

SentinelOne, Inc.

Robust industry tailwinds and improving macro conditions; upgrade to Buy

Rating Change: BUY | PO: 35.00 USD | Price: 28.99 USD

Improving market conditions to support outperformance

We upgrade SentinelOne to Buy from Neutral and increase our PO to \$35 from \$26.50, based on 13x FY25 EV/Sales, vs. 9x prior. Though competition remains intense, our more positive view is driven by our expectations for the near-term pathway to profitability and FCF generation, re-accelerating net new ARR growth, long-term industry tailwinds, and improving market conditions. Our latest checks were positive ([see our channel checks report](#)), which could also support the stock near term. SentinelOne's stock was a laggard for much of 2023, yet has outperformed in the last three months, up ~78% vs. 35-60% for CrowdStrike, Palo Alto, and Zscaler. We believe the strong momentum should continue through F4Q24 and raise our estimates to reflect our more optimistic view on SentinelOne's ability to overcome competitive challenges and continue gaining share in endpoint security and adjacent markets.

Positives: growth potential, estimate upside, valuation

SentinelOne's revenue growth slowed significantly from 106% YoY in 2022 to our expected ~46% in 2023E, driven by law of large numbers, but also weak macro conditions and competitive dynamics. However, macro has started to show signs of improvement, cyber spending should be strong in 2024, and EDR remains a top CISO priority. SentinelOne's nnARR growth is expected to decline by -12% YoY in 2023, yet we model a meaningful reacceleration to +10% growth for 2024. We view this as an achievable target and see room for upside on topline and nnARR from further cross-selling of modules, improving net retention rates, strong partner relationships, and international expansion. Lastly, SentinelOne is still trading at a discount to cloud-based peers, trading at ~7.5x CY25E EV/Sales vs 11-16x for CrowdStrike, Palo Alto, and Zscaler.

Risks: competition, pricing, execution risk

Though SentinelOne should continue gaining market share from legacy vendors, which still control ~25% share, we see tough competition from CrowdStrike, Microsoft, Palo Alto, and Fortinet. Specifically, CrowdStrike has a larger platform and benefits from larger deals at enterprises with more cross-selling, and has recently focused on improving its partner relationships. Microsoft is aggressive and bundles EDR/XDR at reduced rates, similar to Palo Alto Networks and Fortinet. We also flag potential execution risks and note that any pushback to management's timeline for reaching OM and FCF breakeven could be detrimental to the stock.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.72)	(0.70)	(0.30)	0.08	0.43
GAAP EPS	(1.58)	(1.36)	(1.15)	(0.84)	(0.12)
EPS Change (YoY)	-67.4%	2.8%	57.1%	NM	437.5%
Consensus EPS (Bloomberg)			(0.29)	0.07	0.35
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	NM	NM	NM	362.4x	67.4x
EV / EBITDA*	NM	NM	NM	484.7x	64.5x
Free Cash Flow Yield*	-1.4%	-2.7%	-0.9%	0.6%	2.1%

* For full definitions of *IQmethod*SM measures, see page 11.

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12656038

Timestamp: 14 February 2024 06:02AM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-2-9	C-1-9
Inv. Rating	NEUTRAL	BUY
Price Obj.	26.50	35.00

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Price	28.99 USD
Price Objective	35.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-1-9
52-Week Range	12.43 USD - 30.32 USD
Mrkt Val (mn) / Shares Out (mn)	7,211 USD / 248.7
Free Float	98.6%
Average Daily Value (mn)	167.95 USD
BofA Ticker / Exchange	S / NYS
Bloomberg / Reuters	S US / S.N
ROE (2024E)	-5.5%
Net Dbt to Eqty (Jan-2023A)	-8.1%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

See glossary on page 7, summary of model changes on page 8

iQprofileSM SentinelOne, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-14.5%	-9.6%	-4.3%	1.6%	6.8%
Return on Equity	-18.3%	-11.8%	-5.5%	1.6%	8.1%
Operating Margin	-85.2%	-49.5%	-20.5%	-2.0%	8.1%
Free Cash Flow	(99)	(198)	(66)	43	154

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	1.7x	1.2x
Asset Replacement Ratio	0.5x	0.2x	0x	0x	0.2x
Tax Rate	NM	1.5%	NM	NM	NM
Net Debt-to-Equity Ratio	-100.8%	-8.1%	-7.3%	-8.8%	-16.2%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	205	422	616	828	1,076
% Change	120.1%	106.1%	46.0%	34.4%	30.0%
Gross Profit	129	305	476	644	842
% Change	138.6%	136.3%	56.4%	35.2%	30.8%
EBITDA	(167)	(179)	(86)	15	112
% Change	-72.2%	-7.5%	52.0%	NM	652.0%
Net Interest & Other Income	(3)	18	43	47	47
Net Income (Adjusted)	(178)	(195)	(88)	25	129
% Change	-75.5%	-9.1%	54.9%	NM	408.1%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(271)	(379)	(337)	(249)	(118)
Depreciation & Amortization	8	30	40	31	25
Change in Working Capital	56	(28)	20	(85)	(16)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	112	184	211	345	267
Capital Expenditure	(4)	(5)	0	(1)	(4)
Free Cash Flow	-99	-198	-66	43	154
% Change	-42.1%	-99.8%	66.5%	NM	262.2%
Share / Issue Repurchase	1,389	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(20)	0	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,669	138	118	142	271
Trade Receivables	101	151	137	163	211
Other Current Assets	47	625	784	824	869
Property, Plant & Equipment	25	39	40	28	32
Other Non-Current Assets	200	1,305	1,127	1,266	1,323
Total Assets	2,042	2,259	2,206	2,423	2,705
Short-Term Debt	5	4	4	4	4
Other Current Liabilities	277	469	506	708	873
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	110	129	137	159	182
Total Liabilities	391	602	647	872	1,059
Total Equity	1,651	1,657	1,559	1,551	1,647
Total Equity & Liabilities	2,042	2,259	2,206	2,423	2,705

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Cyber Security

Company Description

SentinelOne provides Endpoint Protection Platform solutions to optimally protect enterprises' internet-connected devices from cyber threats. The company benefits from an ongoing shift from legacy, on-premise offerings to cloud-based platforms that use machine learning and AI technology. SentinelOne is strongly positioned to compete with and displace legacy incumbents with its next-gen EPP offerings, including extended detection and response capabilities.

Investment Rationale

We believe SentinelOne is positioned to gain share in the endpoint security market and expand into other areas of security over time through its scalable, AI-powered next-gen platform. In the long-run, the company's SaaS model and platform up/cross-sell potential could deliver sustainable high growth.

Stock Data

Average Daily Volume 5,793,547

Quarterly Earnings Estimates

	2023	2024
Q1	-0.21A	-0.15A
Q2	-0.20A	-0.08A
Q3	-0.16A	-0.03A
Q4	-0.13A	-0.04E

De-risked comps in 2025, possibility remains for material upside

Key positives for SentinelOne start with the underlying growth potential. With Cybersecurity budgets expected to remain strong in 2024, we see potential for SentinelOne to have positive estimate revisions over the next few quarters. We also see a solid setup over the next year from easier comps (especially in 2H25), increasing cybersecurity budgets, and better macro conditions.

Exhibit 1: BofA estimates vs. Street's expectations

We compare our estimates against consensus estimates for the next two quarters and FY25

(mns \$)	F4Q24 Expectations			F1Q25 Expectations			FY25 Expectations		
	BofA	Consensus	Delta	BofA	Consensus	Delta	BofA	Consensus	Delta
Net new ARR	\$58.76	\$57.06	3.0%	\$46.22	\$45.63	1.3%	\$221.42	\$218.06	1.5%
YoY growth (%)	0.1%	-2.8%		10.3%	9.7%		10.2%	9.5%	
Total revenue	\$169.26	\$169.81	-0.3%	\$186.08	\$181.28	2.6%	\$827.96	\$816.78	1.4%
YoY growth (%)	34.2%	34.7%		39.5%	35.9%		34.4%	32.4%	
Gross margin (%)	77.5%	77.5%	(2.5) bps	77.1%	77.1%	2 bps	77.8%	77.4%	32 bps
Operating margin (%)	-14.0%	-13.3%	(69.4) bps	-10.6%	-10.7%	8 bps	-2.0%	-2.7%	75 bps
EPS	(0.04)	(0.04)	5.4%	(0.03)	(0.03)	9.0%	0.08	0.07	18.0%
Free Cash Flow	(9.22)	(12.94)	-28.8%	(11.63)	(12.94)	-10.2%	23.55	25.37	-7.2%
FCF margin (%)	-5.4%	-7.6%		-6.2%	-7.1%		2.8%	3.1%	

Source: BofA Global Research estimates, company report, Bloomberg

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Per our recent discussions with CISOs and channel partners, endpoint security remains a top priority for enterprises, which should directly contribute to faster growth for SentinelOne's topline. Revenue growth decelerated in the last twelve months, from 106% YoY in FY23 to our expected 46% for FY24E and 34% for FY25E, vs. Street's 46% and 32%, respectively. The decline is somewhat natural given the growing base, but is also attributed to weak macro conditions, longer sales cycles, increased procurement scrutiny, and tough competitive environments. However, channel partners saw better budgets in C4Q23, with hints of more typical year-end budget flushes, and per our latest discussions, we believe that momentum continued into C1Q24 as well. Though the competitive environment remains tough for SentinelOne, we believe improving macro conditions should support increased spending trends and better growth for the company over the next few quarters.

"For our enterprise customers, we saw the usual 4Q budget flush." – North American Partner

"We just had our best January ever. Our forecasts for this year are very positive so far. While there are some macro impacts or concerns on a global scale, cybersecurity is safe because these solutions are need-to-have, not nice-to-have." – Global Partner

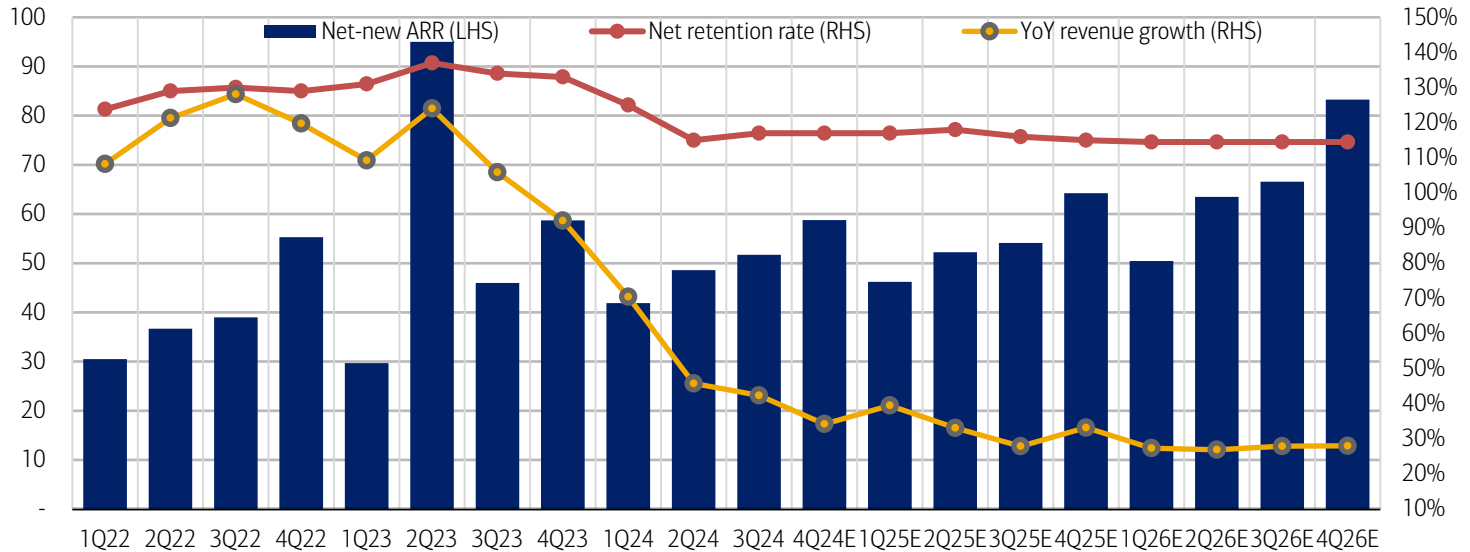
Another fundamental positive for SentinelOne is the upside related to add-on modules, solid international expansion, and strong relationships within the channels. The company continues to see strong demand for its Cloud security and Data Lake (SIEM) solutions, which combined for +100% YoY growth and comprised 20% of quarterly bookings in the latest quarter. SentinelOne also plans to expand its Cloud security solutions in FY25 and offer a full-stack CNAPP solution with both agent-based and agentless capabilities. The company's AI solution, dubbed Purple AI, is also expected to be generally available in



F1Q25, and could also drive some upside to topline and NRR. The company also continues to focus on international expansion and growing its channel partner ecosystem through MSSPs, both of which should help support continued revenue growth over the next few quarters. We also note that prior accounting issues have since been resolved.

Exhibit 2: Snapshot of SentinelOne's revenue growth, net new ARR and net retention rates

The strong decline of revenue growth should slow over the next few quarters and remain relatively steady at ~30%



Source: BofA Global Research estimates, company report

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Undemanding valuation relative to peers

In our view, another factor supporting the stock is the undemanding valuation. Despite the strength in the past few months, SentinelOne's stock is currently trading at ~7x 2025E EV/Sales, vs. 8x peer average (and 0.2x growth-adjusted vs. 0.5x peer average). We believe this discount has been supported by the company's lower topline growth, accounting issues, lack of profitability, and negative net new ARR growth throughout 2023. Given the weaker LTM, we see a positively skewed risk-reward for SentinelOne, which should be further supported by the improving spending environment.

Bear case assumptions: in a bear case scenario, we could see weak macro conditions with lower spending levels, elongated deal cycles, intensifying competition with CrowdStrike and Microsoft, net retention rate declining to <105%, less upsell and cross-sell at existing customers, less-than-expected operating leverage and FCF generation.

Bull case assumptions: in a bull case scenario, we could see larger deal sizes and normalizing sales cycles as macro conditions improve, net retentions recovering to >120%, accelerated international expansion, significant uplift from upselling/cross-selling, better growth at larger enterprise customers, improving new customer acquisition.

Exhibit 3: Scenario analysis for SentinelOne

We examine potential impacts on valuation levels based on bull and bear scenarios

(in mns)	Bear Case		Base Case		Bull Case	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net New ARR	190.9	181.4	221.4	264.0	211.0	221.6
YoY growth (%)	-5.0%	-5.0%	0.0%	0.0%	5.0%	5.0%
Revenues	797.1	996.4	828.0	1,076.3	858.8	1,159.3
YoY growth (%)	29.4%	25.0%	34.4%	30.0%	39.4%	35.0%
Operating income	(47.7)	40.8	(16.5)	87.1	25.9	151.8

Exhibit 3: Scenario analysis for SentinelOne

We examine potential impacts on valuation levels based on bull and bear scenarios

(in mns)	Bear Case		Base Case		Bull Case	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Operating margin (%)	-6.0%	4.1%	-2.0%	8.1%	3.0%	13.1%
Net profit	0.5	89.5	25.4	128.9	52.1	173.7
Profit margin (%)	0.1%	9.0%	3.1%	12.0%	6.1%	15.0%
EPS	0.00	0.30	0.08	0.43	0.17	0.57
Shares outstanding	302	303	302	303	302	303
Free cash flow	(1.2)	89.8	23.5	129.3	50.2	174.0
FCF margin (%)	-0.2%	9.0%	2.8%	12.0%	5.8%	15.0%
EV/Sales		3.0x		9.7x		12.5x
EV/Sales/Growth		0.1x		0.3x		0.4x
Enterprise Value		2,989		10,416		14,492
Equity Value		3,181		10,607		14,683
Implied valuation (\$)		\$10.50		\$35.00		\$48.45

	Bear	Base	Bull
Scenario implied valuation	\$10	\$35	\$48
Implied EV/Sales multiple	3.0x	9.7x	12.5x

Source: BofA Global Research estimates, company report, Bloomberg

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Exhibit 4: Comparable company valuations (1/2)

We include key fundamental metrics across SaaS software peers and cybersecurity peers

Pricing as of 2/13/24	Ticker	Price	Mkt Cap	Revenue Growth				Gross Margin				Operating Margin				FCF Margin			
				2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E
SaaS																			
ADOBE INC	ADBE	\$601.89	\$272,054	11.5%	10.3%	10.7%	11.6%	87.9%	89.7%	89.1%	89.2%	34.4%	35.4%	45.7%	46.1%	41.6%	36.1%	41.2%	43.6%
DOCUSIGN INC	DOCU	\$50.52	\$10,303	21.0%	9.8%	5.7%	6.2%	82.0%	82.3%	82.2%	82.1%	(3.9%)	4.7%	25.0%	26.6%	16.7%	27.2%	24.6%	25.2%
JFROG LTD	FROG	\$35.75	\$3,750	35.5%	23.6%	21.9%	21.1%	84.0%	83.3%	82.3%	81.7%	(32.1%)	9.6%	12.0%	13.8%	6.1%	15.8%	18.0%	19.3%
HUBSPOT INC	HUBS	\$603.91	\$30,395	33.1%	24.0%	17.9%	19.4%	82.7%	84.5%	84.1%	84.2%	(6.3%)	14.8%	15.5%	16.8%	11.1%	12.8%	14.8%	15.8%
SNOWFLAKE INC	SNOW	\$227.57	\$74,939	72.9%	36.9%	29.7%	30.5%	70.9%	73.5%	73.9%	74.5%	(40.7%)	(32.0%)	9.0%	12.2%	23.8%	26.0%	27.8%	28.8%
PALANTIR	PLTR	\$24.01	\$52,246	23.6%	16.7%	20.1%	20.6%	80.9%	80.6%	82.7%	82.8%	(8.5%)	5.4%	32.0%	31.5%	9.6%	31.3%	31.9%	33.5%
ATLASSIAN CORP	TEAM	\$210.07	\$54,494	30.8%	22.4%	18.1%	23.3%	85.3%	84.2%	83.1%	82.3%	(4.5%)	(7.2%)	20.2%	22.4%	22.7%	27.4%	24.2%	25.7%
TWILIO INC	TWLO	\$69.30	\$12,546	34.6%	7.6%	7.3%	12.2%	51.0%	52.4%	52.2%	52.6%	(31.5%)	11.8%	13.0%	14.8%	(9.0%)	5.5%	9.5%	11.6%
WORKDAY INC	WDAY	\$296.75	\$78,045	21.1%	16.9%	16.5%	16.9%	77.0%	79.4%	79.9%	80.3%	(3.7%)	5.2%	24.4%	25.1%	20.8%	23.5%	23.6%	24.9%
Average				31.6%	18.7%	16.4%	18.0%	78.0%	78.9%	78.8%	78.9%	(10.7%)	5.3%	21.9%	23.2%	15.9%	22.8%	24.0%	25.4%
Median				30.8%	16.9%	17.9%	19.4%	82.0%	82.3%	82.3%	82.1%	(6.3%)	5.4%	20.2%	22.4%	16.7%	26.0%	24.2%	25.2%
Cybersecurity software																			
CHECK POINT	CHKP	\$164.13	\$19,202	7.5%	3.6%	5.8%	5.3%	81.0%	88.9%	89.2%	89.4%	38.0%	37.2%	43.4%	43.6%	46.2%	42.1%	41.8%	42.0%
CROWDSTRIKE	CRWD	\$322.44	\$77,432	55.6%	37.3%	29.2%	25.3%	76.0%	77.6%	78.1%	78.7%	(8.2%)	2.5%	22.4%	23.6%	29.9%	30.3%	31.0%	32.3%
CYBERARK	CYBR	\$263.90	\$11,022	17.7%	27.1%	23.2%	22.6%	82.3%	82.8%	82.6%	82.6%	(25.8%)	(15.5%)	8.7%	14.8%	6.3%	6.8%	9.8%	17.1%
FORNET INC	FTNT	\$69.40	\$53,293	32.2%	20.1%	9.1%	13.6%	75.4%	76.7%	77.0%	75.2%	21.9%	23.4%	26.7%	27.0%	32.8%	32.6%	29.5%	30.7%
OKTA INC	OKTA	\$83.40	\$13,790	45.1%	22.2%	10.5%	12.1%	77.9%	79.9%	80.2%	80.4%	(45.7%)	(18.8%)	16.8%	18.8%	2.9%	19.0%	19.3%	20.4%
PALO ALTO NETWORKS	PANW	\$368.26	\$116,112	27.0%	22.8%	18.0%	17.7%	73.1%	74.2%	76.8%	76.7%	(0.2%)	12.1%	26.5%	28.2%	43.1%	39.0%	36.6%	38.7%
RAPID7 INC	RPD	\$58.75	\$3,610	28.0%	13.5%	9.8%	11.0%	73.0%	73.9%	74.6%	74.9%	(16.3%)	(10.4%)	18.2%	19.5%	8.4%	12.8%	19.1%	21.0%
SENTINELONE INC	S	\$28.99	\$8,659	--	49.8%	32.6%	31.8%	71.3%	76.9%	77.4%	78.0%	(97.7%)	(57.5%)	(3.4%)	6.7%	(48.0%)	(14.8%)	0.4%	11.2%
TENABLE	TENB	\$49.33	\$5,779	26.3%	16.9%	13.0%	13.9%	77.3%	80.0%	79.8%	80.0%	(9.9%)	(6.5%)	17.4%	18.8%	16.4%	17.7%	21.8%	23.9%
QUALYS	QLYS	\$169.79	\$6,246	19.1%	13.2%	9.6%	10.2%	81.1%	82.5%	82.0%	82.0%	26.7%	29.4%	38.2%	38.1%	37.5%	42.5%	36.2%	36.1%
ZSCALER	ZS	\$242.80	\$36,015	57.7%	41.0%	25.5%	24.9%	81.0%	80.8%	80.5%	80.6%	(23.7%)	(6.0%)	17.7%	19.4%	20.4%	25.3%	22.1%	24.4%
Average				31.6%	24.3%	16.9%	17.1%	76.8%	78.5%	78.9%	78.9%	(12.8%)	(0.9%)	21.1%	23.5%	17.8%	23.0%	24.3%	27.1%
Median				27.5%	22.2%	13.0%	13.9%	76.7%	78.8%	78.9%	79.3%	(9.9%)	(6.0%)	18.2%	19.5%	20.4%	25.3%	22.1%	24.4%
Overall Average				31.6%	21.8%	16.7%	17.5%	77.4%	78.7%	78.9%	78.9%	(11.9%)	1.9%	21.5%	23.4%	17.0%	22.9%	24.2%	26.3%
Overall Median				28.0%	21.2%	17.2%	17.3%	77.9%	80.0%	80.2%	80.4%	(8.3%)	5.0%	19.2%	20.9%	18.5%	25.6%	23.9%	25.1%

Source: BofA Global Research estimates, company report, Bloomberg

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Exhibit 5: Comparable company valuations (2/2)

On a growth adjusted basis, software and cybersecurity peers are trading at roughly 0.5x 2025E EV/Sales, vs. SentinelOne's 0.2x

Pricing as of 2/13/24	EV/FCF				EV/Sales				EV/Sales/Growth			
	2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E
SaaS												
ADOBE INC	36.4x	38.0x	30.1x	25.4x	15.1x	13.7x	12.4x	11.1x	1.3x	1.3x	1.2x	1.0x
DOCUSIGN INC	23.0x	12.8x	13.4x	12.3x	3.8x	3.5x	3.3x	3.1x	0.2x	0.4x	0.6x	0.5x
JFROG LTD	191.4x	60.0x	43.0x	33.2x	11.7x	9.5x	7.8x	6.4x	0.3x	0.4x	0.4x	0.3x
HUBSPOT INC	154.6x	107.7x	79.2x	62.0x	17.1x	13.8x	11.7x	9.8x	0.5x	0.6x	0.7x	0.5x
SNOWFLAKE INC	151.0x	101.0x	72.6x	53.8x	35.9x	26.2x	20.2x	15.5x	0.5x	0.7x	0.7x	0.5x
PALANTIR	266.1x	70.1x	57.3x	45.3x	25.7x	22.0x	18.3x	15.2x	1.1x	1.3x	0.9x	0.7x
ATLASSIAN CORP	75.1x	50.7x	48.7x	37.2x	17.0x	13.9x	11.8x	9.5x	0.6x	0.6x	0.6x	0.4x
TWILIO INC	--	43.7x	23.6x	17.2x	2.6x	2.4x	2.2x	2.0x	0.1x	0.3x	0.3x	0.2x
WORKDAY INC	58.6x	44.3x	37.8x	30.6x	12.2x	10.4x	8.9x	7.6x	0.6x	0.6x	0.5x	0.5x
Average	119.5x	58.7x	45.1x	35.2x	15.7x	12.8x	10.7x	8.9x	0.6x	0.7x	0.6x	0.5x
Median	113.0x	50.7x	43.0x	33.2x	15.1x	13.7x	11.7x	9.5x	0.5x	0.6x	0.6x	0.5x
Cybersecurity software												
CHECK POINT	15.1x	16.0x	15.2x	14.4x	7.0x	6.7x	6.4x	6.0x	0.9x	1.8x	1.1x	1.1x
CROWDSTRIKE	115.6x	83.1x	62.8x	48.2x	34.6x	25.2x	19.5x	15.6x	0.6x	0.7x	0.7x	0.6x
CYBERARK	276.3x	200.5x	113.1x	53.0x	17.4x	13.7x	11.1x	9.0x	1.0x	0.5x	0.5x	0.4x
FORTINET INC	35.8x	29.9x	30.4x	25.7x	11.7x	9.8x	9.0x	7.9x	0.4x	0.5x	1.0x	0.6x
OKTA INC	--	31.2x	27.9x	23.6x	7.3x	5.9x	5.4x	4.8x	0.2x	0.3x	0.5x	0.4x
PALO ALTO NETWORKS	42.8x	38.5x	34.8x	27.9x	18.4x	15.0x	12.7x	10.8x	0.7x	0.7x	0.7x	0.6x
RAPID7 INC	73.5x	42.6x	26.1x	21.4x	6.2x	5.5x	5.0x	4.5x	0.2x	0.4x	0.5x	0.4x
SENTINELONE INC	--	--	--	66.9x	19.6x	13.1x	9.9x	7.5x	--	0.3x	0.3x	0.2x
TENABLE	51.1x	40.5x	29.1x	23.3x	8.4x	7.2x	6.3x	5.6x	0.3x	0.4x	0.5x	0.4x
QUALYS	31.6x	24.6x	26.3x	24.0x	11.8x	10.4x	9.5x	8.7x	0.6x	0.8x	1.0x	0.8x
ZSCALER	--	75.2x	--	49.6x	26.8x	19.0x	15.1x	12.1x	0.5x	0.5x	0.6x	0.5x
Average	80.2x	58.2x	40.6x	34.3x	15.4x	12.0x	10.0x	8.4x	0.5x	0.5x	0.6x	0.5x
Median	46.9x	39.5x	29.1x	25.7x	11.8x	10.4x	9.5x	7.9x	0.5x	0.5x	0.6x	0.4x
Overall Average	99.9x	58.4x	42.9x	34.7x	15.5x	12.3x	10.3x	8.6x	0.5x	0.6x	0.6x	0.5x
Overall Median	66.0x	43.7x	32.6x	29.3x	13.6x	11.8x	9.7x	8.3x	0.5x	0.5x	0.6x	0.5x

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Public Sector remains a key long-term opportunity

Though we do not believe federal, state, and local governments are a major contributor to SentinelOne's topline at this point, we remain bullish on the general growth opportunity within the public vertical across our cybersecurity coverage. SentinelOne has seen strong momentum and growing traction within the public sector in the past few quarters, especially within the federal arena. In the last two quarters, management called out several large federal agency deals, with one agency in particular in F3Q24 utilizing SentinelOne to consolidate solutions across endpoint, data/SIEM, and Cloud security.

For quick background, within the federal sector, FedRAMP stands for the Federal Risk and Authorization Management Program, and is a government-based program for providing standardized accreditation to Cloud Service Providers (CSPs) that plan to work with federal organizations. Importantly, FedRAMP certifications typically only include providers using cloud-based technologies that are focused on securing and protecting federal data. FedRAMP certification is required for a cybersecurity vendor to work with any executive agency and helps to speed up the sales cycle for faster adoption of security tools.

Peer CrowdStrike also discussed at its 2022 investor day that the TAM within the public sector (includes government, education, federal/state agencies) remains highly underpenetrated for EDR vendors, at <1%, and likely still remains a large growth opportunity for both CrowdStrike and SentinelOne. SentinelOne only achieved FedRAMP certification in October 2020, while CrowdStrike received its FedRAMP certification in 2018 and likely benefitted as a first mover in the federal space.

Exhibit 6: Snippet of Public Sector Contracts for SentinelOne and CrowdStrike

Information on public sector deals for S and CRWD (Only included CrowdStrike's 10 largest deals)

Vendor	Agency	Start Date	End Date	Total Obligation to Date (in USD)
SentinelOne	NASA	9/9/2023	9/27/2024	\$1,232,330
SentinelOne	NASA	5/9/2023	5/8/2024	\$113,781
SentinelOne	Department of Transportation	9/17/2019	9/17/2020	\$51,000
SentinelOne	Department of State	5/23/2016	8/31/2017	\$40,166
CrowdStrike	Department of Health	2/10/2021	2/9/2022	\$4,864,952
CrowdStrike	Department of Defense	1/28/2022	1/27/2024	\$3,305,471
CrowdStrike	Department of Homeland Security	1/29/2021	1/31/2022	\$2,785,765
CrowdStrike	Department of Commerce	6/11/2021	6/10/2024	\$2,546,217
CrowdStrike	Department of the Treasury	7/1/2021	2/10/2024	\$2,293,937
CrowdStrike	Department of Defense	11/3/2022	11/3/2024	\$2,267,890
CrowdStrike	Department of the Treasury	9/27/2023	9/26/2024	\$2,053,475
CrowdStrike	Department of Defense	1/28/2021	1/27/2022	\$1,499,998
CrowdStrike	Department of Justice	9/13/2023	9/12/2024	\$1,441,085
CrowdStrike	Department of the Treasury	2/1/2024	1/31/2025	\$1,277,133

Source: BofA Global Research, USASpending.gov

BofA GLOBAL RESEARCH

Per publicly available data, CrowdStrike may be more penetrated within the public sector at this point (see Exhibit 6 above), yet in our view, this remains a significant growth opportunity for SentinelOne. Lastly, we note that public sector deals may be lumpier in terms of revenue recognition given the consumption/usage-based contracts vs. typical recurring revenues, and total recognized revenues may not equal stated obligations within the public contract data.

Partner Commentary

"4Q deal flow for CrowdStrike ramped quite quickly and was largely driven by their enablement of the channel partners. We did not work with them in the beginning of 2023, but ramped up with us throughout the year. Finally started really doing deals with the partners in 4Q. Our understanding is that they have recently been focusing more on developing the channel relationships." – **North American Partner**

"SentinelOne is one of the favorites in endpoint security and they have great relationships within the channels. Alongside Palo Alto, SentinelOne would come up more within the channel as CrowdStrike's penetration with partners was not as mature. Saw solid budget flush benefits for SentinelOne in 4Q." – **North American Partner**

"Saw many net new customers for SentinelOne in 4Q but have not seen them take any deals from CrowdStrike. SentinelOne continues to win with the smaller customers, while CrowdStrike beats them head-to-head at larger enterprises." – **Global Partner**

"We have seen a good majority of the mid-market that has already made the transition away from legacy vendors to the SentinelOne's and CrowdStrike's of the world." – **Global Partner**

"CrowdStrike is still 15-25% more expensive than SentinelOne, though they have more of the platform consolidation focus." – **North American Partner**

Glossary

EDR: Endpoint Detection & Response

ARR: Annual Recurring Revenue

nnARR: net new Annual Recurring Revenue

CISO: Chief Information Security Officer

NRR: Net Retention Rate



Summary of Model Changes and P&L

Exhibit 7: Summary of model changes

We tweak our estimates to reflect our more positive view on SentinelOne's ability to outperform expectations

	Sales			EPS			Gross Margin			Operating Margin			ARR			Free Cash Flow		
	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta
FY24E																		
1Q24	133.39	133.39	-	(0.15)	(0.15)	-	75.0%	75.0%	0.0%	-38.1%	-38.1%	0.0%	563.60	563.60	-	(31.43)	(31.43)	-
2Q24	149.42	149.42	-	(0.08)	(0.08)	-	76.9%	76.9%	0.0%	-22.4%	-22.4%	0.0%	612.20	612.20	-	(15.19)	(15.19)	-
3Q24	164.17	164.17	-	(0.03)	(0.03)	-	79.3%	79.3%	0.0%	-11.1%	-11.1%	0.0%	663.90	663.90	-	(26.38)	(26.38)	-
4Q24E	169.26	169.26	-	(0.04)	(0.04)	-	77.5%	77.5%	0.0%	-14.0%	-14.0%	0.0%	722.66	722.66	-	(9.22)	(9.22)	-
Total	616.24	616.24	-	(0.30)	(0.30)	-	77.3%	77.3%	0.0%	-20.5%	-20.5%	0.0%	722.66	722.66	-	(82.22)	(82.22)	-
FY25E																		
1Q25E	186.08	186.08	-	(0.02)	(0.03)	(0.01)	77.0%	77.1%	0.1%	-9.1%	-10.6%	-1.5%	768.88	768.88	-	(16.97)	(11.63)	5.35
2Q25E	198.90	199.48	0.59	(0.00)	0.01	0.01	77.5%	77.6%	0.1%	-5.4%	-4.2%	1.2%	821.11	823.57	2.47	(7.08)	(5.51)	1.57
3Q25E	209.95	213.51	3.56	0.00	0.04	0.04	77.5%	77.6%	0.1%	-4.3%	1.1%	5.4%	875.23	881.01	5.79	2.09	13.07	10.98
4Q25E	225.44	228.89	3.45	0.03	0.07	0.03	78.5%	78.6%	0.1%	-0.4%	4.1%	4.5%	939.45	944.08	4.63	15.23	27.61	12.38
Total	820.36	827.96	7.60	0.01	0.08	0.07	77.7%	77.8%	0.1%	-4.6%	-2.0%	2.6%	939.45	944.08	4.63	(6.73)	23.55	30.28
FY26E																		
1Q26E	236.96	243.71	6.75	0.05	0.07	0.02	77.5%	77.6%	0.1%	1.6%	4.1%	2.4%	989.90	997.39	7.49	18.44	28.82	10.38
2Q26E	252.40	260.00	7.60	0.08	0.09	0.02	78.0%	78.1%	0.1%	5.2%	7.0%	1.8%	1,053.39	1,063.10	9.71	24.14	26.15	2.01
3Q26E	268.53	276.84	8.32	0.09	0.13	0.03	78.0%	78.1%	0.1%	6.7%	10.2%	3.5%	1,119.97	1,131.28	11.32	25.23	32.45	7.22
4Q26E	288.59	295.77	7.18	0.10	0.14	0.03	79.0%	79.1%	0.1%	7.4%	10.4%	3.1%	1,203.22	1,208.08	4.86	27.77	41.86	14.09
Total	1,046.48	1,076.33	29.85	0.32	0.43	0.10	78.2%	78.3%	0.1%	5.4%	8.1%	2.7%	1,203.22	1,208.08	4.86	95.58	129.29	33.70

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH



**Exhibit 8: Income statement**

We model SentinelOne's revenues/EPS to reach \$616mn/-30c in FY24, respectively

(\$mn except EPS)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24E	FY24E	1Q25E	2Q25E	3Q25E	4Q25E	FY25E
Total ARR	322.00	417.00	463.00	521.70	521.70	563.60	612.20	663.90	722.66	722.66	768.88	823.57	881.01	944.08	944.08
Total revenue	78.26	102.51	115.32	126.10	422.18	133.39	149.42	164.17	169.26	616.24	186.08	199.48	213.51	228.89	827.96
YoY growth (%)	109.3%	124.1%	105.9%	92.1%	106.1%	70.5%	45.8%	42.4%	34.2%	46.0%	39.5%	33.5%	30.1%	35.2%	34.4%
Total gross profit	53.51	73.97	82.45	94.64	304.56	100.08	114.89	130.11	131.18	476.25	143.47	154.80	165.68	179.90	643.85
Gross margin	68.4%	72.2%	71.5%	75.1%	72.1%	75.0%	76.9%	79.3%	77.5%	77.3%	77.1%	77.6%	77.6%	78.6%	77.8%
Sales & Marketing	53.21	66.48	69.01	73.14	261.84	84.10	82.21	81.91	86.00	334.22	92.37	91.44	90.53	95.96	370.30
Research & Development	35.38	41.04	37.84	39.56	153.82	39.95	38.26	36.26	38.43	152.90	39.78	40.10	40.82	42.04	162.74
General & Administrative	22.36	24.54	25.19	25.67	97.77	26.84	27.84	30.13	30.43	115.24	31.07	31.65	31.96	32.60	127.28
Operating Income / (Loss)	(57.44)	(58.10)	(49.59)	(43.74)	(208.87)	(50.81)	(33.43)	(18.19)	(23.69)	(126.11)	(19.75)	(8.39)	2.37	9.30	(16.46)
Operating margin	-73.4%	-56.7%	-43.0%	-34.7%	-49.5%	-38.1%	-22.4%	-11.1%	-14.0%	-20.5%	-10.6%	-4.2%	1.1%	4.1%	-2.0%
Net Income	(56.98)	(55.87)	(44.39)	(37.39)	(194.63)	(42.30)	(24.61)	(7.73)	(13.23)	(87.86)	(9.29)	2.07	12.83	19.76	25.38
Non-GAAP EPS	(0.21)	(0.20)	(0.16)	(0.13)	(0.70)	(0.15)	(0.08)	(0.03)	(0.04)	(0.30)	(0.03)	0.01	0.04	0.07	0.08
GAAP EPS	(0.33)	(0.35)	(0.35)	(0.33)	(1.36)	(0.37)	(0.29)	(0.24)	(0.25)	(1.15)	(0.27)	(0.22)	(0.19)	(0.15)	(0.84)
Total share count	270	277	281	284	278	288	293	297	301	295	301	302	302	302	302
Net Cash from Operating Activities	(49.35)	(62.12)	(59.74)	(22.07)	(193.29)	(28.06)	(11.90)	(22.23)	(3.83)	(66.02)	(6.11)	(1.51)	19.64	31.15	43.17
Free cash flow	(54.73)	(66.87)	(64.72)	(25.37)	(211.69)	(31.43)	(15.19)	(26.38)	(9.22)	(82.22)	(11.63)	(5.51)	13.07	27.61	23.55
FCF Margin	-69.9%	-65.2%	-56.1%	-20.1%	-50.1%	-23.6%	-10.2%	-16.1%	-5.4%	-13.3%	-6.2%	-2.8%	6.1%	12.1%	2.8%
Cash & Cash Equivalents	766.10	269.49	210.47	137.94	137.94	150.10	133.07	127.34	118.12	118.12	106.49	100.98	114.06	141.67	141.67
Margin Analysis															
Total Gross Margin	68.4%	72.2%	71.5%	75.1%	72.1%	75.0%	76.9%	79.3%	77.5%	77.3%	77.1%	77.6%	77.6%	78.6%	77.8%
Sales & Marketing	68.0%	64.9%	59.8%	58.0%	62.0%	63.0%	55.0%	49.9%	50.8%	54.2%	49.6%	45.8%	42.4%	41.9%	44.7%
Research & Development	45.2%	40.0%	32.8%	31.4%	36.4%	29.9%	25.6%	22.1%	22.7%	24.8%	21.4%	20.1%	19.1%	18.4%	19.7%
General & Administrative	28.6%	23.9%	21.8%	20.4%	23.2%	20.1%	18.6%	18.4%	18.0%	18.7%	16.7%	15.9%	15.0%	14.2%	15.4%
Operating Margin	-73.4%	-56.7%	-43.0%	-34.7%	-49.5%	-38.1%	-22.4%	-11.1%	-14.0%	-20.5%	-10.6%	-4.2%	1.1%	4.1%	-2.0%
Net Income	-72.8%	-54.5%	-38.5%	-29.7%	-46.1%	-31.7%	-16.5%	-4.7%	-7.8%	-14.3%	-5.0%	1.0%	6.0%	8.6%	3.1%
YoY Growth															
Total Revenue	109.3%	124.1%	105.9%	92.1%	106.1%	70.5%	45.8%	42.4%	34.2%	46.0%	39.5%	33.5%	30.1%	35.2%	34.4%
Total Operating Expenses	64.5%	80.0%	73.4%	60.0%	69.2%	36.0%	12.3%	12.3%	11.9%	17.3%	8.2%	10.0%	10.1%	10.2%	9.6%
Operating Income	21.0%	29.1%	28.0%	0.9%	19.7%	-11.5%	-42.5%	-63.3%	-45.8%	188.3%	-61.1%	-74.9%	-113.0%	-139.3%	-30.5%
Net Income	17.5%	21.5%	11.1%	-15.0%	9.1%	-25.8%	-56.0%	-82.6%	-64.6%	135.0%	-78.0%	-108.4%	-266.1%	-249.4%	-291.8%
QoQ Growth															
Total revenue	19.2%	31.0%	12.5%	9.3%		5.8%	12.0%	9.9%	3.1%		9.9%	7.2%	7.0%	7.2%	
Total Operating expenses	28.3%	-56.5%	19.0%	4.8%		9.0%	-1.7%	0.0%	4.4%		5.4%	0.0%	0.1%	4.5%	
Operating Income	32.5%	-66.7%	-13.7%	-24.7%		16.2%	-34.2%	-45.6%	30.3%		-16.6%	-57.5%	-128.3%	291.9%	
Net Income	29.6%	-68.7%	-22.1%	-33.1%		13.1%	-41.8%	-68.6%	71.3%		-29.8%	-122.3%	518.7%	54.0%	

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

SentinelOne, Inc. (S)

Our PO of \$35 is based on 13x our FY25E EV/Sales, a discount to the roughly 14x multiple at which its key competitor trades, reflecting SentinelOne's lower scale, margins, and free cash flow generation. We choose EV/Sales as our valuation metric due to SentinelOne's early growth stage and investment period creating outsized operating losses in the near-term.

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) material slowdown in new customer adoption and platform expansion deals, 4) risk of security breaches, and 5) an increase in competition from incumbent vendors and other next-gen players.

Upside risks to our PO are 1) increased growth within the endpoint security market, 2) higher adoption of adjacent products, 3) better-than-expected enterprise IT spending, 4) material increase in new customer adds, and 5) further growth of offerings into new markets.

Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Cellebrite	CLBT	CLBT US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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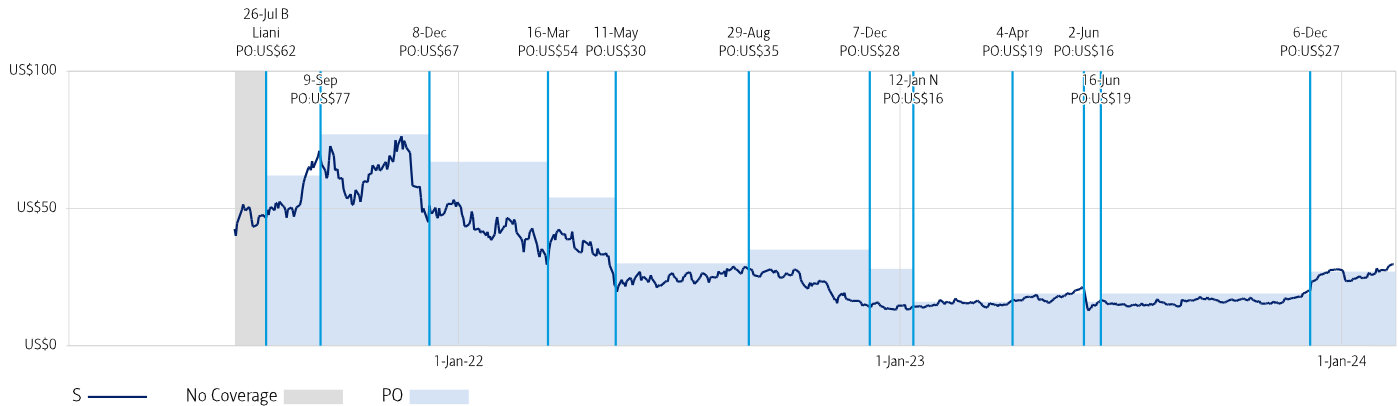
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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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