Check Point

Merger Acquisition Divestiture BUY

Equity | Israel | Security and Infrastructure Software
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Check Point acquires Nokia security unit

Merrill Lynch

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Limited details, but on the surface, a good move

Check Point announced this morning an agreement to acquire the security appliance business of Nokia. The company did not hold an investor call or provide financial details, though the transaction is expected to close in 1Q09. Overall, we like the deal, as we believe the Nokia assets were likely obtained at a bargain valuation and should help bolster Check Point's appliance strategy.

Complicated relationship starts a new chapter

Nokia had been a preferred hardware appliance platform for Check Point's security software for over 10 years, and at one point we estimate that over 40% of Check Point's revenue was sold in conjunction with Nokia appliances. In recent years, however, Nokia's share of Check Point's business had declined as Check Point embraced new partners and unveiled its own line of integrated appliances.

Channel synergies, installed base suggest good strategic fit

Nokia has a large installed base (currently used by roughly 85% of Fortune 500 companies), which should provide a substantial upselling opportunity. Many of Check Point's reseller partners are also Nokia partners, which should lead to greater channel synergies. Additionally, Nokia's appliances are more mature than Check Point's own appliances, and thus we would expect a more robust overall product lineup as the technologies are integrated. We also believe the acquisition should undermine competitive sales tactics that attempted to exploit perceived differences between the two companies.

The price looks right

Nokia's security business had been on the block for some time according to our sources, and we had felt an acquisition by Check Point made sense on several fronts, although the initial asking price was likely too high. However, with a recent private equity deal apparently having fallen through, we believe a relatively low multiple of 0.6-0.8x would be appropriate. According to Infonetics, Nokia's security appliance business generated roughly $200mn annually from 2002-2007, and was on track for roughly $185-190mn in 2008, which suggests a total deal value of roughly $110-150mn. We conservatively assume the Nokia business could generate roughly $100mn in 2009, and anticipate the deal will be accretive, with potential savings from elimination of redundant Nokia personnel. We expect further details on the 4Q08 earnings call.

Stock Data

Price	US$18.28
Price Objective	US$25.00
Date Established	8-Oct-2008
Investment Opinion	C-1-9
Volatility Risk	HIGH
ML Symbol / Exchange	CHKP / NAS
Bloomberg / Reuters	CHKP US / CHKP.OQ

Refer to important disclosures on page 3 to 4. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2.

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Price objective basis & risk

Check Point (CHKP)

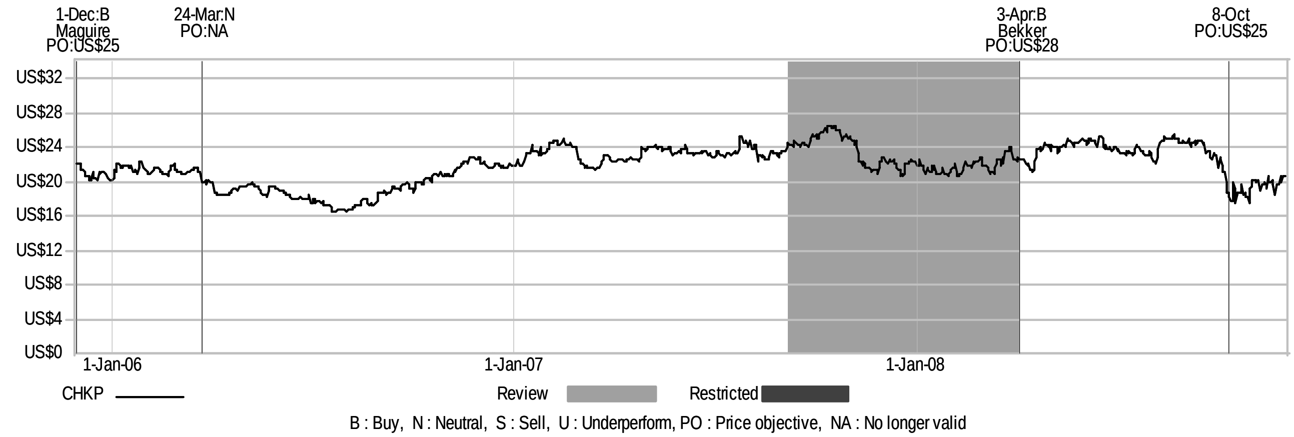
Our $25 price objective is based on 13x 2009E Non-GAAP EPS, inline with the group average multiple. Our 13x PE multiple implies a PEG ratio of 1.3x our 3 year EPS CAGR. Risks to our price objective are macroeconomic uncertainty and potential negative impact on IT spending, increased competition from Cisco, Juniper and other networking and security vendors, potentially dilutive acquisitions, an increasing reliance on large deals that could be difficult to sustain in a slowing economic environment, and a mixed track record of successfully integrating acquisitions.

Analyst Certification

I, Garrett A. Bekker III, 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.

Important Disclosures

CHKP Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of November 30, 2008 or such later date as indicated.

Investment Rating Distribution: Technology Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	113	42.97%	Buy	21	20.59%
Neutral	60	22.81%	Neutral	12	22.22%
Sell	90	34.22%	Sell	13	15.66%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, 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*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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