



Executive Summary

Company Background

Founded in 2011 and headquartered in Austin, Texas, **CrowdStrike (NASDAQ:CRWD)** is a cybersecurity company providing endpoint security, threat intelligence, and cyber attack response services through their CrowdStrike Falcon XDR platform. The Company is currently trading at \$365.65, with a 52 week range of \$200.81-\$398.33. CrowdStrike has generated \$2.8B in revenue through 9 months in 2024, as compared to \$2.21B in revenue through the same 9 months in 2023.

While CrowdStrike is considered a leader in the cybersecurity market and has achieved significant growth and profitability, it is not considered a “mature” company in the sense of having reached a stable, slow-growth phase. Experts still view CrowdStrike as a rapidly growing company with a large potential market to tap into, making it more of a high-growth company with a maturing business model than mature as a company. This is evidenced by their high revenue growth rate, reaching 45% year over year.

In July 19, 2024, CrowdStrike released a faulty update with issues on Microsoft Windows that caused global IT outages worldwide. This caused a significant drop from the stock’s high of \$398 to \$200. While this has had a significant financial impact on the company, particularly affecting Free Cash Flows because of discounts and flexible pricing models offered to retain customers after the outage, the Company is projected to recover in the next two years. CrowdStrike may run into some headwinds expanding beyond endpoint security due to a lower FCF, but with a gross retention rate of 98% for their Falcon platform, CrowdStrike maintains a position as a high quality and trustworthy cybersecurity solution.

Product

The Falcon platform's single, lightweight agent collects and integrates data from across an enterprise, including endpoints, cloud workloads, identities, and third-party sources. They then use this data to train their AI to detect and prevent threats to give security teams machine speed advantage to stop adversaries. By consolidating and replacing legacy point products and fragmented platforms across key areas of security and IT, the Falcon platform delivers a unified, modern approach that increases capability while reducing complexity and cost.

The unique advantage that Falcon brings over other cybersecurity companies comes from having the best threat detection abilities, while also providing a simple, lightweight, and highly scalable agent that can deliver the same high-level capabilities for every endpoint, network, and cloud. CrowdStrike's Falcon platform also has multiple optional cybersecurity modules available to add to a customer's subscription in return for an increase in price. This is a unique and attractive part of their business model as the value of each customer goes up throughout their lifetime. The number of customers using five or more modules has increased to 66% last quarter, an increase from 63% in the year ago period. At the same time, the number of customers using seven or more modules came in at 31% as compared to 26% the same period last year. This trend will likely continue as CrowdStrike's existing customers spend more on the platform. This is evident from the [company's dollar-based net retention rate](#) of 115% last quarter. However, these modules are mainly created through the M&A of other cybersecurity companies. While this patchwork of acquisitions is a fast way to improve the product and add capabilities, it adds the risk of a clunkier system.

CrowdStrike has historically had an enterprise focus, with their cloud-based platform able to offer a robust solution scalable through all levels of an organization. However, an increasing need for cybersecurity solutions for small and medium enterprises (SMEs) lacking the funds for a dedicated security team or complex security infrastructure has caused CrowdStrike to create the Falcon Go, a simplified and cost-effective version of the Falcon Platform. Features include a rapid setup and streamlined interface while still providing the same AI-powered security capabilities that large enterprises receive. The product serves to position CrowdStrike to target the segment with the highest CAGR (10.9% for SMEs) while still focusing on continuing to serve large enterprises.

Management Team

George Kurtz - CEO and Founder - Kurtz has experience driving revenue growth and scaling organizations, with previous roles as the founder of Foundstone (acquired by McAfee in 2004), Chief Technology Officer and GM at McAfee, and EVP of Enterprise.

Michael Sentonas - President - Sentonas is responsible for product and go-to-market functions, including its sales, marketing, product & engineering, threat intelligence, privacy & policy, corporate development, corporate strategy and CTO teams. Prior to CrowdStrike, Mr. Sentonas held multiple leadership roles at McAfee, serving as Chief Technology Officer – Security Connected, and Chief Technology and Strategy Officer Asia-Pacific.

Burt Podbere - Chief Financial Officer - Since joining CrowdStrike in 2015, Podbere has helped secure approximately \$1B in equity financing through several funding rounds, including the company's 2019 IPO, and approximately \$1.5B in secured and unsecured debt.

Shawn Henry - Chief Security Officer - Henry oversees all security aspects of CrowdStrike, including the company's information security, business continuity and resiliency, and risk reduction programs, as well as the physical security of CrowdStrike's global facilities, personnel, executive protection, and corporate events. Prior to joining CrowdStrike, Henry oversaw half of the FBI's investigative operations as Executive Assistant Director, including all FBI criminal and cyber investigations worldwide, international operations, and the FBI's critical incident response to major investigations and disasters.

Daniel Bernard - Chief Business Officer - Bernard leads the company's channel, alliances and partnership efforts, while driving growth initiatives and go-to-market strategy for the company's small and medium business (SMB) customer segment. Prior to CrowdStrike, he led channel partnerships and business development at several high-growth SaaS, cloud, and cybersecurity companies, including Dropbox and Cylance. Most recently, he served as SentinelOne's chief marketing officer and is widely recognized for transforming the company's brand and market awareness.

Jennifer Johnson - Chief Marketing Officer - Johnson leads the company's global marketing strategy and execution. Before joining CrowdStrike, JJ served as CMO at Illumio, Tenable (Nasdaq: TENB), Amplitude (Nasdaq: AMPL), Tanium, and Coverity (now Synopsys). She successfully led Tenable and Amplitude through public offerings and was a member of Illumio's Board of Directors.

Brett Shirk - Chief Sales Officer - Leading sales, go-to-market operations and customer success organizations. Previous experience as Executive Vice President and Chief Revenue Officer at Fastly (NYSE: FSLY) where he led the edge cloud platform leader's global sales and customer relationship strategies.

CrowdStrike's management team stands out as a significant strength for the company due to its blend of diverse industry expertise, focus on innovation, and strong reputation. Led by CEO and founder George Kurtz, the team comprises multiple leaders in the cybersecurity space, including Shawn Henry, who established the National Cyber Investigative Joint Task Force. The management team emphasizes a strong culture that is credited with driving CrowdStrike's growth and maintaining its reputation as a leader in cloud-based cybersecurity solutions. The

team also has significant experience driving go-to-market operations and increasing sales, which are extremely important for a company still in its growth phase.

Investment Recommendation

I would recommend buying CrowdStrike for a leveraged buyout, given enough capital to make more diversified investments after the purchase. CrowdStrike is uniquely positioned as a leader in cloud-based cybersecurity solutions, a target sector for the fund, and shows a strong and stable increase in ARR, even after a global outage hindered the company's stock price in July of 2024. Based on growth expectations for CrowdStrike's product suite, my DCF reflects the Company's ability to consistently generate free cash flows over the investment horizon. More specifically, I am projecting that FCF will grow from \$1.19B in 2025 to \$2.62B in 2029. This makes them an attractive LBO candidate because of its ability to efficiently and effectively pay down any debt we put on the business as a part of our initial transaction.

Market Analysis

Market Overview

- The [global cybersecurity market](#) size was valued at USD 172.24 billion in 2023. The market is projected to grow from USD 193.73 billion in 2024 to USD 562.72 billion by 2032, exhibiting a CAGR of 14.3% during the forecast period. Additionally, the [U.S. cyber security market](#) is expected to increase significantly, reaching an estimated value of USD 166.73 billion in 2032, driven by the [rising number of E-commerce platforms in the market](#).
- The [small and medium enterprises cybersecurity segment](#) is projected to grow at the highest CAGR (13.3%) over the forecast period. This growth is owing to the increasing demand for end-point security solutions across various e-commerce startups, including retail and financial sectors.
- The growing need for scalable and cost-effective cybersecurity solutions has driven the Cloud-segments growth, especially among small and medium enterprises that face a high cost of implementing and updating cybersecurity solutions. Cloud-based solutions can quickly scale up or down with predictable subscription-based pricing models making them suitable for enterprises of all sizes. This segment has a CAGR of 10.9%.
- The rise of remote working and BYOD organizations have led to a greater demand for Endpoint and Workload Security. Organizations are increasingly adopting Zero Trust Architecture (identity and access management, multi-factor authorization, etc) to secure access to the cloud at every level.
- Cybersecurity as an industry has a [high customer retention rate](#), averaging at 81%. This is because of the high switching costs in the industry. Transferring security apparatus

from one vendor to another carries disruption and handover risk for that period, and companies will typically try to avoid that if the solution they have is a high quality one.

Competitive Landscape

Profitability Metrics	CrowdStrike	SentinelOne	Microsoft	Palo Alto
Profit Margin	4.8%	-39.9%	35.6%	31.1%
Return on Assets (ttm)	0.5%	-8.7%	14.6%	3.2%
Return on Equity (ttm)	7.3%	-17.5%	35.6%	74.5%
Revenue (ttm)	3.52B	723.63M	254.19B	8.03B
Diluted EPS	0.51	(0.94)	0.12	0.89
Total Cash	4.04B	708.12M	78.43B	2.58B
Total Debt/Equity	27.4%	1.2%	33.7%	27.3%
Levered Free Cash Flow	1.21B	143.88M	61.28B	2.5B

Aspect	CrowdStrike	Microsoft	Sentinel One	Palo Alto
Focus Area	Advanced EDR, proactive hunting	Integrated into Microsoft ecosystem	AI-driven, autonomous operations	Broad security suite (network and cloud)
Ease of Deployment	Lightweight agent, fast deployment	Seamless for Microsoft users	Simple, all-in-one agent	Complex for SMBs
Threat Intelligence	Extensive global Telemetry	Limited to Microsoft environment data	Less mature, but improving	Strong for network, weaker on endpoints
Automation	Strong AI/ML with minimal false positives	Basic automated remediation	Autonomous but may lack depth	Requires more manual oversight

Microsoft

Microsoft successfully bundles its security offerings with its infrastructure and application products. Given the Windows operating system is on 52% of enterprise servers, Microsoft has the opportunity to gain market share from organizations seeking to minimize the vulnerabilities cybersecurity solutions rolling out new operating systems create, as well as from organizations running Microsoft-heavy environments. However, security capabilities drastically vary across different OS and versions, creating poor coverage and inconsistent protections. In addition, reliance on Microsoft's security measures need frequent OS-level upgrades, which increase cost and operational burden, and often require additional staff. This generates a high total cost of ownership.

Palo Alto Networks

Palo Alto Networks core product is Cortex XDR, a platform that includes advanced firewalls and cloud-based offerings that extend those firewalls to cover other aspects of security. Its next-gen capabilities, including behavioral threat protection and a ransomware engine, provide robust defense mechanisms. However, it uses 3+ separate agents which fragment workflows and requires a steep learning curve. Constant manual tuning and configuration across agents increase total cost of ownership as complex products raise training costs. Cortex XDRs complexity may pose challenges for smaller businesses or those with lean IT teams.

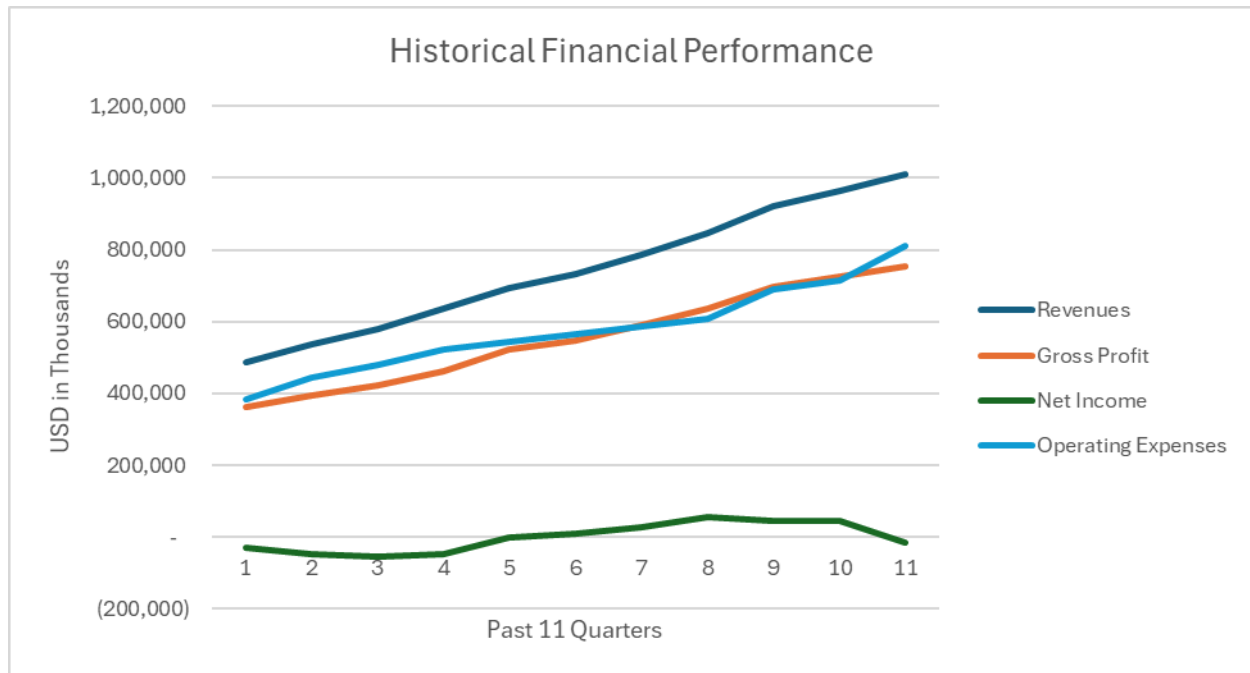
SentinelOne

Competing with a strong hybrid approach combining endpoint detection and response (EDR) and endpoint protection platform (EPP) features, SentinelOne's Singularity platform can protect enterprise level clients across endpoints and the cloud autonomously. This all-in-one platform is similar to CrowdStrike's approach and is positioned to appeal to SMBs with smaller IT teams who require minimal setup and ongoing maintenance. However, their focus on autonomous functions has led to struggles detecting sophisticated multi-stage attacks, giving Singularity a 79% MITRE Engenuity coverage rate compared to the Falcon platforms 100%.

Financials

Historical Financial Performance

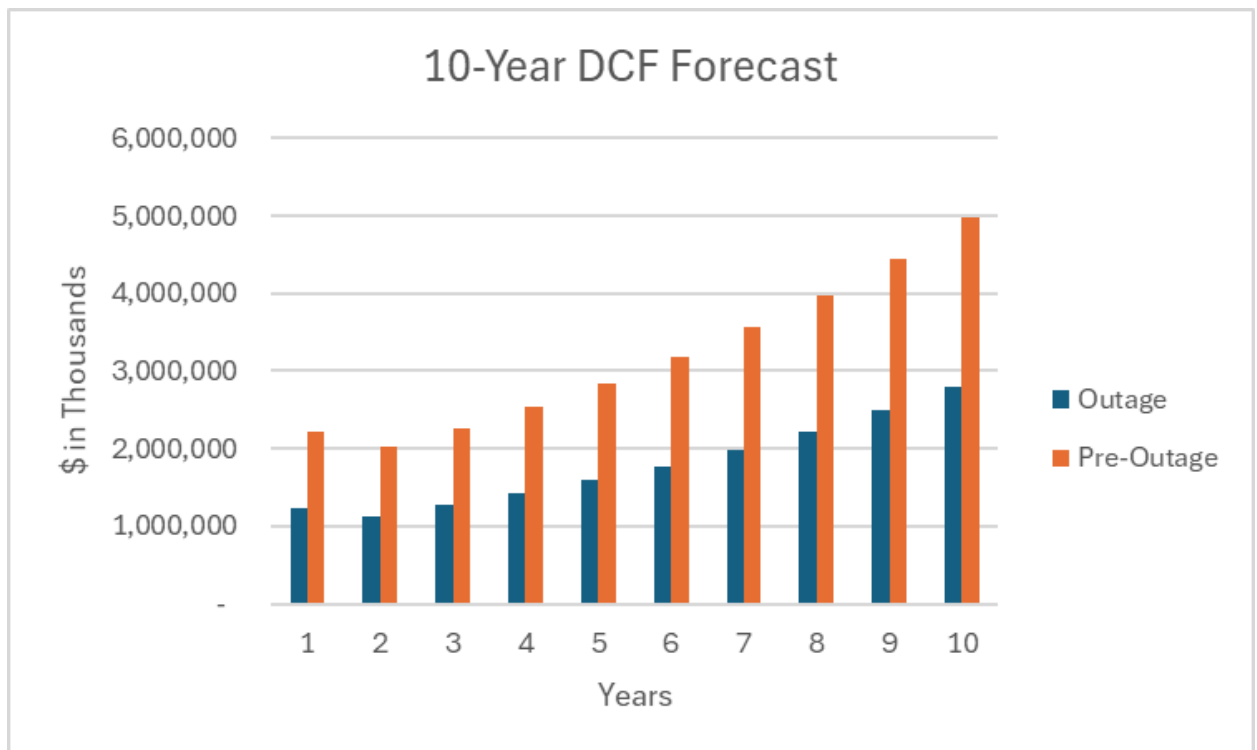
CrowdStrike has excellent historical revenue growth, with an average of 45% increase in annual recurring revenue (ARR) year over year for the past two years, from \$1.45B the year ended January 31st, 2022 to \$3.05B the year ended January 31st, 2024. The company mainly generates revenue from subscription-based services, creating \$2.87B in revenue in 2024 so far, but also provides professional services, generating \$185M in 2024 so far.



As of December 6th 2024, CrowdStrike maintains an operating margin of 1.42% and a profit margin of 4.84%. Historically, the Company has maintained a positive and healthy trailing twelve-month margin, meaning they are making a profit on the sale of their products when accounting for direct implementation costs, but their high operating expenses have eaten away at net income. A normal TTM margin for cybersecurity companies is typically between 10% and 15%. CrowdStrike's focus on growth over immediate profitability has led to these lower margins, however a shift towards cost-cutting initiatives allow for margin expansion.

Levered free cash flow (FCF) is \$1.21B and has grown quarterly by 11% from the first quarter of 2022 to the first quarter of 2024, indicating a strong operational efficiency and signaling high growth potential, as with more cash on hand they can invest more in R&D and M&A, expanding market reach and competitive edge. In addition, this is attractive for an leveraged buyout as it indicated an ability to pay back debts. However, after CrowdStrike's outage in July of 2024, their quarterly FCF has declined 15% each quarter. The Company's FCF will likely stay muted as they seek to stabilize customer retention through discounting and flexible payment terms, which can pressure FCF generation and impede CrowdStrike's abilities to acquire new companies.

Pro-Forma Financials



The discounted cash flow model above shows the present value of each projected yearly cash flow for the next 10 years. CrowdStrike's outage in July caused a decline in the growth of free cash flows. Because of this event, I have forecasted two cases, one assuming cash flow continues growing as it is now, and one assuming cash flow grows at the rate it grew before the outage. I believe CrowdStrike will fully recover their cash flows within two years, when FCF will continue to grow at the pre-outage rate. Until then, CrowdStrike will continue to suffer from lower FCF due to their efforts to minimize the damage caused by the outage.

The Cloud Security segment has the fastest CAGR in the cybersecurity market. Being positioned as the most effective and most convenient enterprise level producer, I project revenue to continue to increase at their historical 31.7% Quarterly Revenue Growth rate year over year. However, with their increasing focus on appealing to SMB consumers, that revenue growth rate may increase even more as they gain access to more market share.

Valuation

Discounted Cash Flows

To create a valuation for a leveraged buy-out of CrowdStrike, I created a discounted cash flow model in excel by collecting data from the Company's financial statements as well as information from online sources (Yahoo Finance). I created two cases for the DCF analysis, using both forecasted DCFs as they are now and forecasted DCFs without the effects of the outage in July. I then calculated the estimated fair price per share (FPPS) and valuation by multiplying by current shares outstanding.

Current DCFs Valuation

- Estimated FPPS: 251.57
- Overvalued by 31%
- Valuation: \$61.4B

I believe the current DCF valuation is an accurate assessment, as CrowdStrike is often considered overvalued because investors are paying a significant premium for its future growth potential.

Pre-Outage DCFs Valuation

- Estimated FPPS: 449.69
- Undervalued by 23%
- Valuation: \$109.8B

I believe the pre-outage DCF valuation proves that CrowdStrike could be a profitable acquisition for a leveraged buyout, especially with operational improvements such that the Company can proactively stop any significant events like the outage from happening.

Conclusion

Key Investment Drivers

Strong Recurring Revenue and Growth

CrowdStrike has a strong growth trajectory, with revenue already growing 45% year over year. As a leader in endpoint detection and response and cloud security, they are poised to continue to be seen as the highest quality of cybersecurity for enterprise level consumers. In addition, their Falcon Go product addition will allow them to become more attractive to SMBs, gaining access to more of the global cybersecurity market and further driving growth. Finally, the nature of CrowdStrikes revenue is stable and recurring, with the added benefit of an increasing

customer lifetime value due to the addition of more modules and an increasing subscription price.

Potential Operational and Cost Inefficiencies

El Toro Capital can add value to CrowdStrike through their operational expertise. While the Company operates efficiently, the July outage caused by CrowdStrike caused significant damages to their projected revenues and cash flows for the next two years; having a new or more in-depth vetting process for new updates to the platform could help stop these problems in the future. In addition, CrowdStrike has made 7 acquisitions over the past 5 years, creating a patchwork nature of acquisitions that has led to some modules to not be integrated, which can distract from the core product offering. A greater emphasis on making these modules and acquisitions run smoothly with the Falcon platform can improve the product as a whole. Finally, these acquisitions may have unrealized cost synergies, such as lingering overhead expenses that could be phased out. A comparison with competitor Palo Alto reveals they have a net margin of 31% while CrowdStrike operates at 5%. This shows CrowdStrike's earnings potential if they can successfully simplify their cost structure.

Alignment with Investment Thesis

CrowdStrike is a cash flow positive, highly leverageable and scalable B2B platform which is constantly expanding to include new vertical end markets, such as SMBs. This investment correlates perfectly with the investment thesis for companies in this industry. In addition, the purchase of such a company can add significant synergy to a portfolio of other digital marketing, SaaS, and cybersecurity companies.

Risks and Mitigants

Competition

While competitors may be able to win in areas such as network security for Palo Alto or seamless integration for Microsoft, CrowdStrike's unique blend of being the best endpoint protection software, requiring minimal maintenance/oversight and having a scalable platform regardless of operating system allows me to be confident in their position as the leading commercial cybersecurity solution.

High Trading Premium

CrowdStrike's high trading premium means the acquisition price would be significantly above its intrinsic value, requiring a larger debt burden to finance the deal. This increases financial risk and the company's vulnerability to economic downturns. High leverage can also erode the FCF needed to service debt, meaning the Company could face financial distress if CrowdStrike does not reach future growth expectations.