

Check Point Software Tech. Ltd.
(CHKP^{5,8} \$21.18) Buy

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CHKP: CORE BUSINESS STEADY. NEW PRODUCT DEMAND BUILDS - SOFTLY.

We recently concluded a round of pricing and demand checks with fifteen of Check Point's domestic channel partners. Overall, partners are expecting Q1 to be flat to down 5%, in line with our expectations of 2-3% decline. We are projecting \$139.8m in revenue and \$0.29 in EPS for 1Q05. Key takeaways from our checks follow:

Demand for core products appears stable. We believe Check Point continues to benefit from ongoing Juniper/Netscreen channel integration issues and not seeing unusual pricing discounts from Cisco and others. Core products accounted for 75% of product revenue in 4Q04 and are expected to grow 10% y/y in 2005. We believe demand for VPN-1 Express and subscription-based SmartDefence service (high margin add on for gateways) is particularly strong. We found street pricing of SmartDefense almost same as MSRP (please see attached table for details). In other words, channel partners are happy making high margins. We believe SmartDefense will continue to be one of the key drivers of deferred revenue growth as adoption rate increases among a large customer base.

Pricing data suggests demand for newer products is building - softly. Newer products accounted for 25% of product revenue in 4Q04 and are expected to grow +50% y/y in 2005. During our checks we found newer appliances, Connectra for Web security and InterSpect for internal security selling 22% below MSRP, on average. As a reference, security appliances typically sell 10-20% below MSRP in the security market. Among newer software products, we found street price for the Integrity family to be 34% below MSRP, on average. As a reference, security software products typically sell 20-30% below MSRP. We believe the slightly out-of-range discounts are explainable by 1) These being relatively new products (Connectra 2.0 and Integrity 6.0 were released last month) and pricing is still settling. 2) These products are somewhat uniquely positioned in the market and require missionary selling incentives. At this early in the year, it's hard to draw any definite conclusions, especially in a seasonally weak quarter. Nevertheless, should these discounts accelerate, upside to our current 15% y/y growth estimates may be limited.

	MSRP (\$)	Avg Street Price (\$)	Discount
Connectra 100 users	15,000	11,671	-22%
Connectra 250 users	36,000	27,660	-23%
Connectra 500 users	60,000	46,100	-23%
InterSpect 210	9,000	7,133	-21%
InterSpect 410	18,000	13,929	-23%
InterSpect 610	36,000	29,808	-17%
Average			-22%
Smart Defense Service			
25 Gateways	10,000	9,828	-2%
100 Gateways	30,000	29,074	-3%
Average			-2%
Integrity Secure Client 100 users	9,500	6,233	-34%
Integrity Secure Client 500 users	34,000	20,491	-40%
Integrity 100 seats	7,500	5,105	-32%
Integrity 500 seats	27,000	18,363	-32%
Integrity Desktop 100 seats	3,500	2,299	-34%
Integrity Desktop 500 seats	14,500	9,519	-34%
Average			-34%

Average street price is based on quotes from 15 resellers in North America

Valuation: We are maintaining our estimates and Buy rating as we continue to believe that CHKP shares offer upside potential of +20% over the next 12 months. CHKP shares are currently trading at a forward P/E of 16x, a 25% discount to sector multiple. Given the recent multiple contraction in the security market, we are reducing our price target from \$30 to \$26. Our new target is based on a forward year P/E multiple of 20x (conservatively 10% below the sector multiple of 22x) on our FY06 EPS estimate of \$1.31.

Risks: Slower than expected adoption of new products and services, and effective competition in core markets are key risks to achieving our price target.

Key Data

52-Week Range	\$16.30-\$27.16
Weighted Average Shares (MM)	251.4
Float (MM)	180
% Held Institutionally	48.6%
Market Capitalization (MM)	\$6,112
Average Daily Volume (000)	3201
Revenues - LTM (MM)	\$515.4
Total Debt (MM)	\$0.00
Cash per Share	\$6.13
Long-Term Growth Rate	10%-12%
New 12-Month Price Target	\$26
Previous 12-Month Price Target	\$30

Fiscal Year Ends: Dec.	2004A	2005E	2006E
Revenue (MM)	\$515.4	\$592.6	\$652.2
Earnings per Share			
Q1	\$0.25	\$0.29	N/A
Q2	\$0.25	\$0.29	N/A
Q3	\$0.28	\$0.30	N/A
Q4	\$0.31	\$0.32	N/A
Year	\$1.08	\$1.22	\$1.31
P/E	20X	17X	16X
Shares Fully Diluted (MM)	257.5	257.9	258.8

Check Point Software Technologies, Ltd is a leading provider of solutions for perimeter, internal, and web security of information networks.

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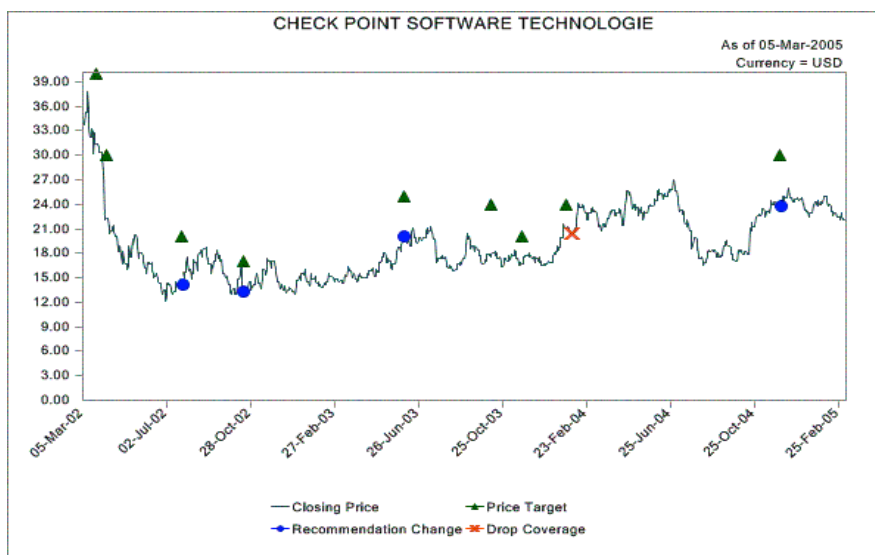
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INCOME STATEMENT (data in \$000's except per share)	FY 04				FY 05				Fiscal Years		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	2005E	2006E
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05E	Jun-05E	Sep-05E	Dec-05E			
Revenues	116,062	126,919	129,330	143,049	139,849	146,555	147,079	159,073	515,360	592,557	652,171
Product & Licenses	63,009	67,899	67,627	77,142	73,497	78,274	78,075	87,170	275,677	317,017	346,377
Software subscriptions	44,013	48,681	50,365	53,268	54,067	55,013	55,206	56,586	196,327	220,872	241,163
Services	9,040	10,339	11,338	12,639	12,285	13,268	13,799	15,316	43,356	54,668	64,630
Cost of Revenues	4,934	6,443	6,187	5,989	6,713	7,474	7,501	8,113	23,553	29,801	35,869
Gross Profit	111,128	120,476	123,143	137,060	133,136	139,081	139,578	150,960	491,807	562,756	616,302
Operating Expenses:											
R&D	8,662	10,844	11,665	12,015	11,887	12,604	12,943	13,998	43,186	51,432	53,478
S&M	28,598	34,417	33,294	36,487	34,962	37,079	37,505	40,564	132,796	150,110	164,741
G&A	4,850	6,474	6,283	6,050	6,293	6,595	6,619	7,476	23,657	26,983	28,025
EBIT / Operating Income (loss)	69,018	68,741	71,901	82,508	79,994	82,804	82,511	88,922	292,168	334,231	370,057
Interest income, net	10,769	10,579	11,459	11,970	11,700	11,900	12,100	12,300	44,777	48,000	48,000
Non-opr. & one-time charges	23,098	3,144	2,925	2,782	-	-	-	-	-	-	-
GAAP income (loss) bfr. tax	56,689	76,176	80,435	91,696	91,694	94,704	94,611	101,222	336,945	382,231	418,057
pro-form Income (loss) bfr. Tax	79,787	79,320	83,360	94,478	91,694	94,704	94,611	101,222	336,945	382,231	418,057
Provision for Inc. Tax. (benefit)	14,761	12,913	13,677	15,252	16,505	17,047	17,030	18,220	56,603	68,802	79,431
GAAP Net Income (loss)	41,928	63,263	66,758	76,444	75,189	77,657	77,581	83,002	280,342	313,429	338,626
Pro-forma Net Income (loss)	65,026	66,407	69,683	79,226	75,189	77,657	77,581	83,002	280,342	313,429	338,626
GAAP EPS	\$0.16	\$0.24	\$0.27	\$0.30	\$0.29	\$0.30	\$0.30	\$0.32	\$1.08	\$1.22	\$1.31
Fully Diluted Shares	259,829	266,800	251,423	257,459	257,659	257,859	258,059	258,259	258,878	257,959	258,759
Pro-forma EPS	\$0.25	\$0.25	\$0.28	\$0.31	\$0.29	\$0.30	\$0.30	\$0.32	\$1.08	\$1.22	\$1.31
Fully Diluted Shares	259,829	266,800	251,423	257,459	257,659	257,859	258,059	258,259	258,878	257,959	258,759
Key Metrics											
Days Sales Outstanding	63	51	48	61							
Deferred Revenue	124,371	129,971	124,779	141,114							
Seq. change	17.5%	4.5%	-4.0%	13.1%							
y/y change	22%	26%	26%	33%							
Cash / Share (\$)	6.09	5.97	6.12	6.13							
Revenue Mix											
Licenses	54%	53%	52%	54%	53%	53%	53%	55%	53%	53%	53%
Software subscriptions	38%	38%	39%	37%	39%	38%	38%	36%	38%	37%	37%
Services	8%	8%	9%	9%	9%	9%	9%	10%	8%	9%	10%
Margin Analysis											
Gross Margin	95.7%	94.9%	95.2%	95.8%	95.2%	94.9%	94.9%	94.9%	95.4%	95.0%	94.5%
R&D	7.5%	8.5%	9.0%	8.4%	8.5%	8.6%	8.8%	8.8%	8.4%	8.7%	8.2%
S&M	24.6%	27.1%	25.7%	25.5%	25.0%	25.3%	25.5%	25.5%	25.8%	25.3%	25.3%
G&A	4.2%	5.1%	4.9%	4.2%	4.5%	4.2%	4.5%	4.7%	4.6%	4.6%	4.3%
Operating Margin	59.5%	54.2%	55.6%	57.7%	57.2%	56.5%	56.1%	55.9%	56.7%	56.4%	56.7%
Interest Income, net	9.3%	8.3%	8.9%	8.4%	8.4%	8.1%	8.2%	7.7%	8.7%	8.1%	7.4%
Pretax Income (loss)	68.7%	62.5%	64.5%	66.0%	65.6%	64.6%	64.3%	63.6%	65.4%	64.5%	64.1%
Tax Rate	18.5%	16.3%	16.4%	16.1%	18.0%	18.0%	18.0%	18.0%	16.8%	18.0%	19.0%
Net Income (loss)	56.0%	52.3%	53.9%	55.4%	53.8%	53.0%	52.7%	52.2%	54.4%	52.9%	51.9%
Sequential Growth											
Revenue (q/q)	0.7%	9.4%	1.9%	10.6%	-2.2%	4.8%	0.4%	8.2%	19%	15.0%	10.1%
Licenses	0.0%	7.8%	-0.4%	14.1%	-4.7%	6.5%	-0.3%	11.7%	20%	15.0%	9.3%
Software subscriptions	3.6%	10.6%	3.5%	5.8%	1.5%	1.8%	0.4%	2.5%	21%	12.5%	9.2%
Services	-7.8%	14.4%	9.7%	11.5%	-2.8%	8.0%	4.0%	11.0%	6%	26.1%	18.2%
Revenue (y/y)	10.7%	19.6%	21.6%	24.1%	20.5%	15.5%	13.7%	11.2%			
Gross Profit	0.4%	8.4%	2.2%	11.3%	-2.9%	4.5%	0.4%	8.2%	19%	14%	10%
R&D	15.1%	25.2%	7.6%	3.0%	-1.1%	6.0%	2.7%	8.2%	47%	19%	4%
S&M	-4.5%	20.3%	-3.3%	9.6%	-4.2%	6.1%	1.2%	8.2%	20%	13%	10%
G&A	11.5%	33.5%	-3.0%	-3.7%	4.0%	4.8%	0.4%	13.0%	34%	14%	4%
Operating Income (loss)	0.2%	-0.4%	4.6%	14.8%	-3.0%	3.5%	-0.4%	7.8%	14%	14%	11%
Pro-forma EPS	-1.9%	-0.5%	11.4%	11.0%	-5.2%	3.2%	-0.2%	6.9%	13.3%	12%	8%



CHECK POINT SOFTWARE TECHNOLOGIE

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
30-Nov-2004	23.74	BUY	30-Nov-2004	23.74	30.00
30-Jan-2004	20.43	DROPPED	23-Jan-2004	21.15	24.00
05-Jun-2003	20.00	BUY/MP	20-Nov-2003	16.55	20.00
18-Oct-2002	13.28	MP/MP	07-Oct-2003	17.79	24.00
23-Jul-2002	14.22	BUY/BUY	05-Jun-2003	20.00	25.00
			18-Oct-2002	13.28	17.00
			22-Jul-2002	14.93	20.00
			05-Apr-2002	22.33	30.00
			22-Mar-2002	31.38	40.00

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- Buy: 12 months, estimated 20% or more appreciation
- Market Perform: Performance in line with the market averages anticipated.
- Under Perform: 12 months, estimated underperformance of 20% or more

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	% of CEUT Universe with this rating	% of rating tier for which CEUT provided IB services
Buy	42%	48%
Market Perform	54%	44%
Under Perform	5%	8%

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