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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

All right. Let's go. Great.

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

Sounds good.

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

All right. Good afternoon, everyone. My name is Brian Essex. I'm Goldman Sachs Security Software analyst. Today, I have with me Kip Meintzer, Global Head of IR for Check Point. And before we get started, Kip has a few special words to say.

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

Just that great forward-looking statement warning. So during the course of this presentation, there may be forward-looking statements. Obviously, there's risks and uncertainties that come with them, but those risks and uncertainties are covered by the Securities and Exchange Acts of the early 1900s.

If you really want to understand all those risks and uncertainties, we've listed them in the latest press release or you can check out our latest 20-F filed with the SEC.

And as always, with all forward-looking statements, we require no duty to update at least where required by law.

So I'll throw it back to great Mr. Essex, and we can proceed from there.

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

All right. So I think I have known you, what, like 13 years? Something like that?

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

Yes, it's been a been a while.



QUESTIONS AND ANSWERS

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

So when I first started covering Check Point over a decade ago, we had this conversation where things were evolving from stateful inspection to next-generation firewall UTM. And I remember that it was a pretty meaningful transition. Now threats are pushing into the cloud. We have another industry-wide transformation that we're undergoing. So maybe if you can kind of level set there. Many of the traditional network security businesses are transforming from appliance to software, perpetual licenses, subscription is causing a number of different headwinds. What's Check Point's view on this? And how are you approaching that transition? Is it the same or is it different than the peers?

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

Well, I think one of the first differentiators between us and our peers, one, we really take protection and prevention seriously. And so that's always been our hallmark. Even since the very beginning when we delivered the first stateful inspection firewall. I think another big differentiating factor and one that stands out very clearly is that we are a software platform. Since our origination, we've been software, and we've continued to be software. We only started using hardware as a mechanism of deployment in 2006, I believe it was. The rest of the time, we were selling software that was deployed on our partners, hardware, whether it be Sand, whether it be Dell, et cetera, IBM, HP.

Obviously, customers made the decision that they wanted appliances delivered, and we followed suit and did that in the '06, '07 time frame. But the one hallmark that we have is we are a software company. And so I think where it really began to differentiate itself is when you look at what I would refer to as the legacy hardware vendors, which is the guys that are dependent on field programmable chips and ASICs, et cetera, where they start to be impacted is when you move to the cloud. Cloud is not a place that you can run an ASIC, you can run a field programmable chip that's -- it's x86. And so for us, this transition comes very natural.

And I think what you've seen over the years from the first consolidation that took place in this market around the time frame that we met was, I think, it was unified threat management, however, you want to coin the phrase, next-gen firewall. But basically, it's taking all those network security applications and putting them into a stack. That requires a different level of management and when you move to the cloud and deploy technologies, it requires a uniformity of management. It doesn't do you any good if you're managing on-prem and off-prem and having separate policies and not being able to manage it in a cohesive manner.

Now when you start looking at where we are today, where we've delivered Infinity, which encompasses a whole host of technologies from endpoint to mobile to cloud infrastructure and also cloud SaaS security. We're actually the only one out there that's delivering what I'd say is a comprehensive platform for security, prevention and protection, not just remediation and detection, which is what you see mostly out there in the marketplace from our competitors.

So I think the next step, obviously, is as we start to see customers getting more and more serious about consolidating down. Our next generation of Infinity, which is called Infinity NEXT, is all encompassing with IoT and extends this platform even further. So I think we're in a unique position in the marketplace. Obviously, we're early because it's still a marketplace defined by multiple vendors inside organizations. But just like in enterprise software, you saw the same changes in the back office, you're going to see the same changes in this industry, we believe.

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

Okay. That's helpful. And how do you guys feel about 2020? You just reported your fourth quarter, you gave 2020 guide. But just generally speaking, relative to last year, how do you feel about the pipeline? I think sales execution has been an issue for several years, but we've recently seen a few changes on the sales side, specifically new President in the Americas, Frank Rauch for worldwide sales. You've got a new head of channel sales in the Americas. Is channel really the issue here? I mean what kind of things is the company focused on the kind of regenerate that pipeline and then see that pipeline flow in a better growth?



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

So I hate to feel like a broken record, but the last 3 years have -- maybe feel like a broken record, right? So we had starts and stops and starts. So we started this process in the beginning of '17 with the idea that we'd expand on the sales force. And get our go-to-market strategy headed in the right direction, right before we announced Infinity in the beginning of '18.

Unfortunately, as a reminder, what occurred to us is we brought on all these headcounts on that manager levels, different levels. And we had an existing sales force that a lot of them decided to vote with their feet. They got a manager, they didn't like or they thought they should have been the manager, you know, and this happens in your line of work, too.

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

Sure.

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

Also on the geographies, you name it. Anybody that can make up an excuse to leave, they did. And so that put us behind considerably because not only did we lose the existing, a lot of the existing guys, but now we had to backfill those guys.

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

Sure.

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

And so that probably put us about, I'd say, 18 months behind. And so you're now just seeing us get to that point. And Gil talked about this on the call that he's encouraged by the productivity and the meetings, et cetera. We're not talking pipeline yet, but he's saying, I'm starting to see the things that lead to that. And you mentioned Frank Rauch coming in at the beginning of last year. Chris Scanlan, our new President for the Americas coming in, in August of this past year. So obviously, Chris is contributing, and we're getting to that point where we're now going to see a full year with him. He's getting us feed under him. Frank spent the whole last year finding out what we needed to do in the channel, piloted some stuff. And now we're going full speed ahead with a lot of those programs. We've actually reinforced some areas under him with other headcount. And so we've got people in the Americas, people in Europe, people in Asia.

And so look, we're -- each step we make, hopefully, is a step forward. We're not looking to step backwards. And so I think we got the product set. Some of the things we did last year from a product standpoint, probably created a little bit of challenge for last year and maybe a little bit of a challenge for this year, which is we introduce R80 management. And you had to have R80 management to buy any of the new boxes that we deployed last year. So we staggered those all through the year, starting with the first quarter right through the end. And so you have to be on R80 management in order to actually run those boxes. No, we're -- we don't have the boxes to be backwards compatible. You had to be on R80.

So effectively, I think we exited the year with a little over 70% of the install base being on the R80 management. So obviously, you just don't go from putting the management in and then buying a box. You got to go test these in an enterprise to make sure everything's kosher for you inside your organization. So I would imagine as we make it through this year and maybe exit this year, we're going to have folks being able to bring on those boxes in full blast.

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

Sure.



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

So I look forward to the future. I mean I think we've set ourselves up for success. It remains to be seen how well it's going to go.

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

And as we look at the guidance for the year, I think 48% operating margins, which is a little -- a couple of hundred basis points of compression. You've been able to maintain gross profit margins relatively steady, which is admirable, given the pressure that you've had. Where is the spending coming in the operating structure? Is that all on R&D? Are you still spending in sales and marketing? Have you spent what you need to in sales and marketing and maybe that's shifting to other areas? Like how do we think about getting to that level of margin compression with that kind of 3%?

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

So I think when Tal -- what she expressed on the call with the margin coming down was the acquisitions we'd just done, you'll see all in with the headcount there. And I think one of the other things she called out with was a headwind from the shekel because a good portion of our expenses do come from Israel. And so there has been a strength in the shekel against the U.S. dollar. So I think she talked about those being a bigger contributing factor. From investment on the sales and marketing side, we're not abating there, obviously, but it's not being over indexed. And we haven't changed the way that -- we've never changed the way we spend on R&D. R&D is one of those things where you look at that line item, but you have to recall that we have a lot more headcount there than our -- the dollars we spend because of how favorable it is in Israel from that standpoint.

As far as sales and marketing, I think we've done what we need to do, and we'll continue to do incremental. But we would like to see some of that follow-through from the investments we've made start to show up in the leverage -- leverage it in the revenue. But on the product side, that's simple. I mean we don't have customized hardware. It's all x86 stuff, and it's a secret x86 gets cheaper every year, right? So...

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

Right. Right. That's helpful. And then, I guess, competitively, how are you seeing things this year? I mean is it a different environment this year than you've seen over the past few years? Particularly for the core firewall business, and how that renewal market might be impacting you? Is that becoming more competitive?

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

I think we've started going to market in a different way over the -- since we delivered Infinity, right? So our approach is, we still maintain the same relationships and still sell-through like -- for the customers that are looking to refresh boxes and things along that lines. But we're also trying to attack at the C-level and push down the Infinity message. We are having success. It's slow. It's early. It's been going on now for roughly 2 years. So it takes time, and some folks would say that it's still very early. It is a compelling offering. And I would say folks that feel that pressure already and some folks feel it from threats and some feel it from a cost standpoint. It's really where it makes sense.

When we are taking a new customer, and some of them are our key customers for other competitors we have, the most common thing that we hear in the process is, you guys are much easier to work with today. And I think that's a testament to what we've implemented over the last couple of years from a sales standpoint, but also from a channel standpoint. And the other thing that really stands out is, I'm doing this because you guys have the technology today. And I don't think your competitors are -- they're promising it to me in 3 to 5 years, and I'd be surprised if they can even deliver at that.

And so these are the types of things that are very encouraging for us. Again, it's still slow going. We're not posting record growth or anything like that. So probably falls flat on some folk's ears. But you got to start some...

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

I was going to remind you of that.

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

Yes. No, no. We're never -- you know, I would always argue that we try to be as forthright as possible. And we're not blind.

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

Help me understand the Infinity platform and how you're rolling that out in terms of -- how well penetrated it is and then to Tal's comment, I think it was Tal on the call commented that sales cycles because of how comprehensive that platform is, sales cycles are longer than they used to be. How do you manage, given that environment, how do you manage incentivizing your sales force when you had sales execution issues, and you need to sell a product waiting that extra time to sell more product? What is the perception from the sales force side and how well penetrated is Infinity into your customer base?

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

Well, I think from a penetration standpoint, it's -- I mean, I would argue that it's even too early to use that word. It's very early. And to think that the selling stops just because you're trying to sell Infinity. Infinity is something that can take a year and even longer. People are still going to refresh their boxes, add additional technologies in that process. So that doesn't stop. And as far as incentives go, the incentives are there. I mean you have people that are tasked with C-level sales. So in some cases, you have different folks, different teams going in at that level. Strategic teams to accomplish that. So you still have your guys that are doing what you might call a traditional sell-through. But you're still -- you're trying to refresh boxes but you're also trying to add value, right, which is try to get people to pick up new technologies like our CloudGuard Connect, CloudGuard Edge.

Our cloud technologies, where people are looking to deploy a native cloud technologies where Dome9 can be very, very helpful in addressing the weaknesses from that strategy. So it's -- I would say it's still selling. It's just that our [safe guys] have much more that they can deliver out there to our customers. And so they're looking at a bigger picture then -- they're not just trying to sell a firewall. They're also trying to see where they can add value to the customer and actually be a partner to that customer because that's our ultimate goal.

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

Yes. That's helpful. And one of the things that Gil said on the call and then Tal said on the call back, which I thought was really interesting is that you're growing your customer base.

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

Yes.

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

And if you look at where the stock was maybe priced recently, it's actually performed relatively well over the past few weeks. But I'd say, like a month ago, it felt the market was pricing in perpetual declines in your revenue, which means, essentially investors thought the business was going away.

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

I don't think the markets did.

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

My mistake. I don't think the markets did. I think the shorts did. Well, so how do you get investors comfortable with the fact that the business is not going away. You're growing your customer base, you're seeing great because you are growing. But it's when you see the perpetual -- when you see the product revenue declines that you are, how do we reconcile that with growth in the other area of the business in terms of, you know, are you losing renewals and growing new business faster? Are you getting a migration from on-premise to cloud? And maybe that's impacting the business. How do we get comfortable with that dynamic?

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

It's interesting. It's obviously, I think it's a testament to what we, as a company, do. We don't tend to overstate, and we don't tend to blow smoke as it would be. So I don't think anybody's ever going to accuse us of being hype marketers. Maybe just the opposite. So I think from that aspect with investors, I think they understand that when Gil and Tal get on there and make those statements, those aren't for show. Those are saying, hey, look, you can't see it in our revenues, you can't see it in our product sales, et cetera, but here's some guidelines for you. It's like we -- people have asked consistently about the cloud and our exposure there. We talked about having over 2,500 customers now with our CloudGuard products. Now that's not just 1 product, that's the whole encompassing CloudGuard family of products, right? So it doesn't mean everybody is going to have every one of them, but it doesn't mean there's just one of those selling, right?

So we try to give qualitative comments where we can and quantitative where we can, to help investors get there. But quite frankly, even in all the meetings I have, there's still people that want more, right? Show me that road sign. And until we show that growth, people are going to remain skeptical, and that's fine. I mean that shows up in our valuation. I think a bigger part of -- you talk about the stock moving up in the last, I think, the bigger part is we didn't do as bad as people thought we were going to do, right, which is -- that's a great bar to get over, but I think that's a testament to the our guys' expectation setting joke. But it's one of those things where it's nice. It's nice to see that Wall Street is starting to believe.

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

Right. And how do you think about kind of keeping on the theme of the growth environment into 2020? What are your thoughts about upgrade cycles? What are you hearing from customers? Are they putting off upgrades? Maybe that's putting some pressure on the product revenue side. Maybe postponing in favor of other types of technology on the security software side.

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

So I think part and parcel to some of our issue may have been R80 and then the rollout of the new boxes and having to be on R80. So I think that can be a contributing factor. I don't want to say that's the only factor. Other technologies can be an abating factor. I don't think you can say it's just one thing. I know our hope is that we get through 2020 and start to see improvement. But it remains to be seen. I mean, our guidance, as you see, is pretty much flat. And so hopefully, as we transition through the year, we start to see little bright moments and then hopefully 2020 brings something even better.

But I think to pinpoint and say it's one thing, it's not everybody moving to the cloud. I don't see anybody with a material amount of revenue coming from the cloud, right? So that would tell you that it definitely isn't there. I mean people have revenue from the cloud, but you don't see your cloud revenues in an aggregate of any materiality from the security vendors. You do from the cloud vendors, but not the security vendors.



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

Right. I guess, on that point, too, I think investors had expected that guidance would imply ongoing moderation with revenue. So no real surprise on revenue growth, but subscription revenue grew, I think, 12.5% in fiscal '19, now over 30% of revenue. Does management envision a point in time with the growth rate of subscription might more than offset the declines that you're seeing on the product and license side and therefore, kind of reaccelerate revenue growth? Or is that kind of putting the cart before the horse at this point?

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

Well, I think if you look ideally and you say, okay, what happens with Infinity, right? Because Infinity changes the dynamic around the revenue, right? Because when you look at what makes up Infinity, most of its software, and most of it it's going to be subscription-oriented. And then the hardware becomes a smaller part. So in an Infinity deal, instead of 80% going to the product line and 20% going to deferred and get recognized throughout a year, it switches. Rough numbers, right? And so 20% is going to be products seen upfront. The rest gets thrown into deferred and recognized over the course of the year. So in that sense, then yes, you would start to see that trend. But I think that's going to require, obviously, a lot more Infinity sales than what we have today. So going forward, I mean, I do expect subscription will continue to contribute more. Whether it's going to be that big of a delta in the immediate future, I think, remains to be seen. I mean you can't predict these things to a T, right? We'd all like to be surprised.

But I definitely think subscription is becoming, either with or without Infinity, it's becoming a bigger portion of our revenue.

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

Okay. I wanted to pause for just a minute here and open up to see if there are any questions in the audience. No hands. Okay. I'll keep going. I think you guided to about 48% operating margins. So I wanted to get a sense of, in the tone on the call, I think, from some of those that were asking questions and management were kind of a little bit skeptical of, all right, well, we've seen several periods of margin compression. And management has said that they don't kind of -- they don't manage to margins. But how do we get comfortable that we won't see ongoing margin contraction kind of after this year? Is there a certain level where they might put a more definite level of protection on margins?

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

Well, let's start off by saying that every time margin goes down, it seems our valuation goes up. So I'm not sure anybody is paying us for margin. From that standpoint, I think you have some folks that are focused on the margin. But again, nobody is paying us for margin, right? You're paying us for revenue growth in the end. I mean that's -- that seems to be what the whole market's paying for, right? And what keeps us at these levels is we have solid cash flow, solid profitability, we have a solid business. And so I think from a margin standpoint, I think we've been pretty clear. We like the stability, and we'd like to see the leverage come from the revenue.

Now if most of that investment is behind us right now, hopefully, we will start to see that progress as we move through this year or maybe even next year. But I don't think there's any benefit to us taking margins up to where we used to be in the high 50s or anything along that lines until that revenue starts growing.

Does it necessarily mean we have to see compression of further compression? I don't think so, but we guide a year at a time. And what happens another year from now, it can be very different than what we see today. But I would say, as a general rule, Tal calls out where she thinks it's going to be, and I don't anticipate -- and I think this year she said, overall, it would be 48%, but we'd start out in that 46% range and then finished the year a little higher.

So I don't know if that means we continue into next year at that higher level or what have you, but here's to hoping that revenue starts to outstrip any spending. And that's what we'd really like to see.

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

Right. And you mentioned before that now you are R80. I think it's now R80.40?

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

Yes.

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

How does that impact the business this year relative to that last year? And I think you said, what, 75% penetrated now?

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

So it's over 70%. So I mean, it's all theory, right? So if you figure everybody that's made it to R80 can now potentially refresh their boxes with the new boxes, then maybe we see some uplift there. But I don't -- it's hard to predict when somebody's going to get that box out of the labs, give it a green light and start purchasing, right? And start refreshing. I mean what we saw last year was people buying the old boxes that we were still selling that you could deploy on R77, what have you, as their stop gap measure as to what it would be.

I think going forward, hopefully, it's going to -- a perfect plan would be, each quarter, it gets better and gets better and gets better. I think it remains to be seen.

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

Got it. I wanted to ask about Maestro real quick. How is that driving adoption rates? And could that potentially be amplifying the rate at which lower level upgrades are cannibalizing higher-end firewalls as you come out with new product?

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

So I would say no to the cannibalization at this point. What's interesting about it, if you really look at the bigger picture of what Maestro does is it makes you wonder why you have another vendor in your environment. Because that other vendor, you're having to buy 2 boxes, and as soon as they're done 3 to 5 years later, you got to buy 2 new ones. You put the Maestro in, you're N+1, you just keep adding. It really makes you start thinking, maybe you've been doing this all wrong, right? And this is all part of -- when you start thinking about the consolidation of vendors moving towards an Infinity deployment, this all feeds into that. Because if you're a CISO or a network guy and you're a security network guy and you're looking at that, you got to ask yourselves why doesn't somebody else have that, right? And this is effectively what you see in a cloud environment. This is the same type of elasticity that goes on within AWS or any of these. And so we brought that to you in an organization, in your data center on-prem, where have you.

And so I think it makes you wonder, is this also an impetus for somebody to say, maybe I need to have more Check Point, not less Check Point, right? And maybe I need to have less of the other guys because the other guys are just costing me more money. And in the end, if I save money here, it allows me to spend more money on something that's going to enhance my protections that much more.

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

Okay. That's helpful. And then Gil talked about moving from Gen III to Gen IV and now like Gen VI type of an attack landscape. And as we look back at last year, that's a pretty meaningful types of breaches, right? We've had government toolkits that have gotten leaked and some pretty bad things

have happened. Is there anything from the overall attack landscape environment that's maybe accelerating CISO decisions to buy network security? I mean what is your view of the impact of the attack landscape on decisions to actually pull the trigger and attacks?

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

Well, I think the one thing that's really become clear is these attacks, the sophisticated attacks are not happening from one vector. You're having it come in from multiple vectors. And this is really the meaning behind when you talk about Gen III, Gen IV, Gen V, Gen VI. As you start to get to Gen V, Gen VI, you're really talking about polymorphic attacks, multi-vector attacks, coming in with Gen VI, with IoT and everything along that lines.

So your traditional security approach of having multiple vendors -- excuse me, having the best-of-breed vendor in each area really leads to remediation. And you're looking in your Splunk through all the logs to find out where you got breached, right? And that's not security. That's detection and remediation. And so as you start looking at how do I prevent these multi-vector attacks, it really comes down to having in concert your products working together. And this is really the hallmark of what Infinity is about and Infinity NEXT. It's saying, hey, look, you've got to come out of this idea that having a firewall, having all these point solutions is going to protect you because it's not. It will protect you to a certain level, but as you start to have these more sophisticated attacks, you're naked. And that's where you really, really, really need to have uniform policy, be able to deploy this across your organization and have things like SandBlast and Threat Extraction, where we don't -- we just have a 1-meg limit on a file, right? I heard somebody mention, why would anybody build a bigger 1-meg file to send malware or zero-day threat into an organization? Why? Because they looked at your paperwork for your product and saw that you only check for up to a meg.

We don't have that limit. And so Threat Extraction doesn't allow anything to go through uncheck. So if it's not going to meet the parameters for time to get through, it flattens the file and sends it in, in a readable format. And so we just -- we really take protection and prevention to an extreme, and that's what everybody needs to do. So I really -- from that standpoint, I think the Gen VI, Gen V, that's where everybody needs to be. And as Gil repeatedly says, when we go out there and we look, most people are still in that Gen III, Gen IV, right? They've got some advanced threat protection, and they think they're safe. And it's a false sense of security. It really is.

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

Got you. I want to check one more time if there are any questions in the audience? Okay. I'll hit on this one. Maybe you can talk about M&A. I think Dome9 was a pretty substantial acquisition, but deals that you've done since then have been, what I would say, like relatively on the small side. Does Check Point really view deals as more IT-related nature? What are the criteria that they use to identify potential targets for acquisition and how might they look at valuation from a perspective of the value that it's going to add to Check Point's platform?

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

So good question. I think if you point out that Dome9 was good-sized purchase. It had a very nice business, addressed a part of the market that we wanted to address, and it was ready to go. Had some customers, great product, best in the marketplace if you ask my opinion. In fact, I think our competitors spent twice as much or 3x as much with 2 or 3 different companies to not even achieve the same type of coverage or capabilities. I think for us, we've had more people as part of our biz dev or M&A group now for over, I think, 2 years, the most we've ever had in that organization since I've been with the company. As Tal likes to say, it's not for a lack of will. We would love to find -- we have also the capital. We have \$4 billion and not to mention if we really wanted to borrow money, we could borrow as much as we want. I don't think that's a necessity. But the first and foremost is, our guys look for the right technology. That technology could be an existing business or it could be, as you've said, little tuck-ins, little technologies. Now the nice thing about the tuck-ins is we get to take it, and we get to integrate it, and it's fully integrated into the system. We don't have to take something, try and rewrite it, try and make it work with the business. So that's always nice synergies. For us, when we look at it, we start off, we don't look at valuation, we don't look at any of that stuff because you don't ask price before you know if you want to buy something, right?



So we go in, we find the right technologies. We evaluate them. Then we start from the bottoms up, how is this going to contribute? What's it going to contribute into revenue? What's our time to market? All of these types of questions have to be answered when we're formulating what we're going to pay for it.

Now it's no secret that when you look out there in the market today, there's a lot of disparity in valuation. You've got guys with IPO dreams. And so they have expectations of an IPO-type evaluation. So there probably is a disconnect out there. But we've still managed to do, what is it, 6 acquisitions inside of 3 years or 4 years. So we're able to find the technologies and they're adding lots of value. All that takes is a good downturn to make things much cheaper. But...

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

Anything top of mind? Maybe last question, anything top of mind that you feel as, though, might be an obvious hole plug on the Check Point platform?

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

I would just say everything's open, just from the standpoint of there's things that could enhance probably technologies we deploy today. Just like we bought Protego and that contributes to our cloud security and our container security. There's always things that can benefit us, and it's a buy versus build, right? If it's a time to market.

So I'd say it's pretty open. If this had been before we purchase Simplify, I would have said, IoT is probably the place we don't have a lot, but now we do.

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

Great. Great.

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

Thank you.

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

With that, we're out of time. So Kip, thank you for joining us, and thank you all for attending. We appreciate it.

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

Appreciate it. Thank you.



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