



Investor Presentation

As of September 30, 2024

Safe Harbor

This presentation has been prepared by Cloudflare, Inc. ("Cloudflare") for informational purposes only and not for any other purpose. Nothing contained in this presentation is, or should be construed as, a recommendation, promise, or representation by the presenter or Cloudflare or any officer, director, employee, agent, or advisor of Cloudflare. This presentation does not purport to be all-inclusive or to contain all of the information you may desire. Except as otherwise set forth in this presentation, information provided in this presentation speaks only as of the date set forth on the cover page of this presentation.

This presentation and the accompanying oral commentary contain express and implied "forward-looking" statements within the meaning of the federal securities laws, and these statements involve substantial risks, assumptions, and uncertainties. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, the current and planned development and functionality of our products, demand for our products, our ability to effectively sell our existing and new products, our ability to attract and retain new customers (including new large customers), expectations of future operating results or financial performance, business strategy and plans, the impact of adverse macroeconomic conditions, such as inflation, high interest rates, actual or potential bank failures and recessionary concerns, the impact of the conflicts in the Middle East and Ukraine and other areas of geopolitical tension around the world, or any potential worsening or expansion of those conflicts or tensions and other geopolitical events such as elections and other governmental changes, market volatility, size and growth opportunities, the calculation of certain of our key financial and operating metrics, capital expenditures, plans for future operations, competitive position, rapidly evolving technological developments, including advancements in AI, 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.

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"). You can locate these reports on our investor relations website (<https://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. Forward-looking statements included in this presentation represent our views only as of the date of this presentation, and 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 in the United States ("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 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 and the accompanying oral commentary may contain 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 and products.

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 network and products of Cloudflare.

2010
Launched

221K+
Paying
Customers

330+
Cities in
Network

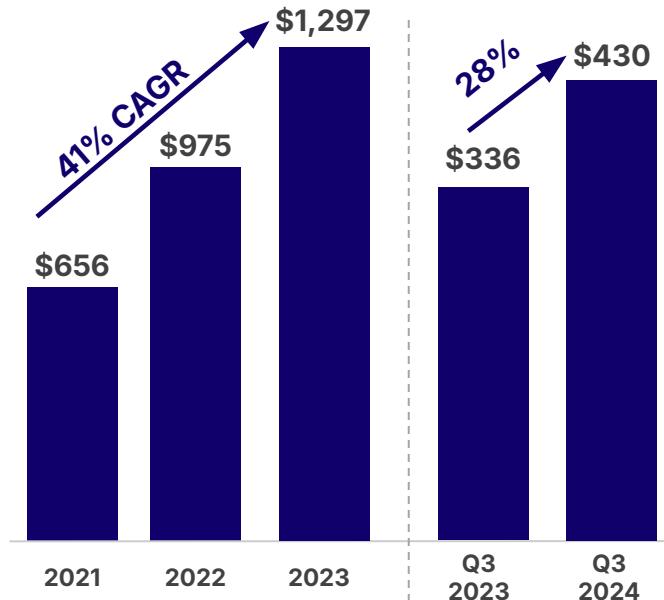
>65%
Of Revenue from
Large Customers

4,160
Employees

79%
Non-GAAP Gross
Margin

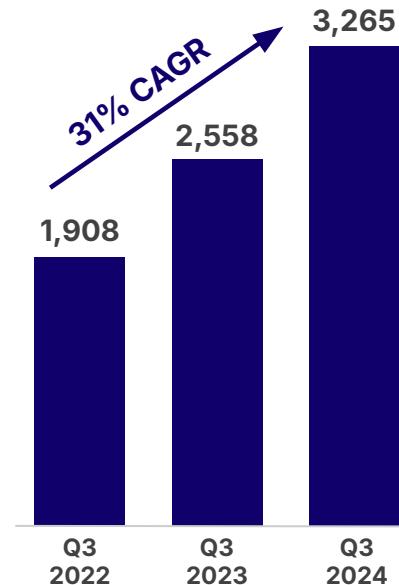
Cloudflare at a Glance

Total Revenue (\$M)



Large Customers

> \$100,000 Annualized Revenue



Helping Build a Better Internet



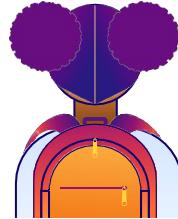
Helping protect democratic elections

Free services for state and local government election websites

6 Countries

33 US States

Reporting Internet shutdowns during elections
(Cloudflare Radar)



Cybersafe Schools

Free services for K-12 public school districts

26 school districts in 14 US States

35,500 students and staff members protected

Area 1 Cloud Email Security and Gateway DNS Filtering



Impact/ESG

Cloudflare Birthday Week

Engineering privacy into the Internet

Democratizing access to responsible AI

Renewable energy, historic emissions, and emissions reduction targets

DEI Report/ESG Index

"We rely on Cloudflare to help keep our online services secure so that we can focus on our mission of engaging and activating voters to expand and secure American democracy."

Peter Gluck, Chief Technology Officer, Vote.org

Newsweek's 100 Most Loved Workplaces 2023 (#55)

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

Project Galileo

10 YEARS

EST. 2014

Humanitarian organizations, journalists, and voices of political dissent are often targeted by cyber attacks. In collaboration with 54 civil society partners, Cloudflare provides public interest groups with free security tools to defend against attacks intended to silence them.

Learn more and apply at
cloudflare.com/galileo



2,600+ | 111
Internet properties countries

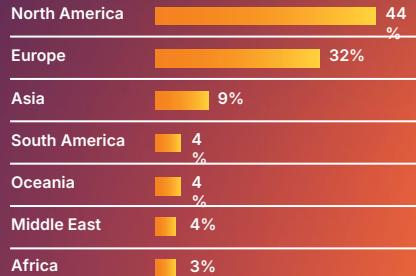
95.8 million

average number of daily attacks
Cloudflare mitigates for participants

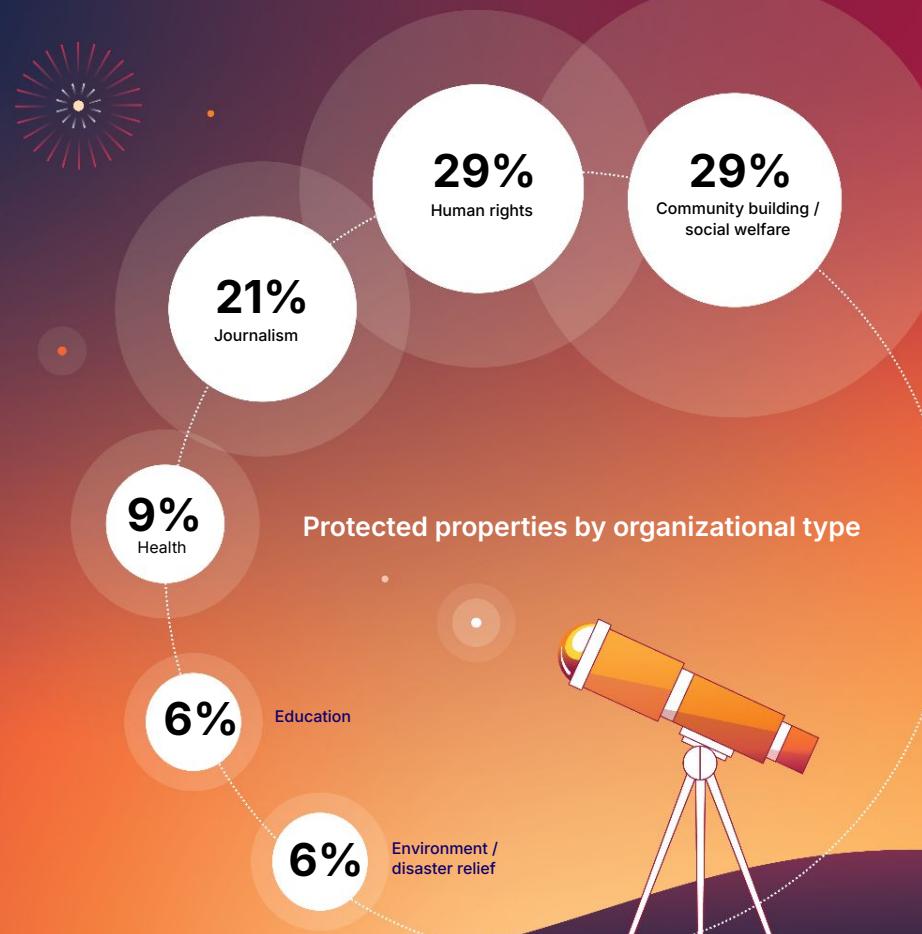
3 billion | 54

average number of monthly attacks Cloudflare mitigates for participants
partners to help identify at-risk sites

Protected properties by region

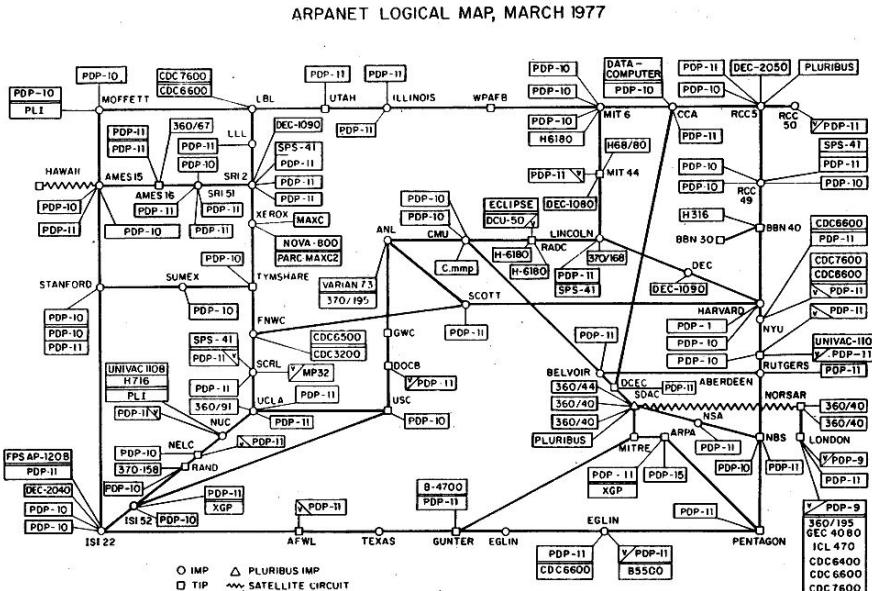


Protected properties by organizational type



Cloudflare's mission is to
Help build a better Internet

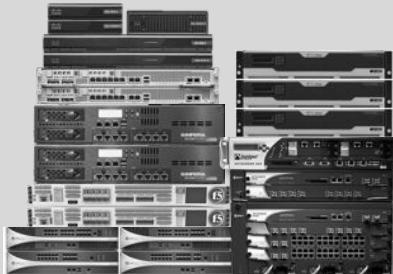
The Internet was not built for what it has become.



From Endless Hardware to a Global Cloud Platform

BAND-AID BOXES

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

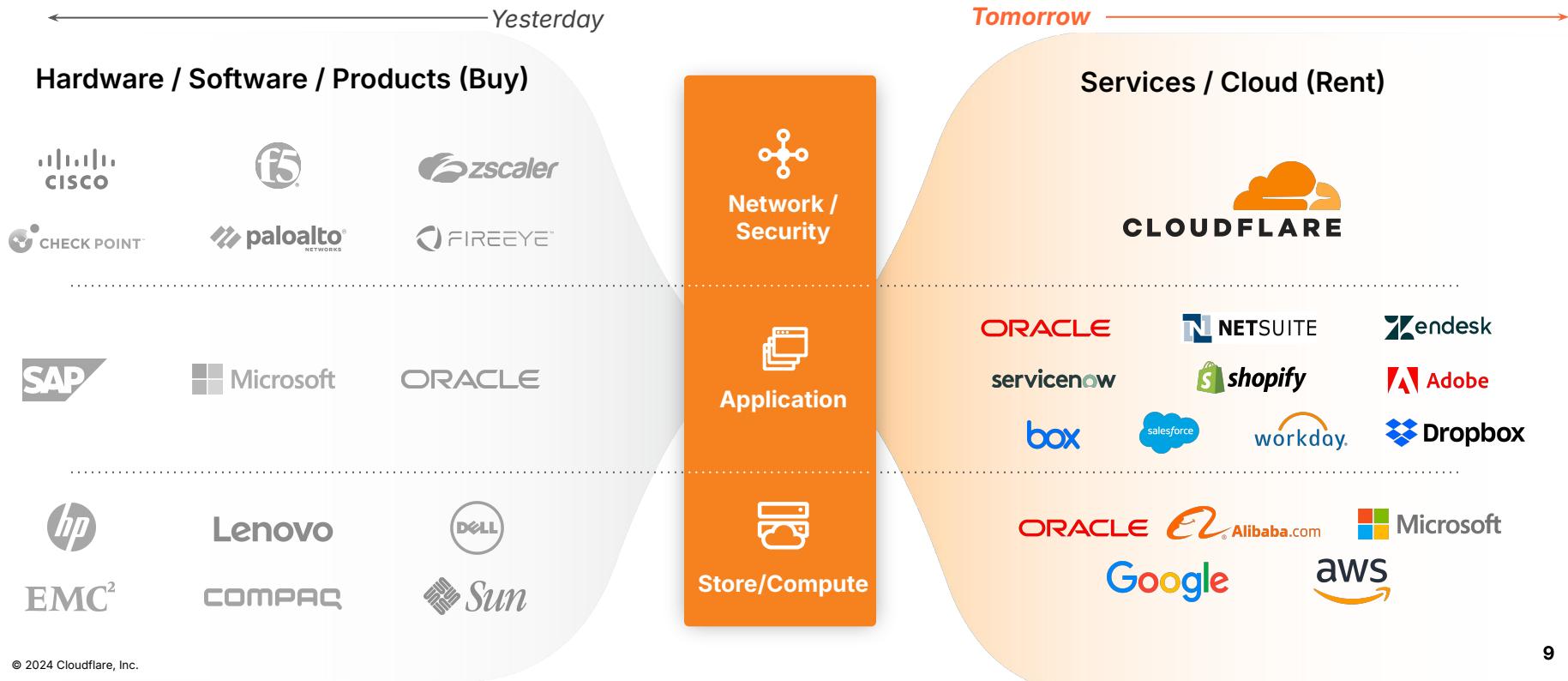


BETTER INTERNET

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



Evolution of the Enterprise Stack



An Integrated Global Cloud Platform



Cloudflare Platform



Cloudflare
Zero Trust Services



Cloudflare
Network Services



Cloudflare
Application Services



Cloudflare One

- ⌚ Zero Trust Network Access
- 🌐 Secure Web Gateway
- 🔑 Cloud Access Security Broker
- ✉️ Cloud Email Security
- 🌐 Remote Browser Isolation
- 🛡️ Data Loss Prevention

- 🌐 WAN-as-a-Service
- 🌐 Firewall-as-a-Service
- 🛡️ L3 & L4 DDoS Protection
- ✳️ Network Interconnect
- 📍 Smart Routing
- 🛡️ IDS/IPS

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



Cloudflare Developer
Platform



Workers



Pages



R2



Workers KV



Durable Objects



Images



Stream



Cloudflare
Global Network



Compliance/Privacy: FedRAMP, ISO, SOC, PCI, GDPR compliant, Logs & Analytics, Data Localization Suite

We Operate at Massive Scale

~165B

Cyber Threats
Blocked per Day

221K+

Total Paying
Customers

>65%

Of Revenue from
Large Customers

50%

Of Revenue from
Outside of the U.S.

Cyber threats blocked per day is approximate average over the three months ended September 30, 2024. All other figures are as of the three months ended September 30, 2024. See Appendix for "Paying Customers" and "Large Customers" definitions.

© 2024 Cloudflare, Inc.



Our Flexible, Scalable, & Efficient Serverless Architecture

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

A Global Network Powering our Platform



330+ cities

in 120+ countries, including mainland China



~13,000 networks

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



321 Tbps

of network capacity and growing



221,000+ Paying Customers



35%

of the Fortune 500 are Paying Customers
as of September 30, 2024

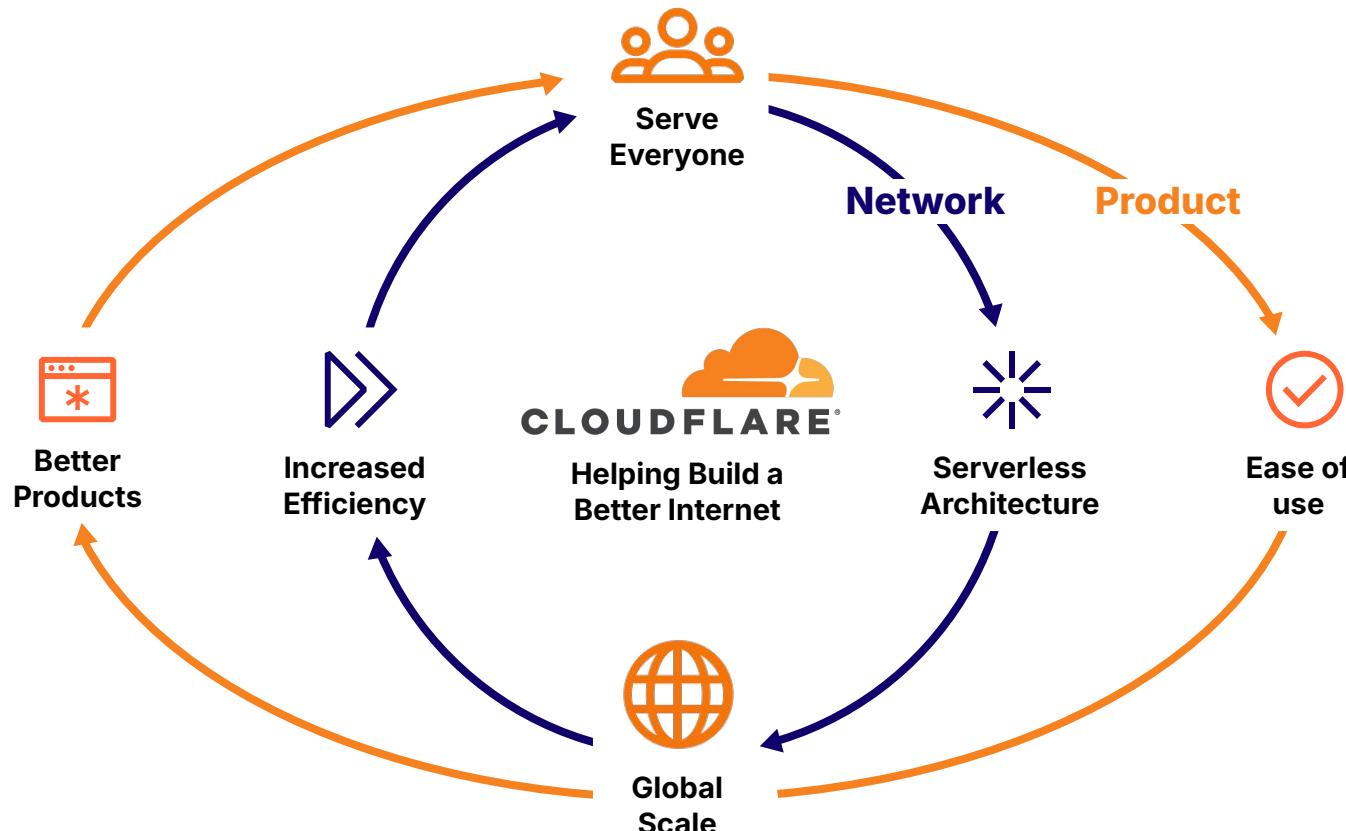
28%

year-over-year Large Customer growth in Q3'24

~95%

of the world's Internet-connected population is
within ~50 ms of a Cloudflare data center

Our Product & Network Flywheels Drive Our Business



Data Intelligence & Quality Assurance at Scale

Global sensor network
with paying customers in 180+ countries.

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

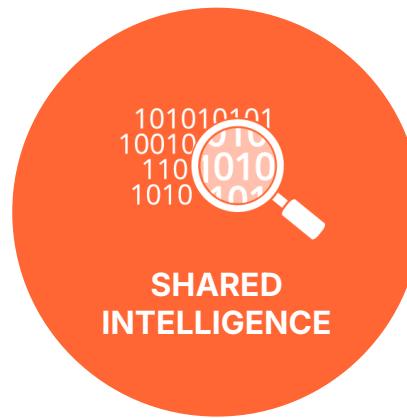
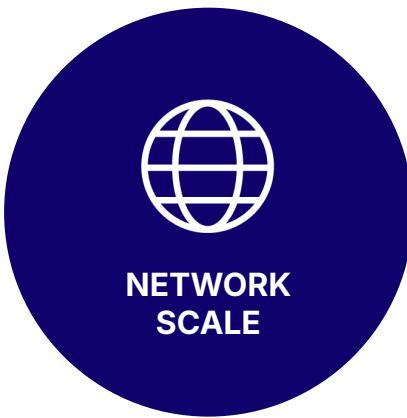
Immune system for the
Internet blocking an average of
~165 billion cyber threats each
day.

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

Note: Cyber threats blocked per day is approximate average over the three months ended September 30, 2024. Other figures as of the three months ended September 30, 2024.

© 2024 Cloudflare, Inc.

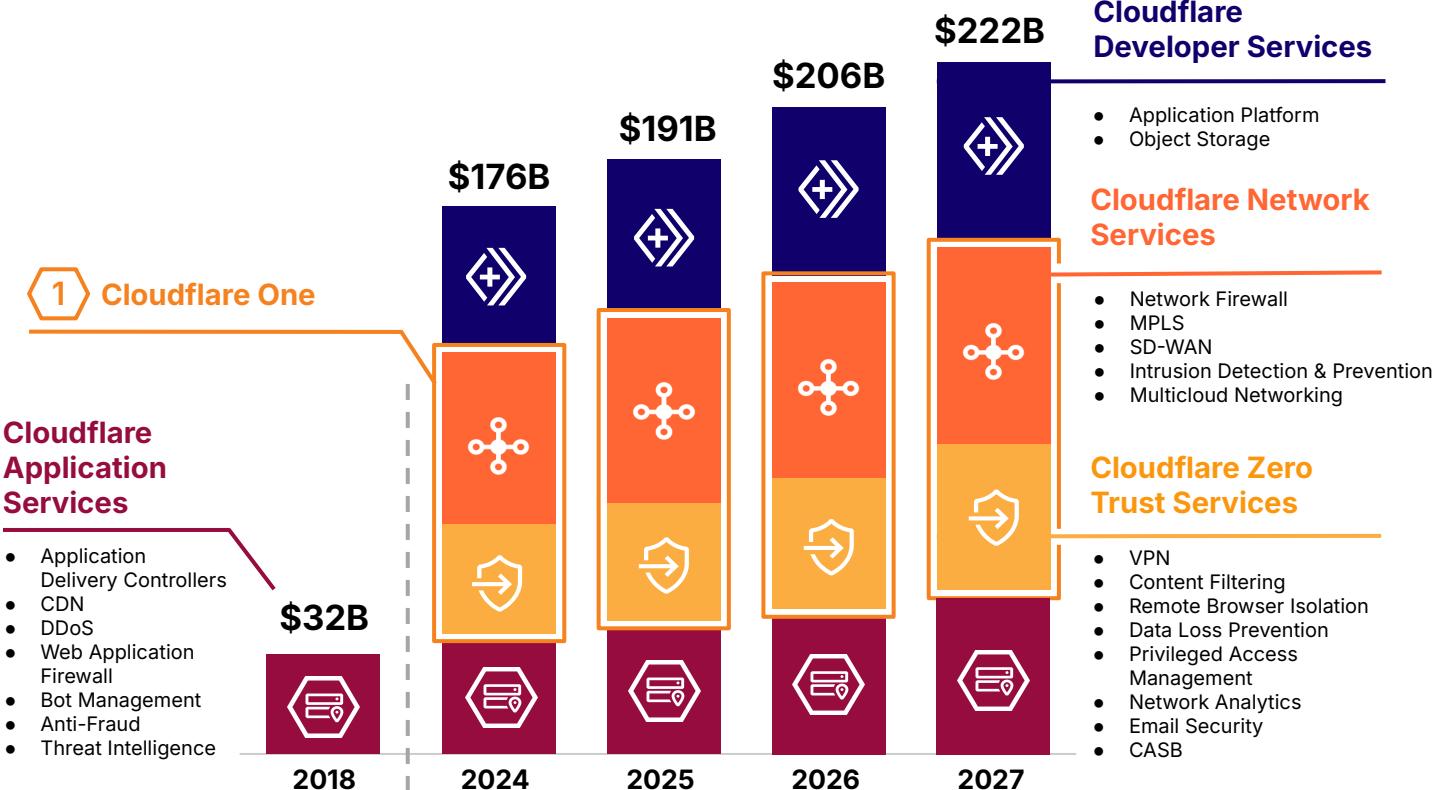
Our Competitive Advantages



Our Favorable Competitive Position

Limitations		
 On-Premises	 	<ul style="list-style-type: none"> Complex and expensive Not suited to address cloud-based and hybrid deployments
 Point Solutions	 	<ul style="list-style-type: none"> 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	 	<ul style="list-style-type: none"> Inability to serve as a unified control plane across on-premise, cloud, hybrid, and SaaS infrastructure Customer lock-in and competition concerns

Consistent & Deliberate TAM Expansion



Areas for Potential Incremental Growth

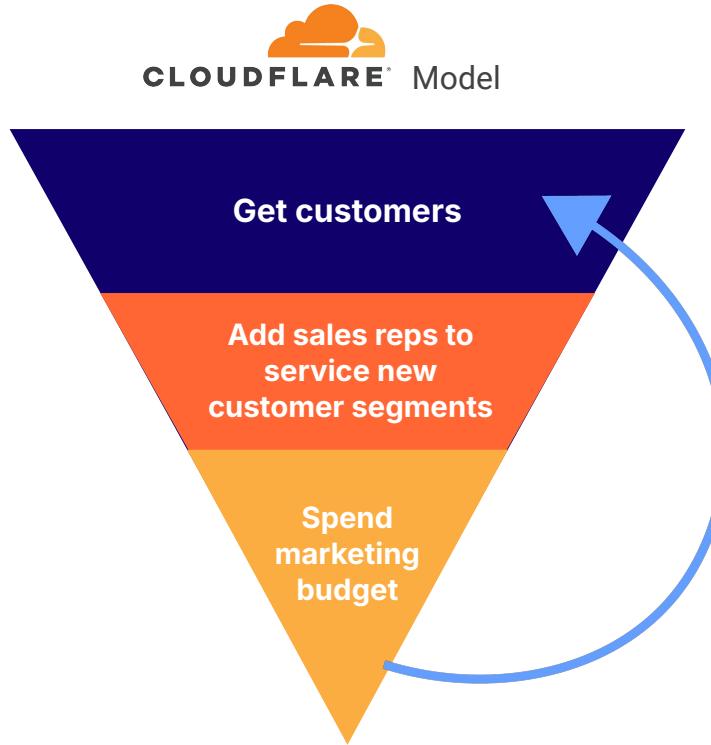
-  **AI**
-  **Database**
-  **Internet of Things**
-  **5G Cellular**
-  **Network Services**

Traditional Go-To-Market Model Inverted

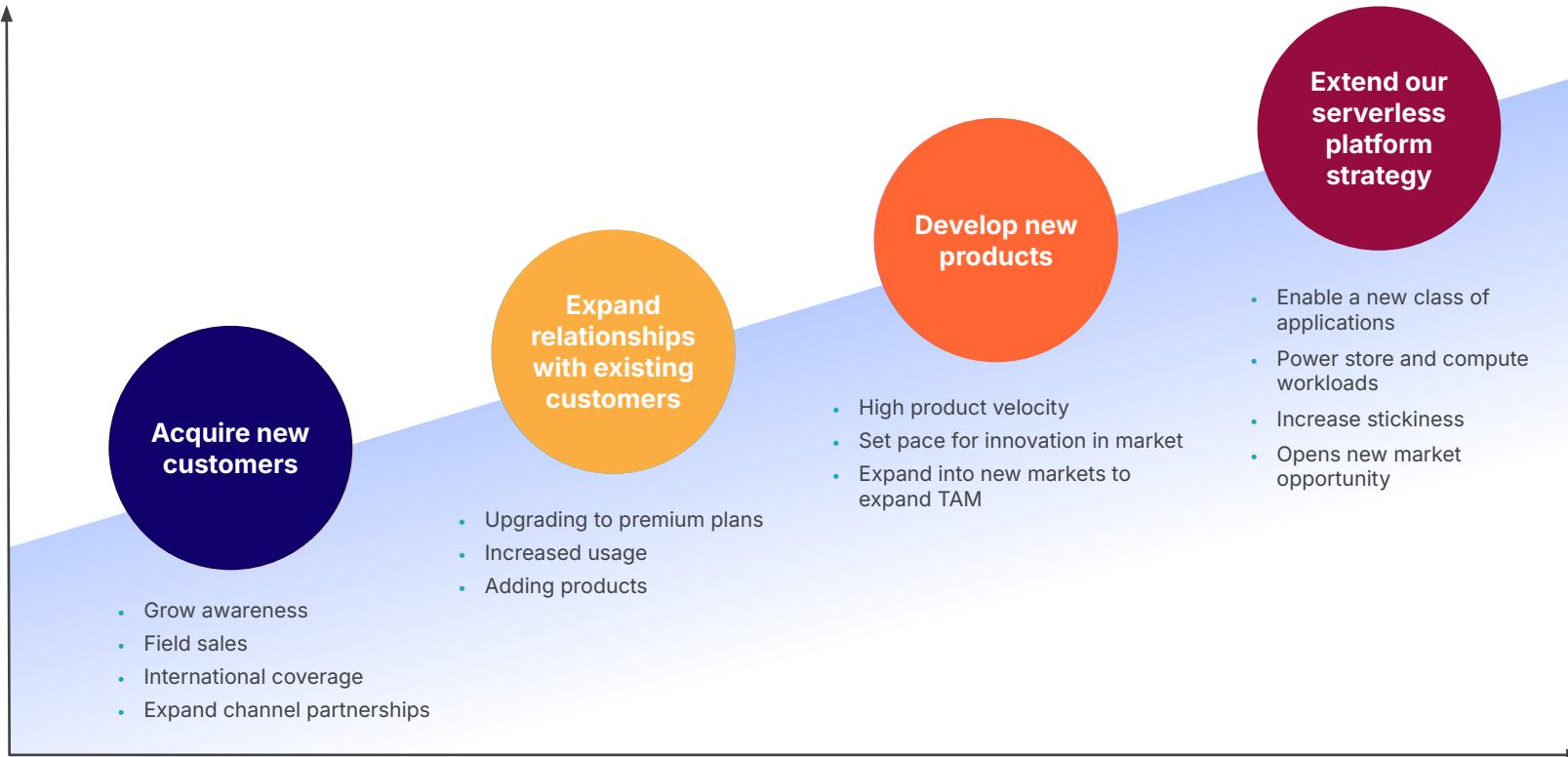
We don't build ahead of the curve.

Sources of Leverage

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



Our Strategy for Growth



Financial Overview

Key Financial Highlights

\$176B

Large
Addressable
Market in 2024

28%

Y/Y
Q3'24
Revenue
Growth

79%

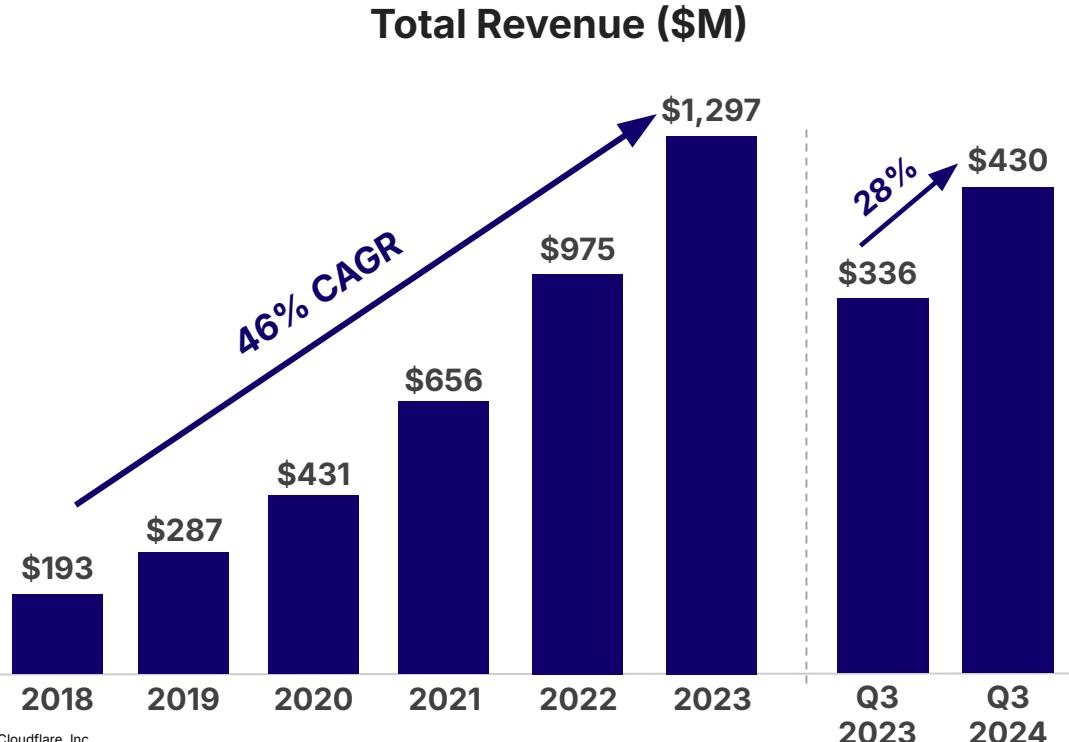
Q3'24 Non-GAAP
Gross Margin

3,265

Large
Customers

Note: Total Addressable Market represents 2024 expected spend from our analysis based on Gartner and IDC market data. Year-over-year revenue growth and Non-GAAP gross margin are as of the three months ended September 30, 2024. Large Customers are as of September 30, 2024. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation, and how we define "Large Customers."

Track Record of Delivering Revenue Growth



Investment in enterprise sales



Large customer momentum



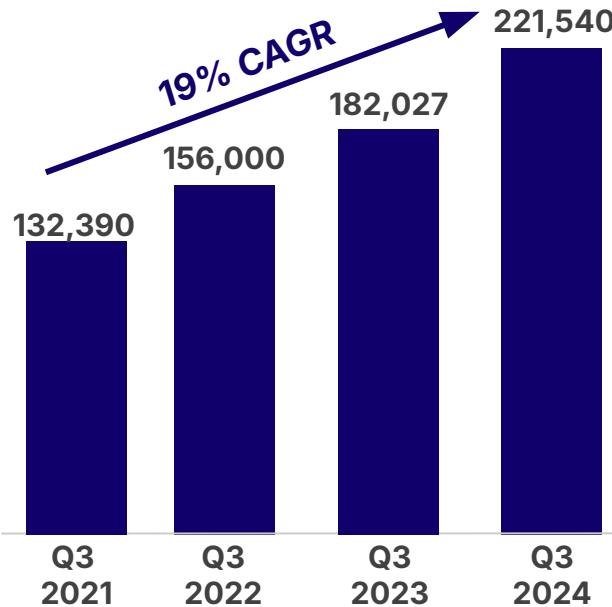
Land and expand strategy drives growth across cohorts



Strong penetration across the entire product portfolio

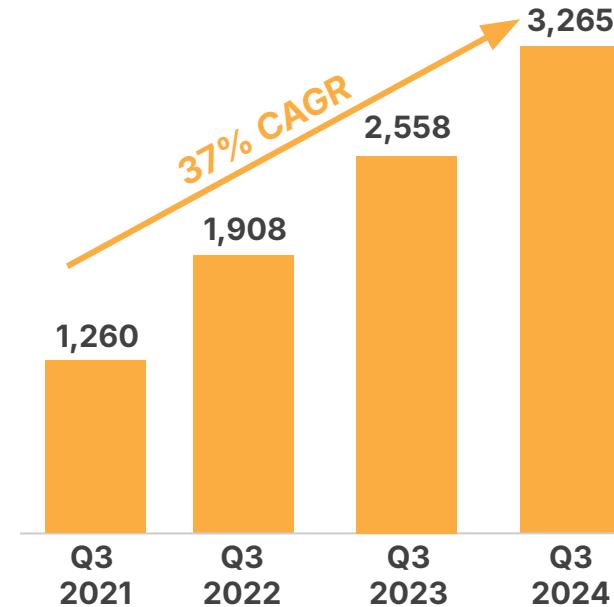
Rapid Customer Growth

Paying Customers



Large Customers

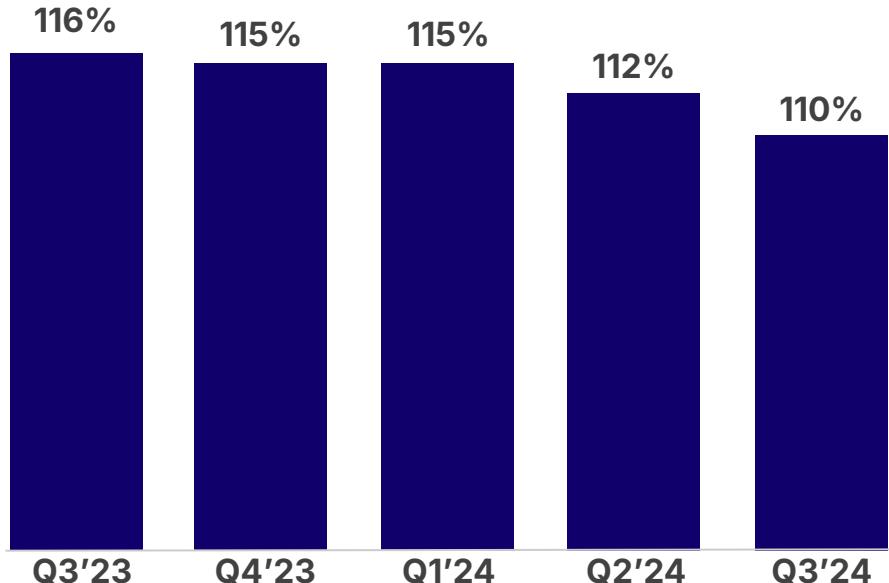
>\$100,000 Annualized Revenue



Note: See the Appendix for how we define "Paying Customers" and "Large Customers."

© 2024 Cloudflare, Inc.

Strong Dollar-Based Net Retention



Note: See the Appendix for how we define "Dollar-Based Net Retention."

© 2024 Cloudflare, Inc.



DNR includes all paying customers

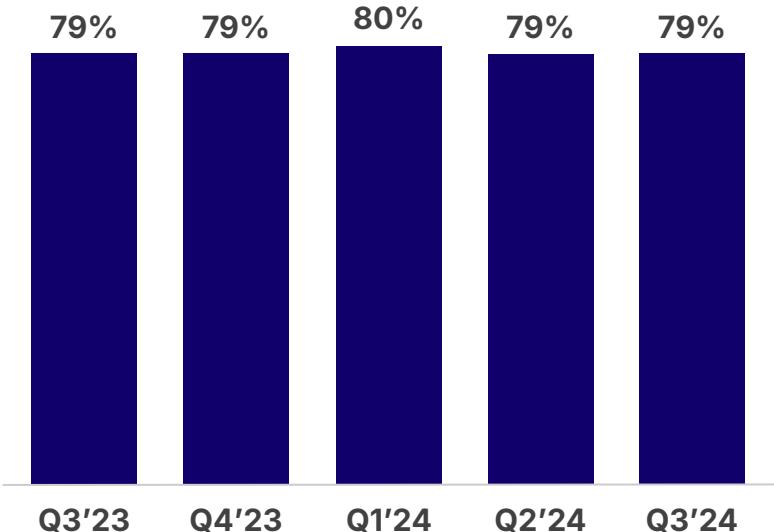


Large customers are a tailwind to DNR



Continuous innovation offers expansion opportunities

Non-GAAP Gross Margin



Note: See Appendix for GAAP to Non-GAAP reconciliation.
© 2024 Cloudflare, Inc.

Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

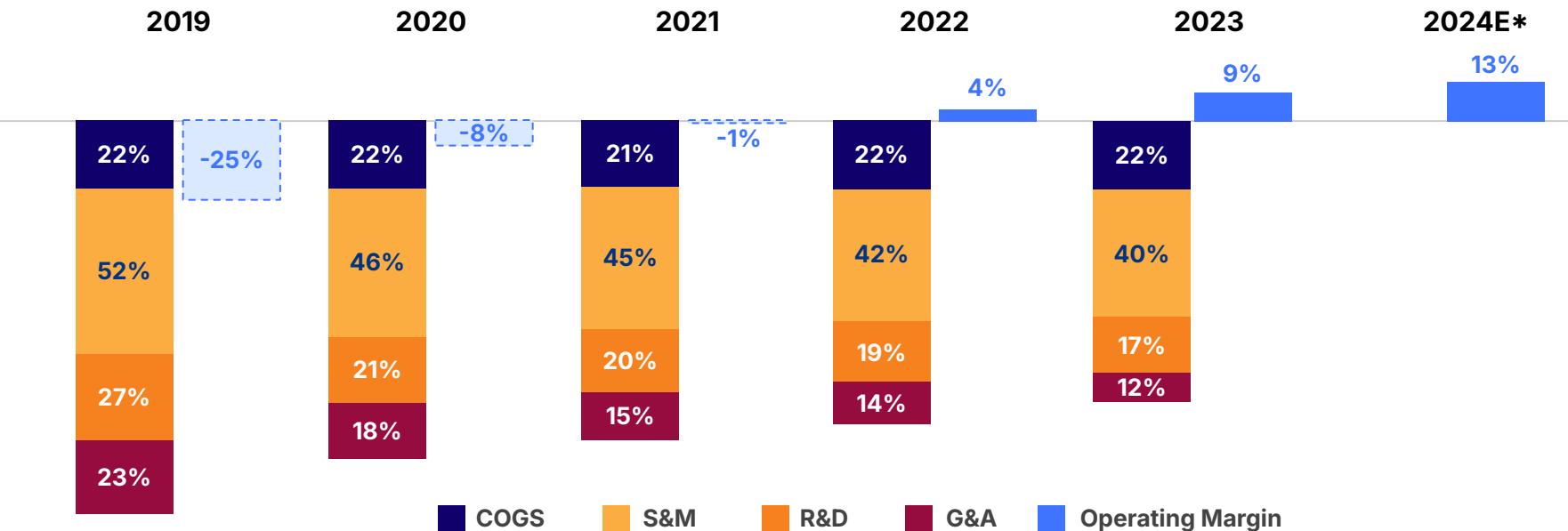
Single software stack across the network

Symbiotic relationship with ISPs

Leverage idle capacity across network

Elasticity of & Leverage in Our Operating Model

Non-GAAP Operating Expenses & Operating Margin (% of Revenue)

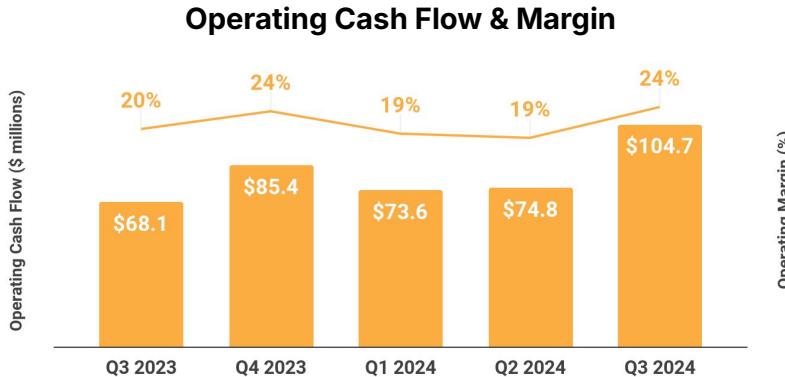


Note: See the Appendix for GAAP to Non-GAAP reconciliation.

*2024E is based on full-year mid-point guidance provided by Cloudflare on November 7, 2024. 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.

Strong Cash Position

- **Issued 2025 Notes:** Raised \$495 million in our Convertible Notes Offering due 2025 that priced on May 13, 2020, net of issuance costs and a capped call with respect to the 2025 convertible notes.
- **Issued 2026 Notes:** Raised \$790 million in our Convertible Note Offering due 2026 that priced on August 10, 2021, net of the repurchase of 2025 notes, issuance costs, and a capped call with respect to the 2026 convertible notes.
- **Repurchased 2025 Notes:** Repurchased \$123.0 million principal amount for \$172.7 million in cash including accrued interest payable in May 2023. Paid approximately \$35.4 million in cash and delivered approximately 0.5 million shares of our Class A common stock in July 2023 to settle the conversion of approximately \$35.4 million aggregate principal amount of the 2025 Notes.
- **Revolving Credit Facility:** Executed \$400 million senior secured revolving credit facility on May 21, 2024. The proceeds may be used for working capital and general corporate purposes.



Guidance

Q4 2024

Revenue **\$451.0 - \$452.0**
Y/Y Growth 25% (midpoint)

Operating Income \$57.0 - \$58.0
Operating Margin 13%

EPS \$0.18

FY 2024

Revenue **\$1,661.0 - \$1,662.0**
Y/Y Growth 28%

Operating Income \$220.0 - \$221.0
Operating Margin 13%

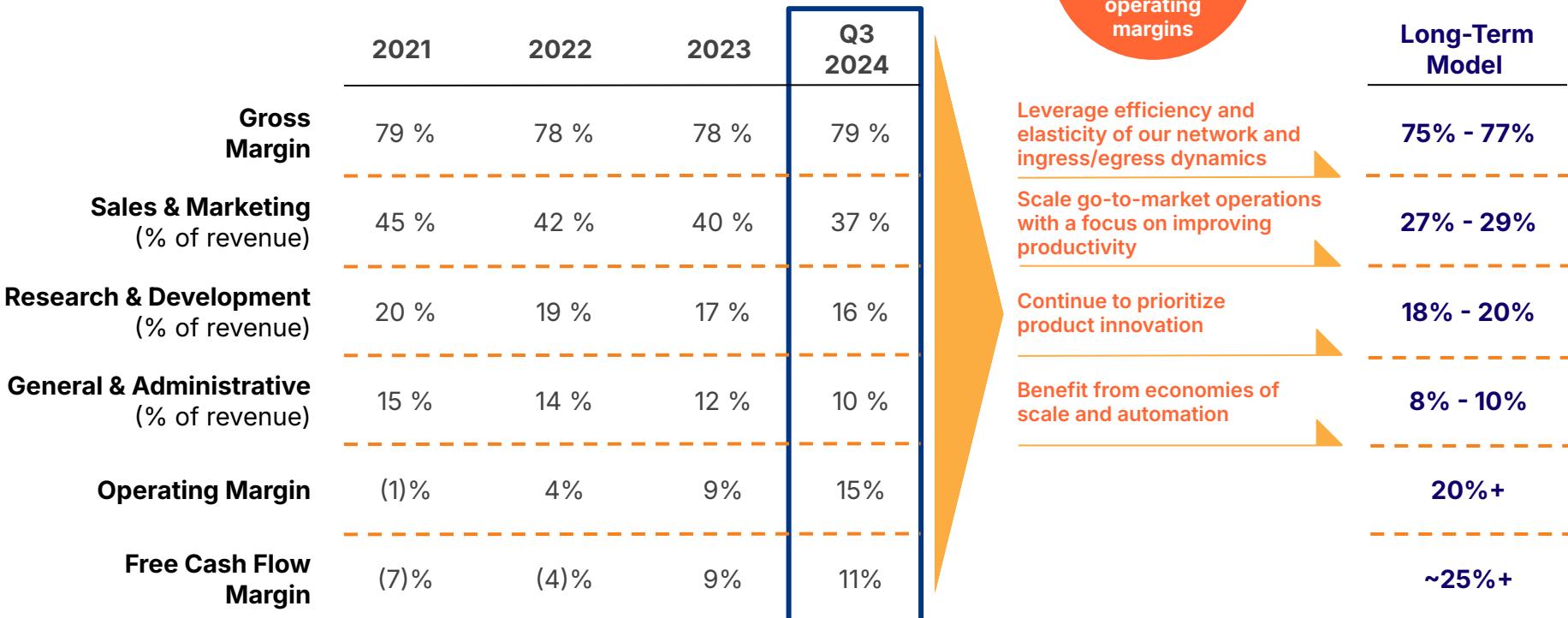
EPS \$0.74

**FY 2024
Network Capex
as % of Revenue**

10%-12%

Note: These forward looking statements were provided by us on November 7, 2024. 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 Operating Model



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

Appendix

GAAP to Non-GAAP Reconciliation (Annual)



	2019	2020	2021	2022	2023
GAAP Cost of Revenue	\$63,423	\$101,055	\$147,134	\$232,610	\$307,005
Less: Stock-based Compensation Expense & Related Payroll Taxes	-\$716	-\$1,466	-\$3,703	-\$6,770	-\$8,360
Less: Amortization of Acquired Intangible Assets	-\$125	-\$3,081	-\$2,946	-\$13,444	-\$17,702
Non-GAAP Cost of Revenue	\$62,582	\$96,508	\$140,485	\$212,396	\$280,943
GAAP Gross Profit	\$223,599	\$330,004	\$509,292	\$742,631	\$989,740
Add: Stock-based Compensation & Related Payroll Taxes	\$716	\$1,466	\$3,703	\$6,770	\$8,360
Add: Amortization of Acquired Intangible Assets	\$125	\$3,081	\$2,946	\$13,444	\$17,702
Non-GAAP Gross Profit	\$224,440	\$334,551	\$515,941	\$762,845	\$1,015,802
GAAP Gross Margin	78%	77%	78%	76%	76%
Non-GAAP Gross Margin	78%	78%	79%	78%	78%
GAAP Sales and Marketing	\$159,298	\$217,875	\$328,065	\$465,762	\$599,117
Less: Stock-based Compensation & Related Payroll Taxes	-\$8,709	-\$17,678	-\$32,869	-\$53,692	-\$76,711
Less: Amortization of acquired intangible assets	-	-	-	-\$1,725	-\$2,300
Less: Acquisition-related and other expenses	-	-	-	-\$265	\$0
Non-GAAP Sales and Marketing	\$150,589	\$200,197	\$295,196	\$410,080	\$520,106
GAAP S&M Expense as a % of Revenue	56%	51%	50%	48%	46%
Non-GAAP S&M Expense as a % of Revenue	52%	46%	45%	42%	40%
GAAP Research and Development	\$90,669	\$127,144	\$189,408	\$298,303	\$358,143
Less: Stock-based Compensation & Related Payroll Taxes	-\$13,037	-\$30,497	-\$61,056	-\$112,277	-\$140,074
Less: Acquisition-related and other expenses	-	-\$5,725	-	-\$3,682	\$0
Non-GAAP Research and Development	\$77,632	\$90,922	\$128,352	\$182,344	\$218,069
GAAP R&D Expense as a % of Revenue	32%	29%	29%	31%	28%
Non-GAAP R&D Expense as a % of Revenue	27%	21%	20%	19%	17%
GAAP General and Administrative	\$81,578	\$91,753	\$119,503	\$179,769	\$217,965
Less: Stock-based Compensation & Related Payroll Taxes	-\$14,165	-\$13,875	-\$19,706	-\$45,027	-\$62,355
Less: Acquisition-related and other expenses	-	-\$554	-\$380	\$0	\$0
Non-GAAP General and Administrative Expense	\$67,413	\$77,324	\$99,417	\$134,742	\$155,610
GAAP G&A Expense as a % of Revenue	28%	21%	18%	18%	17%
Non-GAAP G&A Expense as a % of Revenue	23%	18%	15%	14%	12%
GAAP Loss from Operations	-\$107,946	-\$106,768	-\$127,684	-\$201,203	-\$185,485
Add: Stock-based Compensation & Related Payroll Taxes	\$36,627	\$63,516	\$117,334	\$217,766	\$287,500
Add: Amortization of Acquired Intangible Assets	\$125	\$3,081	\$2,946	\$15,169	\$20,002
Add: Acquisition-related and other expenses	-	\$6,279	\$380	\$3,947	\$0
Non-GAAP Loss from Operations	-\$71,194	-\$33,892	-\$7,024	\$35,679	\$122,017
GAAP Operating Margin	-38%	-25%	-19%	-21%	-14%
Non-GAAP Operating Margin	-25%	-8%	-1%	4%	9%

GAAP to Non-GAAP Reconciliation (Quarterly)



	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
GAAP Cost of Revenue	\$78,069	\$83,283	\$85,038	\$89,011	\$95,967
Less: Stock-based Compensation Expense & Related Payroll Taxes	-\$2,367	-\$2,064	-\$2,822	-\$3,011	-\$2,943
Less: Amortization of Acquired Intangible Assets	-\$4,313	-\$4,764	-\$4,691	-\$1,619	-\$2,054
Non-GAAP Cost of Revenue	\$71,389	\$76,455	\$77,525	\$84,381	\$90,970
GAAP Gross Profit	\$257,534	\$279,190	\$293,564	\$311,985	\$334,115
Add: Stock-based Compensation & Related Payroll Taxes	\$2,367	\$2,064	\$2,822	\$3,011	\$2,943
Add: Amortization of Acquired Intangible Assets	\$4,313	\$4,764	\$4,691	\$1,619	\$2,054
Non-GAAP Gross Profit	\$264,214	\$286,018	\$301,077	\$316,615	\$339,112
GAAP Gross Margin	77%	77%	78%	78%	78%
Non-GAAP Gross Margin	79%	79%	80%	79%	79%
GAAP Sales and Marketing	\$150,214	\$165,214	\$194,102	\$174,501	\$185,221
Less: Stock-based Compensation & Related Payroll Taxes	-\$20,674	-\$19,435	-\$21,775	-\$24,629	-\$24,677
Less: Amortization of acquired intangible assets	-\$575	-\$575	-\$575	-\$363	-\$363
Less: Acquisition-related and other expenses	-	-	-	-	-
Less: One-time compensation charge	-	-	-\$15,000	-	-
Non-GAAP Sales and Marketing	\$128,965	\$145,204	\$156,752	\$149,509	\$160,181
GAAP S&M Expense as a % of Revenue	45%	46%	51%	44%	43%
Non-GAAP S&M Expense as a % of Revenue	38%	40%	41%	37%	37%
GAAP Research and Development	\$90,593	\$96,401	\$87,703	\$102,547	\$110,911
Less: Stock-based Compensation & Related Payroll Taxes	-\$36,353	-\$36,932	-\$28,980	-\$37,106	-\$40,459
Less: Acquisition-related and other expenses	-	-	-	-	-
Non-GAAP Research and Development	\$54,240	\$59,469	\$58,723	\$65,441	\$70,452
GAAP R&D Expense as a % of Revenue	27%	27%	23%	26%	26%
Non-GAAP R&D Expense as a % of Revenue	16%	16%	16%	16%	16%
GAAP General and Administrative	\$55,939	\$60,404	\$66,309	\$69,635	\$68,777
Less: Stock-based Compensation & Related Payroll Taxes	-\$17,463	-\$18,873	-\$23,150	-\$24,761	-\$23,688
Less: Acquisition-related and other expenses	-	-	-	-\$162	-\$78
Non-GAAP General and Administrative Expense	\$38,476	\$41,531	\$43,159	\$44,712	\$45,011
GAAP G&A Expense as a % of Revenue	17%	17%	18%	17%	16%
Non-GAAP G&A Expense as a % of Revenue	11%	11%	11%	11%	10%
GAAP Loss from Operations	-\$39,212	-\$42,829	-\$54,550	-\$34,698	-\$30,794
Add: Stock-based Compensation & Related Payroll Taxes	\$76,857	\$77,304	\$76,727	\$89,507	\$91,767
Add: Amortization of Acquired Intangible Assets	\$4,888	\$5,339	\$5,266	\$1,982	\$2,417
Add: Acquisition-related and other expenses	-	-	-	\$162	\$78
Add: One-time compensation charge	-	-	\$15,000	-	-
Non-GAAP Loss from Operations	\$42,533	\$39,814	\$42,443	\$56,953	\$63,468
GAAP Operating Margin	-12%	-12%	-14%	-9%	-7%
Non-GAAP Operating Margin	13%	11%	11%	14%	15%

Key Business Metrics

Paying Customers

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
	168,159	174,129	182,027	189,791	197,138	210,166	221,540
y-y growth	13%	15%	17%	17%	17%	21%	22%

Paying Customers (> \$100,000 Annualized Revenue)

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
	2,156	2,352	2,558	2,756	2,878	3,046	3,265
y-y growth	40%	34%	34%	35%	33%	30%	28%
% of revenue	62%	64%	65%	66%	67%	67%	67%

Dollar-Based Net Retention

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
	117%	115%	116%	115%	115%	112%	110%

Note: See next slide for definitions of Paying Customers, Paying Customers (> \$100,000 Annualized Revenue), and Dollar-Based Net Retention.

© 2024 Cloudflare, Inc.

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 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 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.

Total Addressable Market. Total Addressable Market figures are Cloudflare estimates based on Gartner and IDC market forecasts. Figures reflect the markets addressed by our current product offerings. IDC markets covered include DDoS protection services, CDN, Bot Management, and API Security. All other markets are covered by Gartner forecasts and include the following Gartner sources: (1) Forecast: Information Security and Risk Management, Worldwide, 2022-2028, 1Q24 Update, Shailendra Upadhyay, Christian Canales, et.al., 03/29/2023; (2) Forecast: Enterprise Network Equipment by Market Segment, Worldwide, 2022-2028, 1Q24 Update, Christian Canales, Naresh Singh, et.al., 03/27/2024, and (3) Forecast: Enterprise Infrastructure Software, Worldwide, 2022-2028, 1Q24 Update, Arunasree Cheparthi, Robin Schumacher, et.al., 03/22/2024.