# Executive Summary

| | | |
|---|---|---|
| **Fundamental Strategy** | | Identify undervalued stocks with strong core business models and an advantageous market position. Use Valuation Model to validate pick. |
| **Events** | | Crowdstrike Blackout, Election Outcomes, Rate Cuts |
| **Intrinsic Value** | | Fundamental Valuation indicated the stock is overpriced at $330.78/share, our valuations price it at $72.64/share |
| **Recommendation** | | Do not allocate $7,500 to purchase 23 shares of CrowdStrike (CRWD) |

# Stock Overview & Investment Thesis

**Company Name: Crowdstrike**

**Ticker: CRWD**

**Sector: Technology**

**Industry: Software**

**Shares Out.: 232.7 M**

**Market Cap.: 56,858 M**

**Current Price: 330.78**

**Current Date: 11/7/2024**

**Target Price: 398.33**

**Target Date: 02/7/2025**

**Monthly Volume: 18 M**

**Beta: 1.09**

## Investment Hypothesis:
## BUY $7,500 CRWD

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# Business Overview



**Description**

Cyber security company developing software to detect and hunt cyber threats.
**Cloud Native Architecture**
**AI & Machine Learning Focus**
**Unified Platform**

**Products**

# Customer Overview and Breakdown

**Customers**

**82%**
of U.S. state governments use CrowdStrike[1]

**48%**
of the 50 largest U.S. cities use CrowdStrike[1]

**300**
of the Fortune 500

**8 out of the top 10**
food & beverage companies

**8 out of the top 10**
technology firms

**8 out of the top 10**
financial services firms

**Demographics**


Distribution of Companies Using Crowstrike Falcon by Country

USA, UK, CND, AUS, IND, BRZ, FR, ESP, GER, UAE


Distribution of Companies Using CrowdStrike Falcon by Industry

IT, Computer Software, Network Security, Healthcare, Internet, Telecommuni..., Financial Services, Insurance, Higher Education, Retail

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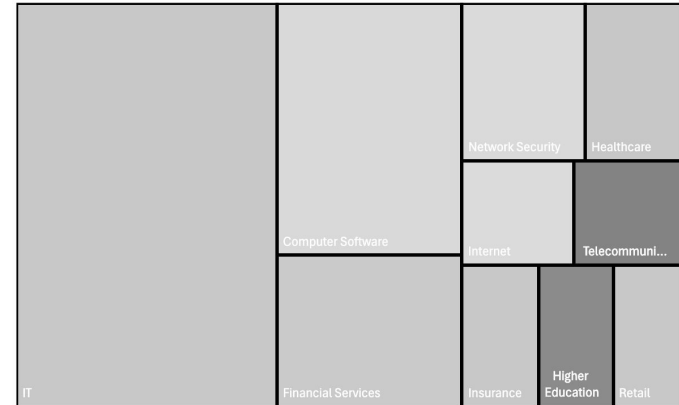
# Industry/Market

- Regulations and high-profile attacks driving adoption
  - CCPA
  - GDPR
- "Platforming" and consolidation
- SaaS boom and CAGR of 11.5% last 5
  - Current value of $53.9B
- Projected 5 year CAGR of 7.6%
  - Projected value: $77.5B in 2029



— Life cycle stage   ● Annual Revenue

| Quantity Growth | Quality Growth | Maturity | Decline |

*Growth is based on change in share of economy combined with change in establishment numbers
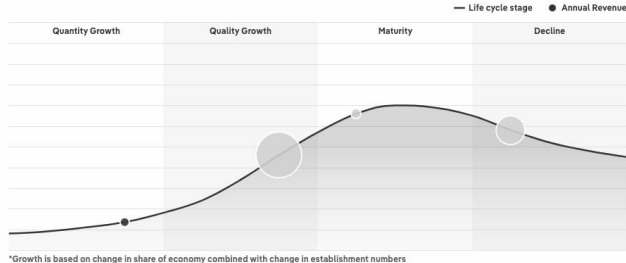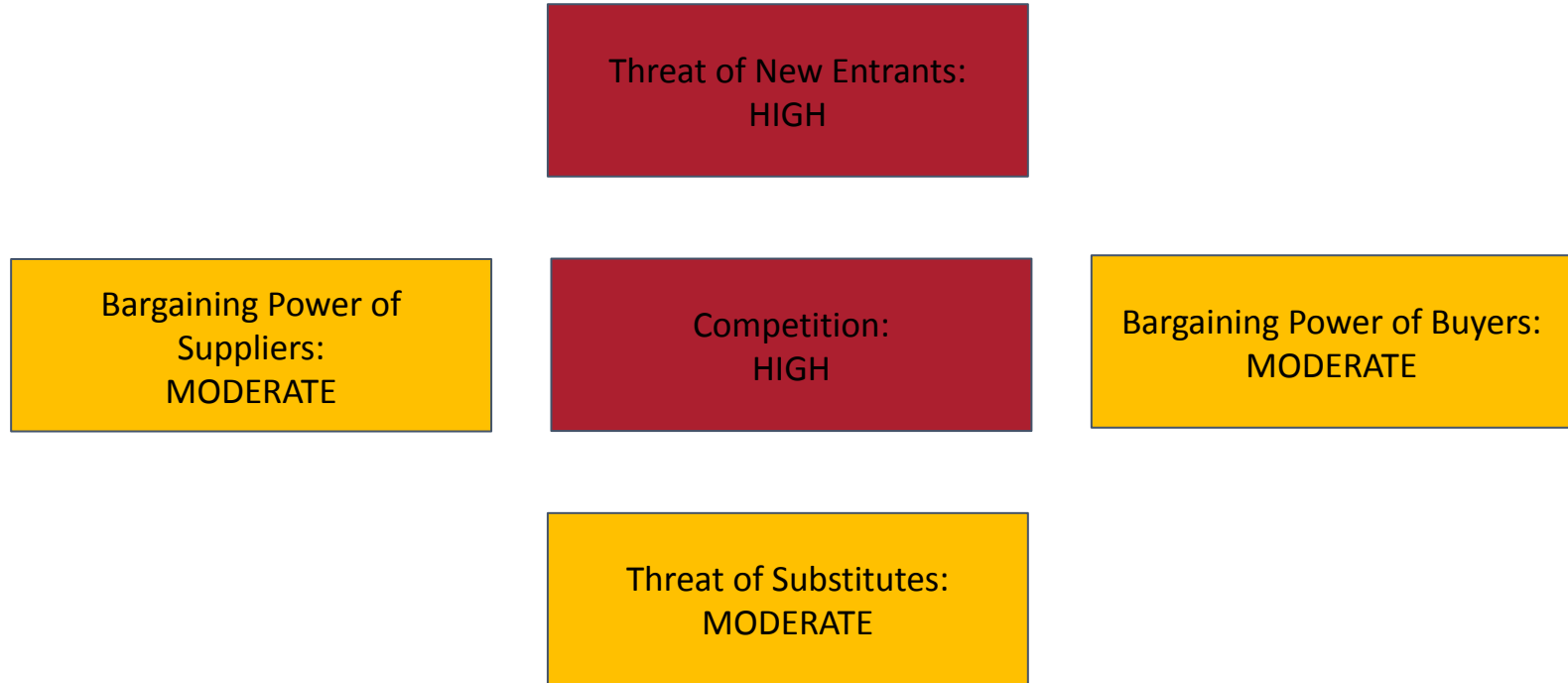
IBISWorld

Source: IBISWorld



- Network, internet and server ($16.7bn)   31.0%
- Security management and analysis ($13.0bn)   24.1%
- Threat protection ($11.2bn)   20.7%   ● Data protection ($9.3bn)   17.2%
- Other services ($3.8bn)   7.0%

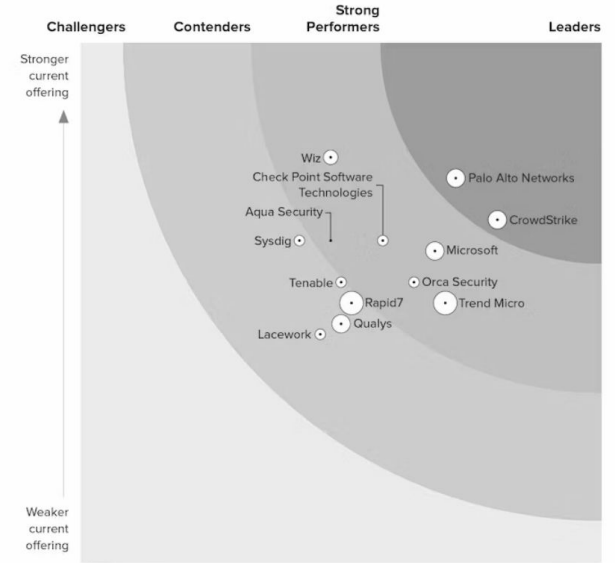Institute of Advanced Investment Management
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# Porter's 5 Forces

Threat of New Entrants:
HIGH

Bargaining Power of
Suppliers:
MODERATE

Competition:
HIGH

Bargaining Power of Buyers:
MODERATE

Threat of Substitutes:
MODERATE

# Competitors

# Disruptions: a Fact of Life

SolarWinds Supply Chain Attack

- Scale of Breach
- T-1
  - Vol: 290,372
  - Open: $24.60
  - Close: $20.7
- T+1
  - Vol: 3,959,512
  - Open: $22.15
  - Close: $20.70
- Stock price more than recovers ($20.26) after 1896:1000 stock split on July 20, 2021
- Shareholder Settlement: $26MM
- SEC lawsuit dismissed in July 2024

# Tech Stocks and the Trump Administration

## Tech Industry

- Up 138.56% during first administration
  - Highest performing sector
- Rate Cuts
  - Meaningful for Pre-IPO
  - Established tech firms are rate insensitive
- HB1 Reliant

## Crowdstrike

- IPO June 12,2019
- Day 1 Close: $58.00
  - Vol: 290,372
  - Open: $24.60
  - Close: $20.7
- Jan 20, 2021 Close: $226.33
- Up 390.22%

# SWOT Analysis

## Strengths

- **Leader in AI-powered cybersecurity solutions -** 17.7% market share
- **Impressive Growth** - Annual Recurring Revenue (ARR) grew 32% YoY from 2021 to 2024
- **Innovative Solutions** - Cybersecurity products like Falcon Perform, Falcon Spotlight, and Falcon Discover, evolving with AI integration.
- **Strong Brand and Customer Base** - Clients across industries including government, finance, and tech

## Weaknesses

- **Dependence on Subscription Model** -CrowdStrike's revenue is primarily subscription-based, which can be affected by customer churn or slower-than-expected client acquisition
- **High Competition** - The cybersecurity space is highly competitive, with players like Palo Alto Networks, Cisco, and Symantec offering similar solutions.
- **Profitability Pressure** - CrowdStrike invests heavily in innovation and expansion, which can impact near-term profitability.

## Opportunities

- **Global Market Expansion** - International market presence is underdeveloped, representing a significant growth opportunity
- **Cybersecurity Market Growth** - The global cybersecurity market expected to grow from $100 billion to $225 billion by 2028
- **AI and Cybersecurity Integration** - The rise of AI across industries will create new opportunities for CrowdStrike's AI-powered solutions
- **Emerging Market Penetration** - CrowdStrike has the opportunity to expand its services into emerging markets

## Threats

- **Cybersecurity Threats** - Rapidly evolving cybersecurity threats could require constant innovation to stay ahead of hackers, posing both a technical and financial challenge.
- **Economic Downturns** - During economic downturns, companies may reduce spending on cybersecurity, which could impact growth.
- **Regulatory Risks** - Changes in regulations, especially related to data privacy and cybersecurity, could increase operational complexity and costs.

# Competitive Advantage

- **AI-Driven Security:** The company's Falcon platform is powered by machine learning and AI, allowing it to provide proactive, real-time threat detection and response, unlike traditional signature-based security systems.
- **Cloud-Native Architecture:** CrowdStrike's cloud-native approach allows it to scale rapidly and deploy solutions across different devices and environments, providing greater flexibility and speed than on-premise competitors.
- **Global Threat Intelligence Network:** CrowdStrike collects data from millions of endpoints worldwide, using this information to continuously improve its security models, creating a feedback loop that helps it stay ahead of emerging threats.
- **Strong Partnerships:** CrowdStrike collaborates with major tech companies like AWS and Microsoft, integrating its solutions into their platforms, which boosts its visibility and market reach.
- **Client Base:** As of 2024, CrowdStrike serves over 23,000 customers globally, including 60% of the Fortune 100 companies, demonstrating its broad market acceptance and trust.

# Valuation Assumptions

| | | | |
|---|---|---|---|
| **Valuation Date:** | 11 / 7 / 2024 | **N Forecasted Years:** | 5 Years |
| **Revenue Growth Method:** | Perpetual | **Rev. Growth Rate:** | 3% |
| **Dividend Growth Method:** | - | **Div. Growth Rate:** | - |
| **WACC Calc. Method:** | Bloomberg | **WACC:**<br>**Cost of Equity:** | 12.76%<br>12.86% |
| **Exit EV/EBITDA Multiple:** | 68x | **N Comparable Peers:** | 10 |

# Valuation Model Outcomes

| | Estimated Value Per Share | Model Weights |
|---|:---:|:---:|
| **Unlevered DCF** | $(32.90) | 5% |
| **Levered DCF** | $(32.12) | 5% |
| **Comparable Company** | $81.97 | 35% |
| **Precedent Transaction** | $85.83 | 55% |
| **Dividend Discount** | N/A | 0% |

# Valuation Target Price
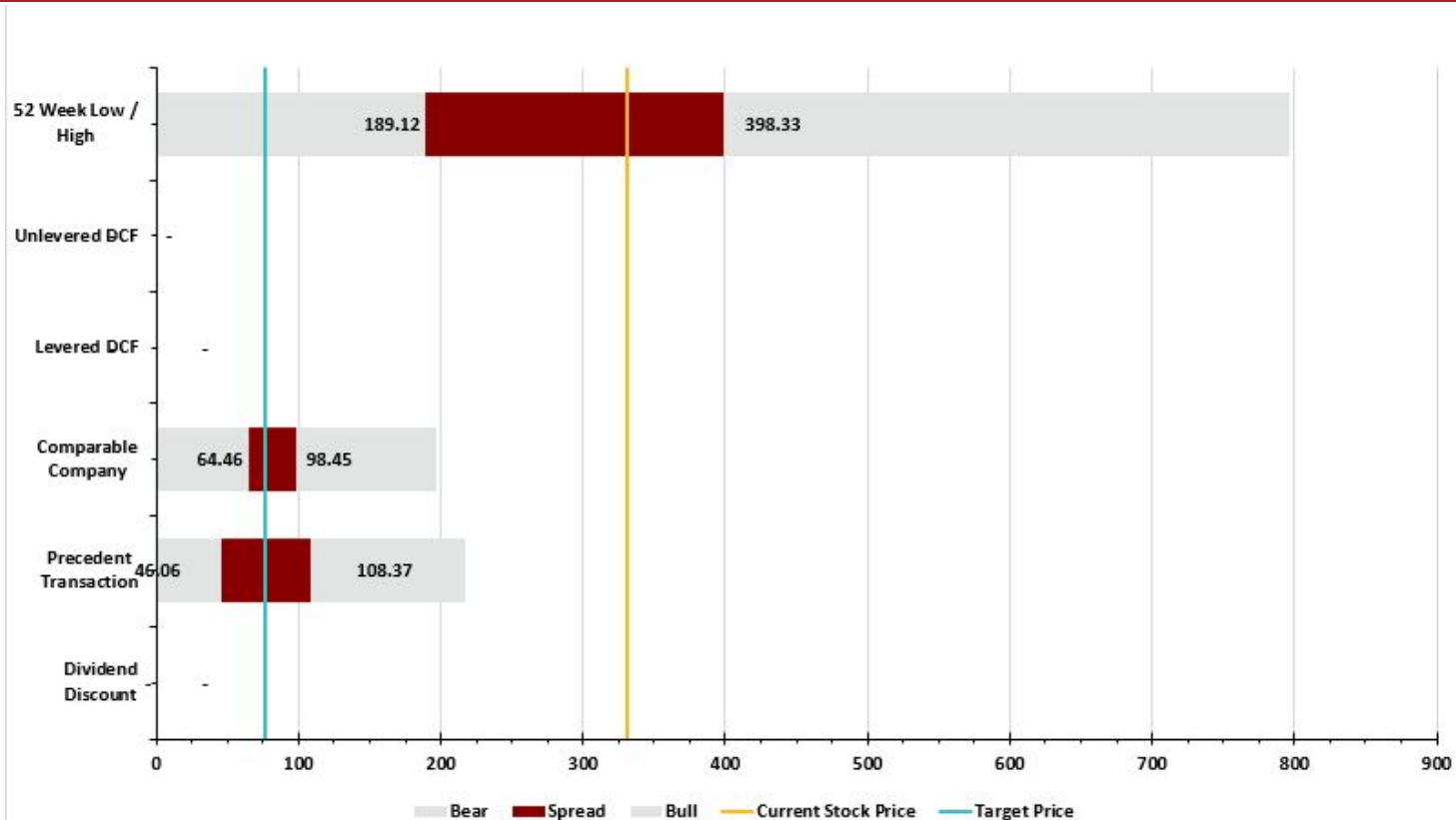
# Effect on the Portfolio

**Sector Weights Before**



39%

61%
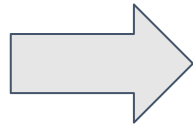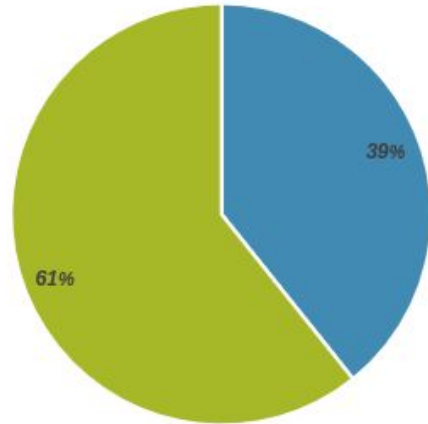
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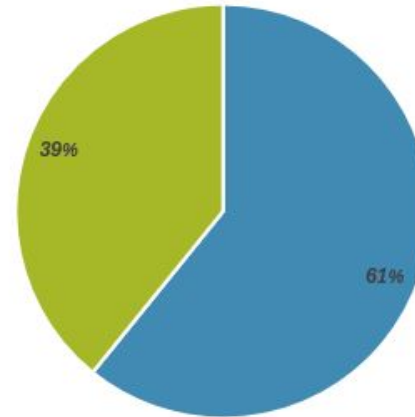
- Information Technology
- Consumer Staples

| Portfolio | Exp. Return | St. Dev | Beta | Sharpe Ratio* | Idios. Risk* | Info. Ratio* |
|-----------|-------------|---------|------|---------------|--------------|--------------|
| Existing | 9.98% | 5.09% | 0.77 | 1.05 | ? | ? |
| Adjusted | 14.37% | 7.21% | 0.88 | 1.35 | ? | ? |

# Effect on the Portfolio

**Security Weights Before**
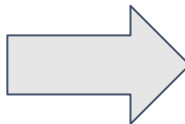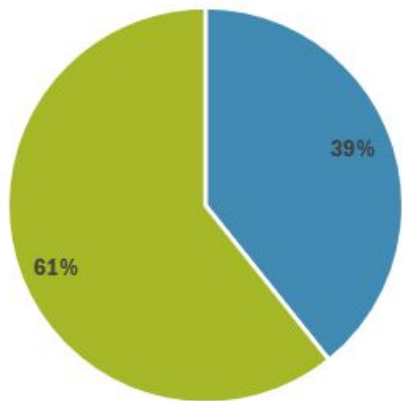


**Security Weights After**
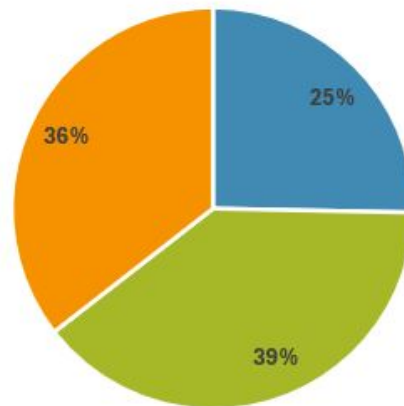


- GDDY
- PEP
- CRWD

| Portfolio | Exp. Return | St. Dev | Beta | Sharpe Ratio* | Idios. Risk* | Info. Ratio* |
|-----------|-------------|---------|------|---------------|--------------|--------------|
| Existing  | 9.98%       | 5.09%   | 0.77 | 1.05          | ?            | ?            |
| Adjusted  | 14.37%      | 7.21%   | 0.88 | 1.35          | ?            | ?            |

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# Summary & Recommendation

## Strategy Merits

a) **Strong Business Model**
b) **Favorable Economic/Regulatory Environment**

a) **Recent Service Outage**

a) **Valuation Model Outcomes**

## Action Plan

- **Recommendation: Don't buy**

Appendix

# Strategy Rationale

**Historical context:**

**What is the indicator?**

Things I found in my research that may help:

-International markets represent less than ⅓ of Crowdstrike's business
-Several segments of cybersecurity are still underpenetrated. As enterprises invest in AI there will be more use cases for CRWD's solutions.

-Trev

**Sources:** Wall Street Journal, USA Today

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# Key Terms

## Performance Metrics

- **Alpha (α)**: Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.

- **Sharpe Ratio**: Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.

- **Sortino Ratio**: Similar to Sharpe, but only considers downside risk, ignoring positive volatility.

- **Information Ratio**: Measures returns above a benchmark relative to the tracking error.

- **Treynor Ratio**: Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

## Parameters

- **Market Cap**: Total value of a company's shares (Share Price × Total Shares Outstanding).

- **P/E Ratio**: Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.

- **Rebalance**: Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

## Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.

- **Idiosyncratic Risk**: Risk unique to a specific asset, not due to market movements (e.g., company-specific events).

- **Systematic Risk**: Market-wide risk that affects all securities (e.g., interest rate changes).

- **Standard Deviation (σ)**: Measures volatility by showing how much returns deviate from the average.

- **Max Drawdown**: The maximum observed loss from peak to trough during a specific period.

- **SML (Small Minus Large)**: Measures the excess return of small-cap stocks over large-cap stocks.

- **HMB (High Minus Low)**: Measures the excess return of high book-to-market stocks over low book-to-market stocks