



# CROWDSTRIKE (NASDAQ: CRWD)

HIGH GROWTH POTENTIAL

STRONG INDUSTRY DRIVEN  
GROWTH, STRONG CUSTOMER  
BASE, AND CREATING NEW  
PRODUCTS AND EXPANDING  
PARTNERSHIPS

5/20/2022

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## THESIS

Continued technological innovation has created a multitude of new cybersecurity threats including ransomware attacks, information leaking, account hacking and different forms of viruses. CrowdStrike has positioned itself as a highly trusted cybersecurity provider to some of the biggest companies in the world. We believe that through its recent contracts with companies such as Deloitte, partnerships with companies such as Amazon and Google, and the release of its Falcon XDR Module, that CrowdStrike is poised for strong growth moving forward. Our qualitative analysis and quantitative modeling lead us to believe that the intrinsic value of CRWD is \$211.91 a share, a 46% upside from the \$145.00 price as of 05/19/22.

## CATALYSTS AND GROWTH DRIVERS

**Industry Driven Growth:** Technology has been evolving over the last couple of years, and there has been an increased necessity for cybersecurity. CrowdStrike is one of the leading pioneers in the cybersecurity space. CrowdStrike, once started as an endpoint security company, has now expanded to become the preferred platform for cybersecurity needs. Overall, in the last year, we have seen the emergence of more large-scale enterprise cyber-attacks. For example, instances such as the Colonial Pipeline and Microsoft Exchange have shown the increased necessity for cybersecurity. Additionally, there are governmental tailwinds that support growth in this industry. The Biden Administration signed a cybersecurity executive order to pledge \$2 billion towards improving the cybersecurity standards for the US Federal Government. With the growing popularity in the cybersecurity industry and external factors such as these, CrowdStrike is poised to benefit heavily from these changes.

**Strong Customer Base:** Over the past couple of years, CrowdStrike has grown immensely. The recent growth in the company's existing customer base supports the company's growth. As of January 31, 2022, CrowdStrike increased its net subscription customers by 1.638, a 65% growth, bringing the total number of subscribers to 16,325. Specifically, CrowdStrike increased the number of modules bought by customers. The company announced that the amount of four or more modules increased by 69%, five or more modules increased by 57%, and six or more modules increased by 34%. CrowdStrike has increased its customer base by 82% since FY17. As of April 2021, CrowdStrike had 61 customers from Fortune 100 companies, 214 customers from Fortune 500 companies, and 13 of which were Top 20 Banks. The increase in Annual Recurring Revenue (ARR) supports CrowdStrike's growth capability. The company posted an ARR growth of 65% YoY, with revenue hitting \$1.73 billion in 2022. In Q4 2022, CrowdStrike set a 120% dollar-based retention rate. That retention rate shows the investor that customers are spending 20% more now than a year ago. Lastly, its customer satisfaction rate supports CrowdStrike's customer loyalty. The company achieved an overall rating of 4.8/5, the highest rating in this market for three consecutive years.

PRICE:

**\$145.00**

(Reflects price on 05/19/22)

TARGET:

**\$211.91**

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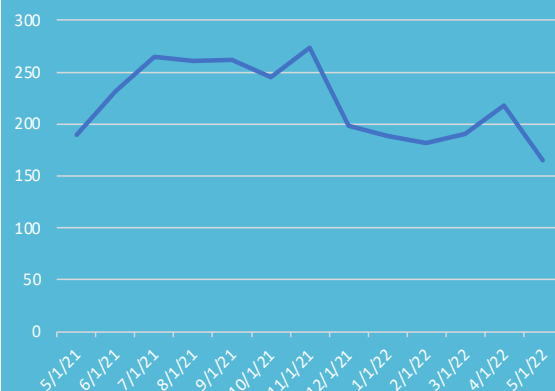
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## SUMMARY:

Annual Rev. (Bil)	\$1.4
52-Week High Low	\$130.00 - \$298.48
Shares Out. (Mil)	213.36
Market Cap. (Bil)	33.095
Price/Sale	28.20
EV/EBITDA	-492.58
Current Ratio	1.83

\$CRWD Price (1Y)



**New Products and Partnerships:** CrowdStrike is poised to grow in the next couple of years because of the recent general availability of its products. Recently, CrowdStrike announced the general availability of its Falcon XDR Module. The XDR Module is a product that provides security teams with data and tools that can help companies respond faster, contain, and recover from cyber-attacks. This product allows them to create an all-in-one enterprise solution creating a competitive moat. Besides that, CrowdStrike announced it launched the Falcon Zero Trust Assessment on macOS and Linux platforms which allows users protection across all platforms. Additionally, the company announced they expanded the support for Amazon Web Services (AWS) to integrate their security into the platform to allow faster and more secure innovation. Further, the company announced the partner integrations with Rapid7, Google Cloud, ExtraHop, and Siemplify. Lastly, CrowdStrike was the only vendor selected by Deloitte to power the critical components of its Managed Extended Detection and Response suite of its managed services and solutions. With the growth potential in the cybersecurity space and CrowdStrike's current market position, it will solidify its threshold in the cybersecurity space in the near future.

## COMPANY OVERVIEW

Based in Austin, Texas (since Dec 2021), CrowdStrike (founded in 2011) is a cybersecurity technology company specializing in endpoint protection, threat detection, and cyber-attack response. As the primary cybersecurity provider for companies like Goldman Sachs, Credit Suisse, Sega, CrowdStrike has exhibited tremendous revenue growth over the past five years, with the previous two fiscal years returning \$1.5B and \$0.9B of revenue, respectively.

### Products

Specializing in security-related IT services and software, CrowdStrike offers a total of 29 product offerings which are categorized into the following: Endpoint Security, Cloud Security, Identity Protection, Managed Services, Threat Intelligence, Security & IT Operations, and Observability & Log Management. Many of their solutions were made possible by lucrative acquisitions in recent years. Most notably, they acquired Preempt Services in 2020 for \$96M, and Humio and SecureCircle in 2021 for \$400M and \$61M, respectively. Their acquisition of SaaS companies Preempt Services and SecureCircle enabled them to advance their zero trust capabilities. Danish log management company Humio allowed them to introduce the Log Management product line and further expand their XDR (Extended Detection Response) services.

### Industry

The value of the cybersecurity industry has surged in the recent decade, with revenues projected to reach an astounding \$146B in 2022. From the onwards, between 2022 and 2026, revenue is expected to exhibit a CAGR of 9.68%, resulting in a market volume of \$212B by 2026. North America is the dominant region for cybersecurity, while Asia is the fastest growing region (particularly due to high demand in China). The industry is classified by three security-related verticals: IT Services, Software, and Hardware.

### IT Services

This is the largest cybersecurity vertical. A primary reason for this is that many companies desire custom-built security solutions, which firms like CrowdStrike can provide and actively manage over time. Despite the pandemic, this sector demonstrated strong growth—this can be attributed to the intangibility of a "service", rendering it more or less immune to commodity supply shocks.

### Software

The primary form of CrowdStrike's offerings, software solutions include things like endpoint detection and response, as well as access management. There is also a B2C aspect here, like with Hardware, although most cybersecurity transactions are B2B.

### Hardware

One reason why CrowdStrike was not significantly impacted by the COVID-19 pandemic is because it does not specialize in hardware solutions. As a result of the pandemic, companies that did would delay hardware investments (this was also a supply-side issue as many commodities used in the construction of hardware were impacted).

### Competitors

There are several competitors in the cybersecurity space. Notable ones include Palo Alto Networks, Cybereason, Sopho, McAfee, RiskIQ, Tanium, Avecto, SentinelOne, Fortinet, Orange Cyberdefense, Microsoft, and Cisco. However, CrowdStrike's market cap (\$44.5 B) remains third in the cybersecurity space, only preceded by Palo Alto Networks (\$55.3 B) and Fortinet (\$47.8 B).

## Revenue by Segment

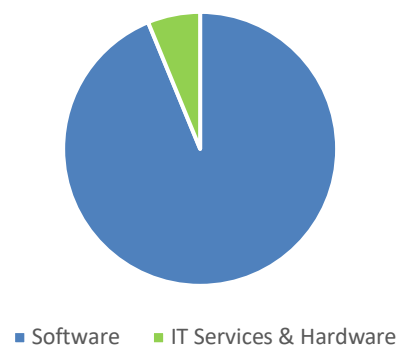


Figure 1.0: CrowdStrike Revenue by Segment in 2021

## FINANCIAL ANALYSIS

**Revenue Growth:** CrowdStrike has showcased tremendous revenue growth over the past five years. Revenues in FY 2021 and FY 2020 were \$1.5B and \$0.9B, respectively. That is 67% growth YoY. Projections suggest sustained growth in the next five years of, on average, 25%.

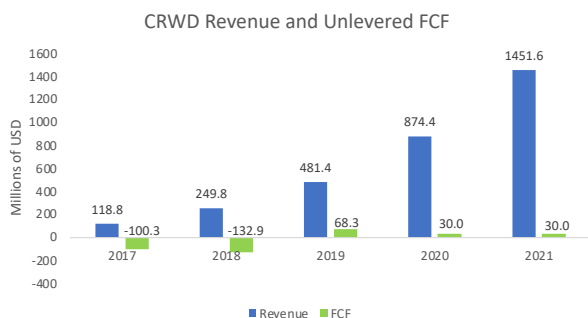


Figure 1.1: CrowdStrike Revenue and Free Cash Flow (2017-2021)

### Free Cash Flow

Since 2017, when CrowdStrike's unlevered free cash flow was negative, the company has been able to generate a positive cash flow. This growth is aligned with the rapid growth observed by their revenue. Between FY 2019 and FY 2021, their free cash flow surged by 1,084%.

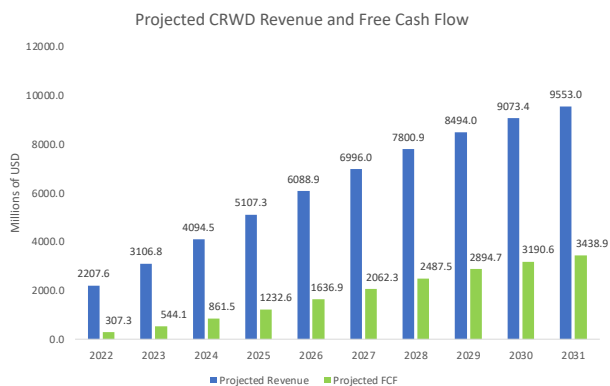


Figure 1.2: Predicted CrowdStrike Revenue and Free Cash Flow (2022-2031)

### Profitability

Although CrowdStrike has not yet managed to accumulate a positive net income; their gross profit margin provides an optimistic outlook. Their consistently high gross profit margin (hovering between 71% and 74% between FY2019 and FY2021) is a signal of profitability as the company continues to scale. Their three acquisitions in the past two years, coupled with an expansive line of products and services, is also a healthy indicator of the company's strive to rapidly scale and innovate.

**Capital Structure** The company has a debt-to-equity ratio and current ratio, as of FY 2021, of 0.75 and 1.83, respectively. Regarding the former, expectations are that CrowdStrike will seek additional credit financing in the future; however, like other companies that invest a lot in R&D, it is common to have a debt-to-equity ratio of below 2. As for the current ratio, this is a 31% decrease from the previous year, but a 49% increase since FY 2017. Despite being below the technology industry's current ratio (2.29%), CrowdStrike's ratio remains a positive liquidity indicator, informing us of the company's ability to transform short-term (up to a one-year time horizon) assets to cover any short-term obligations.

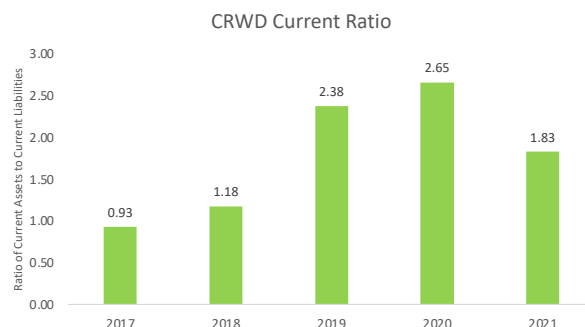


Figure 1.3: CrowdStrike Current Ratio (2017-2021)

**Accrual Health** Though CrowdStrike has had increasing revenue over time, it has seen growing COGS and operating expenses, leading to negative historic EBITDA figures. EBITDA figures have been moving closer to net profitability as the company grows and better manages their expenses. Furthermore, around 1/3 of their operating expenses are tied to investments in R&D expenditure, which is a strong indicator of investment into growing innovative products of the company. This expenditure is crucial to the future of CrowdStrike instead of a mismanagement of other expenses.

## PRICE TARGET AND DISCOUNTED CASH FLOWS

Our price target for CrowdStrike is \$211.91, representing a 48% upside from the share price of \$145.00 as of 5/19/22. We performed a discounted cash flow analysis over a 10-year forecast period that assumed strong double-digit revenue growth till 2026 after which revenue stabilizes to single digit figures. We anticipate that most of the revenue growth will come from subscription customers as CrowdStrike adds more enterprise customers over longer partnership durations. With a growing need for cybersecurity services across different industries, strong and loyal customer base, and expanding product and series offerings, CrowdStrike is poised to improve its top-line margins in a growing industry.

Using the Gordon Growth Method, we assumed a terminal growth rate of 2.5% and calculated a weighted average cost of capital (WACC) of 7.85%. After forecasting unlevered free cash flows for the next 10 years and accounting for net debt and in-the-money employee stock options, we arrived at an assumed market cap of \$49.1B.

CrowdStrike remains a major player in the cybersecurity market and is able to leverage its strong product offering across multiple cybersecurity needs to its loyal customer base. We anticipate this to translate into continued growth for the company.

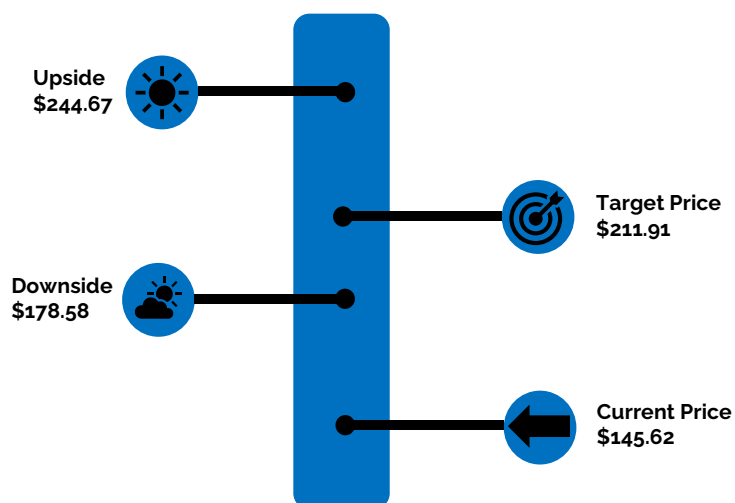


Figure 1.4: Sensitivity Analysis

## RISK FACTORS

**Current Unprofitability and Rising Interest Rates:** CrowdStrike is not currently profitable, and a lot of its value is derived from future cash flows and growth opportunities. Growth companies such as CRWD are adversely affected when interest rates rise as their future cash flows are discounted at a higher rate, which will hurt valuation. The Fed has raised rates by 25 bps for the first time since 2018 and signaled that it may raise rates by 50 bps in May. This is making it more expensive to borrow, which is an issue for a company that needs to invest in its business at high rates to achieve growth. Long-term issues can arise, such as difficulty making interest payments, and subsequently having the need to take on more debt to cover these payments, which can lead the company to become too highly levered.

**Highly Competitive and Fragmented Market:** A CrowdStrike operates in a highly competitive cybersecurity industry with established and well-trusted players along with low barriers to entry for new companies. CrowdStrike faces intense competition from antivirus product providers such as Trellix, Broadcom and Microsoft, from alternative endpoint security providers such as Blackberry and VMware, from network security vendors such as Palo Alto Networks, and from professional service providers such as Mandiant. CrowdStrike must continue to compete on technology and on prices, which will hurt their margins. A software company such as CrowdStrike makes a significant portion of their revenue from subscriptions, and its growth depends on new customers. CrowdStrike must continue to build market share in order to increase revenues and solidify a strong brand asset and will have difficulty doing so in this hyper-competitive environment. However, CRWD does have a competitive moat in its intellectual property and in the high switching costs that vendors would face if they desired to employ a different vendor. Companies can rely on CRWD for many of their security needs as opposed to a variety of companies for each toolset, as CRWD offers a multitude of cloud security modules that customers can purchase as additions, and helps lock customers in place, as the cost of switching to multiple vendors for every need is expensive.

**Continual Increase in R&D Spending:** Cybersecurity threats are constantly evolving, with examples such as ransomware attacks fueled by the rise of cryptocurrencies, or hackers breaching hospitals and exposing private medical records. Consequently, the technology used to combat them must constantly grow as well. CrowdStrike must continue to innovate and develop new technologies in order to maintain and grow market share. Companies have no shortage of other options to choose from for their cybersecurity needs, and as a result, CrowdStrike must consistently pour more money into R&D, which they have done at a CAGR of 44.5% over the past 5 years, while revenue has grown at a CAGR of 65% over the past 5 years. R&D spending currently makes up nearly 26% of total revenue. CrowdStrike is not profitable and has to spend a significant amount of capital on researching for innovation, which will be even riskier now as interest rates rise and the cost of borrowing rises along with it.

## COMPARABLE COMPANIES ANALYSIS

CrowdStrike has one of the highest market capitalizations in the cyber security industry. Currently, CrowdStrike's market cap is the third largest in the industry sitting at approximately \$33 billion. This steady market cap is supported by the current growth in Annual Recurring Revenue (ARR) continues to post. The most recent ARR it posted was the third highest in the industry. That number has increased impressively over the last couple of fiscal years. Although the EV/Revenue for CrowdStrike is higher than the industry average, it's relatively good for a SaaS company. Since the multiple is lingering around the industry ceiling of 12 it tells the value investor that the company is not overvalued. Additionally, CrowdStrike's EV/EBITDA is sitting in the negative area, but it's a good sign. Sitting in the negative area tells the investor that CrowdStrike has more than enough cash to buy back all its debt and its stock in one transaction if it had to. The lower EV/EBITDA again suggests that the company might be undervalued. Overall, its support's CrowdStrike's case because it implies the undervalued company can prove to be a high returning investment.

Company Name	Market Cap (\$M)	Annual Recurring Revenue (\$M)	EV	ARR Multiple x	EV/Revenue Multiple x	EV/EBITDA
Broadcom	242,000	5,200	607,080	117	9.17	61.13
Palo Alto Networks	58,303	1,125	50,540	45	9.6	36.9
Microsoft	2,105,195	114,173	2,460,000	22	11.1	92.52
Mandiant	5158	279	4,300	15	11.6	-52.27
BlackBerry	3,573	198	3,090	16	5.8	-404.51
SentinelOne A	9,112	292	10,470	36	15	-151.16
Trend Micro	7,750	550	7,880	14	11	0.24
CrowdStrike	33,000	1,730	30,000	19	15	-469
Average	308,011	15,443	396,670	36	11	-111
Median	21,056	838	20,235	21	11	-26

Figure 1.5: Public Comparables