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PRESENTATION

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

I'm Walter Pritchard, software analyst here at Citi. Happy to have with us Check Point Software for the 2:10 session. We have Tal Payne, the CFO; and Kip Meintzer, the Head of Investor Relations. I'm turning over to Kip. He's going to just give a short safe harbor and then we'll get on with questions, take your questions if you raise your hand.

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

Quick Safe harbor. During the course of the presentation, there may be forward-looking statements made that are covered by the Securities and Exchange Act of 1934, which cover the safe harbor. As with all of these forward-looking statements, there's lots of risks and uncertainties that can be surrounding them. And if you'd like a full list of those risks and uncertainties, check out our latest press release or the 20-F filed for the year ending of 2017. And as with all forward-looking statements, we only have a duty to update where required by law. Thank you, and back to you, Walter.

QUESTIONS AND ANSWERS

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

So Tal, maybe we can start out talking about just security demand, what it looks like right now, how that's changed. I know the threat landscape is always changing. How that's been driven this year versus last year and the year before.

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

So in general, I'll say we see a good demand in the market for security solutions. There's 2 -- I think there's a main opportunity and there's a few challenges. So the main opportunity is everybody can see the cyber attacks are increasing. It's increasing across the universes. And as IT proliferates into cloud and into mobile and IoT have many chips that are connecting to the wireless, it's becoming more and more apparent that while the security vectors of attack are increasing constantly, the ability to adopt additional security solutions is becoming limited in terms of the enterprises' capabilities to deal with all these attacks. So the opportunity that is existing for the market when you look not next month but in general in the next years is, to enable customers to be active in all these different arenas, be it cloud, mobile, adoption of different IoT systems and SaaS services and so on without breaching their security because -- as it's worth a lot of money and you need to protect them. The understanding is there, but the ability to adopt is very limited just because it requires a lot of not only budgets but more internal forces in order to implement all these solutions. So our focus is enabling customers to move more and more into higher level of security in the easiest way possible, which is not easy but in the easiest possible in the standard they can use the same gateway, the same management, the same infrastructure and adopt different layers throughout their life cycle and the evolution of their enterprises. So that's in terms of the opportunity out there and the understanding and the healthiness of the market.

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

Got it. Can you talk about where within -- what types of projects are you seeing drive growth in your business and in the industry in general, cloud, data center, remote office? I'm curious what sorts of...

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

I don't think cloud is there yet. But for us, it's growing very fast but still small numbers. When you look at a lot of start-up companies that exist for the cloud solution, also you see nice growth there. But again, a few millions, $10 million, $15 million, still in an infant stage but, it's clear that it's going to be very interesting for the future. So that's in terms of the cloud. Mobile, we have a few new partnerships in the mobile. We announced a few recently. But the opportunity there is not open yet, although -- the need is clear, but the implementation is not there yet. We believe it should be quite interesting in the future. And when you think of Infinity, well, Infinity is the thing that would enable you to adopt partially in certain areas and fully in other areas. Depends on how interested you are and in which scenarios you want protect. So for example, you can protect your network fully, and you can decide to protect your mobile only on certain population like, let's say, executives, and cloud to decide to leave the SaaS open because maybe it's protected by the service providers but to protect the cloud of the infrastructure, as an example. So it gives you much more flexibility in the way you adopt security in the future.

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

Got it. Got it. Is -- you look at the last quarter. You saw an improvement in the business, as you articulated on the conference call. Can you talk about some of the challenges that were faced earlier in the year and in second half of last year and sort of where things are progressing there and what's led to the outlook that you talked about on the Q2 call?

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

So I'd say we're still facing these challenges because it's a long process to open those opportunities. So maybe let's -- maybe not everybody is familiar, so I'll [elaborate].

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

Sure, that's fair.

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

So we say what we do in the changes that we've implemented in the last year, 1.5 years is a change in the sales structure, the sales management. I'll put it on 3 legs, right. You have the product line, which is superb product. We believe we have the best product out there, the most robust solution, the best catch rate in the market. Catch rate means how secure you are when you implement the solution, how many attacks can penetrate and how many are blocked or caught. That's why it's called catch rate. So the best catch rate, the best quality of the solution and the most cybersecurity solution that are connected into the platform, meaning network all the way to a zero day attack, not only known attacks. So known attack and unknown. Mobile solution, end point solution and cloud solution. That's what we call the Infinity security solution fully consolidated into the management. Some when it comes to the product, we believe we have the best security solution out there. So when it comes to marketing, it's an area we invested the last -- recently, and we're improving. And I'll say we're there. We have almost doubled the number of events and investment that we're doing there. We are moving forward there, and we will continue to invest. And I see that improving significantly. On the sales, we did structural changes, structural meaning split more territories, added more salespeople, training them to sell Infinity, which means you need to move higher in the level that you negotiate within the organization or talk to in the organization. It's a more complicated sale. And there it takes us longer than we planned, meaning we thought it was going to take us x quarters. It takes us more. I'd say probably we're in the middle

right now. And the reason that I'm staying in the middle -- we plan to be at the end at this point of time. The reason in the middle is that after 2, 3 quarters that you implemented many, many changes, you see things that are working, so you keep them. You see the thing that are not working in line with your expectations, so you need to improve them. And you see things that are not working at all, so you change them completely. So that's why I'm staying in the middle because we're in the second round of correcting what's not working. Q2 was a good quarter. We had very strong booking. We talked about it on the call. Some of it you don't see in the billing because it's off balance sheet because it's billed annually. But we see, Infinity, a few nice deals. A customer that's adopting the full solution might -- so really, really early days on Infinity. So we see a lot of good indicators but still a long way to go. And that's why we -- well, the guidance we gave in the beginning of the year. And we said guidance for 2019, we need to wait and see how the year will come out in order to decide where we are in '19. I'm saying it because Q3 is a minor quarter in our business. It's very similar to Q1, which is small quarters, and Q4 is a huge quarter. So we need to see Q4 to see the pipeline, how it's matured and then to give the guidance for 2019.

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

Got it. And I think after the quarter ended and you reported, you had a change in sales leadership. Can you walk us through that change and how that impacts sort of how you're thinking about some stability and so forth in your organization that has come?

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

Sure. So I'm assuming you relate to Pierre?

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

Pierre-Paul, okay, yes.

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

Yes. So -- [which is hard].

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

Yes, yes, yes. So has there's been any other changes? Yes.

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

Yes. No, we had another change. We appointed Dan, yes.

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

Right, right, he would have come in, I think, previously. Yes, right.

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

Yes. He came previously, yes. So I can't say too much about it except for saying he was with us 2 years and he decided to look for other opportunities. He joined Juniper, and he's been appointed there for chief -- it's an opportunity for him. C-level Chief Customer Success.

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

Well, I think, yes.

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

And so he's there. We had the replacement from -- internally from the organization, a recruitment from 4 or 5 months before who was -- his name is Dan Yerushalmi. He was in Amdocs dealing with their entire sales in Europe. So he made the revolution there. So he took a business that was $200 million, turned it into $1 billion. So he has a good experience in scaling business. And he was also a CIO of the largest bank in Israel. So it's also the view of an IT and a CIO business. So he was recruited there 4 months before, and he was appointed to replace him. Naturally, before -- below -- he was a VP Sales for us. So below Pierre-Paul, obviously, you have the Head of Europe, the Head of Asia and the Head of U.S., and all of them are in place.

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

Okay, got it. So it sounds like relative to stability that you started to see in the business, this is a relative nonevent? Or is it...

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

Nonevent.

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

Okay, okay. Got it. In terms of looking just more broadly at the market, I think everybody in the -- all the investors in the security space were always trying to understand what's happening from a market share perspective. And if I look at your growth rates, they're below some of the peers'. I'm wondering, how do we -- how do you, I guess, measure where you should be growing? And, I mean, you're a bigger company than some of them. So some will just grow slower than -- because you're bigger. But how do we think about market growth rate, what Check Point should be growing? And then I want to give it some follow-up.

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

So first, we need to grow faster. That's clear. That's what we do in the changes in the sales. The opportunity is out there. The installed base is steady. So it's not about market share. It's about a productive sales force that is enabled to up-sell to these new opportunities that are opening up. When you recruit a lot of new salespeople, it takes them 2, 3 quarters to become productive. And to get a full production, sometimes it can take 4 quarters, 5 quarters, full productivity, right? So when you talk about renewals, it's easy. I mean, everybody renew, the renewal rates are steady. So that's like keeping your installed base. But the opportunity to grow has to come from new customers or up-selling advanced threat protection, mobile, cloud. And in order to do that, you need to be full production, right? So our sales force is effective, but there are still a lot -- they're not as effective as they should be in terms of full production because there was a lot of change in the field. So it takes some time to ramp up. So I think that's regarding to us. Regarding the other players, you need to talk each one specifically, and it's probably a more appropriate question for them. But I think it's -- when companies coming out from 5 years ago or 6 years ago from a high growth rate in the product, then, obviously, they have a refresh opportunity coming in. So it's again a refresh opportunity, a lot of it in the existing installed base. So it's a different opportunity versus where you came from.

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

Got it. So how are you thinking about the -- I'd also note some of those companies are spending a lot more than you are on sales and marketing or spending a lot more as a percentage of their sales, at least on sales and marketing. How do you think about the balance of spend to drive the

growth? And it just feels like in this industry right now, everybody is spending a lot. Maybe it's not rational, but they're just all spending. And you're in that industry, too, and so we have to figure out how to deal with that. So how do you think about that general topic?

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

So first, you need to spend more. That's why we're spending more, right? It's not a good thing, but it's a fact. You need to invest more. We are investing more. That's why I was talking about recruiting in the sales and investment in marketing and so on. We are a profitable company. Most of the other players are not. So to grow revenues and keep loss is easier than being very profitable, grow the revenues and not lose -- not in the margin. I'm not concerned about the margin, meaning we're okay. We said, oh, we need to invest more. It's not a problem. Let's grow the revenues. Invest more. Instead of being in 53% margin, we'll be at 49%. It's not a tough decision. That's not the -- and so I told you so about that because if we were in a full capacity of our sales team, then also good. That's recruitment. Well, they won't make $2 million a person, maybe they'll only make $1 million. Still a great deal. It's not the case, right. So we are willing to invest as much as needed to grow the profits. Not the margin as a percentage, but the profits. So it's not my limitation, okay. So it's just that our business model started from a different place than theirs. When you start -- when you lose, then you can continue losing, it's easy. To move from a loss to profit is quite complicated. When you're profitable, you're okay with it. If I need to invest more, I'll -- if I will be in their profile of margin, I can invest another $800 million a year. It's easy. The question is, what will happen to my profits? Will it grow? And that's not trivial because you have an installed base. So for example, if you reduce prices, all your profit in the installed base is going down. So you need to manage it. The way to manage it is first, invest on the most important thing, which is the value proposition for the customers. It's not about pricing. It ends up at the end in price. You first choose the technology you want to go with, right. So our focus is enabling customers to adopt more security, to be more secure, to secure their cloud, to be able to have the best management console so they can manage it. At the end, if you end up and they beat them in the pricing, we know to play the game. It's not that hard. But if it -- our focus is in R&D. We have more R&D and more development people than any other player in the market. That's where we invest more of our dollars

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

Is it fair -- so the incremental investments you've made even in the last year had been disproportionately product versus sales? Or how much -- it feels like sales has been a big part of it as well.

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

Product and sales. We invested in both.

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

Okay.

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

We invested -- we don't have a limit in how much we can invest, right. We just invest in things that we believe are fruitful for the future.

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

Right, understood. Now you said -- I agree not about pricing, but I think one thing that has -- you have done in the business is tried to have a sort of a more bundled kind of holistic pricing with Infinity. Can you walk us through where the -- not with pricing, the packaging of the products and so forth. Can you walk us through what that move was set out to accomplish and where you are today in getting the benefits?

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

So I think it's a good time because it's a good example of how do you deal with the universe of what customers need. And it doesn't mean everybody move to Infinity tomorrow. But it's basically saying if you as an enterprise is getting attacked much more and if historically you were attacked from 2 vectors and now you're attacked from 100 vectors, forget the budgets. That's the easy part. The biggest part is how do they implement so many different solutions and how do they choose different solutions. And then you go into the process of bidding each one and pricing each one and updating each one and so on. So we told them, you can go from where you are. Most of customers nowadays are protected somewhere between Generation II and III of attacks, which means somewhere between known attacks and unknown attacks. Then most of them are not protected in the cloud, not protected in the mobile and not protected in the unknown in the higher layer. So people need to move there because that's where they get their attacks now. In order to get there, it's very complicated for enterprises in terms of implementation and bidding processes. So we said first, we consolidated the platform for you. You have one architecture which would enable you to adopt all the solutions in your time. And now not only you can use it in 1 architecture, you can also price it in 1 price. That's Infinity pricing model. But they don't have to choose if they can still buy it as a separate stand-alone pricing. The Infinity pricing basically enables them to say, I don't know exactly the moment I'm going to implement, but I'm going to go with it. So I have 1,000 employees. They'll have to pay you $300,000. And now they can implement all of our security solutions and really, of course, in their timing and get also the equipment to build the infrastructure. So it gives them a very transparent pricing model in order to deal with that security breaches that they're facing. Customers love it. It's still early days, but it's -- it makes sense because they don't have to deal each time with a different project. They just have a road map and now it's up to them to implement it. We -- the infrastructure itself was launched at the end of last year. The pricing came out in the beginning of this year, and now we're starting with the training of the field and so on. So that's an example how to bring value and not necessarily just go on price. Of course, it's also price effective for customers because instead of putting 10 different solutions, they can put 1. They can save a lot of money just by saving appliances across the infrastructure. And so that's the philosophy.

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

Got it. And have you seen -- at this point, is it mostly been new customers that have been interested? Has it been the installed business that's interested as they expand? Have they sort of converted the existing product and subscription and maintenance payments to this model? What have you mostly seen?

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

So first, we know that it starts with basically -- is it me?

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

You all right?

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

I told you it's going to happen. So I'll say deeply I'm sorry. I'm sorry I'm boring. So I'll say with existing customers, let's first start with them updating their infrastructure. And they get it for free because it's part of the updated maintenance fee. And we've seen both. Remember, it's only started. So it's sporadic deals at this stage of time. But we've seen both, both new customers, surprising new customers, I have to say, not from areas I would have expected.

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

In what -- so in what way surprising? Do you experience this...

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

This is from mid-sized financial institutions or parking lots, just as an example. Or -- it's really been from different areas that shows that it simplifies universe for those people.

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

Maybe like, a customer you wouldn't have seen before, that sort of thing. Okay.

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

Yes, yes. Exactly, that's one. Secondly, for existing customers, is it for customers that's maybe in Gen 2 and say, we want to go all the way to Gen 5.? It's a significant increase in the price for them. It's much less than it would have cost them to implement each one separately. And it gave them the freedom not to have to manage it in -- necessarily in the most effective way by you buy something today, then now you're busy -- implement it quickly so you -- because the clock is ticking. You pay a certain amount a year. You can implement also in 2 months. It doesn't change it that dramatically, right. So that's what you saw. But we only -- we're really only started. I presume most departments don't even know it. It's a training process.

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

Right. Right, right.

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

So I'll -- the equivalent for you it's like when we came out with the Software Blade. If you remember...

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

Right, I remember it well.

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

A year after you asked and I said it takes time. And then it started the opportunity to open and open and open. And now it's way over $0.5 billion. So it is an opportunity that opens over time. As more people are trained and understand what it is and more people get to the refreshes. So that's the point to think about.

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

Got it. Got it. So it sounds like it is -- maybe to summarize there, it is mostly new customers at this point that you're seeing.

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

No, it's both.

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

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That it's not -- it's both? Okay, okay.

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

It's both actually.

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

And it sounds like from training and just enablement perspective that, that's probably holding the adoption back at this point?

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

They're probably just in the beginning of that.

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

Right. Okay, okay.

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

It's -- you're right in the sense that it's new customers or new opportunity didn't exist [before].

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

Right. It's not a conversion, though, of revenue? That wouldn't make sense.

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

Yes. No, because it's not. It's an increase in their space, significant. It doesn't make sense if you don't intend to adopt additional security solutions.

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

Yes, yes. Got it, got it. So you brought up late penetration. I think we used to ask that question every time you were here. And I'm wondering, from the -- from that perspective, where are you still seeing new success in attaching blades into the customer base? And any update there on where that sort of penetration rate is on blades?

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

So it's -- people that are NGFW, which is the basic, and then moving to NGTP, Next Generation Threat Protection (sic) [Next Generation Threat Prevention], which is most of the known attacks. People that already been in Next Generation Threat Prevention moving to NGTX, which is the advanced threat protection like zero-day attack, and I'll say the NGTP was the phenomena of the last 2, 3 years, I think now where we are and in

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the next probably 2 years is they move to NGTX, to the zero-day. It's a nice penetration already, but it's below -- it's still a huge opportunity. So it's not 5%, it's probably above 20%. But there's a way to go there.

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

And how do we think about -- I guess I used to look at that attach and say, this -- in the early days, you hadn't really had a refresh cycle in the days, right. So customers who had bought an appliance and then 2 years later you came out with blades, they really had no reason to adopt the blade because they were sitting with an appliance that worked. And then you get 5, 6, 7 years in, they have to refresh. And I would think that blade attach would increase at that point. With 20%, what do you think the catalysts are to drive that blade attach higher at this point when you're pretty far into the release cycle of the blades?

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

Blade is a generic word, right.

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

Sure, understood. Yes, understood.

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

The question is what solutions are in it. So sandbox -- SandBlast, which is the sandboxing of zero-day, is a solution from the last 2, 3 years, right? So it typically happens when they do the refresh or when they understand they're not protected against zero attack and they will move up. So that opportunity always exists. NGTP, for example, it's very high penetration at this point of time. That's something that came out 5 years ago. So it's probably a cycle of 5 years to get to 50%, 60%, 70% penetration, right.

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

And so when you talk about the 20%, that's sort of all gateways. Is that the way to think about it? Or how...

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

What you do mean 20%?

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

You said maybe it's 20%, the blade penetration?

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

Yes. From the installed base, how many actually already adopted zero-day protection?

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

Oh, I see, the zero-day.

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

So from -- in a day, how many already have it and how many that are still potential, right.

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

Okay. So on the more mature blades, that number is much higher?

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

Yes, of course. Yes.

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

Okay, got it.

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

So that's -- so the longer they are, the much higher the penetration, right. So the latest one was the zero-day. So they're not 2%. They're not above 50%, right. Cloud is below 1%. Mobile is below 1%. So they are like completely greenfields. So you look 5 years from now, you would like to see very high penetration in the zero-day. Everybody need it. Pretty sure it's going to happen. It's like it's got to be. It doesn't make sense not to do it. Cloud, it depends how the cloud will develop. In mobile, everybody needs. The question, who will pay for it? Is it the customer? Is it the pipe cleaners, right. I think it's probably both. Enterprise will be enterprises and consumer is probably going to go through the...

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

Carriers or the...

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

Carriers, right. So I think the best -- those areas are still greenfield in understanding how they will develop. Cloud, there are so many different cloud solutions. Most of them are very low penetration. And I think you will need maybe many of them in order to solve your cloud problem, and I think it's a big inhibitor to the cloud. So if we will give a package of security solution for the cloud, it will give much higher chance to penetrate.

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

Got it, got it. I was going to pause here a second and see if anybody in the audience have any questions. Happy to direct them at Kip or Tal. You might want to throw one at Kip here, who's gotten...

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

No.

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

All right. So on the cash and capital structure and so forth, I think I've had you on the stage here almost every year, and it's -- you love to do acquisitions and you haven't found the right ones. I'm wondering -- I assume the answer there is still the same, but we'd love to get an update on that and want to explore a little bit more around that.

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

Yes. So first thing, you usually start with, why don't you increase your budget. So there was a change from last year. We increased the budget.

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

That's right. That is right, yes.

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

So if typically we did $250 million a quarter, we said we will increase it up to $325 million a quarter. And so it might be $290 million, $310 million, $325 million, depends on if the quarter's good. It'd be slightly more opportunistic. But in general, that's the ranges. So we increased the budget based on public demand. So that's one. Still needs a lot of cash for M&A. So -- and that's the main purpose of our cash, right, is the growth in M&A. I'll say in general, the industry didn't change much in terms of more feasible packing technologies. And more interested in new greenfield areas, but it doesn't eliminate the other areas. So more, like we said last year, advanced threat protection, mobile, cloud, many other niche area that we believe might be larger. So that's the focus. I think in terms of valuation, probably similar universe, meaning a lot of security companies out there, a lot of them need routes to exit. And many of them probably less interesting. And where they're interesting, then you keep looking at and looking for the right one. Remember, part of the challenge is still valuations, does it make sense as part of the consolidated platform. Sometimes, you can do well as a stand-alone solution or a niche, and you're really happy with selling $10 million or $20 million. But in a very large organization, if it's not fully consolidated, it can die after a year. So that's more of the questions there. But definitely interesting environment. And of course, closely looking for [positions].

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

Got it, got it. And as it relates to the size of acquisition, any...

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

Everything is okay.

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

Everything, okay.

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

It can be small, it can be large. Obviously, the larger it is, the more it has to make sense economically, like this is more strict financial model. The smaller it is, there's -- a lot of it resides in your hope for what your customers will do with such a technological ability, right. So it's different valuation methods. But in general, the larger ones are much more about multiples and valuations and synergies, so.

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

Yes, yes. Got it. Makes sense. And you addressed -- I was going to ask you about the dividend. You addressed dividend. How do you think about that? You haven't -- or not the dividend, sorry, the buyback. You haven't necessarily increased it every year. It's been sort of every few years, and there was, at one point, a tax, I think an issue that was holding back the size of the buyback. What is sort of the way you think about the level of that buyback on an annual basis? Is it a percent of free cash flow? Is it...

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

It's actually -- should be -- this year is going to be slightly higher. But the philosophy -- the long-run philosophy is in line with the operating cash flow. So it was about $1 billion. That's why we were around $1 billion.

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

Okay, got it. And you've addressed to some degree on the cloud side, that there's a priority there, but a relatively small amount of revenue. Can you talk about the channels that you employ in cloud and how that may differ from traditional channels that you've used in the appliance-based business?

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

So firstly, in the marketplaces, right. So marketplaces are not going through channel. The channel is the marketplace owners, right?

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

Right.

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

And that's a great business model. I mean, profitable. Probably good for them and great for us.

It's good. It's accessible to customers. It's actually a nice source for new customers. So -- and they see -- they like the technology. They like -- and so that model is usually not a -- you can do also that through partners, right. And you do, but the access to those customers are typically coming through -- for the small ones at least, coming directly from the marketplace. When you talk about existing customers or very large customers, many times they want to buy directly from you because they might think they get a better price, for example. So you can buy the solutions for the cloud directly -- not directly through but through the partner distributor and come to Check Point. And you can go directly to the AWS and buy the solution with a monthly fee, with pay as you go, with an annual fee, whatever you want. So nowadays, the models are very flexible. Depends what you like.

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

Okay, okay. Got it. Relative to providing cloud services yourself, you have players in the market that are -- Zscaler, for example, is sort of providing network security as a cloud service. How do you -- what sort of demand do you see from customers to do that? How do you look at going to market with a service like that? Is that something you do on your own, go do with a partner? I'm curious sort of the path forward on that.

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

We actually have a platform like this.

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

(inaudible)?

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

It's just that it's not our focus in terms of the opportunity and the size of the opportunity. The organization needs to focus as well, right?

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

Sure.

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

So it's not a focus area, but we can do that, right. Think of what you need for that. You need a cloud platform, and you need security solution. We have security solution, and cloud platform are available from -- quite easily, right?

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

Right, okay.

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

And then you need to fine-tune this machine. But the tools are there. The question always like when we choose how -- where to penetrate is, what do we believe the potential size of the market? Sometimes we're completely wrong. Most of time, we're not. But sometimes we are, just to be fair. But we believe that the mobile and the cloud as a universe is a universe of bigger opportunities. A zero-day attack, advanced threat production are bigger opportunities. Management of all these different universe is a must in order to move into the future because customers are limited in how much more they can process. It's a -- I think it's got to -- I always ask the question, imagine you didn't have in iPhone the architecture of Apple. And every app you would have been interested in, you would have need to buy a separate device with a separate operating system. How many apps will you have? One? I probably would have had 7 because I'm more advanced, right. But I wouldn't have more than that, right, because I will need to sit every night to update these devices and to learn the operating system and so on. Think the same about security. You need those apps. But how many would you actually adopt the security solution until you say I can't do it anymore? Five? Six? That's where the market is. That's why most of the market is still stuck somewhere between Gen 2 to Gen 3. They can't adopt any more solutions. Consolidation is crucial for their ability to adopt these 20 apps in security. That's why that's where we focus, and it requires you to have all these different security solutions. So it's not just to create the architecture but the solutions as well.

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

And I think a question I've asked you again almost every year here and in between has been on the endpoint space. And, I mean, you have products. In the endpoint space, you have encryption product. You have a secure (inaudible) product.

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

Not consolidating it.

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

Right. It does feel like that market has a lot of new technology in it, maybe growing faster than it has in the past. We don't know all the numbers, but that's our hypothesis. I'm wondering, do you view that market more attractively now? Or is there something that could change in the world that would drive you to enter that market more aggressively than you have?

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

So it's a good example of something that we have the full product portfolio, probably the largest product portfolio for endpoint than any other player. It's really like more than 20 solution for the endpoint and a full suite, including a bundle. But it's an entrenched market in the sense that the customers are not there, meaning they're Symantec, they're McAfee. Most of them stay there except for the one they decide to replace for something more exciting. But it's not -- we don't see the big momentum yet, right. Our vision/dream was think 2006, that it will -- it should consolidate into the main platform because many things are now being managed through the network. And you see that happening on the edges, but the market is not there yet.

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

Yes, agreed. Got it, okay.

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

I think cloud will consolidate faster into the network than endpoint. We'll see.

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

Probably. It might happen. And then on -- actually, we'll give the audience one more chance here. Are there questions? If anybody wants to ask Tal or Kip anything. Oops here. Let's get a microphone over there.

Unidentified Analyst

I know you offer your own services through cloud. But how do you calculate or who will calculate the risk of security services that are being offered through AWS? Like what would be the risk of...

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

I didn't hear the...

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

The risk of security services offered through AWS?

Unidentified Analyst

Yes, what would make you concerned about security offered through AWS? What breach point to the market will you say, okay, this is concerning or maybe they'll never happen?

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

So where -- from a competitive perspective, like where would you be concerned in Amazon competing directly?

Unidentified Analyst

Yes.

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

Okay. Like they have a Web app firewall. They have a few products.

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

Okay. It's almost like the default that you get on anything that you buy from a vendor that provides you something that is not security. Let me explain. It's like when you buy a laptop and you're going to count on the default security that you have in the laptop. Or when you buy a server and you're going to count on the default security. So for majority of people, it's not enough naturally because it's not really secure. More than that, it need to be managed, and most of the people don't manage their security on the native. So you're talking about the native. So you have 2 types of demand. A, the level of security that you expect. So if you are me and I'm in the cloud of Apple, I have no choice. I'm counting on their securing their cloud. When I'm putting my photos of the iCloud, I really hope Apple secured it, just as an example. When you're an enterprise and you're putting assets, and your assets are not only your asset but your customer assets, you're obligated to protect those assets. So you can't just say, well, let's go native. You need to make sure you're secure. There's a lot of regulations around it. Probably a lot more regulations will come out. And they're going to be tons of attacks on those environment because valuable assets maybe will reside there in the future. Right now most of the organization crypt their critical data. I just talked today to a few people, a few customers, and it's clear that you're not going to put something sensitive until you're sure you're secure. So -- and in order to be secure, you need to buy a security-grade level of solutions. And you saw it in the network, you will see it in the cloud. You need to buy security solution. The more security you want, the more specialty you will need, okay. So that's when you will come to guys like us, guys like our competitors, special cloud players and so on, but it needs to be guys that are focused on security if you want to get best-of-breed security. And if you're going to put valuable data there, you want best-of-breed security. So that's that question. So I don't view it as a competition really. I don't think they even think about it that way. That's why they offer all their solutions on their marketplace because customers demand advanced security solutions. I think the challenge for customers is not about that, it's about finding a security that actually works for them in terms of operation and how does it fit in their security infrastructure in general, because customers are not moving to the cloud and shutting down networks. It's becoming very complex hybrid environment. So you need to think also how do you do it in parallel with managing your on-premise network, off-premise network, your virtual environment. Do you want to put the same level of security? Who's managing it internally? It's very, very complex question. That's why you see that move is happening very, very slow, like not just offload of noncritical data but actually managing the data in the cloud. So it's an opportunity more than a threat really because it's -- for us, it's another vector that needs protection, okay.

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

We have one more question here. Just wait for the microphone.

Unidentified Analyst

GDPR had several requirements that require basically announce a breach if it happened within 72 hours. Why do you think we haven't seen more announcements since the implementation of GDPR? I would have thought we'd see...

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

It's a good question. I think, first, when you read deeply into the GDPR, then a lot of it is process related, right. You need to analyze, you need to see what's -- where the data reside in your network. Where is it? Is it protected? What do you do in order to secure it? A lot of it is documentation of processes and enhancement of processes. Next phase can be what technologies do I need in order to put it in place. So I think it takes longer than people think. And also, as an organization, that we've used that deeply like us. Then for us, for example, it didn't require any changes. It required documentation, but we are fully secured. But we are a security company. I think when we talked to a lot of European customers, for example, they're still processing GDPR, right. It's a big book of rules that are not clear, and many people still don't know what to do and they are -- I think practices starting only now to develop. So I think maybe it's more a next year event and not necessarily will require additional solutions, but I think it will help them, again, to understand that there is a benefit in managing it centrally.

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

Great. Well, I think with that, we're going to have to end it here. Thank you all for coming. Kip, Tal, thank you.