



February 16, 2007

Stock Rating:
Sector Outperformer

Sector Weighting:
Market Weight

12-18 mo. Price Target \$27.00
CHKP-OTC (2/15/07) \$24.89

Key Indices: NASDAQ, S&P 100

3-5-Yr. EPS Gr. Rate (E) 10.0%
52-week Range \$16.27-\$25.03
Shares Outstanding 231.7M
Float 177.2M Shrs
Avg. Daily Trading Vol. 1,930,000
Market Capitalization \$5,767.0M
Dividend/Div Yield Nil / Nil
Fiscal Year Ends December
Book Value \$7.10 per Shr
2007 ROE (E) 18.0%
LT Debt NA
Preferred Nil
Common Equity \$1,646.0M
Convertible Available No

Earnings per Share	Prev	Current
2006		\$1.35A
2007		\$1.49E
2008		\$1.71E

P/E	
2006	18.4x
2007	16.7x
2008	14.6x

Company Description

Check Point Software develops Internet security solutions including firewalls for enterprise networks, telcos, ISPs, ASPs, MSPs, and virtual private networks (VPNs).

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Infrastructure Software

Check Point Software Technologies Ltd.

Analyst Day TakeAways--The Spring Is Back In Its Step

- CHKP highlighted its vision and go to market strategy at its Investor Day held on 2/15. CHKP identified data security (PointSec acquisition), the IDS/IPS product family (NFR acquisition), new UTM-1 appliances, and NGX R65--the next version of its NGX platform--as its 4 key initiatives for 2007.
- Our positive stance on CHKP is based on the growth opportunities provided by new product initiatives in data security and IDP as a result of its PointSec and NFR acquisitions. Newly introduced UTM-1 appliances catering to the mid-market could also potentially provide some upside.
- CHKP reiterated its recently (1/24) issued FY07 rev/eps guidance of \$690-\$720M/\$1.40-\$1.54. Our FY07 gross margin estimate of 94.2% could, however, be at risk based on the success of lower margin yielding new UTM-1 and IDP-1 appliances. Mgmt expects GM to be below 95%, closer to 93%.
- Maintain our SO rating. Our \$27 price target equates to 15.7x FY08E EPS of \$1.71 vs. peers' 17-20x. This multiple seems even more attractive in light of CHKP's strong cash balance of about \$4.80/share (post acquisition) and est. 15% EPS growth in 2008.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

The Spring Is Back In Its Step – Maintain SO

We attended Check Point's annual investor day, held after a two-year hiatus, in New York yesterday (Feb-15) and came away with a warm fuzzy feeling (much needed in the spiteful New York City cold) on Check Point's opportunities and its place in the overall security landscape. Founder, CEO and Chairman Gill Shwed kicked off the event with a historical perspective on Check Point and then delved right in to Check Point's new strategy of "Pure Security" stemming from its recent acquisitions of NFR Security and PointSec.

Our positive stance on Check Point is based on the growth opportunities provided by new product initiatives in data security and IDP as a result of its PointSec and NFR Security acquisitions. In addition, we believe newly introduced UTM-1 appliances catering to the mid-market could potentially provide some upside. New product initiatives are expected to provide impetus to product revenue contribution, which faces easier YoY compares in FY07. We maintain our Sector Outperformer rating and our \$27 price target.

Some Key Takeaways

Market Fragmentation Presents an Opportunity

The typical enterprise today deals with an average of 15 vendors on security alone, which seems too high a number to manage. Enterprises are looking to cut this to a more manageable five vendors or so. Check Point aims to be one of the five security vendors with its expanded lineup of products hitting majority of Enterprise Security concerns.

UTM-1 could provide upside to 1Q06

Check Point's UTM-1 appliance released on 2/5 got significant mileage at the analyst day. We believe this to be a key product in Check Point's lineup especially due to its hardware component, which should help shore up ASPs without having too significant an impact on gross margins. We view the box as incrementally positive for CHKP as it fills the void between CHKP's Safe@Office and large enterprise 3rd-party appliances.

The UTM box comes in 3 flavors priced from \$7,500 to \$15,000, which appears to be a compelling value given the capabilities of the box. Currently catering to about 1,000 UTM users, CHKP is, we believe, working on higher capacity versions of the appliance, which we expect will be released in the middle of FY07. We are glad to see CHKP finally make good on a product demanded by its channel and customers. The box, manufactured by Crossbeam, includes firewall, VPN, antivirus, anti-spam, URL filtering and a light flavor of IDP capabilities.

The channel has welcomed the UTM product with great enthusiasm as the higher product price point due to its hardware component allows the channel to garner a higher commission. While it is early days yet, our initial channel checks have provided positive feedback from the channel both on the product itself and initial demand.

NFR Security Brings Much Needed IDP Expertise

Check Point expects to launch its IPS-1 family of products in the near-term as a result of its NFR Security acquisition. This family of products is expected to be combined with Check Point's InterSpect line, which then would be integrated into VPN-1. We don't expect complete integration of NFR products until 4Q07.

PointSec To Account For 14% of Revenue in FY07

PointSec CEO Peter Larsson gave a brief overview of PointSec, indicating that the market was currently at an inflection point in data security. PointSec estimates the current market for data security to be \$500 million and growing anywhere between 30%-40% with PointSec (and now Check Point) being a leader in that space.

For FY07, management reiterated that PointSec is expected to contribute approximately \$100 million in revenue (14% of mix) inline with earlier stated range of \$95-105 million. PointSec has the largest install base in end point security with customer retention rates in the 90% range. PointSec's market drivers include 1) headline risk faced by companies due to data loss, 2) higher penetration levels for notebooks, i.e. endpoints, 3) an increasingly mobile workforce, and 4) high potential costs associated with data loss including but not limited to reputation risk and litigation risk.

Sales Strategy

Check Point sees the mid-market as a huge opportunity with UTM-1 product launched with an eye on this market. On the enterprise and high end market, Check Point has initiated a Strategic Account Agreement program to go after large enterprises and help them strategize and deploy their various security needs. The agreement runs for a 3-year period and allows Check Point to penetrate larger accounts at deeper levels. The Named Account business, which typically consists of \$1 million plus deals, seems to be gaining traction.

Check Point Remains Keen on Using Cash for Buybacks

Check Point repurchased 23.25 million shares for a total of \$435.3 million in 2006 at an average price of \$18.72/share. With ~ \$1.1B on the balance sheet and CFFO for FY07 expected to be in excess of \$380 million, we expect Check Point to continue to use its cash to buy back shares as and when it feels prudent.

FY07 Guidance Reiterated

Having provided FY07 guidance just last month (1/24), management reiterated revenue guidance of \$690 - \$720 million for non-GAAP EPS in the range \$1.40 - \$1.54. We are at \$712 million and \$1.49. Gross margin is expected to be below 95% closer to 93% based on the success of lower margin UTM-1 and IPS-1 appliance sales.

Management expects all product categories to show growth in FY07 with premium growth expected from Smart Defense, UTM-1, VPN-1 Power and High End. In terms of revenue contribution management expects Products (licenses) to account for 46% of revenue in 2007 up from 38% in 2006 and subscription 40% vs. 44% in 2006. Services contribution is expected to be 14% in 2007 vs. last year's 18%.

Price Target Calculation

The stock currently trades at a discount to its peers on a P/E basis (FY07E 15.6x vs. peers' 18-22x). In determining our price target of \$27, we have applied a P/E multiple of 15.7x to our FY08 EPS estimate of \$1.71 slightly below peer multiple of 17-21x (we apply a slight discount based on possible integration risk with recent acquisitions). This multiple seems even more attractive in light of Check Point's strong cash balance of about \$4.80 per share (post acquisition).

Key Risks to Price Target

Risks to our price target include a slowdown in IT expenditures, which may cause deals to be delayed and/or downsized; a difficult competitive landscape; and integration risk surrounding Check Point's recent acquisitions.

Exhibit 1.

Check Point Software Technologies Ltd.

(\$ and Shares in Millions, Except Per Share Figures)

Income Statement	FY	Quarter Ending				FY	Quarter Ending				FY	FY
	2005A	Mar-06A	Jun-06A	Sep-06A	Dec-06A	2006A	Mar-07E	Jun-07E	Sep-07E	Dec-07E	2007E	2008E
Revenue	\$579.4	\$133.6	\$138.9	\$142.5	\$160.1	\$575.1	\$164.4	\$171.4	\$176.8	\$199.5	\$712.2	\$783.4
Cost of Revenue	24.7	6.6	7.5	8.0	8.5	30.5	10.7	9.6	9.9	11.1	41.3	47.0
Gross Profit	\$554.6	\$127.0	\$131.5	\$134.5	\$151.6	\$544.6	\$153.8	\$161.8	\$166.9	\$188.4	\$670.8	\$736
Research & Development	49.3	12.7	12.9	13.4	13.8	52.8	15.8	16.3	17.3	19.7	69.1	72.1
Sales & Marketing	140.3	33.6	37.4	36.9	40.7	148.5	46.4	48.3	49.9	54.8	199.4	203.7
General & Administrative	24.0	5.9	6.3	5.9	6.0	24.1	8.9	8.6	8.8	9.3	35.6	31.3
Total Operating Expenses	\$213.6	\$52.2	\$56.6	\$56.1	\$60.4	\$225.4	\$71.0	\$73.2	\$76.0	\$83.8	\$304.1	\$307.1
Operating Income	\$341.1	\$74.8	\$74.8	\$78.4	\$91.2	\$319.2	\$82.7	\$88.6	\$90.9	\$104.5	\$366.8	\$429.3
Interest Income & Other	54.2	15.5	16.2	15.6	16.3	63.6	15.1	11.2	12.3	13.2	51.8	61.1
Other Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	\$395.3	\$90.3	\$91.1	\$94.0	\$107.5	\$382.9	\$97.9	\$99.8	\$103.2	\$117.7	\$418.6	\$490.4
Income Taxes (Benefit)	66.7	15.1	15.1	15.4	16.4	62.1	17.6	18.0	18.6	21.2	75.3	88.3
Minority Interest (Loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	\$328.5	\$75.1	\$76.0	\$78.6	\$91.1	\$320.8	\$80.2	\$81.9	\$84.6	\$96.5	\$343.2	\$402.1
Diluted EPS	\$1.30	\$0.31	\$0.32	\$0.34	\$0.40	\$1.35	\$0.35	\$0.36	\$0.37	\$0.41	\$1.49	\$1.71
WA Shares Outstanding	251.7	245.7	241.0	231.7	228.9	236.8	229.3	230.5	231.6	232.8	231.0	235.7

Source: Company Data, CIBC World Market Estimates.

Exhibit 2.

Check Point Software Technologies Ltd.

Margin Analysis	FY	Quarter Ending				FY	Quarter Ending				FY	FY
	2005A	Mar-06A	Jun-06A	Sep-06A	Dec-06A	2006A	Mar-07E	Jun-07E	Sep-07E	Dec-07E	2007E	2008E
Gross Margin	95.7%	95.1%	94.6%	94.4%	94.7%	94.7%	93.5%	94.4%	94.4%	94.4%	94.2%	94.0%
Research & Development	8.5%	9.5%	9.3%	9.4%	8.6%	9.2%	9.6%	9.5%	9.8%	9.9%	9.7%	9.2%
Sales & Marketing	24.2%	25.1%	26.9%	25.9%	25.4%	25.8%	28.2%	28.2%	28.2%	27.5%	28.0%	26.0%
General & Administrative	4.1%	4.4%	4.5%	4.1%	3.7%	4.2%	5.4%	5.0%	5.0%	4.7%	5.0%	4.0%
Operating Margin	58.9%	56.0%	53.9%	55.0%	57.0%	55.5%	50.3%	51.7%	51.4%	52.4%	51.5%	54.8%
Pre-Tax Margin	68.2%	67.6%	65.5%	66.0%	67.2%	66.6%	59.5%	58.3%	58.3%	59.0%	58.8%	62.6%
Effective Tax Rate	16.9%	16.8%	16.6%	16.4%	15.3%	16.2%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Net Income Margin	56.7%	56.2%	54.7%	55.1%	56.9%	55.8%	48.8%	47.8%	47.8%	48.4%	48.2%	51.3%
Sequential Growth Rates												
Total Revenue		-14.4%	4.0%	2.6%	12.3%		-71.4%	4.2%	3.2%	12.8%		
Research & Development		4.4%	1.6%	3.2%	3.4%		-70.1%	3.1%	6.4%	13.6%		
Sales & Marketing		-7.4%	11.2%	-1.3%	10.2%		-68.8%	4.2%	3.2%	10.0%		
General & Administrative		2.4%	6.6%	-6.8%	1.7%		-63.1%	-3.5%	3.2%	5.4%		
Year-on-year Growth Rates												
Total Revenue	12.4%	-3.0%	-3.9%	1.0%	2.6%	-0.7%	23.1%	23.4%	24.1%	24.6%	23.8%	10.0%
Gross Profit	12.8%	-3.9%	-4.8%	-0.2%	1.3%	-1.8%	21.1%	23.1%	24.1%	24.2%	23.2%	9.8%
Operating Income	16.7%	-5.4%	-10.1%	-5.9%	-4.5%	-6.4%	10.7%	18.4%	15.9%	14.6%	14.9%	17.0%
Pre-Tax Income	17.3%	-1.3%	-5.9%	-3.7%	-1.8%	-3.1%	8.4%	9.6%	9.8%	9.5%	9.3%	17.1%
Net Income	17.6%	-1.6%	-5.4%	-2.3%	-0.3%	-2.4%	6.8%	7.7%	7.7%	5.9%	7.0%	17.1%
WA Shares Outstanding	-3.4%	-4.1%	-4.5%	-7.4%	-7.9%	-5.9%	-6.7%	-4.4%	0.0%	1.7%	-2.4%	2.0%
Diluted EPS	21.8%	2.6%	-1.0%	5.4%	8.3%	3.8%	14.4%	12.6%	7.7%	4.2%	9.6%	14.8%

Source: Company Data, CIBC World Market Estimates.

Exhibit 3.

Check Point Software Technologies Ltd.

(\$ in Millions)

Balance Sheet	FY	Quarter Ending				FY	Quarter Ending				FY	FY
	2005A	Mar-06A	Jun-06A	Sep-06A	Dec-06A	2006A	Mar-07E	Jun-07E	Sep-07E	Dec-07E	2007E	2008E
Assets												
Cash & Cash Equivalents	\$1,737	\$1,403	\$1,177	\$1,190	\$1,091	\$1,091	\$679	\$786	\$874	\$930	\$930	\$1,922
Trade Receivables	127	98	84	92	142	142	116	103	106	144	144	138
Other Current Assets	21	21	21	18	17	17	23	24	25	28	28	35
Total Current Assets	\$1,885	\$1,521	\$1,282	\$1,300	\$1,250	\$1,250	\$818	\$913	\$1,005	\$1,102	\$1,102	\$2,095
Property & Equipment, Net	8	7	45	45	47	47	47	46	44	43	43	47
Long Term Investments		388	549	422	559	559	569	579	589	599	599	599
Other Long-Term Assets	201	201	200	192	218	218	216	213	211	208	208	198
Total Assets	\$2,094	\$2,117	\$2,076	\$1,960	\$2,074	\$2,074	\$1,650	\$1,751	\$1,849	\$1,953	\$1,953	\$2,940
Liabilities and Equity												
Deferred Revenues	\$169	\$179	\$177	\$173	\$204	\$204	\$233	\$243	\$251	\$223	\$223	\$235
Trade Payables and Other	137	136	135	136	154	154	176	183	189	223	223	251
Total current liabilities	\$306	\$314	\$311	\$310	\$358	\$358	\$409	\$427	\$440	\$447	\$447	\$486
Total Liabilities	\$309	\$318	\$315	\$314	\$363	\$363	\$414	\$434	\$447	\$454	\$454	\$492
Stockholders Equity	1,785	1,799	1,761	1,646	1,712	1,712	1,236	1,318	1,402	1,499	1,499	2,447
Total Liabilities & Equity	\$2,094	\$2,117	\$2,076	\$1,960	\$2,074	\$2,074	\$1,650	\$1,751	\$1,849	\$1,953	\$1,953	\$2,940

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Source: Company Data, CIBC World Market Estimates.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	\$0.31A	\$0.32A	\$0.34A	\$0.40A	\$1.35A
2007 Current	\$0.35E	\$0.36E	\$0.37E	\$0.41E	\$1.49E
2008 Current	--	--	--	--	\$1.71E

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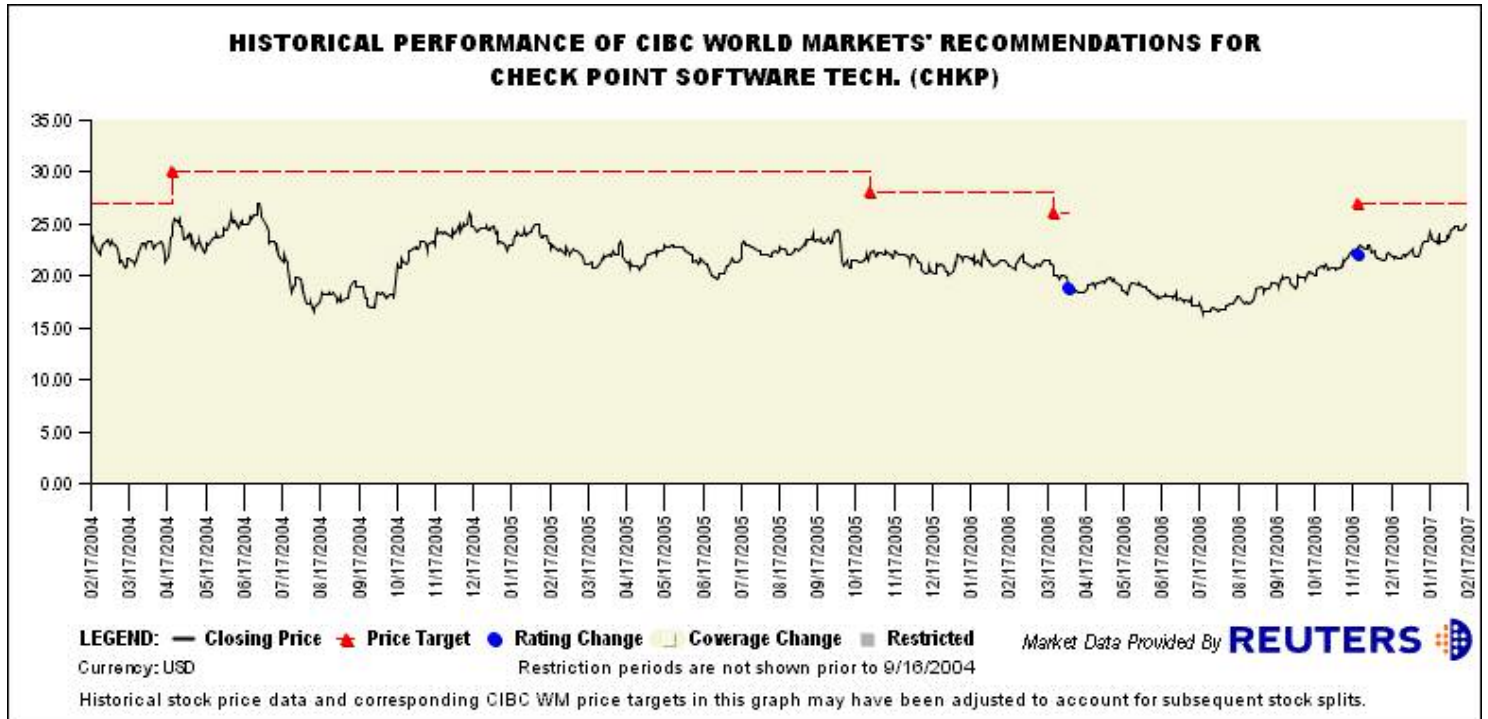
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CIBC World Markets Price Chart



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Date	Change Type	Closing Price	Rating	Price Target	Coverage
04/21/2004	▲	23.97	SO	30.00	Shaul Eyal
10/28/2005	▲	22.17	SO	28.00	Shaul Eyal
03/24/2006	▲	20.00	SO	26.00	Shaul Eyal
04/04/2006	▲●	18.76	SP	None	Shaul Eyal
11/20/2006	▲●	22.02	SO	27.00	Shaul Eyal

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Abbreviation	Rating	Description
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SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
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R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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(as of 16 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	329	38.5%	Sector Outperformer (Buy)	171	52.0%
Sector Performer (Hold/Neutral)	427	49.9%	Sector Performer (Hold/Neutral)	210	49.2%
Sector Underperformer (Sell)	73	8.5%	Sector Underperformer (Sell)	34	46.6%
Restricted	14	1.6%	Restricted	13	92.9%

Ratings Distribution: Infrastructure Software Coverage Universe

(as of 16 Feb 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	71.4%	Sector Outperformer (Buy)	1	20.0%
Sector Performer (Hold/Neutral)	2	28.6%	Sector Performer (Hold/Neutral)	0	0.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

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