



Company Overview:

Roper Technologies, Inc., a diversified technology company that designs and develops software-as-a-service and engineered products and solutions. Roper operates in a variety of niche end markets, including healthcare, transportation, food, energy, water, education, and academic research. Roper primarily grows earnings by focusing on its operating performance of existing businesses and by acquiring other businesses that offer high value-added services and engineered products and solutions.

Name	Ticker	Compounder Score
Roper Technologies, Inc.	ROP	7

Last Twelve Month Highlights:

Roper continues to post strong results, and this past quarter was no outlier. The company narrowed its FY 2019 guidance, improved margins, posted strong free cash flow generation, and deployed a significant amount of capital in shareholder accretive M&A with its iPipeline acquisition, a cloud-based software company that serves the life insurance and annuity industries. The acquisition puts Roper's 2019 M&A tally above \$2.2 billion (including Foundry at \$539 million) following a two-year hiatus (2017/2018) where Roper's net capital deployments was at a multi-decade low. Not only do we like the acquired business (low asset intensity/negative net working capital, recurring revenue at 90%, and exposure to secular growth drivers), but the acquisition bodes well for a stock that we believe has its biggest periods of outperformance when the balance sheet is under levered and in front of meaningful capital deployment.

Bull Case:

- **Best-in-Class M&A Model** – Roper gets a lot of credit for its time-tested M&A model, and we believe that credit is much deserved. Roper has common attributes with private equity firms in that it applies a financial/strategic methodology and *consistently* acquires companies. Unlike private equity firms, Roper tends to be an acquirer of choice because it: allows current owners to take meaningful cash out, plus Roper runs a decentralized business model, allowing previous owners/founders to maintain its corporate identity and continue to participate in the upside as the business performs.
- **Compounding Free Cash Flow is the Magic Elixir** - It is hard to call free cash flow a secret, magic, or critical to a business strategy without sounding like Captain Obvious, but we will anyway. Aptus believes the way management thinks about cash flow generation is fairly rare in the public domain. The playbook is straightforward: generate as much cash as possible with minimal assets and roll that cash into acquisitions that fuel further cash generation and feed the virtuous cycle. Seems simple, but we believe the execution has been stellar, and it is exemplified in the company's financials.
- **Investing in Niche Markets Creates a Barrier-of-Entry** - A common element of the Roper story is its focus on vertical markets or market niches. This focus creates a meaningful barrier to entry, limits the scale and strength of competitive dynamics, and facilitates a positive pricing dynamic in markets with rational competitors.

Bear Case:

- **Acquisition Model Risks** - Roper's future growth will largely be linked to management's ability to acquire and successfully integrate new businesses. Roper's intense acquisition strategy presents risks related to target availability, integration, financing, and target selection. Financing these acquisitions will be dependent on Roper's ability to generate FCF in the future.
- **End-Market Volatility** - A portion of Roper's annual revenue is rooted in industrial (~17%) and energy (~12% oil and gas) markets, which are typically cyclical and reliant on the well-being of local and global economies.
- **Price is What you Pay, Value is What you Get → Expensive Valuation** - ROP trades at a premium valuation on almost all traditional metrics, most notably P/E and EV/EBITDA. However, when considering the company's cash conversion, superior margins, and light asset exposure, we believe the premium can be easily justified. The main hurdle for maintaining the premium valuation will be continued M&A execution and balance sheet management - two things management has been doing very well for more than 18 years.

Overall Thesis:

Roper Technologies is a diversified industrial technology company that provides software and engineered solutions to a diverse and attractive set of end markets including medical, industrial, energy, transportation, food, and other end markets. Its model is predicated on competing in niche markets with an asset-light model to generate gaudy amounts of FCF, which compound over time to feed Roper's acquisition engine. Our constructive view of ROP is based on shares being catalyzed by accelerating organic growth and effective capital deployment (M&A), which will create strong FCF generation allowing the company to reinvest in high returning projects. We have full faith in the management team to continue executing this strategy at a very high-level.

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