Check Point Software Technologies Ltd. (CHKP)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/26/20):</th>
<th>107.65</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>121 - 60</td>
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<tr>
<td>Market Cap (mil):</td>
<td>15,652</td>
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<tr>
<td>Shares Out (mil):</td>
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<tr>
<td>Float (mil):</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
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<tr>
<td>Dividend ($) :</td>
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<tr>
<td>Yield (%):</td>
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<tr>
<td>Rating:</td>
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<tr>
<td>Suitability:</td>
<td>Average Risk</td>
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<td>Price Target ($) :</td>
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<tr>
<td>L-Term Rev. Gr Rate Est:</td>
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<tr>
<td>L-Term EPS Gr Rate Est:</td>
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<td>Debt/Cap:</td>
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<td>ROE:</td>
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<tr>
<td>FY Dec</td>
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<tr>
<td>6.13A</td>
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<tr>
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<td>2.02A</td>
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<td>6.13A</td>
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Company Description
Check Point Software Technologies Ltd., founded in 1993 and headquartered in Tel Aviv, Israel, is a leading global network security vendor. The company offers complete enterprise security solutions with its software blade architecture and was an early industry pioneer with the Firewall-1 and its patented stateful inspection technology. Check Point products now secure more than 100,000 organizations worldwide including enterprises, service providers, small- and medium-sized businesses, and consumers.

Competition
Check Point operates in one of the most competitive sub-segments of security software, network security. The company is one of the largest players in IT Security and has to defend itself from younger, highly innovative companies. In addition, competitors could aggressively price products or accelerate resource spending in a way that would force Check Point to counter. Primary competitors include Palo Alto Networks and Fortinet, which are exhibiting growth rates well ahead of Check Point, but as mentioned previously, there are a variety of startups focused on solving the network security problem through different methods than the traditional appliance-based firewall vendors.

Investment Thesis
Attractive end market. We view network security as one of the most resilient and rapidly growing market segments within enterprise tech. It’s hard to imagine a scenario in which IT security becomes less important as more and more information becomes digitized.

Strong margin performance. Check Point has proven its ability to post excellent profitability metrics through the economic cycle.

The install base advantage. Check Point is the network security incumbent with a well-established install base of over 100,000 customers. The strong majority of Check Point revenue in a quarter comes directly from their install base which affords the company a streamlined and low-cost sales motion.

Competitive landscape has intensified. Palo Alto Networks has taken share rapidly, and Cisco’s continued improvement of its security portfolio poses some risk to Check Point’s leading position. We also hear more talk of price sensitivity now than in the past which has likely benefited Fortinet.

Mixed channel feedback. For several quarters now, we have received mixed commentary in our proprietary research on Check Point’s portfolio and go-to-market.

Architectural change. We expect Security budget dollars to increase for cloud-oriented solutions which could put pressure on some traditional network-based solutions. Per channel commentary, Check Point needs to increase investment in cloud-oriented solutions to better position the portfolio.

Valuation. Our $108 price target is based on 11.5x CY21E EV/FCF which is within the range of the historical EV/FCF of 7x-18x and a discount to peers trading at a median of ~12.7x. We view valuation as fair at current levels given recent execution challenges. We believe free cash flow supports risk to the downside with potential for multiple expansion if the company can show evidence of improved execution.

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Risks & Caveats

The IT market is changing. Public cloud as a delivery model could impact the need for on-premise IT solutions which would likely be deflationary for Check Point.

Competitive landscape. Check Point is one of the largest players in IT Security and has to defend itself from younger, highly innovative companies. In addition, competitors could aggressively price products or accelerate resource spending in a way that would force Check Point to counter.

Geographical exposure. Check Point’s sales are geographically diverse with 40%+ of revenue coming from Europe. This percentage is substantially larger than most security companies, and concerns about the future of a European market could cause a slowdown in local spending.

Not immune from a recessionary environment. IT security is more resilient than most categories in IT but it’s not immune from a recessionary environment, as network security purchases are often a proactive and near-term discretionary spend-item.

Core and adjacent market segments. While Check Point has been successful in its core network security market, it has struggled to gain traction in adjacent segments like endpoint and mobile security. The company’s ability to offer a diverse portfolio of security solutions may prove significant in a rapidly changing IT landscape.
Appendix - Important Disclosures and Analyst Certification

Approved on 27 May 2020 07:51EDT/ Published on 27 May 2020 07:56EDT.

Rating and Price Target History for: Check Point Software Technologies Ltd. (CHKP) as of 05-26-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of CHKP.

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Check Point Software Technologies Ltd.
May 27, 2020

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