

Check Point Software Technologies

Underlying trends improving; CEO transition not impacting outlook

Reiterate Rating: BUY | PO: 185.00 USD | Price: 160.80 USD

Solid revenue growth, offset by weak billings trends

4Q23 trends were solid, with 3.9% YoY total revenue growth, supported by 15.1% growth in Subscriptions revenue. Gross margin (GM) and operating margin (OM) improved by ~140bps and 130bps, respectively, and EPS of \$2.57 beat Street expectations by 10 cents. 2024 should be a year when product growth recovers from negative to positive territory, starting in 2Q, mainly on easy comps and better demand for the Infinity platform. In addition, we expect Subscriptions growth to be roughly 13% YoY in 2024, which represents some deceleration excluding Perimeter 81 but is a solid level overall. With maintenance growth remaining roughly flat throughout the year, we expect revenue growth to accelerate from 4.6% YoY in 1Q24 to 6.4% in 4Q24 and believe that billings growth should recover to 5.2% YoY in 2024. With the stock underperforming on a multi-year basis, better trends should drive continued positive stock performance, and we reiterate our Buy rating.

Security subscription trending well, supported by Infinity

Security subscription revenue grew ~13% YoY excluding Perimeter 81, a slight deceleration from last quarter's growth. Trends are supported by double-digit growth in Infinity as well as 50% YoY growth in Harmony Email. We expect further deceleration and model about 13% total subscription growth in 2024, which implies about 10%-11% organic growth. We expect software and maintenance revenue growth to remain stable at about 1%, with the biggest swing factor in 2024 being product and license revenues, going from a -10.4% decline in 2023 to +0.9% growth in 2024. We expect Product growth to remain negative in 1Q but return to positive growth in 2Q and onwards, a function of both easy comps and a recent recovery in product orders. Management noted that new business annualized bookings grew double digits YoY across all geographies, with its expectation that these positive trends will translate to improved revenue and billings growth in 2024. We fine-tune our estimates to reflect the underlying recovery in growth. As a result of the improved growth trends and increasing sector valuation levels, we also increase our price objective (PO) to \$185 from \$180, now based on ~17x 2025E EV/FCF versus 16x prior.

CEO transition likely won't help but won't hurt

CEO Gil Shwed announced that he will be transitioning to an Executive Chairman position, following his 31-year tenure. While this is a major change for the company, we believe that it will only have a limited impact on the financials. As Executive Chairman and as the largest shareholder, we believe that Gil will continue to drive a conservative M&A strategy, and we expect the new CEO to mainly focus on operations rather than make major strategic changes, which is both a positive and a negative, in our view.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.40	8.42	9.00	9.87	10.44
GAAP EPS	6.31	7.10	7.03	7.74	8.16
EPS Change (YoY)	5.4%	13.8%	6.9%	9.7%	5.8%
Consensus EPS (Bloomberg)			8.99	9.81	9.68
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	21.7x	19.1x	17.9x	16.3x	15.4x
GAAP P/E	25.5x	22.6x	22.9x	20.8x	19.7x
EV / EBITDA*	21.2x	20.2x	19.0x	18.0x	17.6x
Free Cash Flow Yield*	4.7%	4.5%	4.9%	4.9%	5.0%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 06 February 2024 04:00PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	180.00	185.00
2024E Rev (m)	2,518.2	2,550.5
2025E Rev (m)	2,621.8	2,671.4
2026E Rev (m)	NA	2,775.1
2024E EPS	8.92	9.00
2025E EPS	9.76	9.87
2026E EPS	NA	10.44

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Stock Data

Price	160.80 USD
Price Objective	185.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	117.18 USD - 163.02 USD
Mrkt Val (mn) / Shares Out (mn)	22,335 USD / 138.9
Free Float	78.7%
Average Daily Value (mn)	110.03 USD
BofA Ticker / Exchange	CHKP / NAS
Bloomberg / Reuters	CHKP US / CHKP.OQ
ROE (2024E)	38.2%
Net Dbt to Eqty (Dec-2023A)	-19.1%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Check Point Software Technologies

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	23.0%	26.0%	27.4%	31.7%	35.3%
Return on Equity	30.2%	34.7%	38.2%	45.7%	53.0%
Operating Margin	44.6%	44.7%	43.5%	43.8%	43.2%
Free Cash Flow	1,058	1,016	1,103	1,089	1,125

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.6x	0.4x	0.5x	0.5x	0.5x
Tax Rate	14.2%	13.9%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	-6.7%	-19.1%	-25.8%	-19.6%	-13.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,330	2,415	2,551	2,671	2,775
% Change	7.5%	3.6%	5.6%	4.7%	3.9%
Gross Profit	2,043	2,154	2,277	2,390	2,478
% Change	6.3%	5.4%	5.7%	5.0%	3.7%
EBITDA	1,075	1,127	1,197	1,263	1,295
% Change	-0.4%	4.8%	6.3%	5.5%	2.5%
Net Interest & Other Income	44	77	68	70	71
Net Income (Adjusted)	935	997	1,014	1,068	1,093
% Change	-0.8%	6.7%	1.7%	5.3%	2.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	797	840	792	838	854
Depreciation & Amortization	36	47	88	93	97
Change in Working Capital	106	5	90	38	42
Deferred Taxation Charge	(1)	(10)	15	(5)	(3)
Other Adjustments, Net	141	152	161	170	181
Capital Expenditure	(22)	(19)	(43)	(45)	(46)
Free Cash Flow	1,058	1,016	1,103	1,089	1,125
% Change	-9.4%	-4.0%	8.5%	-1.2%	3.3%
Share / Issue Repurchase	(1,159)	(1,154)	(1,300)	(1,300)	(1,300)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	196	538	640	430	255
Trade Receivables	644	658	619	640	666
Other Current Assets	1,492	1,062	763	766	769
Property, Plant & Equipment	83	80	103	122	139
Other Non-Current Assets	3,310	3,357	3,281	3,224	3,163
Total Assets	5,725	5,696	5,407	5,181	4,991
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,839	1,916	1,974	2,036	2,099
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	956	958	953	952	961
Total Liabilities	2,796	2,875	2,927	2,989	3,060
Total Equity	2,929	2,821	2,480	2,193	1,931
Total Equity & Liabilities	5,725	5,696	5,407	5,181	4,991

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Data Networking

Company Description

Check Point provides network security solutions, selling software, hardware, and subscription services for IT security, with a focus of reducing complexity of security management. Its hardware is based on a software blade architecture which allows for multiple security functions to be run concurrently. Check Point sells its solutions to service providers, small and medium-sized businesses, consumers and enterprises, including all the Fortune 100 companies.

Investment Rationale

We have a Buy on Check Point as we believe the company will be able to outperform on a relative basis given lower investor expectations and recent growth acceleration. Growth has accelerated supported by new platforms, improved Americas performance, and recent investments in S&M. Given that the cyber security industry remains dynamic, we believe Check Point must sacrifice margins to improve growth or risk losing share at a critical period of platform consolidation in the industry.

Stock Data

Average Daily Volume 684,257

Quarterly Earnings Estimates

	2023	2024
Q1	1.80A	2.00E
Q2	2.00A	2.16E
Q3	2.07A	2.22E
Q4	2.58A	2.63E

Financial Highlights

Exhibit 1: Actual versus Estimated Results

Actual revenue and EPS of \$663.5mn and \$2.57, respectively, were above BofA estimates for \$661.5mn and \$2.45

	Dec-22 4Q22A	Mar-23 1Q23A	Jun-23 2Q23A	Sep-23 3Q23A	Dec-23 4Q23A	Dec-23 4Q23E	delta	QoQ	YoY
Products and licenses	173.4	108.0	116.9	114.2	158.3	165.0	-6.7	38.6%	-8.7%
y/y	4.2%	-6.8%	-12.2%	-13.7%	-8.7%	-4.8%			
Subscriptions	231.0	228.2	238.9	248.3	265.8	258.7	7.1	7.0%	15.1%
y/y	13.2%	13.2%	13.8%	15.2%	15.1%	12.0%			
Software updates, maintenance and services	234.1	230.0	232.9	233.8	239.4	237.8	1.6	2.4%	2.3%
y/y	2.4%	2.1%	2.1%	1.8%	2.3%	1.6%			
Total revenues	638.5	566.2	588.7	596.3	663.5	\$661.5	2.0	11.3%	3.9%
y/y	6.6%	4.3%	3.1%	3.2%	3.9%	3.6%			
Gross Profit	558.9	502.2	527.1	534.2	590.3	586.8	3.5	10.5%	5.6%
R&D	80.1	79.0	73.6	76.8	83.8	80.6	3.2	9.1%	4.6%
S&M	169.2	165.2	169.7	166.0	176.2	184.3	-8.1	6.1%	4.1%
G&A	20.7	19.6	20.7	22.4	21.7	25.1	-3.4	-3.1%	4.8%
Total Opex	270.0	263.8	264.0	265.2	281.7	290.0	-8.3	6.2%	4.3%
Operating Income	288.9	238.4	263.1	269.0	308.6	296.9	11.7	14.7%	6.8%
y/y	1.5%	-0.1%	5.8%	2.4%	6.8%	2.8%			
Total Other Income	15.3	19.1	21.3	17.7	18.4	21.7	-3.3	4.0%	20.3%
Pretax Income	304.2	257.5	284.4	286.7	327.0	318.6	8.4	14.1%	7.5%
Net Income	301.0	217.9	238.3	242.4	298.5	283.5	15.0	23.1%	-0.8%
Dil. Share Count	122.9	121.1	119.2	117.3	115.9	115.8	0.1	-1.2%	-5.7%
Non-GAAP EPS	\$2.45	\$1.80	\$2.00	\$2.07	\$2.57	\$2.45	\$0.13	24.6%	5.2%
y/y	9.0%	14.7%	22.0%	16.9%	5.2%	-0.1%			
Margin Analysis								bps	bps
Products and licenses	75.8%	75.8%	80.8%	80.4%	82.4%	80.0%	238 bps	199 bps	660 bps
Subscriptions	95.4%	94.6%	94.3%	94.4%	93.5%	94.0%	-47 bps	-87 bps	-188 bps
Software updates, maintenance and services	88.5%	88.9%	89.1%	89.0%	88.3%	89.0%	-74 bps	-70 bps	-20 bps
Total Gross Margin	87.5%	88.7%	89.5%	89.6%	89.0%	88.7%	26 bps	-62 bps	143 bps
Operating Margin	45.2%	42.1%	44.7%	45.1%	46.5%	44.9%	164 bps	140 bps	126 bps
Non-GAAP Tax Rate	1.1%	15.4%	16.2%	15.5%	8.7%	11.0%	-228 bps	-674 bps	766 bps
Non-GAAP Net Margin	47.1%	38.5%	40.5%	40.7%	45.0%	42.9%	213 bps	434 bps	-215 bps
Billings	869.3	485.3	566.1	530.9	862.3	884.9	-22.6	62.4%	-0.8%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 2: Summary of Model Changes

We fine-tune our estimates to be more in line with guidance

	Sales			EPS			Billings		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
FY23									
Q1	566.2	566.2	0.0	\$1.80	\$1.80	0.00	485.3	485.3	0.0
Q2	588.7	588.7	0.0	\$2.00	\$2.00	0.00	566.1	566.1	0.0
Q3	596.3	596.3	0.0	\$2.07	\$2.07	0.00	530.9	530.9	0.0
Q4	661.5	663.5	2.0	\$2.45	\$2.58	0.13	884.9	862.3	(22.6)
Total	2,412.7	2,414.7	2.0	\$8.30	\$8.42	0.13	2,467.2	2,444.6	(22.6)
FY24									
Q1E	592.9	592.5	(0.3)	\$2.00	\$2.00	(0.00)	515.0	513.4	(1.6)
Q2E	615.3	621.1	5.8	\$2.14	\$2.16	0.02	596.0	591.5	(4.4)
Q3E	618.7	631.2	12.5	\$2.18	\$2.22	0.04	586.8	567.4	(19.4)
Q4E	691.4	705.7	14.4	\$2.61	\$2.63	0.02	905.3	900.5	(4.9)
Total	2,518.2	2,550.5	32.3	\$8.92	\$9.00	0.08	2,603.1	2,572.9	(30.3)
FY25									
Q1E	617.6	621.3	3.8	\$2.20	\$2.20	0.00	552.9	539.1	(13.8)
Q2E	640.9	650.5	9.6	\$2.37	\$2.36	(0.00)	621.8	625.1	3.2
Q3E	645.2	661.5	16.4	\$2.38	\$2.43	0.05	603.9	601.4	(2.5)
Q4E	718.2	738.1	19.9	\$2.82	\$2.88	0.06	946.5	937.6	(8.9)
Total	2,621.8	2,671.4	49.6	\$9.76	\$9.87	0.10	2,725.2	2,703.2	(22.1)

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 3: Income Statement

Updated summary of financials; we increase our FY24 revenue estimate by \$32.3mn to \$2,550.5mn

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25					
(in \$mn except EPS)	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	F2022A	F2023	F2024E	F2025E	F2026E
Total billings	502.0	570.6	558.7	869.3	485.3	566.1	530.9	862.3	513.4	591.5	567.4	900.5	539.1	625.1	601.4	937.6	2,500.6	2,444.6	2,572.9	2,703.2	2,816.4
YoY Growth	3.8%	5.5%	8.0%	2.2%	-3.3%	-0.8%	-5.0%	-0.8%	5.8%	4.5%	6.9%	4.4%	5.0%	5.7%	6.0%	4.1%	4.5%	-2.2%	5.2%	5.1%	4.2%
Products and licenses	115.9	133.2	132.4	173.4	108.0	116.9	114.2	158.3	102.3	116.9	116.9	166.0	101.2	116.4	117.6	167.0	554.9	497.4	502.0	502.3	505.3
Subscriptions	201.6	209.9	215.5	231.0	228.2	238.9	248.3	265.8	257.8	269.4	278.3	298.4	286.4	297.6	306.5	328.0	858.0	981.2	1,103.9	1,218.5	1,311.3
Services/Maintenance	225.2	228.0	229.7	234.1	230.0	232.9	233.8	239.4	232.5	234.8	236.0	241.4	233.7	236.5	237.4	243.1	917.0	936.1	944.6	950.6	958.5
Total revenues	542.7	571.1	577.6	638.5	566.2	588.7	596.3	663.5	592.5	621.1	631.2	705.7	621.3	650.5	661.5	738.1	2,329.9	2,414.7	2,550.5	2,671.4	2,775.1
YoY Growth	6.9%	8.6%	8.2%	6.6%	4.3%	3.1%	3.2%	3.9%	4.7%	5.5%	5.8%	6.4%	4.9%	4.7%	4.8%	4.6%	7.5%	3.6%	5.6%	4.7%	3.9%
Gross profit (Non-GAAP)	476.9	500.6	506.4	558.9	502.2	527.1	534.2	590.3	529.7	555.2	564.6	627.3	556.5	582.7	592.9	657.9	2,042.8	2,153.8	2,276.8	2,390.0	2,477.8
Total Opex (Non-GAAP)	238.3	251.9	243.7	270.0	263.8	264.0	265.2	281.7	278.6	284.2	288.3	316.3	289.0	298.3	302.4	330.3	1,003.9	1,074.7	1,167.4	1,219.9	1,279.9
Operating Income (Non-GAAP)	238.6	248.7	262.7	288.9	238.4	263.1	269.0	308.6	251.1	271.1	276.3	311.0	267.5	284.5	290.5	327.7	1,038.9	1,079.1	1,109.5	1,170.2	1,197.9
Interest Income (expense), net	7.1	9.7	11.9	15.3	19.1	21.3	17.7	18.4	18.4	16.4	16.5	16.5	17.5	17.5	17.5	17.5	44.0	76.5	67.8	70.0	71.0
Income tax expense	42.1	49.1	53.6	3.2	39.6	46.1	44.3	28.5	40.4	43.1	43.9	36.0	42.8	45.3	46.2	38.0	148.0	158.5	163.5	172.2	176.1
Net Income (Non-GAAP)	203.6	209.3	221.0	301.0	217.9	238.3	242.4	298.5	229.1	244.4	248.9	291.5	242.3	256.7	261.8	307.2	934.9	997.1	1,013.8	1,067.9	1,092.8
Non-GAAP EPS	\$1.57	\$1.64	\$1.77	\$2.45	\$1.80	\$2.00	\$2.07	\$2.58	\$2.00	\$2.16	\$2.22	\$2.63	\$2.20	\$2.36	\$2.43	\$2.88	\$7.40	\$8.42	\$9.00	\$9.87	\$10.44
GAAP EPS	\$1.31	\$1.36	\$1.47	\$2.20	\$1.52	\$1.69	\$1.75	\$2.15	\$1.51	\$1.65	\$1.71	\$2.16	\$1.68	\$1.82	\$1.88	\$2.37	\$6.31	\$7.10	\$7.03	\$7.74	\$8.16
Shares - Diluted (Non-GAAP)	129.8	127.7	125.0	122.9	121.1	119.2	117.3	115.9	114.6	113.3	112.0	110.7	109.9	108.7	107.7	106.7	126.4	118.4	112.6	108.2	104.7
Operating Cash Flow	398.0	211.7	240.3	230.0	385.6	191.0	222.3	235.8	446.3	216.0	239.2	243.8	391.7	229.6	266.1	246.4	1,080.0	1,034.7	1,145.3	1,133.9	1,171.7
OCF Margin	73.3%	37.1%	41.6%	36.0%	68.1%	32.4%	37.3%	35.5%	75.3%	34.8%	37.9%	34.5%	63.0%	35.3%	40.2%	33.4%	46.4%	42.9%	44.9%	42.4%	42.2%
Free Cash Flow	393.3	205.0	236.1	223.5	381.4	187.4	216.2	231.1	436.4	205.7	228.7	232.0	381.3	218.8	255.1	234.1	1,057.9	1,016.1	1,102.7	1,089.2	1,125.4
FCF Margin	72.5%	35.9%	40.9%	35.0%	67.4%	31.8%	36.3%	34.8%	73.6%	33.1%	36.2%	32.9%	61.4%	33.6%	38.6%	31.7%	45.4%	42.1%	43.2%	40.8%	40.6%
Cash and cash equivalent	3,800.3	3,676.1	3,569.6	3,503.2	3,619.4	3,515.5	2,988.7	2,959.7	3,071.1	2,951.7	2,855.4	2,762.4	2,818.7	2,712.4	2,642.5	2,551.6	3,503.2	2,959.7	2,762.4	2,551.6	2,377.0
Total Debt	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf
Net cash	3,800.3	3,676.1	3,569.6	3,503.2	3,619.4	3,515.5	2,988.7	2,959.7	3,071.1	2,951.7	2,855.4	2,762.4	2,818.7	2,712.4	2,642.5	2,551.6	3,503.2	2,959.7	2,762.4	2,551.6	2,377.0
Margin Analysis																					
Gross Profit Margin	87.9%	87.7%	87.7%	87.5%	88.7%	89.5%	89.6%	89.0%	89.4%	89.4%	89.5%	88.9%	89.6%	89.6%	89.6%	89.1%	87.7%	89.2%	89.3%	89.5%	89.3%
R&D (Non-GAAP)	13.6%	12.9%	12.6%	12.5%	14.0%	12.5%	12.9%	12.6%	14.3%	13.8%	13.6%	13.3%	14.0%	13.9%	14.0%	14.1%	12.9%	13.0%	13.7%	14.0%	15.0%
S&M (Non-GAAP)	27.0%	27.9%	26.4%	26.5%	29.2%	28.8%	27.8%	26.6%	29.1%	28.4%	28.5%	28.0%	28.9%	28.5%	28.3%	27.2%	26.9%	28.0%	28.5%	28.2%	27.8%
G&A (Non-GAAP)	3.2%	3.3%	3.1%	3.2%	3.5%	3.5%	3.8%	3.3%	3.6%	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%	3.4%	3.2%	3.5%	3.6%	3.5%	3.3%
Total Opex (Non-GAAP)	43.9%	44.1%	42.2%	42.3%	46.6%	44.8%	44.5%	42.5%	47.0%	45.8%	45.7%	44.8%	46.5%	45.9%	45.7%	44.7%	43.1%	44.5%	45.8%	45.7%	46.1%
Operating margin (non-GAAP)	44.0%	43.5%	45.5%	45.2%	42.1%	44.7%	45.1%	46.5%	42.4%	43.6%	43.8%	44.1%	43.1%	43.7%	43.9%	44.4%	44.6%	44.7%	43.5%	43.8%	43.2%
Tax rate	17.1%	19.0%	19.5%	1.1%	15.4%	16.2%	15.5%	8.7%	15.0%	15.0%	15.0%	11.0%	15.0%	15.0%	15.0%	11.0%	13.7%	13.7%	13.9%	13.9%	13.9%
Net margin (Non-GAAP)	37.5%	36.6%	38.3%	47.1%	38.5%	40.5%	40.7%	45.0%	38.7%	39.3%	39.4%	41.3%	39.0%	39.5%	39.6%	41.6%	40.1%	41.3%	39.7%	40.0%	39.4%
YoY % Growth																					
Products and licenses	6.0%	11.8%	11.2%	4.2%	-6.8%	-12.2%	-13.7%	-8.7%	-5.3%	0.0%	2.4%	4.8%	-1.0%	-0.4%	0.6%	0.6%	8.0%	-10.4%	0.9%	0.1%	0.6%
Subscription	13.6%	14.3%	13.4%	13.2%	13.2%	13.8%	15.2%	15.1%	13.0%	12.8%	12.1%	12.2%	11.1%	10.5%	10.1%	9.9%	13.6%	14.4%	12.5%	10.4%	7.6%
Services/Maintenance	1.9%	2.1%	2.1%	2.4%	2.1%	2.1%	1.8%	2.3%	1.1%	0.8%	0.9%	0.8%	0.5%	0.7%	0.6%	0.7%	2.1%	2.1%	0.9%	0.6%	0.8%
Total revenues	6.9%	8.6%	8.2%	6.6%	4.3%	3.1%	3.2%	3.9%	4.7%	5.5%	5.8%	6.4%	4.9%	4.7%	4.8%	4.6%	7.5%	3.6%	5.6%	4.7%	3.9%
Total operating expenses (Non-GAAP)	14.9%	18.4%	14.4%	12.6%	10.7%	4.8%	8.8%	4.3%	5.6%	7.6%	8.7%	12.3%	3.7%	5.0%	4.9%	4.4%	15.0%	7.1%	8.6%	4.5%	4.9%
Operating Income (Non-GAAP)	-3.1%	-3.3%	0.5%	1.5%	-0.1%	5.8%	2.4%	6.8%	5.3%	3.0%	2.7%	0.8%	6.5%	4.9%	5.2%	5.4%	-1.0%	3.9%	2.8%	5.5%	2.4%
EPS (Non-GAAP)	2.0%	1.8%	7.3%	9.0%	14.7%	22.0%	16.9%	5.2%	11.1%	7.9%	7.5%	2.2%	10.3%	9.5%	9.4%	9.4%	5.3%	13.8%	6.8%	9.6%	5.8%
QoQ % Growth																					
Products and licenses	-30.3%	14.9%	-0.6%	31.0%	-37.7%	8.2%	-2.3%	38.6%	-35.4%	14.3%	0.0%	42.0%	-39.0%	15.0%	1.0%	42.0%					
Subscription	-1.2%	4.1%	2.7%	7.2%	-1.2%	4.7%	3.9%	7.0%	-3.0%	4.5%	3.3%	7.2%	-4.0%	3.9%	3.0%	7.0%					
Services/Maintenance	-1.5%	1.2%	0.7%	1.9%	-1.8%	1.3%	0.4%	2.4%	-2.9%	1.0%	0.5%	2.3%	-3.2%	1.2%	0.4%	2.4%					
Total revenues	-9.4%	5.2%	1.1%	10.5%	-11.3%	4.0%	1.3%	11.3%	-10.7%	4.8%	1.6%	11.8%	-12.0%	4.7%	1.7%	11.6%					
Total Opex (Non-GAAP)	-0.6%	5.7%	-3.3%	10.8%	-2.3%	0.1%	0.5%	6.2%	-1.1%	2.0%	1.5%	9.7%	-8.6%	3.2%	1.4%	9.2%					
Operating Income (Non-GAAP)	-16.1%	4.2%	5.6%	10.0%	-17.5%	10.4%	2.2%	14.7%	-18.6%	8.0%	1.9%	12.6%	-14.0%	6.3%	2.1%	12.8%					
EPS (Non-GAAP)	-30.2%	4.5%	7.9%	38.5%	-26.5%	11.1%	3.4%	24.6%	-22.4%	7.9%	3.0%	18.5%	-16.3%	7.1%	2.9%	18.4%					

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

Check Point Software Technologies (CHKP)

We arrive at our PO of \$185 by applying an EV/FCF multiple of roughly 17x 2025E EV/FCF, which is on the lower end of the peer group average for mature software companies, which trade at roughly 17x-19x. We believe a discount is warranted given roughly 20%-25% of revenue is derived from perpetual licensing and hardware, and given Check Point's low-growth profile in a dynamic cyber security industry. Longer-term, a greater mix shift to ratable recurring revenue is positive for the model.

Downside risks to our PO are 1) increased competition and potential share loss to comparable products from Cisco, Fortinet, and Palo Alto Networks, 2) lengthened upgrade cycles due to slow macro, 3) new network architectures opening competition to cloud-based alternatives, 4) slower adoption of advanced software blades as customers choose discrete competitive solutions, 5) lack of traction in high end data centers, 6) limited upside to margins, and 7) overall risks of slower macro environment or overall IT spending.

Upside risks to our PO are 1) better-than-expected execution that could translate into higher than anticipated growth rates, 2) broad adoption of Check Point's Quantum, CloudGuard, Harmony, and Infinity offerings, 3) better-than-expected operating margin improvement.

Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Cellebrite	CLBT	CLBT US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani



US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Disclosures

Important Disclosures

Check Point (CHKP) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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