

# CrowdStrike Holdings Inc.

## A few topics management will likely focus on at the upcoming investor briefing

Maintain Rating: BUY | PO: 150.00 USD | Price: 131.68 USD

### Color on potential LT contribution of non-EDR solutions

CrowdStrike is hosting its annual investor briefing on April 4, and we believe the event should be positive overall and focus on the following topics: we expect mgmt. to provide more color on the potential ARR contribution and LT growth targets of its emerging solutions like identity security, log management, vulnerability management, Discover, and its Cloud security offerings. In particular, ending ARR from emerging products grew 116% YoY in FY23 and accounted for 13% of ARR, vs. 9% in FY22. Additionally, ending ARR for the public Cloud modules grew by 111% YoY and contributed to 9% of FY23 ARR, up from 6% the prior year. Given that net retention continues to impress while module adoption rates and subscription customer growth track in the right direction, we could see a path to 30-35% of total ARR coming from non-EDR solutions in the next few years, driven by strong momentum of the identity protection and public Cloud solutions.

### Discussion on modules, add-on opportunities, and NRR

We anticipate that management will delve deeper into some of its 23 modules, add-on opportunities, and the +125% NRR, with color on the MSSP opportunity and managed services landscape as well. Similarly, we expect to hear more about [new customer sales](#), given that new logos as a percentage of nnARR fell from 61% in 4Q22 to 45% in 4Q23.

### Long-term ARR targets could see upside

Given the volatile macro backdrop, we do not anticipate a revision to management's \$5bn+ ARR goal for FY26, though we view this as a relatively conservative target despite the weaker IT spending environment. Following 51%/22% nnARR growth in FY22/23, respectively, and expected flattish growth in FY24 (per management), we model total ARR to reach \$5.3bn in FY26, which only implies 8-9% of nnARR growth in FY25/26. Further, assuming macro conditions improve and IT spending trends normalize over the next few years, we could see CrowdStrike far surpass its \$5bn FY26 ARR target and even far exceed +\$6bn in ARR by FY27.

### Focus on operating and FCF margins

Recall that management reiterated its guidance for operating margins to reach 20-22% during FY25. Given the growing focus of investors on profitability and operating leverage, alongside its long-term ARR guidance, we believe management may provide operating margin expectations through FY26, which could be at the higher-end of the company's target range. Lastly, following a decline in FCF margin from ~34% in FY21 to 30% in FY22/FY23, mainly on investments in data centers and the Humio acquisition, we expect management to provide greater insight into the normalization of these investments and discuss a path of returning FCF margins to 34-35% by FY26. We note that Street estimates currently see FCF margin reaching +33% in FY26. Maintain Buy.

See additional information on page 2

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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#### Stock Data

Price	131.68 USD
Price Objective	150.00 USD
Date Established	12-Jan-2023
Investment Opinion	C-1-9
52-Week Range	92.25 USD - 242.00 USD
Mrkt Val (mn) / Shares Out (mn)	28,743 USD / 218.3
Average Daily Value (mn)	736.25 USD
BofA Ticker / Exchange	CRWD / NAS
Bloomberg / Reuters	CRWD US / CRWD.OQ
ROE (2024E)	31.9%
Net Dbt to Eqty (Jan-2023A)	-115.3%
ESGMeter™	Medium

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ARR: annual recurring revenue

MSSP: managed security service provider

NRR: net retention rate

EDR: endpoint detection & response

AI: artificial intelligence

nnARR: net new annual recurring revenue

SMB: small to medium-sized business

## Additional topics to be keep an eye on

We also expect management to cover the following topics as well:

- We expect management to address investor concerns around the competitive landscape, namely Microsoft share gains and recent launch of the Microsoft Security Copilot, as well as pricing trends with SentinelOne and others. Specifically, we could hear about CrowdStrike's long-term growth runway at small-to-mid-sized businesses as the company expands more down-market into SentinelOne's (mid-sized enterprises) and Microsoft's (SMBs) primary target markets. For example, in 4Q, CrowdStrike called out seeing more incident response events at existing Microsoft Defender for Endpoint customers than in prior periods, which represents a solid land and expand opportunity that may persist in the long-term as more companies focus on consolidating vendors. This also has positive read-throughs to the growth of CrowdStrike's net retention rate, net new customer adds, and increasing traction of the company's emerging/Cloud security offerings.
- We anticipate CrowdStrike may discuss its recent partnership announcements with Dell and Abnormal Security in more detail. In particular, the strategic partnership with Dell provides CrowdStrike with an entry point into the server/commercial PC markets and a potential foothold with more international customers, while Abnormal Security's behavioral-AI based email security could generate reselling potential for both vendors in the future. Additionally, we plan to hear more about the progress of the CrowdXDR Alliance since its launch in October 2021.
- Lastly, we expect some discussion on penetration rates of the endpoint security and non-EDR modules across customer sizes (large enterprises, mid-sized enterprises, and SMBs) as well as across customer verticals. This may likely include a conversation on the company's public sector opportunity, where CrowdStrike seems to maintain a competitive advantage based on our conversations with partners and resellers.

## Price objective basis & risk

### CrowdStrike Holdings Inc. (CRWD)

Our PO of \$150 is based on roughly 9x our CY24E EV/Sales. We choose EV/Sales as our target valuation metric due to CrowdStrike's early growth stage and investment period making the profitability level still in early stages. We believe the valuation is warranted due to CrowdStrike's higher growth profile and potential to take meaningful share in new markets that would increase TAM and potentially accelerate growth. The positives of CrowdStrike's high growth and long-term opportunities are somewhat offset by lower margins and expected growth deceleration.

Downside risks to our PO are 1) investor sentiment and sensitivity to the premium valuation levels, 2) a lower take-rate of new offerings, 3) potential slowdown in new customer adoption and expansion deals, 4) risk of security breaches, and 5) an increase in competition from incumbent vendors and newer next-generation players.

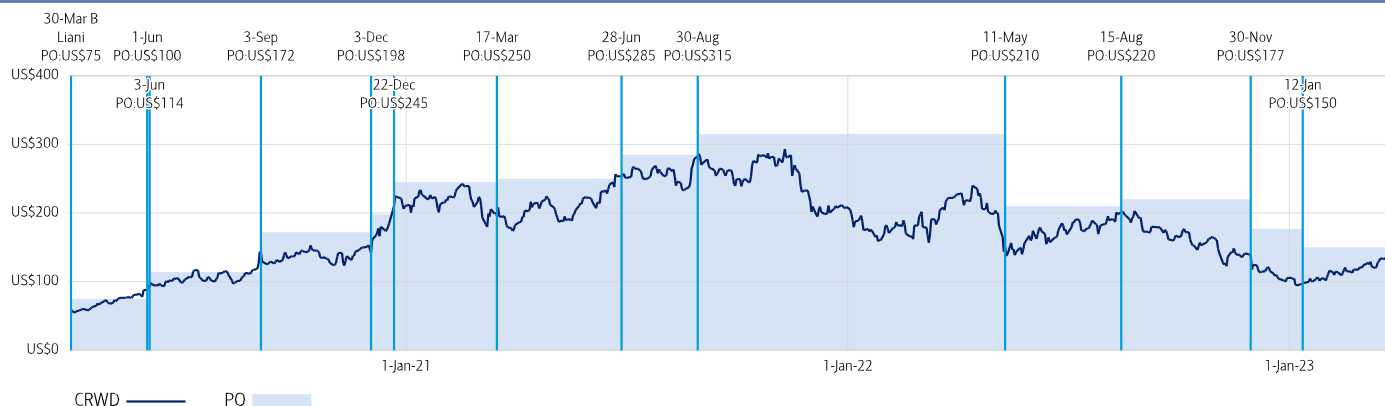
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### CrowdStrike (CRWD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	59	55.14%	Buy	39	66.10%
Hold	24	22.43%	Hold	17	70.83%
Sell	24	22.43%	Sell	14	58.33%

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