# Roper Technologies (ROP)

**$375.70** (As of 01/16/20)

Price Target (6-12 Months): **$395.00**

| 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

Roper is experiencing broad-based growth across its software businesses in both Application Software and Network Software & Systems segments. For 2019, Roper anticipates solid revenues, its unique niche market strategy, healthy balance sheet and gains from acquired assets to drive profitability. For the fourth quarter, earnings are likely to be $3.32-$3.36 per share, indicating growth from $3.22 reported a year ago. However, the company's shares have underperformed the industry in the past six months. Also, the stock is significantly overvalued compared to the industry over the same time frame. Moreover, an increase in cost of sales and operating expenses might hurt profitability and margins. In addition, a highly leveraged balance sheet can inflate financial obligations.
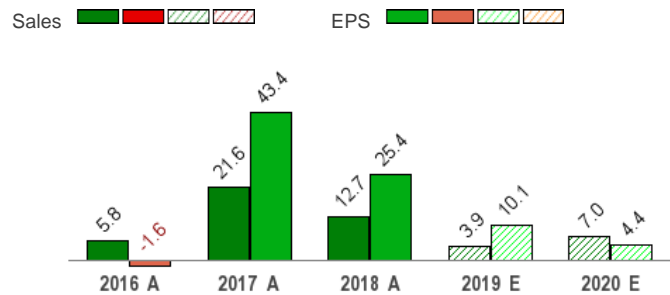
## Price, Consensus & Surprise



## Data Overview

| | |
|---|---|
| 52 Week High-Low | $385.51 - $273.13 |
| 20 Day Average Volume (sh) | 371,135 |
| Market Cap | $39.1 B |
| YTD Price Change | 6.1% |
| Beta | 1.12 |
| Dividend / Div Yld | $2.05 / 0.5% |
| Industry | **Manufacturing - General Industrial** |
| Zacks Industry Rank | **Bottom 21% (201 out of 254)** |
| | |
| Last EPS Surprise | 3.1% |
| Last Sales Surprise | 0.1% |
| EPS F1 Est- 4 week change | 0.3% |
| Expected Report Date | 01/30/2020 |
| Earnings ESP | 0.2% |
| | |
| P/E TTM | 29.2 |
| P/E F1 | 27.7 |
| PEG F1 | 2.5 |
| P/S TTM | 7.3 |

## Sales and EPS Growth Rates (Y/Y %)



## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | 1,406 E | 1,456 E | 1,463 E | 1,524 E | 5,775 E |
| 2019 | 1,287 A | 1,330 A | 1,355 A | 1,419 E | 5,395 E |
| 2018 | 1,203 A | 1,294 A | 1,319 A | 1,376 A | 5,191 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | $3.23 E | $3.40 E | $3.43 E | $3.60 E | $13.57 E |
| 2019 | $3.30 A | $3.07 A | $3.29 A | $3.34 E | $13.00 E |
| 2018 | $2.61 A | $2.89 A | $3.09 A | $3.22 A | $11.81 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 01/16/2020. The reports text is as of 01/17/2020.

## Overview

Roper Technologies, Inc. (ROP) designs, manufactures and distributes medical and scientific imaging products and software, radio frequency (RF) products, services and application software, industrial technology products and energy systems and control products and solutions. Roper caters to selected segments of a broad range of markets, which include oil & gas, scientific research, medical diagnostics, semiconductor, refrigeration, automotive, water & wastewater, power generation, agricultural irrigation 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.


Sales Hist. and Est.

- Application Software segment (29.9% of adjusted revenues of $1,288 million in the third quarter of 2019) 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 (28.9%) 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 (29.4%) 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 (11.8%) 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.
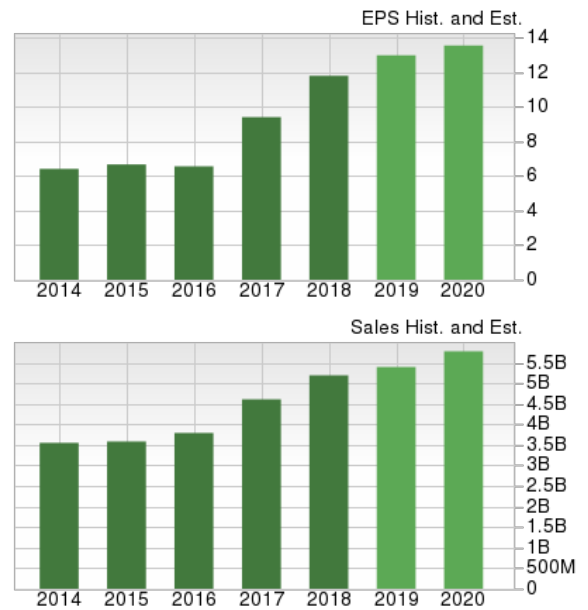
## Reasons To Buy:

▲ In third-quarter 2019, Roper's top line surpassed the Zacks Consensus Estimate by 0.4% and increased 3% year over year. Also, the metric improved 2% on an organic basis. The company stated that this upside stemmed from broad-based growth across its software businesses in both Application Software and Network Software & Systems segments. Growing adoption of Deltek business' enterprise software offerings, integration of ComputerEase acquisition (closed in August 2019) to Delkek's AEC platform, and strength in Strata business, led by solid bookings for cost accounting and Decision Support SaaS products in hospital market are likely to boost Application Software segment's revenues in the quarters ahead. In addition, strength in DAT, iTrade, MHA and RF IDeas businesses along with Foundry acquisition (closed in April 2019) is likely to drive the revenues of the company's Network Software & Systems segment. Also, the company's acquisition of iPipeline (closed in August 2019) will enhance its cloud-based software solution offerings in the life insurance industry. Roper expects the buyout to contribute approximately $200 million in revenues at about 40% EBITDA margins in 2020. Further, solid demand for NDI business' electromagnetic and optical measurement systems coupled with strength in Verathon business and new product launches, might keep boosting revenues of the company's Measurement & Analytical Solutions segment.

> Favorable end-market conditions, unique niche market strategy, and acquisitions are likely to boost Roper's near-term results.

▲ Roper's adjusted gross profit margin expanded 80 basis points (bps) to 64.6% year over year in the third quarter. Notably, the company's adjusted earnings surpassed the Zacks Consensus Estimate by about 3.1%, and also came in 6.5% higher than the year-ago figure. It expects stronger sales, unique niche market strategy, healthy balance sheet and gains from acquired assets to drive its profitability in 2019. It predicts adjusted earnings per share of $12.98-$13.02 for 2019. For the fourth quarter of 2019, earnings are likely to be $3.32-$3.36 per share, higher than $3.22 reported a year ago.

▲ Roper remains committed to rewarding shareholders handsomely through dividend payments. In the first nine months of 2019, the company distributed $143.5 million as dividends. It is worth mentioning here that it increased the quarterly dividend rate by 12% or 5 cents per share to 46.25 cents in November 2018. On an annualized basis, the dividend increased to $1.85 from $1.65 per share. We believe that such initiatives are reflective of a strong cash position.

## Reasons To Sell:

▼ Over time, Roper has been dealing with adverse impacts of high cost of sales and operating expenses. From 2014 to 2018, the company's cost of sales increased 5.7% (CAGR) and operating expenses jumped 11.3% (CAGR). In the third quarter of 2019, its cost of sales expanded 0.5% year over year to $480.9 million and operating expenses rose 5.6% to $488.4 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 five years (2014-2018), the company's long-term debt jumped 17.5% (CAGR), with long-term debt of $6,195.1 million at the end of the third quarter of 2019. Net interest expenses in the quarter were $48.8 million, up 0.8% 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.

▼ Roper believes in adding complementary businesses to the portfolio via acquisitions. So far in 2019, the company 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. Also, on a P/E (TTM) basis, Roper is significantly overvalued compared to the industry, with respective tallies of 27.7x and 22.5x. Notably, the company's multiple is higher than the industry's six-month highest level of 22.5x. This makes us cautious about the stock. In addition, Roper's shares have declined 0.5%, against the industry's growth of 9.8% in the past six months.

Escalating cost of sales, high level of debt, integration risks associated with business acquisitions and stiff competition might dent Roper's near-term profitability.

## Last Earnings Report

**Roper's Q3 Earnings and Revenues Surpass Estimates**

Roper Technologies delivered third-quarter 2019 positive earnings surprise of about 3.1%.

Adjusted earnings were $3.29 per share, surpassing the Zacks Consensus Estimate of $3.19. Also, the bottom line increased 6.5% from the year-ago quarter number of $3.09 backed by solid revenue growth.

**Inside the Headlines**

| Quarter Ending | 09/2019 |
|---|---|
| Report Date | **Oct 24, 2019** |
| Sales Surprise | **0.05%** |
| EPS Surprise | **3.13%** |
| Quarterly EPS | **3.29** |
| Annual EPS (TTM) | **12.88** |

Roper's net revenues totaled $1,354.5 million, up 3% year over year. The rise was primarily driven by 2% organic growth and 2% gain from acquired assets, partially offset by 1% adverse impact of unfavorable movements in foreign currencies. Moreover, the top line surpassed the Zacks Consensus Estimate of $1,350 million.

Notably, GAAP revenues came in at $1,354.5 million, up from the year-ago reported figure of $1,319 million.

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

Application Software's revenues totaled $405.4 million, representing 29.9% of the quarter's revenues. On a year-over-year basis, the segment's revenues grew 7.2%.

Network Software & Systems segment generated revenues of $391.2 million, accounting for roughly 28.9% of third-quarter revenues. Sales grew 14.4% year over year.

Measurement & Analytical Solutions segment generated revenues of $398.3 million, accounting for roughly 29.4% of the quarter's top line. Sales declined 7.3% year over year.

Process Technologies segment generated revenues of $159.6 million, accounting for roughly 11.8% of the September quarter's revenues. Sales edged down 5.5% year over year.

**Margin Details**

In the July-September quarter, Roper's cost of sales increased 0.5% year over year to $480.9 million. Cost of sales was 35.5% of the quarter's revenues compared with 36.3% a year ago. Adjusted gross profit in the quarter increased 4% to $877 million, with margin of 64.6% reflecting expansion of 80 basis points (bps).

Selling, general and administrative expenses jumped 5.6% to $488.4 million. It represented 36.1% of total revenues compared with 35.1% in the year-ago quarter. Operating profit jumped 2.7% to $430.1 million with margin of 31.8%, flat year over year.

**Balance Sheet & Cash Flow**

Exiting the third quarter, Roper had cash and cash equivalents of $323 million compared with $364.4 million recorded on Dec 31, 2018. Long-term debt increased 25.4% to $6,195.1 million from the end of 2018.

In first nine months of 2019, the company generated net cash of $995.6 million from operating activities, roughly 3.1% higher from the year-ago period.

Capital expenditure during the third quarter totaled $14 million, higher than the year-ago figure of $11 million. Adjusted free cash flow in the quarter was down 4% to $387 million.

**Outlook**

For 2019, adjusted earnings per share are anticipated to be $12.98-$13.02, higher than the $12.94-$13.06 guided earlier.

For the fourth quarter of 2019, earnings are projected to be $3.32-$3.36 per share.

## Recent News

**Dividend**

On **Nov 15, 2019**, Roper's board of directors approved payment of a quarterly cash dividend of 51.25 cents per share to shareholders of record as of Jan 9, 2020. The payment will be made on Jan 23, 2020. This represents hike of 11% in the quarterly dividend.

**Divestment of Gatan**

On **Oct 31, 2019**, Roper completed the divestment of its wholly owned subsidiary, Gatan in an all-cash transaction deal valued at $925 million.

The transaction is consistent with the company's policy of strengthening its portfolio through inorganic moves, including divestments and acquisitions. The Gatan divestment will allow Roper to concentrate on its more profitable and core businesses.

**Acquisition of iPipeline**

On **Aug 22, 2019**, Roper announced that it completed the acquisition of Exton, PA-based iPipeline. The other party to the transaction was Thoma Bravo, LLC, and other equity holders.

iPipeline is a provider of cloud-based software solutions to customers in financial services and the life insurance industry. The company's services are used by roughly 1,350 financial institutions and distributors as well as 150 insurance carriers and 0.5 million agents.

Roper believes that iPipeline's efficient management team, solid customer base and customer retention policies will be beneficial. The buyout will help generate revenues of $200 million and free cash flow (after-tax) of $70 million in 2020. Also, cash accretion is predicted immediately from this buyout along with high-single-digit organic revenue growth.

## Valuation

Roper's shares are up 33.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector are up 28.2% and 15.4%, respectively.

The S&P 500 Index has moved up 23.3% in the past year.

The stock is currently trading at 27.65X forward 12-month earnings per share, which compares to 21.48X for the Zacks sub-industry, 18.4X for the Zacks sector and 19.13X 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 24.55X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $395 price target reflects 29.07X 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 | 27.65 | 21.48 | 18.4 | 19.13 |
| | 5-Year High | 29.3 | 22.52 | 19.9 | 19.34 |
| | 5-Year Low | 20.26 | 15.16 | 12.59 | 15.17 |
| | 5-Year Median | 24.55 | 18.9 | 16.54 | 17.44 |
| EV/EBITDA F12M | Current | 20.66 | 12.73 | 17.8 | 12.66 |
| | 5-Year High | 22.29 | 12.73 | 18.2 | 12.66 |
| | 5-Year Low | 12.75 | 8.25 | 10.68 | 9.08 |
| | 5-Year Median | 16.83 | 10.62 | 14.01 | 10.78 |
| EV/Sales F12M | Current | 7.69 | 2.76 | 3.14 | 3.26 |
| | 5-Year High | 8.05 | 2.77 | 3.14 | 3.37 |
| | 5-Year Low | 4.37 | 1.66 | 1.76 | 2.3 |
| | 5-Year Median | 6.01 | 2.3 | 2.28 | 2.79 |

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



### Top Peers

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

## Industry Comparison Industry: Manufacturing - General Industrial | Industry Peers

| | ROP Neutral | X Industry | S&P 500 | FLS Neutral | GEAGY Neutral | XYL Neutral |
|---|---|---|---|---|---|---|
| **VGM Score** | D | - | - | B | B | C |
| Market Cap | 39.09 B | 2.03 B | 24.61 B | 6.59 B | 5.80 B | 14.98 B |
| # of Analysts | 7 | 4 | 13 | 7 | 1 | 8 |
| Dividend Yield | 0.55% | 0.00% | 1.74% | 1.51% | 2.91% | 1.15% |
| **Value Score** | D | - | - | C | B | C |
| Cash/Price | 0.01 | 0.05 | 0.04 | 0.08 | 0.09 | 0.03 |
| EV/EBITDA | 25.64 | 13.75 | 14.24 | 21.74 | 11.14 | 17.84 |
| PEG Ratio | 2.54 | 2.19 | 2.07 | 1.82 | NA | 1.51 |
| Price/Book (P/B) | 4.56 | 2.63 | 3.38 | 3.72 | 2.19 | 5.17 |
| Price/Cash Flow (P/CF) | 24.20 | 13.34 | 13.75 | 19.25 | 18.29 | 19.09 |
| P/E (F1) | 27.99 | 19.00 | 19.09 | 20.72 | 22.48 | 24.91 |
| Price/Sales (P/S) | 7.31 | 1.39 | 2.68 | 1.71 | 1.04 | 2.84 |
| Earnings Yield | 3.61% | 5.23% | 5.24% | 4.83% | 4.45% | 4.02% |
| Debt/Equity | 0.72 | 0.57 | 0.72 | 0.85 | 0.17 | 0.70 |
| Cash Flow ($/share) | 15.53 | 2.51 | 6.94 | 2.62 | 1.76 | 4.36 |
| **Growth Score** | C | - | - | A | A | B |
| Hist. EPS Growth (3-5 yrs) | 18.71% | 5.37% | 10.56% | -17.72% | NA | 12.05% |
| Proj. EPS Growth (F1/F0) | 4.35% | 7.58% | 7.57% | 10.96% | 11.72% | 10.60% |
| Curr. Cash Flow Growth | 21.01% | 15.81% | 14.73% | 15.24% | -13.41% | 17.39% |
| Hist. Cash Flow Growth (3-5 yrs) | 16.17% | 7.16% | 9.00% | -10.76% | NA | 11.18% |
| Current Ratio | 1.08 | 2.04 | 1.24 | 2.29 | 1.32 | 1.55 |
| Debt/Capital | 41.95% | 37.08% | 42.99% | 45.83% | 14.83% | 41.22% |
| Net Margin | 21.58% | 6.55% | 11.14% | 6.39% | 2.01% | 9.65% |
| Return on Equity | 16.46% | 13.61% | 17.16% | 16.21% | 3.55% | 19.14% |
| Sales/Assets | 0.33 | 0.83 | 0.55 | 0.81 | 0.83 | 0.70 |
| Proj. Sales Growth (F1/F0) | 7.06% | 1.94% | 4.16% | 3.36% | 1.62% | 4.08% |
| **Momentum Score** | C | - | - | D | D | B |
| Daily Price Chg | 0.58% | 0.75% | 0.89% | 1.74% | 0.23% | 0.86% |
| 1 Week Price Chg | 2.02% | -0.25% | 0.39% | -0.14% | -3.22% | -0.47% |
| 4 Week Price Chg | 6.74% | 1.67% | 2.65% | 2.65% | -1.42% | 7.18% |
| 12 Week Price Chg | 13.05% | 8.52% | 7.55% | 5.40% | 7.18% | 1.44% |
| 52 Week Price Chg | 36.42% | 13.88% | 22.12% | 19.53% | 15.90% | 18.55% |
| 20 Day Average Volume | 371,135 | 45,262 | 1,536,375 | 518,811 | 6,172 | 791,629 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.12% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.25% | 0.00% | 0.00% | -0.82% | 0.00% | 0.00% |
| (F1) EPS Est 12 week change | 1.51% | -1.11% | -0.40% | -1.12% | -7.44% | -7.61% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | 0.00% | 0.00% | NA | 0.00% |

## 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.

| | |
|---|---|
| Value Score | D |
| Growth Score | C |
| Momentum Score | C |
| VGM Score | D |

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.

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.

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