

Background

- CrowdStrike is a leading provider of endpoint security. Endpoints include personal computers, servers, mobiles, tablets and IoT devices, all potentially vulnerable to hackers attempting to access corporate and government systems, either to steal valuable information, or to lock companies out of their own data in a ransomware attack
- CrowdStrike is a cloud-native cybersecurity platform. Their SaaS business model allows them to scale quickly and cost-effectively with near-limitless capacity
- Founded in 2011 and IPO'd in June 2019 at a valuation of \$6.7B, stock up 8x since IPO

Tailwinds

- There were 31B connected devices in 2020, expected to grow to 75B by 2025
- Estimated that a business will experience a ransomware attack every 5 seconds in 2021 compared to every 40 seconds in 2016, and 60% of small to midsize businesses that suffer a cyberattack go out of business within six months
- Consequently, enterprise CTOs are under pressure to invest in stronger preventative measures to avoid disruptions to business and the cost of responding to breaches
- Joe Biden recently signed an executive order to prioritise cybersecurity for government agencies. Falcon for GovCloud is FedRAMP-approved, and addresses additional executive order mandates on Zero Trust and log management

Leadership

- Founded in 2011 by former McAfee executives, George Kurtz and Dmitri Alperovitch
- Kurtz has a 98% Glassdoor CEO approval rating (company 4.3/5)
- Around 3,400 employees (+47% YoY)
- Kurtz owns 6% of the company and has 20% of the voting power through class B shares

Total Addressable Market (TAM)

- Worldwide cybersecurity market \$150B in 2021 (forecast to reach \$345.4 billion by 2026)
- Estimated \$6T of economic damage caused by cybercrime in 2021 (\$10.5T by 2025)
- Recently acquired observability and log management company **Humio**, expanding their TAM by \$4.9B and stepping into an area also served by companies such as **Datadog** and **Splunk**

Customers

- 11,420 subscription customers (+83% YoY)
- CrowdStrike's services are packaged into modules and there are 4 subscription levels. Their 'land and expand' growth strategy has resulted in a net dollar retention rate (DBNER) of over 120% for several years running
- Partner program 'CrowdStrike Elevate' includes **Amazon** Web Services (AWS), **IBM**, **Google** Cloud, **Ernst Young**, and many players in the cybersecurity space. CrowdStrike is the recommended endpoint protection for AWS, and the Amazon Marketplace has been instrumental in the adoption of CrowdStrike by small to midsize businesses
- CrowdStrike offers a warranty with their Falcon Complete subscription to cover \$1M of incident response expenses for breaches suffered by a customer under their watch

Competitors

- Closest competitor is **Microsoft**. Microsoft Defender for Endpoint also supports non-Windows platforms including Mac, Linux servers, Android, and iOS
- Recent IPO from **SentinelOne** (market cap \$12B, P/S 120). Their 'singularity' platform automates threat detection and prevention and cuts down the need for human security teams, and could offer customers a more cost effective security solution

Network Effects

- 'Threat Graph' breach prevention uses AI, behavioral analytics, and human experts to anticipate and mitigate threats, crowdsourcing threat detection and prevention with a powerful network effect where each customer makes the platform stronger for all customers
- In Q2 2020, the Threat Graph captured 3 trillion high-fidelity signals per week, by Q4 2020 this had risen to 5 trillion per week, a 66% increase on an already huge platform in 6 months
- CrowdStrike's reputation hinges on not suffering a breach themselves, although a recent successful attack on FireEye was net positive, demonstrating increased need for cybersecurity

Financials

- Total FY2021 revenue \$874M (+82% YoY). Guiding for \$1.36B in FY2022 (+55%)
- Revenue CAGR of 102% last 4 years, but growth rates slowing as it gains market share
- Gross margin 77% in the latest quarter (up from 57% in FY2018)
- Market cap of \$60B and P/S ratio of 60, a valuation that reflects the high rate of growth