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Saket Kalia *Barclays Bank PLC, Research Division - Senior Analyst*

PRESENTATION

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Okay. Well, hey, good afternoon, everyone, and welcome to the Barclays TMT Conference. My name is Saket Kalia. I cover software here at Barclays. Very happy to have with us the team from CrowdStrike. We've got George Kurtz, Chief Executive Officer; we've got Burt Podbere, Chief Financial Officer; we've also got Maria Riley, Head of Investor Relations. We've got about 25 minutes together. Let's take maybe the first 15 or 20 minutes to go through some fireside chat with the team. And the last few minutes that we've got, we'd love to make this interactive. Any questions you've got on the webcast, just shoot me an email at saket.kalia@barclays.com. I'll do my best to weave them in at the end. So with that, first and foremost, George, Burt, Maria, thanks so much for being with us here today.

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Thank you.

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Thanks. Pleasure to be here.

QUESTIONS AND ANSWERS

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Guys, I mean, I think CrowdStrike needs no introduction, but maybe just to level set for everyone, since we're coming off of a recent earnings call, George, can you just recap some of the items that you were personally proudest of coming out of last quarter? And Burt, can you just add some financial color to that as well, maybe some of the stuff that you were proud of as well?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Sure. I'll start with the team and the execution. I think superb execution, I think, is a real testament to our entire team, in particular, our management team and all the CrowdStrikers that get up every day and focus on stopping breaches.

I think if you look at a couple of areas that I'm super proud of, 81% ARR growth at scale, it's unbelievable. If you look at our margin, 78% margin, you can see the leverage in the model. And then when you look at free cash flow at $76 million, again, I think it really highlights the sales force of security that I've been saying for many, many years now. And the module approach that we've taken and how sticky our platform has become and how strategic it's become. And that all translates into a record number of over 1,100 net new customers. So those are just a few highlights that certainly got me excited. There's a lot to be happy about in the last quarter. Burt?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Yes, absolutely. It's always great when the CEO loves talking about the financials. I reiterate the things that George said. There's a couple of others that are super meaningful to me. Gross margin, record gross margin this quarter. Over the year, Saket, you've been following us already, and you've seen the expansion of the gross margin over time. We're delighted that we had a record quarter in gross margin. And that's a cross-functional effort across the DevOps team, the engineering team, certainly finance to make sure that we've got (inaudible) to make that happen. So really happy about that.

George talked about the leverage. Certainly, we're at a record level in leverage. And okay, great. It shows that we're a really well-run company. We've always got an eye to the bottom. What it was also telling us is that we've got an opportunity to invest. And that really excites me as I think about investing and being able to invest aggressively. That's what the signals are telling us, and that's what we (inaudible)

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. Very helpful recap, guys. That's a good foundation. George, I'd love to maybe dig in a little bit just into the core Falcon platform on -- from an endpoint perspective. You've called out multiple competitive displacements, not just on this call but prior calls as well. And so I guess the question is, why do you think this market is ripping and replacing both legacy as well as other next-gen providers in favor of CrowdStrike?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

When you look at the platform we built, Falcon, it really delivers on what customers want. They want that single agent. They want the ability to collect data at scale and have a data repository. That's sort of the holy grail for many companies. And they want a modular framework that allows them to solve different use cases without adding a whole bunch of complexity.

At the end of the day, they want something that works, stopping breaches. And also as we see more, helps enable the IT team. And I talked about it on the call. You can't just throw a PowerPoint up and call it good. You actually have to build technology that works. You have to have customers validate it, and we've done that at scale. And I think you've seen now the separation between us and many of the other competitors, whether it's a new competitor, a next-gen player that's out there or whether it's any of the legacy players. The technology works, the customers love it, and we're driving innovation into a true platform. That was my vision when I started the company. And we've executed on that, I think, quite well.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Absolutely, absolutely. Burt, maybe from your perspective, kind of similar question just on competitive displacements. I know you worked with the sales team headed by Mike Carpenter very closely when planning. And so the question is, what are you hearing on the velocity of rip and replace opportunities and sort of how that's impacting the pipeline? You made some pipeline commentaries in the last call. Just talk about that and competitive displacements as part of that. Does that make sense?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

It does. Sure. And I think the big piece, of course, you mentioned is this pipeline. We're going into the quarter with a record pipeline, once again, which is really exciting for us. And I do work closely with Mike. And Mike and I need to work closely together on the planning side, I get his insights for sure. But as you know, I also like to talk to customers myself, talk to customers, one-on-one, talk to the channel, make sure that I have a full picture when we go into the planning sessions and understand where there are opportunities to increase the velocity of bringing in customers into the Falcon platform.

Here's what we hear. We hear the customers really want something that is easy to use and simple to manage. They want to press the button and it works. And that's what we can deliver. Digital transformation, we talked a lot about it on the earnings call and then the prerequisite for that is

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security transformation. And people want to think about, okay, well, my next refresh, it's not really going to be about feeds and speeds. It's going to be about different architecture and be able to stop breaches in a very different way. It's not all about malware. It's much greater than that. And they're talking about endpoint and workloads and Zero Trust on the identity side. We're hearing a lot of that. We're also hearing folks trying to figure out how to save money and get great tech and how to bridge the skills gap. I think that's important.

We offer our complete module, which allows us to basically manage the CrowdStrike tools on their behalf. And then I think -- and lastly, I think that customers are really, really set up with the legacy players, stiff-arming them and just increasing prices and not really giving the service. So that's what we're hearing from our customers. I think all that comes into the planning session as we think about how to drive deeper into people's security profile, and we've seen that work to date.

Saket Kalia - Barclays Bank PLC, Research Division - Senior Analyst

Got it. Got it. George and Burt, I think, touched on this a little bit, but I want to talk about the module story here. Because I think that's important for the story here for broader adoption beyond kind of AV and EDR, right? Well, there's still plenty of adoption to go. Let's just be clear. But I mean, there seems like there's a lot more here than AV and EDR. If I think about sort of the top 3, I think here, right? You've got AV, you've got EDR and you've got OverWatch. I would call those sort of the top 3. But -- and you correct me there if I'm wrong, obviously, right? But maybe the question for you is what's going to be -- what's increasingly becoming the popular #4 and #5, if you will, and why?

George R. Kurtz - CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director

Well, I mean, I won't go through all of the ordering of all the modules. But in terms of popular modules, certainly, Discover has been very popular in terms of -- particularly in the pandemic, the ability to actually touch and feel these machines, the ability to actually update them, to patch them, to drive automation into the IT and the SecOps process has been a real win for our customers.

And I think when you combine that with things like Spotlight, the ability to actually understand where you might be vulnerable without any scanning, without sort of legacy vulnerability agent scan or network scan, incredibly popular.

And even things that customers are always struggling with is, they don't have enough people in their sock and don't have enough expertise. So things like Falcon X that really drive automation into the threat intelligence process. And coupling that with our Falcon Sandbox and our Malquery, which is our malware repository searching capability is all automated. That drives a lot of additional module attached. So we've added a couple of new modules since Falcon. One of them that we're really excited about is Falcon in Horizon, which is focused on cloud security posture management. And I think that plays right into what we've been focused on is, really protecting those cloud workloads and the huge opportunity that presents.

Saket Kalia - Barclays Bank PLC, Research Division - Senior Analyst

Sure. Definitely want to dig into that in a couple of questions here. But maybe Burt, to sort of round out the, again, what I think is a powerful module story here, is how that module story actually connects back to gross margins, right, which I know is a metric that you're very passionate about, right?

And so the question is, as this module adoption continues, what sort of impact does that have on gross margin and why?

Burt W. Podbere - CrowdStrike Holdings, Inc. - CFO

Yes. So for us, the beauty of the model is after you purchase your first module, every module after that is virtual gross margin. And so obviously, the more modules we have, the more opportunity to enhance our gross margin. And you've seen the adoption rates from our earnings call, when we have 4, 5 or 6 modules bought by the customers in over 60, 40 and over 20, respectively. And that's exciting for us. All of those have been growing. And at some point, we're going to be dropping how many of our customers have 4 or more because it's going to get closer and closer to

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that 100, and you will only be talking about 5, 6 and 7. And then similarly, we're going to drop 5 at some point. And we talk about 6, 7, 8. So those are the things that really get us excited and really get me excited about how I think about gross margins from a modular perspective.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. That's helpful. George, I want to come back to what you said earlier, right, just in terms of some of the new modules here, but maybe broaden the discussion because you've been talking a lot more about cloud security lately. And as you know, that's a term that's kind of thrown out a lot. I'm not talking about sort of security from the cloud, right, through something like the Threat Graph, for example. But security for the cloud, right, with things like Falcon for Cloud service and, of course, Falcon Horizon, as you mentioned. And so maybe the first philosophical question that I have for you is, why do you think a disruptive endpoint tool can provide the same level of protection in different types of workloads, like AWS, for example?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Well, I would reframe and say a disruptive workload protection tool, not an endpoint tool, which is I think one of my big takeaways here is not to think about us as purely an endpoint company because we are so much broader than that. That's why we spend a lot of time on workloads.

And when you look at customers' willingness and ability -- willingness to consume a cloud-based technology, it's there because they need it. But I think more importantly, when you look at the legacy providers and what they have to offer, no one wants to roll out heavyweight agents and big iron to manage all this stuff in the cloud. They want to consume it the way they actually develop things and run things, right, which is femoral workloads, virtual workloads, serverless, things of that nature. And our technology is perfect for that environment. And it's lightweight, it works, and it doesn't get in the way of developers, which has really been a barrier for why a lot of these legacy technologies haven't been implemented. There's no developer in the world that wants to put a legacy agent in their container. It's just never going to work. And we can accommodate protecting and providing visibility in those workloads without being in them because we run underneath on the operating system level, and we've got a unique insight in protecting those workloads as they come up and down.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. That's helpful. Maybe Burt, on the same topic. One of the questions that I got after the most recent earnings call was on the idea of 20% of servers CrowdStrike protects are in the public cloud. And maybe more specifically, how the pricing compares for Falcon on-premise versus a cloud server? And just to maybe caveat this, I imagine some of this is going to be apples and oranges, right? Because maybe some cloud servers are metered pricing versus maybe more of an annual subscription for traditional server. But I guess the question is, Burt, is there anything you can give us to just give us a sense for what impact could there be as more servers go into the public cloud on CrowdStrike on pricing?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Yes. No, I think you hit some of it already, which is, basically, we're talking about flexibility in our pricing. And cloud workloads can be, as everybody knows, used differently, right? They can be spun up and spun down pretty quickly. So the key for us when we are thinking about pricing is to be able to offer flexibility to our customers. One, you've mentioned metered billing, we can tie into the AWS bill and have it seamless with them. And so that really keeps the system frictionless in terms of billing and getting paid faster. So we like that. And customers like that because then they're just paying as they use.

We also have this concept of a pool of licenses. So a customer can have a pool of licenses and keep drawing from that pool up and down. And then if they're seeing that they're using more and more, they can just increase pool size. So customers do like that. And then there's on the host itself for those customers who want to be able to activate that type of pricing mechanism. So again, the key message and takeaway is that we're very flexible in the way that we bill and work with our customers for what makes most sense for them.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. George, maybe staying on this topic. I mean, you mentioned Falcon Horizon earlier. I want to kind of double-click on that. I feel like we've heard a couple of other companies maybe talk about cloud posture management. And so the question is, how do you sort of think about this posture management space? And why do you think Horizon can win?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Well, we've been thinking about it for a long time, and we looked at a lot of the existing technologies many years ago. And those have been pretty much bought up for the most part, but they didn't meet our needs. They didn't have what we wanted. And as you might imagine, we have formed a really large cloud, and we have specific requirements. So we actually built our own technology and perfected that over a number of years and now really just commercialized that and made that another module focusing on understanding the configuration and the posture of IaaS and PaaS type environments. And that's much different than the way people are used to running their infrastructure.

I mean, normally, you could control your infrastructure, you have visibility, you can roll out tools. You can't do that in the public cloud. So we built this some years ago. We've matured it. So it's not an immature product in the market now. And the initial response has been amazing since we just launched the product at Falcon. So we're really excited about that. I think it plays a tremendous role in helping secure the cloud because it's not just about the workload protection, it's also about the configuration and the errors that can occur and the risks that can occur from those errors. So early days, but we're excited about the response from our customers.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Yes, absolutely. There's a great Gartner report about sort of breaches in the cloud and how so many of them are going to actually be from bad sort of configuration, if you will. So understood on that.

Burt, maybe related to Horizon for you, again, understanding that it's early, any broad brushes that you can provide on how Horizon might be priced and how that adoption curve might look?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Absolutely. So as George talked about, this module is driven by IaaS and PaaS. So it's more of an asset-based pricing, so path similar to SV and ELV. I think that's how we think about it. And it's early days, but that's how we're going to market.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. I want to ask a couple of strategic finance questions here just in the time that we've got left. And again, for anyone on the webcast that want to ask questions, please feel free to e-mail me here.

But George, despite -- it's so infrequent that you see this, but despite your significant growth, the company has actually generated cash, right? And so being co-founder, being a member of the Board, from a capital allocation perspective, how is the Board thinking about the strategic uses of cash, especially as that balance presumably builds?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Well, as I started in the first question, we're excited and proud of the cash generation that we've achieved over the last number of quarters. And again, it lends itself to really showcase the leverage we have in the model. I think Burt is probably the best to answer that because he spends even

more time thinking about all of those allocations. And we're just getting through our annual operating plan. So I know that's top of mind for him. So Burt?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Yes. Thanks, George. So 3 keys, one is we think about the operating leverage we have and our unit economics that we've been able to derive. And certainly, with respect to S&M, when we look at Magic Number, we actually disposed our Magic Number this quarter. It's telling us we need to invest, right? It's telling us we have an opportunity to aggressively invest. And we're going to do just that. I mean, George has talked many times even on the calls about how we're taking advantage of programs on marketing side, digital marketing activities are up as well as his thoughts about e-commerce and the frictionless go-to-market and how are we able to get customers on friction -- without friction seamlessly. That all is very helpful to be able to aggressively invest in areas such as emerging markets, right? Generally, those, when you go into them, there's -- the efficiency isn't quite there. You've got to get in there, build out the infrastructure and then you're able to gain some efficiencies. But early days, it's less efficient. And then there are things out there that we can zoom in on the sales side with respect to overlays, cloud being one of them. Hiring cloud experts on the sales side. So as we launch these modules into cloud, we think about what type of experts we're going to need to have to sell it. And so at first, it's less efficient. But then over time, it gets more efficient. So those are areas, certainly on the S&M line, we want to aggressively invest.

And then finally, on the R&D line, right? We have this enormous opportunity in front of us, and we think about our ability to take some of the opportunity and invest aggressively in it. So as I think about future years or certainly in the near term, we think about the ability to take our R&D line and have it as a great percentage of revenue than, I'd say, in S&M or G&A . It's there. We have so much we can go after, and we don't -- we want to go after it, and we're going to invest in it together. So that's how we think about -- that's how I think about our deployment of cash.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. Burt, actually, maybe I think that line of questioning is -- maybe a good follow-up would just sort of be, you talked about some of the individual OpEx line. So let's just elevate it to overall profitability, right, maybe overall operating margin. And I mean it's a good problem to have, right? But there's always that balance that I think growth companies like CrowdStrike have to balance in terms of growth in the top line versus sort of operating margin expansion. I understand you don't have a guide out there for next year, but any broad brushes that you want to think -- you want us to think about as you sort of balance those 2 things together?

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Yes, absolutely. So as I've already mentioned, we are going to invest aggressively next year. This is something that we feel is the appropriate thing to do at this time in a company life cycle. The opportunity is there, and we're going to take advantage of it but always with an eye to the bottom. Like, we're never going to lose that discipline. It is going to be a disciplined approach as we think about things. Do we have some additional room to invest aggressively? Absolutely. Will we take advantage of it? Absolutely. But will we ever take our eye off the bottom? Absolutely, no. So that's how kind of we think about the balance between profitability and growth.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Yes. That's super helpful. George, maybe last couple of questions for you. So FireEye recently had a breach, right? This is all out in the public domain. Maybe from a threat actor perspective because I imagine CrowdStrike is seeing a lot of the same things and stuff like that out there. I mean any comment that you want to make on that, George, just from a threat actor perspective or really open end question, any thoughts on that breach?

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Well, certainly, Kevin and his team, they've got world-class people, and I think it showcases just how sophisticated these threat actors are. And I think when you put it in perspective, it does really reinforce why security is so important at the Board level. Why audit committees care about this?

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Why it's a necessity before people move to the cloud with digital transformation. And I think it just reinforces why we have to continue to be vigilant. The adversary is always changing. They're never going to stop. And I think that's one of those areas. Despite having a vaccine, the adversaries aren't going away, right? You're only going to see the need for security more and more as we go through this digital transformation process. So they're sophisticated and determined.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. Maybe we'll latch off that point and actually take advantage, and we'll make this the last question. I just -- I know you spent a lot of time with customers. I think you and Mike Carpenter did like a 100 customers in 100 days or, I think, during the year with something pretty intense, right, but you spent a lot of time with customers. Obviously, 2020 was a really interesting year. What are your customers saying about their willingness to invest next year in security? George, maybe just a little...

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

They're very willing. What we know today is that things won't look like the past. And people are trying to figure out new business models, how to adapt, how to reduce their cost, how to take advantage of some of the newer technologies. And the pandemic was really just a mass that was thrown on the digital transformation kindling and security is going to go along with it. You have to have it.

You can't -- I was having a conversation a couple of days ago with someone, and they said, "Well, as people move to the cloud, what are they thinking about?" And I said, you can't move to the cloud unless the security team is involved. It won't happen. It's just not going to happen in any company because it's just a function of business today. So when we see people trying to reinvent themselves and reinvent their business model, security is part and parcel to that wave. And if we believe in the cloud, which I do, and if we believe in the fact that people want to modernize their infrastructure, which I do, then security is going to parallel that slope of the curve, and we're going to be the company they're going to call on.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Well, maybe we'll end on that point, George, Burt, Maria, thank you so much for taking the time here. Hopefully, the folks on the webcast enjoyed it. I certainly did as well. Hopefully, we'll be able to do this session next year in person like we have in the past and just continue learning.

George R. Kurtz - *CrowdStrike Holdings, Inc. - Co-Founder, CEO, President & Director*

Great. Thank you so much.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Thanks a lot, guys. Have a good one.

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

You too. Stay safe, Saket.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Alrighty, you too. Bye now.

Burt W. Podbere - *CrowdStrike Holdings, Inc. - CFO*

Bye-bye.