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CHKP - Q4 2019 Check Point Software Technologies Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 03, 2020 / 1:30PM GMT

OVERVIEW:

Co. reported 4Q19 revenues of $544m, GAAP net income of $272m and GAAP diluted EPS of $1.84. Expects 2020 revenues to be $2.0-2.1b and non-GAAP EPS to be $6.25-6.65. Expects 1Q20 revenues to be $475-495m and non-GAAP EPS to be $1.37-1.43.

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PRESENTATION

Operator

Greetings. Welcome to Check Point Software Technologies 2019 Fourth Quarter and Full Year Financial Results. (Operator Instructions) Please note, this conference is being recorded.

I will turn the conference over to your host, Kip Meintzer, Head of Global Investor Relations. Thank you. You may begin.

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

Thank you. I'd like to thank all of you for joining us today to discuss Check Point's 2019 Fourth Quarter and Full Year Financial Results. Joining me on the call today 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 February 10. 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 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, programs and the success of those products and programs; the environment for security threats and trends in the market; our strategy and focus areas; demand for our solutions; our expectations regarding acquisitions and their integration; our business and financial outlook, including our guidance for Q1 and full year 2020. 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 press release issued on February 3, 2020, 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, 2018, 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 it's my pleasure 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 fourth quarter and the full year.

Revenues for the fourth quarter increased by 3% year-over-year to $544 million, and our non-GAAP EPS grew by 21% to $2.02, both above the midpoint 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 the acquisition-related expenses as well as the related tax effects. Keep in mind that as applicable, non-GAAP information is presented excluding these items.

Now let's take a look at the financial highlights for the quarter. Revenues reached $544 million, $2 million above the midpoint of our guidance. Product and security subscription revenues were $322 million. Our security subscription revenues continued to be healthy with 12% growth year-over-year, reaching $164 million. Our software update and maintenance revenues increased to $222 million, representing 2% growth year-over-year. Products are transitioning partly to the cloud solution, which are included in the subscription line. The reduction in product line is naturally driving lower support levels. The growth in our subscription revenues is driven mainly by our CloudGuard business and Infinity deals, which generated double-digit and triple-digit revenue growth, respectively.

Deferred revenues as of December 31 reached $1.387 billion, a growth of $49 million year-over-year. Revenue distribution by geography for the quarter was as follows: 44% of revenues came from the Americas; 45% of revenues came from Europe, Middle East and Africa region; the remaining 11% came from Asia Pacific.

Since the beginning of 2019, Middle East and Africa region are part of Europe, Middle East and Africa, which, before, it was part of Asia Pacific, Middle East and Africa region. The revenue distribution by geography for Q4 last year after reclassification would have been: 45% of revenues came from America; 44% of revenues came from Europe, Middle East and Africa region; and the remaining 11% came from Asia Pacific.

Non-GAAP operating margin for the quarter were 51%. During the quarter, the dollar weakened against some currencies, mainly the Israeli shekel, creating a headwind of $4 million or $0.03 year-over-year.

Our financial income for the quarter was $20 million compared to $21 million last quarter and $17 million last year. During the year, we saw a change in trend with a decrease in our portfolio yield as a result of the lower interest rates in the U.S. As a result of this decrease and the continued buyback program, our financial income for next year is expected to be around $19 million in the beginning of the year, moving down to $17 million a quarter by the end of the year.

Effective non-GAAP tax rate for this quarter was 0 as expected. This quarter, similar to last year, our tax expenses included tax benefits from lapse of Statute of Limitation of certain provisions. GAAP net income was $272 million or $1.84 per diluted share, an increase of 21% from fourth quarter of 2018.

Non-GAAP net income for the quarter was $299 million or $2.02 per diluted share, an increase of 21% from the fourth quarter of 2018. EPS was $0.03 above the middle of our guidance. Our cash balances were $3.991 billion as of year-end. Operating cash flow continued to be strong with $246 million compared to $249 million in the fourth quarter of 2018.

Collection from customers are strong. Our cash payments increased in line with our continued investment in sales and marketing. During the quarter, we acquired Protego and Cymplify. Both have minimal effect on our profits for the quarter. During the quarter, we utilized the maximum quarterly buyback authorized and purchased 2.9 million shares for $325 million at an average price of $113 per share.

Now let's take a look into the full 2019. Revenues for the year were $1.995 billion, an increase of 4% from last year. During the year, subscription continued to be the main growth drivers. The subscription revenues include majority of our new products and services, including cloud, Infinity solution and mobile.

On the Infinity front, we've seen an increase of tens to hundreds of percentage in the annual run rate of business with customers that adopted the full Infinity Threat Protection solution. This is great news. The product portion reduced since the allocation to subscription is quite large. During the year, we have increased cloud market penetration with over 2,500 or 2,500 customers.

During 2019 and the beginning of 2020, we introduced the new appliance family. It is hard to predict the mix between the old and the new products and between the different types of appliances that the customers will end up choosing. As you know, our goal is to provide higher throughput across the line for the benefit of our customers, understanding that there is some risk of some customers buying lower-priced appliances with higher throughout. Hence, it is quite hard to predict the effect of our new appliances on the average sales price in 2020. We also plan to bundle more services as part of our appliances next year, which will continue the transition that we are experiencing between products to subscription.

Non-GAAP operating margin for the year have strong -- were strong with 50% as we anticipated in the beginning of the year. We continue to invest in our workforce and marketing efforts. As discussed during the year, the dollar weakened against some currencies, mainly the Israeli shekel and created a headwind for the full year of $5 million or $0.04. This headwind is expected to continue and to be $10 million or $0.06 in 2020, based on the current exchange rates.

The acquisition we made during the year are expected to have an effect of $0.03, $0.04 on non-GAAP EPS and $0.07, $0.08 on GAAP EPS. As a result of the continued investments, currency effect and the acquisitions, we expect the annual margin next year to be around 48%, with lower point in Q1 and with the highest point at Q4 next year.

Effective non-GAAP tax rate for the year was 14%. For 2020, we expect the tax rate to be for the year around 12%, going down 2% as a result of the change in regulation, structure and tax status. Quarterly taxes are expected to be around 17% in Q1, Q2 and Q3, and around 0 in Q4 as the lapse of Statute of Limitation expected to occur in the fourth quarter as we've seen in the last 2 years.

GAAP net income for the year was $826 million or $5.43 per diluted share. GAAP earnings per share grew by 5%. Non-GAAP net income for the year was $933 million or $6.13 per diluted share, reflecting an increase of 7%. For the year, cash flow from operation was $1.102 billion compared to $1.130 billion, quite similar.

During the year, the company repurchased approximately 11.2 million shares at a total cost of approximately $1.278 billion at an average price of $114 per share. We believe that our market leadership and long-term growth prospects makes it an effective time to further utilize our cash to increase shareholder value. As such, we have announced today an increase of $2 billion to our buyback program with a quarterly repurchase of up to $325 million a quarter, consistent with our previous plan. The total amount available as of year-end from the old program was $382 million. Based on the above plan, we expect our average diluted number of shares for 2020 to be, on average, $144 million (sic) [144 million,] starting in 147 million and moving down to 141 million in Q4 of 2020.

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

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

Thank you, Tal, and hello to everyone joining us today. As Tal spoke about, fourth quarter business results were in line with our projections. Our CloudGuard family of products, mobility and advanced threat prevention solutions, continued to demonstrate solid growth throughout the year. These are all subscription-based solution and their continued success shifts our business into more of an annuity model.

Overall, we had a strong finish for the quarter and tallied a nice number of wins with our new technologies. We're placing a lot of emphasis on driving the future of cybersecurity with the launch of our Infinity NEXT architecture.

But before I dive into the future of cybersecurity, a little summary of the technologies we launched in 2019. We're starting revamping our clients' models with the 16000 and 26000 series of appliances for the high end and data center. But unlike most industry, we made a real breakthrough in network security architecture with the launch of the Maestro orchestrator. Maestro delivers cloud-like elasticity and reliability to data centers. Normal gateway architectures work on the premise that 1 plus -- that 10 plus 10 equals 10. For example, traditionally, you buy 2 10-gigabit appliances to work in a high-availability mode, so if one fails, the other takes over. And if you run out of bandwidth, again 10 gigabits, you need to upgrade the whole installation. Maestro changes this architecture. You can have 2, 3 or up to 52 security appliances, and they will work in parallel, delivering a multiple of the performance, providing n plus 1 redundancy. Not only that, it is completely elastic architecture, you can add more and more capacity as demand increases. We are starting to see good adoption of the Maestro-based solution with enterprises of all sizes.

We've also complemented our network security architecture with the 1500 security appliance series. This series brings enterprise-grade capabilities to the entry-level of the marketplace. It is favored by managed security providers and telcos who wants to provide the highest level of security to many small businesses in an effective manner. But beyond the network security evolvement in 2019, we made a lot of headway in the cloud space. We've expanded the CloudGuard family with cloud-delivered network security, CloudGuard Connect and with the integration into SD1 system. We've made a bigger evolution with the acquisition of Dome9 and are now delivering CloudGuard Dome9 multi-cloud security management. And towards the end of the year, we completed another acquisition in the cloud space for serverless security, adding what is called Workload to the CloudGuard family, covering Amazon Lambda functions and traditional serverless workload in the future.

Given everything we've done on the cloud space, we believe that we have a very good foundation for cloud security with the CloudGuard family: CloudGuard IaaS, CloudGuard Saas, CloudGuard Dome9, CloudGuard Connect and CloudGuard Workload.

Overall, our cloud business now reaches over 2,500 customers, up significantly from last year. Another acquisition we completed in December was in the field of IoT security. This one is quite revolutionary technology. Most IoT security companies provide discovery and mapping of IoT devices. But mapping devices on its own doesn't elevate the security level. The real challenge in IoT devices is even if you know which devices you have, you don't know their security posture. These are closed devices that don't let you manage your application or operating system environment, usually old and variable operating system and, therefore, creating huge security vulnerability. Our new IoT security technology will change that. We can analyze the firmware of each IoT device and provide a report on the level of security and vulnerabilities in the device.

But that's just where the story begins. We can automatically create the modified binary that fixes these security vulnerabilities and hardens the IoT device firmware. So when an organization deploys IoT devices, they can check their security level and ask the vendor to harden their device's security posture using our technology. This is what we refer to as nanosecurity architecture, which leads me to the future of cybersecurity where we're going to focus in 2020.

But before I dive into the future of cybersecurity and the Infinity NEXT architecture, let's take a quick look at the industry.

Enterprises of any size, whether it's 400 or 400,000 employees, all face similar challenges. They have a host of platforms, endpoints, mobile, networks, IoT and huge number of cloud platforms, virtual servers, container, web services and more. Many of these don't follow the traditional computer models and present a real security challenge. The attacks are becoming more sophisticated. We're now in the fifth generation of cyber attacks moving into the sixth generation. These attacks are fully morphic, making them very hard to detect, multivector, an attack can start with a credential theft from a mobile device and use that to penetrate the cloud and the network until it starts downloading and activating its malicious workload. So a typical enterprise can find itself with 30 to 40 computing platform or, as we call, assets and dozens of security technologies that are needed to protect them. No enterprise can pull it all together.

Many platform or assets will remain insufficiently secure, many technologies that are needed won't be deployed, which is what we see every day with the vast majority of the market. Customers are on Gen 3 security rather than Gen 5, where we should be. The technologies that are being implemented today don't work together probably and don't deliver the desired level of security for the entire enterprise.

Check Point Infinity and Infinity NEXT are uniquely positioned to change that reality. In the past few weeks, we started launching the Infinity NEXT, the technology that can solve the security challenge. Infinity NEXT provide a unified architecture. It consists of a security brain that covers over 60 secure technologies with a range of field, known attacks, unknown threats, zero trust access, hardening and compliance and coordinate the high security. This brains provides its capability as a cloud service to all the platforms, asset types and workloads. Our aim is to get over 50 platform or asset types in 2020. For each platform, there is a unique nano agent that plugs into web system and connects it to the security brain. This includes a long list of asset types from serverless functions, a web service or IoT devices. They will all consume the services from the cloud. No need for upgrades, updates, complicated installation. Delivery of security can be embedded into DevOps services in an automated manner and provide the highest level of security posture constantly.

Infinity NEXT is the only architecture that combines over 60 security services multiplied by 50 platforms to deliver unmatched security. We launched the Infinity NEXT technology at our CPX conferences over the past few weeks. They were received by our customers and partners with great enthusiasm. We received the highest ratings from customers based on our vision and relevance to their needs. We are starting to deliver these solutions now, and 2020 will be an important year for the new architecture.

From an execution standpoint, we continue to make many changes in our field operation in 2019 and will continue in 2020. Evolving our business and consumer relationship is an evolutionary task. We're continuing to target cloud buyers, C levels, CIOs and CSOs, that are involved with the larger cybersecurity landscape. We have recruited many new leaders, especially in the channel management areas. We've put new sales structures in places, and we continue to support and grow the traditional network security business while leveraging our customer relationship to expand our footprint into new fields of security.

Some areas show good progress. In particular, our cloud sales are growing nicely as well as our Infinity Total Protection platform. In 2019, annuity sales amounted to almost 75% of our revenues and security subscriptions surpassed the sales of traditional products, which is a great achievement.

Over the past decade, we've built an advanced security annuity business that is now over $600 million in revenues annually. In the short term, we will aim to grow both products and subscription lines as the new product sales continue to provide an important platform for subscriptions. Over the next year, we will continue to focus on the same key areas. Our Infinity NEXT platform will take the front stage for innovation and fast-forward us into the future of security.

We will continue to move services to the cloud, like for security management as a service model, and we will continue to drive innovation in the network security core business with our R80.40 software platform, our new quantum appliances that were launched last week and the Maestro platform, which continues to generate significant business and provide leading technologies in the core network security market.

From a technology perspective, I believe we are gaining traction with our cybersecurity leadership. From a business perspective, clearly, we should generate higher growth rate, and we are fully committed to achieve that success. This is a good transition to our 2020 projections. As you know my regular caveat, it is hard to predict the future, especially with all the changes we are implementing to our technology and business. So I will remain relatively conservative with my projection. Of course, there are many opportunities for upside and also some risks to these projections. In particular, most of our new initiative revolves around new cloud and annuity business model, which means that when we win a large project, most of the revenues will be deferred for the duration of the contract and not flow right into the P&L.

With that said, revenues for 2020 are expected to be in the range of $2 billion to $2.1 billion. Non-GAAP earnings per share is expected to be in the range of $6.25 to $6.65. GAAP EPS is expected to be approximately $0.85 lower. For the first quarter, we expect revenues in the range of $475 million to $495 million and non-GAAP EPS in the range of $1.37 to $1.43. GAAP EPS is expected to be approximately $0.21 less.

With that, I'd love to open the call for your questions. Looking forward to hear your thoughts and questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Brad Zelnick with Credit Suisse.

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

Gil, I wanted to drill in a little bit on the go-to-market changes. And I appreciate all the color in your prepared remarks. Last week, we noticed the new Stars global partner program you announced, building on the Engage program that you also, I think, announced last May. And it seems, though, that when we talk to partners, it's still tough getting them to lead with Checkpoint in net new opportunities, landing new logos. Can you talk specifically about the progress that you made last year, how the new program incentivizes new business and any metrics or leading indicators that you feel that you've maybe -- you've gotten it right now as we head into 2020?

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

I think, first, it's important to understand, last year, we grew the number of new customers and we grew the number of partners, and we had some nice successes. I think the new programs that we have are always tailored to have some effects on that and to create the programmatic effect. But to be honest with you, the main job is not the programs and not the formalities, it's the joint work that our people are doing and will do in the marketplace. To that end, again, we've put some new leadership in the channel areas, both on a global basis and especially in the U.S. And I think one of the important elements is to kind of reiterate that mantra to our people, go work with our partners. If we create more successes together, we will -- they will be replicated by the partners. Now keep in mind, we're the only vendor that does 100% of business with partners and through partners. But I think what's changed in the last few years, in the last -- again, it's not the last few years, it changed many years ago, is that we ended up driving more business and just fulfilling it through the channel. And I think what we need to do is drive the business all the way with the partners. I am encouraged with some of the things I've seen. But again, we have a long way until we reestablish the trust. By the way, it goes both ends, the partners working with us as we are working with them. And I think in CPX, as we got good feedback from them, we had very, very successful CPXs. We had 2 of them, one in Bangkok 3 weeks ago, one in New Orleans in the U.S. last week. The biggest one, by the way, by far, is going to be our European one, that's going to start tomorrow in Vienna. And again, from what I've seen in the U.S., in particular, we've seen some good traction in getting partners more and more involved.

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

If I can just follow up for one from Tal. Tal, I think most of us appreciate the transitions that Check Point and the overall industry is going through and the impact it has on your business model as more revenue shifts to subscription. But if I look at current deferred revenue, for the full year last year, you added $32 million, compares to the prior year at $100 million and the year before that at $64 million. And this is with strength in things like CloudGuard and Infinity and, as Gil talks about, strength in your annuity business. So with this transition, we would expect it to have an impact on product revenue. Why aren't we seeing it more build in deferred and any kind of acceleration on the subscription lines?

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

Yes, so you're right, the effect should be reflected in the deferred revenues. The only thing I will say is that 2 things. One, Infinity deals, the majority of the dollars are not coming through deferred because it's annually invoiced. So you see a phenomena of annual invoice business. And second, I'll remind you that we talked about it throughout the year, that last year, we had a few, I can call it, abnormal, huge transactions, both in Q2 and in Q3 and some in Q4 as well, which it was very hard to match. Last year, we had a few very, very large deals, which were part -- partially part of the deferred revenues. And therefore, we don't see it as part of the growth this year.

Operator

Our next question is from Michael Turits with Raymond James.

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

I think I'll start with Tal. Tal, the 2 points of margin decline this year, can you just make sure we've parsed that correctly to understand what's coming from acquisitions or from the shekel, and what's coming from incremental investments? And where those investments are? And the follow-on question is that, another 2 points down this year with margins. What's the prospects? Are we bottoming at this point? Or how do you think about margins longer term?

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

Yes. So I mentioned 3 things. There's a lot of details behind it. But the 3 main things was, one, we talked about the headwind from the dollar. The main drop against the shekel happened in Q4, it's already now 3.4. We started last year, if I recall, around 3.8. But most of the drop happened in the last quarter or 2. So the full effect you see in next year, which is -- I told you, it is estimated based on today's rate at around $10 million, okay? So that probably explains about 0.5%, slightly more. Second, we had the acquisition, I told you in cents, it's about $0.07 to $0.08 annually. You can calculate how much is it in dollars. I think it comes to about also $10 million or so. We had 3 acquisitions this year, if you recall, one in the beginning of the year and 2 in Q4. So it's not a big effect but it is affecting. All of them have no revenue, just expenses. But it's good. We bought an amazing technology. It's just part of the expenses for next year. And third, I mentioned, remember that when you recruit people, and you're having salary increases, even if you don't recruit people, if your growth in revenues are 3%, 4%, then naturally the growth in your headcount plus the growth in the increases in salary brings higher growth. And that's the third big explanation for the 2-point drop from 50% to 48%. And that's the average. Remember that Q1 starts much lower because obviously, peak season in Q1. So Q1 starts maybe 2% lower and then the year-end with 2% higher. So the average comes to the 48%.

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

And then just my longer-term question, as I said, it's been a couple of years of continuing declining margins. How should we think about your strategy relative to margins over the next couple of years?

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

I think, first, I've been saying that we're public now for like almost 24 years. I've been very, very consistent about that from the day we went public in '96. Our focus is not about the margin. Our focus is on building a healthy growing business. And that's what we are doing. By the way, over that period of time, we've actually expanded our margin, not lowered our margin over the long period of time. And our margins are very, very high around -- again, whether it's 48% or 52% of operating margin, it's very high. The main strategy is what we do and how we do it effectively. There are many opportunities in the marketplace. We do want to conquer new markets. We do want to take good care of our people, which is also important. We do want to provide good incentive for the -- for our partners. The fact that we're able to do all of that and still maintain that high margin, I think, is -- speaks for itself. And I think once we see some of it flowing -- some of the growth coming and flowing into our top line, it will flow down to the bottom line as well.

Operator

Our next question is from Fatima Boolani with UBS.

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

I had one for Gil and one for Tal. Gil, you were super helpful in outlining the initiatives for calendar '20 and the focus areas for calendar '20. But I did note the emphasis is still on reenergizing, if you will, your network security or your product business. So can you help us think about what sort of sales compensation or sales incentive structures you're going to bring into place that both incentivize adoption of some of your newer solutions like the CloudGuard family as well as the traditional network security and the gateway portfolio?

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

First, the product and the network security portfolio is still the majority of the revenues and the activities. So clearly, the salespeople are focused to bring those numbers. Actually, we need to incentivize them to invest in the new areas where we believe it's very, very important for strategically and for the mind share and for building the future revenue streams, and yet, they account only for a small portion today of the total revenues. And even -- and I think that's where it comes to play. So I think we do build the incentive programs, and we have incentive programs to help invest. As I mentioned earlier, for an earlier question, the main job is not about the commission plans or the incentive programs. The main one is management, every day that every salesperson and every sales engineer and every manager in the field should know how to balance their act between supporting and growing the network security business and creating new business on the total security platform. We're finishing a decade now, and I didn't talk much about that, but if you remember where we started the decade, we started the decade with gateway platforms that were, I wouldn't say basic. They were very rich for that era, for a decade ago. But we started with the Software Blades platform. And what we aim to do is consolidate many technologies into the gateway and make the gateway a much bigger security platform and support that with a new business model that was the Software Blades model. 10 years later, you can see that we've actually achieved that. I mean the -- in the network security business, the gateways are unified. The gateway is a big platform. Our Software Blades business or as we call it now, the subscription business, already surpassed the new product business. So that's a huge achievement from that point. We built a business that's more than $600 million in revenues. Big part of it is the additional security services on top of it, and we really created the consolidation on the gateway. I'm bringing that because when we look into the next decade, I think what we're trying to build now with Infinity is the next platform that will go beyond the gateway and will bring something with the same principles to the entire network security landscape, having the cloud as the first priority, but also the IoT and other spaces in that space. I really like to hope that if we look forward 10 years from now, we will see Check Point building such a platform beyond just the network security field and extending it to the bigger cybersecurity landscape, providing the same kind of consolidation and unification.

Operator

Our next question is from Daniel Ives with Wedbush Securities.

Daniel Harlan Ives - *Wedbush Securities Inc., Research Division - MD of Equity Research*

So as you're thinking about the cloud transition, when you look at your current product portfolio versus, let's just say, potential acquisitions, just how are you thinking about it buy versus build in terms of just cloud and going after the 2020 opportunity there?

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

I think, first, we have, today, a very, very rich cloud platform, including all the key elements, the cloud virtual servers, the cloud -- the multicloud management, private cloud, public cloud, cloud Workload, cloud SaaS security as a service or software -- security for software as a service. It's actually multiple Ss there. Cloud-provided security, like the CloudGuard Connect and the SD1 solution that's included with that. So I think we've built a very strong platform. I think the core of the platform is built by us. It's based on our Threat cloud, and now in Infinity NEXT, which is a brand-new technology platform for delivering security from, what we call, a cloud brain. Inside that, we have a lot of technologies and a lot of places when we can augment it with acquisition. And I think just this year, we made 3 acquisitions or in just -- in 2019, we completed 3 acquisitions in the cloud space for serverless functions for a web services on the cloud, which is very important at the beginning of the year, and IOT, which is, well, it's not cloud, the security is delivered from the cloud and using that cloud to deliver securities. So and that's on top of what we've done in 2018 for the cloud management with Dome9. So I think we will continue to look for more opportunities. We will, I think, as I mentioned before, we are -- we want to secure now at least 50 type of assets. Many of them, more than 20 types of these assets are workloads on the cloud. And the nano agent that we will put into them is sometimes made by us, sometimes it's a combination of something made by Check Point and new technologies that are being acquired, and we will continue to look in all those spaces.

Operator

Our next question is from Brent Thill with Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Tal, billings, that missed consensus numbers. I'm just curious for this year, how we should be thinking about billings? Is it something you pay attention to? Or how we should think about that as that remains a key metric that many investors are focused on?

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

We don't report billing. The reason is that it can fluctuate easily. As you've seen this year very clearly or between some quarters because billing have 2 effects. If you invoice multiyear, you will have an upside on the billing. And if you had a great deal, but you invoiced monthly or annually then you won't even see it. So we're very careful on that. What we're looking at is run rate. Now rightfully, you're right. The P&L reflects the run rate. And the run rate was a single digit, and we aspire to increase it significantly. But the guidance is aiming for single-digit as well at this point because of the transition between the product and the cloud products into subscription and the Infinity, which is annual versus multiyears and so on. So the guidance remains in this level. And like you say, it can have upside or downside, but that's where we are at this point of time.

Operator

Our next question is from Gregg Moskowitz, Mizuho.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

First, just a high-level question for Gil. How would you characterize demand for physical firewall?

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

Could you repeat that because you were sounding very weak, the sound.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Gil, is this any better?

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

Yes, much better.

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

Much better.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Terrific. Sorry about that. So just a high-level question. I was wondering how you'd characterize demand for physical firewalls as well as virtual today versus 6 to 12 months ago?

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

It's hard for me to say. Some of the shift in attention in every organization does go to new platforms. By the way, I was surprised last week when I surveyed partners to some of their priorities for 2020. I was expecting to hear -- they all have cloud on their agenda, but I was expecting to hear more cloud, and I heard more about IoT and SD1 connectivity. So there are multiple levels of interest, not just cloud. I think the demand for gateway and net -- and physical network security remains pretty stable. I'm not sure if it means the small increases, small decreases but stable.

Operator

Our next question is from Karl Keirstead with Deutsche Bank.

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

Gil and Tal, I'd just like to press a little bit on the Q1 and 2020 revenue growth guidance of 3%. Gil, you described it as conservative. But throughout this call, you and Tal have mentioned on a few occasions, this mix shift from product to subscription, which should put a little bit of pressure on growth. Tal, you mentioned not assuming some of the chunky deals that you closed in the middle of last year. So given those comments, I would've expected your revenue guidance to be a little bit lower. So 3% is about what it's been, frankly, in the last several quarters. So there must be some positive offset to these sources of revenue growth pressure. Maybe you could outline what 1 or 2 of those might be?

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

First, my aim is to much higher growth rate. I think the combination is for -- is, again, some of what's happening in marketplace, some is the shift in the businesses, some the investment in new areas that are still fairly small. I think at the end of the day, we take all the data that we have. We balance it. And we got to the numbers that we got. My goal and the sales goal is to try and create business, again, no matter how you measure it. If you measure it on the revenue side or you measure it on other amounts that will generate at least that amount of growth. Tal, if you want to?

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

Yes. And again, I would do the -- my part in the sense of the balancing. So first, you're right, I'm seeing like the last few quarters, I see the 3%, you're right. When the products are negative, the support is under pressure. Therefore, it's going down as well. But we see the atmosphere on the CPX, and the salespeople what they feel about next year and the partners that we met in the CPX. So I think when you look at the full year, then we expect to see some changes already in the second half of the year. I don't see it tomorrow. You're right. It will take some time. But this is like balancing. It can be -- if the product transition to the cloud will be faster, then you're right, there will be much more pressure than is part of the guidance. But if we will see product is picking up because of the execution of the partners in the field, in the network area, then you might see an upside. And that's why we have a range.

Operator

Our next question is from Brian Essex with Goldman Sachs.

Brian Lee Essex - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Tal, I was wondering if I could ask you a little bit more about last quarter. I believe you noted that sales cycles are lengthening, particularly, as you transition from more product to annuity type revenue. How are you seeing the backlog evolving? And maybe a part B to that question, sales and marketing, it continues to accelerate maybe faster than revenue growth. Is there a point where you see maybe an inflection point in the backlog where you might get more sales and marketing leverage? And how are you measuring incremental dollars of sales and marketing spend in that light?

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

I think Gil could say his part here. The way I look at it is, it's not yet in this level. It's, first, we would like to see the pipeline is growing, and the execution is improving and to see that booking increasing and then translating into the P&L. Once you get there and you see the pipeline is growing, you will see the measurement per sale person are improving, and then you can talk about leveraging. But 2 things are clear. The opportunities are out there. The cloud opportunities is opening. We see our cloud numbers are increasing significantly. We see our Infinity, a number of deals are increasing significantly. We're seeing when we close an Infinity deal, the annual value is increasing between tens of percentage to hundreds of percentage. So the opportunities are out there, what we need to start seeing is building into a significant amount in order to balance the reduction that you see in the product. And that's what we are looking for on the next year, specifically in Americas.

Brian Lee Essex - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. Very helpful. Maybe if I could just do a quick follow-up on M&A activity. Is your pipeline building? Are you looking at more activity out there? Or are things just -- valuation expectations just too inflated at this point?

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

I think we always look at many, many opportunities. You see this is actually the conversion rate was high because we converted 3 opportunities into acquisitions so that -- I think it's the most we purchased actually in 1 year.

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

Probably yes.

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

Or if you look at 12 months, from December to December, we actually had 4 because last year, it was in December as well if I remember the deal.

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

Yes.

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

So we see more acquisition. And then it depends on what we see. If we see a good opportunity, we will seize it definitely.

Operator

Our next question is from Shaul Eyal with Oppenheimer.

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

Gil, I know that in prior quarters and probably throughout 2019, the main focus from a hiring perspective was senior personnel mostly in the U.S. But I wonder what's the status of sales leadership is in Europe? And are there any changes or planned additions?

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

I don't want to get too much from a competitive standpoint to all the searches and all the positions we're looking, but we are looking for good people all over the world. By the way, we're looking for good people, also, at all levels. Every level is important. And we do have several -- and by the way, when you look at the sales in the world, I mean we look at the total results and what the total percentage. They vary a lot. We have regions within the U.S. that demonstrated very nice success and very high-growth rate. We have regions within -- or countries within Europe and Asia and Latin America that demonstrated a very nice growth rates. And we have the opposite example. So I mean it's not uniform. The percentage that you are looking for is far from representing the run rate of every single geography that we have. So yes, we have several countries and several geographies that we are looking to strengthen our leadership, in particular, in specific areas. And we're looking for good personnel, good, especially in the field, I mean, sales all over the world and always.

Operator

Our next question is from Walter Pritchard with Citi.

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

Question I guess, split for Gil and Tal here. On the new appliances, you've gone through these releases a number of times and even gone through the process of deferring more of the revenue into subscription. So I'm wondering, Gil, as you look at the new appliance releases and how customers may adopt them, there's always this potential trade-off of buying cheaper boxes that have better throughput. How would you compare this release to priors? And then Tal, could you help us understand, just from a mechanical perspective, what the increased deferral rates are on the new appliances with the subscription attach?

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

So the general direction I'm looking for, and we, again, don't want to prelaunch anything is to give more security value with each appliance that we have. I think we need to stand for the best security. We've tried last week some models when we sold the basic boxes and multiple options for different level of security. To tell you the truth, I don't think that's necessarily the right approach. Our approach should be to stand for the highest level of security, to always protect against Gen 5 security, to deliver to our customers what we believe is right, which is the highest level of security. Then they can choose to activate it, to renew it and so on. But my approach would be to give more and more security services inside the gateway that we provide. It has, again, accounting implications from calculating the fair value of the appliance and the subscription service. I think it's a little bit too early to say what they are because there's a lot of moving parts in that. Like what will be the ongoing cost of the subscription after that and so on. But my aim is to provide the highest level of subscription -- the highest level of security and then to provide very competitive subscription rates for future years.

Operator

Our next question is from Sterling Auty with JPMorgan.

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

Just wondering with the investments that you've made, can you give us a sense of what the total sales and marketing headcount finished 2019 versus where it finished 2018.

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

In general, it's increasing a few percentage. Average versus average, it was...

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

7% or 8%.

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

7% or 8%. Exactly. The actual number, we didn't provide. We will provide it as part of the 20-F.

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

And by the way, most of the change wasn't year-end to year-end, but it was throughout the year.

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

Yes.

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

Because last year, we have actually in the end of Q4, we accelerated some hiring.

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

Yes.

Operator

We have reached the end of our question-and-answer session. I would like to turn the conference back over to Kip for closing remarks.

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

Thank you, guys, all for joining us today. We got a plane to jump for one of us. So we're going to have to cut it just slightly early today. But we look forward to seeing you throughout the quarter and have a great day. Take care.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.