

Check Point Software Technologies

Key Takeaways from Check Point's CPX 2024 Conference

Maintain Rating: BUY | PO: 185.00 USD | Price: 163.32 USD

Conference highlights go-to-market, platform story, and AI

We recently attended Check Point's user conference, CPX 2024, where we received deeper exposure to the company's product portfolio and growth strategy. Sentiment from the conference was generally positive, and meetings with management highlighted the following themes: 1) the company has made several strides on improving its go-to-market strategy, 2), Infinity offers one of few single, unified platforms in the market, 3) and AI will become a force multiplier of opportunity for cybersecurity. We highlight opportunities for growth in the intermediate-to-long-term, yet near-term trends remain somewhat uncertain given a weakening demand environment across the firewall market.

Accelerated growth requires firewall outperformance

Check Point has recently revamped its go-to-market strategy, including reorganizing its portfolio, unifying its messaging around its platform strategy, and announcing new partner and MSSP programs to better incentivize and educate the channel. Management is aspiring towards continued double-digit growth in new business, which could translate to high-single digit revenue growth in 2024 and potential double-digit revenue growth in 2025. However, recent market dynamics suggests there is further weakness in firewall demand, as reflected in competitors' results and the 9% YoY product revenue decline in Check Point's most recent quarter. Management noted that the double-digit growth would require new business of Quantum firewall appliances to grow high-single digits, yet we believe the market will decline in 1H24 and will gradually start recovering in 2H24 and beyond, suggesting sustainable 10%+ growth may only materialize in 2025.

Solid new offerings across Check Point's product pillars

The company introduced new products and product updates across its Infinity platform, Quantum Firewall, Harmony SASE and Email, and CloudGuard Cloud Security product pillars. One of the key highlights of the conference was around Infinity AI Copilot, as well as greater focus across CloudGuard, Harmony SASE, and Harmony Email. CloudGuard has more than 3,700 customers, while Harmony SASE has 3,500+ and Harmony Email has 23,000+ customers, opening upsell and cross-sell opportunities within the company's existing firewall base of over 100,000 customers. Check Point launched 10 new Quantum Force firewall appliance models, supporting a return to growth for Product revenue in 2Q24 and beyond.

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)			9.14	10.04	11.11
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	22.1x	19.4x	18.1x	16.5x	15.6x
GAAP P/E	25.9x	23.0x	23.2x	21.1x	20.0x
EV / EBITDA*	21.5x	20.5x	19.3x	18.3x	17.8x
Free Cash Flow Yield*	4.7%	4.5%	4.9%	4.8%	5.0%

* For full definitions of *IQmethod*SM measures, see page 17.

11 March 2024

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Stock Data

Price	163.32 USD
Price Objective	185.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-9
52-Week Range	117.18 USD - 166.71 USD
Mkt Val (mn) / Shares Out	22,685 USD / 138.9 (mn)
Free Float	78.7%
Average Daily Value (mn)	137.76 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™	Medium

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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 17.

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 843,473

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

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Key Trends from Management Meetings

Check Point hosted panels, presentations, and separate management meetings with CEO Gil Shwed, CFO Roei Golan, President Rupal Hollenbeck, CTO Dorit Dor, CPO Nataly Kremer, and Global Channel Chief Francisco Criado. We highlight the key takeaways below.

Check Point is known for its early dominance of the firewall market and serving as a training ground for other founders and leaders across network security. It is also now known for its strong share across enterprise firewalls but a slow and steady approach to adding new security functionality, which has hurt market share in recent years. Check Point's architecture also slightly differs versus other firewall vendors where Check Point focuses on software development while utilizing common x86 servers for its appliances.

Check Point evolved over the years to offer additional software blades (introduced in 2009) to allow customers to add new features to the common firewall platform, similar to feature additions to NGFW (Next-Generation Firewall) platforms. The company now offers a host of solutions in addition to its core firewall platforms including Harmony for Workforce Security and CloudGuard for Cloud Security. Another major change in strategy for Check Point recently was the introduction of its Infinity Core Services platform and Infinity Pricing, which encourage customers to go all-in with at least two or more of Check Point's product pillars for a bundled solution with per-user or consumption-based pricing.

Financials and Reaching Target Aspirations

Management did not change its guidance for FY24 and longer-term, yet discussed how new initiatives could accelerate growth and flagged their continued aspirations for double-digit growth.

Over the last few years, Check Point has invested in expanding its portfolio as well as investing in its go-to-market strategy. The company grew its salesperson headcount by ~15% in 2022 and has focused on innovation across its product pillars including Quantum, CloudGuard, Harmony, and its Infinity architecture. Management believes the combination of its product strategy and increased investment in its sales channels, sales management and partnering would help accelerate growth.

Check Point Revamping its Go-to-Market Strategy

Check Point was previously conservative in awareness marketing, resulting in potential customers looking elsewhere because they were unaware of Check Point's updated product portfolio. However, the company has made several strides on improving its go-to-market strategy in 2023 going into 2024. The company underwent a recent portfolio reorganization and has simplified its brand messaging by consolidating six product lines to four product lines. Check Point's Horizon pillar, which previously consisted of its XDR/XPR, Playblocks, and other solutions, as well as ThreatCloud, has now migrated under the Infinity Core Services umbrella. In addition, the company operationalized the customer journey from lead process to post-deal support to one value chain.

The company is also unifying its messaging around its platform strategy, by leading the sales motion with the platform, vs. prior attach goals driving sales teams to default towards selling a firewall first and attaching additional solutions after. Other changes to the salesforce strategy includes adopting a top-down engagement approach, by expanding interactions and outreach with CISOs and C-level executives.

Additionally, Check Point announced new partner and MSSP (Managed Security Service Provider) programs to better incentivize and educate the channel to maximize partners' potential and drive growth (see Leveraging the Channel Ecosystem). In addition to getting the channel specialized and incentivized to sell the platform, Check Point also switched its investments towards specialist sellers, starting in 2H23, which are dedicated to a particular product pillar, to support dedicated sellers and technical sales.

Focus for 2024 is on Execution, yet Secular Headwinds may Temper Growth

With its revamped go-to-market strategy, management has shifted its focus towards execution for 2024. Current guidance calls for roughly 6% YoY revenue growth at the mid-point in 2024, with an acceleration in the second half of the year, but management noted it could reach the high-end of guidance at 9% growth, should new business annualized bookings continue to grow double-digits. On one hand, 4Q23 signaled an improvement of trends, with double-digit growth of new business, reversing declines between 4Q22 to 2Q23. On the other hand, we remain cautious and maintain our 6% revenue growth estimate for 2024 as we believe that recent weakness in the cybersecurity sector may keep growth tempered.

On the macroenvironment, management previously noted that investments in cybersecurity are growing, yet in a more cautious manner. Sales cycles are being elongated as more checks and balances are being added to deals across organizations of all sizes. Some customers are also choosing to deploy solutions in a phased manner and have postponed firewall refresh projects over the last several quarters.

Management noted that in order to grow high-single digits in 2024 and to reach potential double-digit growth in 2025, new business bookings for Harmony and CloudGuard would need to continue growing double digits while Quantum would need to grow high-single digits.

On one hand, we note solid growth of Harmony with Harmony Email growing 50% YoY in 4Q23, and solid early momentum with Harmony SASE. Management noted that double-digit growth will require significant market share expansion in SASE. While CloudGuard only grew high-single digits in 4Q vs. previous double-digit growth, management noted it expects a re-acceleration of growth in the segment, supported by new leadership and marketing changes.

On the other hand, Omdia forecasts the firewall market to grow roughly 2% YoY in 2024 and 3% YoY in 2025. While this is well below the 14% growth experienced in 2023, we challenge Omdia's growth projections as recent pricing actions from Palo Alto Networks and quarter commentary from Fortinet and Cisco suggests that firewall growth could trend even lower.

Furthermore, management expects Product revenue growth to remain negative in 1Q24 but return to positive growth in 2Q and 2H24, as a function of both easy comps and a recent recovery in product orders driven by the launch of 10 new Quantum Force firewall appliance models. However, management noted that the 2x-3x improved performance vs. previous models drives a more attractive price-performance ratio which may drive a softer bump to revenue growth vs. prior product cycles.

Finally, we note that Check Point's firewall market share has declined over the last several years, dropping from 20% share in 2015 and stabilizing around 11%-12% share over the last two years (see Exhibit 4). While Check Point has been successful in minimizing further share losses and maintaining share, we note that high-single digit growth in Quantum requires share expansion via growth in existing customers and net new customers, which may not materialize despite new go-to-market initiatives and partner programs. As such, we believe that high-single digit growth in Quantum may be too ambitious, given weakening firewall market trends.

All in all, we expect Subscriptions growth to be roughly 12.5% YoY in 2024, which represents some deceleration excluding Perimeter 81, at about 10%-11% organic growth vs. 14.4% growth a year ago, but is a solid level overall. We expect software and maintenance revenue growth to remain stable at about 1%, with the biggest swing factor in 2024 being product and license revenue, going from a -10.4% decline in 2023 to +0.9% growth in 2024. We expect total revenue growth to accelerate from 4.7% YoY in 1Q24 to 6.4% in 4Q24, and believe that billings growth should recover to 5.2% YoY in 2024 vs. -2.2% growth in 2023.



Next-Generation Security Segments are Becoming a More Material Contributor

Approximately 40% of Check Point's revenue is Subscription-based, with attached firewall subscriptions accounting for roughly 70%-75% of Subscription revenues, while Harmony and CloudGuard jointly accounts for the remaining 20%-25% of Subscription. Management noted that ARR for Harmony Email has more than tripled in the three years since acquiring Avanan, becoming more significant to the Subscription business. 40% of revenue is support and maintenance, which is largely renewals, and the remaining 20% is Product, mostly reflecting Quantum appliances.

Check Point's Infinity architecture, which encompasses the underlying Quantum, CloudGuard, and Harmony pillars, continues to grow double-digits, accounting for over 10% of revenue and mid-to-high teens billings contribution, attesting to the need for consolidation, comprehensiveness of solution, and collaborative nature.

Management noted a lofty aspiration to triple the size of its Infinity platform agreement pipeline and sustain double-digit new business growth across all three product pillars.

Management Maintaining Margins, Yet Leaving Room for Investment

Margins were pressured in the last few years by increased hirings and investments in R&D and S&M. Management maintained its 2024 operating margin guidance of roughly 43.5%, with ~200bps of YoY headwind from the acquisitions of Perimeter 81, Atmosec, and rmsource, positively offset by 100bps of FX benefit. While management stated that it has a sufficient growth engine with where the company is invested today, it also noted that the company is willing to opportunistically continue investments down the road, to the tune of 100-200bps of margin, to further support its double-digit revenue growth aspiration.

Management Does Not See Impact from Palo Alto Results

Management noted that it does not see an impact from recent pricing actions by Palo Alto Networks announced last quarter, including bundling, discounting and free incentives. Similar to comments made by CrowdStrike in their latest quarter, Check Point management noted that bundling, discounting, and giving products away for free is not new to Palo Alto Networks or the competitive landscape. While management agreed that customers are increasingly seeking consolidation to 'do more with less', it differed on how to accomplish consolidation vs. making numerous acquisitions and loosely integrating them to form several platforms, as seen from other vendors.

However, we believe the aggressiveness of the pricing actions suggests that there is further weakness in firewall demand, after 2-3 years of excessive demand. In addition, we believe that newer areas of cybersecurity, such as cloud security, could start seeing more pricing pressure as vendors reach product parity with one another, which may have partially impacted CloudGuard's deceleration of growth to high-single digits in 4Q23 vs. prior double-digit growth.

Leveraging the Channel Ecosystem

Presentations and discussions with channel partners pointed to a healthy relationship with Check Point, as the company continues to leverage the channel ecosystem to accelerate growth. Check Point sells its products primarily through channel partners, with the company touching 80% of deals either as partner-assisted or technical deals. With further specialization in the channel as well as the salesforce, management believes that it can touch even more deals alongside channel partners.

Check Point launched a new partner program, which is intended to create a clear, predictable pricing framework for partners, offer deal registration to provide deal protection on renewals, provide free certifications and specialization to develop deep skills and competencies, and offer strong incentives for net-new logo lands and upsell/cross-sell motions. Management noted that the introduction of additional incentives for partners is lucrative, with new customer acquisition giving partners 20

more points of margin, allowing the channel to reach up to 50% of margin on new logo lands and cross-sell of additional solutions.

Check Point consolidated its tiering model to four tiers, including Advanced, Professional, Premier and Elite status depending on size of business opportunity. In the last six months, Check Point activated over 1,100 lower-tier partners, contributing to an incremental \$30mn of revenue.

The company also enhanced its MSSP partner program to offer a more robust, comprehensive, and flexible service model. The company has simplified its onboarding process, introduced a consumption-based pricing model with fixed and pay-as-you-go options, and launched a unified management portal for MSSPs. Management noted that MSSPs were the fastest growing partner type in 2023, and are predicted to continue being the fastest type in 2024, outpacing any other partner type on services.

Check Point is also seeing accelerated traction in the marketplaces of Cloud providers, which we believe may be shifting some business away from traditional channel partners. Management noted that it can sell its Infinity platform through hyperscaler marketplaces, and is seeing a pick-up of interest, driven by flexibility of payment terms and simplicity of adoption.

Some investors are concerned with the potential of hyperscalers, such as AWS and GCP, creating their own cybersecurity products, bypassing the need for best-of-breed vendors. While we see this dynamic playing out with Microsoft, mostly around identity and endpoint, we believe the risk is more mitigated in network security. Hyperscalers are focused on a few areas in which they have expertise and in areas that overlap with cybersecurity vendors, the technologies are typically complimentary. In addition, hyperscaler solutions tend to only work in their own cloud environment, whereas vendors such as Check Point provide agnostic solutions for multi/hybrid cloud environments.

Lastly, management noted it is in early innings of offering subscription-based pricing for network security, akin to the NaaS (Network as a Service) model popularized by HPE, Cisco, and other vendors. In this delivery model, Check Point would primarily own and operate the network security offerings, with the ability for customers to easily scale usage up or down as needed.

Implications and Benefits from Artificial Intelligence

Management noted that AI (Artificial Intelligence) creates an exponential force multiplier of opportunity for both cybersecurity teams and threat adversaries alike, as AI simplifies the automation and operationalization of both cyber-attacks and security remediation. Management noted that on one hand, AI can be used to enrich and contextualize cybersecurity data, as well as improve threat-hunting. AI also addresses new cybersecurity needs and can provide better operations that are more resilient. On the other hand, AI can also be leveraged by threat actors to develop new attack forms and exploit methods across multiple vectors with increased success rates.

We note that while both sides can equally leverage Artificial Intelligence, cybersecurity teams inherently remain at a disadvantage. AI will require improved security efficacy across all domains including network security, endpoint security, and cloud security, with higher prevention and precision, while threat actors only need to penetrate one vector, exacerbating the cat-and-mouse game between cybercriminals and cybersecurity experts. Additionally, presentations with CISOs pointed to concerns around AI guardrails and regulations driving a risk factor for corporations and widening the divide between AI usage for cybersecurity experts and adversaries.

Check Point leverages AI in both ThreatCloud AI to provide real-time shared intelligence across all Check Point products, as well as recently launching Infinity AI Copilot which leverages Generative AI to allow for natural language querying across a variety of use cases. While the company has not announced pricing yet for Infinity AI Copilot, management noted that it will offer a free base-level version and a premium package

that should support margin expansion over the long-term. Management does not expect Infinity AI Copilot to have a material effect on revenue in the near-term.

In adversarial use cases, the usage of AI is driving growth in sophisticated phishing attempts, such as spear phishing and vishing, using voice cloning and deepfake technologies. Check Point Research also previously reported that threat actors are leveraging GenAI (Generative Artificial Intelligence) to create malicious code.

Another important area centering around Artificial Intelligence is securing the AI toolsets and models to prevent exfiltration of sensitive data, poisoning of data sets through prompt injection, and adversarial attacks on AI models. In the case of Check Point, the company's Infinity AI Copilot solution is protected through an 'AI Firewall' that sits in front of the LLM (Large Language Model) and behind the chat box widget.

Platform, not Platformization

Check Point offers a broad array of complementary product lines which can all be managed through its cloud-based centralized manager, Infinity Portal, as a single, unified platform. This makes it a strong candidate for organizations seeking a security platform solution, helping customers avoid operational complexities and threat coordination gaps that result from managing too many security vendors. Management highlighted that its Infinity platform is one of few true platforms in the cybersecurity market.

Check Point's financials are in a solid position to allow continuing investments in product development so the company can develop its own security technologies with occasional tuck-in acquisitions to further grow the platform.

Threat Landscape Continues to Evolve

The threat landscape continues to evolve with Check Point reporting more than 5,000 large-scale ransomware attacks in 2023, representing a 90% increase from 2022. Management also noted that a typical organization roughly blocks more than 1,000 attacks a week, with approximately 177 new types of malware attacks per year. In Miercom's 2024 Security Benchmark, Check Point was the highest ranked security vendor for zero-day and day-one malware prevention with 99.8% efficacy, with 17% of preventions attributed to AI-based engines. Presentations with CISOs suggested an uptick in traditional malware methods, such as USB infections and compromised emails.

According to Miercom, 95% of major breaches are due to human error and 97% of breaches could have been handled by better security policy, driving the secular need for a zero-trust framework. Per Miercom, the top 10 common Enterprise use cases for zero trust implementations include social media access, concurrent administrators, delegated management, IaaS AWS Cloud integration, malicious website protection, phishing protection, IPS exception, email protection, cross-platform zero trust, as well as SASE, O365 and Internet speed.

CEO Transition Likely to Only Have Limited Impact

CEO Gil Shwed recently announced that he will be transitioning from CEO to Executive Chairman, 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 and improving go-to-market bottlenecks, rather than make major strategic or capital allocation changes, which is both a positive and a negative, in our view.

Platform and Product Highlights

Check Point announced new products across its Infinity, Quantum, Harmony, and CloudGuard product pillars, as well as discussed market trends around platform approaches, firewall, XDR, email security, SASE, cloud security and more, which we review below.

Infinity Core Services

Infinity Core Services reflects Check Point's unified platform, encompassing the underlying the underlying Quantum, CloudGuard, and Harmony product pillars. Within Infinity Core Services are ThreatCloud AI, XDR/XPR, Playblocks, AI Copilot, Infinity Portal, and global services.

Infinity AI Copilot

One of the key highlights of the conference was around Infinity AI Copilot. Infinity AI Copilot is a GenAI chat box solution, powered by approximately 500 APIs, that allows for natural language querying across a variety of use cases including documentation, logs, configuration, policy, and troubleshooting for security administrators and analysts. Infinity AI Copilot was released in 1H24, with an on-premises version available in 2H24.

Infinity AI Copilot enables collaboration with Check Point products across Quantum, CloudGuard, Harmony, and Infinity XDR/XPR via one single pane of glass, and integrates with third-party systems, such as ticketing systems. The solution is available to access through the company's Infinity Portal, as well as third-party collaboration channels, like Slack, Microsoft Teams, and WhatsApp, and communication can also be directed via email.

ThreatCloud AI

ThreatCloud AI is a part of Infinity Core Services and sits at the core of the Check Point architecture providing real-time shared intelligence across all Check Point products. ThreatCloud is powered by over 90 security engines, of which more than 50 are AI-powered. This compares to over 80 security engines last year, of which 40+ were AI-powered. One particular AI-based engine that management highlighted prevents access to websites impersonating local brands, such as post offices, schools and other municipal websites.

Management highlighted that ThreatCloud prevents 3bn yearly attacks, with shared intelligence that is synced globally to all enforcement points in under two seconds. Intelligence is also shared between customers so intelligence on new exploits experienced by one customer will be synced across the broader ThreatCloud customer base. In the month of December 2023 alone, ThreatCloud AI prevented over 560,000 attacks across 150 countries.

Infinity XDR/XPR

Infinity XDR/XPR (Extended Detection and Response, Extended Prevention and Response), released in 2023 under the now-defunct Horizon product pillar, provides detection and prevention of multi-vector attacks. Infinity XDR/XPR offers 20+ connectors for third-party cybersecurity sources from vendors such as Palo Alto Networks, CrowdStrike, Fortinet, Cisco, Microsoft and more.

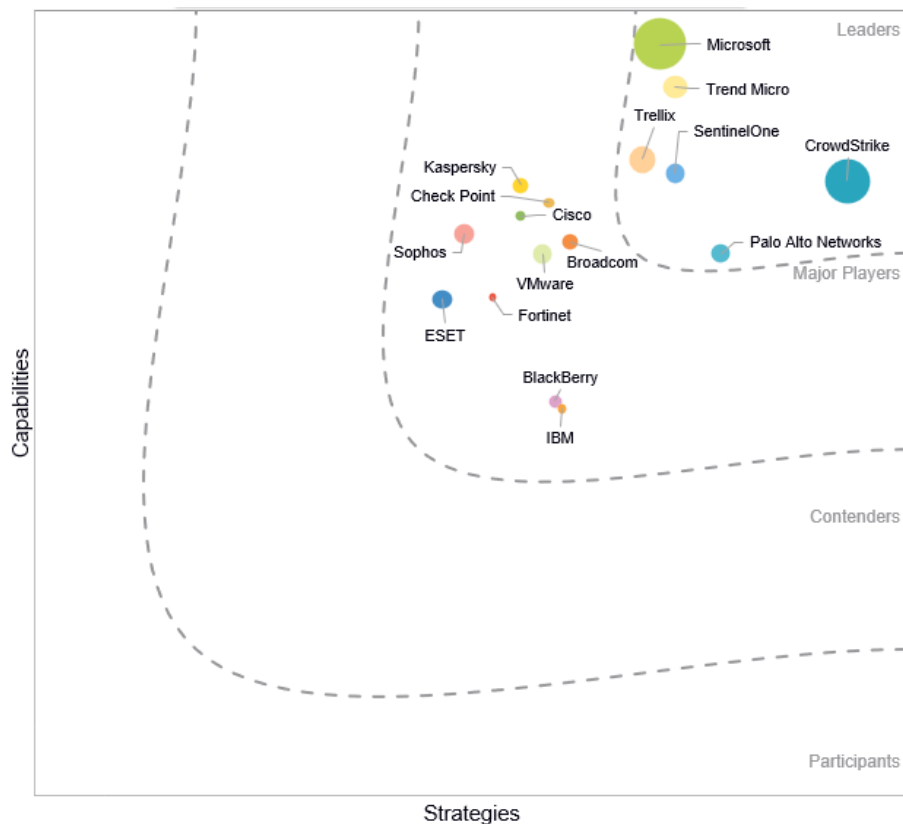
Like other XDR products, Infinity XDR/XPR collects, stitches, and analyzes data to detect and investigate threats in real time. However, the net advantage of Infinity XDR/XPR is the ability to cross-stitch and correlate data across all of Check Point's vectors including network security, endpoint security, cloud security, email security and more, in order to gather more holistic evidence around security threats.

Check Point's market responsiveness and track record in XDR has not been as pronounced as other vendors, subsequently resulting in relatively small market and mind share. However, IDC labels Check Point as a Major Player in its 2024 Modern Endpoint Security MarketScape and notes that Check Point should be viewed as a prime consideration for enterprises that value comprehensive protection and prevention. This is also supplemented by Gartner's rating of Check Point as a Visionary in its 2023 Magic Quadrant for Endpoint Protection Platforms with a product strategy focused on further integrating its solution portfolio, expanding data security controls, and enhancing identity protection.



Exhibit 1: IDC MarketScape for Modern Endpoint Security for Enterprises, 2024

IDC labels Check Point as a Major Player in the Modern Endpoint Security market



Source: IDC

BofA GLOBAL RESEARCH

Infinity Playblocks

Infinity Playblocks, introduced in 3Q23, offers 39+ out-of-the-box playbooks for automated mitigation and response for Check Point and third-party products. In 2H24, the company expects to grow the number of available out-of-the-box playbooks and allow the capability to create custom playbooks using a simple drag-and-drop interface.

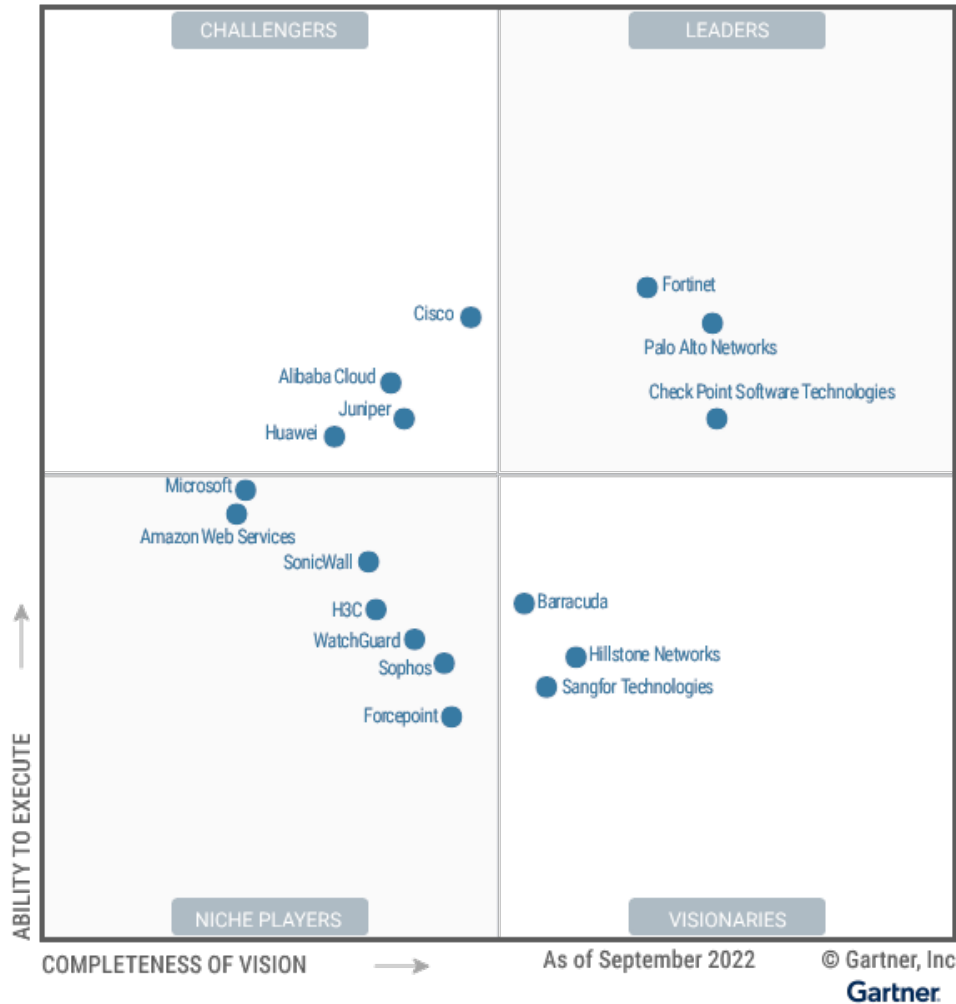
Quantum Firewall

Check Point launched 10 new firewall appliance models on the Enterprise side, dubbed Quantum Force, which are AI-powered and provide between 2x-3x more throughput, port density, and power efficiency than previous Check Point firewall appliances. On the SMB (Small and Midsize Business) side, Check Point also launched two new Quantum Spark appliances for small enterprises between 500-1,000 users, offering 2x more performance than previous models. Over 80% of Check Point's firewalls are Cloud-delivered.

In the 2022 Magic Quadrant for Network Firewalls, Gartner labels Check Point as a Leader, alongside Palo Alto Networks and Fortinet, with favorable pricing models for its existing firewall base of over 100,000 customers. Management noted that while network security is not growing as fast as other areas of cybersecurity, it remains the highest spend category for cybersecurity.

Exhibit 2: Gartner Magic Quadrant for Network Firewalls, 2022

Gartner labels Check Point as a Leader in the Network Firewall market



Source: Gartner

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Harmony Workforce Security

Check Point's Harmony pillar provides user and access security across internet access, private access, email and collaboration, SaaS security, endpoint security, and mobile security.

Harmony Email and Collaboration

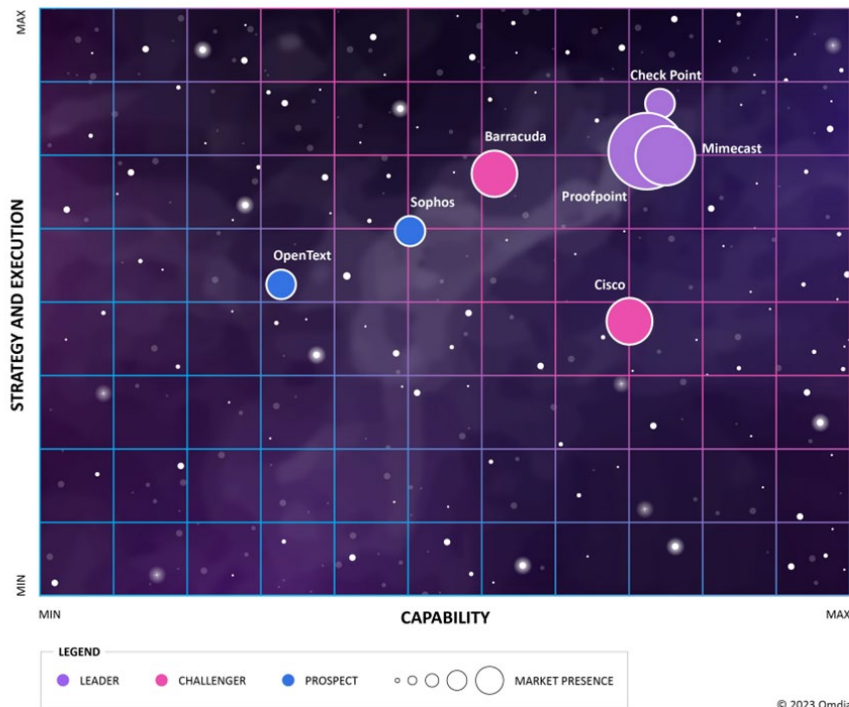
Check Point's entry into email security with Harmony Email and Collaboration was boosted by its acquisition of Avanan in 2021. Harmony Email has over 23,000 customers and protects over 10mn mailboxes, of which 85% are O365-based. Harmony Email offers API-based integrated cloud email security, and the company positions its offering as complementary to existing secure email gateway solutions, from vendors such as Proofpoint and Mimecast, as well as built-in email security offerings from cloud email providers, like Microsoft and Google. Harmony Email sits after other systems, providing inline inspection to detect and prevent anything that has gotten past the security features of other vendors.

Omdia labels Check Point as a Leader in its 2024 Email Security Universe with strength in deep experience with API-based integration through its Avanan acquisition, robust growth, and solid security efficacy. Check Point claims it has superior rates of catching

unknown malware and the rate of missed phishing emails is significantly lower than competitors.

Exhibit 3: Omdia Universe for Email Security, 2024

Omdia labels Check Point as a Leader in the Email Security market



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Source: Omdia

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Per Gartner, approximately 40% of ransomware attacks start through email. However, conversations and presentations from CISOs and security experts suggest that email is the most attacked vector, with some flagging that up to 90% of attacks start with email.

Harmony SASE

Harmony SASE (Secure Access Service Edge) is descended from Check Point's acquisition of Perimeter 81 in 3Q23. Harmony SASE offers 2x internet browsing speed vs. competitors by providing the protection on the endpoint, rather than backhauling to the Cloud, thus placing enforcement points closest to the traffic. Check Point touts that it can offer up to 60% more throughput and 25% less latency than peers, given its hybrid, full-mesh approach of protecting through the Cloud, on-prem, and on-device. The company also noted that its SASE solution will likely be FedRAMP authorized in 2025.

Through the acquisition of Perimeter 81, Check Point gained 3,000+ midsize customers, bringing Check Point's SASE customer count to over 3,500. Perimeter 81 also brought a global network of 77 PoPs (Points of Presence) and 44 different Cloud regions, with expectations to add at least 5 more PoPs in 2024. Management noted that integration of Perimeter 81 is ahead of schedule, with integration of Harmony SASE to Infinity Portal already completed and currently undergoing integration of ThreatCloud AI to Harmony SASE. While we note the company is late to market, we highlight its solid strategy of leveraging its appliance installed base, opening upsell opportunities within its 100,000-customer base.

Per Check Point, SASE reflects a \$3.4bn market opportunity. In a survey conducted by Check Point with 641 responses, 71% of respondents noted end user experience is a top consideration when selecting a SASE solution, while 64% noted richness of security features, 62.5% noted solution cost, and 52% noted a complete SASE solution with all

components from a single vendor as a top consideration. In the same survey, 84% of respondents listed threat prevention as the top required security feature for SASE, with 80% noting URL filtering and 43% listing DLP (Data Loss Prevention).

CloudGuard Cloud Security

CloudGuard offerings are centered around CNAPP (Cloud-Native Application Protection Platform), WAF (Web Application Firewall), and cloud-native firewall. CloudGuard has more than 3,700 customers and secures more than 800bn assets in the Cloud.

CloudGuard WAF protects public internet assets where users engage with web applications and API services, while CloudGuard network security protects the corporate network where internal teams update and maintain the Cloud. Check Point's unified CloudGuard platform, dubbed CNAPPP (Cloud-Native Application Protection and Prevention Platform), offers 8 modules consisting of CSPM, CWPP, CIEM, CDR, DSPM, code security, WAF, and network security, with an average of six capability sets per module. In 2023, Check Point released a Visual Attack Graph module to visualize the pathways to an attack to further compete against vendors, such as Wiz, which offers superior visibility of the threat exposure through its 'Wiz Security Graph'.

Management noted that while Cloud security is not a new market, as CWPP has existed for over 10 years, the market has been reinvented over the last few years with the advent of CNAPP. The CNAPP market is constantly evolving, with current leaders in the market including large security players like Palo Alto Networks or CrowdStrike, as well as pure play vendors such as Wiz, Aqua or Orca. However, management believes that platform players, like themselves, will win the market, as customers are looking for consolidation in the Cloud with other activities.

Firewall Market Share

Exhibit 4: Total Firewall Revenue by Vendor, 2015-2023 (\$mn)

Check Point has largely been successful in minimizing share losses and has maintained roughly 11%-12% share over the last few years

	2015	2016	2017	2018	2019	2020	2021	2022	2023E
Total Firewall	\$5,023.7	\$5,812.1	\$6,664.7	\$7,707.8	\$8,458.1	\$8,558.9	\$9,353.7	\$10,010.7	\$11,449.7
YoY Chg (%)	nmf	15.7%	14.7%	15.7%	9.7%	1.2%	9.3%	7.0%	14.4%
Revenue (\$mn)									
Palo Alto Networks	\$742.2	\$898.8	\$1,058.9	\$1,317.1	\$1,613.5	\$1,862.0	\$2,386.1	\$2,850.7	\$3,517.7
Fortinet	\$691.9	\$858.1	\$1,035.7	\$1,219.8	\$1,435.9	\$1,680.2	\$1,913.2	\$2,089.0	\$2,461.7
Cisco	\$904.7	\$1,177.7	\$1,416.1	\$1,632.5	\$1,666.8	\$1,530.6	\$1,394.0	\$1,627.5	\$1,703.8
Check Point	\$967.3	\$1,003.5	\$1,113.8	\$1,109.8	\$1,167.9	\$1,146.3	\$1,175.3	\$1,238.6	\$1,226.6
SonicWALL	\$374.5	\$419.5	\$425.6	\$396.4	\$403.4	\$449.0	\$553.5	\$583.7	\$612.7
Juniper	\$348.0	\$252.3	\$236.1	\$274.2	\$265.6	\$230.1	\$262.9	\$269.7	\$305.2
WatchGuard	\$182.7	\$190.7	\$224.8	\$249.3	\$260.0	\$248.3	\$240.6	\$246.0	\$254.1
Other Vendors	\$812.3	\$1,011.6	\$1,153.8	\$1,508.8	\$1,645.0	\$1,412.5	\$1,428.1	\$1,105.5	\$1,367.9
Market Share (%)									
Palo Alto Networks	14.8%	15.5%	15.9%	17.1%	19.1%	21.8%	25.5%	28.5%	30.7%
Fortinet	13.8%	14.8%	15.5%	15.8%	17.0%	19.6%	20.5%	20.9%	21.5%
Cisco	18.0%	20.3%	21.2%	21.2%	19.7%	17.9%	14.9%	16.3%	14.9%
Check Point	19.3%	17.3%	16.7%	14.4%	13.8%	13.4%	12.6%	12.4%	10.7%
SonicWALL	7.5%	7.2%	6.4%	5.1%	4.8%	5.2%	5.9%	5.8%	5.4%
Juniper	6.9%	4.3%	3.5%	3.6%	3.1%	2.7%	2.8%	2.7%	2.7%
WatchGuard	3.6%	3.3%	3.4%	3.2%	3.1%	2.9%	2.6%	2.5%	2.2%
Other Vendors	16.2%	17.4%	17.3%	19.6%	19.4%	16.5%	15.3%	11.0%	11.9%
YoY Chg (%)									
Palo Alto Networks	nmf	21.1%	17.8%	24.4%	22.5%	15.4%	28.1%	19.5%	23.4%
Fortinet	nmf	24.0%	20.7%	17.8%	17.7%	17.0%	13.9%	9.2%	17.8%
Cisco	nmf	30.2%	20.2%	15.3%	2.1%	-8.2%	-8.9%	16.8%	4.7%
Check Point	nmf	3.7%	11.0%	-0.4%	5.2%	-1.8%	2.5%	5.4%	-1.0%
SonicWALL	nmf	12.0%	1.5%	-6.9%	1.8%	11.3%	23.3%	5.5%	5.0%
Juniper	nmf	-27.5%	-6.4%	16.1%	-3.1%	-13.4%	14.3%	2.6%	13.1%
WatchGuard	nmf	4.4%	17.8%	10.9%	4.3%	-4.5%	-3.1%	2.3%	3.3%
Other Vendors	nmf	24.5%	14.1%	30.8%	9.0%	-14.1%	1.1%	-22.6%	23.7%

Source: Omdia, BoFA Global Research estimates

BoFA GLOBAL RESEARCH



Glossary

- AI = Artificial Intelligence
- ARR = Annual Recurring Revenue
- AWS = Amazon Web Services
- CDR = Cloud Detection and Response
- CIEM = Cloud Infrastructure Entitlement Management
- CNAPP = Cloud-Native Application Protection Platform
- CSPM = Cloud Security Posture Management
- CWPP = Cloud Workload Protection Platform
- DLP = Data Loss Prevention
- DSPM = Data Security Posture Management
- GenAI = Generative Artificial Intelligence
- IaaS = Infrastructure as a Service
- IPS = Intrusion Prevention System
- MSSP = Managed Security Service Provider
- NaaS = Network as a Service
- NGFW = Next-Generation Firewall
- O365 = Office 365
- SaaS = Software as a Service
- SASE = Secure Access Service Edge
- SMB = Small and Midsize Business
- URL = Uniform Resource Locator
- USB = Universal Serial Bus
- WAF = Web Application Firewall
- XDR = Extended Detection and Response
- XPR = Extended Prevention and Response

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
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	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
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	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

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Important Disclosures

Check Point (CHKP) Price Chart



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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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