.55 B	3.25 B	4.34 B	11.25 B
# of Analysts	7	3	14	8	2	9
Dividend Yield	0.56%	0.00%	2.13%	3.20%	1.80%	1.66%
Value Score	D	-	-	C	B	F
Cash/Price	0.03	0.08	0.06	0.18	0.14	0.07
EV/EBITDA	14.69	9.89	11.85	8.25	9.64	14.12
PEG Ratio	2.73	2.93	2.60	1.79	NA	2.88
Price/Book (P/B)	3.96	1.82	2.71	1.93	1.85	3.99
Price/Cash Flow (P/CF)	21.11	8.08	10.71	8.31	13.04	11.83
P/E (F1)	30.06	20.16	19.55	14.21	21.65	34.57
Price/Sales (P/S)	7.00	0.98	2.01	0.82	0.79	2.19
Earnings Yield	3.34%	4.75%	4.85%	7.04%	4.62%	2.89%
Debt/Equity	0.49	0.49	0.76	0.89	0.20	0.72
Cash Flow (\$/share)	17.25	2.24	7.01	3.01	1.84	5.29
Growth Score	C	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	20.17%	11.57%	10.82%	-11.93%	NA	12.81%
Proj. EPS Growth (F1/F0)	-6.87%	-26.31%	-9.99%	-20.00%	-9.76%	-40.10%
Curr. Cash Flow Growth	11.79%	4.08%	5.83%	15.12%	-1.71%	21.58%
Hist. Cash Flow Growth (3-5 yrs)	16.15%	4.95%	8.52%	-8.93%	NA	13.56%
Current Ratio	0.96	2.20	1.27	2.19	1.27	1.55
Debt/Capital	32.77%	33.43%	44.41%	47.16%	16.86%	41.86%
Net Margin	30.17%	4.96%	10.59%	4.96%	-3.50%	7.01%
Return on Equity	14.94%	10.81%	16.36%	14.99%	-8.02%	17.08%
Sales/Assets	0.31	0.74	0.55	0.82	0.82	0.67
Proj. Sales Growth (F1/F0)	0.76%	-7.99%	-2.41%	-7.05%	-5.37%	-10.17%
Momentum Score	D	-	-	A	D	C
Daily Price Chg	1.61%	-0.52%	-0.95%	-6.61%	-0.31%	-0.75%
1 Week Price Chg	5.59%	2.58%	3.23%	0.87%	3.23%	-9.08%
4 Week Price Chg	15.70%	3.71%	4.49%	-4.25%	3.24%	-8.30%
12 Week Price Chg	-7.28%	-24.66%	-20.09%	-46.11%	-20.03%	-29.06%
52 Week Price Chg	4.36%	-19.32%	-7.00%	-47.99%	-12.92%	-18.58%
20 Day Average Volume	670,287	71,244	2,530,553	1,353,921	28,401	1,364,610
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-26.77%
(F1) EPS Est 4 week change	-5.20%	-4.28%	-6.07%	-3.45%	0.00%	-33.14%
(F1) EPS Est 12 week change	-9.85%	-31.07%	-15.69%	-27.57%	-22.38%	-41.44%
(Q1) EPS Est Mthly Chg	-9.34%	-22.73%	-12.45%	-21.00%	NA	-74.13%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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