Check Point Security:
“We Secure The Internet”

Jared Stone & Kalman Gabriel
IAG:: March 1, 2002

What Check Point Does…
CHKP was the pioneer of the firewall

- Regarded as the Microsoft of Internet security
- Software is found in security appliances

Basic Background...

- Companies use networks to communicate
- Different departments share the same info

⇒ Everyone needs to communicate effectively
Background cont’d…

- Centralization is not effective
- Burden on network resources until…..
- People started using the Internet

Background cont’d…

- Companies use the Net as their network (VPN)
- Exposes security risks (ex: dime & qtr guy)

Check Point enters the picture
Their Solutions…

- Firewall software
- Firewall appliances
- Companies require different types of solutions

Growth Opportunities…

- Strongest brand name in the market
- VPN penetration is real low
  - Far East
  - 2.5G/3G
  - SOHO!
Trends in Firewall Software…

• Demand for multiple firewalls, not just 1

• Upgrading to larger firewalls

Macro-Economic Issues…

• First to benefit from recovery in IT spending

• Sept. 11 elevated concerns of computer terror
  – Govt. agencies will beef up spending
Business Model...

- **Is unique:** sell products through 1900 sales partners and 2 major distribution channels

- **Huge margins** (96%)

- **Only make software, NOT hardware**

Customers/Partners...

- Nokia
- Compaq, IBM, & Sun
- Intrusion.com, RapidStream
Competitors...

- **Software:**

- **Hardware:**
  - Cisco, NetScreen, and Lucent

Levels of VPN / Appliance Market...

<table>
<thead>
<tr>
<th>Price Bands</th>
<th>Top Dogs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $50,000</td>
<td>NetScreen, Cisco</td>
</tr>
<tr>
<td>$10,000 - $50,000</td>
<td>Cisco, Nokia</td>
</tr>
<tr>
<td>$5,000 – $10,000</td>
<td>Cisco, Nokia</td>
</tr>
<tr>
<td>$1000 - $5000</td>
<td>Nokia, WatchGuard</td>
</tr>
<tr>
<td>$300 - $1000</td>
<td>SonicWall, NetScreen</td>
</tr>
</tbody>
</table>
Quick Financial Picture...

- Over 1 billion in cash, 0 LT-Debt → Future Acquisitions
- 96% gross, 63% net
- Israeli company → tax benefits

DCF Valuation...

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCF</td>
<td>338,968</td>
<td>424,580</td>
<td>534,970</td>
<td>641,964</td>
<td>751,098</td>
<td>850,252</td>
<td>950,440</td>
<td>1,028,475</td>
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<tr>
<td>DFCF</td>
<td>286,391</td>
<td>306,691</td>
<td>328,430</td>
<td>334,962</td>
<td>333,083</td>
<td>322,722</td>
<td>304,455</td>
<td>279,459</td>
</tr>
</tbody>
</table>

Growth:
- 26% 20%
- 17% 14%
- 11% 8%
- 6%

Long Term Growth Rate: 4.00%
10-year interest rate: 4.95%
Beta: 2.05
Risk Premium: 8.20%
Ke: 17.66%

Total Value 2002 - 2009: 2,496,194
Terminal Value: 7,915,038
Market Value: 10,311,232
Shares Outstanding: 259,127
Fair Value per share: 40
Questions…

(NasdaqNM:CHKP)