



CROWDSTRIKE HOLDINGS, INC.

(TICKER: CRWD)



Stock Price: \$145.4 (10/15/20)	Company Size: \$31.9B	Author: Madhu Chaudhary
Company Rank: 46	Sector: Technology	Industry: Systems Software

CrowdStrike is a leading cloud-based endpoint & workload protection solutions provider.

IN THIS FRESH LOOK WE'LL COVER:

► Summary of the Business

CrowdStrike is a cybersecurity vendor that delivers endpoint & workload protection solutions through its cloud-based platform, Falcon. The CEO refers to the company as the "Salesforce of Security".

► Recent Developments

Company has been a beneficiary of the 'work from home' trend that has resulted in more endpoint devices and workload on cloud, thus making endpoint protection crucial.

► Competitive Environment

Company operates in a highly competitive market however it has been able to outperform through continuous customer acquisition and innovation.

► Conclusions/Recommendations

CrowdStrike has delivered tremendous performance and is well-positioned to grow in the industry with superior technology. We assign a **"GREEN LIGHT"** rating to CrowdStrike.



Grab-and-Go™ THESIS

An investment in CrowdStrike is a play on growing demand for cloud-based cybersecurity solutions. The company is a leading endpoint security solutions provider with expanding market share. The company's success depends upon its ability to onboard large clients, cross-sell solutions, introduce new product offerings and increase its global penetration.

Data as of 10/15/20 unless specified

Enterprise Value:	\$30.8B	Market Cap:	\$31.9B	Revenue Fwd (TTM):	\$969M (\$654M)
YTD Return:	192%	Fwd (TTM) Price/Sales:	33x (48.9x)	RSI:	58.9
Gross Margin (TTM):	74.1%	Revenue Growth (TTM, YoY):	86.4%	ROIC (TTM):	NM
52-Week High:	\$153.9	52-Week Low	\$32.0	200-day Moving Avg.	\$101.6
EBITDA	\$16.3M	CFO	\$258M	FCF	\$177M

Insider Transactions (2020): George Kurtz (CEO) sold 2.6M shares, Burt Podbere (CFO) sold 539K shares, Michael Carpenter sold 450K shares, Gerhard Watzinger (Chairman) sold 346K shares, Black Colin (COO) sold 321K shares, among others.

SUMMARY OF BUSINESS

CrowdStrike is a cybersecurity company focused on delivering endpoint and workload protection through cloud-based solutions. Co-founded by George Kurtz, Dmitri Alperovitch and Gregg Marston in 2011, CrowdStrike launched its first end point security solution in 2013 and later went public in June 2019 under the ticker "CRWD". It is headquartered in Sunnyvale, California. Its key customers have historically been large organizations however it has also started to focus on small and medium-sized businesses. As of January 2020, its customers included 49 of the Fortune 100, 40 of the top 100 global companies, and 11 of the top 20 major banks.

Its Falcon platform is a cloud-native platform that is built upon CrowdStrike's 2-part technology comprising of a lightweight agent and a graph database called Threat Graph. Falcon consists of 11 cloud modules offered via a subscription-based business model. The solutions are used to protect workloads across cloud and on-premise environments that run on various endpoints.

These endpoints are described as computers, servers, mobile, virtual workloads and IoT devices. Hackers can gain access to the entire server or network through a single endpoint and can destroy, misuse or leak confidential information belonging to any enterprise or government organization, thus making the security and protection of each endpoint crucial.

The security segments addressed by the company with its 11 cloud modules include endpoint security, security and IT operations, and threat intelligence. Below are the solutions offered within each of these security segments:

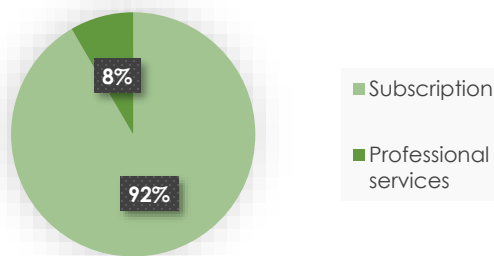
Endpoint security: Modules within this segment include Falcon Prevent, Falcon Insights, Falcon Device Control, and Falcon Firewall Management. These modules help protect against malware & fileless attacks, provide real-time visibility and analysis of incidents at customer endpoints as well as USB devices. Solutions also allow customers to create, enforce, and maintain firewall rules and policies.

Security and IT Operations: Modules to address this segment include Falcon OverWatch, Falcon Discover, Falcon Complete, and Falcon Spotlight. They help in detecting threats for customers, identify rogue apps and system, identify real-time vulnerability across various endpoints without scanning, and combine endpoint security with remediation and response capabilities. The company also provides application license management, AWS spend analysis, and asset inventory solutions.

Threat Intelligence: Modules within this market include Falcon X, Falcon Search Engine, and Falcon Sandbox. These modules help automate threat analysis, search malware in real-time, perform malware analysis and threat research and reporting.

As of July 2020, the company had 7,230 subscription customers out of which 57% had adopted 4 or more modules and 39% of customers had adopted five or more modules listed above.

Revenue Mix (TTM 2020)



Source: Company's filings

Customers are charged subscription fees for using CrowdStrike's Falcon platform based on the number of endpoints and cloud modules used by them. The agreements are for generally between one to three years and customers are billed in advance on an annual or multi-year basis. Nearly 92% of the company's revenue is subscription-based thus offering high revenue

predictability. The remaining 8% comes from professional services which include malware analysis, incident response, forensic, proactive, and other services. These are non-recurring and are billed on an hourly basis or at a fixed rate. Professional services group helps the company in cross-selling its subscription-based solutions.

The company uses AI & Machine learning to identify and prevent emerging threats. With greater adoption and expanding user base, the value proposition of the offerings improves as more data is available to train AI. This leads to a more efficient and effective platform overtime. Additionally, due to the cloud-native approach of the platform, security solutions can be deployed quickly on an endpoint in less than 30 seconds thus delivering timely implementation and protection.

Recently, in September 2020, CrowdStrike acquired Preempt Security for \$96M. Preempt is a provider of Zero Trust and conditional access technology that can detect and prevent threats in real-time based on identity, behavior, and risk. This acquisition would advance Zero Trust capabilities of the company that help in identification, verification, thus allowing access to only authenticated users. After the completion of integration with Preempt, the company plans to introduce a new module on the Falcon platform.

The company derives 73% of its revenue from the US, 14% from EMEA, 8% from Asia Pacific region and the remaining 5% from other regions.

As per the company's [presentation](#), CrowdStrike has a total addressable market of \$26.9B which is expected to grow at a CAGR of 9% to reach \$31.9B in 2022. Out of this, the corporate endpoint security market stands at \$8.1B. The company has a market penetration rate of less than 3% thus offering large headroom for growth. Additional

introduction of new cloud modules would further expand the addressable market size.

RECENT DEVELOPMENTS

In Q2 2021, CrowdStrike delivered strong top-line performance along with improvement in the bottom-line. It has been a beneficiary of the ongoing work from home trend and shelter in place orders due to COVID-19, as they have resulted in increased workloads on cloud and a greater number of endpoints in an organization, thus creating the need for stronger endpoint security. In fact, the company launched a program to help customers bring new remote employees onboard without compromising security.

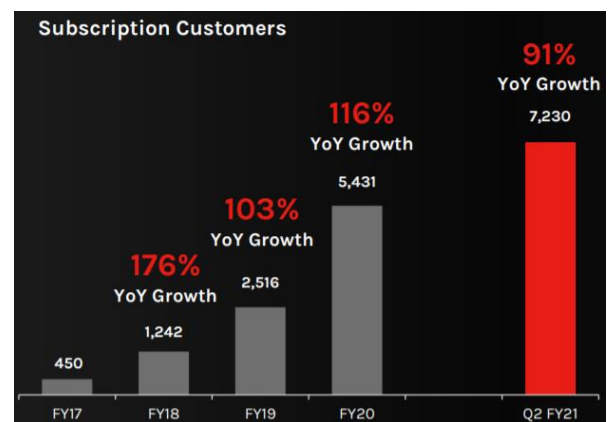
Here is an example of a large customer acquisition in Q2 2021, fueled by COVID-19:

"With a rapid transition to working and socializing from home, Zoom experienced a surge in popularity and became a target for bad actors looking to exploit its success. Their Linux environments in AWS and Oracle Cloud were growing very rapidly to accommodate the increased demand for their SaaS offering. Seeking a strategic partner with a mature product and proven track record in protecting large-scale Linux deployments for other cloud leaders, Zoom called on CrowdStrike to help protect their critical cloud and Linux workloads." - George Kurtz, CEO, [Q2 2021](#)

Overall, it saw an addition of 969 customers during the quarter bringing the customer base up to 7,230, which represents a 91% increase on a YoY basis. The revenue stood at \$199M in Q2 2021, up 84% on a YoY basis while subscription revenue grew by 89%. Subscription ARR stood at \$791M in Q2 2021, up 87% on a YoY basis. This strong growth was driven by strong customer acquisition during the quarter coupled with additional endpoints and modules sold to existing customers. 33% of the subscription

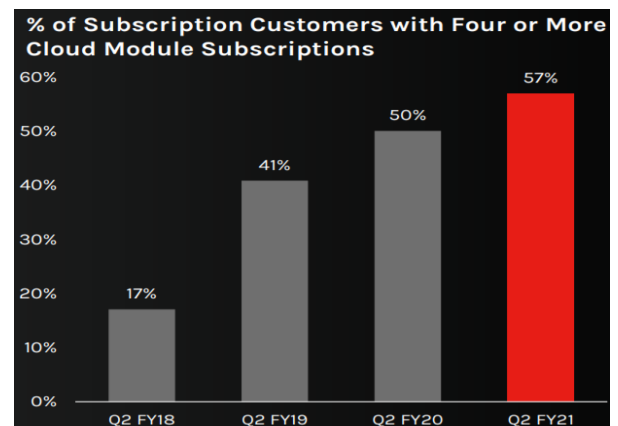
revenue during the quarter came from new customers while 32% came from the sale of additional endpoints and modules to existing customers.

Between FY 2017-2020, revenue grew at a strong 3-Year CAGR of 109%, driven by strong customer acquisition and cross-selling to existing clients. The customer base has grown consistently at a strong pace as shown in the chart below:



Source: [Company's Presentation, Q2 2021](#)

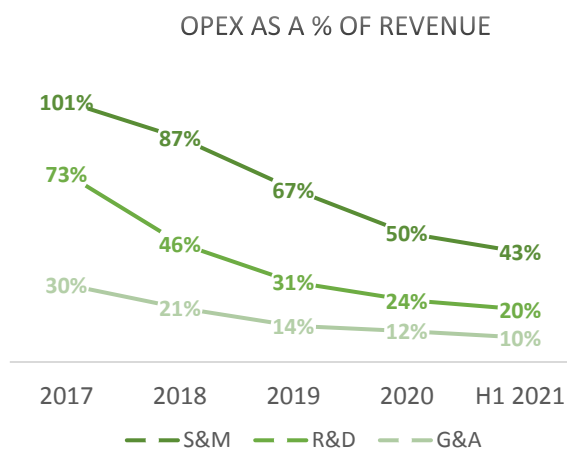
The company has consistently delivered a high net retention ratio of over 120% thus exhibiting strong customer satisfaction as well as the company's ability to continuously upsell and cross-sell its offerings.



Source: [Company's Presentation, Q2 2021](#)

Besides that, its revenue share from international customers has increased from 13% in FY 2017 to 28% in H1 2020, representing increasing global penetration.

On the profitability front, the company has shown significant improvement by turning profitable on a Non-GAAP basis in Q1 2021. In Q2 2021, subscription gross margin at 77.6%, was up 177 bps on a YoY basis. The operating margin stood at 3.9% in Q2 2021 relative to negative 19.1% in the prior year. This improvement has been possible due to its high operating leverage that resulted in falling OPEX as a % of sales. However, margins are still low as the company continues to invest heavily in marketing and R&D to grow its customer base and improve product offerings. We expect further decline in OPEX as a % of revenue as the company expands, which would result in margin expansion. Below is a chart representing the decline in OPEX as a % of sales from 204% in FY 2017 to 73% in H1 2020.



Source: Company's filings & investor presentations

The company has given revenue guidance with a midpoint of \$213M for Q3 2021, translating into 70% growth on a YoY basis. However, operating loss is expected to be \$1.5M (midpoint) in Q3

2021. We believe the guidance to be conservative. Revenue guidance for FY 2021 is \$818M at the midpoint, representing a YoY growth of 70%.

The company had a strong liquidity position with \$1.06B in cash & cash equivalents as of Q2 2020 with no debt outstanding. The company is also cash flow positive with a CFO of \$258.3M & FCF of \$177.1M over TTM.

COMPANY MANAGEMENT

CrowdStrike was founded in 2011 by George Kurtz along with Dmitri Alperovitch and Gregg Marston with the objective of building a security solution for the cloud computing era. They pitched the idea to a private equity firm, Warburg Pincus, and secured funding of \$25M. George still serves as the company's CEO, while Gregg retired in 2015 and Dmitri (former CTO) left the company in early 2020 to start a non-profit organization.

[George Kurtz](#) is the Founder, President & CEO of the company. Prior to founding CrowdStrike, he was CTO and EVP at McAfee. Previously, George also founded a security company, Foundstone, that was later acquired by McAfee in 2004. In the past, he also held other senior positions in the cybersecurity space at EY and PwC. He holds a B.S. degree in Accounting from Seton Hall University. [Here](#) is a recent interview of Kurtz. George held a 22.4% stake in the company as of April 2020.

[Michael Sentonas](#) became the company's CTO in February 2020. He previously served as the company's VP, Technology Strategy. Prior to CrowdStrike, he was Chief Technology Officer - Security Connected and Chief Technology and Strategy Officer - APAC at McAfee. He holds a bachelor's degree in computer science from Edith Cowan University (Australia).

[Colin Black](#) joined the company in 2015 as CIO and later became the company's COO in 2017. Prior to CrowdStrike, he served as CIO for Kratos Defense and Security Solutions, Inc. as well as for Cymer & Mindspeed Technologies, Inc. He holds a B.S. degree in Electronics Engineering from the University of Glasgow.

All executive officers and directors together held an 11% stake in the company as of April 2020.



LB•LOGIC We like the fact that the CEO has a substantial skin in the game as evidenced by a shareholding of 8% of outstanding shares.

COMPETITIVE ENVIRONMENT

CrowdStrike operates in a fiercely competitive industry with a rapidly changing technological environment. It competes with endpoint solution offerings of several companies including BlackBerry's Cylance, VMware Carbon Black, Trend Micro, Fortinet, McAfee Endpoint Security, Microsoft Defender Advanced Threat Protection, Avast Advanced Endpoint Protection, etc. It also competes with antivirus solution providers like McAfee, Kaspersky, Microsoft, etc. as well as network security vendors that include Palo Alto Networks, FireEye, etc.

However, despite this crowded marketplace, the company has consistently delivered strong revenue growth and customer acquisition with its superior cloud-based technology. It has been able to double its market share in the corporate endpoint segment whereas the market share of other top three players fell between 2018-2019 as per an IDC report.

Moreover, its high net retention and gross retention rate shows high customer satisfaction

and stickiness to the platform. It also has the highest overall rating of 4.9 out of 5.0 on Gartner.com compared to its competitors, based on customer reviews, which also represents high customer satisfaction. Gartner has also named CrowdStrike as one of the leaders in the Endpoint Protection Platform in 2019 with the highest score in completeness of vision and second-highest score in terms of ability to execute (behind Microsoft).

CrowdStrike has been the first to identify and address the rising needs of security for the cloud era, thus benefiting from being an early entrant in the space. Additionally, its AI-powered & Machine learning enabled solutions continue improving in terms of detection of threat & breaches thus making the solutions more effective over time. Currently, it captures 3 trillion endpoint-related events per week in real-time.

We believe the company holds a strong competitive advantage with its superior technology. Having said that, continuous product innovation will be essential since the technology is evolving rapidly and attracting new entrants.



LB•LOGIC Legacy players such as Trend Micro, McAfee and Symantec still hold a large share of the market and will be a source of market share upside for CrowdStrike for the next several years.

CONCLUSION / RECOMMENDATION

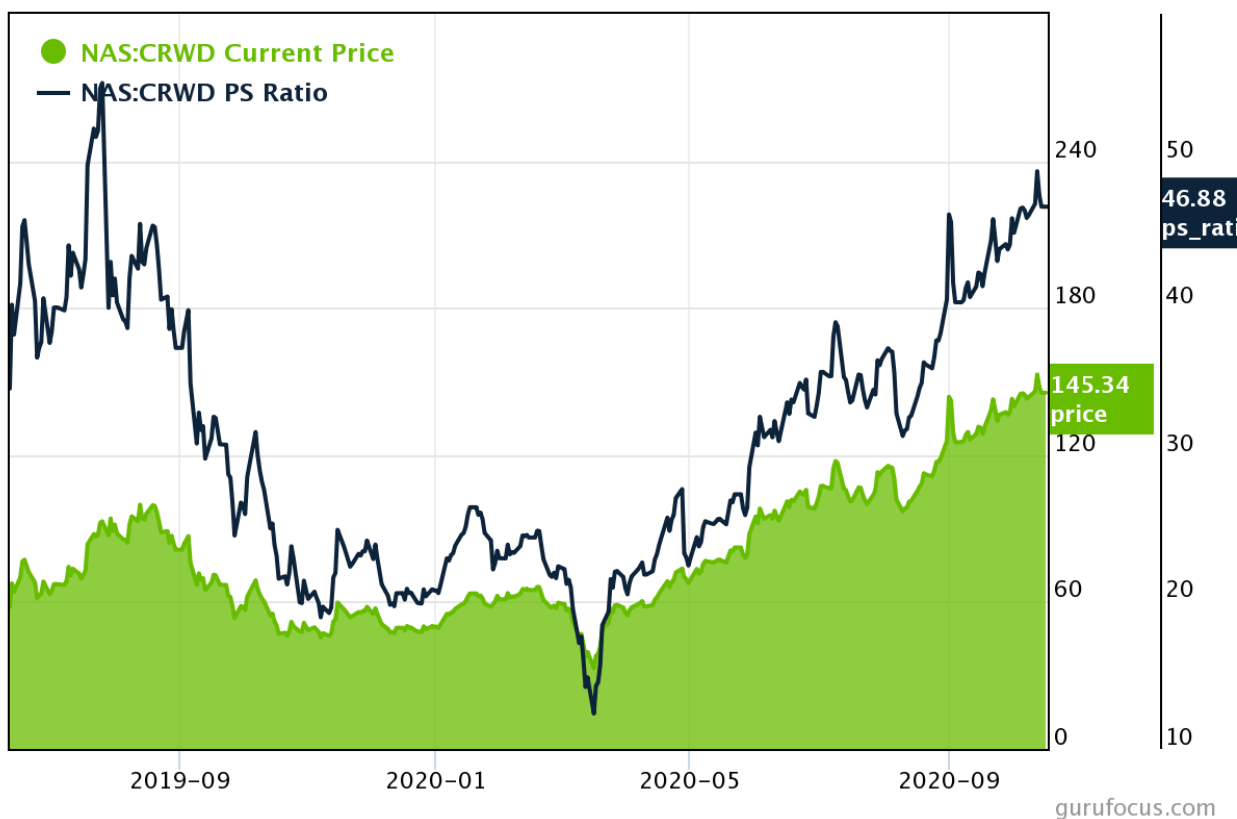
CrowdStrike has delivered an impressive performance with strong top-line growth and

improving margins over the years and the “work from home” tailwind has further propelled the company’s growth profile.

We believe the company is well-positioned in the growing marketplace given superior technology. While it is trading at a premium valuation

multiple of 46.8x price-to-sales (TTM), we remain optimistic about the company’s long-term prospects and believe that despite the high valuation, the stock presents an attractive opportunity for long-term oriented investors. We assign a **“GREEN LIGHT”** rating to CrowdStrike.

Stock Chart for CrowdStrike Holdings, Inc. (CRWD)



Performance Data

FISCAL YEAR	2015	2016	2017	2018	2019	2020
RETURN ON INVESTED CAPITAL (%)	-	-	-	-	-	NM
GROSS MARGIN (%)	-	-	36%	54%	66%	72%
EARNINGS (MILLIONS USD)	-	-	-88	-118	-116	-66
YoY Earnings Growth (%)	-	-	-	-	-	-
REVENUE (MILLIONS USD)	-	-	53	119	250	481
YoY Revenue Growth (%)	-	-	-	125%	110%	93%

Valuation Data

FISCAL YEAR	2015	2016	2017	2018	2019	2020
SHARE PRICE (USD)	-	-	-	-	-	49.9
SHARES OUTSTANDING (MILLIONS)	-	-	-	-	-	213.2
MARKET CAP (MILLIONS USD)	-	-	-	-	-	10,633
PRICE/SALES RATIO	-	-	-	-	-	22.1

A word about our Fresh Looks: These reports are meant to be produced quickly, giving our Portfolio Manager the information he needs to make an investment decision in a short timeframe, as markets often move quickly after earnings announcements. You will notice the "Traffic Light" at the top. This is a scale indicating the likelihood that we follow a name in future quarters, with the intention of producing a rating of Buy/Hold/Sell after we study the company further. "Green Light" is roughly equivalent to "Buy" after we study a company more than once. "Yellow Light" approximately means "Hold" and "Red Light" would indicate a sell and an end to our continuing coverage of a company.

By making these reports public, we intend to give the broader investing community a window into the Left Brain investment process. Since many of the names we cover lack Wall Street research, sometimes these Quick Looks will be some of the only publicly available analysis on a particular stock/bond. We believe that even our rapid-fire reports on certain names will provide great value for the reader. Given the time-sensitive nature of Fresh Looks, they are raw, unfiltered documents. You may see a typo here or there, or perhaps a note from an analyst written directly to our PM, Noland Langford. That is just part of the process.

The methodology here is the analyst reads the most recent earnings call, along with the Management Discussion & Analysis section of the most recent Quarterly Report, along with compiling the key quantitative metrics that we value most at Left Brain. The result is a short report that gives us just enough information to take a position in securities where time is of the essence: sometimes the market doesn't give us enough time to consider every angle before we take action. We hope you find these previously "internal use only" documents useful in your understanding of the investment markets.

DISCLAIMER: This Report is provided for informational purposes only and is prepared without regard to the investment objectives, financial situation, or needs of any investor. The Report is not intended, and should not be relied upon, as a source of any investment recommendation, makes no implied or express recommendation to hold, sell, purchase or take any other action with regard to a security, and is not an offer or solicitation for the purchase or sale of the security that is the subject of the Report. Investors must exercise their own independent judgment as to the suitability of a security.

Past performance is not indicative of future performance. The price of securities can and will fluctuate, and any individual security may become worthless. A high or favorable rating, rating outlook, gauge, or similar opinion is not indicative of future performance, and no user should rely on any such rating, rating outlook, gauge, or similar opinion to predict performance or potential for return. Future performance may not equal projected or forecasted performance or potential for return. All ratings and related analysis, as well as data, statistics, analysis and opinions contained herein are solely statements of opinion and are not statements of fact or recommendations to purchase, hold, or sell any security or make any other investment decisions.

This report may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will materialize. Reliance upon information herein is at the sole discretion of the reader.

THE REPORT IS PROVIDED ON AN "AS IS" AND "AS AVAILABLE" BASIS WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND. Left Brain Investment Research LLC DISCLAIMS ALL EXPRESS AND IMPLIED WARRANTIES WITH RESPECT TO THE REPORT, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.

The Report is current only as of the date set forth herein. Left Brain Investment Research LLC (LBIR) has no obligation to update the Report or any material or content set forth herein.

For LBWM readers of this report: Please consult with your LBWM financial advisor to ensure that any contemplated transaction in any securities mentioned in this letter align with your overall investment goals, objectives and tolerance for risk. In addition, please note that Left Brain Investment Research LLC, through its wealth management affiliate, Left Brain Wealth Management, including its principals, employees, agents, affiliates and advisory clients, may have positions in one or more of the securities discussed in this communication. Please note that LBIR, LBWM, including its principals, employees, agents, affiliates and advisory clients may take positions or effect transactions contrary to the views expressed in this communication based upon individual or firm circumstances. Any decision to effect transactions in the securities discussed within this communication should be balanced against the potential conflict of interest that LBIR, LBWM, its principals, employees, agents, affiliates and advisory clients has by virtue of its investment in one or more of these securities.

LBIR is an affiliate of Left Brain Wealth Management LLC, an investment advisor registered with the Securities and Exchange Commission. LBIR is an affiliate of Left Brain Capital Appreciation Fund, L.P., Left Brain Capital Appreciation Offshore Ltd, and Left Brain Capital Appreciation Master Fund, Ltd., all of which are hedge funds managed by Left Brain Capital Management, LLC. The general partner of these hedge funds, Left Brain Capital Management, LLC, is an affiliate of LBIR.

© 2020, Left Brain Investment Research LLC. All rights reserved. Reproduction in any form is prohibited.