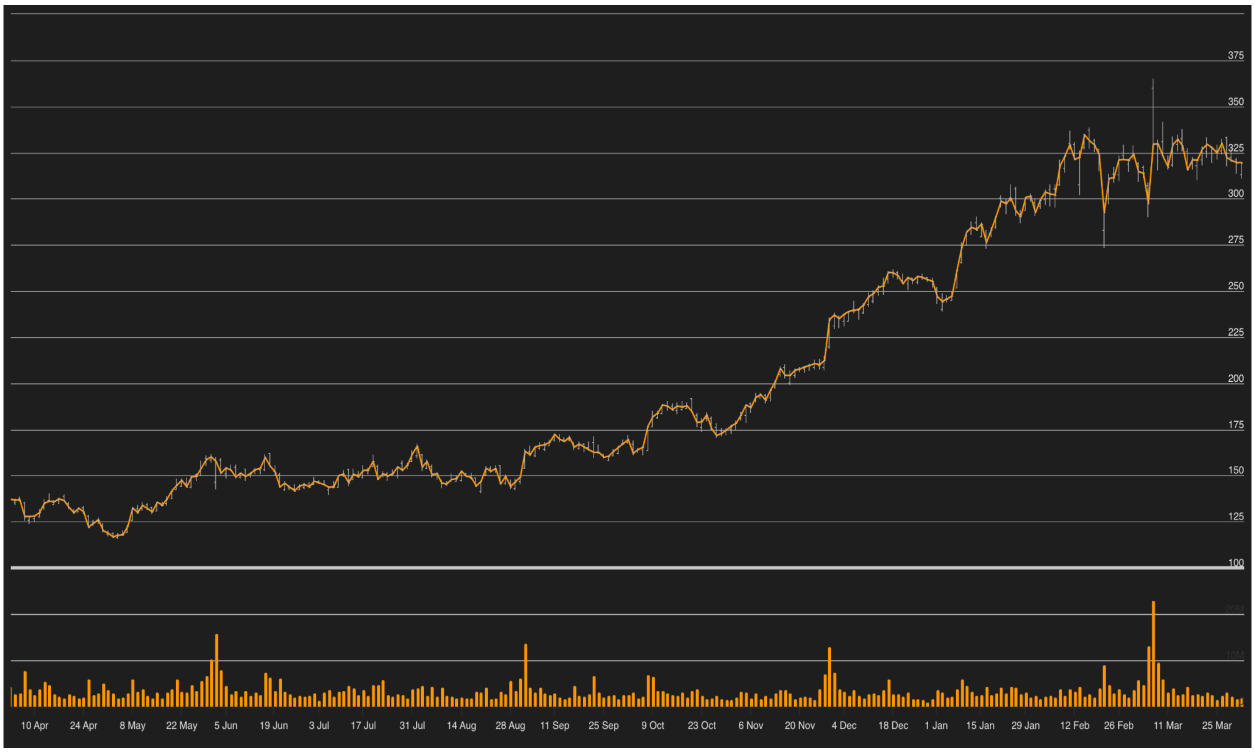
ENIGMA
ASSET MANAGEMENT

Crowdstrike Holdings Inc

(NASDAQ: CRWD)

Overview

CrowdStrike (CWRD) is a global cybersecurity leader with an advanced cloud-native platform for protecting endpoints, cloud workloads, identities and data. Currently, CrowdStrike has an estimated 21.71% share of the booming cybersecurity market (6sense).

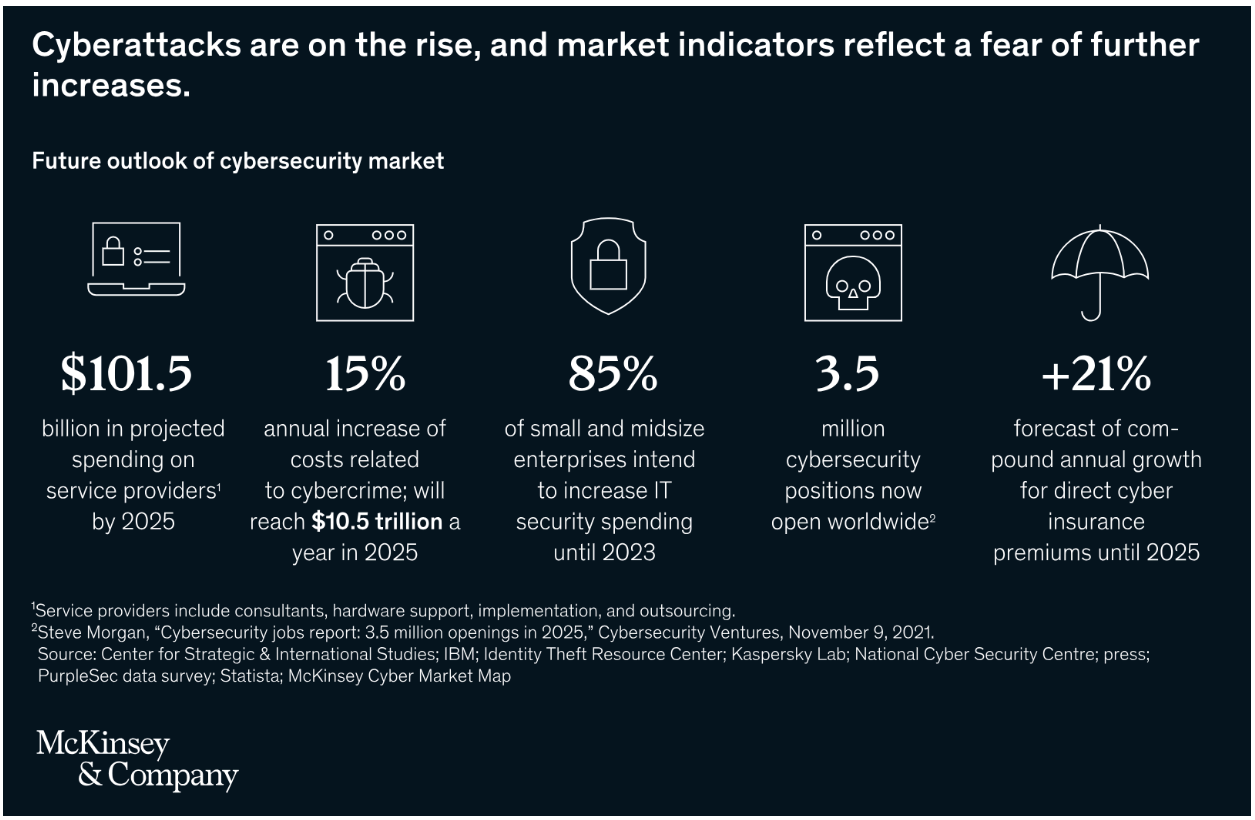


Since an IPO on the Nasdaq in June 2019 at a deal price of $34, the stock has returned 309.5% whilst trading, generating a hefty internal rate of return (IRR) of 34.6% over the last nearly 5 years. Analyzing the chart, you can see that near the end of the 2021 – unlike some of its peers in the Covid 'boom': Zoom, Shopify, Sea among many – CrowdStrike has been able to really bounce back since the start of 2023, returning more than 200%.

At the helm of the company is George Kurtz. He is leading the company into a new age of cybersecurity, where the issues of cybercrime are becoming increasingly prevalent and more frequent. Late last year, in a new rule by the SEC where public companies must disclose all cyberattacks against themselves, Kurtz said "What you're seeing with the SEC and mandatory disclosure," Kurtz told CNBC, "is really the fact that cybersecurity used to be a backroom operation and now it's really front and center in the boardroom".

Macro

The cybersecurity industry has the look of a surefire growth story through at least the remainder of the decade. Consulting firm McKinsey projects the cybersecurity industry to grow from $150 billion today to between $1.5 trillion and $2 trillion over the long term. As businesses continue shifting their data online and into the cloud, third-party providers are being relied on with more frequency to protect this information from hackers. Therefore, these cybersecurity solutions can thrive in any economic climate.



(McKinsey & Co)

The global cybersecurity market is expected to grow at a CAGR of 12.3%, and since CrowdStrike is a subscription-driven company that protects end users, it's well-positioned to generate predictable cash flow no matter what's happening with the economy or stock market. This allows CrowdStrike to be a hedge in an investment portfolio against an overarching market turn down. Additionally, large growth in the industry in which the company performs allows CrowdStrike to experience significant growth in revenues and establish more of a market dominance than it already has. Owning the market leader in the cybersecurity sector could be referred to as the 'star' – according to the Boston Consulting Group's matrix – which CrowdStrike seems to be for the reasons we will discuss below.

Artificial Intelligence & Machine Learning

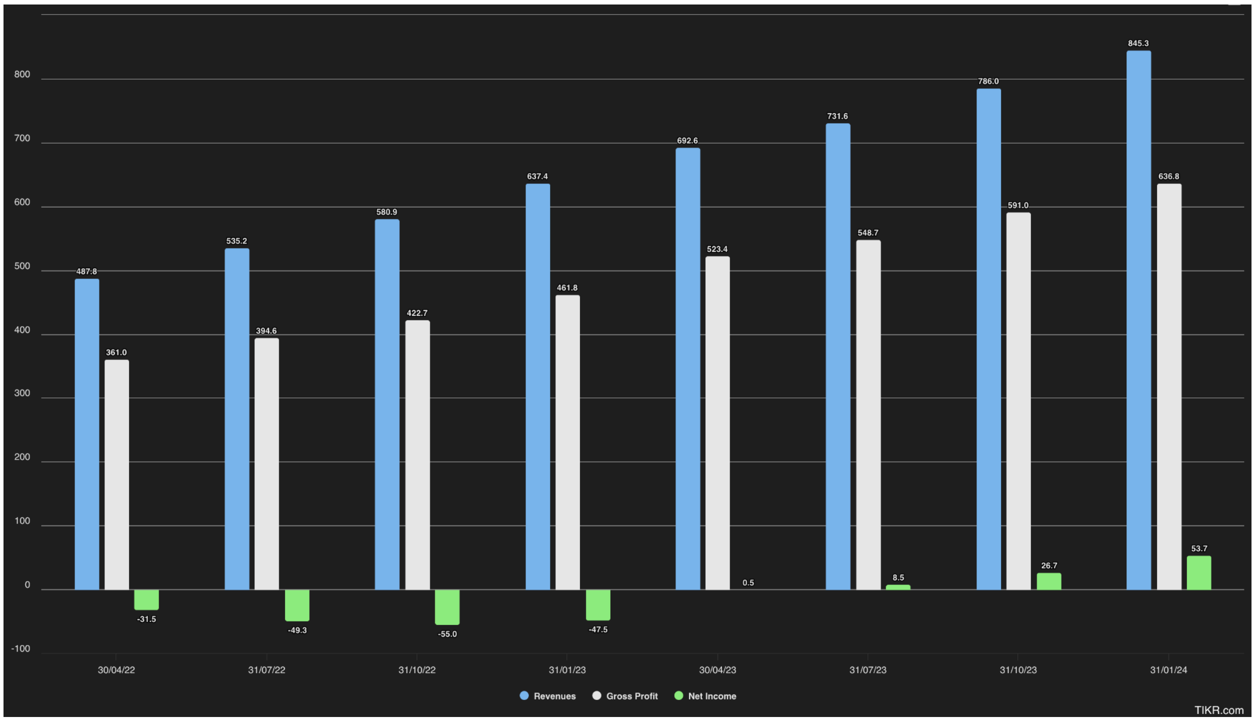
By now, AI & ML – the hottest industry on the market – is known to every investor. A stock can fly on an earnings report just by mentioning the word 'AI' and other related terms more than a peer. (Obviously other factors play a major role too). My point being, AI is playing an important role in today's market, and will continue to do so.

CrowdStrike's Falcon security platform is driven by AI and ML, and Falcon is overseeing trillions of events each week. This makes it smarter and more effective at recognizing and responding to potential threats. Falcon offers 20+ modules–unique cybersecurity products–in the following areas: cloud and endpoint security, threat exposure management, and information technology (IT) automation. This multitude of modules makes it a perfect choice for vendor consolidation, where a recent study by research firm Gartner found that 75% of businesses are seeking to consolidate the number of cybersecurity vendors they work with, CrowdStrike looks to be the 'go to' for clients. CrowdStrike's breadth of offerings is becoming increasingly valuable. In fact, 64% of the company's customers already use five or more modules, and 27% use seven or more, highlighting CrowdStrike's consolidating prowess. With most clients adopting many modules, the company has 580 customers spending over $1 million annually across its platform, which grew by 33% in 2023.

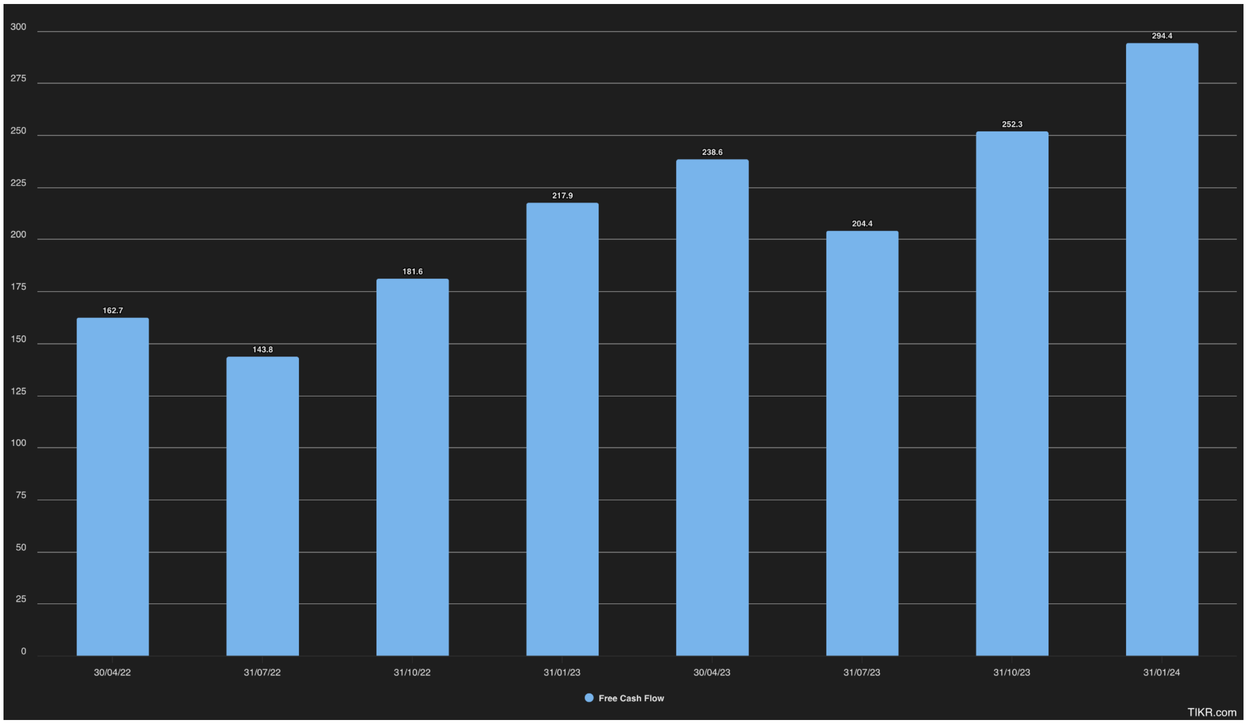
As seen, CrowdStrike has been growing its customer list significantly. Now, they filter through 1 trillion data points a day. As the company adds more customers, it adds more data points, which lead to the quality of their services increasing, thus leading to more clients–creating a cycle of growth that seems to continue as more and more companies get online and have an interest in protecting themselves.

Valuation

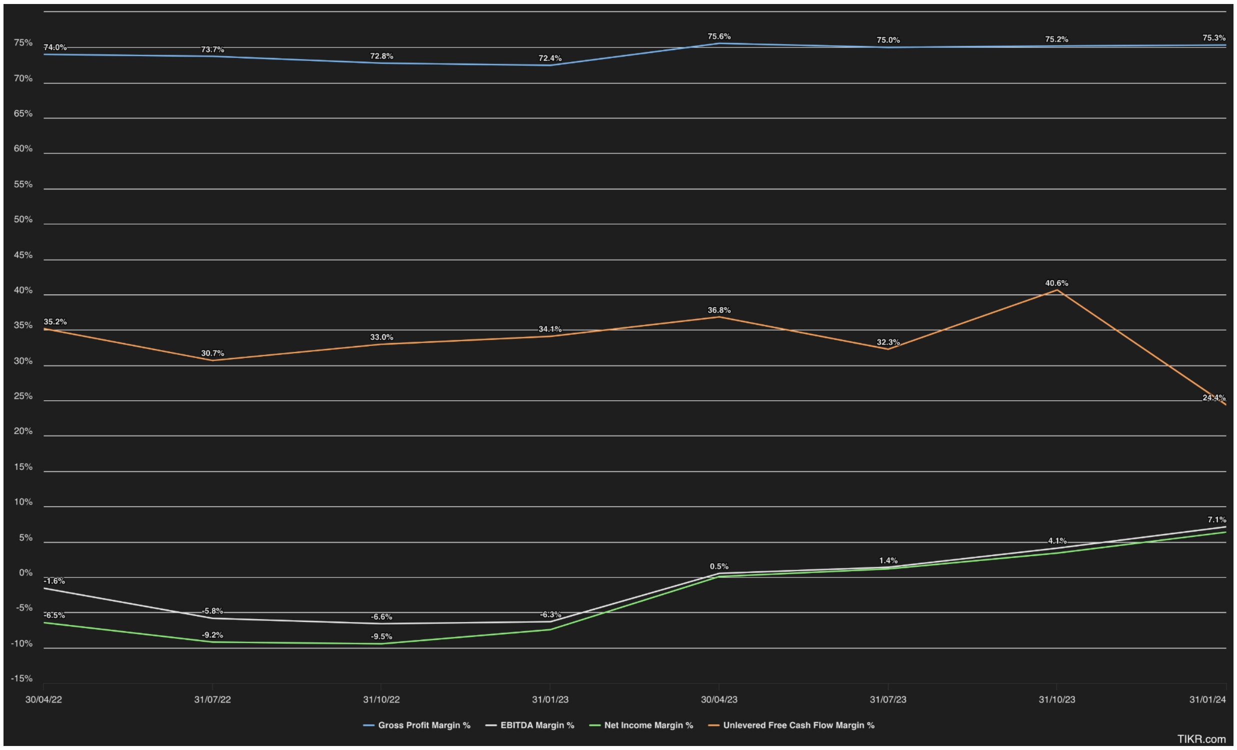
Now, considering the qualitative factors above, let's dive into the financials of CrowdStrike. Based on the factors above, CrowdStrike has been able to significantly increase revenues.



Revenue has grown 73%,to $845M for Q1 2024. Across all metrics, CRWD has been able to steadily grow, showing signs of stability for investors. This largely comes from its recurring subscription based business model that is seeing a steady increase in customer and module purchases as discussed above. Net Income flipped positive for the company in Q2 of 2023, and since then has grown to $53.7M, showing rapid growth.



Similarly, CrowdStrike's Free-Cash-Flow (FCF) has increased 80.95% in just the past 2 years, bringing CRWDs FCF to $294.4M. This allows the company to pursue numerous internal & external growth methods, allowing them to continuously deliver shareholder value. CrowdStrike is able to invest this free cash multiple ways: 1) expand its service offerings, allowing them to bring on more customers, and increase the growth of the cycle created by its AI & ML integrations above 2) share buybacks: decreasing the liquidity of shares in the market, thus raising the value for existing shareholders 3) dividends (unlikely): paying shareholders each month. However, based on other similar tech companies, and CrowdStrike's management objectives, I expect the company to pursue no.1. This is the best method – however risky – to deliver the highest return of long term shareholder value.



As can be seen from the graph above, all margins have been steadily growing over the last year. This is a good sign for the company as they increase revenue significantly, allowing for a higher % of the increased revenue to be turned into a profit. However, we saw a large tick down in Unlevered FCF in the quarter. Since the Q2 2023, the Gross Profit Margin (GPM) has plateaued at around 75%. This is a good figure for the company. However, their Net Income Margin (NPM) only stands at 7.1% most recently. Even though this number is better than the -9.5% it used to have 2 years ago, it poses the question as to why CrowdStrike is spending so much on its expenses when the COGS is only 25%.

Additionally, CrowdStrike's Return-on-Equity (ROE) has gone from -11.3% to 10%, showing that the management has been able to effectively utilize their resources and generate more growth from its equity financing.

Comps

It is also crucial for us to place Crowdstrike amongst its competitors to better evaluate how it is performing. Largely, we can consider Crowdstrike to fall in the Security & Protection Services industry which has a weighted average price to earnings ratio of 28.32 (stockanalysis.com). This when compared to the hefty PE 858.38 might make it an overvalued share in an industry buzzing with prudent competitors like SentinelOne, Cisco, and Cloudflare.

		Market Data		Financial Data		Valuation		
Company Name	**Ticker**	**Price($)**	**Market Cap (B$)**	**EBITDA (M$)**	**EPS**	**P/B**	**EV/EBITDA**	**P/E**
CrowdStrike	**CRWD**	**312.44**	**75.57**	**380.00**	**0.37**	**33.11**	**-602.80**	**852.05**
SentinelOne	S	22.03	6.87	329.04	-1.11	4.36	-20.66	555.56
PaloAlto Networks	PANW	279.97	90.42	972.80	6.40	20.70	77.13	45.05
Fortinet	FTNT	67.97	51.85	1350.00	1.46	N/A	34.48	40.00
Cisco	CSCO	49.09	198.79	17670.00	3.29	4.38	10.37	13.04
Cloudflare	NET	94.26	31.83	-71.17	-0.55	42.92	-898.93	163.93
Comp Average					**2.08**	**15.64**	**-100.30**	**301.14**

The competitors listed in the table aim to provide a general overview of Crowdstrike's comparable competition. With a market cap of 75.59 billion dollars we see that Crowdstrike positions itself right at the median in the industry with bigger companies like Cisco and Palo Alto Networks. The price to earnings ratio for Crowdstrike therefore seems highly inflated when compared to Cisco's low price to earnings ratio of 13.04 and Fortinet and Palo Alto Networks ratio of 40.00 and 45.05. With an EBITDA 105.96M$, it is visible that Crowdstrike is not as efficient in profit margins. This restricts cash flow for research and development which is a critical factor for growth in the cybersecurity industry.

Risks

1. High Valuation

The article points out that CRWD has a high price-to-earnings ratio (PE ratio) of 858.38, which is significantly higher than the industry average of 28.32. This suggests that the stock might be overvalued and could be due for a correction if earnings growth doesn't meet expectations.

2. Dependence on Acquisitions

The company is looking to expand its service offerings through acquisitions. While this can be a good growth strategy, acquisitions are risky and can be expensive. There's no guarantee that these acquisitions will be successful or that they will integrate well with CrowdStrike's existing business.

3. Competition

The cybersecurity industry is getting crowded, with established players like Cisco and Palo Alto Networks competing for market share. CrowdStrike may need to invest heavily in research and development to stay ahead of the competition, which could further strain their profit margins.

Conclusion

In conclusion, it is clear that CrowdStrike is poised for solid growth. The macro factors stemming from the industry they are in, position the company to experience significant growth which is hard to find elsewhere. Additionally, their Falcon platforms integration of AI and use of Machine Learning can allow the company to significantly benefit from the growth of AI, whilst also allowing their platform to be superior to its competitors. CrowdStrike is currently dominating the cybersecurity industry, 2nd largest market share at around 21%, which should also help them bring on more customers in the future as newer clients tend to flock to the market leader. However, CrowdStrike's hefty valuation at a P/E of 852x does mean that returns in share price can be limited for shareholders in the coming year as the high growth of the company may already be priced in. Additionally, despite the industry being resilient to any macroeconomic downturns, as we have seen in the past, it is likely that all companies–including CrowdStrike–share price could suffer, meaning that CrowdStrikes share price may not reflect the current companies underlying business, but may be pulled down in an overall market downturn.