ROPER TECHNOLOGIES INC
Form 10-Q
August 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018.

o 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. þ Yes o 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).

þ Yes o 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.

þ Large accelerated filer	o Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company
	o 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. o

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

The number of shares outstanding of the Registrant's common stock as of July 27, 2018 was 103,345,379.

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ROPER TECHNOLOGIES, INC.

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net revenues	$1,293.7	$1,134.7	$2,496.2	$2,221.0
Cost of sales	477.8	429.0	929.8	847.7
Gross profit	815.9	705.7	1,566.4	1,373.3
Selling, general and administrative expenses	461.6	411.5	911.9	820.8
Income from operations	354.3	294.2	654.5	552.5
Interest expense, net	43.2	45.8	86.4	91.7
Other income, net	2.3	7.0	0.6	5.9
Earnings before income taxes	313.4	255.4	568.7	466.7
Income taxes	85.0	75.9	129.0	129.1
Net earnings	$228.4	$179.5	$439.7	$337.6
Net earnings per share:				
Basic	$2.21	$1.76	$4.26	$3.31
Diluted	$2.19	$1.74	$4.22	$3.27
Weighted average common shares outstanding:				
Basic	103.2	102.1	103.1	102.0
Diluted	104.4	103.4	104.3	103.2
Dividends declared per common share	$0.4125	$0.3500	$0.8250	$0.7000

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 millions)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net earnings	$228.4	$179.5	$439.7	$337.6
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(76.2)	49.6	(18.4)	80.0
Total other comprehensive income/(loss), net of tax	(76.2)	49.6	(18.4)	80.0
Comprehensive income	$152.2	$229.1	$421.3	$417.6

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2018	December 31, 2017
ASSETS:		
Cash and cash equivalents	$421.8	$ 671.3
Accounts receivable, net	669.3	641.7
Inventories, net	201.9	204.9
Income taxes receivable	47.9	24.4
Unbilled receivables	180.0	143.6
Other current assets	81.7	73.5
Current assets held for sale	48.5	—
Total current assets	1,651.1	1,759.4
Property, plant and equipment, net	138.6	142.5
Goodwill	9,389.4	8,820.3
Other intangible assets, net	3,964.0	3,475.2
Deferred taxes	29.9	30.7
Other assets	99.8	88.3
Assets held for sale	88.2	—
Total assets	$15,361.0	$ 14,316.4
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable	$165.2	$ 171.1
Accrued compensation	181.4	198.0
Deferred revenue	620.0	566.4
Other accrued liabilities	234.4	266.6
Income taxes payable	28.7	26.4
Current portion of long-term debt, net	801.7	800.9
Current liabilities held for sale	35.0	—
Total current liabilities	2,066.4	2,029.4
Long-term debt, net of current portion	4,821.7	4,354.6
Deferred taxes	963.7	829.6
Other liabilities	204.9	239.2
Liabilities held for sale	1.4	—
Total liabilities	8,058.1	7,452.8
Commitments and contingencies (Note 9)		
Common stock	1.1	1.0
Additional paid-in capital	1,691.6	1,602.9
Retained earnings	5,833.4	5,464.6
Accumulated other comprehensive loss	(204.6)	(186.2)

Treasury stock	(18.6)	(18.7)
Total stockholders' equity	7,302.9	6,863.6
Total liabilities and stockholders' equity	$ 15,361.0	$ 14,316.4

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 millions)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$439.7	$337.6
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property, plant and equipment	25.2	24.3
Amortization of intangible assets	153.0	147.2
Amortization of deferred financing costs	3.2	3.6
Non-cash stock compensation	54.0	43.9
Gain on sale of assets	—	(9.4)
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable	(28.4)	50.1
Unbilled receivables	(24.0)	(16.9)
Inventories	(15.2)	(13.2)
Accounts payable and accrued liabilities	(30.8)	15.3
Deferred revenue	39.5	33.3
Income taxes	(61.7)	(51.0)
Other, net	(6.7)	(14.7)
Cash provided by operating activities	547.8	550.1
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(1,182.3)	(35.5)
Capital expenditures	(23.1)	(24.8)
Capitalized software expenditures	(4.4)	(5.7)
Proceeds from sale of assets	—	10.5
Other, net	(0.8)	(6.6)
Cash used in investing activities	(1,210.6)	(62.1)
Cash flows from financing activities:		
Borrowings/(payments) under revolving line of credit, net	465.0	(570.0)
Cash dividends to stockholders	(84.5)	(70.9)
Proceeds from stock-based compensation, net	32.7	20.7
Treasury stock sales	2.8	2.0
Other	0.4	(0.2)
Cash provided by/(used in) financing activities	416.4	(618.4)
Effect of foreign currency exchange rate changes on cash	(3.1)	36.5
Net decrease in cash and cash equivalents	(249.5)	(93.9)
Cash and cash equivalents, beginning of period	671.3	757.2
Cash and cash equivalents, end of period	$421.8	$663.3

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 millions)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balances at December 31, 2017	$ 1.0	$ 1,602.9	$ 5,464.6	$ (186.2)	$ (18.7)	$ 6,863.6
Adoption of ASC 606	—	—	14.3	—	—	14.3
Net earnings	—	—	439.7	—	—	439.7
Stock option exercises	0.1	39.2	—	—	—	39.3
Treasury stock sold	—	2.7	—	—	0.1	2.8
Currency translation adjustments	—	—	—	(18.4)	—	(18.4)
Stock-based compensation	—	53.4	—	—	—	53.4
Restricted stock activity	—	(6.6)	—	—	—	(6.6)
Dividends declared	—	—	(85.2)	—	—	(85.2)
Balances at June 30, 2018	$ 1.1	$ 1,691.6	$ 5,833.4	$ (204.6)	$ (18.6)	$ 7,302.9

See accompanying notes to condensed consolidated financial statements.

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Roper Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
All currency and share amounts are in millions, except per share data

1. Basis of Presentation

The accompanying condensed consolidated financial statements for the three and six months ended June 30, 2018 and 2017 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," the "Company," "we," "our" or "us") for all periods presented. The December 31, 2017 financial position data included herein was derived from the audited consolidated financial statements included in the Company's 2017 Annual Report on Form 10-K ("Annual Report") filed on February 23, 2018 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 six months ended June 30, 2018 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.

Accounting Policies Update

The Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), as of January 1, 2018 using the modified retrospective transition method. We recorded a net increase to opening retained earnings of $14.3 due to the cumulative impact of adopting ASC 606. The impact of adopting ASC 606 was not material to the Company's results of operations for the three and six months ended June 30, 2018.

Our accounting policies are detailed in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report. Changes to our accounting policies as a result of adopting ASC 606 are as follows:

Revenue Recognition - The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective method for all contracts not substantially completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 guidance, while the reported results for 2017 were prepared under the guidance of ASC Topic 605, Revenue Recognition. The adoption of ASC 606 represents a change in accounting principle that is intended to more closely align revenue recognition with the transfer of control of the Company's products and services to the customer. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for these products and/or services. To achieve this principle, the Company applies the following five steps:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations in the contract; and

• recognize revenue when or as the Company satisfies a performance obligation.

Disaggregated Revenue - We disaggregate our revenues into two categories: (i) software and related services; and (ii) engineered products and related services. Software and related services revenues are primarily derived from our RF Technology and Medical & Scientific Imaging reportable segments. Engineered products and related services revenues are derived from all of our reportable segments and comprise substantially all of the revenues generated in our Energy Systems & Controls and Industrial Technology reportable segments. See details in the table below.

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	Three months ended June 30, 2018	Six months ended June 30, 2018
Software and related services	$533.1	$1,025.7
Engineered products and related services	760.6	1,470.5
Net revenues	$1,293.7	$2,496.2

Software and related services

Software-as-a-Service ("SaaS") - SaaS subscriptions and ongoing related support are generally accounted for as a single performance obligation and recognized ratably over the contractual term. In addition, SaaS arrangements may include implementation services which are accounted for as a separate performance obligation and recognized over time, using the input method. Payment is generally required within 30 days of the commencement of the SaaS subscription period, which is primarily offered to customers over a one-year timeframe.

Licensed Software - Performance obligations in our customer contracts may include:

- Perpetual or time-based ("term") software licenses
- Post contract support (“PCS”)
- Implementation/installation services

Software licenses may be combined with implementation/installation services as a single performance obligation if the implementation/installation significantly modifies or customizes the functionality of the software license.

We recognize revenue over time or at a point in time depending on our evaluation of when the customer obtains control over the promised products or services. For software arrangements that include multiple performance obligations, we allocate revenue to each performance obligation based on estimates of the price that we would charge the customer for each promised product or service if it were sold on a standalone basis.

Payment for software licenses is generally required within 30 to 60 days of the transfer of control. Payment for PCS is generally required within 30 to 60 days of the commencement of the service period, which is primarily offered to customers over a one-year timeframe. Payment for implementation/installation services that are recognized over time are typically commensurate with milestones defined in the contract.

Engineered products and related services

Revenue from product sales is recognized when control transfers to the customer, which is generally when the product is shipped.

Non-project-based installation and repair services are performed by certain of our businesses for which revenue is recognized upon completion.

Payment terms are generally 30 to 60 days from the transfer of control.

Preventative maintenance service revenues are recognized over time using the input method. If we determine our efforts or inputs are expended evenly throughout the performance period, we generally recognize revenue on a straight-line basis. Payment for preventative maintenance services are typically commensurate with milestones defined in the contract.

We offer customers return rights and other credits subject to certain restrictions. We estimate variable consideration generally based on historical experience to arrive at the transaction price, or the amount to which we ultimately expect to be entitled from the customer.

Revenues from our project-based businesses, including toll and traffic systems and control systems, are generally recognized over time using the input method, primarily utilizing the ratio of costs incurred to total estimated costs, as the measure of performance. For these projects, payment is typically commensurate with certain performance milestones defined in the contract. Retention and down payments are also customary in these contracts. Estimated losses on any projects are recognized as soon as such losses become probable and reasonably estimable. The impact on revenues due to changes in estimates was immaterial for the three and six months ended June 30, 2018.

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Accounts receivable, net - Accounts receivable, net includes amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. Accounts receivable are stated net of an allowance for doubtful accounts and sales allowances. Outstanding accounts receivable balances are reviewed periodically, and allowances are provided at such time that management believes it is probable that an account receivable is uncollectible.

Unbilled receivables - Our unbilled receivables include unbilled amounts typically resulting from sales under project-based contracts when the input method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not solely due to the passage of time. Amounts may not exceed their net realizable value.

Payment terms do not contain a significant financing component.

Deferred revenues - We record deferred revenues when cash payments are received or due in advance of our performance. Our deferred revenues relate primarily to software and related services. In most cases we recognize these deferred revenues ratably over time as the SaaS or PCS performance obligation is satisfied. The non-current portion of deferred revenue is included in "Other liabilities" in our condensed consolidated balance sheets.

Our unbilled receivables and deferred revenues are reported in a net position on a contract-by-contract basis at the end of each reporting period. We classify these balances as current or non-current based on the timing of when we expect to recognize revenue.

Deferred commissions - Our incremental direct costs of obtaining a contract, which consist of sales commissions primarily for our software sales, are deferred and amortized on a straight-line basis over the period of contract performance or a longer period, depending on facts and circumstances. We classify deferred commissions as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commissions are included in "Other current assets" and "Other assets," respectively, in our condensed consolidated balance sheets. At June 30, 2018 and January 1, 2018, we had $23.7 and $20.7 of deferred commissions, respectively. We recognized $6.4 and $11.3 of expense related to deferred commissions in the three and six months ended June 30, 2018, respectively.

Remaining performance obligations - Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options. As of June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $2,852.7. We expect to recognize revenue on approximately 62% of our remaining performance obligations over the next 12 months, with the remainder to be recognized thereafter.

Financial Statement Impact of Applying ASC 606

The Company adopted ASC 606 using the modified retrospective transition method for all contracts not substantially completed as of the date of adoption. The cumulative impact of the adoption of ASC 606 to the consolidated balance sheet as of January 1, 2018 was as follows:

	As reported December 31, 2017	Impact of ASC 606 Adoption	Adjusted January 1, 2018

ASSETS:			
Unbilled receivables	$ 143.6	$ 2.8	$ 146.4
Other current assets	73.5	(1.0)	72.5
Other assets	88.3	3.2	91.5
LIABILITIES:			
Deferred revenue	566.4	(13.5)	552.9
Deferred taxes	829.6	4.6	834.2
Other liabilities	239.2	(0.4)	238.8
STOCKHOLDERS' EQUITY:			
Retained earnings	5,464.6	14.3	5,478.9

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Deferred Revenue & Unbilled Receivables
Certain of Roper's businesses sell perpetual and term licenses of their software to customers in conjunction with other products and services, primarily PCS and implementation services. In some cases, under the previous revenue guidance, vendor-specific objective evidence ("VSOE") was unavailable for perpetual and term licenses and associated implementation services, and revenue recognition was deferred until all elements were delivered, all services had been performed, or until fair value could be objectively determined. The revenues associated with these licenses and implementation was generally deferred over the contractual term of the PCS services. Under ASC 606, VSOE is no longer a requirement for a deliverable in a multiple-element software arrangement to be considered a separate performance obligation. The reduction in deferred revenues as well as the increase in unbilled receivables is due primarily to the acceleration of revenue recognition associated with certain perpetual and term licenses and associated implementation services as a result of the adoption of ASC 606.

Other Current Assets
The reduction in other current assets is due primarily to the recognition of previously deferred software licensing costs associated with the acceleration of revenue recognition associated with certain perpetual and term software licenses discussed above.

Other Assets
The increase in other assets is due primarily to the acceleration of revenue recognition for which we do not expect to bill customers within the next 12 months as well as deferred commissions previously expensed as incurred associated with our software sales. These deferred commissions are amortized on a straight-line basis over the period of contract performance or a longer period, generally the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission.

Income Taxes
The adoption of ASC 606 resulted in the acceleration of revenue recognition, which generated additional net deferred tax liabilities.

2. Recent Accounting Pronouncements

The FASB establishes changes to accounting principles under GAAP in the form of accounting standards updates ("ASUs") to the ASC. 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 May 2014, the FASB issued ASC 606, which created a single, comprehensive revenue recognition model for all contracts with customers. The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective transition method. See Note 1 of the Condensed Consolidated Financial Statements for details.

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 interim or annual impairment tests performed on testing dates after January 1, 2017. The Company elected to early adopt this update for its annual goodwill impairment testing during the fourth quarter of 2017. The update did not have an impact on the Company's results of operations, financial position or cash flows.