

ROPER TECHNOLOGIES INC
Form 10-Q
November 03, 2015
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, 2015.

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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(do not check if smaller reporting company)

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

The number of shares outstanding of the Registrant's common stock as of October 30, 2015 was 100,805,189.

ROPER TECHNOLOGIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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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,	
	2015	2014	2015	2014
Net sales	\$883,933	\$884,122	\$2,638,755	\$2,603,349
Cost of sales	350,450	360,082	1,053,200	1,067,191
Gross profit	533,483	524,040	1,585,555	1,536,158
Selling, general and administrative expenses	283,112	278,382	836,314	820,434
Income from operations	250,371	245,658	749,241	715,724
Interest expense, net	20,369	20,013	60,382	59,352
Other income/(expense), net	251	552	(1,948)	1,042
Earnings before income taxes	230,253	226,197	686,911	657,414
Income taxes	69,836	70,687	199,441	197,317
Net earnings	\$160,417	\$155,510	\$487,470	\$460,097
Net earnings per share:				
Basic	\$1.59	\$1.55	\$4.85	\$4.61
Diluted	1.58	1.54	4.80	4.56
Weighted average common shares outstanding:				
Basic	100,681	100,068	100,545	99,837
Diluted	101,607	101,006	101,512	100,803
Dividends declared per common share	\$0.25	\$0.20	\$0.75	\$0.60

See accompanying notes to condensed consolidated financial statements.

Roper Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net earnings	\$ 160,417	\$ 155,510	\$ 487,470	\$ 460,097
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(49,684)	(60,755)	(104,482)	(53,763)
Post-retirement benefit plan adjustments	-	-	(1,063)	-
Total other comprehensive income/(loss), net of tax	(49,684)	(60,755)	(105,545)	(53,763)
Comprehensive income	\$ 110,733	\$ 94,755	\$ 381,925	\$ 406,334

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, 2015	December 31, 2014
ASSETS:		
Cash and cash equivalents	\$ 700,578	\$ 610,430
Accounts receivable, net	489,183	511,538
Inventories, net	200,820	193,766
Deferred taxes	62,506	54,199
Unbilled receivables	105,787	96,409
Assets held for sale	36,780	-
Other current assets	52,225	45,763
Total current assets	1,647,879	1,512,105
Property, plant and equipment, net	105,280	110,876
Goodwill	5,325,844	4,710,691
Other intangible assets, net	2,246,710	1,978,729
Deferred taxes	31,534	27,496
Other assets	75,752	73,037
Total assets	\$ 9,432,999	\$ 8,412,934
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	\$ 142,261	\$ 143,847
Accrued compensation	107,266	117,374
Deferred revenue	237,289	190,953
Other accrued liabilities	160,312	160,738
Deferred taxes	2,993	3,943
Current portion of long-term debt, net	6,911	11,092
Total current liabilities	657,032	627,947
Long-term debt, net of current portion	2,792,067	2,203,031
Deferred taxes	769,730	735,826
Other liabilities	85,265	90,770
Total liabilities	4,304,094	3,657,574
Commitments and contingencies (Note 10)		
Common stock	1,026	1,021
Additional paid-in capital	1,392,296	1,325,338
Retained earnings	3,932,195	3,520,201
Accumulated other comprehensive earnings	(177,472)	(71,927)
Treasury stock	(19,140)	(19,273)
Total stockholders' equity	5,128,905	4,755,360
Total liabilities and stockholders' equity	\$ 9,432,999	\$ 8,412,934

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,	
	2015	2014
Cash flows from operating activities:		
Net earnings	\$487,470	\$460,097
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property, plant and equipment	28,454	30,442
Amortization of intangible assets	119,766	117,179
Amortization of deferred financing costs	3,002	3,003
Non-cash stock compensation	47,035	47,011
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable	35,215	(5,225)
Unbilled receivables	(9,164)	(16,615)
Inventories	(7,047)	(8,833)
Accounts payable and accrued liabilities	(8,688)	10,342
Income taxes payable	(35,165)	(54,178)
Other, net	(1,311)	(3,991)
Cash provided by operating activities	659,567	579,232
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(1,024,779)	(305,254)
Capital expenditures	(27,503)	(29,835)
Proceeds from sale of assets	724	1,262
Other, net	(5,093)	(6,566)
Cash used in investing activities	(1,056,651)	(340,393)
Cash flows from financing activities:		
Borrowings/(payments) under revolving line of credit, net	590,000	(95,000)
Principal payments on convertible notes	(4,006)	(561)
Cash premiums paid on convertible note conversions	(13,126)	(1,518)
Cash dividends to stockholders	(75,210)	(59,827)
Proceeds from stock based compensation, net	19,237	26,424
Stock award tax excess windfall benefit	11,593	14,892
Treasury stock sales	2,117	2,080
Other	(1,273)	38
Cash provided by/(used in) financing activities	529,332	(113,472)
Effect of foreign currency exchange rate changes on cash	(42,100)	(20,975)
Net increase in cash and cash equivalents	90,148	104,392
Cash and cash equivalents, beginning of period	610,430	459,720
Cash and cash equivalents, end of period	\$700,578	\$564,112

See accompanying notes to condensed consolidated financial statements.

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 earnings	Treasury stock	Total
Balances at December 31, 2014	\$ 1,021	\$ 1,325,338	\$ 3,520,201	\$ (71,927)	\$(19,273)	\$4,755,360
Net earnings	-	-	487,470	-	-	487,470
Stock option exercises	2	21,339	-	-	-	21,341
Treasury stock sold	-	1,984	-	-	133	2,117
Currency translation adjustments, net of \$6,013 tax	-	-	-	(104,482)	-	(104,482)
Stock based compensation	-	47,035	-	-	-	47,035
Restricted stock activity	3	(2,110)	-	-	-	(2,107)
Stock option tax benefit, net of shortfalls	-	10,887	-	-	-	10,887
Conversion of senior subordinated convertible notes, net of \$949 tax	-	(12,177)	-	-	-	(12,177)
Dividends declared	-	-	(75,476)	-	-	(75,476)
Post-retirement benefit plan adjustments	-	-	-	(1,063)	-	(1,063)
Balances at September 30, 2015	\$ 1,026	\$ 1,392,296	\$ 3,932,195	\$ (177,472)	\$(19,140)	\$5,128,905

See accompanying notes to condensed consolidated financial statements.

Roper Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
September 30, 2015

1. Basis of Presentation

Effective April 24, 2015, Roper Industries, Inc. changed its name to Roper Technologies, Inc. in order to reflect its continued evolution to a diversified technology company.

The accompanying condensed consolidated financial statements for the three and nine month periods ended September 30, 2015 and 2014 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, 2014 financial position data included herein was derived from the audited consolidated financial statements included in the 2014 Annual Report on Form 10-K ("Annual Report") filed on February 20, 2015 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 month periods ended September 30, 2015 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 consolidated financial statements and the notes thereto included in its Annual Report.

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.

In September 2015, the FASB issued an update providing guidance to simplify the accounting for measurement period adjustments. This update, effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The Company does not expect the updates to have a material impact on its results of operations, financial condition or cash flows.

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 Company does not expect the updates to have a material impact on its results of operations, financial condition or cash flows.

In April 2015, the FASB issued an update providing guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for consistently with the acquisition of other

software licenses. A cloud computing arrangement that does not include a software license should be accounted for as a service contract. The update is effective for annual periods beginning after December 15, 2015, and may be adopted prospectively or retrospectively. The Company does not expect this update to have a material impact on its results of operations, financial condition or cash flows.

In April 2015, the FASB issued an update related to the presentation of debt issuance costs. This update, effective for fiscal years beginning after December 15, 2015, requires that debt issuance costs related to a debt liability be reported in the balance sheet as a direct deduction from the face amount of that debt liability. The Company does not expect this update to have a material impact on its results of operations, financial condition or cash flows.

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In June 2014, the FASB issued updates to the accounting for stock compensation. These updates, effective for fiscal years beginning after December 15, 2015, modify the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The Company does not expect the updates to have an impact on its results of operations, financial condition or 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. The Company is evaluating the impact of these updates on its results of operations, financial condition and cash flows.

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,		Nine months ended September 30,	
	2015	2014	2015	2014
Basic shares outstanding	100,681	100,068	100,545	99,837
Effect of potential common stock:				
Common stock awards	847	788	868	815
Senior subordinated convertible notes	79	150	99	151
Diluted shares outstanding	101,607	101,006	101,512	100,803

For the three and nine month periods ended September 30, 2015 there were 665,720 outstanding stock options that were not included in the determination of diluted earnings per share because doing so would have been antidilutive, as compared to 670,000 and 781,000 outstanding stock options, respectively, that would have been antidilutive for the three and nine month periods ended September 30, 2014.

4. Business Acquisitions and Disposals

Roper completed six business acquisitions in the nine month period ended September 30, 2015, with an aggregate purchase price of \$1.0 billion using a combination of cash on hand and borrowings under its revolving credit facility. The results of operations of the acquired companies have been included in Roper's consolidated results since the date of each acquisition. Supplemental pro forma information has not been provided as the acquisitions did not have a material impact on Roper's consolidated results of operations individually or in aggregate.

During the first quarter of 2015, Roper acquired 100% of the shares of Strata Decision Technology LLC, a provider of planning and budget software for health care providers on January 21, SoftWriters Inc., a provider of long-term care pharmacy operating software on February 9, and Data Innovations LLC, a provider of clinical and blood laboratory middleware on March 4. All three are reported in the Medical & Scientific Imaging segment.

During the third quarter of 2015, Roper acquired 100% of the shares of On Center Software, LLC, a leading construction automation technology company on July 20 and RF IDEas, Inc, a provider of proprietary identification card technology solutions on September 1, both of which are reported in the RF Technology segment. Roper also acquired the assets of Atlantic Health Partners, LLC, a group purchasing organization specializing in vaccines for the physician marketplace on September 4, which is reported in the Medical & Scientific Imaging segment.

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During the nine months ended September 30, 2015, the Company expensed transaction costs of \$3.6 million related to the acquisitions as corporate general and administrative expenses, as incurred.

The Company recorded \$683 million in goodwill and \$400 million of other identifiable intangibles in connection with the acquisitions; however, purchase price allocations are preliminary pending final intangible valuations and tax-related adjustments. Of the \$400 million intangible assets acquired, \$31 million was assigned to trade names that are not subject to amortization. The remaining \$369 million of acquired intangible assets have a weighted average useful life of 16 years. The intangible assets that make up that amount include customer relationships of \$287 million (18 year weighted average useful life), unpatented technology of \$43 million (8 year weighted average useful life) and software of \$39 million (6 year weighted average useful life).

On October 2, 2015 Roper completed the sale of Abel Pumps LP ("Abel"), which was reported in its Industrial Technology segment, for €95 million. At September 30, 2015, the assets of Abel were reclassified to Assets held for sale on Roper's Condensed Consolidated Balance Sheet, and the liabilities reclassified to Other accrued liabilities. The carrying amounts of the assets and liabilities by major class prior to the reclassification were as follows (amounts in thousands):

	September 30, 2015
Current assets	\$ 13,165
Noncurrent assets	23,615
Total assets	\$ 36,780
Current liabilities	\$ 3,962
Noncurrent liabilities	49
Total liabilities	\$ 4,011

5. Stock Based Compensation

The Roper Technologies, Inc. Amended and Restated 2006 Incentive 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.

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 may be either treasury stock, stock purchased on the open market, or newly issued shares.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Stock based compensation	\$ 17,597	\$ 16,998	\$ 47,035	\$ 47,011
Tax effect recognized in net income	6,159	5,949	16,462	16,454
Windfall tax benefit/(shortfall), net	2,132	3,126	10,887	14,727

Stock Options - In the nine months ended September 30, 2015, 585,155 options were granted with a weighted average fair value of \$33.69 per option. During the same period in 2014, 614,500 options were granted with a weighted average fair value of \$35.02 per option. All options were issued at grant date fair value, which is defined by the 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: