Roper Technologies (ROP)

$388.39 (As of 02/13/20)

Price Target (6-12 Months): **$408.00**

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: C

Summary

Over the past three months, Roper's shares have outperformed the industry and look comparatively overvalued. In fourth-quarter 2019, the company's earnings surpassed estimates by 1.5% and grew 5.3% year over year on sales growth. For 2020, it anticipates organic revenue growth of 6-7%, including mid-single-digit growth for the Application Software, and Measurement & Analytical Solutions segments, and mid-teens for the Network Software & Systems segment. Stronger sales along with a unique niche market strategy and gains from acquired assets are likely to drive its profitability in 2020. Adjusted earnings per share are expected to be $13.30-$13.60 for 2020. However, weakness in Process Technologies, with organic sales predicted to decline in mid-single digits, is concerning. Also, high costs and huge debts are concerning.
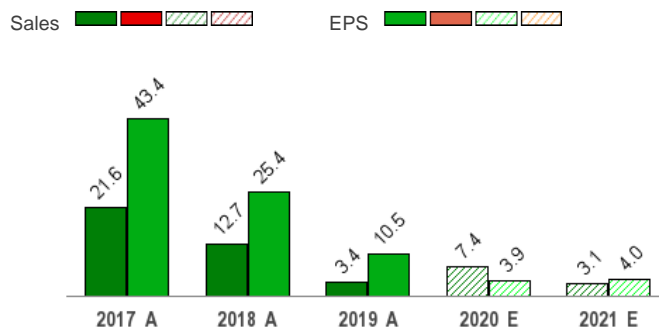
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$395.00 - $309.10**
20 Day Average Volume (sh)	**401,925**
Market Cap	**$40.4 B**
YTD Price Change	**9.6%**
Beta	**1.12**
Dividend / Div Yld	**$2.05 / 0.5%**
Industry	**Manufacturing - General Industrial**
Zacks Industry Rank	**Bottom 18% (209 out of 255)**
Last EPS Surprise	**1.5%**
Last Sales Surprise	**-1.7%**
EPS F1 Est- 4 week change	**-0.7%**
Expected Report Date	**04/23/2020**
Earnings ESP	**0.0%**
P/E TTM	**29.8**
P/E F1	**28.6**
PEG F1	**2.6**
P/S TTM	**7.5**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,433 E	1,499 E	1,533 E	1,573 E	5,944 E
2020	1,341 E	1,426 E	1,474 E	1,524 E	5,765 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	$3.29 E	$3.48 E	$3.60 E	$3.67 E	$14.10 E
2020	$2.98 E	$3.33 E	$3.49 E	$3.69 E	$13.56 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 02/13/2020. The reports text is as of 02/14/2020.

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.

EPS Hist. and Est.

- Application Software (29.5% of revenues in the fourth quarter of 2019) 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 (30.5%) 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.

Sales Hist. and Est.

- Measurement & Analytical Solutions (27.8%) 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 (12.2%) 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.
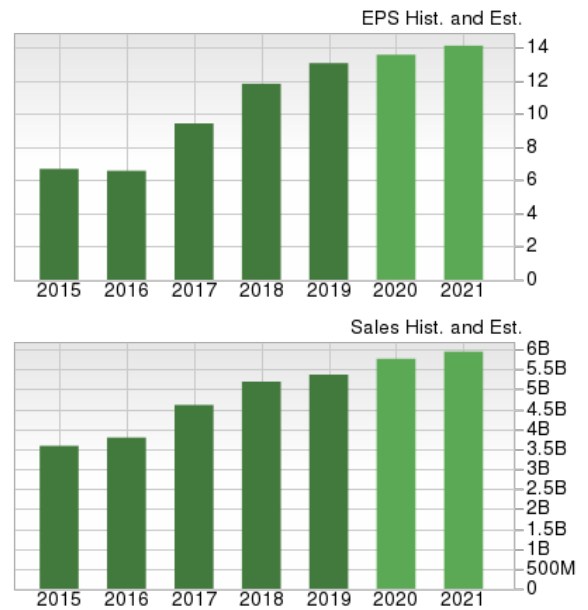
Reasons To Buy:

▲ In the past three months, Roper shares have gained 12.3% compared with the industry's growth of 9%. In the fourth quarter of 2019, the company's organic sales grew 1%, while acquired assets added 1% to sales growth. The upside stemmed from broad-based growth across its network software business and growth in demand for medical products. The company anticipates organic revenue growth of 6-7% for 2020 and 2-3% for the first quarter. Organic revenues of both the Application Software, and Measurement & Analytical Solutions segments are anticipated to grow in mid-single digits in 2020, while that for the Network Software & Systems segment is expected to increase in mid-teens.

▲ Roper's adjusted gross profit margin expanded 60 basis points (bps) to 64.1% year over year in the fourth quarter. Notably, the company's adjusted earnings surpassed the Zacks Consensus Estimate by 1.50% and also increased 5.3% year over year. It expects stronger sales, unique niche market strategy and gains from acquired assets to drive its profitability in 2020. For the year, adjusted earnings per share are expected to be $13.30-$13.60, above $13.05 generated in 2019.

▲ 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. Notably, it divested Gatan to AMTEK in October 2019.

▲ Roper remains committed to rewarding shareholders handsomely through dividend payments. In 2019, the company distributed $191.7 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 segmental business, unique niche market strategy, and acquisitions are likely to boost Roper's near-term results.

Reasons To Sell:

▼ On a P/E (TTM) basis, Roper's shares seem overvalued compared with the industry, with respective tallies of 29.76x and 23.87x. Notably, the company's multiple is higher than the industry's three-month highest level of 23.87x. Also, it predicts earnings of $2.94-$3.00 per share for the first quarter, suggesting a dip from $3.30 recorded in the year-ago quarter. In the past 30 days, the consensus estimates for earnings per share have been lowered by 7.7% for the first quarter. This makes us cautious about the stock.

▼ In 2019, organic sales of the Process Technologies segment declined 4% year over year due to weakness in upstream oil & gas businesses as well as poor performance in the rental market. For 2020, the company predicts organic sales of the segment to decline in mid-single digits due to continued weakness in upstream oil & gas businesses.

▼ Over time, Roper has been dealing with 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 2019, its cost of sales expanded 1.5% year over year to $1,939.7 million and operating expenses rose 2.4% to $1,928.7 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), with long-term debt of $4,673.1 million at the end of 2019. Net interest expenses in the year were $186.6 million, up 2.5% year over year. 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, the company 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 threat to organic growth and raising integrations risks.

> Weakness in Process Technologies, 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 Q4 Earnings Surpass Estimates, Revenues Miss

Roper delivered fourth-quarter 2019 positive earnings surprise of 1.5%. Adjusted earnings were $3.39 per share, surpassing the Zacks Consensus Estimate of $3.34. Also, the bottom line increased 5.3% from the year-ago quarter number of $3.22 backed by solid revenue growth.

In 2019, the company's adjusted earnings were $13.05 per share, increasing 10% from the year-ago figure of $11.81.

Quarter Ending	12/2019
Report Date	**Jan 30, 2020**
Sales Surprise	**-1.71%**
EPS Surprise	**1.50%**
Quarterly EPS	**3.39**
Annual EPS (TTM)	**13.05**

Segmental Revenues

Roper's net revenues were $1,394.8 million, up 1.3% year over year. Notably, adjusted revenues totaled $1,400 million, up 2% year over year. The rise was primarily driven by 1% organic growth and 1% gain from acquired assets. However, the top line missed the Zacks Consensus Estimate of $1,419 million.

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

Application Software's revenues totaled $410.8 million, representing 29.5% of the quarter's revenues. On a year-over-year basis, the segment's revenues grew 4.7%.

Network Software & Systems generated revenues of $425.8 million, accounting for roughly 30.5% of fourth-quarter revenues. Sales grew 19.8% year over year.

Measurement & Analytical Solutions generated revenues of $387.9 million, accounting for roughly 27.8% of the quarter's top line. Sales declined 13.1% year over year.

Process Technologies generated revenues of $170.3 million, accounting for roughly 12.1% of the quarter's revenues. Sales edged down 6.5% year over year.

Margin Details

In the October-December quarter, Roper's cost of sales decreased 0.3% year over year to $501.9 million. Cost of sales was 35.9% of the quarter's revenues compared with 36.6% a year ago. Adjusted gross profit increased 3% to $898 million, with margin of 64.1% reflecting expansion of 60 basis points (bps).

Selling, general and administrative expenses fell 2.8% to $494.5 million. It represented 35.3% of total revenues compared with 36.9% in the year-ago quarter. Operating profit improved 0.2% to $440.7 million with margin of 31.6%, down 40 bps year over year.

Balance Sheet & Cash Flow

Exiting the fourth quarter, Roper had cash and cash equivalents of $709.7 million compared with $364.4 million recorded on Dec 31, 2018. Long-term debt declined 5.4% to $4,673.1 million from the end of 2018.

In 2019, the company generated net cash of $1,461.8 million from operating activities, up 2.2% year over year.

Capital expenditure during the fourth quarter totaled $10 million, lower than the year-ago figure of $15 million. Adjusted free cash flow in the quarter was up 1% to $453 million.

Outlook

For 2020, adjusted earnings per share are anticipated to be $13.30-$13.60, with organic revenue growth of 6-7%. For the first quarter of 2020, earnings are projected to be $2.94-$3.00 per share.

Recent News

Dividend

On **Jan 23, 2020**, Roper paid a quarterly cash dividend of 51.25 cents per share to shareholders of record as of Jan 9, 2020.

Valuation

Roper shares are up 9.6% and 24.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 5.7% and 0.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 22.8% while the sector increased 8.3%.

The S&P 500 Index has moved up 4.7% year to date and 20.7% in the past year.

The stock is currently trading at 28.68X forward 12-month earnings per share, which compares to 22.21X for the Zacks sub-industry, 18.45X for the Zacks sector and 19.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.3X and as low as 20.26X, with a 5-year median of 24.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $408 price target reflects 30.11X 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	28.68	22.21	18.45	19.37
	5-Year High	29.3	22.58	19.89	19.37
	5-Year Low	20.26	15.2	12.6	15.18
	5-Year Median	24.6	19	16.62	17.47
EV/EBITDA F12M	Current	19.93	12.81	17.81	12.66
	5-Year High	22.26	12.81	18.2	12.66
	5-Year Low	12.68	8.3	10.68	9.08
	5-Year Median	16.81	10.7	14.03	10.79
EV/Sales F12M	Current	7.72	2.78	3.14	3.26
	5-Year High	8.05	2.78	3.14	3.37
	5-Year Low	4.63	1.67	1.76	2.3
	5-Year Median	6.02	2.31	2.28	2.79

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (209 out of 255)

Top Peers

Applied Industrial Technologies, Inc. (AIT)	Neutral
Colfax Corporation (CFX)	Neutral
Dover Corporation (DOV)	Neutral
Flowserve Corporation (FLS)	Neutral
The Middleby Corporation (MIDD)	Neutral
Metso Corp. (MXCYY)	Neutral
GEA GROUP AG SP (GEAGY)	Underperform
Xylem Inc. (XYL)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial | Industry Peers

	ROP Neutral	X Industry	S&P 500	FLS Neutral	GEAGY Underperform	XYL Underperform
VGM Score	D	-	-	A	A	D
Market Cap	40.42 B	1.91 B	24.56 B	6.15 B	5.51 B	15.68 B
# of Analysts	7	4	13	7	1	9
Dividend Yield	0.53%	0.00%	1.78%	1.62%	3.06%	1.10%
Value Score	D	-	-	C	C	F
Cash/Price	0.02	0.05	0.04	0.09	0.10	0.05
EV/EBITDA	15.64	12.96	14.00	20.45	10.57	19.13
PEG Ratio	2.61	2.35	2.10	1.70	NA	2.35
Price/Book (P/B)	4.26	2.52	3.31	3.47	2.08	5.28
Price/Cash Flow (P/CF)	22.51	12.84	13.68	17.95	17.37	16.47
P/E (F1)	28.76	19.43	19.23	19.33	21.35	28.18
Price/Sales (P/S)	7.53	1.39	2.69	1.59	0.99	2.99
Earnings Yield	3.49%	5.07%	5.20%	5.17%	4.69%	3.55%
Debt/Equity	0.49	0.54	0.71	0.85	0.17	0.69
Cash Flow ($/share)	17.25	2.62	6.92	2.62	1.76	5.29
Growth Score	C	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	19.70%	6.49%	10.85%	-17.72%	NA	12.91%
Proj. EPS Growth (F1/F0)	3.90%	6.49%	7.17%	10.81%	12.60%	2.28%
Curr. Cash Flow Growth	11.79%	10.71%	8.56%	15.24%	-13.41%	21.58%
Hist. Cash Flow Growth (3-5 yrs)	16.15%	7.04%	8.36%	-10.76%	NA	13.56%
Current Ratio	0.83	2.03	1.23	2.29	1.32	1.63
Debt/Capital	32.99%	35.40%	42.91%	45.83%	14.83%	40.74%
Net Margin	32.94%	6.22%	11.81%	6.39%	2.01%	7.64%
Return on Equity	15.85%	12.98%	16.86%	16.21%	3.55%	18.90%
Sales/Assets	0.32	0.81	0.54	0.81	0.83	0.69
Proj. Sales Growth (F1/F0)	7.41%	1.26%	3.85%	3.09%	1.62%	1.26%
Momentum Score	C	-	-	B	B	F
Daily Price Chg	-0.68%	-0.08%	0.00%	-2.69%	-2.16%	-2.33%
1 Week Price Chg	0.99%	1.25%	2.47%	0.81%	-0.50%	3.11%
4 Week Price Chg	3.38%	-0.03%	0.56%	-6.75%	-5.04%	4.68%
12 Week Price Chg	9.71%	6.60%	6.96%	-3.06%	-5.02%	12.42%
52 Week Price Chg	26.88%	7.19%	16.68%	1.34%	33.59%	20.10%
20 Day Average Volume	401,925	40,830	2,020,569	717,488	8,214	1,472,251
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.22%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.72%	0.00%	-0.05%	-1.22%	0.00%	-8.12%
(F1) EPS Est 12 week change	-0.38%	-0.75%	-0.17%	-1.27%	0.00%	-8.87%
(Q1) EPS Est Mthly Chg	-7.67%	0.00%	-0.24%	0.00%	NA	-30.63%

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	C
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