CLOUDFLARE

Investor Presentation

As of March 31, 2024

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Cloudflare at a Glance

2010
Launched

197K+
Paying Customers

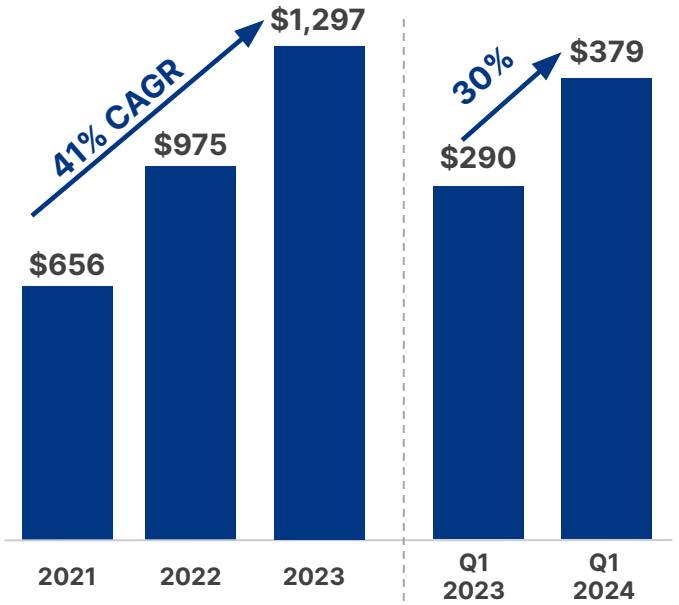
320+
Cities in Network

>65%
Of Revenue from Large Customers

3,704
Employees

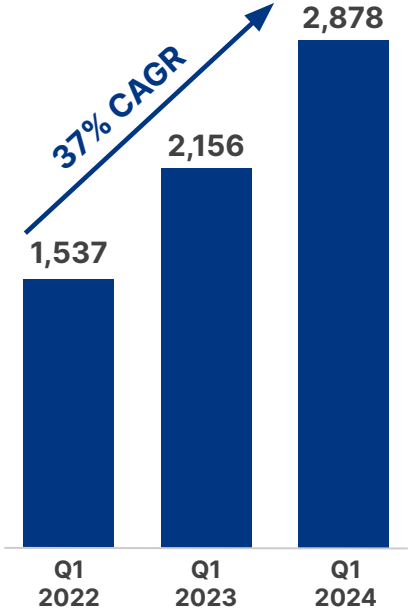
80%
Non-GAAP Gross Margin

Total Revenue ($M)



Large Customers

> $100,000 Annualized Revenue



Note: Unless indicated otherwise, all data in orange shaded area of slide are as of March 31, 2024, except revenue from Large Customers and Non-GAAP gross margin are for three months ended March 31, 2024. Large Customers data are as of three months ended March 31 of their respective years. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation, and "Large Customers" definition.

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Helping Build a Better Internet (Impact/ESG)

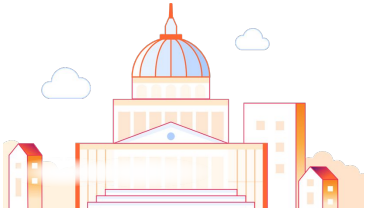


10th Anniversary Project Galileo

Protecting 2,400 domains in 111 countries

Journalists, human rights defenders, and voices of political dissent

10th Anniversary event hosted by the National Endowment for Democracy (Washington DC, June)



Helping protect democratic elections

Protecting state and local government election websites in 33 US States (Athenian Project)

Reporting Internet shutdowns during global elections (Cloudflare Radar)

Recognized at the 2024 Summit for Democracy



Cloudflare Impact Report

Cloudflare Birthday Week

Engineering privacy into the Internet

Democratizing access to responsible AI

Renewable energy, historic emissions, reforestation, and **emissions reduction targets**

DEI Report/ESG Index

CLOUDFLARE

Independent study found switching to Cloudflare from equivalent on-premise hardware can reduce related emissions 78-96%

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

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

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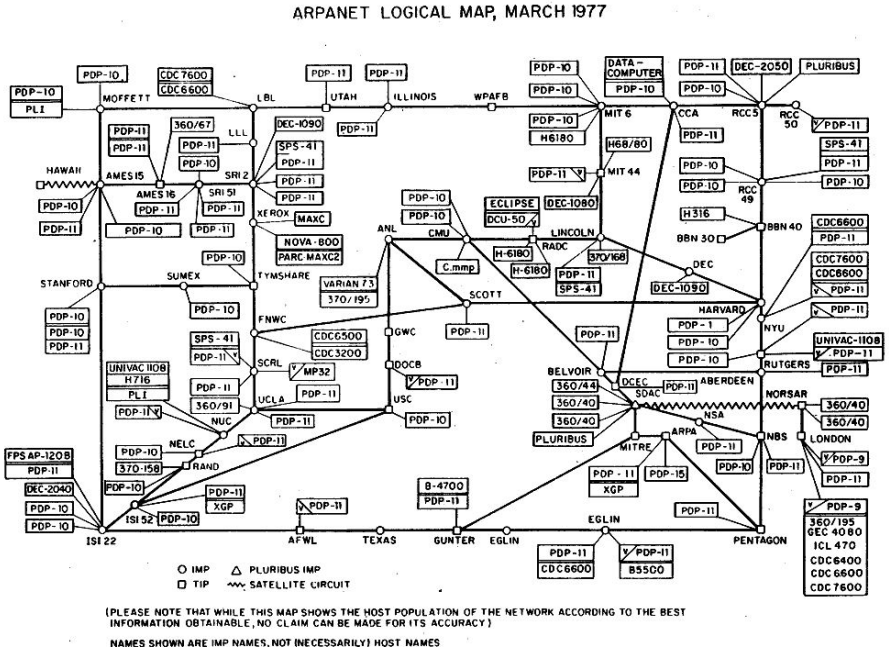
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Cloudflare’s mission is to

Help build a better Internet

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The Internet was not built for what it has become.

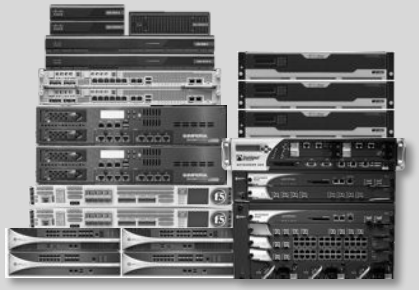


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From Endless Hardware to a Global Cloud Platform

BAND-AID BOXES

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



BETTER INTERNET

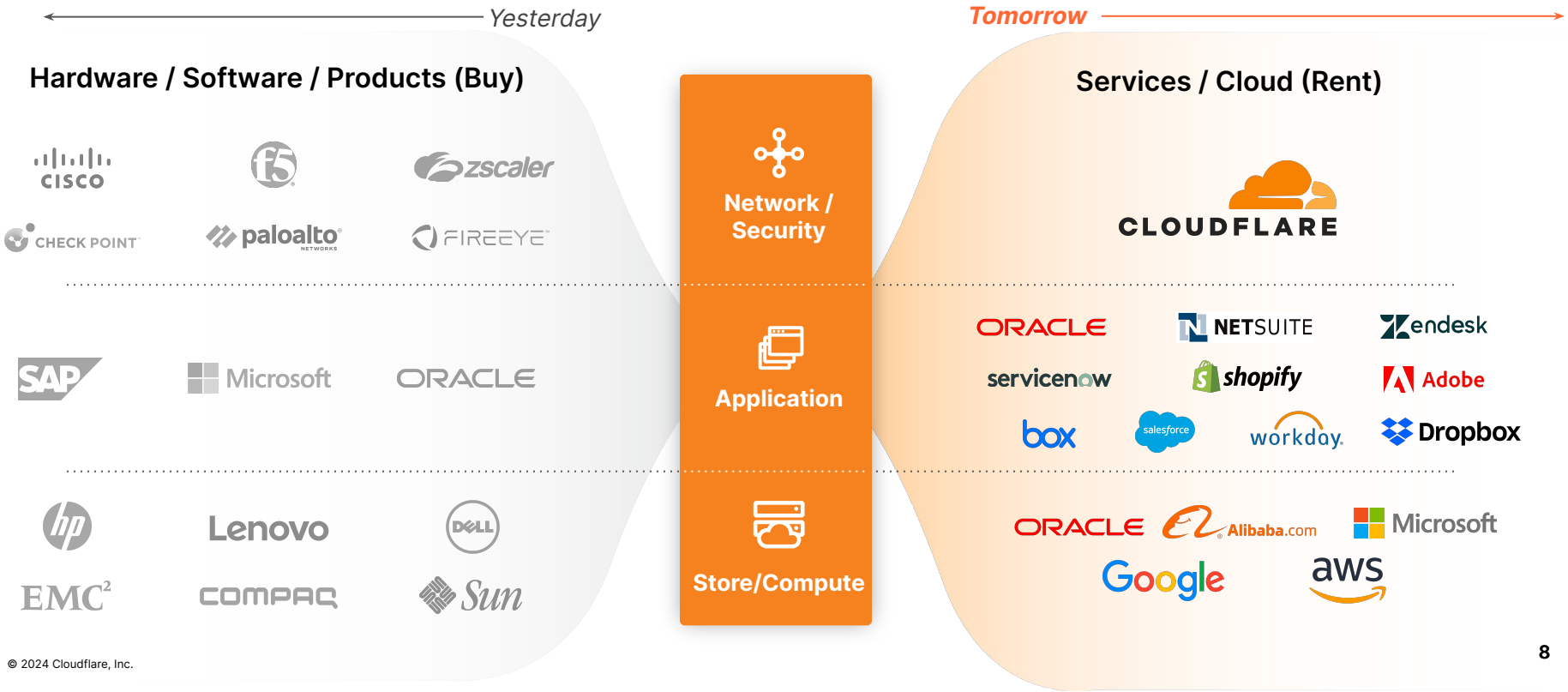
- Easy-to-use, flexible, and scalable
- Unified control plane
- Serverless cloud architecture
- Cloud, hybrid, on-premise, and SaaS
- Broad, integrated product platform

CLOUDFLARE®

Global Cloud Platform

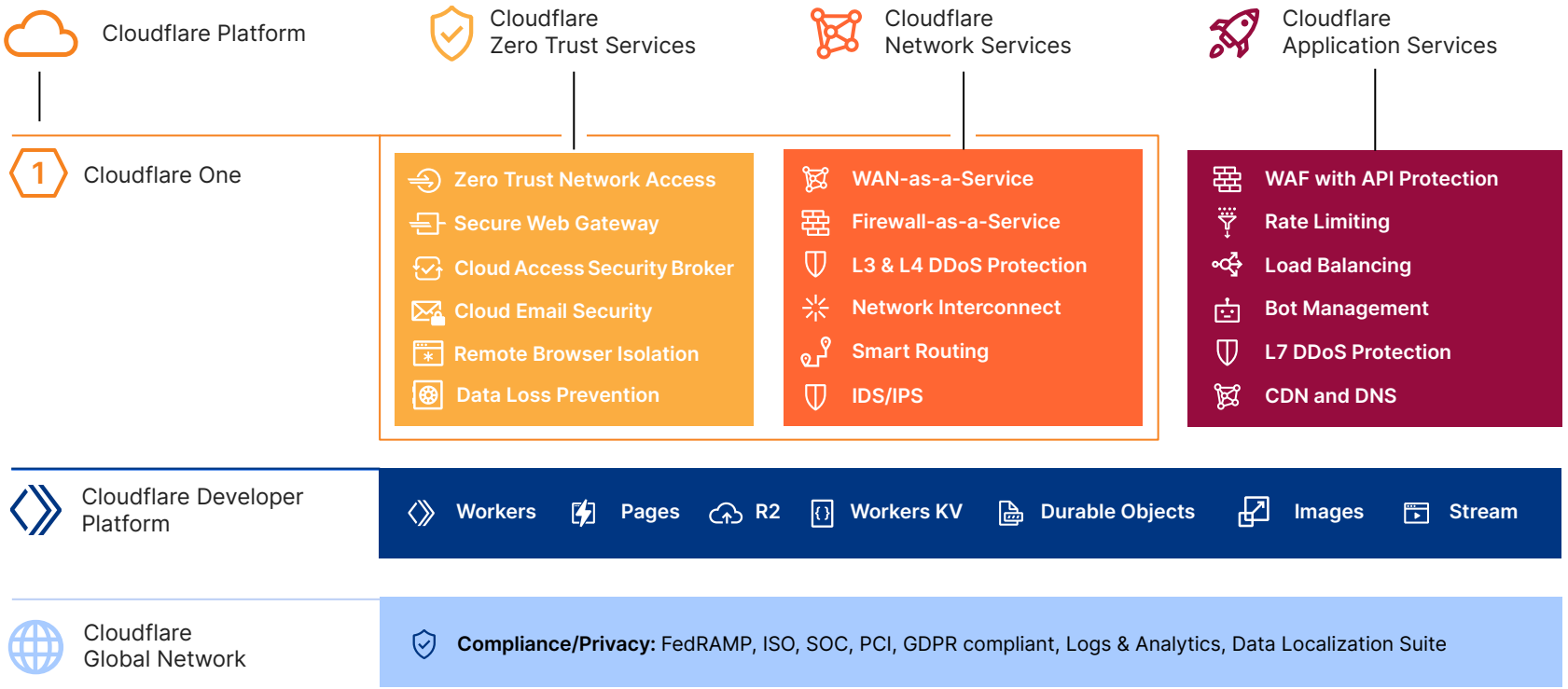
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Evolution of the Enterprise Stack



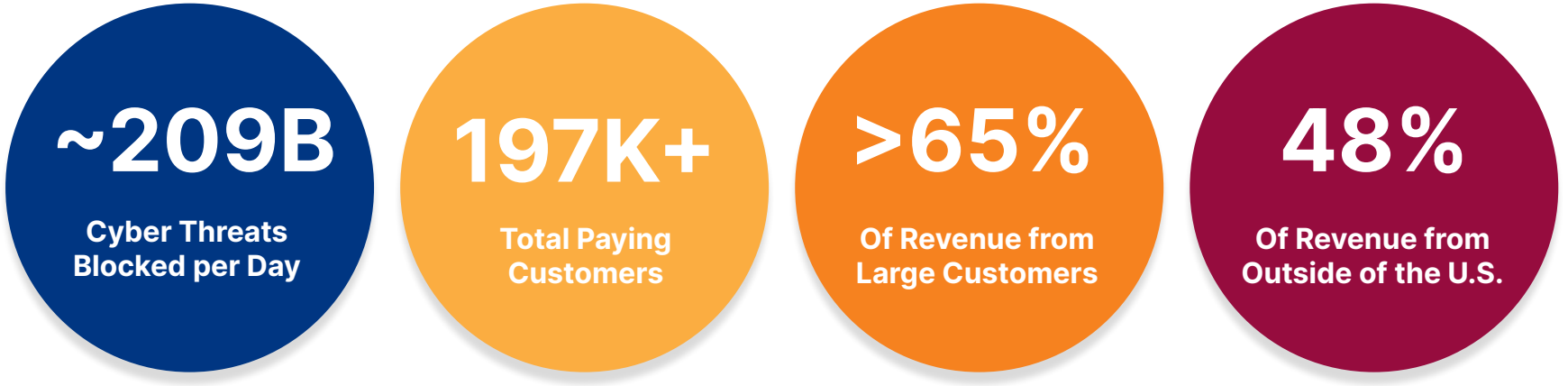
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An Integrated Global Cloud Platform



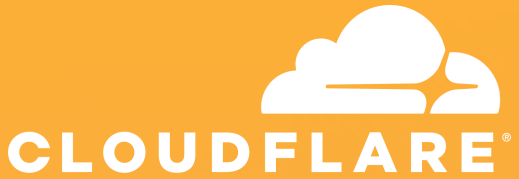
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We Operate at Massive Scale



Cyber threats blocked per day is approximate average over the three months ended March 31, 2024. All other figures are as of the three months ended March 31, 2024. See Appendix for "Paying Customers" and "Large Customers" definitions.

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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

320+ cities
in 120+ countries, including mainland China

~13,000 networks
directly connect to Cloudflare, including ISPs, cloud providers, and large enterprises

280 Tbps
of network capacity and growing

197,000+ Paying Customers



30%+
of the Fortune 1,000 are Paying Customers as of March 31, 2024

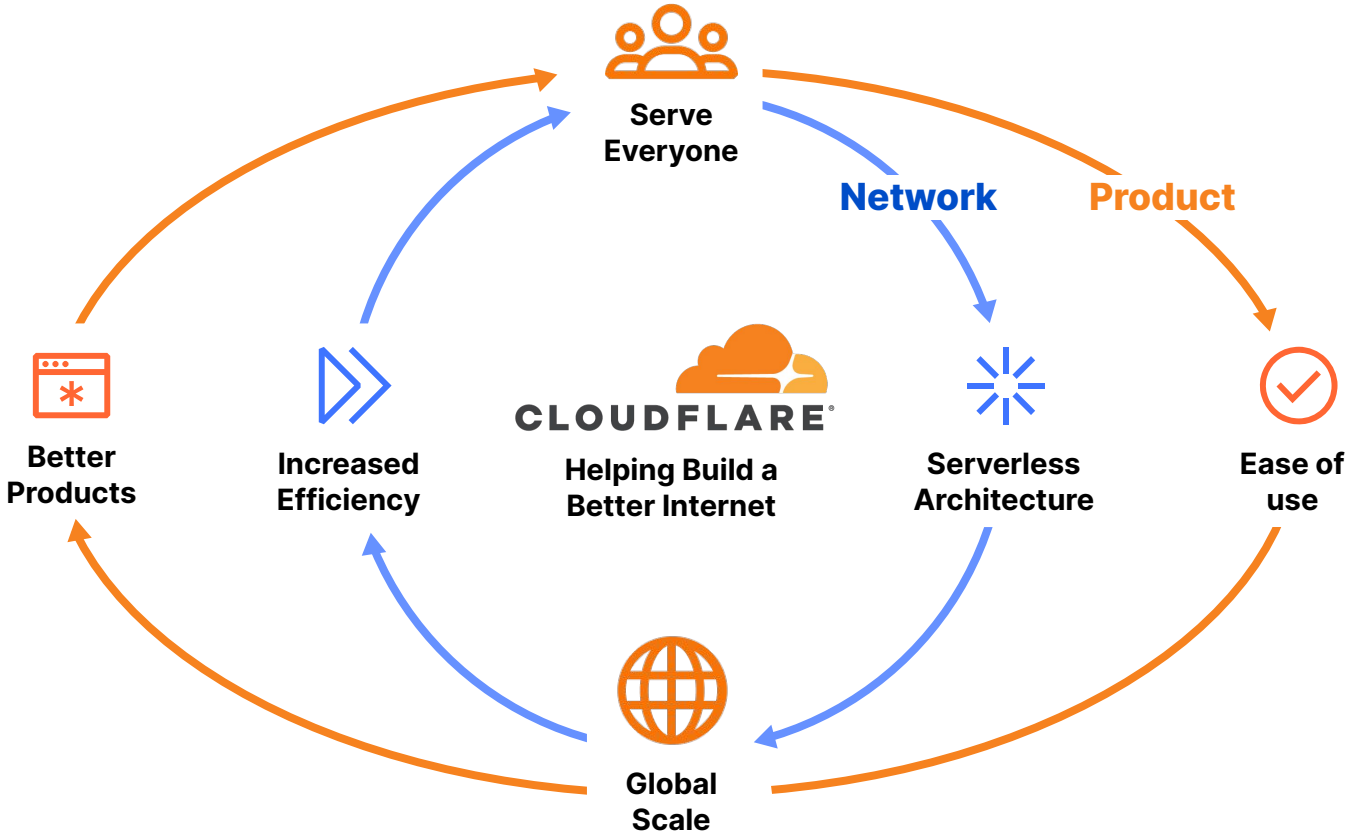
33%
year-over-year Large Customer growth in Q1'24

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

Note: Figures as of March 31, 2024, except for network capacity, which is as of April 30, 2024. See Appendix for "Paying Customers" and "Large Customers" definitions.

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Our Product & Network Flywheels Drive Our Business



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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
~209 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 March 31, 2024. Other figures as of the three months ended March 31, 2024.

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Our Competitive Advantages









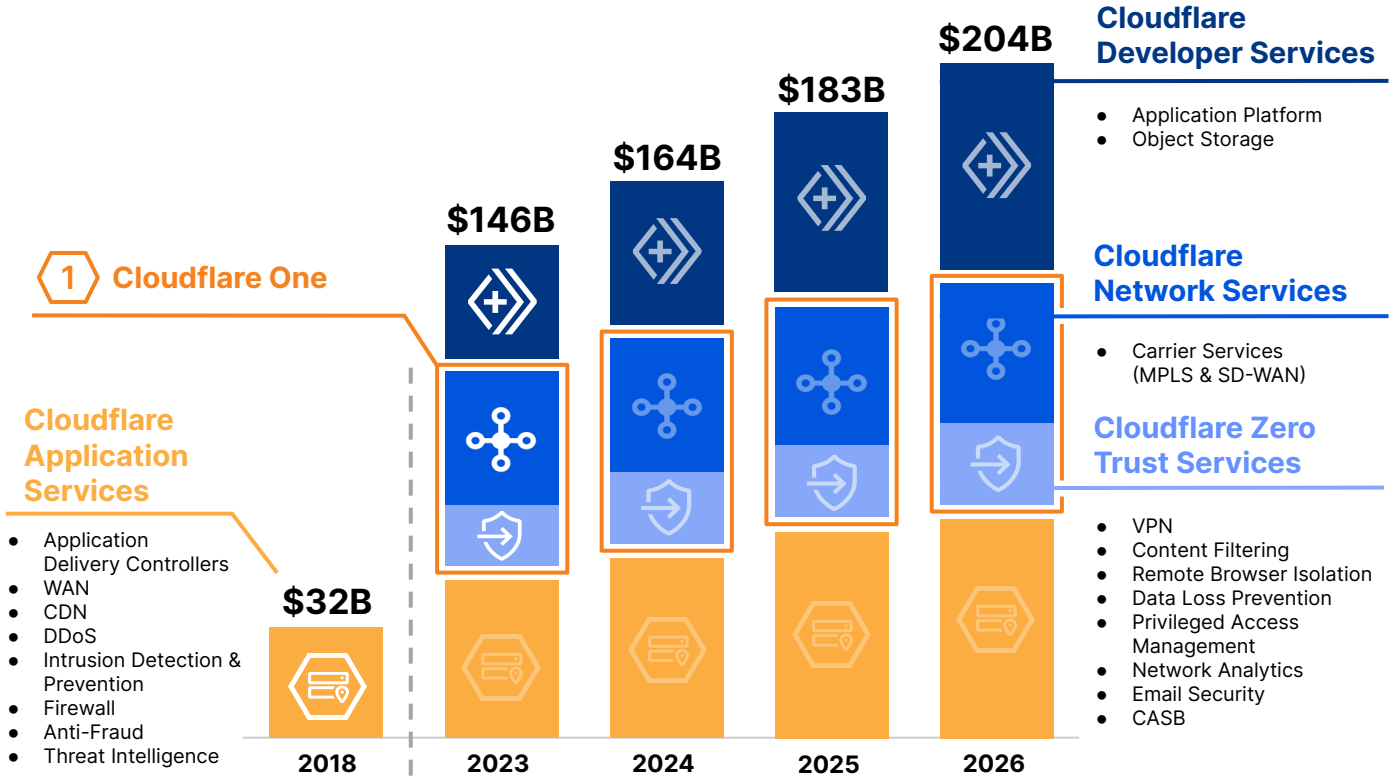
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Our Favorable Competitive Position

	Limitations
On-Premises 	• 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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Consistent & Deliberate TAM Expansion



Areas for Potential Incremental Growth

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

Note: Total Addressable Market figures are Cloudflare estimates based on IDC market forecasts. Figures reflect the markets addressed by our current product offerings. For markets not profiled by IDC forecasts, such as threat intelligence software and anti-fraud software, Cloudflare's estimates are based on Gartner, Inc., Forecast: Information Security and Risk Management, Worldwide, 2021-2027, 1Q23 Update, Shailendra Upadhyay, Rahul Yadav, et.al., 03/29/2023.

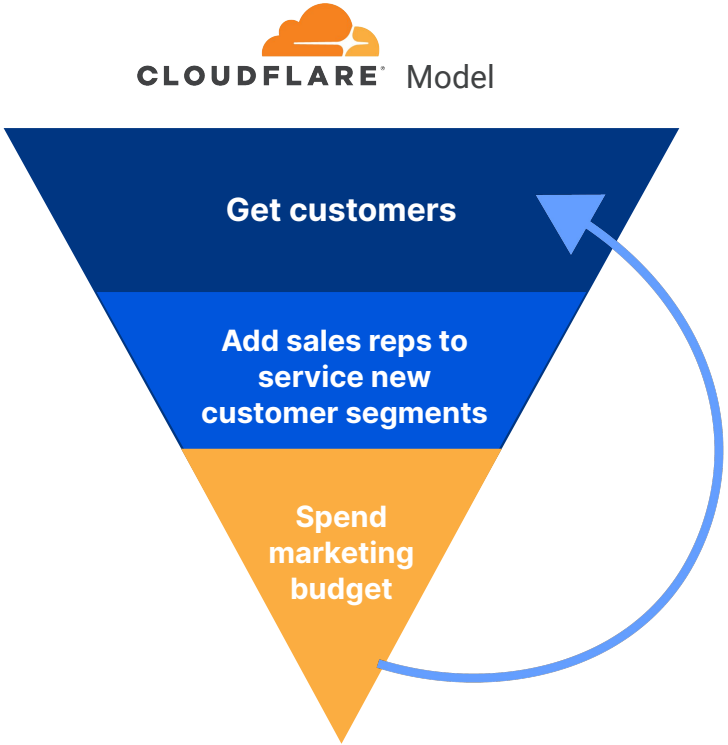
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Traditional Go-To-Market Model Inverted

We don’t build ahead of the curve.

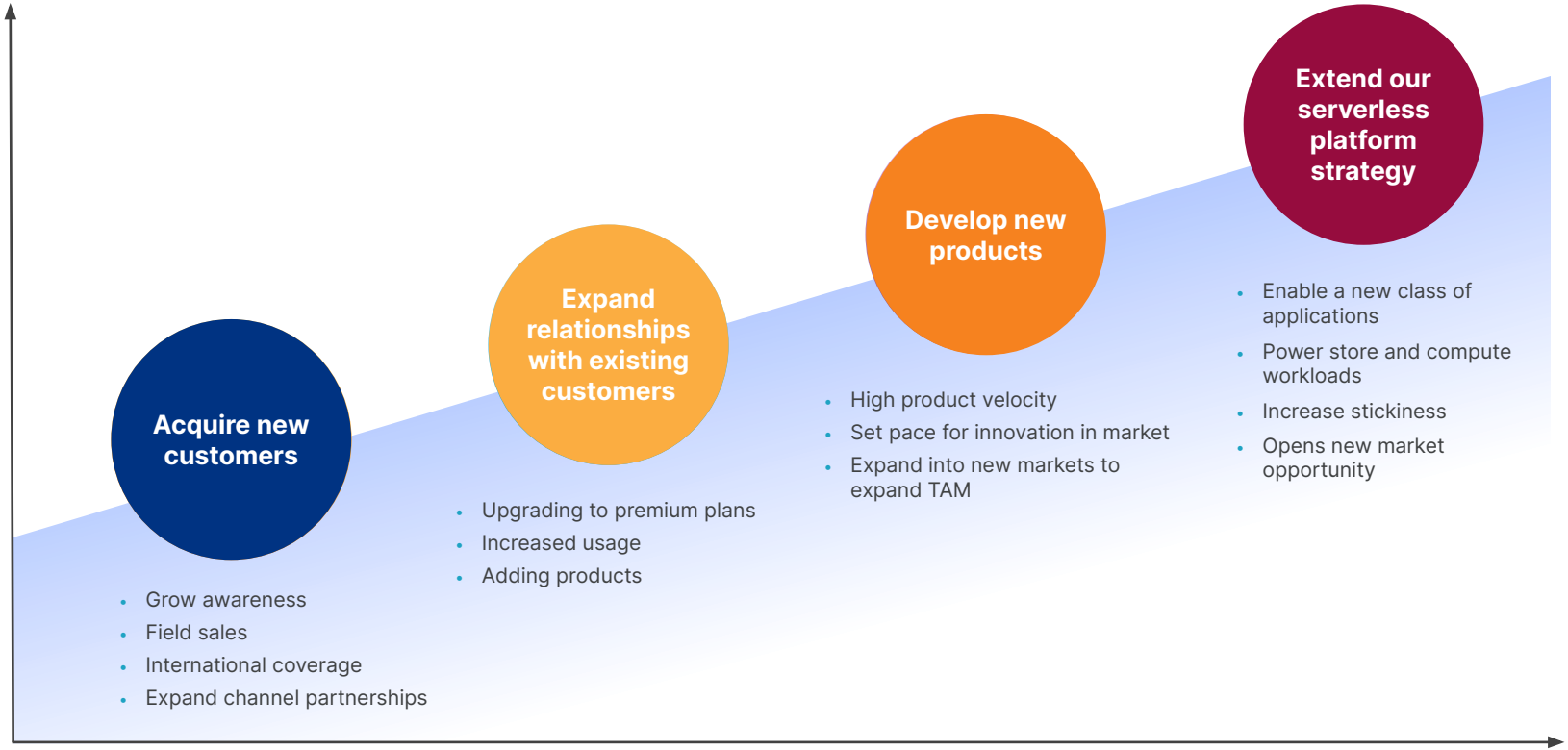
Sources of Leverage

- 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

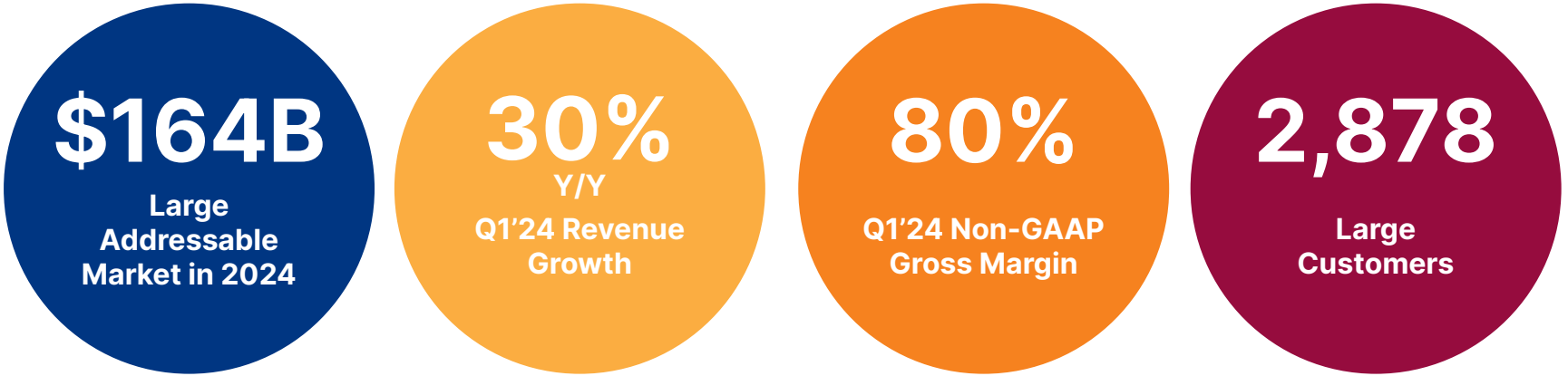


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Financial Overview

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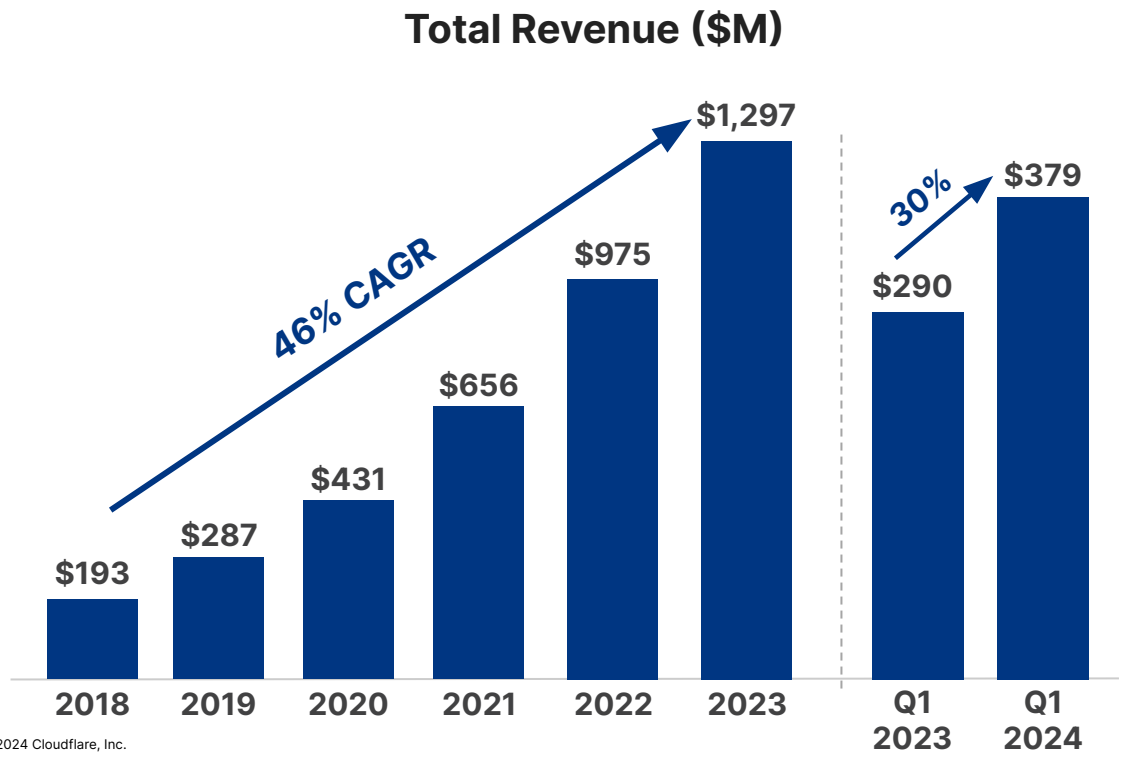
Key Financial Highlights



Note: Total Addressable Market represents 2024 expected spend from our analysis based on IDC data. Year-over-year revenue growth and Non-GAAP gross margin are as of the three months ended March 31, 2024. Large Customers are as of March 31, 2024. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation, and how we define "Large Customers."

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Track Record of Delivering Revenue Growth

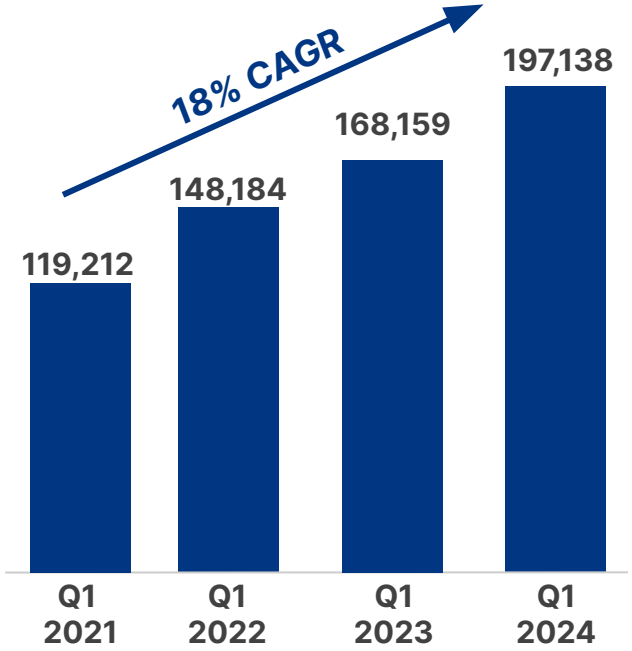


- Investment in enterprise sales
- Large customer momentum
- Land and expand strategy drives growth across cohorts
- Strong penetration across the entire product portfolio

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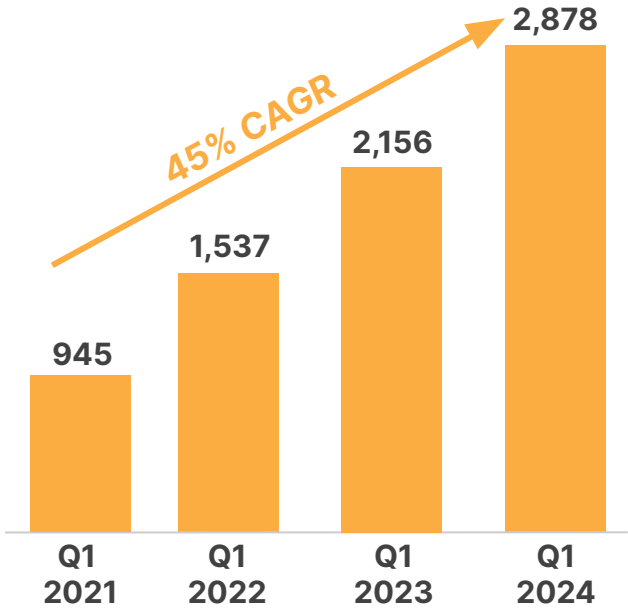
Rapid Customer Growth

Paying Customers



Large Customers

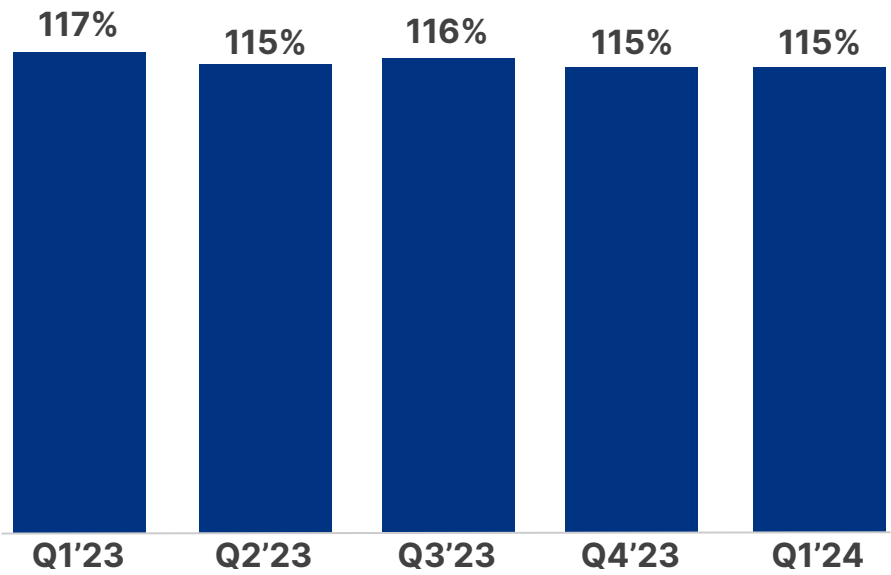
>$100,000 Annualized Revenue



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

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Strong Dollar-Based Net Retention



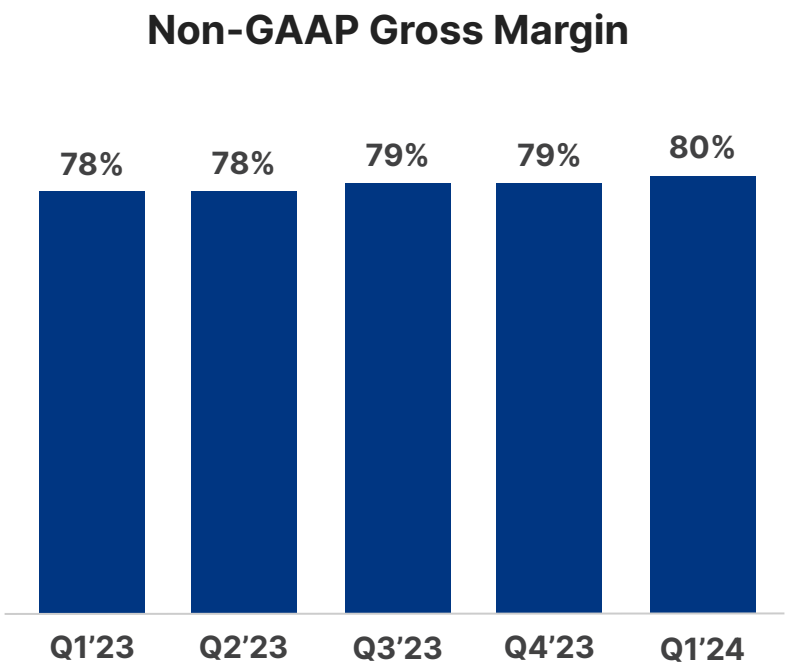
Note: See the Appendix for how we define "Dollar-Based Net Retention."

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- DNR includes all paying customers
- Large customers are a tailwind to DNR
- Continuous innovation offers expansion opportunities

Attractive & Consistent Gross Margin



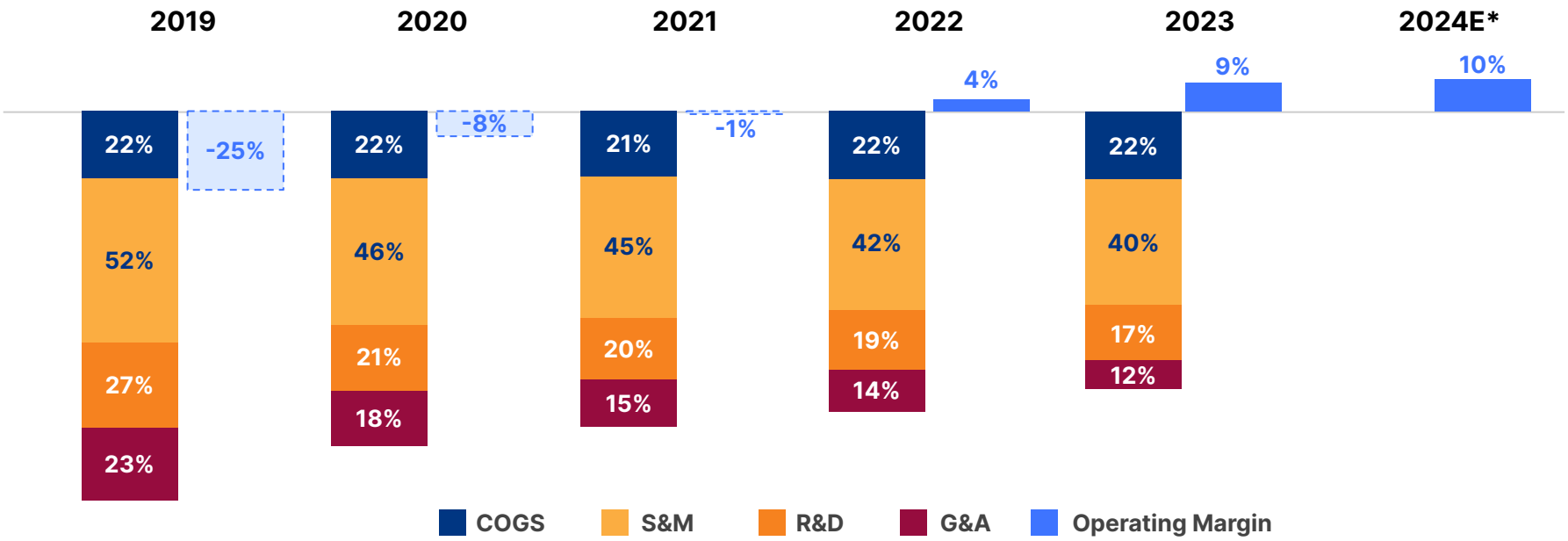
- Serverless architecture deployed on commodity hardware
- Single software stack across the network
- Symbiotic relationship with ISPs
- Leverage idle capacity across network

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

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Elasticity of & Leverage in Our Operating Model

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



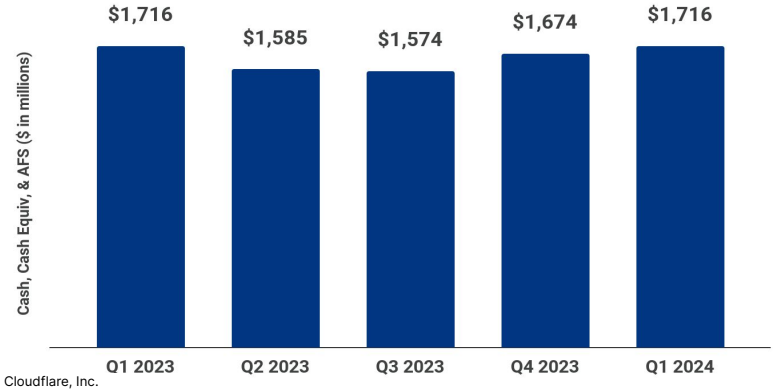
Note: See the Appendix for GAAP to Non-GAAP reconciliation.
*2024E is based on full-year mid-point guidance provided by us on May 2, 2024. This forward looking guidance speaks only as of such date and the inclusion of such guidance in this presentation should not be interpreted as a confirmation or affirmation 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. Please refer to slide 28 for more details.

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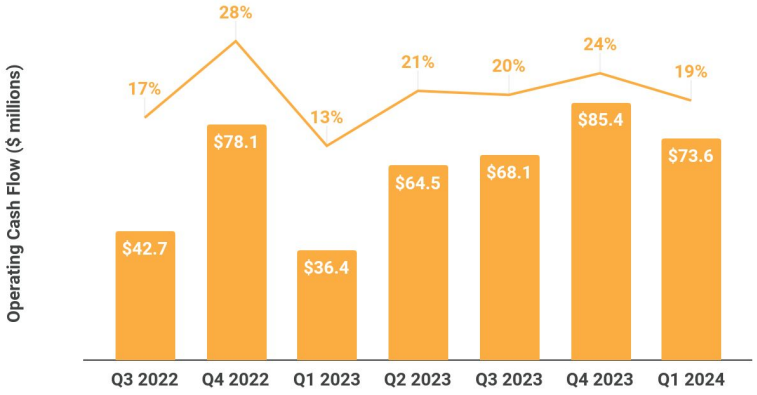
Strong Cash Position

- **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.

Cash Balance



Operating Cash Flow & Margin



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Guidance

Q2 2024	
Revenue	**$393.5 - $394.5**
Y/Y Growth	28%
Operating Income	**$35.0 - $36.0**
Operating Margin	9%
EPS	**$0.14**

FY 2024	
Revenue	**$1,648.0 - $1,652.0**
Y/Y Growth	27%
Operating Income	**$160.0 - $164.0**
Operating Margin	10%
EPS	**$0.60 - $0.61**

FY 2024
Network Capex
as % of Revenue

10%-12%

Note: These forward looking statements were provided by us on May 2, 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.

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Long-Term Operating Model

	2021	2022	2023	Q1 2024
Gross Margin	79 %	78 %	78 %	80 %
Sales & Marketing (% of revenue)	45 %	42 %	40 %	41 %
Research & Development (% of revenue)	20 %	19 %	17 %	16 %
General & Administrative (% of revenue)	15 %	14 %	12 %	11 %
Operating Margin	(1)%	4%	9%	11%
Free Cash Flow Margin	(7)%	(4)%	9%	9%

Unit economics support 20%+ long-term operating margins

	Long-Term Model
Leverage efficiency and elasticity of our network and ingress/egress dynamics	75% - 77%
Scale go-to-market operations with a focus on improving productivity	27% - 29%
Continue to prioritize product innovation	18% - 20%
Benefit from economies of scale and automation	8% - 10%
	20%+
	~25%+

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

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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)

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

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GAAP to Non-GAAP Reconciliation (Quarterly)

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
GAAP Cost of Revenue	**$70,432**	**$75,221**	**$78,069**	**$83,283**	**$85,038**
Less: Stock-based Compensation Expense & Related Payroll Taxes	-$1,803	-$2,126	-$2,367	-$2,064	-$2,822
Less: Amortization of Acquired Intangible Assets	-$4,311	-$4,314	-$4,313	-$4,764	-$4,691
Non-GAAP Cost of Revenue	**$64,318**	**$68,781**	**$71,389**	**$76,455**	**$77,525**
GAAP Gross Profit	**$219,743**	**$233,273**	**$257,534**	**$279,190**	**$293,564**
Add: Stock-based Compensation & Related Payroll Taxes	$1,803	$2,126	$2,367	$2,064	$2,822
Add: Amortization of Acquired Intangible Assets	$4,311	$4,314	$4,313	$4,764	$4,691
Non-GAAP Gross Profit	**$225,857**	**$239,713**	**$264,214**	**$286,018**	**$301,077**
GAAP Gross Margin	76%	76%	77%	77%	78%
Non-GAAP Gross Margin	78%	78%	79%	79%	80%
GAAP Sales and Marketing	**$137,001**	**$146,688**	**$150,214**	**$165,214**	**$194,102**
Less: Stock-based Compensation & Related Payroll Taxes	-$15,868	-$20,734	-$20,674	-$19,435	-$21,775
Less: Amortization of acquired intangible assets	-$576	-$574	-$575	-$575	-$575
Less: Acquisition-related and other expenses	-	-	-	-	-
Less: One-time compensation charge	-	-	-	-	-$15,000
Non-GAAP Sales and Marketing	**$120,557**	**$125,380**	**$128,965**	**$145,204**	**$156,752**
GAAP S&M Expense as a % of Revenue	47%	48%	45%	46%	51%
Non-GAAP S&M Expense as a % of Revenue	42%	41%	38%	40%	41%
GAAP Research and Development	**$81,539**	**$89,610**	**$90,593**	**$96,401**	**$87,703**
Less: Stock-based Compensation & Related Payroll Taxes	-$30,216	-$36,573	-$36,353	-$36,932	-$28,980
Less: Acquisition-related and other expenses	-	-	-	-	-
Non-GAAP Research and Development	**$51,323**	**$53,037**	**$54,240**	**$59,469**	**$58,723**
GAAP R&D Expense as a % of Revenue	28%	29%	27%	27%	23%
Non-GAAP R&D Expense as a % of Revenue	18%	17%	16%	16%	16%
GAAP General and Administrative	**$48,475**	**$53,147**	**$55,939**	**$60,404**	**$66,309**
Less: Stock-based Compensation & Related Payroll Taxes	-$13,863	-$12,156	-$17,463	-$18,873	-$23,150
Non-GAAP General and Administrative Expense	**$34,612**	**$40,991**	**$38,476**	**$41,531**	**$43,159**
GAAP G&A Expense as a % of Revenue	17%	17%	17%	17%	18%
Non-GAAP G&A Expense as a % of Revenue	12%	13%	11%	11%	11%
GAAP Loss from Operations	**-$47,272**	**-$56,172**	**-$39,212**	**-$42,829**	**-$54,550**
Add: Stock-based Compensation & Related Payroll Taxes	$61,750	$71,589	$76,857	$77,304	$76,727
Add: Amortization of Acquired Intangible Assets	$4,887	$4,888	$4,888	$5,339	$5,266
Add: Acquisition-related and other expenses	-	-	-	-	-
Add: One-time compensation charge	-	-	-	-	$15,000
Non-GAAP Loss from Operations	**$19,365**	**$20,305**	**$42,533**	**$39,814**	**$42,443**
GAAP Operating Margin	-16%	-18%	-12%	-12%	-14%
Non-GAAP Operating Margin	**7%**	**7%**	**13%**	**11%**	**11%**

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Key Business Metrics

Paying Customers

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
	151,803	156,000	162,086	168,159	174,129	182,027	189,791	197,138
y-y growth	20%	18%	16%	13%	15%	17%	17%	17%

Paying Customers (> $100,000 Annualized Revenue)

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
	1,749	1,908	2,042	2,156	2,352	2,558	2,756	2,878
y-y growth	61%	51%	44%	40%	34%	34%	35%	33%
% of revenue	60%	61%	63%	62%	64%	65%	66%	67%

Dollar-Based Net Retention

Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
126%	124%	122%	117%	115%	116%	115%	115%

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

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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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