

ROPER TECHNOLOGIES INC
Form 10-Q
November 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended September 30, 2017.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 1-12273
ROPER TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware 51-0263969
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6901 Professional Pkwy. East, Suite 200
Sarasota, Florida 34240
(Address of principal executive offices) (Zip Code)
(941) 556-2601
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's common stock as of October 27, 2017 was 102,362,184.

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ROPER TECHNOLOGIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Roper Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net revenues	\$1,159,912	\$945,144	\$3,380,888	\$2,779,125
Cost of sales	433,492	366,651	1,281,204	1,073,593
Gross profit	726,420	578,493	2,099,684	1,705,532
Selling, general and administrative expenses	415,673	311,103	1,236,423	940,073
Income from operations	310,747	267,390	863,261	765,459
Interest expense, net	45,523	26,800	137,201	81,076
Other income/(expense), net	(659)	(534)	5,263	(1,997)
Earnings before income taxes	264,565	240,056	731,323	682,386
Income taxes	74,292	72,977	203,423	205,822
Net earnings	\$190,273	\$167,079	\$527,900	\$476,564
Net earnings per share:				
Basic	\$1.86	\$1.65	\$5.17	\$4.71
Diluted	\$1.84	\$1.63	\$5.11	\$4.65
Weighted average common shares outstanding:				
Basic	102,303	101,372	102,091	101,231
Diluted	103,680	102,522	103,397	102,424
Dividends declared per common share	\$0.35	\$0.30	\$1.05	\$0.90

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net earnings	\$ 190,273	\$ 167,079	\$ 527,900	\$ 476,564
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	67,535	9,054	147,462	(35,673)
Total other comprehensive income/(loss), net of tax	67,535	9,054	147,462	(35,673)
Comprehensive income	\$ 257,808	\$ 176,133	\$ 675,362	\$ 440,891

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (unaudited)
(in thousands)

	September 30, 2017	December 31, 2016
ASSETS:		
Cash and cash equivalents	\$ 605,616	\$ 757,200
Accounts receivable, net	603,874	619,854
Inventories, net	209,306	181,952
Unbilled receivables	157,852	129,965
Other current assets	115,408	87,530
Total current assets	1,692,056	1,776,501
Property, plant and equipment, net	141,279	141,318
Goodwill	8,793,956	8,647,142
Other intangible assets, net	3,502,687	3,655,843
Deferred taxes	32,459	30,620
Other assets	84,236	73,503
Total assets	\$ 14,246,673	\$ 14,324,927
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	\$ 163,719	\$ 152,067
Accrued compensation	168,931	161,730
Deferred revenue	534,562	488,399
Other accrued liabilities	261,457	219,339
Income taxes payable	46,575	22,762
Current portion of long-term debt, net	401,534	400,975
Total current liabilities	1,576,778	1,445,272
Long-term debt, net of current portion	4,932,721	5,808,561
Deferred taxes	1,163,371	1,178,205
Other liabilities	114,819	104,024
Total liabilities	7,787,689	8,536,062
Commitments and contingencies (Note 9)		
Common stock	1,043	1,036
Additional paid-in capital	1,591,039	1,489,067
Retained earnings	5,062,926	4,642,402
Accumulated other comprehensive loss	(177,277)	(324,739)
Treasury stock	(18,747)	(18,901)
Total stockholders' equity	6,458,984	5,788,865
Total liabilities and stockholders' equity	\$ 14,246,673	\$ 14,324,927

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$ 527,900	\$ 476,564
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property, plant and equipment	36,776	27,954
Amortization of intangible assets	221,518	149,149
Amortization of deferred financing costs	5,463	4,080
Non-cash stock compensation	67,598	60,480
Gain on sale of assets	(9,393)	—
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable	30,074	(1,660)
Unbilled receivables	(27,186)	3,684
Inventories	(19,577)	(5,916)
Accounts payable and accrued liabilities	48,276	17,273
Deferred revenue	50,554	19,692
Income taxes	(48,370)	(52,728)
Other, net	(17,900)	(5,199)
Cash provided by operating activities	865,733	693,373
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(88,070)	(277,587)
Capital expenditures	(35,898)	(26,933)
Capitalized software expenditures	(8,043)	(1,528)
Proceeds from sale of assets	10,614	866
Other, net	(6,932)	1,564
Cash used in investing activities	(128,329)	(303,618)
Cash flows from financing activities:		
Payments under revolving line of credit, net	(880,000)	(180,000)
Principal payments on convertible notes	—	(4,010)
Cash premiums paid on convertible note conversions	—	(13,308)
Cash dividends to stockholders	(106,480)	(90,632)
Proceeds from stock-based compensation, net	32,932	13,895
Treasury stock sales	3,194	2,576
Other	179	(7,816)
Cash used in financing activities	(950,175)	(279,295)
Effect of foreign currency exchange rate changes on cash	61,187	(6,701)
Net (decrease)/increase in cash and cash equivalents	(151,584)	103,759
Cash and cash equivalents, beginning of period	757,200	778,511

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Cash and cash equivalents, end of period	\$605,616	\$882,270
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See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)

(in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balances at December 31, 2016	\$ 1,036	\$ 1,489,067	\$ 4,642,402	\$ (324,739)	\$ (18,901)	\$ 5,788,865
Net earnings	—	—	527,900	—	—	527,900
Stock option exercises	4	40,397	—	—	—	40,401
Treasury stock sold	—	3,040	—	—	154	3,194
Currency translation adjustments	—	—	—	147,462	—	147,462
Stock based compensation	—	66,010	—	—	—	66,010
Restricted stock activity	3	(7,475)	—	—	—	(7,472)
Dividends declared	—	—	(107,376)	—	—	(107,376)
Balances at September 30, 2017	\$ 1,043	\$ 1,591,039	\$ 5,062,926	\$ (177,277)	\$ (18,747)	\$ 6,458,984

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
September 30, 2017

1. Basis of Presentation

The accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position, results of operations, comprehensive income and cash flows of Roper Technologies, Inc. and its subsidiaries ("Roper" or the "Company") for all periods presented. The December 31, 2016 financial position data included herein was derived from the audited consolidated financial statements included in the Company's 2016 Annual Report on Form 10-K ("Annual Report") filed on February 27, 2017 with the Securities and Exchange Commission ("SEC") but does not include all disclosures required by U.S. generally accepted accounting principles ("GAAP").

Roper's management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year. You should read these unaudited condensed consolidated financial statements in conjunction with Roper's audited consolidated financial statements and the notes thereto included in its Annual Report. Certain prior period amounts have been reclassified to conform to current period presentation.

2. Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under GAAP in the form of accounting standards updates ("ASUs") to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. Any recent ASUs not listed below were assessed and determined to be either not applicable or are expected to have an immaterial impact on the Company's results of operations, financial position or cash flows.

Recently Adopted Accounting Pronouncements

In July 2015, the FASB issued an update providing guidance to simplify the measurement of inventory. This update, effective for fiscal years beginning after December 15, 2016, requires that inventory within the scope of the update be measured at the lower of cost and net realizable value. The update did not have a material impact on the Company's results of operations, financial condition or cash flows.

Recently Released Accounting Pronouncements

In January 2017, the FASB issued an update simplifying the test for goodwill impairment. This update, effective on a prospective basis for goodwill impairment tests performed in fiscal years beginning after December 15, 2019, eliminates Step 2 from the goodwill impairment test. Under the amendments in the update, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit

when measuring the goodwill impairment loss, if applicable. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the update to have a material impact on its results of operations, financial condition or cash flows.

In August 2016, the FASB issued an update clarifying the classification of certain cash receipts and cash payments in the statement of cash flows. This update, effective for annual reporting periods after December 15, 2017, including interim periods within those annual periods, addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing contingent consideration payments made after a business combination proceeds from the settlement of insurance claims proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies) distributions received from equity method investees beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The Company does not expect the update to have a material impact on its results of operations, financial condition or cash flows.

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In February 2016, the FASB issued an update on lease accounting. This update, effective for annual reporting periods after December 15, 2018, including interim periods within those annual periods, provides amendments to current lease accounting. These amendments include the recognition of lease assets and lease liabilities on the balance sheet and disclosing other key information about leasing arrangements. Early adoption is permitted. The Company is evaluating the impact of the update on its results of operations, financial condition and cash flows.

In May 2014, the FASB issued updates on accounting and disclosures for revenue from contracts with customers. These updates, effective for annual reporting periods after December 15, 2017, create a single, comprehensive revenue recognition model for all contracts with customers. The model is based on changes in contract assets (rights to receive consideration) and liabilities (obligations to provide a good or service). Revenue will be recognized based on the satisfaction of performance obligations, which occurs when control of a good or service transfers to a customer and enhanced disclosures will be required regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Either a retrospective or cumulative effect transition method is permitted. The Company has elected to adopt using the modified retrospective transition method. The Company has substantially completed its assessment to identify differences between the existing standard and new standard on its customer contracts. Based on this assessment, the Company expects the impact of the new standard is due primarily to the acceleration of recognition of revenues and associated costs for certain of our software license contracts. Under existing guidance, these contracts are recognized ratably over the contractual term of post-contract support services in the event vendor-specific objective evidence is unavailable. The new standard requires recognition at once upon the transfer of control of the software license. The Company estimates the opening balance sheet adjustment as of January 1, 2018 under the modified retrospective transition method will be less than 1% of the Company's 2017 annual revenues, prior to the effects of income taxes. The FASB has issued, and may issue in the future, interpretive guidance which may cause the evaluation to change. The Company believes it is following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption effective the beginning of fiscal year 2018.

3. Earnings Per Share

Basic earnings per share were calculated using net earnings and the weighted average number of shares of common stock outstanding during the respective period. Diluted earnings per share were calculated using net earnings and the weighted average number of shares of common stock and potential common stock outstanding during the respective period. Potentially dilutive common stock consisted of stock options and the premium over the conversion price on Roper's senior subordinated convertible notes based upon the trading price of Roper's common stock. The effects of potential common stock were determined using the treasury stock method. Weighted average shares outstanding are shown below (in thousands):

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Basic shares outstanding	102,303	101,372	102,091	101,231
Effect of potential common stock:				
Common stock awards	1,377	1,112	1,306	1,131
Senior subordinated convertible notes	—	38	—	62
Diluted shares outstanding	103,680	102,522	103,397	102,424

For the three and nine months ended September 30, 2017, there were 475,098 and 487,298 outstanding stock options, respectively, that were not included in the determination of diluted earnings per share because doing so would have been antidilutive, as compared to 1,063,100 and 1,066,100 outstanding stock options that would have been antidilutive in the respective 2016 periods.

4. Business Acquisitions and Divestitures

Roper completed three business acquisitions in the nine months ended September 30, 2017, with an aggregate purchase price of \$87 million. The results of operations of the acquired businesses did not have a material impact on Roper's consolidated results of operations.

Acquisition of Phase Technology - On June 21, 2017, Roper acquired the assets of Phase Technology, a business engaged in the design, manufacture, marketing and sales of test instruments. Phase Technology is reported in the Energy Systems & Controls segment.

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Acquisition of Handshake Software, Inc. - On August 4, 2017, Roper acquired 100% of the shares of Handshake Software, Inc., a provider of search products, portals and services for legal professionals. Handshake Software is reported in the RF Technology segment.

Acquisition of Workbook Software A/S - On September 15, 2017, Roper acquired 100% of the shares of Workbook Software A/S, a provider of software solutions for customer relationship management, project management and finance/accounting. Workbook Software is reported in the RF Technology segment.

The Company recorded \$58 million in goodwill and \$36 million of other identifiable intangibles in connection with the acquisitions; however, purchase price allocations are preliminary pending final tax-related adjustments. The amortizable intangible assets include customer relationships of \$24 million (15 year weighted average useful life) and technology of \$8 million (7 year weighted average useful life).

On October 4, 2017, three wholly owned subsidiaries of Roper entered into an agreement to acquire all of the outstanding shares of Onvia, Inc. ("Onvia") common stock for \$9.00 per share in an all-cash tender offer for a total transaction value of approximately \$70 million. Onvia provides enterprise, mid-market and small business customers with sales lead generation technologies into federal, state and local government markets. The acquisition will be funded with cash on hand and Roper expects the transaction to close in the fourth quarter of 2017.

Sale of Product Line - On May 15, 2017, Roper completed the sale of a product line in our Energy Systems & Controls segment for \$10.4 million. The pretax gain on the sale was \$9.4 million, which is reported in Other income/(expense), net in the condensed consolidated statements of earnings.

5. Stock Based Compensation

The Roper Technologies, Inc. 2016 Incentive Plan ("2016 Plan") is a stock-based compensation plan used to grant incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights or equivalent instruments to Roper's employees, officers and directors. The 2016 Plan replaces the Roper Technologies, Inc. Amended and Restated 2006 Incentive Plan ("2006 Plan"), and no additional grants will be made from the 2006 Plan.

The following table provides information regarding the Company's stock-based compensation expense (in thousands):

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Stock-based compensation	\$23,734	\$21,388	\$67,598	\$60,480
Tax effect recognized in net income	8,307	7,486	23,659	21,168

Stock Options - In the nine months ended September 30, 2017, 592,798 options were granted with a weighted average fair value of \$40.67 per option. During the same period in 2016, 633,000 options were granted with a weighted average fair value of \$34.45 per option. All options were issued at grant date fair value, which is defined by both the 2016 Plan and the 2006 Plan as the closing price of Roper's common stock on the date of grant.

Roper records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. Historical data is used to estimate the expected price volatility, the expected dividend yield, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following weighted average assumptions were used to estimate the fair value of options granted during current and prior year periods using the Black-Scholes option-pricing model:

Nine
months
ended
September
30,
2017 2016

Risk-free interest rate (%)	2.03	1.38
Expected option life (years)	5.26	5.20
Expected volatility (%)	18.76	21.63
Expected dividend yield (%)	0.67	0.70

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Cash received from option exercises for the nine months ended September 30, 2017 and 2016 was \$40.4 million and \$15.9 million, respectively.

Restricted Stock Awards - During the nine months ended September 30, 2017, 389,117 restricted stock awards were granted with a weighted average grant date fair value of \$203.02 per restricted share. During the same period in 2016, 395,980 restricted stock awards were granted with a weighted average grant date fair value of \$169.03 per restricted share. All grants were issued at grant date fair value.

During the nine months ended September 30, 2017, 138,140 restricted awards vested with a weighted average grant date fair value of \$143.29 per restricted share and a weighted average vest date fair value of \$215.77 per restricted share.

Employee Stock Purchase Plan - Roper's stock purchase plan allows employees in the U.S. and Canada to designate up to 10% of eligible earnings to purchase Roper's common stock at a 5% discount to the average closing price of the stock at the beginning and end of a quarterly offering period. Common stock sold to employees pursuant to the stock purchase plan may be either treasury stock, stock purchased on the open market, or newly issued shares.

During the nine months ended September 30, 2017 and 2016, participants in the employee stock purchase plan purchased 15,511 and 15,076 shares, respectively, of Roper's common stock for total consideration of \$3.19 million and \$2.58 million, respectively. All shares were purchased from Roper's treasury shares.

6. Inventories

The components of inventory were as follows (in thousands):

	September 30, 2017	December 31, 2016
Raw materials and supplies	\$ 131,817	\$ 113,632
Work in process	29,172	24,290
Finished products	87,561	81,263
Inventory reserves	(39,244)	(37,233)
	\$ 209,306	\$ 181,952

7. Goodwill and Other Intangible Assets

The carrying value of goodwill by segment was as follows (in thousands):

	RF Technology	Medical & Scientific Imaging	Industrial Technology	Energy Systems & Controls	Total
Balances at December 31, 2016	\$ 4,687,670	\$ 3,185,071	\$ 363,978	\$ 410,423	\$ 8,647,142