



CrowdStrike Analysis

EQUITY RESEARCH 2025 – RIDDLE CAPITAL RESEARCH

Foreword

Extraordinary

At Riddle Capital Research, we are pleased to present our third equity research publication, this time with a comprehensive analysis of CrowdStrike. Building on our previous reports, this edition reflects our continued commitment to producing data-driven, bias-free, and independent research on financial markets and high-impact investment opportunities.

As a team of student analysts, we view research not just as an academic exercise but as a practical foundation for developing real-world financial acumen. Each report serves both as a learning tool and a platform for challenging conventional thinking. We strive to combine professional rigor with a fresh perspective by refining our analytical methods, deepening our industry insights, and embracing objectivity in every valuation.

We believe that true insight arises from curiosity, intellectual honesty, and a willingness to question market consensus. In this report, we apply that approach to CrowdStrike, evaluating its strategic position in the global cybersecurity landscape, financial fundamentals, capital allocation strategy, and associated risks. Our goal is to determine whether CRWD presents a compelling case for long-term investors grounded in fundamentals rather than sentiment.

If you have any questions or feedback, please feel free to reach out to us.

Disclaimer

This analysis has been conducted by research analysts at Riddle Capital Research. While we strive for accuracy and objectivity, this report is for informational purposes only and should not be considered financial advice. Investors are encouraged to conduct their own due diligence before making any financial decisions. Riddle Capital Research and its contributors assume no liability for investment choices made based on this report.



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Company Overview

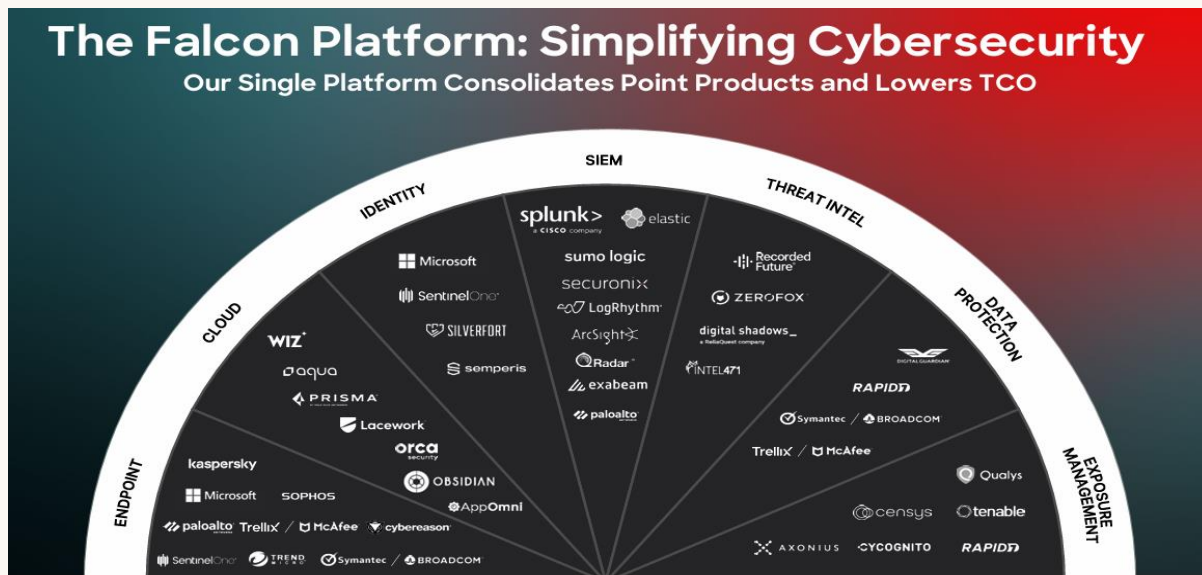
CrowdStrike is a cybersecurity company founded in 2011 by George Kurtz (now CEO), Dmitri Alperovitch, and Gregg Marston. Headquartered in Austin, Texas, it has grown from its June 2019 IPO valuation of \$12 billion to a market cap of approximately \$110 billion today. It specializes in delivering endpoint threat detection and response services, extended detection and response, managed threat hunting, cloud workload protection, and identity threat protection through its cloud-native Falcon platform powered by AI, machine learning, and real-time analytics. In 2023 it launched Falcon Go to cater for the small-to-mid market clients. Serving over 25,000 customers, including 60 of the Fortune 100 and more than 300 of the Fortune 500 companies, and operating across North America, EMEA, Asia-Pacific, and Latin America, CrowdStrike has firmly established itself as an innovative leader in the competitive cybersecurity landscape being one of the first to detect and thwart major nation-state campaigns, exposing China's Panda APT1, alerting organizations to North Korea's Lazarus Group actions, and stopping Russian-linked intrusions such as NotPetya.



Chart: CRWD performance vs CIBR sector ETF

Product Description

The Falcon platform encompasses 23 cloud-delivered modules including endpoint protection, cloud security, identity protection, IT hygiene and vulnerability management, threat intelligence, and next-generation SIEM (Falcon LogScale) - all built on a unified data fabric that enables seamless telemetry sharing and rapid detection across the stack. Strategic acquisitions such as Humio that specializes in log management and Reposify (external attack surface management) have expanded Falcon's addressable market, while fully integrated module interoperability lets customers consolidate different point tools into a single solution. Falcon Complete delivers managed detection and response services on top of the same platform. This breadth of capability, combined with flexible per-endpoint, per-module subscription bundling, accelerates cross-sell, drives higher average revenue per customer, and underpins CrowdStrike's robust land-and-expand economics.



Source: CrowdStrike 10Q

The image showcases a broad network of cybersecurity tools and services that CrowdStrike integrates into the Falcon platform. Each of these tools focuses on a specific aspect of cybersecurity, and the Falcon Platform consolidates them into one cohesive ecosystem. This helps organizations reduce costs, avoid fragmented solutions, and manage all cybersecurity efforts through a single platform.

Business Model

CrowdStrike generates the majority of its revenue from subscriptions to its Falcon cybersecurity platform, which are sold on a recurring (annual) basis. Pricing is per endpoint or per device and per module – customers pay for each device protected, and each additional feature they activate on that device adds to the subscription cost. They offer tiered packages such as Falcon Go, Pro, Enterprise, Elite priced roughly from \$60 per endpoint/year for small businesses up to \$100 per endpoint/year for enterprises for the core endpoint protection bundle. Additional modules for cloud workload security, identity protection, threat intelligence, and others are layered on top. They refer to this system as the land-and-expand model where a customer might start with a base endpoint protection subscription and over time adopt multiple modules, each driving incremental Annual Recurring Revenue. Their financial disclosures show that indeed module adoption is high with 67% of customers using ≥ 5 modules, 48% using ≥ 6 , 32% using ≥ 7 , and 21% using ≥ 8 modules as of FY2025. This demonstrates increasing revenue per customer over the customers lifetime.

Their go-to-market strategy relies on a direct sales force especially for large enterprises and channel partners, that is why we see high numbers for sales & marketing expense eating up a huge percentage of revenue, about 39% of revenue in FY2025, reflecting substantial investment to acquire and grow customers. They land new customers with one or two modules initially, once a customer is on the Falcon platform, upselling additional modules has a much lower cost than acquiring a brand-new client. The high upfront cost is therefore offset by their retention and expansion model.

Cost of Revenue: Delivering CrowdStrike's services has a relatively low direct cost, which gives the business its high gross margins. The main components include cloud infrastructure hosting costs, data center and network expenses, and the personnel and support costs for operating the service. In Q4 FY2025, subscription gross margin was 77% meaning 20–23% of subscription revenue goes to direct cost. These cloud hosting costs scale with usage (more endpoints and data require more computing resources), but not perfectly linear. Management's long-term target is 82–85% subscription gross margin. Professional services which include incident response and training make up a small portion of revenue approximately 5% from recent numbers. This segment is being run near break-even

to support product adoption. Operating expenses are semi-fixed costs that do not rise one-to-one with each new customer, so as revenue grows, CrowdStrike expects operating leverage to improve margins. In FY2025, operating expenses were ~78% of revenue, but CrowdStrike has stated a target model of much higher profitability by FY2029 once growth investments mature.

Evaluating this model, we observe that while acquiring a customer is costly upfront, the combination of high gross margin, high retention rate, and upsell potential makes the lifetime value far exceed the acquisition cost. The subscription model and cloud delivery also mean that serving additional customers has relatively low incremental cost meaning high scalability.

Key Secular Trends in Cybersecurity 2025

CrowdStrike's most recent cybersecurity report highlighted that adversaries now operate like highly efficient businesses, continually refining their tactics and quickly iterating on successful methods. They combine the structured approach of traditional enterprises with criminal goals, making them much more adaptable than the hack-and-run attackers of the past.

Generative AI has emerged as a powerful tool for attackers, automating phishing campaigns, creating highly convincing lures such as voice and image manipulations, and rapidly generating fake infrastructure and deep-fake credentials. This trend of using AI as a weapon is driving both the volume and complexity of cyber intrusions at an accelerating pace.

The median "breakout" time (from initial compromise to command-and-control) has decreased to under one minute, with nearly 80% of detections being malware-free and utilizing fileless techniques. As a result, traditional signature-based defences are being increasingly bypassed

As workloads move to public clouds, cybercriminals have shifted their focus, with over 70% of cloud-related intrusions in 2024 being linked to internet crime, frequently exploiting misconfigurations or stolen credentials. Vishing and identity-layer attacks have surged by more than 400%, highlighting the critical importance of securing identities.

The involvement of nation-states in hacking activities has increased, with China-linked operations rising by over 100% in 2024, targeting critical infrastructure and key enterprise sectors. State-backed actors from DPRK, Russia, Iran, and other nations continue to enhance their espionage and sabotage campaigns.

CrowdStrike's Positioning to Exploit These Trends

With continuous research and development and rapid module rollouts, CrowdStrike introduced several new capabilities in 2024, including an identity-threat-hunting feature, SIEM integrations for LogScale, and expanded APIs for custom defences all within months of identifying new adversary tactics. Their open cloud architecture enables the sub-quarterly delivery of new modules to address emerging threats.

At the core of Falcon is the AI-native XDR platform, powered by Charlotte AI and machine-learning pipelines built on the CrowdStrike Threat Graph. This system processes over one trillion security events per week, enabling real-time detection of fileless and AI-enhanced attacks that traditional signature-based tools often miss.

CrowdStrike's single lightweight agent, deployed across endpoints, cloud workloads, identities, and logs, enables immediate data collection and correlation. This unified approach is crucial for stopping breaches that occur in seconds, not hours, leveraging the efficiency of a cloud-first architecture.

CrowdStrike's modular "Land-and-Expand" delivery model allows customers to deploy any combination of Falcon modules such as endpoint protection, identity threat protection, cloud security, and LogScale SIEM and easily add

more as new threat patterns emerge, such as AI-powered phishing or cloud exploits. This flexibility is crucial for adapting quickly when adversary tactics evolve rapidly.

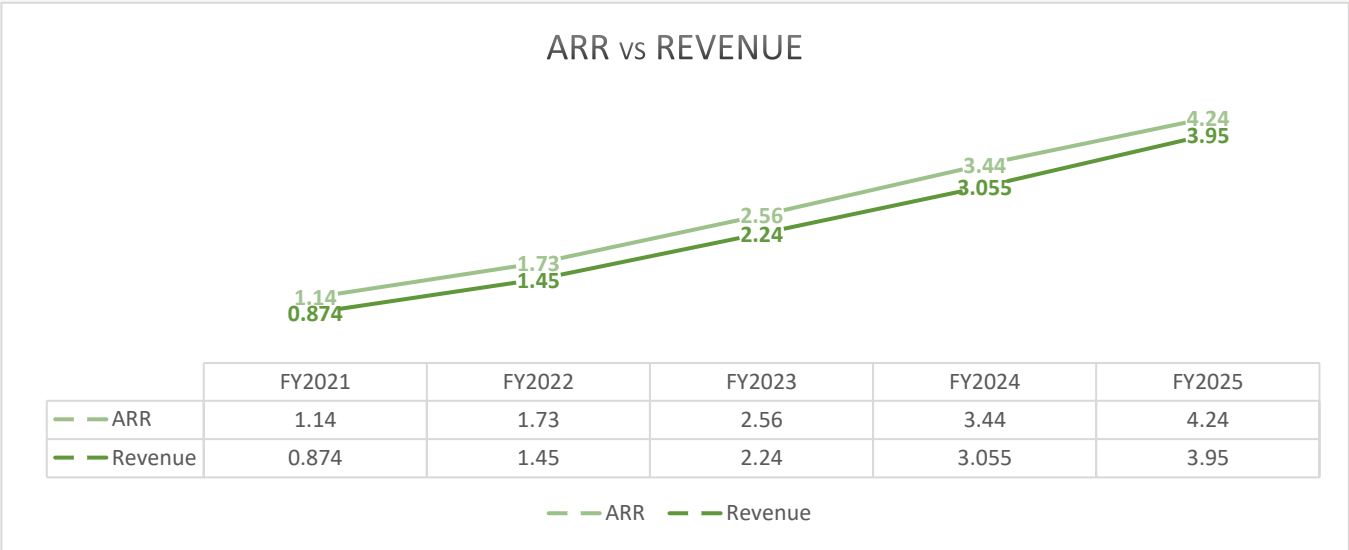
CrowdStrike’s proprietary threat intelligence and Counter Adversary Operations team track and name hundreds of adversaries, such as FAMOUS CHOLLIMA, CHATTY SPIDER, and LIMINAL PANDA. They inject tactics, techniques, and procedures directly into customer detections, reducing the gap between threat discovery and enterprise protection.

CrowdStrike has made strategic acquisitions of specialized security providers, including Adaptive Shield for SaaS Security Posture Management and Flow Security for Data Security Posture Management, to quickly fill functional gaps in the Falcon platform and capitalize on emerging trends in the cybersecurity industry. This buy-and-integrate strategy enhances the delivery of essential modules such as identity-first protection, cloud misconfiguration detection, and advanced threat analytics, allowing Falcon to effectively counter threats and AI-driven attacks with agility. Other significant acquisitions include Humio, now rebranded as Falcon LogScale for next-gen SIEM, and Bionic.ai for Application Security Posture Management.

Analysis of Financial Condition

CrowdStrike reports on a fiscal year basis (FY2025 corresponds to February 2024 – January 2025). Their Annual Recurring Revenue (ARR) reached \$4.24 billion as of Q4 2025, up 23% year-over-year. ARR growth decelerated from 34% the last year and 48% two years ago. This decline is partly explained by tight competition. Management highlighted a record \$6 billion in total contract value signed in FY2025, up 40% YoY, indicating strong future revenue in the backlog. Net new ARR added in FY2025 was \$807 million, down slightly from \$875 million in FY2024.

Total FY2025 revenue was \$3.954 billion, up 29% YoY. Revenue growth was 36% in FY2024 and 66% in FY2023. Clearly, the top line is moderating but remains strong for a company of this scale. Subscription revenue was \$3.761 billion, while professional services were approximately \$193 million (5%), implying that 95% of revenue is recurring software. The recent revenue and ARR trajectory are as follows:



source: CRWD 10K, RIDDLE.

CrowdStrike has grown ARR nearly 4x in four years, from approximately \$1.1B to \$4.2B. However, the slowdown from around 50% to 20% growth indicates that future incremental growth might come more from upselling existing customers and expanding use cases than from acquiring new customers. The company reported that exact customer count growth was 41% in FY2024 and only 25% in FY2025, but noted larger average deal sizes. In 2025, CrowdStrike’s gross retention was 97%, meaning annual churn is only 3%, demonstrating how rarely customers discontinue their subscription with CrowdStrike. Net retention, which includes upsells, was in the 112–

119% range, starting at around 119% in Q1 FY2025 and trending down to 112% by Q4. Even though these numbers are slightly lower than in previous years, they are still strong, perhaps indicating a more mature customer base.

Subscription gross margin was 80% non-GAAP for FY2025, roughly flat compared to FY2024. This stability at a high level indicates that CrowdStrike maintained pricing and cost discipline even as it scaled. The slight difference between GAAP and non-GAAP gross margin is primarily due to the exclusion of stock-based compensation in COGS for non-GAAP. Service gross margin is much lower at 20%, dragging the overall total gross margin down to approximately 76% GAAP in FY2025.

GAAP operating loss was -\$120.4 million in FY2025, significantly higher than the GAAP loss of -\$2 million in FY2024. The swing to a GAAP loss is entirely due to large increases in stock-based compensation and some amortization of intangibles from acquisitions. Non-GAAP operating income was \$837.7 million in FY2025, up 27% YoY. This equates to a 21% non-GAAP operating margin, slightly lower than 22% in FY2024. The company reinvested in growth during the year, causing operating expenses to increase. Sales & marketing was approximately 36% of revenue, R&D over 30% of revenue, and G&A about 8% (non-GAAP), all roughly in line with past trends.

On a GAAP basis, net loss was -\$16.5 million for FY2025 (GAAP EPS -\$0.08). Non-GAAP net income was \$987.6 million, resulting in non-GAAP EPS of \$3.74, up from last year. Thus, CrowdStrike is profitable on a non-GAAP earnings basis, but GAAP profitability remains negative due to heavy stock-based compensation expense, which was \$865 million (more than 50% of SG&A cost). Proponents argue that SBC helps attract talent and keep cash expenses low, but it dilutes shareholders (diluted shares increased in FY2025) and suppresses GAAP earnings. The company has stated an intention to return to GAAP profitability by Q4 FY2026.

FY2025 free cash flow was \$1.065 billion, up 14% from \$938 million in FY2024. This equates to a FCF margin of 27%, down from 31% in FY2024. The drop in FCF margin was expected due to a one-time event that increased flexible payment terms for large deals in late FY2025 and higher cash tax payments. Management expects FCF margins to bounce back to 30%+ on an annual basis in the coming years. Operating cash flow was \$1.38 billion, up 47% YoY. The high FCF allows for ongoing investments without dilutive financing.

CrowdStrike has \$4.32 billion in cash & equivalents and manageable debt (convertible notes of approximately \$0.74 billion). Net cash is roughly \$3.6 billion, providing a substantial cushion. The company's deferred revenue was \$2.79 billion, up 32% YoY, supporting future revenue recognition and indicating that customers are signing longer or larger contracts.

Outlook for FY2026

For FY2026 (year ending January 31, 2026), CrowdStrike guides revenue of \$4.743–4.806 billion (+20–22% YoY) and non-GAAP EPS of \$3.33–3.45. This reflects a further slight growth deceleration to approximately 21% from 29%, which management attributes to macroeconomic caution. However, they expect new ARR growth to re-accelerate in 2026 as channel sales and the adoption of new modules begin to pay off. Operating margin is guided to be roughly flat YoY in FY2026 despite the layoffs, as savings will be reinvested in strategic hires and R&D. Free cash flow margin is expected to reach approximately 30% by Q4 FY2026, recovering from the Q4 FY2025 drop. Since analyst forecasts and expectations are closely aligned with these numbers, any beat or miss will influence the stock's price.

Valuation

DCF Interpretation

We reverse-engineer CrowdStrike's \$110 billion enterprise value by applying a two-stage DCF to its FY2025 unlevered free cash flow of \$841 million (this is our NOPAT FCF value we estimated using the current FY2025 data, which is lower than the reported CFO minus CapEx FCF value). Using a 10 percent WACC and a 3 percent perpetual growth rate, we solve for the constant annual FCF growth rate over the next five years that the market must be expecting, this gave us approximately 65 percent CAGR from FY2026 through FY2030. This approach in our view gives us a rough estimate of the cash-flow trajectory investors are implicitly pricing into the stock given available information about the company.

- A 65% FCF CAGR off an \$0.84 B base implies reaching roughly \$10 B in annual FCF by FY2030.
- To achieve that, CrowdStrike would need to sustain high revenue growth rates every year and expand margins aggressively while also ensuring that there is a high conversion of revenue to FCF.
- The stock's \$110 B capitalization assumes robust revenue acceleration, continued land-and-expand success, stable 30%+ non-GAAP operating margins, and modest capex expenses. Any deviation, such as lower ARR growth, margin pressure, higher reinvestment needs would leave intrinsic value well below market price.
- It turns out investors are assuming CrowdStrike will execute flawlessly in a hyper-competitive, evolving cybersecurity landscape. From an expectations-investing standpoint, the upside is tied directly to delivering these exceptionally high cash-flow gains; downside is significant if growth or margin expansion disappoint.

We would continue to monitor revenue drivers such as the net new ARR, module attach rates, cross-sell efficiency, and retention trends to evaluate if a 65% CAGR of FCF is plausible.

In sum, CrowdStrike's \$110 B valuation implies a FCF growth rate that is extraordinarily ambitious everything being equal. Any meaningful deviation from that path would warrant a re-assessment of fair value.

Alternatively, we consider a scenario where management's guidance for the future materializes. We constructed a 5-year DCF for CrowdStrike, starting from the midpoint of management's FY2026 revenue guidance (~\$4.775 billion). We use a WACC of 10% and a terminal growth rate of 3%. Management's FY2026 outlook implies ~21% growth in revenue. However, management expects growth re-acceleration in FY2027; we assume FY2027 revenue growth of ~25% as earlier investments begin to bear fruit. Management has also guided for an FY2026 non-GAAP operating income of ~\$944–\$985 million on ~\$4.75B in revenue, implying an operating margin of ~20–21%. Their long-term target model aims for a 28–32% operating margin by FY2029. We reflect this in our model by increasing the non-GAAP operating margin from 20% in FY2026 to 32% by FY2029. The tax rate is 22.5%. We assume depreciation & amortization at 5% of revenue, roughly in line with historical D&A levels, and capital expenditures at 5% of revenue. We model net working capital equal to 5% of revenue. Using these assumptions, along with the management guidance, we still find it difficult to reach an enterprise value of \$60 billion. However, over the past 2 years, the company has often guided lower and then exceeded expectations, so this could be the case again.

Peer Multiples:

Company	EV/Sales 2025	EV/EBITDA 2025	2-Year Revenue CAGR (est.)	NTM P/E
CrowdStrike	26.85x	842.86x	~21%	107.4x
Palo Alto Networks	13.55x	85.6x	~22%	112.48x
Zscaler	14.17x	-	~21.5%	-
Fortinet	12.10x	36.6x	~20%	-
SentinelOne	5.91x	107.75x	~22.7%	106.52x
Check Point	7.37x	16.73x	~5.9%	21.16x
Cloudflare	23.91x	106.03x	~26%	181.31x
Industry Mean	~12.5x	~40x	~20%	~80x

Source: Riddle Capital Research

CrowdStrike trades at a huge premium to most peers on a revenue multiples basis, at about 27x EV/FY2025 revenue. Palo Alto Networks and Fortinet, both profitable and growing ~15–25% annually, trade around ~12–14x revenue. Even high-growth companies like Cloudflare and Zscaler are trading near ~10–24x sales, notably lower than CrowdStrike's multiple. This spectrum reflects investors' expectations; clearly, CrowdStrike is priced for high future growth and market share gains.

Earnings-based multiples tell a similar story. On an EBITDA and P/E basis, many modern cybersecurity firms are not yet generating high GAAP earnings, resulting in high ratios. CrowdStrike's TTM EV/EBITDA exceeds 600x due to its

small current EBITDA. Even Palo Alto, which has recently achieved GAAP profitability, trades at lower earnings multiples, while Fortinet, consistently profitable, trades at lower multiples too.

If we apply peer multiples to CrowdStrike's FY2026 projections, we derive a wide valuation range. Using a peer average EV/Revenue of around 12x, CrowdStrike's implied enterprise value would be ~\$59–60 billion (12.5x the \$4.77B FY26 sales). This is close to half of its current EV, underscoring that CrowdStrike's stock price already embeds expectations of sustained rapid growth and high margins. Even using Palo Alto's premium ~15x EV/Sales multiple (which some analysts argue CrowdStrike deserves for being a market leader), we get ~\$71B EV, still below the current ~\$109B. On an earnings basis, the gap is still wide, CrowdStrike's own FY26 non-GAAP EPS guide is ~\$3.39, which at, say, 80x P/E would imply a ~\$271 stock (about 39% of the current price).

In short, CrowdStrike's valuation is above where traditional peer-to-peer metrics would justify, reflecting investors' optimism about its long-term trajectory.

Conclusion

On balance, CrowdStrike has proven to be a well-executing business with impressive growth, deserving of a place in a growth portfolio. However, while we acknowledge CrowdStrike's success, we are not comfortable buying the stock at its current valuation. This does not mean the stock cannot go higher, but we would not be surprised if it experiences a drop in the near term. The stock's current price appears to already reflect significant optimism, and while the company has strong fundamentals, there are risks such as competitive pressures and execution challenges that may limit upside potential.

While CrowdStrike's relationship with AWS has been a strong growth driver, we would like to see the company reduce its dependency on a single cloud provider, as potential competition from Amazon and changes in the general cloud ecosystem could pose challenges. We would also like to see a reduction in stock dilution and management's continuous share sales. If we must gain exposure to the cybersecurity sector, we would consider starting with the CIBR ETF, while expecting multiples to rerate. We will continue to monitor the company's performance, catalysts, and risks.

Catalyst to watch

To the upside,

- Accelerated growth in ARR or significant customer acquisitions would indicate potential upside beyond expectations.
- Expansion into Europe and regulated sectors could open up new avenues for growth.
- Positive GAAP net income, along with rising free cash flow margins, could lead to multiple expansion.

To the downside;

- Execution failures, such as another outage or security breach, could harm CrowdStrike's brand.
- Increased competition from industry giants like Microsoft or others may compress growth or margins.
- A macroeconomic slowdown could lead to budget cuts in cybersecurity spending, potentially impacting CrowdStrike's high-growth trajectory.
- Regulatory challenges in key markets could pose risks to its operations.
- A negative outcome from the Carahsoft event would likely increase volatility.

