

CrowdStrick

Profit Prophets

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11/11/24



Executive Summary



Fundamental Strategy

Identify undervalued stocks with strong core business models and an advantageous market position. Use Valuation Model to validate pick.



Events

Crowdstrike Blackout, Election Outcomes, Rate Cuts

Intrinsic Value

Fundamental Valuation indicated the stock is overpriced at \$330.78/share, our valuations price it at \$72.64/share



Recommendation

Do not allocate \$7,500 to purchase 23 shares of CrowdStrike (CRWD)



Stock Overview & Investment Thesis

Company Name: Crowdstrike

Ticker: CRWD

Sector: Technology

Industry: Software

Shares Out.: 232.7 M

Market Cap.: 56,858 M

Current Price: 330.78

Current Date: 11/7/2024

Target Price: 398.33

Target Date: 02/7/2025

Monthly Volume: 18 M

Beta: 1.09

Investment Hypothesis:

BUY \$7,500 CRWD



Business Overview

Description

Cyber security company developing software to detect and hunt cyber threats.

Cloud Native Architecture

AI & Machine Learning Focus

Unified Platform

Products

Compare all CrowdStrike bundles

	Falcon Go View Details Try free →	Falcon Pro View Details Try free →	Falcon Enterprise View Details Try free →	Falcon Elite View Details	Falcon Complete MDR View Details Schedule demo →
Pricing					
Annual Price	\$59.99/device*	\$99.99/device	\$184.99/device	Contact sales for pricing	Contact sales for pricing**
Falcon Modules					
Falcon Prevent Next-generation antivirus	✓	✓	✓	✓	✓
Falcon Device Control USB device control	✓	✓	✓	✓	Add-On
Falcon Firewall Management Host firewall control	–	✓	✓	✓	–
Falcon Adversary OverWatch Threat hunting and intelligence	–	–	✓	✓	✓
Falcon Insight XDR Detection & response	–	–	✓	✓	✓
Falcon Discover IT hygiene	–	–	–	✓	✓
Falcon Identity Protection Identity protection	–	–	–	✓	Add-On
CrowdStrike Services Expert support	✓	✓	✓	Add-On	Add-On

Discover, try, and buy the best solutions for your business

CrowdStrike partners with the leaders in cybersecurity to deliver best-in-class protection.

[View partners](#)



Customer Overview and Breakdown

Customers

82%

of U.S. state governments use CrowdStrike¹



48%

of the 50 largest U.S. cities use CrowdStrike¹



300

of the Fortune 500



8 out of the top 10

food & beverage companies



8 out of the top 10

technology firms



8 out of the top 10

financial services firms

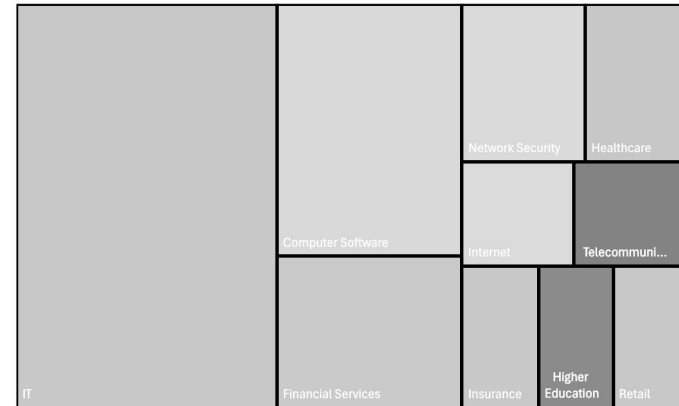


Demographics

Distribution of Companies Using CrowdStrike Falcon by Country

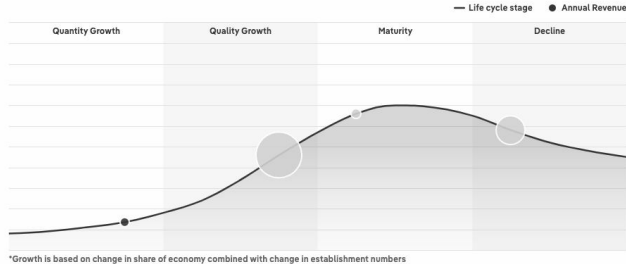


Distribution of Companies Using CrowdStrike Falcon by Industry



Industry/Market

- Regulations and high-profile attacks driving adoption
 - CCPA
 - GDPR
- “Platforming” and consolidation
- SaaS boom and CAGR of 11.5% last 5
 - Current value of \$53.9B
- Projected 5 year CAGR of 7.6%
 - Projected value: \$77.5B in 2029



IBISWorld

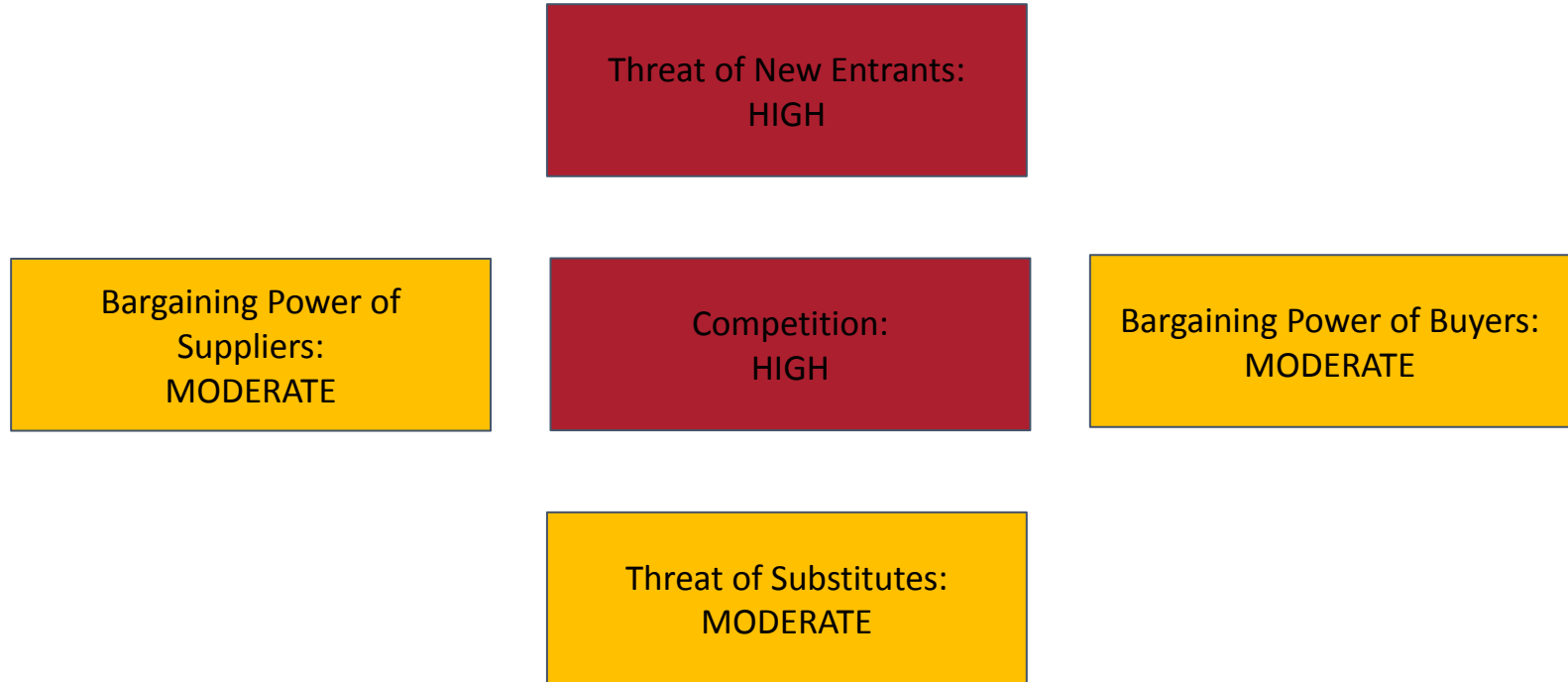
Source: IBISWorld



- Network, internet and server (\$16.7bn) 31.0%
- Security management and analysis (\$13.0bn) 24.1%
- Threat protection (\$11.2bn) 20.7%
- Data protection (\$9.3bn) 17.2%
- Other services (\$3.8bn) 7.0%



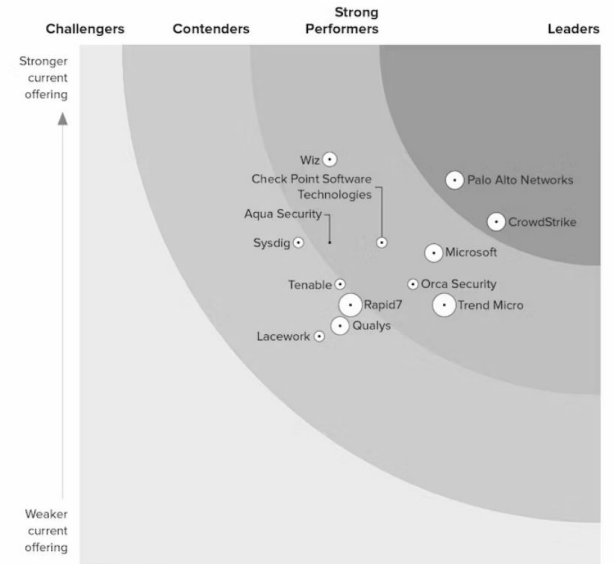
Porter's 5 Forces



Competitors



Defeat Cyberattacks



Disruptions: a Fact of Life



Meta



verizon



experian

SolarWinds Supply Chain Attack

- Scale of Breach
- T-1
 - Vol: 290,372
 - Open: \$24.60
 - Close: \$20.7
- T+1
 - Vol: 3,959,512
 - Open: \$22.15
 - Close: \$20.70
- Stock price more than recovers (\$20.26) after 1896:1000 stock split on July 20, 2021
- Shareholder Settlement: \$26MM
- SEC lawsuit dismissed in July 2024



Tech Stocks and the Trump Administration

Tech Industry

- Up 138.56% during first administration
 - Highest performing sector
- Rate Cuts
 - Meaningful for Pre-IPO
 - Established tech firms are rate insensitive
- HB1 Reliant

Crowdstrike

- IPO June 12, 2019
- Day 1 Close: \$58.00
 - Vol: 290,372
 - Open: \$24.60
 - Close: \$20.7
- Jan 20, 2021 Close: \$226.33
- Up 390.22%



SWOT Analysis

- **Leader in AI-powered cybersecurity solutions** - 17.7% market share
- **Impressive Growth** - Annual Recurring Revenue (ARR) grew 32% YoY from 2021 to 2024
- **Innovative Solutions** - Cybersecurity products like Falcon Perform, Falcon Spotlight, and Falcon Discover, evolving with AI integration.
- **Strong Brand and Customer Base** - Clients across industries including government, finance, and tech

- **Dependence on Subscription Model** - CrowdStrike's revenue is primarily subscription-based, which can be affected by customer churn or slower-than-expected client acquisition
- **High Competition** - The cybersecurity space is highly competitive, with players like Palo Alto Networks, Cisco, and Symantec offering similar solutions.
- **Profitability Pressure** - CrowdStrike invests heavily in innovation and expansion, which can impact near-term profitability.

Strengths

Weaknesses

Opportunities

Threats

- **Global Market Expansion** - International market presence is underdeveloped, representing a significant growth opportunity
- **Cybersecurity Market Growth** - The global cybersecurity market expected to grow from \$100 billion to \$225 billion by 2028
- **AI and Cybersecurity Integration** - The rise of AI across industries will create new opportunities for CrowdStrike's AI-powered solutions
- **Emerging Market Penetration** - CrowdStrike has the opportunity to expand its services into emerging markets

- **Cybersecurity Threats** - Rapidly evolving cybersecurity threats could require constant innovation to stay ahead of hackers, posing both a technical and financial challenge.
- **Economic Downturns** - During economic downturns, companies may reduce spending on cybersecurity, which could impact growth.
- **Regulatory Risks** - Changes in regulations, especially related to data privacy and cybersecurity, could increase operational complexity and costs.



Competitive Advantage

- **AI-Driven Security:** The company's Falcon platform is powered by machine learning and AI, allowing it to provide proactive, real-time threat detection and response, unlike traditional signature-based security systems.
- **Cloud-Native Architecture:** CrowdStrike's cloud-native approach allows it to scale rapidly and deploy solutions across different devices and environments, providing greater flexibility and speed than on-premise competitors.
- **Global Threat Intelligence Network:** CrowdStrike collects data from millions of endpoints worldwide, using this information to continuously improve its security models, creating a feedback loop that helps it stay ahead of emerging threats.
- **Strong Partnerships:** CrowdStrike collaborates with major tech companies like AWS and Microsoft, integrating its solutions into their platforms, which boosts its visibility and market reach.
- **Client Base:** As of 2024, CrowdStrike serves over 23,000 customers globally, including 60% of the Fortune 100 companies, demonstrating its broad market acceptance and trust.



Valuation Assumptions

Valuation Date:	11 / 7 / 2024	N Forecasted Years:	5 Years
Revenue Growth Method:	Perpetual	Rev. Growth Rate:	3%
Dividend Growth Method:	-	Div. Growth Rate:	-
WACC Calc. Method:	Bloomberg	WACC:	12.76%
		Cost of Equity:	12.86%
Exit EV/EBITDA Multiple:	68x	N Comparable Peers:	10

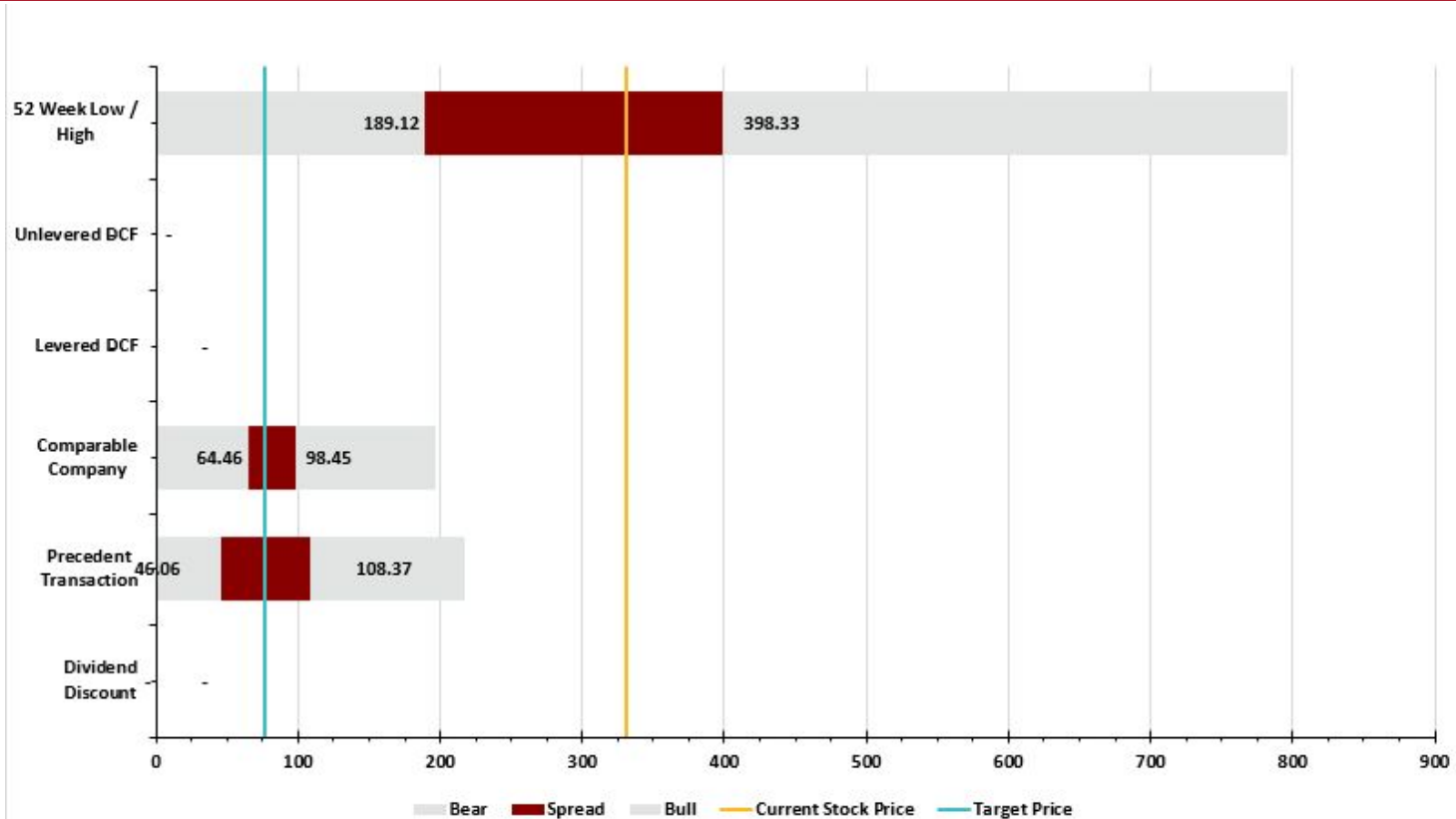


Valuation Model Outcomes

	Estimated Value Per Share	Model Weights
Unlevered DCF	\$(32.90)	5%
Levered DCF	\$(32.12)	5%
Comparable Company	\$81.97	35%
Precedent Transaction	\$85.83	55%
Dividend Discount	N/A	0%

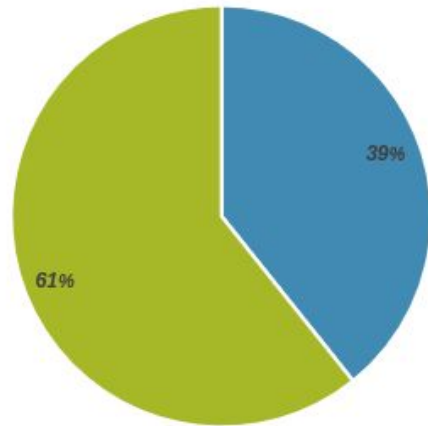


Valuation Target Price

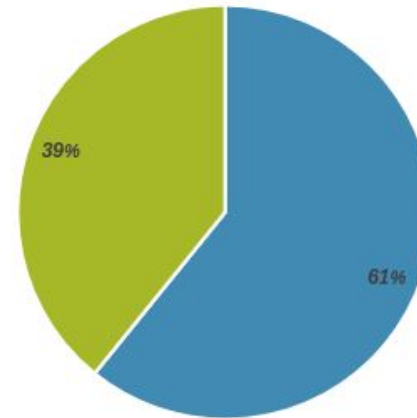


Effect on the Portfolio

Sector Weights Before



Sector Weights After

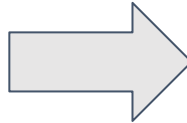
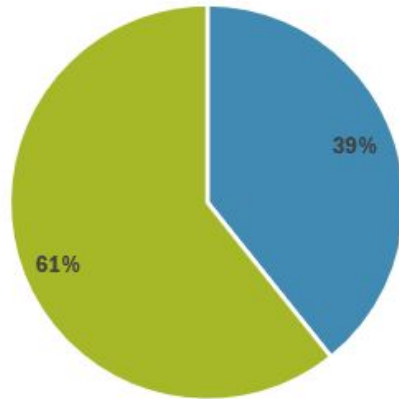


- Information Technology
- Consumer Staples

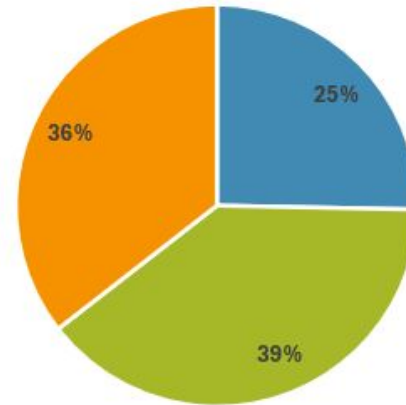
Portfolio	Exp. Return	St. Dev	Beta	Sharpe Ratio*	Idios. Risk*	Info. Ratio*
Existing	9.98%	5.09%	0.77	1.05	?	?
Adjusted	14.37%	7.21%	0.88	1.35	?	?

Effect on the Portfolio

Security Weights Before



Security Weights After



- GDDY
- PEP
- CRWD

Portfolio	Exp. Return	St. Dev	Beta	Sharpe Ratio*	Idios. Risk*	Info. Ratio*
Existing	9.98%	5.09%	0.77	1.05	?	?
Adjusted	14.37%	7.21%	0.88	1.35	?	?



Summary & Recommendation

Strategy Merits



- a) **Strong Business Model**
- b) **Favorable Economic/Regulatory Environment**



- a) **Recent Service Outage**



- a) **Valuation Model Outcomes**

Action Plan



- **Recommendation: Don't buy**

Appendix



Strategy Rationale

Historical context:

What is the indicator?

Things I found in my research that may help:

- International markets represent less than $\frac{1}{3}$ of CrowdStrike's business
- Several segments of cybersecurity are still underpenetrated. As enterprises invest in AI there will be more use cases for CRWD's solutions.

-Trev

Sources: Wall Street Journal, USA Today



Key Terms

Performance Metrics

- **Alpha (α):** Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.
- **Sharpe Ratio:** Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.
- **Sortino Ratio:** Similar to Sharpe, but only considers downside risk, ignoring positive volatility.
- **Information Ratio:** Measures returns above a benchmark relative to the tracking error.
- **Treynor Ratio:** Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap:** Total value of a company's shares (Share Price \times Total Shares Outstanding).
- **P/E Ratio:** Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.
- **Rebalance:** Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.
- **Idiosyncratic Risk:** Risk unique to a specific asset, not due to market movements (e.g., company-specific events).
- **Systematic Risk:** Market-wide risk that affects all securities (e.g., interest rate changes).
- **Standard Deviation (σ):** Measures volatility by showing how much returns deviate from the average.
- **Max Drawdown:** The maximum observed loss from peak to trough during a specific period.
- **SML (Small Minus Large):** Measures the excess return of small-cap stocks over large-cap stocks.
- **HMB (High Minus Low):** Measures the excess return of high book-to-market stocks over low book-to-market stocks

