Roper Technologies (ROP)

$437.16 (As of 07/29/20)

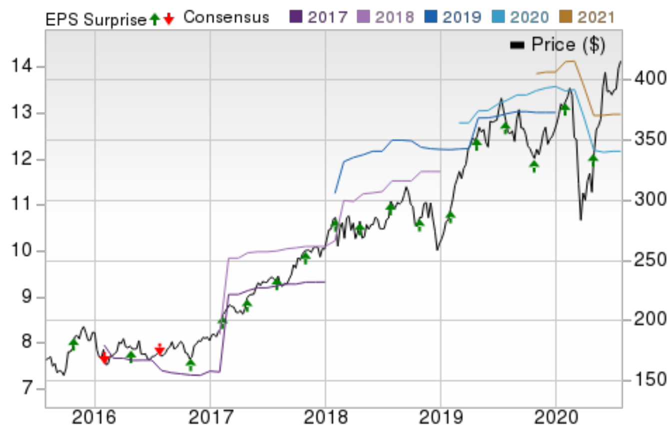
Price Target (6-12 Months): **$460.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/04/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: B | Momentum: C	

Summary

Roper's second-quarter 2020 earnings surpassed the Zacks Consensus Estimate by 10.1%, and revenues beat the same by 3.8%. The company is poised to benefit from strength across its network software and medical product businesses. Going forward, its unique niche market strategy, strong operational execution and cost-control measures will likely help it drive profitability and maintain a healthy margin performance. In the past three months, Roper's shares have outperformed the industry. However, the company anticipates the coronavirus outbreak to have an adverse impact on demand for its products and project timings across most of its segments. Also, weakness in the Process Technologies segment, with organic sales predicted to decline in double digits, is concerning. In addition, high costs and huge debts are other headwinds.

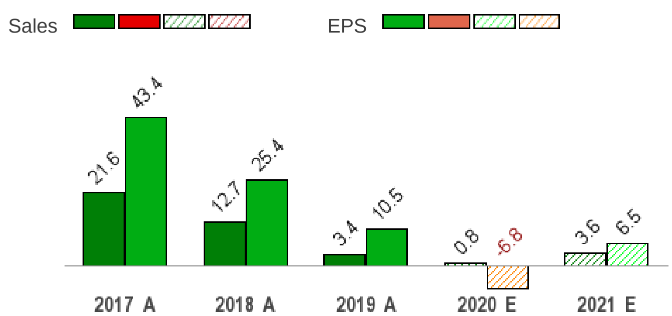
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$441.03 - $240.00
20 Day Average Volume (sh)	437,858
Market Cap	$45.6 B
YTD Price Change	23.4%
Beta	1.06
Dividend / Div Yld	$2.05 / 0.5%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Top 46% (116 out of 253)
Last EPS Surprise	10.1%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/22/2020
Earnings ESP	-0.7%
P/E TTM	34.5
P/E F1	36.0
PEG F1	3.3
P/S TTM	8.4

Sales and EPS Growth Rates (Y/Y %)



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	1,305 A	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

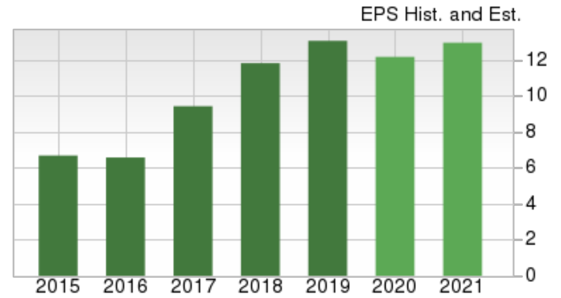
	Q1	Q2	Q3	Q4	Annual*
2021	$3.25 E	$3.03 E	$3.33 E	$3.43 E	$12.95 E
2020	$3.05 A	$2.94 A	$2.99 E	$3.29 E	$12.16 E
2019	$3.30 A	$3.07 A	$3.29 A	$3.39 A	$13.05 A

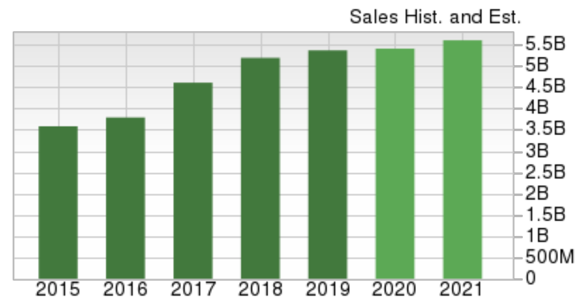
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

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 (30.5% of revenues in the second 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 (32.3%) 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 (28%) 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 (9.2%) 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:

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

- In the past three months, Roper's shares have gained 28.8% as compared with the industry's growth of 18.1%. In the second quarter of 2020, the company's revenues surpassed the Zacks Consensus Estimate by 3.8%. The better-than-expected results stemmed from broad-based growth across its network software businesses along with a rise in demand for medical products. Going forward, the company's Network Software & Systems segment is likely to show resilience during the coronavirus outbreak-led global market downturn, backed by high recurring revenue mix, strong customer retention, expanding networks, and strength across its DAT and ConstructConnect businesses. Also, a surge in demand for the medical products at its Verathon and IPA businesses will likely be tailwinds for the Measurement & Analytical Solutions segment. The company anticipates organic revenues for both of its Network Software & Systems and Measurement & Analytical Solutions segments to grow in a mid-single-digit range for the second half of 2020.

- Roper's adjusted gross profit margin expanded 70 basis points (bps) to 64.7% year over year in the second 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 it to effectively deploy capital for making acquisitions and paying out dividends. For instance, in the first six months of 2020, the company generated net cash of $813 million from operating activities, marking growth of 37.5% 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. 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% and 1% of revenue growth in the first and second quarters of 2020, respectively.

- Roper remains committed to rewarding shareholders handsomely through dividend payments. In the first half of 2020, the company distributed $106.6 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.

Reasons To Sell:

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

- Going forward, Roper 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 roughly flat in the second half of 2020 due to lower anticipated bookings for its logo software license business. Also, for the second half of the year, the company predicts organic sales of the Process Technologies segment to decline 25% due to continued weakness in the upstream oil & gas businesses.

- 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 rose 5.2% (CAGR). Notably, in the second quarter of 2020, its cost of sales remained high at $461.3 million. In addition, its selling, general and administrative expenses rose 5.9% to $510.1 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). At the end of the second quarter of 2020, its long-term debt was $5,263.8 million, up 12.6% on a sequential basis. Also, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, exiting the second quarter, its times interest earned ratio is 11.9, lower than 12.2 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.

- On a P/E (TTM) basis, Roper's shares seem overvalued compared with the industry, with respective tallies of 34.15x and 21.74x. The company's multiple is above the industry's three-month highest level of 21.74x. This makes us cautious about the stock. In addition, 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 a threat to organic growth and raising integrations risks.

Last Earnings Report

Roper Q2 Earnings & Revenues Top Estimates, Decline Y/Y

Quarter Ending	06/2020
Report Date	**Jul 28, 2020**
Sales Surprise	**3.85%**
EPS Surprise	**10.11%**
Quarterly EPS	**2.94**
Annual EPS (TTM)	**12.67**

Roper has delivered an earnings and revenues surprise of 10.1% and 3.8%, respectively, in second-quarter 2020.

Adjusted earnings were $2.94 per share, surpassing the Zacks Consensus Estimate of $2.67. However, the bottom line decreased 4.2% from the year-ago quarter number of $3.07 per share.

Inside the Headlines

Roper's net revenues were $1,305 million, down 1.9% year over year. Notably, adjusted revenues totaled $1,306 million, down 2% year over year. The decline was primarily attributable to a decrease of 3% in organic revenues, partially offset by 1% gain from acquired assets. The top line beat the Zacks Consensus Estimate of $1,257 million.

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

Application Software's revenues totaled $398.4 million, representing 30.5% of the quarter's revenues. On a year-over-year basis, the segment's revenues grew 2%.

Network Software & Systems generated revenues of $422 million, accounting for 32.3% of second-quarter revenues. Sales grew 15% year over year.

Measurement & Analytical Solutions generated revenues of $363.9 million, accounting for 27.9% of the quarter's revenues. Sales declined 10.9% year over year.

Process Technologies generated revenues of $120.7 million, accounting for 9.3% of the quarter's revenues. Sales were down 26.6% year over year.

Margin Details

In the second quarter, Roper's cost of sales decreased 4% year over year to $461.3 million. Cost of sales was 35.3% of the quarter's revenues compared with 36.1% a year ago. Adjusted gross profit decreased 1% to $845 million, while adjusted gross margin was 64.7%, reflecting an expansion of 70 basis points (bps).

Selling, general and administrative expenses increased 5.9% to $510.1 million. It represented 39.1% of total revenues compared with 36.2% in the year-ago quarter. Operating profit declined 7.5% to $383.9 million, with margin of 29.4%, down 180 bps year over year.

Balance Sheet & Cash Flow

Exiting the second quarter, Roper had cash and cash equivalents of $1,870.8 million compared with $709.7 million recorded on Dec 31, 2019. Long-term debt (net of current portion) was $5,263.8 million compared with $4,673.1 million at the end of 2019.

In the first six months of 2020, the company generated net cash of $813 million from operating activities, up 37.5% year over year.

Capital expenditure during the second quarter totaled $8 million, lower than the year-ago figure of $12 million. Adjusted free cash flow in the quarter was up 10% to $315 million on a year-over-year basis.

Outlook

For 2020, adjusted earnings per share are anticipated to be $11.90-$12.40 compared with $11.60-$12.60 mentioned earlier.

For the third quarter of 2020, earnings are projected to be $2.90-$3.00 per share.

Recent News

Dividend

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

Completion of Senior Notes Offering

On **Jun 22, 2020**, Roper completed $600 million worth of senior notes offering. Notably, the public offering of notes was originally announced by the company on Jun 8.

As mentioned, the notes were offered at 98.877% of the principal amount and are now the company's senior unsecured obligations. The maturity date of the notes is Jun 30, 2030, while its coupon rate is 2.000%. Interest on notes will be paid out semi-annually, each on Jun 30 and Dec 30. The first interest payment will be made on Dec 30, 2020.

The issuer has the option to redeem the senior notes before Mar 30, 2030, for a consideration equal to Treasury+20 basis points and accrues interest, if applicable. Further, the notes can be redeemed on or after Mar 30, 2030, for a value equal to par value and accrued interest.

Notably, the offering was rated Baa2 (Stable) by Moody's and BBB+ (Stable) by S&P. Roper will use funds raised from the notes offering for general corporate purposes (that include acquisitions).

Valuation

Roper shares are up 23.4% and 20.2% 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 down 9.8% and 7.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 2.9% and up 1.4%, respectively.

The S&P 500 index has moved up 0.1% year to date, while increased 8.4% in the past year.

The stock is currently trading at 34.63X forward 12-month earnings per share, which compares to 26.56X for the Zacks sub-industry, 21.65X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.63X and as low as 18.81X, with a 5-year median of 24.83X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $460 price target reflects 36.44X 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	34.63	26.56	21.65	22.45
	5-Year High	34.63	26.62	21.65	22.45
	5-Year Low	18.81	15.6	12.55	15.25
	5-Year Median	24.83	19.68	16.82	17.52
P/Sales F12M	Current	8.27	3.3	2.81	3.54
	5-Year High	8.27	3.3	2.81	3.54
	5-Year Low	4.11	1.58	1.52	2.53
	5-Year Median	5.42	2.25	2.01	3.02

As of 07/29/2020

Industry Analysis **Zacks Industry Rank:** Top 46% (116 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Applied Industrial Technologies, Inc. **(AIT)**	Neutral	3
Colfax Corporation **(CFX)**	Neutral	3
Dover Corporation **(DOV)**	Neutral	3
Flowserve Corporation **(FLS)**	Neutral	2
GEA GROUP AG SP **(GEAGY)**	Neutral	2
The Middleby Corporation **(MIDD)**	Neutral	2
Regal Beloit Corporation **(RBC)**	Neutral	2
Xylem Inc. **(XYL)**	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial

Industry Peers

	ROP	X Industry	S&P 500	FLS	GEAGY	XYL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	C	-	-	B	F	F
Market Cap	45.64 B	1.23 B	22.69 B	3.96 B	7.00 B	13.88 B
# of Analysts	6	3	14	8	1	5
Dividend Yield	0.47%	0.00%	1.8%	2.63%	1.12%	1.35%
Value Score	D	-	-	C	D	D
Cash/Price	0.02	0.10	0.07	0.16	0.08	0.06
EV/EBITDA	17.59	11.97	13.11	9.66	15.76	17.09
PEG Ratio	3.18	3.40	3.05	3.04	NA	4.05
Price/Book (P/B)	4.62	1.96	3.15	2.35	3.00	4.93
Price/Cash Flow (P/CF)	25.34	10.11	12.28	10.11	21.03	14.60
P/E (F1)	35.00	28.64	22.27	21.05	43.56	40.49
Price/Sales (P/S)	8.44	1.19	2.46	1.00	1.28	2.70
Earnings Yield	2.78%	2.92%	4.25%	4.76%	2.30%	2.48%
Debt/Equity	0.53	0.52	0.75	0.89	0.19	0.72
Cash Flow ($/share)	17.25	2.49	6.94	3.01	1.84	5.29
Growth Score	B	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	20.17%	11.57%	10.85%	-11.93%	NA	12.81%
Proj. EPS Growth (F1/F0)	-6.82%	-31.40%	-7.70%	-34.26%	176.72%	-36.89%
Curr. Cash Flow Growth	11.79%	2.50%	5.31%	15.12%	-1.68%	21.58%
Hist. Cash Flow Growth (3-5 yrs)	16.15%	7.29%	8.55%	-8.93%	NA	13.56%
Current Ratio	1.27	2.11	1.31	2.19	1.30	1.55
Debt/Capital	34.76%	34.31%	44.23%	47.16%	16.31%	41.86%
Net Margin	29.75%	4.41%	10.45%	4.96%	-3.52%	7.01%
Return on Equity	14.20%	11.00%	14.99%	14.99%	-7.98%	17.08%
Sales/Assets	0.30	0.77	0.53	0.82	0.84	0.67
Proj. Sales Growth (F1/F0)	0.76%	-7.58%	-1.97%	-7.26%	-2.42%	-7.58%
Momentum Score	C	-	-	C	F	C
Daily Price Chg	3.33%	0.70%	1.52%	3.05%	-0.35%	3.81%
1 Week Price Chg	1.52%	0.00%	0.37%	2.81%	6.28%	0.00%
4 Week Price Chg	12.18%	5.79%	5.44%	10.21%	21.64%	21.24%
12 Week Price Chg	24.49%	17.10%	15.38%	14.26%	70.85%	22.38%
52 Week Price Chg	20.21%	-19.01%	-1.61%	-39.14%	55.93%	-3.89%
20 Day Average Volume	437,858	58,498	1,846,377	851,054	5,787	1,124,247
(F1) EPS Est 1 week change	0.01%	0.00%	0.00%	0.00%	0.00%	0.98%
(F1) EPS Est 4 week change	0.01%	0.00%	0.27%	2.30%	-24.26%	33.40%
(F1) EPS Est 12 week change	-0.16%	-9.88%	-0.85%	-17.83%	-19.82%	-22.83%
(Q1) EPS Est Mthly Chg	-3.88%	0.71%	0.13%	1.58%	NA	6.47%

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	B
Momentum Score	C
VGM Score	C

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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