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CHKP - Q2 2018 Check Point Software Technologies Ltd Earnings Call

EVENT DATE/TIME: JULY 25, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q18 revenues of \$468m and GAAP net income of \$198m or \$1.24 per diluted share. Expects 3Q18 revenues to be \$454-474m and non-GAAP EPS to be \$1.30-1.40.



CORPORATE PARTICIPANTS

Gil Shwed *Check Point Software Technologies Ltd. - Founder, CEO & Director*

Kip E. Meintzer *Check Point Software Technologies Ltd. - IR*

Tal Payne *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

CONFERENCE CALL PARTICIPANTS

Andrew James Nowinski *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Anne Michelle Meisner *Susquehanna Financial Group, LLLP, Research Division - Analyst*

Brad Alan Zelnick *Crédit Suisse AG, Research Division - MD*

Fatima Aslam Boolani *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Gabriela Borges *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Gregg Steven Moskowitz *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

John Stephen DiFucci *Jefferies LLC, Research Division - Equity Analyst*

Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Technology Analyst*

Karl Emil Keirstead *Deutsche Bank AG, Research Division - Director and Senior Equity Research Analyst*

Keith Weiss *Morgan Stanley, Research Division - Equity Analyst*

Kenneth Richard Talanian *Evercore ISI Institutional Equities, Research Division - Analyst*

Michael Turits *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

Philip Alan Winslow *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Saket Kalia *Barclays Bank PLC, Research Division - Senior Analyst*

Shaul Eyal *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Sterling Auty *JP Morgan Chase & Co, Research Division - Senior Analyst*

Walter H Pritchard *Citigroup Inc, Research Division - MD and U.S. Software Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Check Point Software Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kip E. Meintzer, Head of Global Investor Relations. Thank you. You may begin.

Kip E. Meintzer - *Check Point Software Technologies Ltd. - IR*

Thank you. I'd like to thank all of you for joining us today to discuss Check Point's Second Quarter 2018 Financial Results.

Joining me today on the call are Gil Shwed, Founder and CEO; along with our CFO and COO, Tal Payne. As a reminder, this call is webcast live on our website and is recorded for replay. To access the live webcast and replay information, please visit the company's website at checkpoint.com.



For your convenience, the conference call replay will be available through August 1. If you'd like to reach us after the call, please contact Investor Relations by e-mail at kip@checkpoint.com.

Before we begin management's presentation, I'd like to highlight the following. During the course of the presentation, Check Point's representatives may make certain forward-looking statements. These forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 include, but are not limited to, statements related to Check Point's expectations regarding business, financial performance and customers, the introduction of new products and programs and the success of those products and programs, the success of our sales and marketing efforts, the environment for security threats and trends in the market, our strategies and focus areas, demand for our solutions and our business and financial outlook, including our guidance for Q3 2018. Because these statements pertain to future events, they are subject to various risks and uncertainties. Actual results could differ materially from Check Point's current expectations and beliefs. Factors that could cause or contribute to such differences are contained in Check Point's earnings release press issued on July 25, 2018, which is available on our website and other factors and risks, including those discussed in Check Point's annual report on Form 20-F for the year ended December 31, 2017, which is on file with the Securities and Exchange Commission. Check Point assumes no obligation to update information concerning its expectations or beliefs except as required by law.

In our press release, which has been posted on our website, we present GAAP and non-GAAP results, along with a reconciliation of such results as well as the reasons for our presentation of non-GAAP information.

Now I'd like to turn the call over to Tal Payne for a review of the financial results.

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

Thank you, Kip. Good morning and good afternoon to everyone joining us on the call today. I'm pleased to begin the review of the second quarter.

Revenues for the second quarter increased by 2% to \$468 million, towards the high end of our guidance, and our non-GAAP EPS grew by 8% to \$1.37, exceeding the top of our guidance.

Before I proceed further into the numbers, let me remind you that our GAAP financial results include stock-based compensation charges, amortization of acquired intangible assets and acquisition-related expenses as well as the related tax effects. Keep in mind, as applicable, non-GAAP information is presented excluding these items.

Now let's take a look at the financial highlights for the quarter.

Products and security subscription revenues were \$258 million. Our security subscription revenues continued to be strong with 12% growth year-over-year, reaching \$132 million. Our software update and maintenance revenues increased to \$210 million, representing 4% growth year-over-year. Deferred revenues as of June 30, 2018, reached \$1,158,000,000, a growth of \$94 million or 9% over June 30, 2017.

Revenue distribution by geography for the quarter was as follows: 48% of revenues came from Americas; 36% of revenues came from Europe; and the remaining 16% came from Asia Pacific, Japan, Middle East and Africa regions.

From a deal size perspective, this quarter, we had 58 customers with transactions over \$1 million. This quarter, the total value of these transactions increased by over \$50 million and included some large multiyear contracts that were not fully invoiced, and hence, are not part of the deferred revenues. Transactions greater than \$50,000 were 76% of total order volume.

Non-GAAP operating margin for the quarter was 53%, similar to the previous quarter. We continued to invest in our sales force and marketing efforts. This investment increased our headcount and compensation in line with our plan.

Effective non-GAAP tax rate for this quarter was 17%, similar to the previous quarter.

GAAP net income for the second quarter of 2018 was \$198 million or \$1.24 per diluted share, an increase of 10% from the second quarter of 2017.

Non-GAAP net income for the quarter was \$218 million or \$1.37 per diluted share, an increase of 8% from the second quarter of 2017 and exceeded the top end of our guidance.

Our cash balances as of June 30 were \$4,042,000,000. Operating cash flow was \$213 million compared to \$226 million in the second quarter of 2017. This quarter, we had strong collection from customers as well as reduction in the tax events paid to the authorities compared to last year.

We hedge our balance sheet against currency fluctuations. The hedge affects our cash flow with a minimal effect on our P&L as intended. During the quarter, the dollar strengthened against most currencies in the world, resulting in a hedge cost of approximately \$14 million in our cash flow with no effect on the P&L versus cash income of \$11 million last year. Our operating cash flow, excluding the hedge effect, increased by 5%.

We continued to implement our share buyback program during the quarter and repurchased approximately 2.5 million shares for a total cost of approximately \$250 million.

We believe that our market leadership and long-term growth prospects make this an effective time to further utilize our cash to increase shareholder value. As such, we have announced today doubling our buyback plan to \$2 billion and increased the quarterly repurchase by 30% up to \$325 million a quarter. The quarterly amounts may vary.

Now let's turn the call over to Gil for his comments.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

Hi, everyone, and thank you, Tal.

I'm pleased to report that we completed the second quarter with better results than our plan. This is a reflection of solid execution by our global sales force, which delivered nice results out of the U.S. and Europe.

As you are aware, our business model is becoming increasingly more annuity and subscription-based. In the second quarter, these trends continue with nice growth in annuities deals, reflected in increased SandBlast threat prevention cloud subscriptions. Our vision of providing fifth-generation cybersecurity solution continues to make headway in the marketplace. We continue to promote our vision with additional field activities. And this quarter, we realized a significant increase in our marketing indicator, double-digit growth in meetings, conferences and our web traffic.

I have reported in the past about execution challenges in our U.S. sales force. In the second quarter, we saw a good level of activity and results. Total business volume in the U.S. last quarter was very good. While one quarter may not indicate a full turnaround, it is a -- good to see the changes we have made in our U.S. sales force have begun delivering healthy results. As for Europe, internal metrics were very good pretty much across-the-board, which makes me even more pleased with the results.

We believe our second quarter results started to benefit from the increased sales and marketing activities. While top revenues only grew slightly, behind the scenes, we experienced solid execution, especially with our subscriptions.

In terms of product segments, we've continued to see healthy growth in both private and public clouds. Key customers in many sectors have adopted our cloud solutions. We also had a good quarter with our enterprises Super High-End 40K and 60K series security solutions.

The World Cup attracted worldwide attention last quarter. And as you would expect, there was plenty of malicious activity around the games: phishing websites that attracted World Cup audiences allowed malware to be downloaded onto the victim's computer, there was mobile malware hidden inside World Cup apps, all provided us with an opportunity to demonstrate our multivector prevention capabilities. The World Cup infrastructure also generated huge volumes of traffic, and with them a very high volume of attacks. I'm proud to report that our Super High-End products were used to protect some of the most critical World Cup infrastructure.

We've continued to elevate our level of customer-facing activities by increasing the number of skill level meetings and promoting the Infinity architecture. I believe that Infinity is the only architecture available today in our marketplace that provides prevention capabilities against all 5 generation of cyber-attacks. In surveys we have conducted, only 3% of enterprises believed that they are ready for the fifth generation of cyber-attacks. Quite an astonishing fact that 97% are not prepared by their own admission.

We've continued to see our pipeline for Infinity Total Protection solution build. As we spoke about last quarter, these builds typically take longer to bring to fruition. During the second quarter, we continued to see further customer adoption of the various elements of the Infinity architecture, ranging from local companies in the transportation business all the way to some of the world's largest telecommunication and system integrator. This success is very exciting, and we continue to see increasing numbers of opportunities in almost every segment and vertical.

Our sales execution remains the key to unlocking the full potential of our security offerings in the marketplace.

Overall, the second quarter internal metrics and execution were better than I anticipated, which leads me to our projection for the third quarter.

You know my regular caveat, the future is always hard to predict. There may be upside and obviously, the potential for downside. Remember, the third quarter can be challenging with its summer vacation and seasonal fluctuations. With that in mind, here are the third quarter ranges we are targeting. We expect revenues between \$454 million to \$474 million, non-GAAP EPS in the range of \$1.30 to \$1.40, GAAP EPS is expected to be approximately \$0.50 -- \$0.15 lower. There is no change to our full year projection.

Now I would like to open the call for your insights or question and feedback. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Fatima Boolani of UBS.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Maybe a question for Tal, as you think about investments and the pace of investments for the rest of the year. Maybe just around sales productivity trends that you've seen as you lap some of the heavy hiring from the middle of last year and sort of your expectations for hiring for the remainder of the year.

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

So we continue to -- we're meeting our plan of headcount recruiting. We still have growth to do as part of our plan, as we discussed before. So we are in line. In terms of sales metrics, we measure them regularly as we have metrics and measurements for everything. We measure their booking, their pipeline, different stages in the pipeline. We see the pipeline is growing. So all in all, I would say we see good indication in terms of improvement there and still a way to go that's why we continue to invest in that area.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

And just a very quick one for Gil on the pricing strategy around Infinity. I wanted to understand, with 1 full quarter in and -- almost 2 full quarters in, what the customer response has been around the per user model and how that's making its way through the channel partner community because it's such a fundamentally different way of selling your portfolio.

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

The early feedback is quite positive. We haven't seen any objections. And I think the pricing is catching up. I think it's too early to say if it's really a success or not because there's only a small number of deals and it's too early to say. But overall, it's received quite well.

Operator

Our next question is coming from Brad Zelnick of Crédit Suisse.

Brad Alan Zelnick - Crédit Suisse AG, Research Division - MD

I've got two questions. First for Tal, on the margin, I think this is the first time I can remember in a long time you seeing operating income decline year-on-year, which I appreciate the investments that you're making in sales and marketing and the time that, that will then take to yield returns. But you also mentioned in your remarks that in the quarter, it included some large multiyear deals that were not invoiced, which I think is a new way of going to market for you. Can you just talk a little bit about that and the extent to which you pay commissions upfront or defer those commissions over time?

Tal Payne - Check Point Software Technologies Ltd. - Chief Financial & Operations Officer

So actually -- again, it depends on the type of transaction. But in general, we pay for the first year, as a general comment, with some bonus for the extra years. You're right in the sense that if we sell Infinity, as an example of subscription, it can carry with it larger deals, which is a nice thing and also longer in terms of the period. That's why you see a significant increase, which we usually don't disclose. We just thought it would be an interesting data point for you to understand that sometimes, what you see in the balance sheet is not -- you don't see what's happening behind the scene relating to what Gil said about internal metrics. So when you have this type of transaction, invoicing can happen quarterly or monthly or annually while the contract and the commitment is for 2, 3 or 4 years. That's why I gave this color. Another thing that I can say, we did talk about investing ahead of the growth, which is the investments in the headcount and in the marketing, which is expected to see some reduction in the margin. I have to say the margin is higher than we expected and planned. So you can see at the end, our operating profit and EPS are higher. We did have a small negative effect from the currency, probably about \$0.01, as a result of the currency effects of -- on the P&L.

Brad Alan Zelnick - Crédit Suisse AG, Research Division - MD

Very helpful color. And for Gil, Gil, more than ever, I think we're hearing every software company talk about security as a priority. Microsoft, in recent weeks, announced the Azure Firewall; Amazon has GuardDuty. To what extent are you seeing customers comfortable with some of the native controls that are available in various clouds and other software platforms relative to coming to a company like Check Point for specialized protection?

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

In the general marketplace, I mean, I think customers have definitely adopted a security company to secure their businesses. In the cloud, there's definitely some room for the native controls. And in the cloud, as we can see, the world is not protected. We've seen some of the biggest information leakage over the last years. Almost all of them were results of breaches to cloud infrastructures. And in general, I wouldn't -- I mean, our job, both Check Point and few other companies in our industry, is to add a level of security on top of every -- what every native product is doing in the marketplace. And I don't know, fortunately or unfortunately, no matter how you look at that, we have plenty of work to do. The world that we are living in is more vulnerable today than ever.

Operator

Our next question is coming from Shaul Eyal of Oppenheimer.



Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Two quick questions. Gil, with respect to sales and marketing and hiring, how do those investments -- have you been taking any different actions with respect to channel relations, investing more in that respect?

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

Okay. So the answer is yes. And again, it varies where you are talking about the channel. We did invest a little bit in analyzing the status of the channel and how are we doing and what we should improve. It varies by different regions. There are regions of the world when we're doing very well and we continue in the same pace. In the U.S. specifically, we need to improve the wood -- work that we are doing with the channel, and we had some changes also in the management of the channel in the U.S. just at the end of the quarter, so it will still take time until we do that. There's definitely much more potential in the U.S. to do more with our channel partners and to get more value from this relationship that we have for so many years.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Understood. And maybe on the decision to double the buyback. So I think most of us here know Check Point's strategy with respect to acquisitions and dividends. And I think looking at the way you have been increasing your buybacks over the years, this one stands out a little bit, like doubling it. And I know maybe it has some sort of an indefinite time frame, but talk to us about the decision to double the buyback.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

I think it's based on feedback that we received from shareholders. I mean, Tal and Kip and -- I mean, our IR team is doing a lot of work to really get quantitative data, to survey investors about those preferences. I think we do see that there is a potential to increase the buyback. We've also analyzed the economical effects on that and we see that they were positive. So I think overall, it's a good decision. I think we have the resources. I think we have the upside potential. So hopefully, it will have the positive effect moving forward. It doesn't impact our ability or our motivation to execute some acquisitions. And I hope that we will find the right companies, and we will execute some of these acquisitions even though in the amount of the universe that we are in and the innovation that we have internally in Check Point, it's not easy to find the right acquisition. And right now, by the way, I'm seeing plenty of innovation coming from within Check Point to the marketplace.

Operator

Our next question is coming from Andrew Nowinski of Piper Jaffray.

Andrew James Nowinski - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

So I know you talked about this last quarter that Infinity was delaying some product refreshes. But, I was hoping to get more color on it again. So if we look at your product and subscription revenue, it only grew about 0.6%. And I realize the comps are tough, but they did get a little easier in Q2, so as -- yet your growth further decelerates. I'm wondering if you could just give any updates on the product and subscription growth deceleration and the impact from Infinity.

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

So remember that what you see in revenues is usually the effect of the booking of the last 2 quarters because it takes time to translate into the P&L. So we discussed it in length. That's the reason why we lowered the guidance in the previous quarter. This quarter, we actually had a strong booking when it came to the subscription and those item, but it takes time to translate. Product is lagging behind.



Andrew James Nowinski - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then on the Americas. I know you said that the volume improved this quarter, but it looks like growth in Americas was essentially still flat. I guess how long do you think it will take to get growth back in the Americas to accelerate again?

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

So first, I did mention that in terms of our internal metrics, we actually had a pretty decent volume of total business in the U.S. last quarter. And I think, as Tal just said, what you see now is the reflection of what we had in previous quarters, not just in this quarter especially because we've increased subscription that -- are actually will be reflected only in this quarter in future quarters. Now I don't want to be -- so if I take the trends that we've seen in the second quarter, I should be very optimistic. But I don't think that 1 quarter is a good indication of a full turnaround. So I'll be watching closely what will happen in the third quarter and in the fourth quarter. And hopefully, we'll have things in the U.S. stabilized and get to continue the trends that we've started there seeing. But Q1 and Q2 were not similar at all in terms of the behavior of the -- of our results in the U.S.

Operator

Our next question is coming from Michael Turits of Raymond James.

Michael Turits - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

Michael Turits. First, can you comment on discounting, both, in general, on maintenance in particular and on whether or not there was any discounting required in those multiyear deals?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

Actually, multiyears is not necessarily the hardest deals, right? It's not the -- the discounts are attractive but competitive, competition on specific accounts. So when you compete on a new customer, for example, then you see larger discounts. If you have competition in that account, you see larger ones. So the trend didn't change. When it's competitive, you see much more pressure. Some players are leading with price, probably related to differentiation in product. Our differentiation is the quality of the product. Some player differentiation is pricing. So when it comes to pricing, then it affects the discounts. So nothing new there. I can tell you from looking at the last few quarters, I will say, as a generic comment, continued pressure on the discounts on the product and some stabilization in the subscription and the support discounts.

Michael Turits - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

And then speaking of products, this was a slight beat to expectations or consensus on license, but still down. Is there some point where you feel that we could be stabilizing that decline and moving back towards positive growth in product?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

Still the answer is yes. But I will just put a caveat that remember, there's a few things that are moving. So if we penetrate to more new customers and expand the installed base in existing customers, naturally, we should move to the positive. So -- but remember, if customers moving to subscription models, management models, vSEC, cloud, all these solutions that -- all of them are sold by the subscription from Check Point. And therefore, it will be part of the subscription.



Operator

Our next question is coming from John DiFucci of Jefferies.

John Stephen DiFucci - *Jefferies LLC, Research Division - Equity Analyst*

First question. I think is Tal but maybe Gil, these are solid results, especially given what you'd been posting the last few quarters. As Gil said, this was -- the strength was especially -- or the solidness was from subscription. I realize it's still early, but I'm just wondering how much Infinity Total Protection had on -- had with that because that's truly a subscription. Or was it simply improved results for more traditional subscriptions that you're selling? I realize it's early for ITP.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

Right now, this quarter, most of the results are affected by the more traditional subscription, not all of them are traditional. Again, the SandBlast, some of that -- we had some very nice mobility installations in the quarter, more -- tens of thousands of mobile clients for one large customer. So I mean, we had some nice -- so we had some nice changes and nice successes in deployments and sales during the quarter. And I think we continue to see that part of the business strengthening. We definitely need to do more on other aspects of the business, and we will.

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

I will just add one thing. I will say, remember that many times when you discuss with a customer, you can talk about Infinity, and then he ends up buying 3 items out of the 10 that can be included. So it's a great way to discuss with the customer the potential, the road map and what we have to offer. And a deal like that can end up with subscription of SandBlast and not necessarily a full Infinity.

John Stephen DiFucci - *Jefferies LLC, Research Division - Equity Analyst*

Got it. Okay. Great. And if I could -- somebody mentioned in an earlier question that the results are -- certainly improved. And you really haven't -- at least I don't know of any product cycle benefit you're seeing in the quarter. And it's still a difficult comp. So I guess -- because you called it out, Tal, the deferred revenue, all -- every metric was better than what we were looking for, except for long-term deferred. I mean, you called out that, hey, listen, you did some long term -- some multiyear deals that are not on the balance sheet. But I would expect that, that would probably be like that every quarter. Or is this -- you certainly called it out, so is it -- was it somewhat of an anomaly this quarter? And I guess the next question is why would that happen if that's not normal?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

Remember, I always say that booking -- and that's why it's not one of the metrics that we share with you typically. I always say that booking can fluctuate between quarters and can move between quarters. That's why we don't provide it. And we look at the consistency of the deferred revenues. Having said that, you're right. This quarter was significantly high booked but uninvoiced amount, and that's why I just gave you a feel to it.

Operator

Our next question is coming from Gregg Moskowitz of Cowen and Company.

Gregg Steven Moskowitz - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay. Gil, you referenced the improved global sales force execution. But have you noticed any change in the network security spending environment over the past few months?

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

Haven't seen a big change in the network security in the spending environments that much. And I think it's still a relatively positive environment that we're in. I think we are shooting now very high on the more overall cybersecurity. And I have more and more meetings with CEOs, CIOs, CISOs, promoting that vision of looking at the bigger picture and not just updating and upgrading their old network security infrastructure. Again, that vision will take time to grow, to come to fruition, but I think that's the future, not just the future for Check Point as a vendor. But if customers in our world wants to keep ourselves guarded from the threats out there, all the generation of threats, we must take a different approach. Just the approach of making slightly stronger security to the existing mechanism that we have is not enough. We need to make the leap forward and get an overall consolidated architecture. And that's what I'm trying to promote with that.

Gregg Steven Moskowitz - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Okay. That's helpful, Gil. And then just in terms of Infinity, I realize it's early. But do you see this as being -- as it unfolds as being primarily geared towards new customers or winning net new business or very much towards existing customers as well?

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

I think the answer is both. We have some new customers, the threat model is attractive for them, and we won some of those deals. And the existing customers definitely can see the benefit of more security, more consolidation, and the new business model which makes it an easier thing to procure and then to live with. So I think when I look at the pipeline, it's -- we have both opportunities. And by the way, it's definitely a very good door opener for discussion. I think Tal mentioned that not every time we offer Infinity, we will win the deal, especially the bigger the customer, the more difficult for them is it to consolidate. But it's definitely changing the whole nature of the discussion and getting us to places that we haven't been before.

Operator

Our next question is coming from Saket Kalia of Barclays.

Saket Kalia - Barclays Bank PLC, Research Division - Senior Analyst

Tal, maybe for you. I think you touched on this before, but I just wanted to ask the question directly. Can you just talk about how billings terms on Infinity deals differ, if at all, versus traditional Check Point billings terms? Now I mean, clearly, Check Point does -- the vast majority of deals are 1 year unlike a lot of your competitors. So I imagine that there won't be much of a difference. But for the larger deals that are 2 or 3 years in duration, for example, what's been the trend in some of the early Infinity deals in terms of opting for 100% paid upfront, annual in advance, quarterly payments? What have you -- what are sort of seeing in terms of changing billings terms with Infinity, if at all?

Tal Payne - Check Point Software Technologies Ltd. - Chief Financial & Operations Officer

So I'll say so I'm thinking -- A, we had only a few deals and only so -- and a few [colors] even on those. But I will say, the default theoretically is annually. Some choose to pay it in advance, but majority will pay the annual amount. So it, by definition, says if you sign the contract of \$1 million for 4 years, \$250,000 a year, then you will see in the deferred only the invoiced amount, which, in most cases, will be the \$250,000 in my example. So it will be the annual amount. If you will decide to pay it in advance, naturally, you will see the full amount. And in the revenues, it will take you over 4 years to see it.



Saket Kalia - Barclays Bank PLC, Research Division - Senior Analyst

Got it. That's helpful. Maybe for my follow-up. Assuming that the multiyear contracts that you signed, that were not yet invoiced in Q2, assuming that those are traditional Check Point, sort of paid upfront, can you just give us a sense for kind of what the aggregate dollar amount is that's maybe moved from Q2 into Q3? Just to maybe have a sense for how the billing seasonality might change at all?

Tal Payne - Check Point Software Technologies Ltd. - Chief Financial & Operations Officer

I'm not even sure I understand...

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

I think, first, they are not -- I think they are not billed yet because they are not -- they will not necessarily be paid upfront, but will be paid annually even though the customer has committed to multiple years, more than 1 year. So that's I think the main reason, the reason that we are saying that a deal -- we received the deal, it's a commitment, it's a multiyear commitment, but it's not invoiced because the payment is annual.

Operator

Our next question is coming from Anne Meisner of Susquehanna Financial Group.

Anne Michelle Meisner - Susquehanna Financial Group, LLLP, Research Division - Analyst

Tal, just to follow up on the multiyear deals not fully invoiced, not to beat a dead horse here, but I had a slightly different question. Are you going to be providing any metrics around your off balance sheet backlog? I'm not sure how it works for Check Point since you're not a domestic filer. But the other companies are actually providing that as part of the performance obligation disclosure that's related to 606, so -- and that's typically in their 10-Q. So I'm just wondering if you would expect to share any of those specific metrics on your remaining performance obligation.

Tal Payne - Check Point Software Technologies Ltd. - Chief Financial & Operations Officer

Sure. Whatever we need to disclose will be disclosed as part of the 20-F, definitely.

Anne Michelle Meisner - Susquehanna Financial Group, LLLP, Research Division - Analyst

Okay. So it would be in an annual filing and not in a quarterly. Obviously, you don't do quarterly, but okay, that's fair. So a quick follow-up for Gil. Gil, I know you've talked about focusing more on new business and selling higher into the -- higher up in the organization as you make the go-to-market changes. Is there any additional detail you can share on specifically how you're structuring the sales compensation plans, and particularly, as it relates to new business versus renewal business for purposes of quota retirement? Any -- just be curious to know if there's any change in the strategy there.

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

First, we are working very hard with the sales force mainly to change the behavior. And I think the change in behavior is not driven by compensation. It's driven by training, by focus, by many, many other things. And the salespeople do get a nice portion of their compensation -- it's a bonus that's driven by meeting the objectives and not just by the booking amount. So actually, now we're in the middle of the year and half of the -- I mean, the portion, the top of the annual bonus, will be paid based on meeting this criteria of meeting with new customers, winning new customers, getting to higher level in the organization and so on. So the sales plan that we have right now is not 100% commission. It involve both commission and deals.



Operator

Our next question is coming from Philip Winslow of Wells Fargo.

Philip Alan Winslow - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Actually, a couple of questions here. First, Gil, wondered if you could just talk about the competitive environment with the traditional firewall players here and just sort of what your win rates look like and pricing. And then also, one of the questions I get from a lot of investors is the potential competition with the Secure Web Gateway vendors, whether they be traditional appliance vendors or those in the cloud. How do you think about sort of your positioning versus those Secure Web Gateway players, especially when you think about sort of appliance-based versus in the cloud?

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

I think we are doing okay in terms of the competition in our traditional market. We had few displacement of our traditional competitors like Palo Alto and so on. And it's good to see that, that customers realize the difference in security and the difference between hype and the reality. And the differences are huge, by the way. I mean, it's a -- I mean, we have the only products that actually prevents attacks from getting into the network when most of our competitors would allow a Gen V malware to get inside the network and only later will give you an alert that something went wrong. It's ridiculous to see that some of our competitors' product actually under load will let connections come in -- malicious connection come and won't block them when our product will stay protected no matter what load there is on the product. So there are a lot of differences, and that's more towards the regular competitors that we have in the marketplace. Secure Web Gateway, I don't see that right now as a competitor. So I mean, it's not a -- I mean, theoretically, I can speak about the differences: what we are doing, what they are doing, where is the overlap. But in terms of the real competition, it's not that I can say that we won over them or they won over us. It's right now 2 complementary solutions.

Operator

Our next question is coming from Sterling Auty of JPMorgan.

Sterling Auty - JP Morgan Chase & Co, Research Division - Senior Analyst

Just wondered if you could give some commentary to the performance in Asia Pacific. What did you see that was kind of market related versus execution?

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

So I think in all areas in terms of our internal metrics, we had good result -- we have positive results this quarter. Asia Pacific was a little bit behind than -- there are countries there that performed well, but there are few countries that we did see some slowdown and that we're working on that. It's been, for a few years, a nice growth engine. Right now, last quarter wasn't that good. And I think we'll work on that.

Sterling Auty - JP Morgan Chase & Co, Research Division - Senior Analyst

Do you think that it will require some additional headcount changes? Or are the people in place and it's more just about training and programs?



Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

First, I don't -- and I don't think it's fair to give my comments on the internal performance of our people in a public call. I think -- but I think if I'll answer in more generic way, the process of management is a constant process of, first, coming up with the right program, educating, improving the execution in the existing people. And if things don't work out, also replacing some of the existing people. So I'm saying that so -- and I don't want any person -- again, inside Check Point or outside Check Point thinks that I have any specific comment on them. That's the general process of management, and we do it all over the world, in the U.S., in Europe, in Asia, everywhere in the world. And there I think we do have a lot to do because I think we can unlock a lot of potential in the execution of our sales force. I think we have great people, but I think we have much, much higher potential than what we are getting to right now.

Operator

Our next question is coming from Walter Pritchard of Citi.

Walter H Pritchard - Citigroup Inc, Research Division - MD and U.S. Software Analyst

A question for Gil. Just as it relates to investing for growth, can you help us understand are you looking to invest to grow at the market rate? Or are you looking to invest -- we're trying to understand sort of the -- maybe the optimal rate to grow in terms of level of investment that Check Point is looking to get in -- put in the business. And then I just had a follow-up question for Gil on -- or for Tal on cash flow.

Gil Shwed - Check Point Software Technologies Ltd. - Founder, CEO & Director

I think right now, we have a -- we still have a lot of work to do in order to grow in the right pace that we should be growing. I don't think that the key to that is hiring even though we do have a nice number of opening in our sales force. So it's not that we are -- exhausted our headcount and we are now thinking about the next stage for investment, we still have enough people that we can hire. And I think in sales, it's actually quite simple. Whenever we see that what we have is working and working well, we shouldn't have any problem to invest more and hire more people. I mean, our people are profitable. They generate nice amount of business. And if our productivity is becoming good, we shouldn't have any issue in terms of our resources as a company or our business model to invest even more.

Walter H Pritchard - Citigroup Inc, Research Division - MD and U.S. Software Analyst

Great. And then, Tal, for you. On the cash flow, it seems like you were pointing out that there was about a swing of \$25 million year-over-year as it related to hedging. Does that encompass all the FX-related impacts on cash flow? And can you help us understand what the impacts on cash flow -- if FX rate stays at these levels, what the FX impact on cash flow may be for the rest of the year?

Tal Payne - Check Point Software Technologies Ltd. - Chief Financial & Operations Officer

That's actually the only thing that you can't predict because let me remind you what's the goal. The goal is that -- if you have asset minus liabilities in local currencies -- in our case, we have more liabilities in local currencies versus assets because all of our assets, including account receivable is in dollars. So what you do, if we don't hedge, then the fluctuation in the currencies will hit the P&L. So the way to prevent a hit in the P&L, if we wouldn't have hedged this quarter, it would have got a hit and the other quarters will get income. So what you do is you hedge the balance sheet exposure. That means the effect in the P&L will be 0 because the hedge will cover the evaluation of the liabilities in the balance sheet. The goal is to have that effect being 0. The only place you will see the effect is in the cash flow. The size of the effect depends on what happen to those currencies during the quarter. Because we don't know, that's exactly why we hedge. So I can tell you, you're absolutely right. This quarter, the effect was an expense or a payment in our cash flow of \$14 million versus an income of \$11 million that we had in Q2 last year, net \$25 million, that's why I said the effect is actually the cash flow was positive and increasing 5%. How much will it be next quarter? I really don't know, that's why we'll have the hedge.

Walter H Pritchard - *Citigroup Inc, Research Division - MD and U.S. Software Analyst*

I guess just to be clear there though, if FX rates stay the same as they are today, does that continue to be an FX or a cash flow headwind for the rest of the year?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

No, not at all. Not at all. Because you roll them every month, right? So if the rates will stay stable, they should have a 0 effect.

Operator

Our next question is coming from Karl Keirstead of Deutsche Bank.

Karl Emil Keirstead - *Deutsche Bank AG, Research Division - Director and Senior Equity Research Analyst*

Gil, I haven't heard you mention the R80 architecture in a while. If I have my facts straight, I think R80 released 2, just [went G]. And I'm just curious whether you think that has the potential to be any kind of an upgrade catalyst for Check Point in the second half or in 2019. And then for Tal, Tal, if I take the midpoint of your 3Q revenue guide and your full year revenue guide, it implies that in 4Q, growth goes from, call it, plus 2% to negative 1%. And I just wanted to ask whether you'd call out anything or is this just you being a little conservative given the variables that Gil talked about in terms of the sales turnaround.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

So first, R80, in general, is in the marketplace and it's the default version. And many people are using it even though we do have some customers that are still on R77.30, which is also a great release, very stable, and again, giving more security than any other products in the marketplace. R80.20, the second or maybe actually, third version of R80, is not yet out. It's expected hopefully this quarter to be out. It will give a lot of benefits and will give a lot of boost to our performance as well as to several other security capabilities. I think people expect it. It's in early access with many customers. And we are -- the management part of it is I think in the more production grade. The gateway side of it, again, expected this quarters, and we are working hard to release it shortly again this quarter.

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

And to your question regarding the guidance. I mean, Gil alluded to that. We don't change the guidance during the year unless there is something material. So we keep the guidance. And understand that the numbers if you take out Q3, then the planned number is Q4, but we have to see Q3 in order to know what will happen in Q4. So it's more like that the math of taking out Q2 and Q3 and seeing what Q4 will do. So it's not that I see anything different. It's just that the numbers are the guidance that we provided. We need to wait and see what happen in Q3 and then see -- and give you a guidance for Q4 specifically.

Operator

Our next question is coming from Ken Talanian of Evercore ISI.

Kenneth Richard Talanian - *Evercore ISI Institutional Equities, Research Division - Analyst*

I was wondering if you could give us a sense for the trends on your software blade net retention rate.



Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

It's actually quite good. So we don't provide it. I explained many times why. But I can just say that it's very good, it's stable; in some areas, increasing. But in general, stable and doing well, including the new blades that our -- the SandBlast blade for advanced threat protection.

Kenneth Richard Talanian - *Evercore ISI Institutional Equities, Research Division - Analyst*

And as we look forward, what should we think of as the primary drivers to potentially expand that net retention rate?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

I have to say it's been that way, very stable for the last probably 2 years. We started very low and it improved then reached to those level that we have now. Hopefully, over time, as people will adopt more Infinity -- Infinity can be a driver in the sense that if people purchase Infinity, that means they are interested in moving from Gen 2, 3 to Gen 4 and 5 in protection, that means higher adoption utilization if people are adopting and utilizing these capabilities, then renewals should increase.

Operator

Our next question is coming from Gabriela Borges of Goldman Sachs.

Gabriela Borges - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Either for Gil or for Tal, on Infinity Total Protection. I'm hoping you can frame for us a way to think about the upside that you're able to extract as customers move from the traditional model to Infinity Total Protection, maybe based on the early deals that you've closed or the way you've thought about the price points. How much larger could the deals be on the Infinity Total Protection when you look over a 3- or 5-year period versus the traditional model?

Tal Payne - *Check Point Software Technologies Ltd. - Chief Financial & Operations Officer*

So when you look at the total, it can be significantly higher, like hundreds of percentage, of course. But when we try to look at it in terms of the size annually, then also that can grow significantly, meaning annual comparison depends on where the customer was before he moved to Infinity. So an example, a new customer, obviously, it's all growth, so that's nice. Existing customer, if it's an existing customer that was maybe only on Gen II and is now taking Infinity and moving to Gen V, it can be very significant, very high tens of percentage increases, right? If he already had SandBlast and he now just adopted the mobile and the cloud, then it can be a lower increase. So it depends where he was as a starting point.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

But the potential is very, very high. And I think it depends on the type of customers and the amount of consolidation that we do. And the real -- economic -- again, the benefit for the customer is not the economics. The benefit for the customer is the level of security and the fact that they can jump 10 years forward in terms of their security architecture. Economically, it really varies how much we can consolidate from our products. What we've seen in the past is that customers have consolidated 4, 5 vendors into our one solution when they moved to the Infinity Total Protection.



Gabriela Borges - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's helpful. And a follow-up, if I may. Gil, you mentioned during the prepared remarks some of the indicators that you look to as forward indicators, double-digit increases in meetings, conferences, web traffic. Just curious, how do those indicators compare to maybe a year ago or a quarter ago?

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

So I think they are double-digit growth compared to a year ago and those -- so actually compared to last quarter, in both cases. I think we are investing much more in sales and marketing. Again, some of it you see in the dollar spend, but most of it is not the dollar spend. It's the focus, the execution, it's what we do. And it's really, really nice to see, in some cases, the -- I mean, the growth here is really nice. In some cases, it's 30% increase. In some cases, it's 60% and even 80% increase, more engagements, more activities and even more leads that we are getting from the different marketing activities.

Operator

Our next question is coming from Jonathan Ho of William Blair.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

I just wanted to maybe dig a little bit more into your endpoint solution. You talked about some recent success there. And I just wanted to get a sense for how meaningful of a contributor that is to revenue and whether you're going to be making additional investments in endpoint.

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

So I think -- first, I mean, what -- we've been surprised and even overwhelmed by the success of our endpoint products over the last year. I don't know particularly on the last quarter, but over the last year, we've seen great success there. The last quarter, we received some really nice reviews and analyst reports all around the success of our endpoint, which, by the way, shows the innovation and the creativity and the power of our architecture because there are so many next-generation endpoint companies and yet our development team was able to produce products that are beating many of these products in the marketplace. And again, you see it from the reviews we just received in the last quarter. Having said all of that, my main focus is not in turning the endpoint into our -- us becoming a big endpoint vendor in the marketplace. There are good, established vendors in that marketplace. It's very hard to displace them. And there are also many startups with innovation around that place. I think the role that we should play is within the Infinity architecture. When a customer wants to consolidate their whole solution, when they want to get an holistic approach to security, we can supply them with all the relevant components. And again, looking at the success that we have and the reviews that we are getting for the product, it seems that we do have the best-of-breed next-generation endpoint solution in our portfolio.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

Got it. And then relative to the sales execution challenges that you mentioned, can you talk about maybe which improvements have had the most impact on the business? And maybe where we are in terms of those impacts being shown through?

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

I think it's too early to say. As I've said, we've seen very good indicators in the last quarter, and we are very happy with the total business volume in the U.S. and almost all the parameters in Europe, that's been very positive. I can't say as which initiative, we are doing several initiatives. Most of the initiatives that we are, that we've started around new customers, around C-level and so on will still need to bear fruit in the future. So what we're seeing now is the sales force executing and they're motivated and working on what we should be working.

Operator

We're showing time for one additional question for today. Our last question will be coming from Keith Weiss of Morgan Stanley.

Keith Weiss - *Morgan Stanley, Research Division - Equity Analyst*

Gil, on the competitive environment for the Infinity architecture, two kind of questions on that. One, other vendors are talking to us about sort of a broader, a more holistic approach to security and consolidating a lot of functionality, whether it'd be Symantec or Palo Alto Networks. Are you seeing them in any of these discussions or any of these competitive situations around the more holistic approach to security? Number one. And number two, it might be early days, but have you guys seen any examples or are there any instances where you actually are displacing some of the legacy vendors like a legacy endpoint vendor while -- when you're deploying Infinity?

Gil Shwed - *Check Point Software Technologies Ltd. - Founder, CEO & Director*

So -- I mean, first, I think our approach in how the Infinity architecture is, by far, a broader and more holistic approach to security. I don't think that you can take any of the vendors that you mentioned solution and get full security for an entire enterprise, definitely not to environments like mobile and others, that's very, very unique to what we are doing. I think if you look at the security benefits, again, being the only vendor that does first-time prevention on every connection and by default, making it prevention and not detection later on after the attack has happened. And guys, I mean, we may underestimate the level of threats that we have, but believe me, when you take a room full of people, at least one of your -- at least one of the mobile phones in the room is infected with malware. And that malware can proliferate to the entire network, so -- when talking about mobility as an example. Are we seeing other vendors preaching on that vision? Not as much. I think we are probably approaching different customers because while we do compete with some of the vendors that you mentioned, the competition on the overall architecture is not something that we see often in these accounts. And I mean, the good news is that we did have some displacement over the last quarters, displacements of Palo Alto, some also of Symantec even though, again, I wouldn't look at Symantec as my direct competitor. I'd like to -- I think in general, we are more complementary and more partners of ours than competitor.

Operator

At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Kip E. Meintzer - *Check Point Software Technologies Ltd. - IR*

Thank you, guys, for attending the call today. It was a little less noisy than our last call. And we'll look forward to seeing you throughout the quarter. I also look forward to hearing from you right after the call. Thank you and have a great day. Bye-bye.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines at this time, and have a wonderful day.

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