

## Check Point Software (CHKP)

**\$117.88** (As of 02/11/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

### Summary

Growth in security subscriptions drives Check Point's fourth-quarter results. The company continued to witness strong traction of its high-end 16000 and 26000 security appliances, which are optimized for Gen 5 security operations. This was backed by the increased adoption of its cloud solutions. Advanced threat prevention and CloudGuard suite of products are driving Check Point's growth. Acquisitions have helped it to broaden its portfolio and enter newer markets, which has eventually driven its revenues. The company continues to win new customer accounts, which is boosting revenues. However, currency headwinds and high investments in marketing and sales were an overhang on margins. Intensifying competition in the cybersecurity market is concerning. Shares of Check Point have underperformed the industry in the past year.

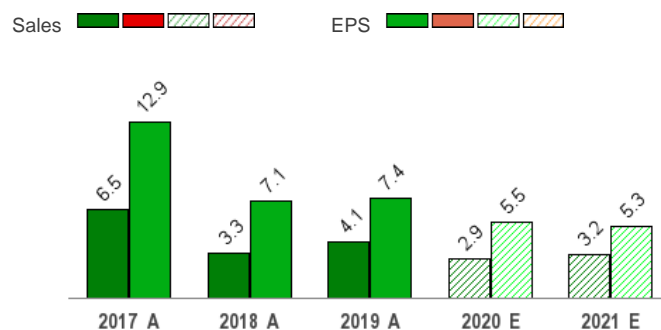
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$132.76 - \$105.13
20 Day Average Volume (sh)	1,015,509
Market Cap	\$17.9 B
YTD Price Change	6.2%
Beta	0.75
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Security</a>
Zacks Industry Rank	Top 44% (112 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	19.1
P/E F1	18.2
PEG F1	2.1
P/S TTM	9.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	505 E	522 E	523 E	578 E	2,118 E
2020	486 E	503 E	506 E	559 E	2,053 E
2019	472 A	488 A	491 A	544 A	1,995 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.51 E	\$1.59 E	\$1.63 E	\$2.14 E	\$6.81 E
2020	\$1.40 E	\$1.48 E	\$1.53 E	\$2.06 E	\$6.47 E
2019	\$1.32 A	\$1.38 A	\$1.44 A	\$2.02 A	\$6.13 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

## Overview

Headquartered in Tel Aviv, Israel, Check Point Software Technologies Ltd. has evolved into a well-known provider of information technology (IT) security solutions across the world.

The company offers a comprehensive range of software and combined hardware and software products aimed at IT security. Attached either to an operating system, a computer device, a server or a virtual desktop, the solutions cover network and gateway security, data security and management needs.

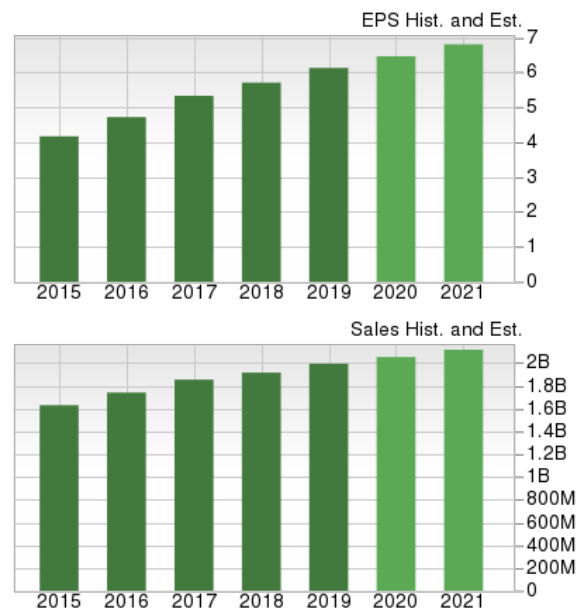
Check Point entered the industry with its breakthrough product, FireWall-1, equipped with the stateful packet inspection technology. A firewall is a device or a set of devices designed to protect networks from unauthorized access, while permitting legitimate communications.

Stateful Inspection technology, invented and patented by Check Point, runs on a firewall or a PC and helps to extract and maintain extensive data for providing a framework for future screening decisions, from relevant communication layers. It also expedites network traffic inspection.

However, Check Point has expanded its footprint from “firewall” to include a full enterprise security offering with endpoint security, remote access and network security. The company’s network security gateways protect customer data, reduce security complexities and lower the total cost of ownership. Customers are able to implement their security policies on traffic between internal networks and the Internet, as well as between internal and private networks that are shared with partners.

Check Point’s products and services are sold through a network of channel partners, including distributors, resellers, value-added resellers, system integrators and managed service providers. The company has its operations in different geographic regions including the Americas, Europe and the Asia-Pacific, Middle East and Africa.

In 2019, Check Point reported revenues of \$2 billion, which was 4% higher than the figure reported in the previous year.



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## Reasons To Buy:

- ▲ Check Point Software intends to drive revenues further by selling subscription-based solutions and services. This business model generates stable recurring revenues with high gross margin. Therefore, the more the company sells subscription-based solutions and services, the more it will be able to generate steady revenues, which will drive the bottom-line performance.
- ▲ Enterprises face continued sophisticated cyber threats making cyber security a mission critical, high-profile requirement. Check Point's rich experience in the security space and continued delivery of mission-critical solutions will help it to maintain and grow its market share. Per a latest report of Grand View Research, global threat intelligence market will witness CAGR of 17.4% through 2017 to 2025. Another research firm, Markets and Markets, projected that the global threat intelligence security market will reach approximately \$12.9 billion by 2023 from \$5.3 billion in 2018, representing a CAGR of 19.7%. These predictions bode well for Check Point which recently launched the Maestro Hyperscale and 6000 Series Getaways to bolster its offerings.
- ▲ Check Point has made acquisitions to expedite growth. Acquisitions have expanded its portfolio and capabilities, helping the company enter newer markets like bring-your-own-device (BYOD). BYOD has enhanced employee productivity with anytime, anywhere access. However, it has made it all the more necessary for organizations to adopt data security measures. Check Point integrated Lacocon's products to its mobile security solution called Capsule. With this, the company added Advanced Mobile Application Threat Emulation, behavioral risk analysis and real-time anomaly detection capabilities to Capsule. The company also acquired Dome9, with which it expects to enhance its Infinity architecture and CloudGuard security offering. The recent buyout of ForceNock is also expected to bring machine learning to its security offerings.
- ▲ Check Point is winning new customer accounts, which is driving its revenue growth. Also, Check Point serves almost every Fortune 500 company and has a huge user base. This vast customer base presents the company an opportunity to upsell products within its installed user base. Moreover, any product refreshes bring in additional dollars as every enterprise tries to remain up-to-date in their threat management techniques to guard against impending security threat to their IT system. These factors in turn support the company's top line growth.

Growing cyber-security threats are driving rapid adoption of Check Point's subscription-based solutions, which along with acquisitions are expected to significantly drive the top line.

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## Reasons To Sell:

- ▼ Check Point faces competition from numerous big and small companies in the security application market. Competing firms must deliver prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. Moreover, we believe that Check Point's dominance could be challenged by new entrants. This could lead the company to resort to competitive pricing to maintain and capture further market share.
- ▼ To survive in the highly competitive cyber security market, each player must continually invest in broadening its capabilities. Over the past few years, Check Point has invested heavily to enhance its sales and marketing capabilities, particularly by increasing the sales force. This has negatively impacted its operating margins.
- ▼ Check Point is largely dependent on indirect channels for selling its products. The company derives a significant portion of total sales (53% of total sales) from the 10 biggest distributors. We think that this level of dependence increases customer concentration risk. If these distributors reduce their purchases due to supply chain or competitive issues (focusing on sales of the products of competitors), Check Point's business would be adversely affected.
- ▼ Though frequent acquisitions improve revenue opportunities, it increases integration risks. These large acquisitions deteriorate the quality of its balance sheet in the form of a high level of goodwill and intangible assets (more than 27% of total assets as of Dec 31, 2018). Moreover, frequent acquisitions are a distraction for management and can impact organic growth, as the acquired assets will take some time to generate expected return.

Customer concentration risk due to dependence on indirect channels, intensifying competition in the Cyber security space and integration risks related to frequent acquisitions are headwinds.

## Last Earnings Report

### Check Point Q4 Earnings Top, Revenues Meet Estimates

Check Point reported fourth-quarter 2019 results, wherein the bottom line beat and the top line came in line with the Zacks Consensus Estimate.

The company's non-GAAP earnings per share of \$2.02 beat the consensus mark by 1.5%. The figure came within the company's guidance of \$1.93-\$2.04 and climbed 21% year over year, driven mainly by higher revenues and lower share count.

Revenues were \$544 million, up 3% year over year. The figure came within the company's guidance of \$527-\$557 million.

Growth in security subscriptions revenues, including CloudGuard suite of products and Infinity deals, boosted the top line.

#### Quarter Details

Security subscription revenues came in at \$163.7 million, increasing 11.6% year over year, aided by strong demand for its next-generation threat extraction and protection, CloudGuard and Infinity solutions. However, revenues of \$157.9 million from Products and licenses fell 1.7%.

Total revenues from product and security subscriptions totaled \$321.6 million, growing 4.7% year over year.

Software updates and maintenance revenues increased to \$222.2 million, up 1.8%.

As of Dec 31, 2019, deferred revenues were \$1.01 billion, up 3.23% year over year, reflecting strength in security subscription and support.

Region wise, the Americas generated 4% of total revenues, Europe, Middle East and Africa accounted for 4%, and the Asia Pacific accounted for 1%.

The company continued to witness strong traction of its high-end 16000 and 26000 security appliances, which are optimized for Gen 5 security operations. It also launched the Maestro Orchestrator, which delivers cloud-like elasticity and reliability to data centers.

Check Point also significantly increased its marketing activities in the region during the quarter.

#### Operating Results

Non-GAAP operating income for the reported quarter came in at \$280 million, increasing 0.4% year over year. Non-GAAP operating margin contracted 200 basis points to 51%, as a result of weakened currencies, including the Israeli Shekel, creating a headwind of \$4 million.

#### Balance Sheet & Other Financial Details

Check Point exited the fourth quarter with cash and cash equivalents, marketable securities and short-term deposits of \$1.58 billion compared with the previous quarter's \$1.68 billion.

The company generated cash worth \$246.4 million from operational activities, up from the third quarter's \$244 million.

It repurchased approximately 2.9 million shares for about \$325 million in the fourth quarter.

#### Full-Year 2019 Highlights

Revenues for the full year came in at \$2 billion, up 4% year over year.

Non-GAAP earnings of \$6.13 climbed 7% year over year.

#### Outlook

The company intends to continue shifting its revenues from products to subscriptions and Infinity.

Furthermore, for the first quarter of 2020, revenues are expected to be between \$475 million and \$495 million, and non-GAAP earnings in the \$1.37-\$1.43 range.

Quarter Ending **12/2019**

Report Date	<b>Feb 03, 2020</b>
Sales Surprise	<b>-0.03%</b>
EPS Surprise	<b>1.51%</b>
Quarterly EPS	<b>2.02</b>
Annual EPS (TTM)	<b>6.16</b>

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## Recent News

On Jan 15, 2020, Check Point announced Fast Track Network Security, a new portfolio of solutions. This enables enterprises to deploy threat prevention capabilities at all points of their infrastructure and scale security per changing business needs.

On Sep 10, 2019, Checkpoint revealed that it has achieved a security rating of 99% in Miercom's Mobile Threat Defense Industry Assessment for SandBlast Mobile.

On Sep 4, 2019, Checkpoint revealed a vulnerability in Samsung, Huawei, LG, Sony and other Android-based phones that exposes users to advanced phishing attacks. Disclosure of the discovery led most of the vendors to issue or plan to issue fixes to their systems. Sony, however, denied any security gap, stating that their devices follow the OMA CP specification.

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## Valuation

Check Point shares are up 6.5% in the past six months and lost 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 15.5% and 21%, respectively in the past six months. Over the past year, while the Zacks sub-industry has increased 14.4%, the sector gained 29.3%.

The S&P 500 Index has risen 15.3% in the past six months and 21.1% in the past year.

The stock is currently trading at 18.12X forward 12-month earnings, which compares to 65.47X for the Zacks sub-industry, 23.09X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.64X and as low as 17.45X, with a 5-year median of 20.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 19.03X forward 12-month earnings.

The table below shows summary valuation data for CHKP

Valuation Multiples - CHKP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.12	65.47	23.09	19.3
	5-Year High	23.64	326.16	23.09	19.34
	5-Year Low	17.45	56.98	16.87	15.18
	5-Year Median	20.18	72.08	19.32	17.47
P/S F12M	Current	8.71	8.01	3.76	3.56
	5-Year High	10.18	8.96	3.76	3.56
	5-Year Low	7.11	5.32	2.3	2.54
	5-Year Median	8.58	6.76	3.02	3
EV/FCF TTM	Current	15.21	25.05	23.66	32.75
	5-Year High	19.7	32.78	23.66	33.44
	5-Year Low	11.78	14.8	12.62	14.01
	5-Year Median	14.61	19.86	19.4	20.35

As of 02/11/2020

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## Industry Analysis Zacks Industry Rank: Top 44% (112 out of 254)



## Top Peers

Microsoft Corporation ( <b>MSFT</b> )	Outperform
Cisco Systems, Inc. ( <b>CSCO</b> )	Neutral
FireEye, Inc. ( <b>FEYE</b> )	Neutral
Fortinet, Inc. ( <b>FTNT</b> )	Neutral
Juniper Networks, Inc. ( <b>JNPR</b> )	Neutral
Qualys, Inc. ( <b>QLYS</b> )	Neutral
Palo Alto Networks, Inc. ( <b>PANW</b> )	Underperform
Proofpoint, Inc. ( <b>PFPT</b> )	Underperform

Industry Comparison Industry: Security				Industry Peers		
	CHKP Neutral	X Industry	S&P 500	FEYE Neutral	FTNT Neutral	PANW Underperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>B</b>	<b>B</b>	<b>F</b>
Market Cap	17.95 B	3.47 B	24.31 B	3.33 B	20.07 B	24.18 B
# of Analysts	16	12	13	13	14	17
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Cash/Price	0.09	0.10	0.04	0.31	0.10	0.12
EV/EBITDA	16.15	40.61	13.97	-34.73	45.35	52.63
PEG Ratio	2.08	2.77	2.06	6.70	3.08	2.14
Price/Book (P/B)	5.03	9.41	3.24	4.74	15.18	15.94
Price/Cash Flow (P/CF)	20.81	45.59	13.65	NA	40.28	48.83
P/E (F1)	18.35	43.19	19.12	73.68	43.19	49.82
Price/Sales (P/S)	9.00	8.06	2.67	3.74	9.31	8.02
Earnings Yield	5.49%	2.16%	5.23%	1.37%	2.32%	2.01%
Debt/Equity	0.00	0.00	0.70	1.36	0.00	1.20
Cash Flow (\$/share)	5.66	1.08	6.94	-0.26	2.91	5.05
<b>Growth Score</b>	<b>C</b>	-	-	<b>A</b>	<b>A</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	10.41%	14.55%	10.85%	NA	106.16%	NA
Proj. EPS Growth (F1/F0)	5.46%	11.28%	7.30%	316.92%	9.98%	-9.09%
Curr. Cash Flow Growth	-0.44%	45.71%	8.92%	-43.87%	45.71%	119.25%
Hist. Cash Flow Growth (3-5 yrs)	4.09%	28.24%	8.36%	10.10%	46.74%	69.30%
Current Ratio	1.53	1.78	1.22	1.53	1.88	1.78
Debt/Capital	0.00%	0.00%	42.90%	57.63%	0.00%	54.51%
Net Margin	41.39%	9.33%	11.81%	-28.95%	15.14%	-3.42%
Return on Equity	23.10%	7.41%	16.98%	-19.48%	27.51%	2.43%
Sales/Assets	0.35	0.50	0.54	0.32	0.62	0.48
Proj. Sales Growth (F1/F0)	2.93%	15.07%	3.90%	5.79%	17.89%	19.43%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>D</b>
Daily Price Chg	-0.17%	-0.34%	0.65%	-0.39%	-1.19%	-0.28%
1 Week Price Chg	2.58%	3.30%	2.47%	-5.63%	1.52%	4.70%
4 Week Price Chg	3.69%	2.85%	1.35%	-11.14%	0.51%	2.85%
12 Week Price Chg	0.49%	7.93%	5.63%	-9.70%	11.66%	-0.54%
52 Week Price Chg	-1.02%	9.06%	16.19%	-10.44%	41.13%	9.97%
20 Day Average Volume	1,015,509	505,638	1,995,746	3,294,835	1,189,323	734,586
(F1) EPS Est 1 week change	0.20%	0.00%	0.00%	19.77%	5.12%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	19.77%	5.48%	0.00%
(F1) EPS Est 12 week change	0.26%	0.00%	-0.19%	18.66%	8.64%	-146.67%
(Q1) EPS Est Mthly Chg	-4.55%	0.00%	0.00%	-28.45%	-3.62%	0.00%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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