

## Check Point Software (CHKP)

**\$113.75** (As of 01/20/20)

Price Target (6-12 Months): **\$120.00**

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: C

Growth: D

Momentum: D

### Summary

Growth in security subscriptions revenues, including advanced threat prevention and CloudGuard suite of products are driving Check Point's growth. This was backed by increased adoption of Check Point's cloud solutions. Healthy growth in the North America region was a positive. Moreover, management is optimistic about its newly appointed president for the North America region, who is expected to drive growth. Acquisitions have helped it in broadening its portfolio and enter newer market, which has eventually driven its revenues. Check Point continues to win new customer accounts, which is boosting its revenues. However, high investments in marketing and sales pose an overhang on margins. Intensifying competition in the cybersecurity market is a concern. Shares have underperformed the industry on a year-to-date basis.

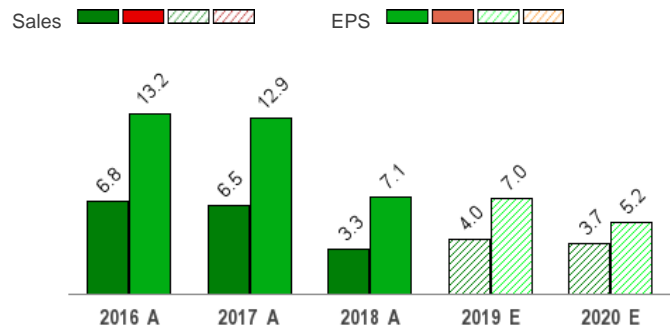
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$132.76 - \$105.13</b>
20 Day Average Volume (sh)	<b>764,017</b>
Market Cap	<b>\$17.3 B</b>
YTD Price Change	<b>2.5%</b>
Beta	<b>0.76</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<a href="#">Security</a>
Zacks Industry Rank	<b>Bottom 33% (169 out of 254)</b>

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



Last EPS Surprise	<b>2.9%</b>
Last Sales Surprise	<b>0.0%</b>
EPS F1 Est- 4 week change	<b>-0.3%</b>
Expected Report Date	<b>02/03/2020</b>
Earnings ESP	<b>0.9%</b>
P/E TTM	<b>19.6</b>
P/E F1	<b>17.7</b>
PEG F1	<b>2.0</b>
P/S TTM	<b>8.8</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	491 E	507 E	509 E	563 E	2,067 E
2019	472 A	488 A	491 A	542 E	1,993 E
2018	452 A	468 A	471 A	526 A	1,916 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.45 E	\$1.51 E	\$1.55 E	\$1.89 E	\$6.43 E
2019	\$1.32 A	\$1.38 A	\$1.44 A	\$1.99 E	\$6.11 E
2018	\$1.30 A	\$1.37 A	\$1.38 A	\$1.68 A	\$5.71 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 01/20/2020. The reports text is as of 01/21/2020.

## 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.

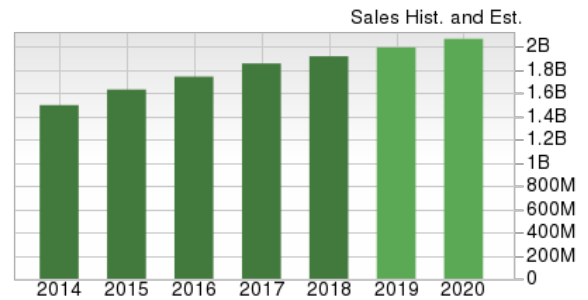
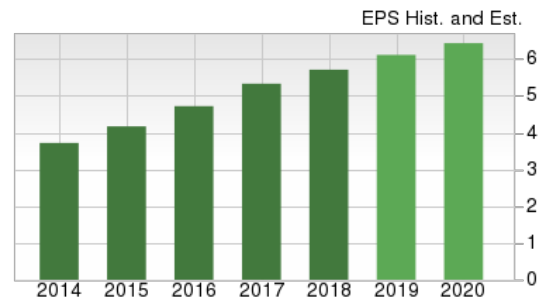
Check Point entered the industry with its breakthrough product, FireWall-1, equipped with the stateful packet inspection technology. A firewall is a device or a set of devices designed to protect networks from unauthorized access, while permitting legitimate communications.

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 2018, Check Point reported revenues of \$1.92 billion, which was 3% higher than the figure reported in the previous year. Products and licenses, Security subscriptions, and Software updates & maintenance accounted for 27.4%, 28.3% and 44.3% of revenues, respectively.



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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 Q3 Earnings Top Estimates

Check Point reported third-quarter 2019 results, wherein the bottom line beat and the top line matched the Zacks Consensus Estimate.

The company's non-GAAP earnings per share of \$1.44 beat the consensus estimate of \$1.40. The figure matched the top-end of the company's guidance of \$1.36-\$1.44 and climbed 4.3% year over year, driven mainly by higher revenues and lower share count.

Revenues were \$491 million, up 4% year over year. The figure came within the company's guidance of \$480-\$500 million.

Growth in security subscriptions revenues, including advanced threat prevention and CloudGuard suite of products boosted the top line. This was driven by increased adoption of Check Point's cloud solutions.

### Quarter Details

Security subscription revenues were \$154 million, increasing 13% year over year, driven by strong demand for its next generation threat extraction and protection, CloudGuard and Infinity solutions, and SandBlast zero-day advanced threat prevention technologies. However, revenues of \$118.3 million from Products and licenses fell 2.3%.

Total revenues from product and security subscriptions totaled \$272 million, growing 6% year over year.

Software updates and maintenance revenues increased to \$219 million, up 3%.

As of Sep 30, 2019, deferred revenues were \$1.24 billion, up 8% year over year, reflecting strength in security subscription and support.

Region wise, the Americas generated 46% of total revenues; Europe, Middle East and Africa accounted for 42% and the Asia Pacific accounted for 12%.

During the quarter, the company focused on IT modernization. The cloud business grew significantly. Also, the Maestro Orchestrator witnessed solid traction.

Check Point added CloudGuard Connect and CloudGuard Edge solutions to its portfolio of cloud offerings.

Notably, a potential customer, while testing the CloudGuard product, successfully detected and prevented a command-and-control malware that could have leaked confidential information.

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 1500 series of appliances, which delivers between 456 and 660 megabits of threat prevention performance.

The North America region witnessed a healthy growth rate. Check Point also significantly increased its marketing activities in the region during the quarter. Moreover, management is optimistic about its new high-level appointment of a new president for the region, Chris Scanlan.

### Operating Results

Non-GAAP operating income for the quarter came in at \$246 million, falling 1.6% year over year. Non-GAAP operating margin contracted 310 basis points to 50%, as a result of increased investments in sales and marketing efforts by the company.

Non-GAAP net income for the quarter was \$216.7 million, down from \$219.3 million in the year-earlier quarter.

### Balance Sheet & Other Financial Details

Check Point exited the third quarter with cash and cash equivalents, marketable securities and short-term deposits of \$4.1 billion compared with \$1.6 billion in the previous quarter.

The company generated cash worth \$244 million from operational activities, up from \$233 million in the second quarter.

It repurchased approximately 2.9 million shares for about \$323 million in the third quarter.

### Outlook

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

Furthermore, for the fourth quarter, revenues are expected to be between \$527 million and \$557 million, and non-GAAP earnings in the \$1.93-\$2.04 range. Tax rate for the fourth quarter is expected to be around 0%.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	0.01%
EPS Surprise	2.86%
Quarterly EPS	1.44
Annual EPS (TTM)	5.82

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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 down 1.4% in the past six months and 6.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 9.5% and 16.4%, respectively in the past six months. Over the past year, while the Zacks sub-industry has increased 26.4%, the sector gained 35.3%.

The S&P 500 Index has risen 12.12% in the past six months and 25.7% in the past year.

The stock is currently trading at 19.6X forward 12-month earnings, which compares to 66.39X for the Zacks sub-industry, 23.12X for the Zacks sector and 19.19X 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 20.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$120 price target reflects 20.6X 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	19.6	66.39	23.12	19.19
	5-Year High	23.64	326.16	23.12	19.34
	5-Year Low	17.45	56.98	16.87	15.17
	5-Year Median	20.21	73.47	19.24	17.44
P/S F12M	Current	8.3	7.35	3.4	3.36
	5-Year High	10.18	8.96	3.44	3.41
	5-Year Low	7.11	5.32	2.29	2.54
	5-Year Median	8.61	6.76	2.97	3
EV/FCF TTM	Current	14.79	23.81	21.1	31.67
	5-Year High	23.06	35.74	22.16	31.69
	5-Year Low	11.78	14.8	12.59	14.05
	5-Year Median	14.79	19.86	18.96	19.83

As of 01/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 254)



## Top Peers

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

Industry Comparison Industry: Security				Industry Peers		
	CHKP Neutral	X Industry	S&P 500	FEYE Neutral	FTNT Neutral	PANW Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>D</b>
Market Cap	17.32 B	3.71 B	24.65 B	3.71 B	20.09 B	23.71 B
# of Analysts	16	11.5	13	13	13	17
Dividend Yield	0.00%	0.00%	1.73%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Cash/Price	0.10	0.10	0.04	0.27	0.10	0.12
EV/EBITDA	15.43	40.42	14.11	-38.79	45.74	51.57
PEG Ratio	2.00	2.31	2.08	11.00	3.10	2.10
Price/Book (P/B)	4.83	9.51	3.39	5.28	16.74	15.64
Price/Cash Flow (P/CF)	20.40	47.89	13.81	NA	58.55	47.89
P/E (F1)	17.68	43.34	19.19	121.03	43.34	48.86
Price/Sales (P/S)	8.76	8.20	2.69	4.26	9.81	7.86
Earnings Yield	5.65%	2.18%	5.21%	0.82%	2.31%	2.04%
Debt/Equity	0.00	0.00	0.72	1.36	0.00	1.20
Cash Flow (\$/share)	5.57	1.08	6.94	-0.26	2.01	5.05
<b>Growth Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	10.73%	14.71%	10.56%	NA	91.94%	NA
Proj. EPS Growth (F1/F0)	5.24%	11.30%	7.57%	513.34%	12.52%	-9.09%
Curr. Cash Flow Growth	1.83%	59.09%	14.73%	-43.87%	128.85%	119.25%
Hist. Cash Flow Growth (3-5 yrs)	5.13%	23.40%	9.00%	10.10%	36.70%	69.30%
Current Ratio	1.63	1.78	1.24	1.53	1.84	1.78
Debt/Capital	0.00%	0.00%	42.99%	57.63%	0.00%	54.51%
Net Margin	40.05%	9.33%	11.14%	-29.44%	19.23%	-3.42%
Return on Equity	21.86%	7.41%	17.16%	-20.06%	25.46%	2.43%
Sales/Assets	0.34	0.50	0.55	0.31	0.62	0.48
Proj. Sales Growth (F1/F0)	3.83%	14.56%	4.16%	7.56%	14.83%	19.43%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>B</b>	<b>A</b>	<b>C</b>
Daily Price Chg	-0.90%	-0.90%	0.27%	-1.38%	-1.34%	-0.49%
1 Week Price Chg	0.29%	2.43%	0.39%	-1.39%	2.80%	0.44%
4 Week Price Chg	0.95%	5.66%	2.95%	4.13%	7.27%	5.66%
12 Week Price Chg	4.84%	15.15%	7.76%	8.97%	45.12%	9.25%
52 Week Price Chg	7.36%	19.07%	22.29%	6.00%	61.72%	19.07%
20 Day Average Volume	764,017	526,993	1,536,375	3,051,254	869,723	733,350
(F1) EPS Est 1 week change	-0.40%	0.00%	0.00%	0.00%	0.34%	0.00%
(F1) EPS Est 4 week change	-0.28%	0.00%	0.00%	0.00%	0.34%	0.00%
(F1) EPS Est 12 week change	-0.40%	4.17%	-0.40%	10.00%	15.09%	-146.67%
(Q1) EPS Est Mthly Chg	-0.74%	0.00%	0.00%	0.00%	0.00%	0.00%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	C
Growth Score	D
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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