CLOUDFLARE

Investor Presentation

As of September 30, 2022

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Cloudflare at a Glance

2010
Launched

156K
Paying Customers

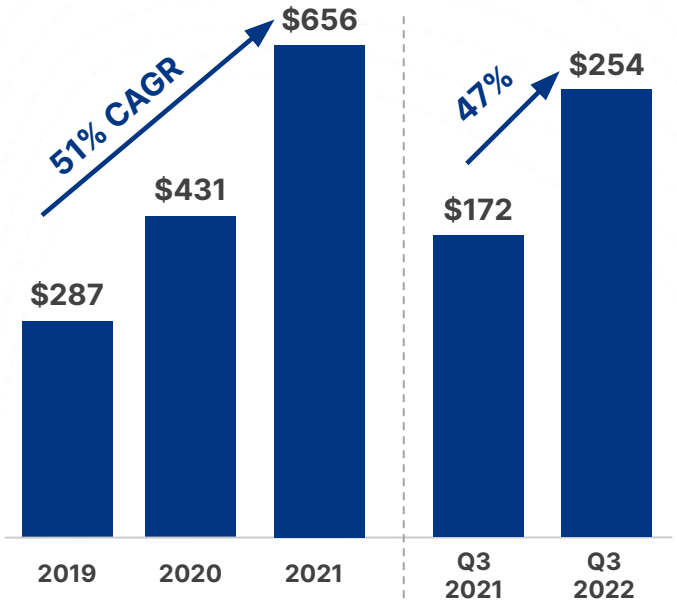
275+
Cities in Network

>50%
Of Revenue from Large Customers

3,181
Employees

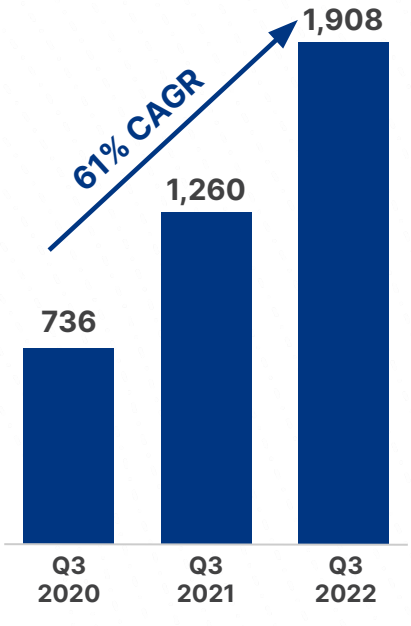
76%
GAAP Gross Margin

Total Revenue ($M)



Large Customers

> $100,000 Annualized Revenue



Note: For additional information on the restatement of Paying Customers for the first quarter of 2022, please refer to Slide 23. Unless indicated otherwise, all data in orange shaded area of slide are as of September 30, 2022, except revenue from Large Customers and GAAP gross margin are for three months ended September 30, 2022. Large Customers data in white shaded area of slide are as of applicable year ends. See Appendix for "Large Customers" definition.

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Environmental, Social, Governance

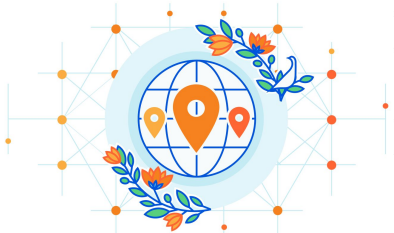


Building a Greener Internet

Green Compute on Cloudflare Workers

Carbon Impact Reports

2021 Emissions Report



Human Rights and Democracy

Helping Protect 2022 U.S. Midterm Elections (Athenian Project, Cloudflare for Campaigns)

Mandatory human rights training for all employees

Global Network Initiative (GNI) Member



Building Sustainable Communities

UN Global Compact Signatory

Diversity, Equity, Inclusion Report

Annual Impact Report (12/22)

1% Pledge Participant

We are powering our network with 100% renewable energy and committed to removing all historical emissions from our global network by 2025

For more information, visit
https://www.cloudflare.com/impact/

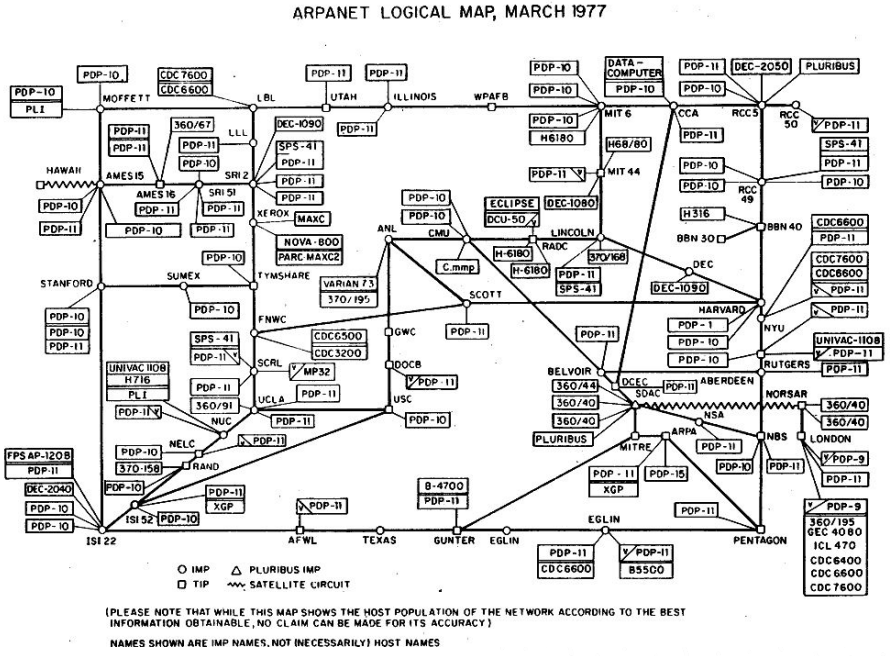
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Cloudflare’s mission is to

Help build a better Internet

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The Internet was not built for what it has become.

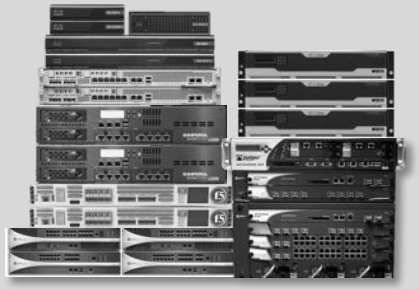


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From Endless Hardware to a Global Cloud Platform

BAND-AID BOXES

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



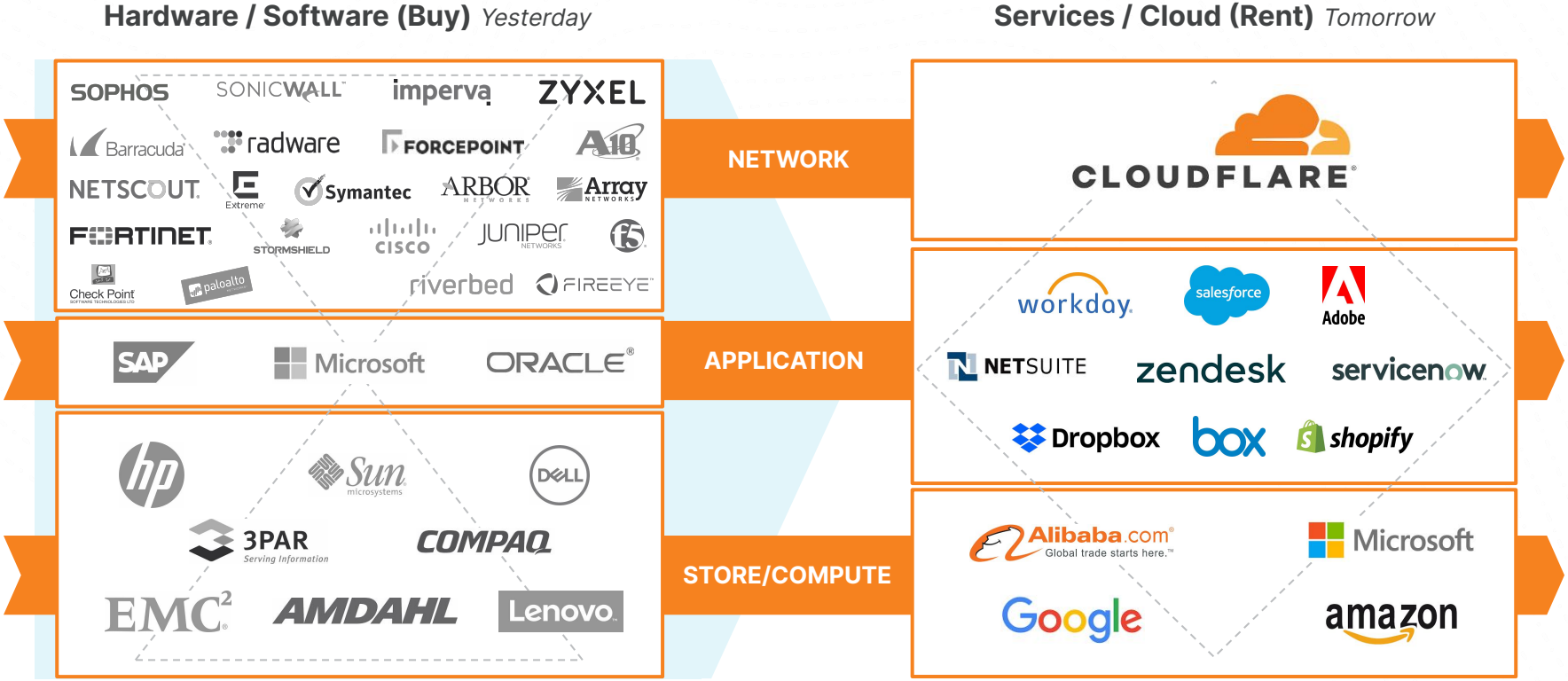
BETTER INTERNET

- 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

Evolution of Enterprise Stack



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An Integrated Global Cloud Platform

Cloudflare One

Cloudflare Zero Trust Services

Cloudflare for Teams suite

- ZTNA with Private Routing
- Remote Browser Isolation
- SWG with CASB
- Identity/Endpoint Integration

Cloudflare Network Services

- WAN-as-a-Service
- Firewall-as-a-Service
- L3 & L4 DDoS Protection
- Network Interconnect
- Smart Routing

Cloudflare Application Services

- WAF with API Protection
- Rate Limiting
- Load Balancing
- Bot Management
- L7 DDoS Protection
- CDN and DNS

Cloudflare Edge Developer Platform

Workers | Workers KV | Pages | Durable Objects | Video Streaming

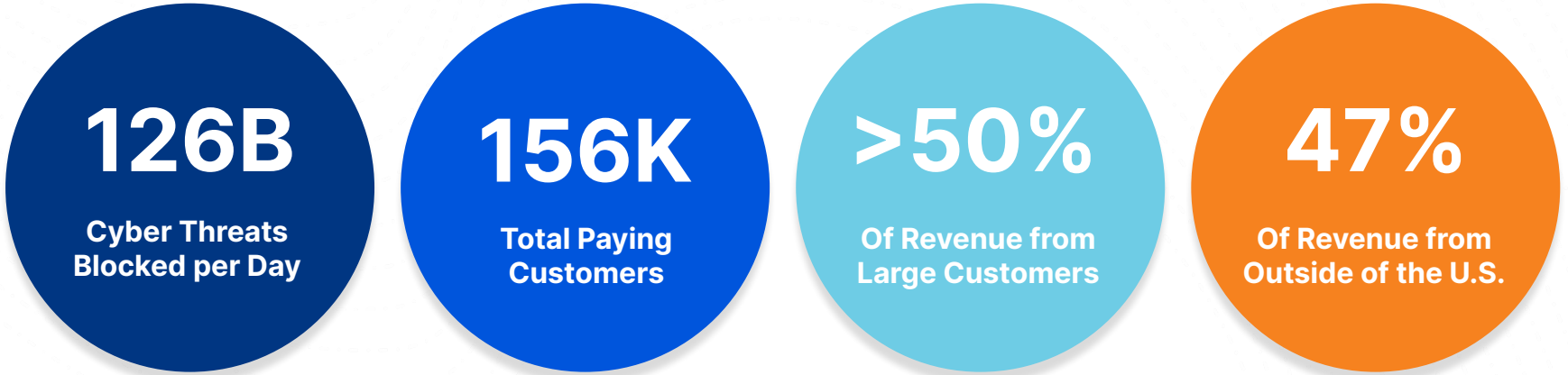
Cloudflare Global Network

- **Global Edge:** 275+ cities, 95% of population within ~50ms, 11,000 interconnects, 172 Tbps capacity, China Network
- **Building Blocks:** SSL/TLS, mTLS, Authoritative/Recursive DNS, DNSSEC, DNS over HTTP, L4-7 over Wireguard
- **Compliance/Privacy:** ISO, SOC, PCI, GDPR-compliant Logs & Analytics, Data Localization Suite

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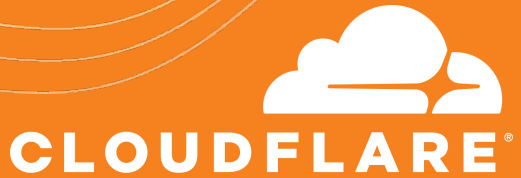
ZTNA = Zero Trust Network Access | SWG = Secure Web Gateway | CASB = Cloud Access Security Broker
Figures as of September 30, 2022, with the exception of network capacity, which is as of November 1, 2022.

We Operate at Massive Scale



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Cyber threats blocked per day is average over the three months ended September 30, 2022. All other figures are as of the three months ended September 30, 2022. See Appendix for "Paying Customers" and "Large Customers" definitions.



Our Flexible, Scalable, & Efficient Serverless Architecture

- Abstracts underlying infrastructure
- Dynamically optimizes and leverages capacity across network
- Single unified code base
- Deployment on commodity hardware

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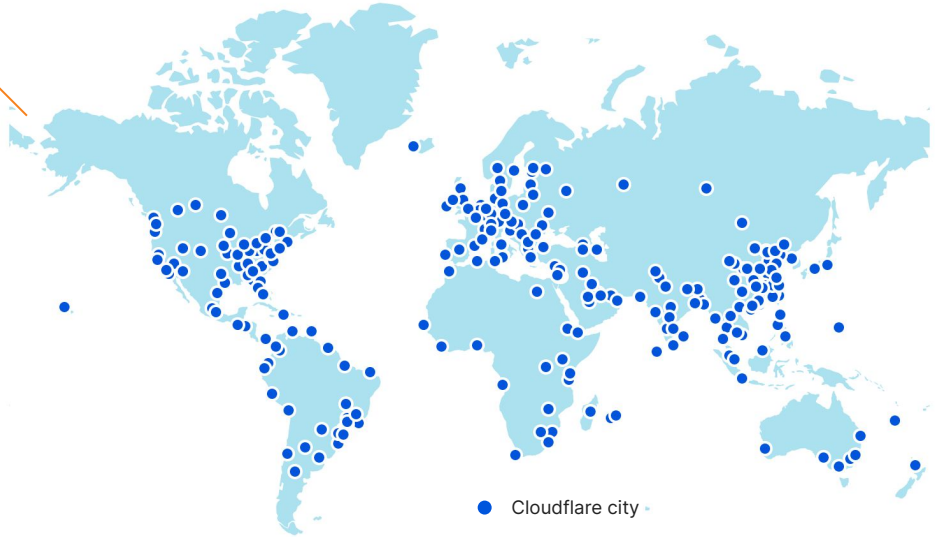
A Global Network Powering our Platform

275+ cities
in 100+ countries, including mainland China

11,000 networks
directly connect to Cloudflare, including ISPs, cloud providers, and large enterprises

172 Tbps
of network capacity and growing

156,000 paying customers



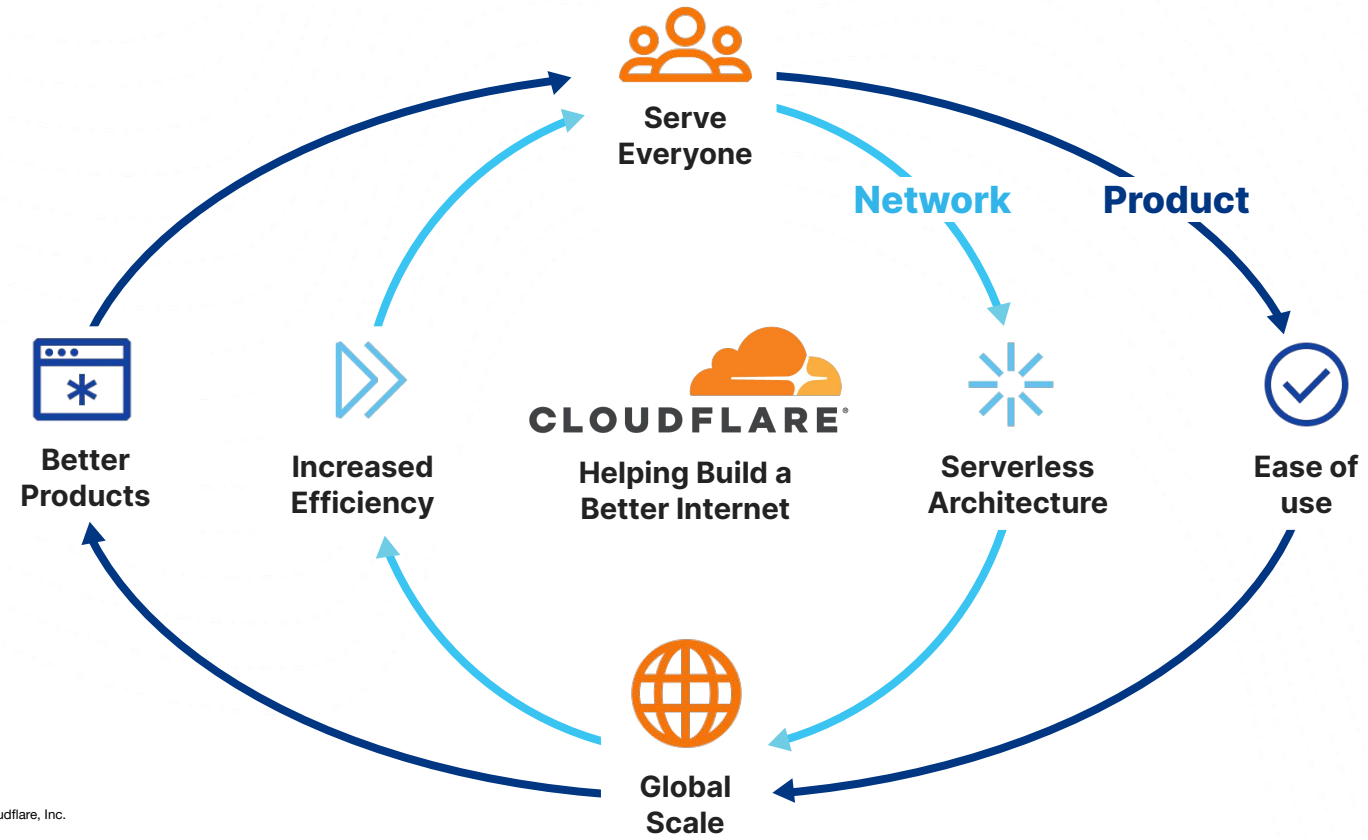
Plans for 1,000+
of the world's busiest office buildings and multi-dwelling units to link directly with the Cloudflare network in the future

51%
year-over-year Large Customer growth in Q3'22

95%
of the world's population is within ~50 ms of a Cloudflare data center

Note: Figures as of September 30, 2022, with the exception of network capacity, which is as of November 1, 2022. See Appendix for "Large Customers" definition.

Our Product & Network Flywheels Drive Our Business



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Data Intelligence & Quality Assurance at Scale

Global sensor network
with paying customers in 175+ countries.

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

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

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

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Note: Cyber threats blocked per day is approximate average over the three months ended September 30, 2022. Other figures as of the three months ended September 30, 2022.

Our Competitive Advantages









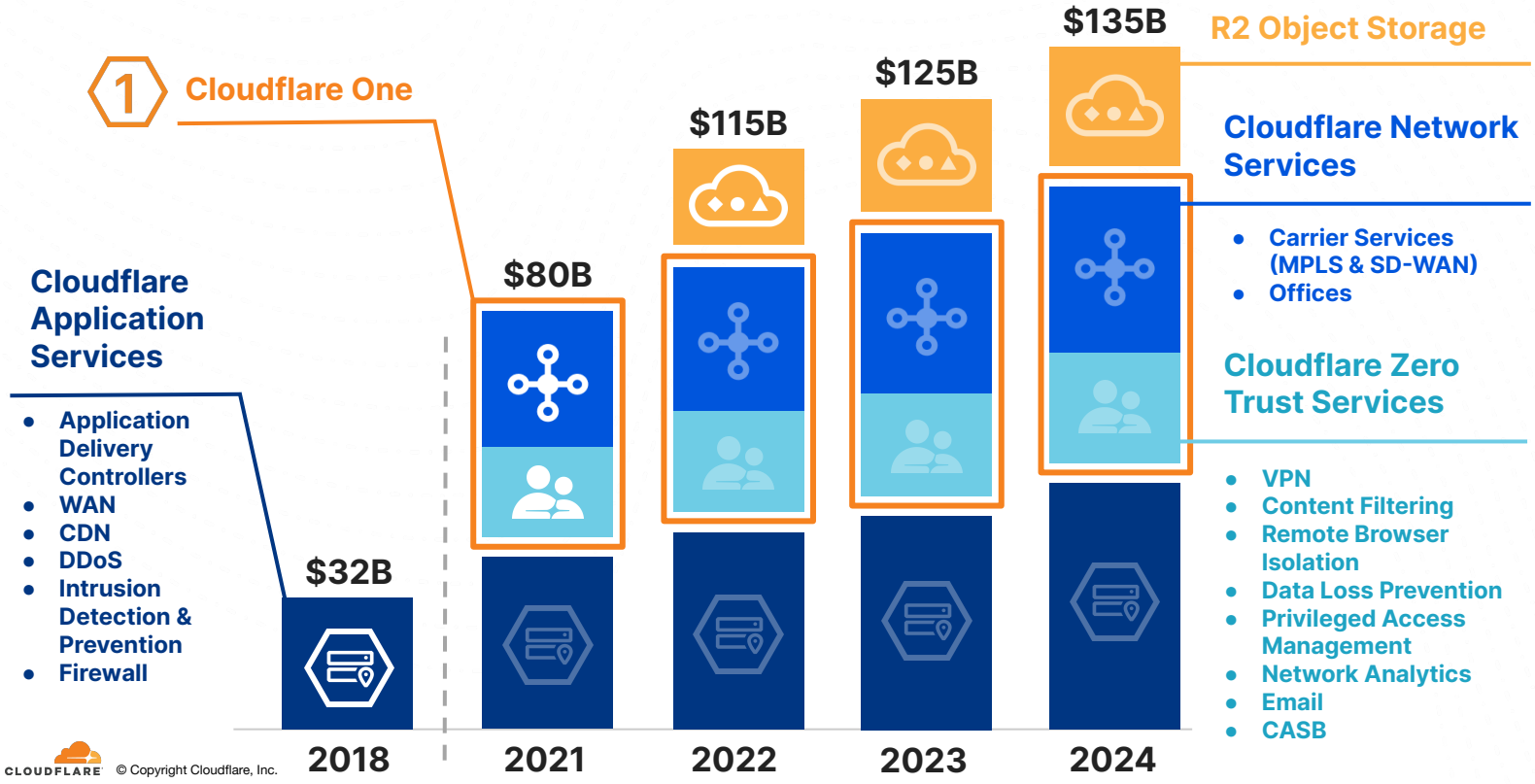
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Our Favorable Competitive Position

		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

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Innovation Drives Massive TAM Expansion



Areas for Potential Incremental Growth

- Serverless
- Database
- Internet of Things
- 5G Cellular
- Consumer

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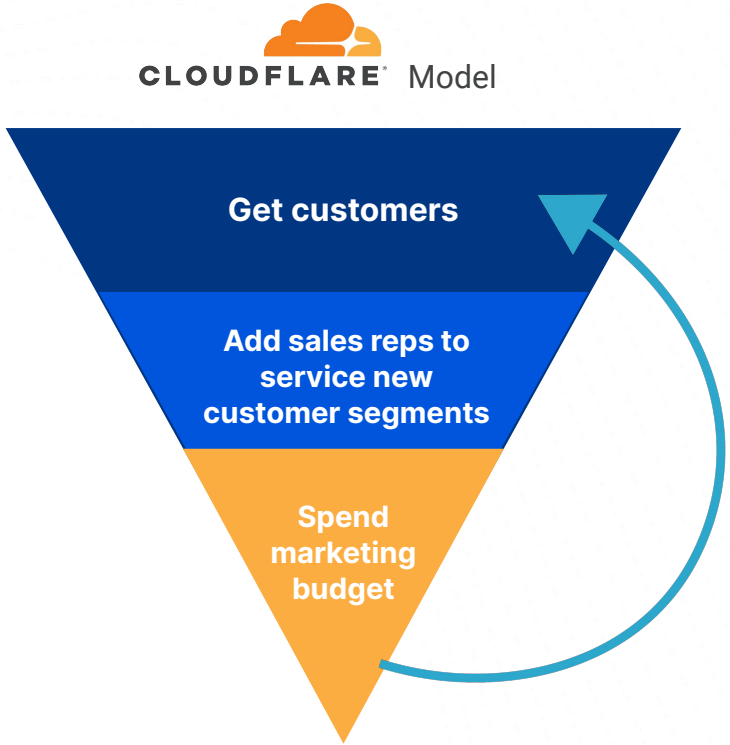
Note: Total Addressable Market figures are Cloudflare estimates based on IDC market forecasts. Figures reflect the markets addressed by our current product offerings.

Traditional Go-To-Market Model Inverted

We don’t build ahead of the curve.

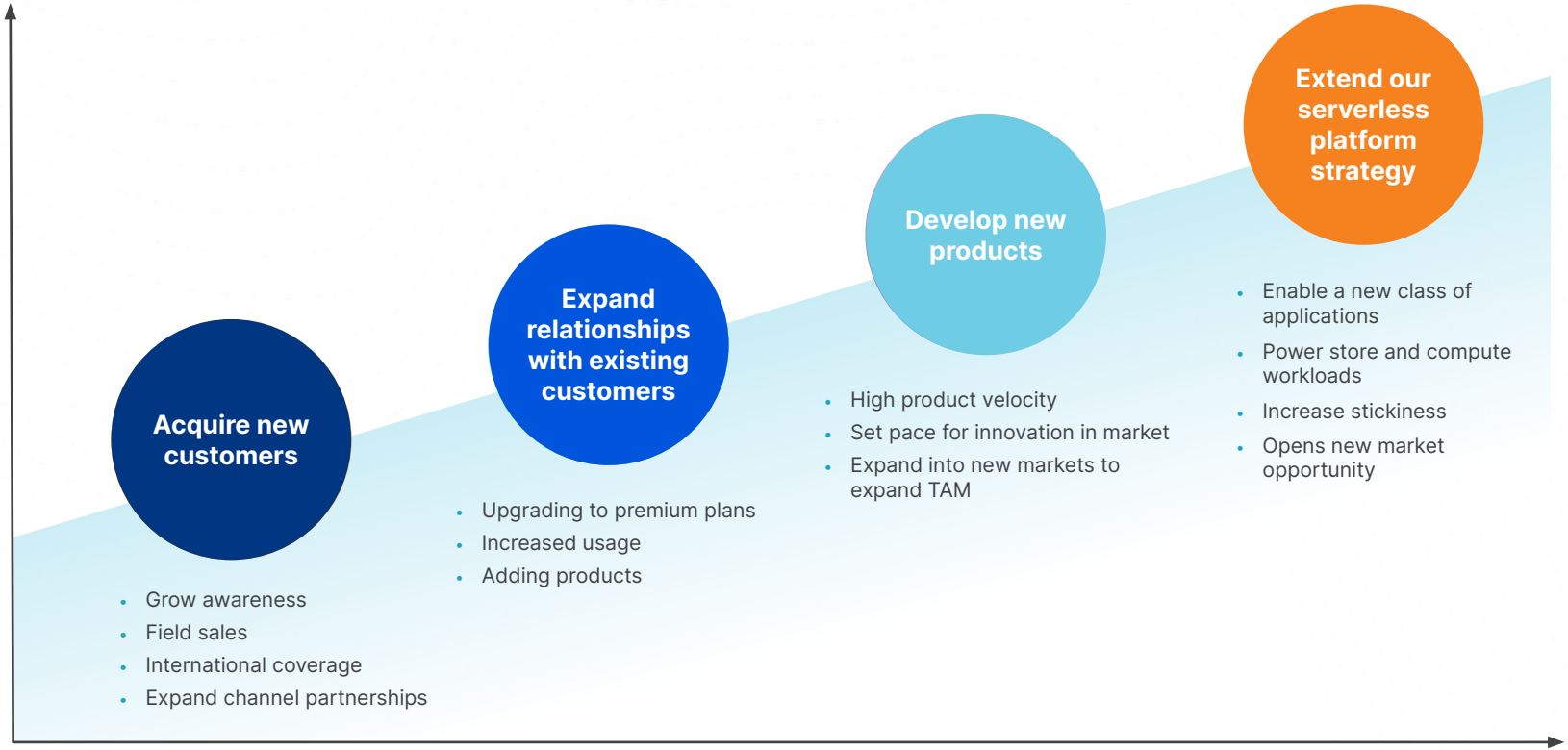
Sources of Leverage

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



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Our Strategy for Growth



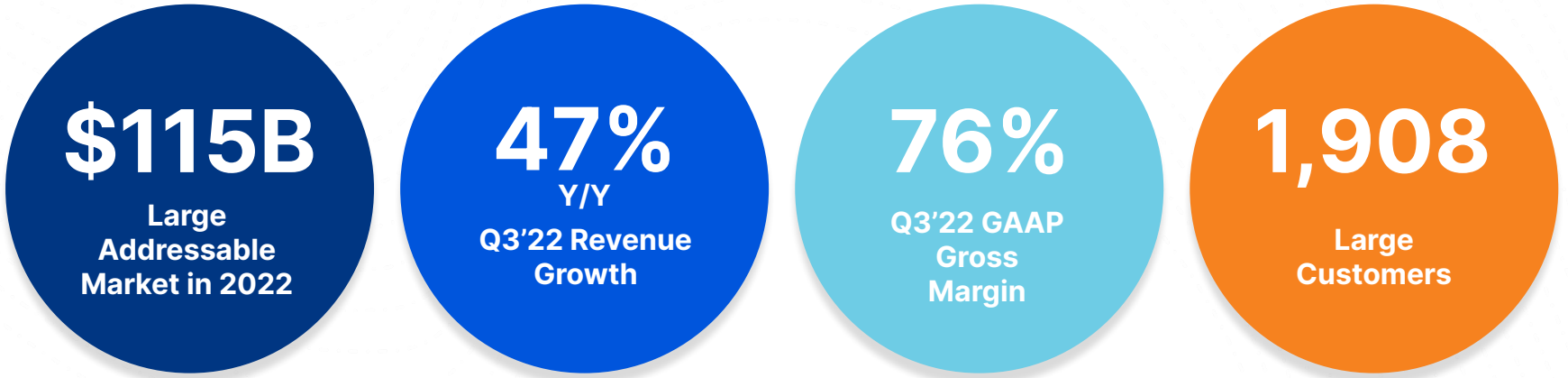
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Financial Overview

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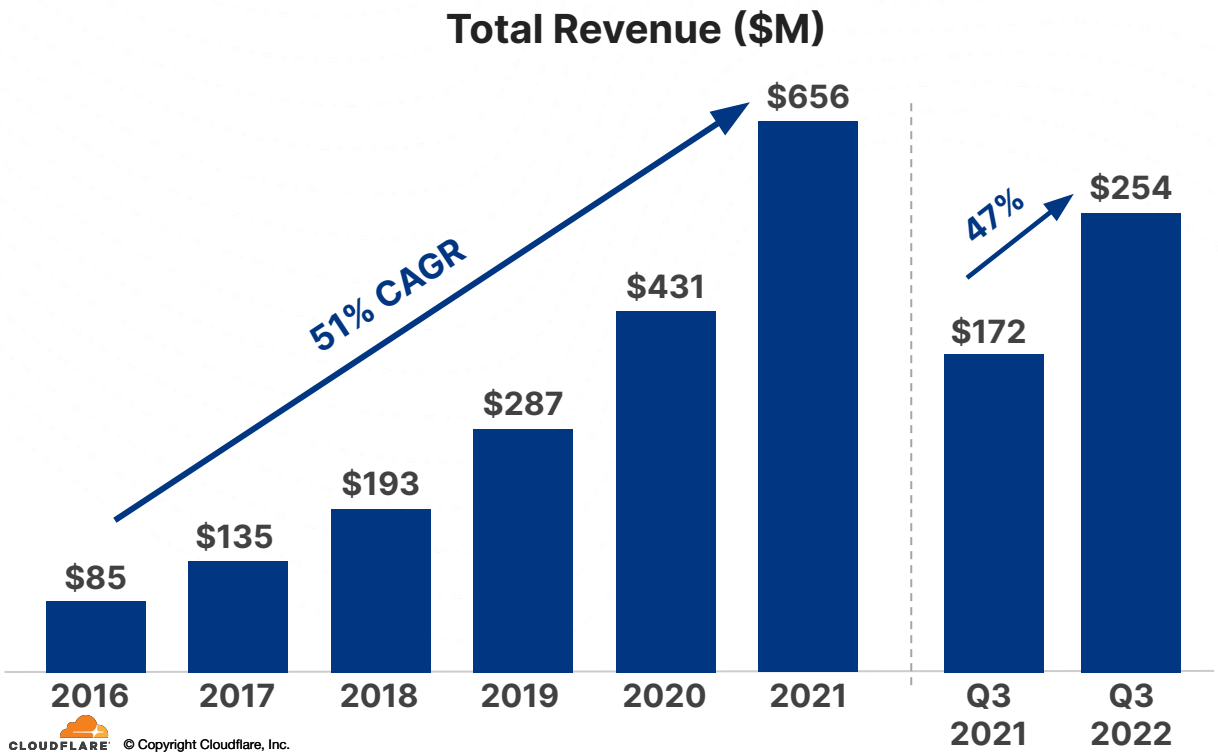
Key Financial Highlights



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Note: Total Addressable Market represents 2022 expected spend from our analysis based on IDC data. Year-over-year revenue growth and gross margin are as of the three months ended September 30, 2022. Large Customers is as of September 30, 2022. See the Appendix for how we define "Large Customers."

Track Record of Delivering Revenue Growth

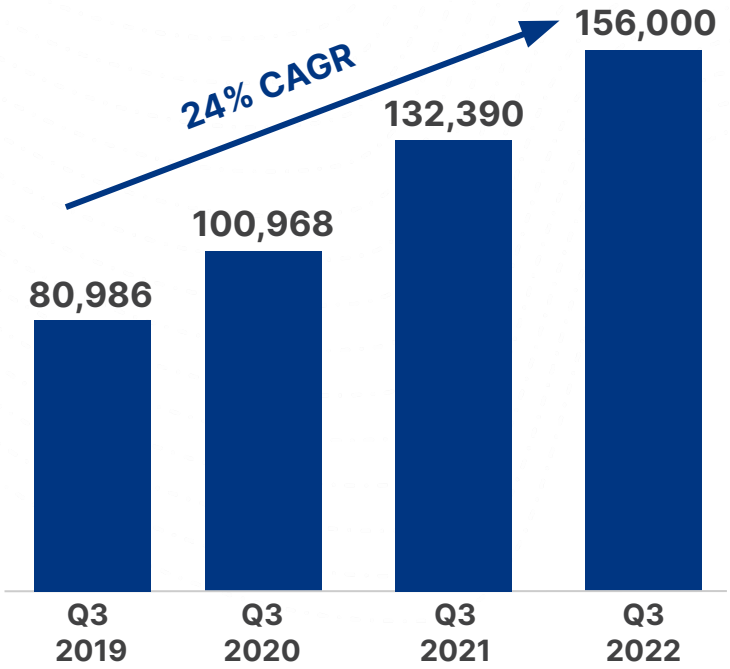


- Investment in enterprise sales
- Large customer momentum
- Land and expand strategy drives growth across cohorts
- Strong penetration across the entire product portfolio

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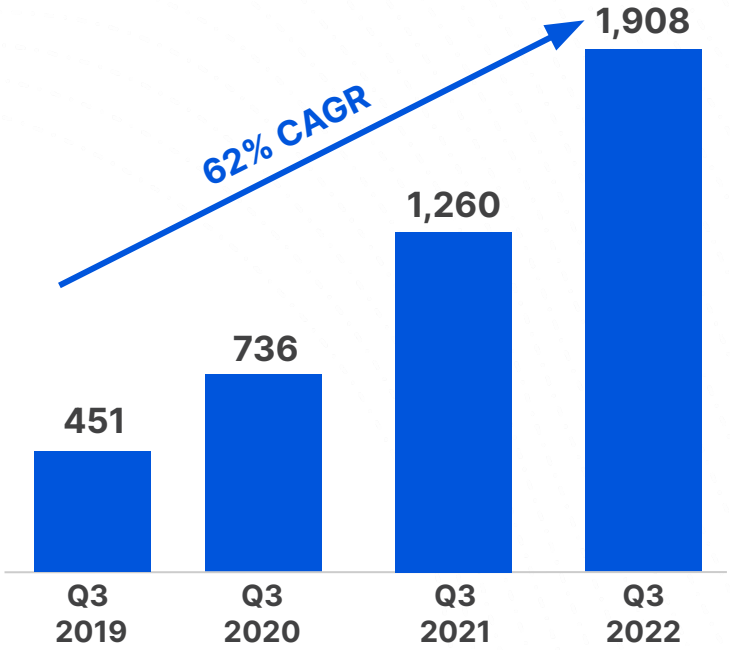
Rapid Customer Growth

Paying Customers



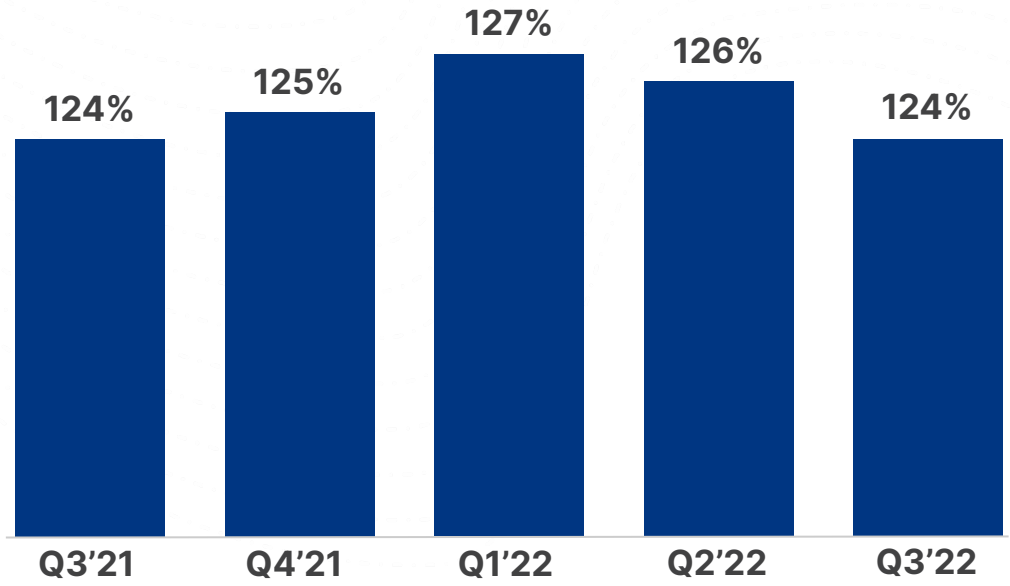
Large Customers

>$100,000 Annualized Revenue



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Strong Dollar-Based Net Retention



DNR includes all paying customers

Large customers are a tailwind to DNR

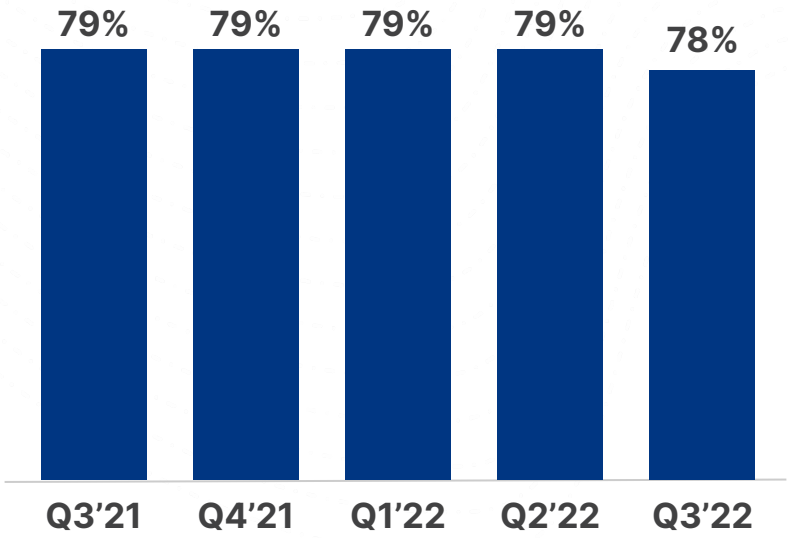
Gross retention above 90%

Continuous innovation offers expansion opportunities

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Note: See the Appendix for how we define "Dollar-Based Net Retention." Gross revenue retention is defined as 1 - gross revenue churn.

Non-GAAP Gross Margin



Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

Single software stack across the network

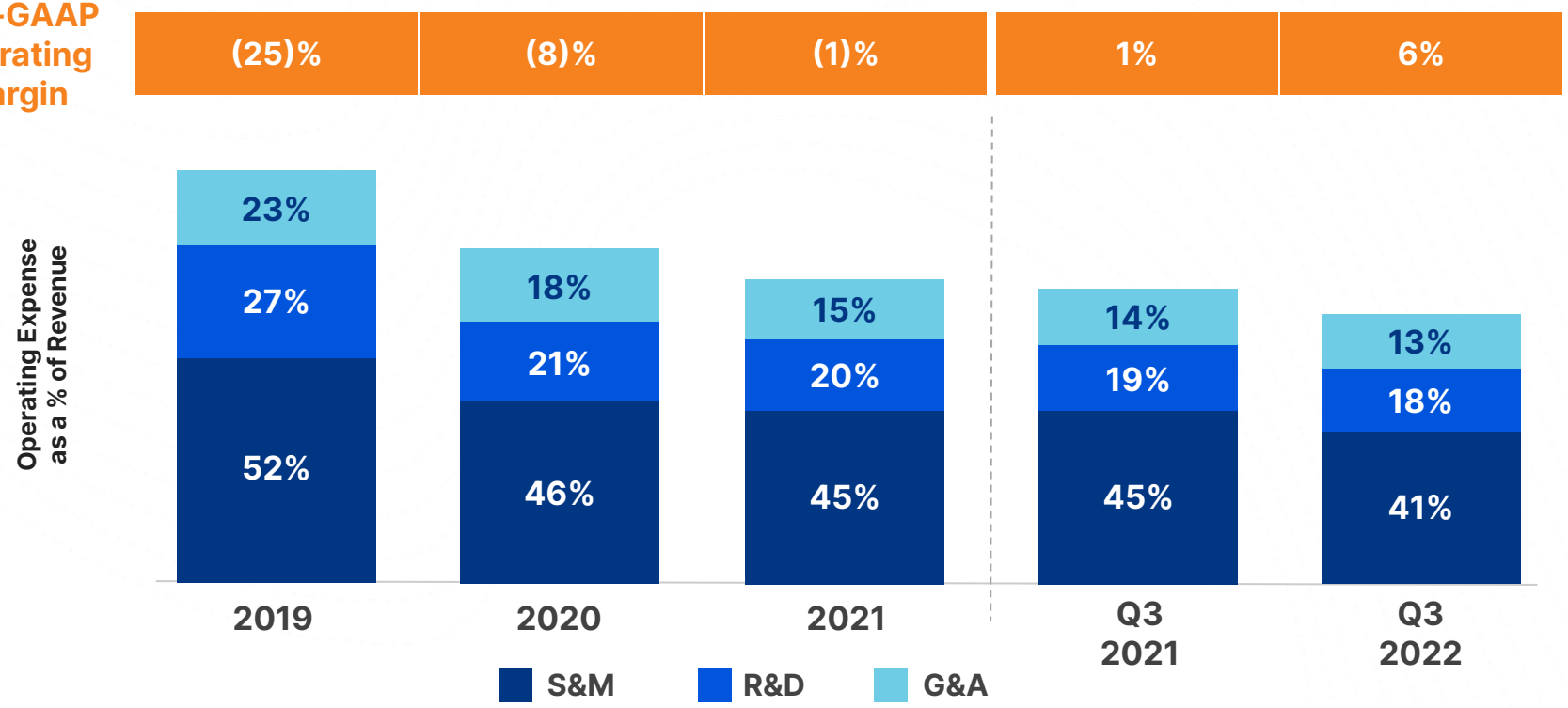
Symbiotic relationship with ISPs

Leverage idle capacity across network

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Note: See Appendix for GAAP to Non-GAAP reconciliation.

Leverage of Our Operating Model



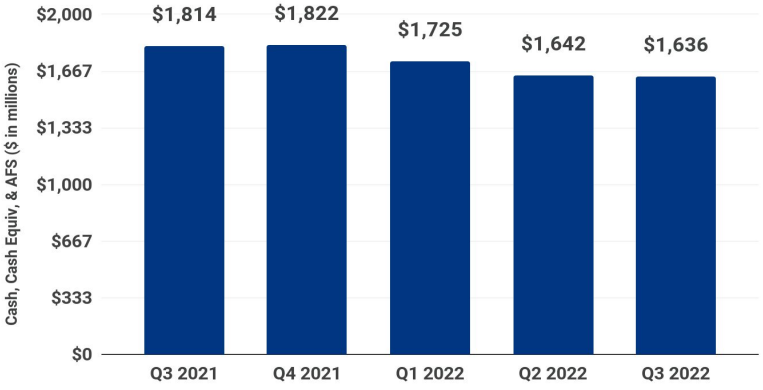
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Note: See the Appendix for GAAP to Non-GAAP reconciliation.

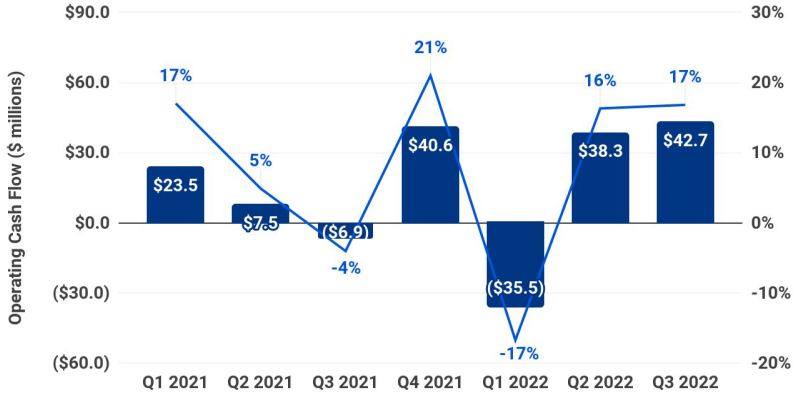
Strong Cash Position

- Raised $565 million in our IPO that priced on September 12th, 2019, net of fees and expenses
- Raised $495 million in our Convertible Notes Offering due 2025 that priced on May 13th, 2020, net of issuance costs and a capped call with respect to the 2025 convertible notes
- Raised $790 million in our Convertible Note Offering due 2026 that priced on August 10th, 2021, net of the repurchase of 2025 notes, issuance costs, and a capped call with respect to the 2026 convertible notes

Cash Balance



Operating Cash Flow & Margin



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Guidance

(as of Nov 03, 2022)

Q4 2022		FY 2022	
Revenue Y/Y Growth	**$273.5 - 274.5** 41% - 42%	**Revenue** Y/Y Growth	**$974.0 - 975.0** 48% - 49%
Operating Income Operating Margin	**$12.0 - $13.0** 4% - 5%	**Operating Income** Operating Margin	**$31.0 - $32.0** 3%
EPS	**$0.04 - $0.05**	**EPS**	**$0.11 - $0.12**

FY 2022
Network Capex
as % of Revenue

12%-14%

Anticipate Returning to Free Cash Flow Positive **2nd Half 2022**

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Note: These forward looking statements were provided by us on Nov 03, 2022. This forward looking guidance speaks only as of such date and the inclusion of such guidance in this presentation should not be interpreted as a confirmation or affirmation of such guidance as of any other date. 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.

Long-Term Model

	2019	2020	2021	Q3 2022	Long-Term Model
Non-GAAP Gross Margin	78 %	78 %	79 %	78 %	**75% - 77%**
Sales & Marketing (% of revenue)	52 %	46 %	45 %	41 %	**27% - 29%**
Research & Development (% of revenue)	27 %	21 %	20 %	18 %	**18% - 20%**
General & Administrative (% of revenue)	23 %	18 %	15 %	13 %	**8% - 10%**
Non-GAAP Operating Margin	(25)%	(8)%	(1)%	6%	**20% +**

Driving product innovation as the marginal cost to serve customers declines creates significant long-term operating margin opportunity

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

Our Business Model

- Disrupting a large and growing total addressable market
- Widely distributed global cloud platform
- 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

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Appendix

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GAAP to Non-GAAP Reconciliation (Annual)

	2019	2020	2021
GAAP Cost of Revenue	**$63,423**	**$101,055**	**$147,134**
Less: Stock-based Compensation Expense & Related Payroll Taxes	-$716	-$1,466	-$3,703
Less: Amortization of Acquired Intangible Assets	-$125	-$3,081	-$2,946
Non-GAAP Cost of Revenue	**$62,582**	**$96,508**	**$140,485**
GAAP Gross Profit	**$223,599**	**$330,004**	**$509,292**
Add: Stock-based Compensation & Related Payroll Taxes	$716	$1,466	$3,703
Add: Amortization of Acquired Intangible Assets	$125	$3,081	$2,946
Non-GAAP Gross Profit	**$224,440**	**$334,551**	**$515,941**
GAAP Gross Margin	78%	77%	78%
Non-GAAP Gross Margin	78%	78%	79%
GAAP Sales and Marketing	**$159,298**	**$217,875**	**$328,065**
Less: Stock-based Compensation & Related Payroll Taxes	-$8,709	-$17,678	-$32,869
Non-GAAP Sales and Marketing	**$150,589**	**$200,197**	**$295,196**
GAAP S&M Expense as a % of Revenue	56%	51%	50%
Non-GAAP S&M Expense as a % of Revenue	52%	46%	45%
GAAP Research and Development	**$90,669**	**$127,144**	**$189,408**
Less: Stock-based Compensation & Related Payroll Taxes	-$13,037	-$30,497	-$61,056
Less: Acquisition-related and other expenses	-	-$5,725	-
Non-GAAP Research and Development	**$77,632**	**$90,922**	**$128,352**
GAAP R&D Expense as a % of Revenue	32%	29%	29%
Non-GAAP R&D Expense as a % of Revenue	27%	21%	20%
GAAP General and Administrative	**$81,578**	**$91,753**	**$119,503**
Less: Stock-based Compensation & Related Payroll Taxes	-$14,165	-$13,875	-$19,706
Less: Acquisition-related and other expenses	-	-$554	-$380
Non-GAAP General and Administrative Expense	**$67,413**	**$77,324**	**$99,417**
GAAP G&A Expense as a % of Revenue	28%	21%	18%
Non-GAAP G&A Expense as a % of Revenue	23%	18%	15%
GAAP Loss from Operations	**-$107,946**	**-$106,768**	**-$127,684**
Add: Stock-based Compensation & Related Payroll Taxes	$36,627	$63,516	$117,334
Add: Amortization of Acquired Intangible Assets	$125	$3,081	$2,946
Add: Acquisition-related and other expenses	-	$6,279	$380
Non-GAAP Loss from Operations	**-$71,194**	**-$33,892**	**-$7,024**
GAAP Operating Margin	-38%	-25%	-19%
Non-GAAP Operating Margin	**-25%**	**-8%**	**-1%**

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GAAP to Non-GAAP Reconciliation (Quarterly)

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GAAP Cost of Revenue	**$37,525**	**$42,496**	**$47,051**	**$55,804**	**$61,967**
Less: Stock-based Compensation Expense & Related Payroll Taxes	-$1,040	-$1,337	-$1,323	-$2,001	-$2,157
Less: Amortization of Acquired Intangible Assets	-$700	-$846	-$507	-$4,312	-$4,314
Non-GAAP Cost of Revenue	**$35,785**	**$40,313**	**$45,221**	**$49,491**	**$55,496**
GAAP Gross Profit	**$134,822**	**$151,100**	**$165,116**	**$178,713**	**$191,890**
Add: Stock-based Compensation & Related Payroll Taxes	$1,040	$1,337	$1,323	$2,001	$2,157
Add: Amortization of Acquired Intangible Assets	$700	$846	$507	$4,312	$4,314
Non-GAAP Gross Profit	**$136,562**	**$153,283**	**$166,946**	**$185,026**	**$198,361**
GAAP Gross Margin	78%	78%	78%	76%	76%
Non-GAAP Gross Margin	79%	79%	79%	79%	78%
GAAP Sales and Marketing	**$85,877**	**$96,219**	**$100,057**	**$117,622**	**$116,033**
Less: Stock-based Compensation & Related Payroll Taxes	-$8,271	-$10,184	-$10,379	-$12,907	-$11,919
Less: Amortization of acquired intangible assets	-	-	-	-$575	-$575
Less: Acquisition-related and other expenses	-	-	-	-$265	-
Non-GAAP Sales and Marketing	**$77,606**	**$86,035**	**$89,678**	**$103,875**	**$103,539**
GAAP S&M Expense as a % of Revenue	50%	50%	47%	50%	46%
Non-GAAP S&M Expense as a % of Revenue	45%	44%	42%	44%	41%
GAAP Research and Development	**$46,770**	**$61,762**	**$67,054**	**$75,114**	**$76,432**
Less: Stock-based Compensation & Related Payroll Taxes	-$13,971	-$24,747	-$24,079	-$27,873	-$30,049
Less: Acquisition-related and other expenses	-	-	-$2,639	-$1,043	-
Non-GAAP Research and Development	**$32,799**	**$37,015**	**$40,336**	**$46,198**	**$46,383**
GAAP R&D Expense as a % of Revenue	27%	32%	32%	32%	30%
Non-GAAP R&D Expense as a % of Revenue	19%	19%	19%	20%	18%
GAAP General and Administrative	**$28,669**	**$34,183**	**$38,029**	**$50,518**	**$45,372**
Less: Stock-based Compensation & Related Payroll Taxes	-$4,742	-$5,830	-$6,018	-$14,674	-$11,763
Less: Acquisition-related and other expenses	-	-$380	-	-	-
Non-GAAP General and Administrative Expense	**$23,927**	**$27,973**	**$32,011**	**$35,844**	**$33,609**
GAAP G&A Expense as a % of Revenue	17%	18%	18%	22%	18%
Non-GAAP G&A Expense as a % of Revenue	14%	14%	15%	15%	13%
GAAP Loss from Operations	**-$26,494**	**-$41,064**	**-$40,024**	**-$64,541**	**-$45,947**
Add: Stock-based Compensation & Related Payroll Taxes	$28,024	$42,098	$41,799	$57,455	$55,888
Add: Amortization of Acquired Intangible Assets	$700	$846	$507	$4,887	$4,889
Add: Acquisition-related and other expenses	-	$380	$2,639	$1,308	-
Non-GAAP Loss from Operations	**$2,230**	**$2,260**	**$4,921**	**-$891**	**$14,830**
GAAP Operating Margin	-15%	-21%	-19%	-28%	-18%
Non-GAAP Operating Margin	**1%**	**1%**	**2%**	**0%**	**6%**

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Definitions

Paying Customers. We believe our ability to grow the number of paying customers on our network provides a key indicator of growth of our business and our future business opportunities. We define a paying customer at the end of the quarter as a person or entity who has generated revenue and has an active contract with us or one of our partners during such 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. An active contract is defined as a customer relationship for which we have provided services during the quarter.

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 at the end of a quarter, 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 $1,800 of revenue in a quarter, that customer would account for $7,200 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through 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. 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 network. 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 quarter, 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.

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