

Roper Technologies - Where Should the Next Dollar Go?

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Topic: Mergers & Acquisitions, Corporate Strategy, Capital Allocation

Industry: Application Software

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Decision scope: Hypothetical next-year resource-allocation policy

Case convention: The resource-allocation assignment and budget are classroom assumptions. Company disclosures are historical. No private deliberation or pending target is represented.

The decision

At 7:59 a.m. on October 23, 2024, Roper Technologies had just released third-quarter results; its earnings call was scheduled to begin at 8:00. Revenue was \$1.765 billion, up 13%, while organic revenue increased 4%. Adjusted EBITDA was \$717 million, up 10%, and management said adjusted free cash flow grew 15%. Roper had completed the acquisition of Transact Campus during the quarter and combined it with CBORD. Management described a robust acquisition pipeline and significant M&A capacity. [S5]

Two large software transactions had recently expanded the portfolio. Roper announced Procure Solutions for an approximately \$1.75 billion net purchase price, including a \$110 million tax benefit, at about 18 times estimated EBITDA. It announced Transact Campus for \$1.5 billion, including a \$100 million tax benefit, at about 14 times expected 2025 EBITDA. Those multiples and earnings estimates were forward-looking transaction disclosures; they did not show realized returns. [S3], [S4]

The results left an allocation question open. Should Roper continue directing most excess cash flow toward acquisitions, increase investment in businesses it already owns, or slow dealmaking and preserve more financial flexibility?

Assignment: For this exercise, assume Roper's strategy committee must recommend how to allocate a hypothetical \$1 billion next-year capital tranche among (1) acquisitions, (2) investment in existing businesses, and (3) debt reduction or shareholder distributions. The \$1 billion amount and the committee assignment are classroom assumptions, not a disclosed Roper budget or meeting. Recommend an allocation policy, the evidence required before funds are committed, and the conditions that would change your recommendation. Use only information available by the cutoff.

A portfolio in transition

Roper described itself as a diversified technology company owning businesses that develop vertical software and technology-enabled products for niche markets. It said that it pursued growth through improvement in existing businesses and acquisitions. The company had divested a majority interest in its industrial businesses in 2022; the remaining results of those industrial businesses were presented as discontinued operations. [S1], pp. 3-5; [S2], p. 18.

At year-end 2023, Roper reported three continuing segments: Application Software, Network Software and Technology Enabled Products. Its stated acquisition model emphasized businesses with high-value software, services or technology-enabled solutions that could grow while maintaining high margins. That description establishes management's stated criteria; the public information here does not disclose each target's underwriting file or Roper's required return. [S1], pp. 3-5.

Exhibit 1. FY2023 segment profile

USD millions; year ended December 31, 2023. Revenue and margins are reported by Roper.

Segment	Revenue	Organic revenue growth	Operating margin	Margin, 2022
Application Software	\$3,186.9	5.9%	25.8%	27.1%
Network Software	\$1,439.4	4.6%	43.9%	41.4%
Technology Enabled Products	\$1,551.5	14.7%	33.4%	33.2%
Total continuing operations	\$6,177.8	7.8%	-	-

Source: [S1], Item 7, "Results of Continuing Operations," pp. 22-25. Segment revenue equals 100% in total, subject to rounding. Segment operating margins are GAAP measures, not adjusted EBITDA margins. Application Software's higher SG&A ratio reflected, among other factors, acquired-intangible amortization from Frontline and Syntellis and restructuring costs primarily associated with Syntellis integration, according to the company. The filing did not isolate the causal contribution of integration to segment performance. [S1], pp. 24-25.

Application Software was the largest segment by revenue, but it did not have the highest operating margin or organic growth in 2023. Network Software's margin increased while its organic growth was lower; Technology Enabled Products had the strongest organic growth. These segment aggregates do not establish the return on the next internal investment or acquired business.

What Roper's growth numbers show

Roper reported FY2023 continuing revenue growth of 15.0%. It attributed 7.3 percentage points to acquisitions and divestitures, negative 0.1 point to foreign exchange, and 7.8% to organic growth. The segment mix also varied: acquisitions/divestitures accounted for 14.8 points of Application Software growth, while the reported Network Software and Technology Enabled Products growth was largely organic. [S1], p. 22.

In the third quarter of 2024, total revenue grew 13% and organic revenue grew 4%. Adjusted EBITDA reached \$717 million, up 10%, while the adjusted EBITDA margin was 40.7%, compared with 41.7% a year earlier. Adjusted free cash flow was \$719 million, up 15%. These adjusted measures are company-defined non-GAAP measures; the release also presented GAAP financial information. It attributed growth to its portfolio and completed Transact acquisition, but did not report the acquisition's realized return. [S5], Tables 1 and 4.

Exhibit 2. Selected pre-cutoff capital and financial information

Measure	FY2023 / December 31, 2023	H1 2024 / June 30, 2024
Cash from continuing operating activities	\$2,037.4m	-
Total debt, net of deferred financing costs	\$6,330.1m	\$7,423.9m
Cash and cash equivalents	\$214.3m	\$251.5m
Net debt	\$6,115.8m	\$7,172.4m
Net debt / total net capital	26.0%	28.3%
Capital expenditures	-	\$15.9m
Capitalized software expenditures	-	\$20.5m

Source: [S1], Item 7, “Financial Condition, Liquidity, and Capital Resources,” pp. 26-27 and balance sheet p. 33; [S2], Item 2, “Financial Condition, Liquidity, and Capital Resources,” p. 23. H1 statements are unaudited. Capex and capitalized software exclude other investment in people, product development and working capital. The increase in net debt cannot be attributed to one acquisition from these aggregate figures.

FY2023 operating cash flow was affected by lower cash taxes after taxes paid in the prior year in connection with the 2021 divestitures and Indicor transaction. The year-over-year cash-flow increase therefore should not be treated as a simple recurring growth rate. Roper said acquisitions could be financed with existing credit agreements, future operating cash flows, divestitures, debt or equity securities, subject to market conditions. [S1], p. 27; [S2], pp. 23-24.

Recent acquisitions and the price question

Exhibit 3. Two large vertical-software acquisitions

	Procure Solutions	Transact Campus
Announcement	January 25, 2024	August 15, 2024
Company-described offering	Cloud software and integrated payments for early-childhood education centers	Campus identity, access, tuition/payment and point-of-sale technology
Announced net purchase price	Approximately \$1.75bn, including an estimated \$110m present-value tax benefit	\$1.5bn, including an estimated \$100m present-value tax benefit
Announced earnings multiple	About 18x estimated EBITDA for the twelve months ending March 31, 2025	About 14x expected 2025 EBITDA
Status by case cutoff	Closed February 26; purchase price later disclosed as \$1.86bn net of cash acquired and certain liabilities, including the tax benefit	Closed August 20; combined with CBORD

Sources: Roper acquisition announcements, [S3] and [S4]; H1 Form 10-Q, [S2], Note 3, “Acquisitions”; Q3 release, [S5]. The announced and closing purchase-price descriptions use different bases. Do not treat them as directly comparable without reconciling definitions. Management's expected EBITDA and tax-benefit values are estimates. “Combined” describes an organizational action; the filings do not demonstrate realized synergies or post-close returns.

The transactions offer two lenses on the next capital tranche. First, software businesses may generate recurring revenue and may share useful capabilities, but the public information does not show Procure or Transact customer retention, standalone cash conversion, post-close growth, or acquisition returns. Second, announced multiples make price visible while leaving the underlying required return, financing cost, integration spending and future investment needs undisclosed.

Roper's FY2023 filing said that it had deployed approximately \$6.55 billion toward acquisitions in the prior three years, including approximately \$1.38 billion for Syntellis in 2023 and \$3.75 billion for Frontline in 2022. The company described its approach as disciplined and analytical. Those statements establish management's account of the program, not an independent measure of the program's value creation. [S1], pp. 3-4.

Choices for the next tranche

The committee's \$1 billion hypothetical tranche can be divided among the three uses in any proportions. The options below are classroom alternatives rather than disclosed Roper proposals.

Continue acquisition-led deployment. Preserve a large share for acquisitions that meet explicit strategic and financial criteria. This could add niche software and recurring revenue, but expected growth and management-described strategic fit do not establish that a price is attractive. A repeatable process would need to account for deal pace, integration capacity and the condition of businesses already owned.

Rebalance toward existing businesses. Direct more of the tranche to product development, sales capacity, pricing, customer retention or other initiatives in the current portfolio. This could strengthen organic growth and post-close execution. The filings do not quantify a complete list of high-return internal opportunities or compare their returns with acquisitions.

Reduce debt or increase distributions. Use more of the tranche to reduce leverage or support shareholder distributions. This would preserve flexibility and reduce interest exposure, but could forgo growth investments. The company's stated dividend policy and debt disclosures provide context; they do not identify an optimal payout or debt target for this hypothetical.

Students may recommend a mix or a sequence, such as reserving funds for internal investment and debt targets while releasing acquisition capital only after specified tests. Any hurdle rate, retention threshold, budget split or projected return must be clearly labelled as an assumption.

Deliverable

Prepare a two-page committee memo that:

1. allocates the hypothetical \$1 billion among acquisitions, existing-business investment, and debt reduction or distributions;
2. states the strategic rationale and the strongest counterargument;

3. proposes the minimum evidence and approval tests needed before acquisition or internal investment funds are committed;
4. explains how Roper should assess post-close outcomes without confusing acquired growth with organic performance; and
5. identifies which evidence would cause the committee to change course.

Use only information available by 7:59 a.m. ET on October 23, 2024. Do not assume that a specific target is available or that Roper's management had this debate.

Sources

S1. Roper Technologies, [2023 Form 10-K](#), filed February 22, 2024, year ended December 31, 2023.

S2. Roper Technologies, [Q2 2024 Form 10-Q](#), filed August 2, 2024, quarter ended June 30, 2024.

S3. Roper Technologies, [“Roper Technologies to acquire Procare Solutions”](#), January 25, 2024.

S4. Roper Technologies, [“Roper Technologies to acquire Transact Campus”](#), August 15, 2024.

S5. Roper Technologies, [Q3 2024 financial results release](#), October 23, 2024, released before the scheduled call. The call and related materials are outside the cutoff.

Case materials are for classroom discussion and are not investment recommendations. The hypothetical committee, resource allocation and alternatives do not represent Roper's internal plans.