

2c EPS Surprise on Higher Rev. and Lower OpEx - Upgrading to Buy 2

■ Solid quarter beats expectations

CHKP reported a +ve 2c EPS surprise beating our and consensus 30c estimate. Product and Service revenue were the drivers with Subscription coming in slightly shy following a strong Q1. Revenues of \$144.5m (+5% q/q, +14% y/y) were better than our \$142m estimate but in line with consensus. The better EPS was driven by higher revenues, lower operating expenses and higher financial income.

■ See upside risk to our lower than consensus Q3 revenue estimate

Given the better than our estimated Q2 revenue and EPS figures, we see upside risk our low-end Q3 forecast (management plans an 8:30am conference call). Deferred revenue was up \$4m in line with our \$5m estimate while operating cash flow of \$85m was better than we expected. The company bought 4.7m shares during the quarter at an average price of about \$21.9.

■ So far CHKP business model appears resilient

We were expecting CHKP would need to increase selling and marketing efforts in response to increased competitive marketing activity. So far CHKP business has been resilient and in fact operating margin this quarter improved q/q by 20bp.

■ Valuation: \$26.6 PT based on '06e PE of 20x

We can no longer ignore CHKP's solid operating performance and while we are entering the seasonal weak Q3, we view the current share price as an attractive buying level. We are upgrading our rating to Buy 2 from Neutral 2; our price target is up from \$24.00 to \$26.60.

Highlights (US\$m)	12/03	12/04	12/05E	12/06E	12/07E
Revenues	433	515	575	636	-
EBIT	250	287	315	351	-
Net income (UBS)	238	266	291	322	-
EPS (UBS, US\$)	0.94	1.07	1.22	1.33	-
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	-

Profitability & Valuation	5-yr hist. av.	12/04	12/05E	12/06E	12/07E
EBIT margin %	56.1	55.6	54.8	55.1	-
ROIC (EBIT) %	-241.2	-191.2	-192.4	-192.6	-
EV/EBITDA x	36.9	15.5	13.6	11.6	-
PE (UBS) x	40.3	20.5	17.7	16.3	-
Dividend yield %	0.0	0.0	0.0	0.0	-

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$21.62 on 18 Jul 2005 19:36 EDT

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Americas

Software

Rating **Buy 2**
Prior: Neutral 2

Price target **US\$26.60**
Prior: US\$24.00

Price **US\$21.62**

RIC: CHKP.O BBG: CHKP US

19 July 2005

Trading data

52-wk. range	US\$25.99-16.57
Market cap.	US\$5.54bn
Shares o/s	256m
Free float	51%
Avg. daily volume ('000)	2,248
Avg. daily value (US\$m)	48.2

Balance sheet data 12/05E

Shareholders' equity	US\$1.70bn
P/BV (UBS)	3.3x
Net cash (debt)	US\$1.17bn

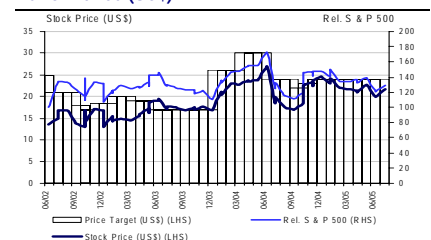
Forecast returns

Forecast price appreciation	+23.0%
Forecast dividend yield	0.0%
Forecast stock return	+23.0%
Market return assumption	8.9%
Forecast excess return	+14.1%

EPS (UBS, US\$)

	12/05E			12/04
	From	To	Cons.	Actual
Q1	-	0.30	0.30	0.25
Q2E	-	0.30	0.30	0.25
Q3E	-	0.30	0.31	0.27
Q4E	-	0.33	0.33	0.31
12/05E	-	1.22	1.24	
12/06E	-	1.33	1.35	

Performance (US\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3

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Table 1: Check Point Software June 2005 Quarterly Results vs. UBS Estimates

(\$m)	2Q05A	qtr/qtr	yr/yr	2Q05E	Comment
Revenues:					
Product Sales	\$71	9%	5%	\$69	Better than we expected and yr/yr up from 4% in Q1
Software Subscription	59	1%	21%	61	Slightly below our forecast after very strong Q1
Services	14	5%	40%	12	
Total Revenues	\$144	5%	14%	\$142	First quarter of apples-to-apples 14% better than our 12% organic growth forecast
Gross Profit	\$138	5%	15%	\$137	
PF Operating Income	\$83	5%	21%	\$80	\$0.004 of \$0.02 EPS upside from lower than expected R&D
Net Income	\$80	9%	21%	\$73	\$0.004 of \$0.02 EPS upside from higher than expected financial income
Diluted EPS	\$0.32	7%	18%	\$0.30	
Diluted Shares	252.2			249.6	Buys back 4.7m shares paying an average \$21.9
Tax Rate	16.9%			18.0%	Contributes \$0.004 to \$0.02 EPS upside
Pro forma margins					
Gross Margin	95.5%	-50bp	+60bp	96.2%	
Operating Margin	57.6%	20bp	339bp	56.0%	
Deferred Revenue	\$154	3%	18%	\$155	
Cash Flow Operations	\$85	-13%	4%	\$78	Another strong cash flow quarter

Source: UBS and Company reports

■ Check Point Software

Check Point is the leading global provider of software-based firewall and virtual private network (VPN) technology, recording revenue of \$515 million in 2004. The company pioneered network-layer inspection technology, still the dominant approach to Internet security at the network perimeter. Check Point recently completed the acquisition of privately-held ZoneLabs, an internal network security software vendor. As of March 31, 2005, net cash/short-term liquidity totaled \$1.05 billion. Check Point was founded in 1993 with headquarters in Israel and U.S. operations based in California.

■ Statement of Risk

The Security software space is becoming increasingly competitive with networking companies entering the space.

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	40%	41%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	49%	43%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	35%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2005.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

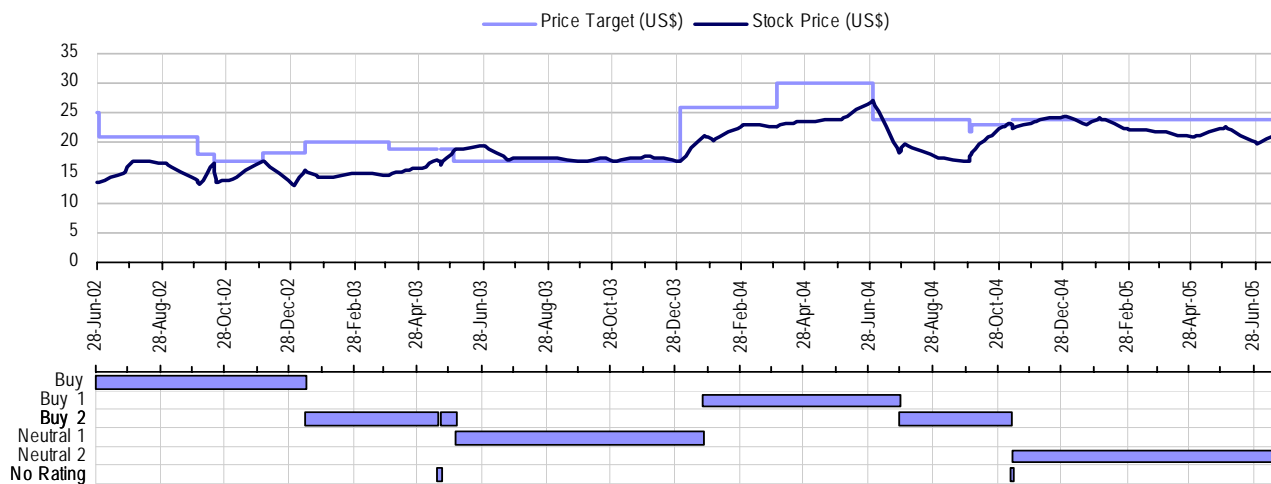
Company Name	Reuters	Rating	Price	Price date/time
Check Point Software ^{16,22}	CHKP.O	Buy 2	US\$21.62	18 Jul 2005 19:36 EDT

Source: UBS. EDT: Eastern daylight time.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Check Point Software (US\$)



Source: UBS; as of 18 July 2005.

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