CLOUDFLARE

Investor Presentation

Q2 2020

CLOUDFLARE © Copyright Cloudflare, Inc.

Safe Harbor

This presentation and the accompanying oral commentary contain “forward-looking” statements within the meaning of the federal securities laws, and these statements involve substantial risks and uncertainties. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, expectations of future operating results or financial performance, the impact of the COVID-19 pandemic on our and our customers’, vendors’, and partners’ businesses and economic conditions generally, market size and growth opportunities, the calculation of certain of our key financial and operating metrics, capital expenditures, plans for future operations, competitive position, technological capabilities, and strategic relationships, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “would,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. You should not put undue reliance on any forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all.

Forward-looking statements are subject to significant risks, uncertainties and assumptions. Actual results could differ materially from our current expectations as a result of many factors, including those identified in the “Risk Factors” section of our filings made with the Securities and Exchange Commission ("SEC"), including our Form 10-Q for the quarter ended March 31, 2020, as well as other filings that we may make from time to time with the SEC. You can locate these reports on our investor relations website (cloudflare.NET) or on the SEC website (www.sec.gov). If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. Except as required by law, we assume no obligation and do not intend to update these forward-looking statements or to conform these statements to actual results or to changes in our expectations.

In addition to our results determined in accordance with generally accepted accounting principles (“GAAP”), this presentation includes certain non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not as a substitute for or superior to measures of financial performance prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. See the appendix for a reconciliation of those measures to the most directly comparable GAAP measures.

This presentation contains statistical data, estimates and forecasts that are based on independent industry publications or other publicly available information, as well as other information based on our internal sources. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and other publicly available information. Accordingly, we make no representations as to the accuracy or completeness of that data nor do we undertake to update such data after the date of this presentation.

By attending or receiving this presentation you acknowledge that you will be solely responsible for your own assessment of the market and our market position and that you will conduct your own analysis and be solely responsible for forming your own view of the potential future performance of our business.

The trademarks included herein are the property of the owners thereof and are used for reference purposes only. Such use should not be construed as an endorsement of the platform and products of Cloudflare.

CLOUDFLARE © Copyright Cloudflare, Inc.

Key Metrics

as of Q2 2020

2010
Launched

3M+
Free & Paying Customers

200+
Cities in Network

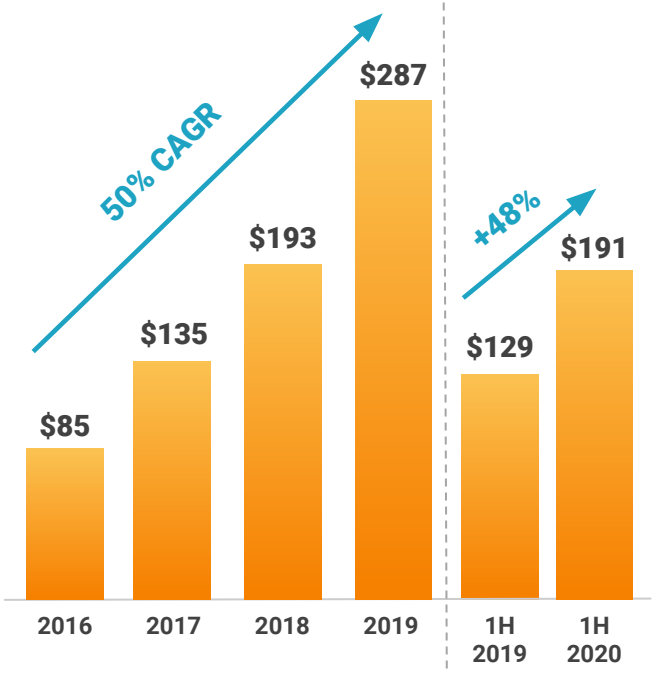
~16%
Of Fortune 1,000 are Paying Customers

1,535
Employees

76%
GAAP Gross Margin

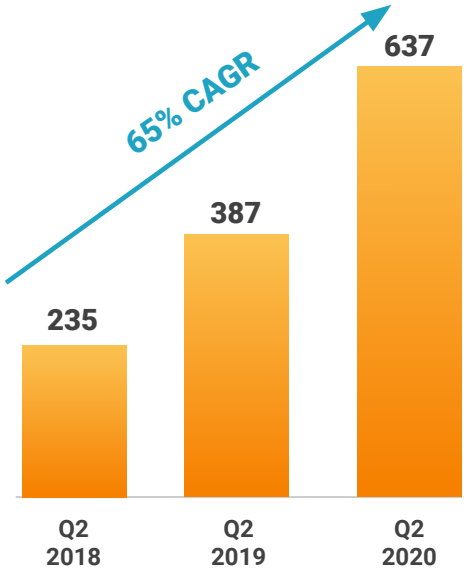
Cloudflare at a Glance

Annual Total Revenue ($M)



Large Customers

> $100,000 Annualized Revenue



Note: Q2 2020 data as of June 30, 2020. GAAP Gross Margin is for the quarter ended June 30, 2020. See Appendix for Large Customers definition.

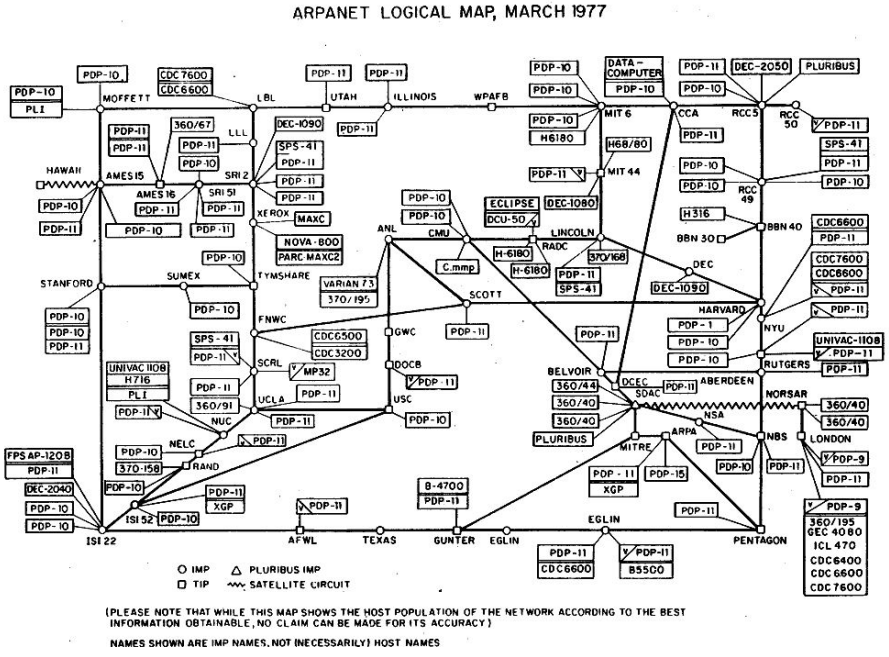
CLOUDFLARE © Copyright Cloudflare, Inc.

Cloudflare’s mission is to

Help build a better Internet

CLOUDFLARE © Copyright Cloudflare, Inc.

The Internet was not built for what it has become.

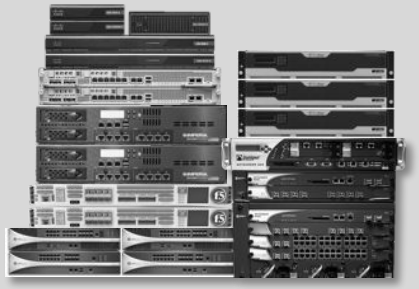


CLOUDFLARE © Copyright Cloudflare, Inc.

From Endless Hardware to a Global Cloud Platform

BAND-AID BOXES

- Costly and complex
- Web of dependencies
- Specialized hardware
- On-premise only
- Point solutions



BETTER INTERNET

- Easy-to-use, flexible, and scalable
- Unified control plane
- Serverless cloud architecture
- Cloud, hybrid, on-premise, and SaaS
- Broad, integrated product platform

CLOUDFLARE®

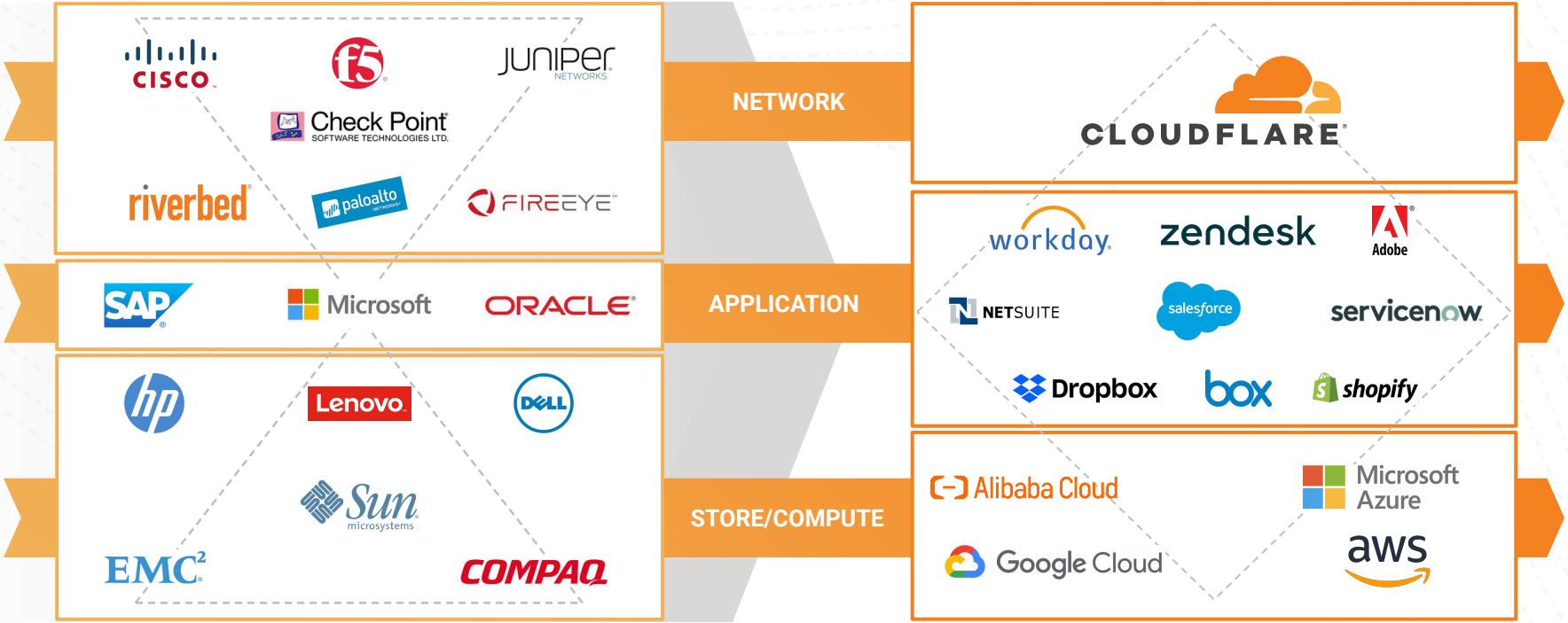
Global Cloud Platform

CLOUDFLARE © Copyright Cloudflare, Inc.

Evolution of Enterprise Stack

Hardware / Software (Buy) *Yesterday*

Services / Cloud (Rent) *Tomorrow*



CLOUDFLARE © Copyright Cloudflare, Inc.

An Integrated Global Cloud Platform

SECURITY

- Firewall
- IoT Security
- Bot Management
- SSL/TLS
- DDoS Protection
- Secure Origin Connection
- Infrastructure Protection
- Rate Limiting

TEAMS

- Zero Trust Security
- Gateway

PERFORMANCE

- Cache
- Mobile Optimization
- Intelligent Routing
- Image Optimization
- Content Optimization
- Mobile SDK

RELIABILITY

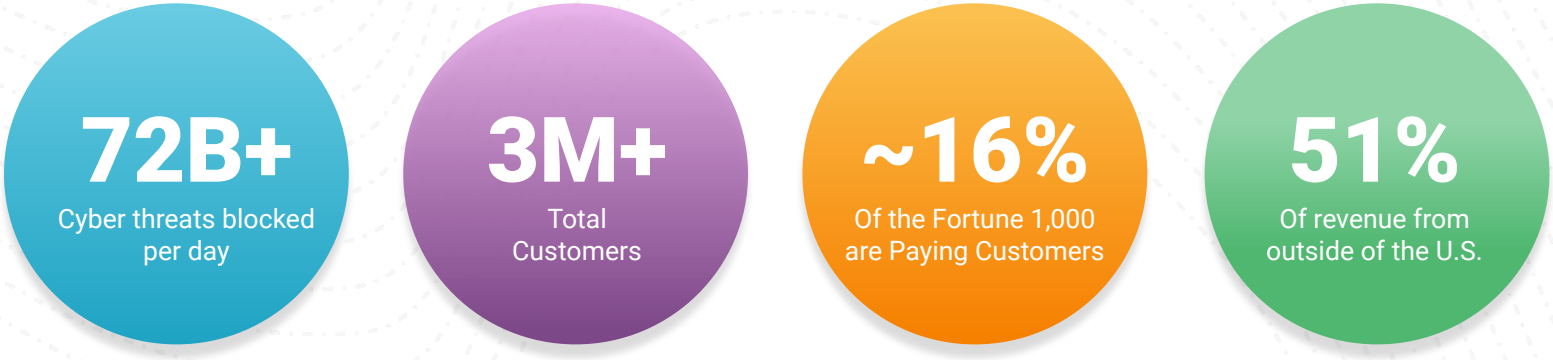
- Load Balancing
- Domain Name System (DNS)
- Anycast Network
- DNS Resolver
- Virtual Backbone
- Always Online

PLATFORM

- Serverless Compute
- Cloudflare Apps
- Analytics

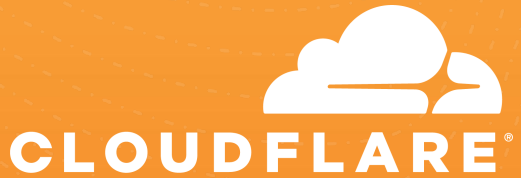
CLOUDFLARE © Copyright Cloudflare, Inc.

We operate at a massive scale.



CLOUDFLARE © Copyright Cloudflare, Inc.

Note: All data as of the three months ended June 30, 2020. See Appendix for Paying Customers definition.



Our Flexible, Scalable, & Efficient Serverless Architecture

- Every server, in every city, can run every Cloudflare service
- Abstracts underlying infrastructure
- Dynamically optimizes and leverages capacity across network
- Single unified code base
- Deployment on commodity hardware

CLOUDFLARE © Copyright Cloudflare, Inc.

A Global Network Powering Our Platform



200+
Cities

100+
Countries

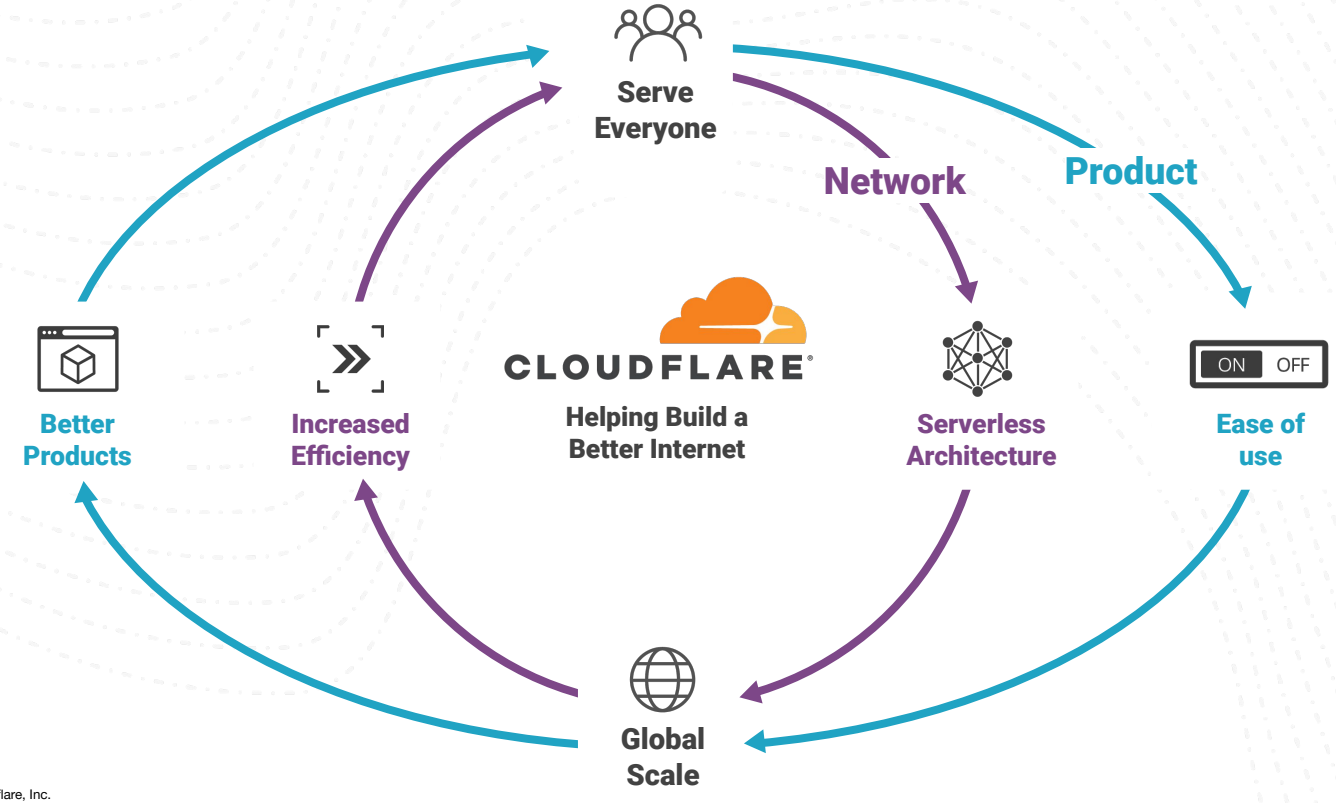
8,800+
Interconnects

99%
Of the Internet-connected developed world population is located within 100 milliseconds of our network

CLOUDFLARE © Copyright Cloudflare, Inc.

Note: Data as of June 30, 2020.

Our Product & Network Flywheels Drive Our Business



CLOUDFLARE © Copyright Cloudflare, Inc.

Data Intelligence & Quality Assurance at Scale

Global sensor network
with paying customers in over 170 countries.

Machine learning systems
improve products with every customer's request.

Immune system for the Internet blocking an average of 72 billion cyber threats each day.

Rapid development cycles
and QA through free users volunteering to test new products.

CLOUDFLARE © Copyright Cloudflare, Inc.

Note: Data as of the three months ended June 30, 2020.

Our Competitive Advantages









CLOUDFLARE © Copyright Cloudflare, Inc.

Our Favorable Competitive Position

		Limitations
On-Premise		• Complex and expensive • Not suited to address cloud-based and hybrid deployments
Point Solutions		• Architected to deliver single point / more narrow product portfolio • Customers are increasingly looking for an integrated platform offering security, performance, and reliability through a single vendor
Public Cloud		• Inability to serve as a unified control plane across on-premise, cloud, hybrid, and SaaS infrastructure • Customer lock-in and competition concerns

CLOUDFLARE © Copyright Cloudflare, Inc.

Disrupting Large, Well Established Legacy Markets

2022
$47B

2018
$32B

Performance & Reliability

- Application Delivery Controls
- Content Delivery Networks
- Wide Area Network Technology

Security

- VPN
- Internal and External Firewalls
- Web Security
- Distributed Denial of Service Prevention
- Intrusion Detection and Prevention
- Advanced Threat Prevention

Areas for Incremental Growth

- Serverless
- Internet of Things
- 5G Cellular
- Remote Work

CLOUDFLARE © Copyright Cloudflare, Inc.

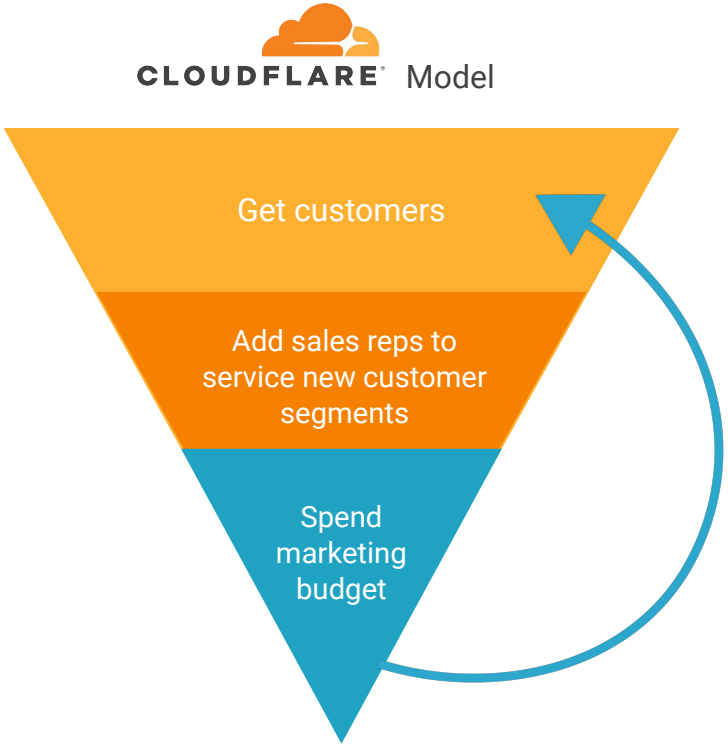
Note: Total addressable market represents 2018 spend and 2022 projections from our analysis based on latest IDC data available as of May 2019.

Traditional Go-To-Market Model Inverted

We don’t build ahead of the curve.

Sources of Leverage

- Self service adoption for customers of all sizes
- Natural expansion
- Pulled into new geographies
- Pulled up market



CLOUDFLARE © Copyright Cloudflare, Inc.

Our Strategy for Growth

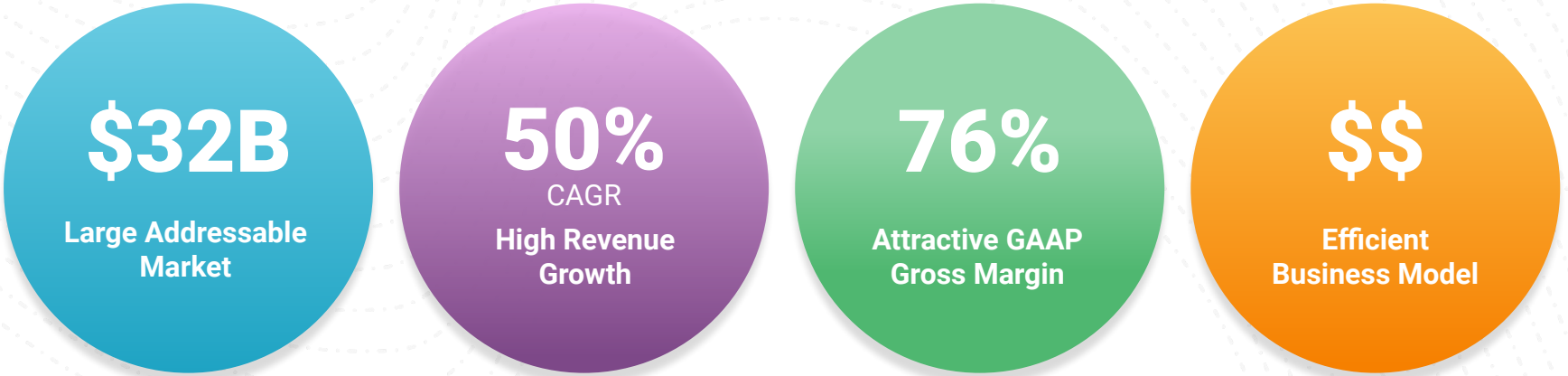


CLOUDFLARE © Copyright Cloudflare, Inc.

Financial Overview

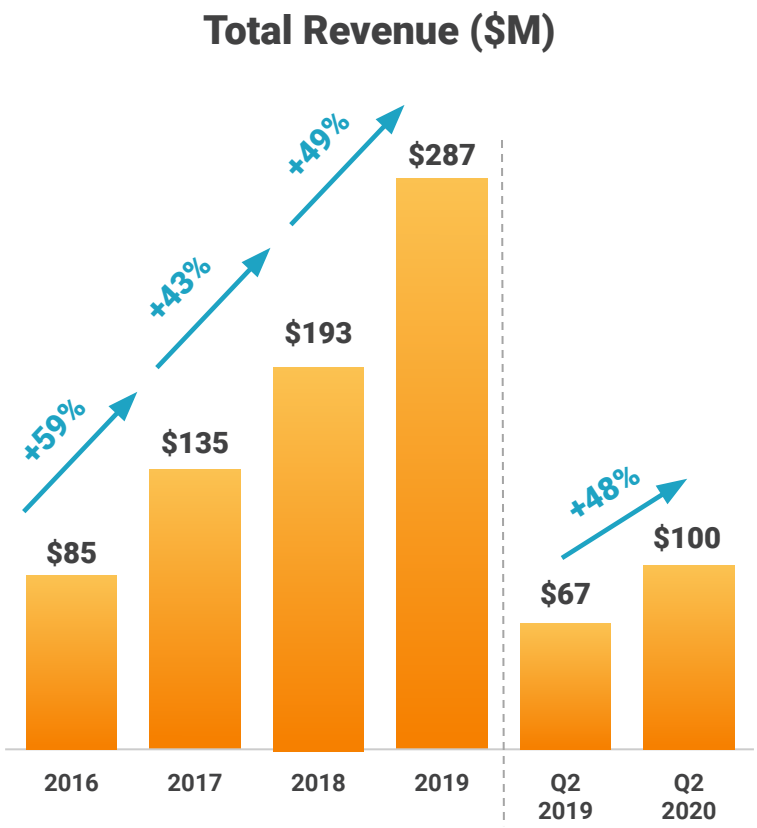
CLOUDFLARE © Copyright Cloudflare, Inc.

Key Financial Highlights



CLOUDFLARE © Copyright Cloudflare, Inc.

Note: Total addressable market represents 2018 spend and 2022 projections from our analysis based on latest IDC data available as of May 2019. Revenue growth is from 2016-2019 and gross margin data is for the three months ended June 30, 2020.



Strong Revenue Growth

Subscription-based revenue model

51% outside of the United States

Dollar-Based Net Retention consistently at or above 115% for last 9 quarters[1]

Growing Large Customer contribution

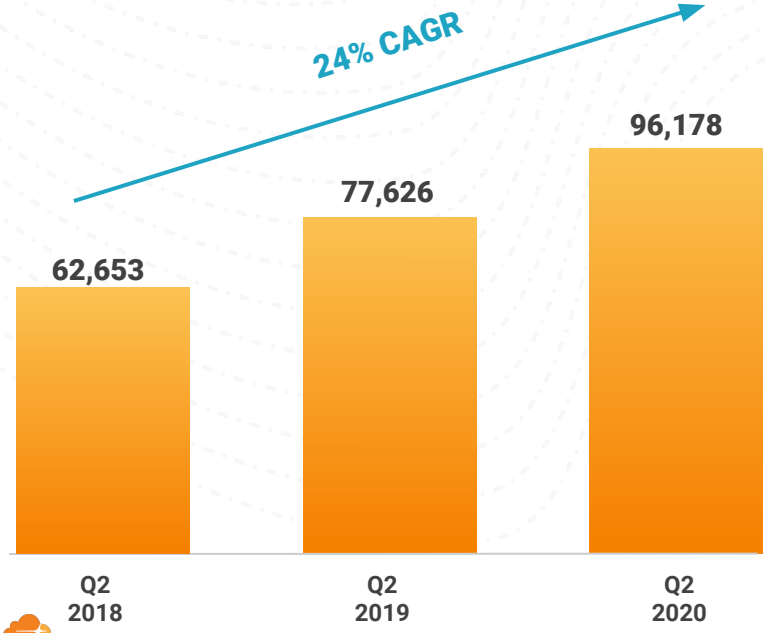
Multiple independent growth vectors

Note: Revenue outside the United States is for the three months ended June 30, 2020. See Appendix for the definitions of Dollar-Based Net Retention and Large Customers.
[1] See our earnings release and related supplemental materials dated August 6, 2020 for a discussion of how we changed the methodology by which we calculate Dollar-Based Net Retention.

CLOUDFLARE © Copyright Cloudflare, Inc.

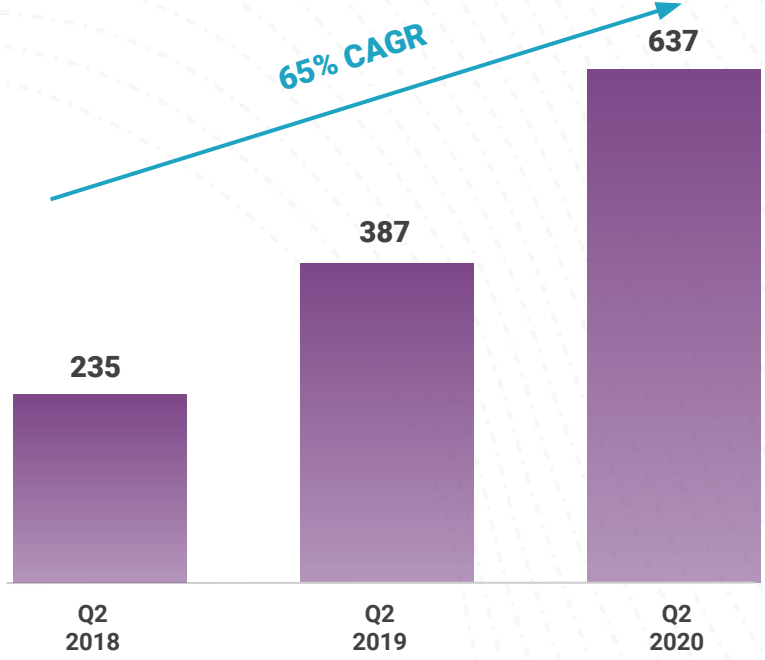
Rapid Customer Growth

Total Paying Customers



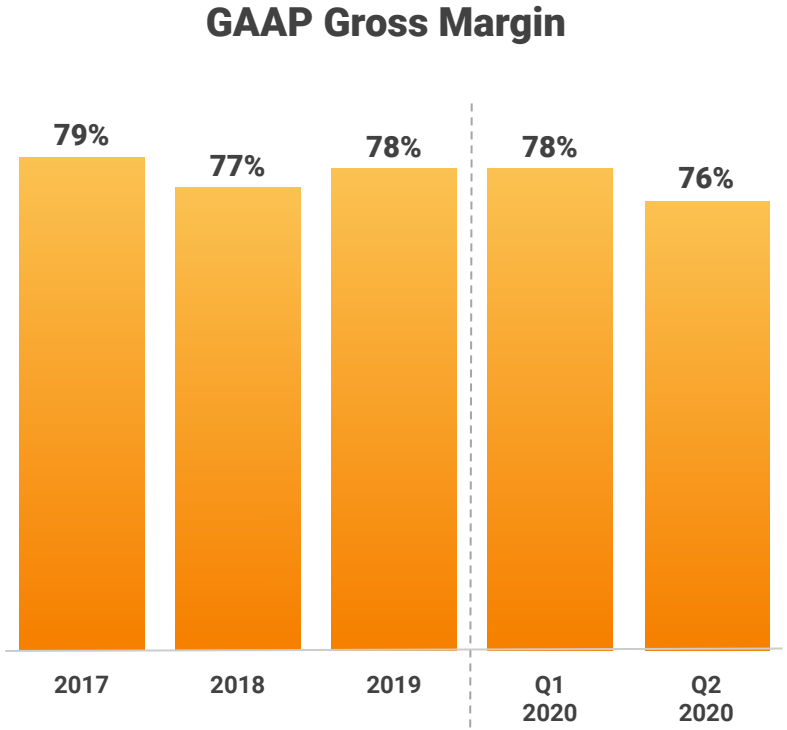
Large Customers

>$100,000 Annualized Revenue



CLOUDFLARE © Copyright Cloudflare, Inc.

Note: See Appendix for Paying Customer and Large Customer definitions. See our earnings release and related supplemental materials dated August 6, 2020 for a discussion of how we changed the methodology by which we calculate Paying Customers and Large Customers.



Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

Single software stack across the network

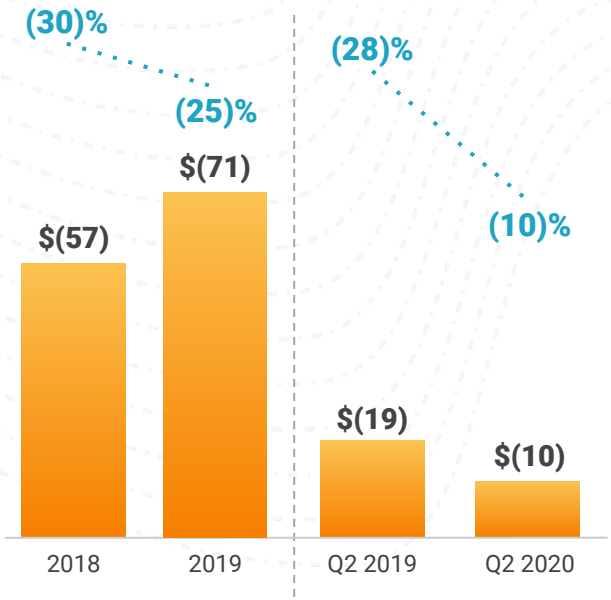
Symbiotic relationship with ISPs

Leverage idle capacity across network

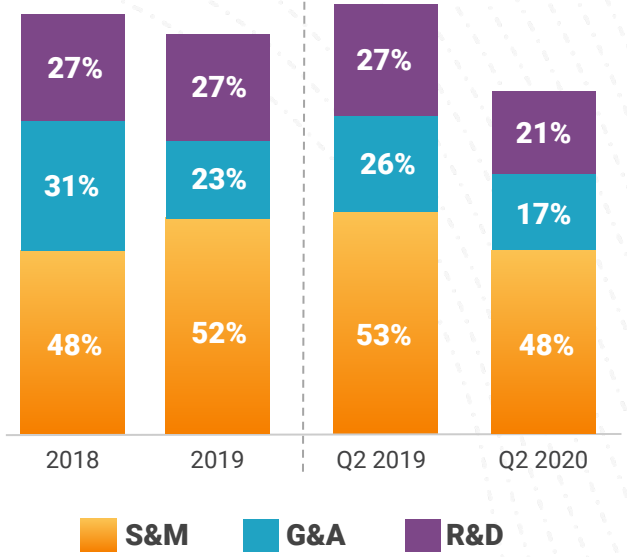
CLOUDFLARE © Copyright Cloudflare, Inc.

Leverage of Our Platform

Operating Loss and Margin



Operating Expense as a % of Revenue



CLOUDFLARE © Copyright Cloudflare, Inc.

Note: $ in millions. Metrics shown are Non-GAAP. See Appendix for GAAP financial measures and reconciliation.

Long-Term Model (Non-GAAP)

	2018	2019	Q2 2020	Long-Term Model
Gross Margin	78 %	78 %	77 %	**75% - 77%**
Sales & Marketing (% of revenue)	48 %	52 %	48 %	**27% - 29%**
Research & Development (% of revenue)	27 %	27 %	21 %	**18% - 20%**
General & Administrative (% of revenue)	31 %	23 %	17 %	**8% - 10%**
Operating Margin	(30)%	(25)%	(10)%	**20% +**



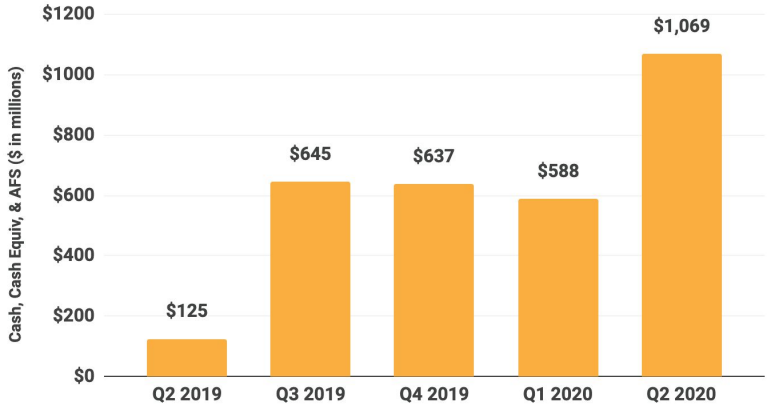
CLOUDFLARE © Copyright Cloudflare, Inc.

Note: Metrics shown are Non-GAAP. See Appendix for GAAP financial measures and reconciliation.

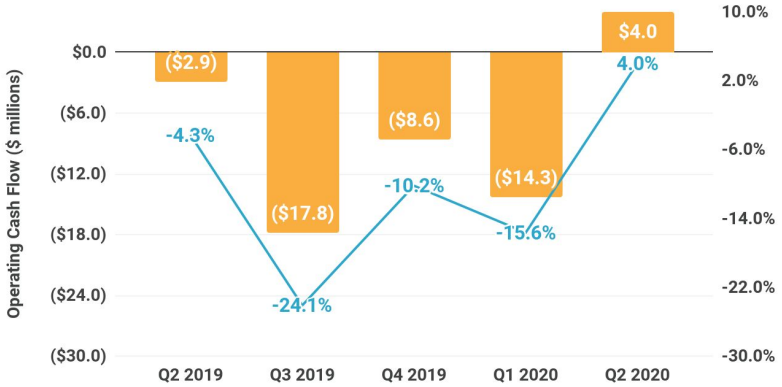
Strong Cash Position

- Raised $565 million, net of fees and expenses, in our IPO that priced on September 12th, 2019
- Raised $562 million, net of fees and expenses, in our Convertible Note that priced on May 13th, 2020

Cash Balance



Operating Cash Flow & Margin



CLOUDFLARE © Copyright Cloudflare, Inc.

Our Business Model



Disrupting a large and growing total addressable market



Widely distributed Global Cloud Platform; every service on every server



Expansive product portfolio; open to developer innovation



Highly efficient business model and low fundamental cost structure



High-growth subscription revenue model with attractive gross margin

CLOUDFLARE © Copyright Cloudflare, Inc.

Appendix

CLOUDFLARE © Copyright Cloudflare, Inc.

GAAP to Non-GAAP Reconciliation

	2016	2017	2018	2019	Q2 2019	Q2 2020
Cost of Revenue	$23,962	$28,788	$43,537	$63,423	$14,832	$24,164
Less: Stock-based Compensation Expense	-$64	-$47	-$119	-$716	-$34	-$329
Less: Amortization of Acquired Intangible Assets	-$38	-$462	-$517	-$125	-$32	-$700
Non-GAAP Cost of Revenue	**$23,860**	**$28,279**	**$42,901**	**$62,582**	**$14,766**	**$23,135**
Gross Profit	$60,829	$106,127	$149,137	$223,599	$52,592	$75,557
Add: Stock-based Compensation & Related Payroll Taxes	$64	$47	$119	$716	$34	$329
Add: Amortization of Acquired Intangible Assets	$38	$462	$517	$125	$32	$700
Non-GAAP Gross Profit	**$60,931**	**$106,636**	**$149,773**	**$224,440**	**$52,658**	**$76,586**
GAAP Gross Margin	72 %	79 %	77 %	78 %	78%	76%
Non-GAAP Gross Margin	**72 %**	**79 %**	**78 %**	**78 %**	**78%**	**77%**
Sales and Marketing Expense	$40,122	$61,899	$94,394	$159,298	$35,836	$51,376
Less: Stock-based Compensation & Related Payroll Taxes	-$381	-$488	-$979	-$8,709	-$275	-$3,975
Non-GAAP Sales and Marketing Expense	**$39,741**	**$61,411**	**$93,415**	**$150,589**	**$35,561**	**$47,401**
GAAP S&M Expense as a % of Revenue	47%	46%	49%	56%	53%	52%
Non-GAAP S&M Expense as a % of Revenue	47%	46%	48%	52%	53%	48%
Research and Development Expense	$23,663	$33,650	$54,463	$90,669	$18,868	$28,131
Less: Stock-based Compensation & Related Payroll Taxes	-$1,043	-$969	-$1,532	-$13,037	-$406	-$6,917
Less: Acquisition-related and Other Expenses	-	-	-	-	-	$51
Non-GAAP Research and Development Expense	**$22,620**	**$32,681**	**$52,931**	**$77,632**	**$18,462**	**$21,265**
GAAP R&D Expense as a % of Revenue	28%	25%	28%	32%	28%	28%
Non-GAAP R&D Expense as a % of Revenue	27%	24%	27%	27%	27%	21%
General and Administrative Expense	$14,073	$20,308	$85,179	$81,578	$17,659	$20,754
Less: Stock-based Compensation & Related Payroll Taxes	-$4,212	-$1,251	-$24,717	-$14,165	-$329	-$3,347
Less: Acquisition-related and Other Expenses	-	-	-	-	-	-
Non-GAAP General and Administrative Expense	**$9,861**	**$19,057**	**$60,462**	**$67,413**	**$17,330**	**$17,407**
GAAP G&A Expense as a % of Revenue	17%	15%	44%	28%	26%	21%
Non-GAAP G&A Expense as a % of Revenue	12%	14%	31%	23%	26%	17%
Loss from Operations	-$17,029	-$9,730	-$84,899	-$107,946	-$19,771	-$24,704
Add: Stock-based Compensation & Related Payroll Taxes	$5,700	$2,755	$27,347	$36,627	$1,044	$14,568
Add: Amortization of Acquired Intangible Assets	$38	$462	$517	$125	$32	$700
Add: Acquisition-related and Other Expenses	-	-	-	-	-	-$51
Non-GAAP Loss from Operations	**-$11,291**	**-$6,513**	**-$57,035**	**-$71,194**	**-$18,695**	**-$9,487**
GAAP Operating Margin	-20%	-7%	-44%	-38%	-29%	-25%
Non-GAAP Operating Margin	**-13%**	**-5%**	**-30%**	**-25%**	**-28%**	**-10%**

Note: $ in thousands.

CLOUDFLARE © Copyright Cloudflare, Inc.

Definitions

Paying Customers. We believe our ability to grow the number of paying customers on our platform provides a key indicator of growth of our business and our future business opportunities. We define a paying customer as a person or entity who has generated revenue during the quarter, excluding (i) customers that were not acquired through ordinary sales channels, (ii) customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. An entity is defined as a company, a government institution, a non-profit organization, or a distinct business unit of a large company that has an active contract with us or one of our partners.

Paying Customers (> $100,000 Annualized Revenue). While we continue to grow customers across all sizes, over time, our large customers have contributed an increasing share of our revenue. We view the number of customers with Annualized Revenue greater than $100,000 as indicative of our penetration within large enterprise accounts. To measure Annualized Revenue, we take the sum of revenue for each customer in the quarter and multiply that amount by four. For example, if we signed a new customer that generated $600 of revenue in the quarter, that customer would account for $2,400 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through our ordinary sales channels, (ii) revenue generated from customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. Our Annualized Revenue metric also includes any usage charges by a customer during a period, which represents a small portion of our total revenue and may not be recurring. As a result, Annualized Revenue may be higher than actual revenue over the course of the year.

Dollar-Based Net Retention Rate. Our ability to maintain long-term revenue growth and achieve profitability is dependent on our ability to retain and grow revenue generated from our existing paying customers. We believe that we will achieve these objectives by continuing to focus on customer loyalty and adding additional products and functionality to our platform. Our dollar-based net retention rate is a key way we measure our performance in these areas. Dollar-based net retention measures our ability to retain and expand recurring revenue from existing customers. To calculate dollar-based net retention for a period, we compare the Annualized Revenue from paying customers four quarters prior to the Annualized Revenue from the same set of customers in the most recent quarter. Our dollar-based net retention includes expansion and is net of contraction and attrition, but excludes Annualized Revenue from new customers in the current period. Our dollar-based net retention excludes the benefit of free customers that upgrade to a paid subscription between the prior and current periods, even though this is an important source of incremental growth. We believe this provides a more meaningful representation of our ability to add incremental business from existing paying customers as they renew and expand their contracts.

CLOUDFLARE © Copyright Cloudflare, Inc.