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Cloudflare, Inc. (NET)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to Cloudflare Second Quarter 2026 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Phil Winslow. Phil, please go ahead.

Philip Winslow

Vice President-Strategic Finance, Treasury & Investor Relations, Cloudflare, Inc.

Thank you for joining us today to discuss Cloudflare's financial results for the second quarter of 2026. With me on the call, we have Matthew Prince, Co-Founder and CEO; Michelle Zatlyn, Co-Founder and President; and Thomas Seifert, CFO. By now, everyone should have access to our earnings announcement. This announcement as well as our supplemental financial information may be found on our Investor Relations website.

As a reminder, we will be making forward-looking statements during today's discussion, including, but not limited to, our customers, vendors and partners, operations and future financial performance, our anticipated product launches and the timing and market potential of those products, our anticipated future financial and operating performance, and our expectations regarding future macroeconomic conditions. These statements and other comments are not guarantees of future performance and are subject to risks and uncertainties, much of which is beyond our control. Our actual results may differ significantly from those projected or suggested in any of our forward-looking statements.

These forward-looking statements apply as of today and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call. For a more complete discussion of the risks and uncertainties that could impact our future operating results and financial condition, please see our filings with the SEC as well as in today's earnings press release.

Unless otherwise noted, all financial numbers we talk about today, other than revenue, will be on an adjusted non-GAAP basis. You may find a reconciliation of GAAP to non-GAAP financial measures that are included in our earnings release on our Investor Relations website. For historical periods, a GAAP to non-GAAP reconciliation can be found in the supplemental financial information referenced a few moments ago.

We would also like to inform you that we will be participating in Stifel's Tech Executive Summit on August 24 and Goldman Sachs' Communacopia and Technology Conference on September 9.

Now, with that, I'd like to turn the call over to Matthew.

Matthew Prince

Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

Thank you, Phil. We had an extremely strong second quarter. We achieved revenue of $696.1 million, up 36% year-over-year. We now have 4,698 customers paying us more than $100,000 per year, a 27% increase year-over-year. We added a record number of these large customers, 986 net additions year-over-year, the most we have ever added over 12 months in our history.

Our dollar-based net retention was 120%, up 2% quarter-over-quarter and up 6% year-over-year. Our gross margin was 73.1%, improving sequentially for the first time in eight quarters. We delivered operating profit of $96.1 million, representing a non-GAAP operating margin of 13.8%. And we generated free cash flow of $56.4 million during the quarter, up 69% year-over-year. The strong momentum we've been seeing for some time in our business continued to build in the second quarter.

Some highlights. Sales productivity increased year-over-year for the 10th consecutive quarter. New customer bookings increased at the fastest rate in more than five years. New pipeline generation continues to accelerate, again, growing sequentially at its fastest pace in five years. We added more than 80,000 paying customers this quarter, driving 74% year-over-year paying customer growth.

For some context, we added as many paying customers this quarter as we had in total when we went public in Q3 of 2019. We had nearly 1,000 large customers year-over-year. We also set a record for year-over-year net additions across every large customer tier, from $100,000 to over $5 million in annualized revenue. And we ended the quarter with more than 7.4 million developers on our platform. That's nearly 2 million developers in Q2 alone, surpassing the 1.5 million we added during all of 2025.

It's clear that the agentic future needs a new kind of cloud. Developers are flocking to Cloudflare because our Workers developer platform gives them what they need to build that agentic future. We're the fastest, we're the most secure and the most cost-effective place to build, deploy and scale agents and the code they generate.

At Cloudflare, what we continue to prove is that when you build a company the right way, you can grow and innovate while executing and profiting. We have the network. We have the platform. We have the culture of innovation. We have the business momentum. We have the disciplined execution. We're in the right moment in time and we are keeping our foot firmly on the gas. This is the winning formula that we know works. It's the same one that has propelled Cloudflare into the pole position to lead the next phase of the Internet in the age of agentic AI. That's a good segue to discuss some of our wins in the quarter.

A leading digital native media company expanded their relationship with Cloudflare, signing a five-year, $31.8 million contract for Application Services and Zero Trust. To combat aggressive scraping and accelerate global performance, this customer chose Cloudflare for our best-in-breed edge capabilities and operational velocity.

Despite competitive pressure to consolidate spend with their incumbent hyperscaler, this customer's long-term commitment is a proof point that when performance and security are non-negotiable, enterprises choose Cloudflare's unified platform.

A global 2,000 European technology company expanded their relationship with Cloudflare, signing a three-year, $11 million contract for Application Services and Zero Trust with our developer platform seeded for future AI workloads. After years of acquisitions resulted in a fragmented IT footprint, this customer chose Cloudflare to eliminate a stack of five incumbent legacy point solutions with up to seven targeted on their long-term roadmap in favor of our single unified platform as the foundation for their entire organization to build on.

A large US federal agency expanded their relationship with Cloudflare, signing a five-year, $7.7 million contract for Magic Transit and Network Firewall. After a legacy provider's outage locked over 100,000 users out of a mission-critical system for days, the agency urgently sought greater resilience and real-time control.

Cloudflare slashed the customer's global rule change time from a one-week SLA down to just 30 seconds. They've also cut hardware costs by blocking unwanted traffic at the edge and have already shut down an entire data center. As an existing application security customer already, this agency can now run their network and application security on one unified platform, cementing Cloudflare as the front door for all their Internet traffic.

A rapidly growing generative AI company signed a one-year, $7.5 million pool of funds contract for our developer platform. This customer's workloads pull an enormous volume of images and video. At that scale, a hyperscaler's egress tax would break the economics and create vendor lock-in, limiting their choice of inference tools and GPUs. Their engineering team evaluated multiple providers and chose Cloudflare as the only one that pairs a zero egress model with the reliability, scale and comprehensive capabilities of an enterprise-grade platform. By structuring this as a pool of funds deal, the customer can solve their immediate storage needs while retaining the flexibility to expand across our entire developer platform.

A rapidly growing technology company in APAC expanded their relationship with Cloudflare, signing a one-year $4 million pool of funds contract for our Workers developer platform. This deal accelerates a powerful partnership, building on an $8.7 million Application Services contract signed just last quarter.

In only one year, this customer has standardized on Cloudflare end-to-end, from Application Security and Zero Trust to now our developer platform, directing every request through a Cloudflare Worker and using KV and Durable Objects as the routing and tenant configuration layer for their entire platform.

They chose Cloudflare over their incumbent hyperscaler to avoid added latency, proving the flywheel of our unified offering. Once performance and security run on Cloudflare, our developer platform becomes a natural foundation for the next layer of any company's stack.

A Fortune 100 technology company expanded their relationship with Cloudflare signing a three-year, $5.2 million contract for our full SASE portfolio. This customer is replacing legacy VPNs and virtual desktops to move their entire global workforce onto a single Zero Trust platform. In a competitive evaluation, Cloudflare beat two first-generation Zero Trust vendors, winning due to our faster network performance and our single pane of glass management that is so easy, the customer expects to run our services with roughly one-third the staff. This is exactly the type of security consolidation we see accelerating. Enterprises retiring fragmented point solutions in favor of Cloudflare's blazing fast, easy-to-use and unified platform.

A Fortune 1000 technology company expanded their relationship with Cloudflare, signing an 18-month, $15.9 million contract for Application Services and our Workers' developer platform. This customer serves hundreds of thousands of businesses, which requires an architecture that can act as their global front door for security and performance without adding latency. By standardizing on Cloudflare over legacy alternatives, they eliminated multi-product complexity and secured long-term operational predictability as they build an AI-first customer platform.

A leading technology company expanded their relationship with Cloudflare signing a one-year, $6 million pool of funds contract for our Workers developer platform. As this customer scales their new AI agent capabilities, they needed an elastic, secure container infrastructure that could scale with their rapid growth and ship new capabilities in weeks, not quarters. They chose to build on Cloudflare over legacy hyperscalers and point solution competitors because of our built-in threat intelligence that actively prevents compute abuse, rapid pace of innovation and the ability to deliver FedRAMP compliance. This win also shows how the most sophisticated AI builders are increasingly selecting Cloudflare as the agent cloud of the future.

These customers and others like them are increasingly choosing Cloudflare because we don't just keep up with change, we drive it. We ship fast, we solve hard problems and we do it in a way that meaningfully raises the bar for the entire Internet. Nowhere is this relentless focus on innovation more exciting than the work we are doing in AI.

For the first time in human history, in Q2, more than 50% of the traffic flowing across Cloudflare's network was not human. The number of requests on our network from AI agents continues to grow unabated. With the web shifting from human-driven browsing to AI answer engines and agent-driven commerce, we are witnessing a fundamental rewrite of the Internet for machine-to-machine traffic. Cloudflare is positioned at the center of this paradigm shift, building the scalable infrastructure, the controls, the developer tools and the payment rails to power the agentic Internet.

Just since the start of Q3, we've celebrated innovation in this area from Content Independence Day to Agents Week, which is happening right now. During these, we unveiled the key building blocks for a two-sided agentic marketplace. Monetization gateway allows our customers to sell any resource behind Cloudflare, whether it's a web page, an API, a data set or an MCP tool. This will empower new business models that will define the next generation of the Internet.

In addition, we announced Wallets, which will offer a way for buyers to pay autonomously through their agents and cloudflare.pay, which will provide merchants and buyers an agent-friendly means to identify themselves and establish trust. Not only are we building the foundational elements for agentic commerce to succeed, we also believe AI companies and content owners should thrive together. That's why we recently announced a first-of-its-kind research pilot with OpenAI that we believe may help pave the way to a sustainable ecosystem of content creators and AI companies. Over the coming months, we'll announce more ways that AI companies, content creators and businesses large and small, can thrive together. The business model of the Internet is changing, and there is no company better positioned to define its future than Cloudflare. It's an incredibly exciting time.

That seems like a good spot to turn it over to Thomas to talk about the financials. Thomas, take it away.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

Thank you, Matthew, and thank you to everyone for joining us. We delivered a stellar second quarter, with strengths across all major metrics we track, driven, in particular, by another quarter of rapid growth in our Workers developer platform and agentic workloads across our network, continued momentum with our largest customer cohorts and a robust go-to-market execution.

Turning to revenue. Total revenue for the second quarter increased 36% year-over-year to $696.1 million. From a geographic perspective, the US represented 51% of revenue and increased 41% year-over-year. EMEA represented 27% of revenue and increased 30% year-over-year. APAC represented 14% of revenue and increased 32% year-over-year.

Turning to our customer metrics. We ended the quarter with 4,698 large customers, those spending more than $100,000 annually with us, representing an increase of 27% year-over-year and an acceleration from 25% growth last quarter. We added 282 large customers in the quarter and a record 986 large customers year-over-year, the most we have ever added year-over-year in our history. In fact, every one of our large customer cohorts, from $100,000 to $500,000 to $1 million to $5 million in annualized revenue, added a record number of net new customers year-over-year in the second quarter.

Revenue contribution from large customers was 73% of revenue during the quarter, up from 71% in the second quarter last year. The significant expansion with our largest customers drove an acceleration in our dollar-based net retention rate to 120% in the second quarter, up 2% sequentially and up 6% year-over-year.

Moving to gross margin. Second quarter gross margin was 73.1%, representing an increase of 30 basis points sequentially and a decrease of 320 basis points year-over-year. Paid versus free traffic on our network continue to grow year-over-year, again, driving additional allocation of network costs from sales and marketing into cost of revenue. However, as we discussed at Investor Day, this trend is showing signs of beginning to stabilize.

Network CapEx represented 7% of revenue in the second quarter. As a reminder, there can be some variability in this metric quarter-to-quarter, and we expect network CapEx to be 14% to 15% of revenue for full year 2026.

Turning to operating expenses. Second quarter operating expenses as a percentage of revenue decreased by 3% year-over-year to 59%. Our total head count ended the quarter at 4,700. Sales and marketing expenses were $232.5 million for the quarter. Sales and marketing as a percentage of revenue decreased to 33% from 36% in the same quarter last year.

Research and development expenses were $104.1 million in the quarter. R&D as a percentage of revenue decreased to 15% from 16% in the same quarter last year. General and administrative expenses were $76.3 million for the quarter. G&A as a percentage of revenue increased to 11% from 10% in the same quarter last year.

Operating income was $96.1 million, an increase of 33% year-over-year compared to $72.3 million in the same period last year. Second quarter operating margin was 13.8%, an increase of 240 basis points sequentially and a decrease of 30 basis points year-over-year.

Turning to net income and the balance sheet. Our net income in the quarter was $107.8 million or diluted net income per share of $0.29. Excluded from these non-GAAP results were severance and other restructuring charges of $151 million for the second quarter, of which $99 million was paid in the second quarter.

For full year 2026, we now expect severance and other restructuring charges of up to $165 million, with up to $130 million expected to be cash related. While higher than initially anticipated, we prioritized speed of resolution, particularly internationally to ensure a continued focus on execution.

Free cash flow was $56.4 million in the quarter or 8% of revenue compared to $33.3 million or 6% of revenue in the same period last year. Excluding the impact from the higher severance and other restructuring costs, our free cash flow expectations for 2026 remain unchanged. We ended the second quarter with $4.2 billion in cash, cash equivalents and available-for-sale securities.

Remaining performance obligations, or RPO, came in at $2.732 billion, representing an increase of 7% sequentially and 38% year-over-year. Current RPO was 64% of total RPO and grew 35% year-over-year.

Moving to guidance for the third quarter and full year 2026. For the third quarter, we expect revenue in the range of $736 million to $737 million, representing an increase of 31% year-over-year. We expect operating income in the range of $129 million to $130 million. We expect an effective tax rate of 20%. We expect diluted net income per share of $0.34, assuming approximately 374 million shares outstanding.

For the full year 2026, we expect revenue in the range of $2.864 billion to $2.870 billion, representing an increase of 32% year-over-year. We expect operating income for the full year in the range of $443 million to $445 million.

We expect an effective tax rate of 20%. We expect diluted net income per share over that period to be $1.25 to $1.26. We expect approximately 374 million shares outstanding.

In closing, the second quarter reflected the strength of our underlying business. Our strategic position leading the paradigm shift of the agentic Internet has never been stronger and the opportunity ahead of us is larger and more defined than at any point in our history. We remain committed to capturing it with disciplined execution, durable growth and long-term focus.

And with that, operator, please poll for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Saket Kalia with Barclays. Please go ahead.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Okay, great. Hey, Matthew. Hey, Thomas. Thanks for taking my questions here, and great to see the acceleration in the business. Matthew, maybe for you. I'd love to dig into the changing profile of traffic and how that's monetized. You've talked about how the majority of traffic now is non-human and we all see the inflection in traffic. Maybe the question is, do you see that driving more new logos or are existing customers buying more? And then from a different but related lens, is it driving more business with large customers or smaller ones?

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah, Saket, I think it's a pretty wild time. I was asked in the end of 2025 – in November 2025, when I thought that non-human traffic would pass human traffic and we pulled all the data, we ran all the numbers and we were pretty confident that it was going to be the second half of 2027. I was asked the same question again in March of 2026 and we did the same exercise and were surprised to see that it had moved up to be – that would cross in the first half of 2027. So, I was quite surprised when in May of this year, our team came to me and said, you won't believe it, but non-human traffic is now passed human traffic online.

And to give you a sense of how this trend is playing out and with the big caveat that I have called it wrong at every point along the way, if the current trends continue, we think in five years, non-human traffic will be as much as 1,000 times as much as human traffic. In other words, humans will be a rounding error on the Internet, not because human traffic goes down, but that's just how fast we're seeing non-human traffic grow.

And so, that's resulting in a number of things. The first is that for some of that non-human traffic, it's malicious. And that could be malicious like it's hackers or bad guys. It could also be it's malicious from the perspective of a particular customer's business model, where it's traffic that is maybe an AI company trying to take the content from a media company that relies on advertising. And in those cases, we block that traffic and we don't charge the customers anything more for blocking up that traffic, because we think that that's the right thing for us to be doing and delivering. And that's part of being a security company.

At the same time, though, there are some people who want that traffic. And so, we're doing everything we can, not only to serve that, but to make it as efficient as possible to serve it, because if we're going to have 1,000 times as much traffic online, we've got to get a lot more efficient and companies like Cloudflare are critical to be able to support that for customers, whether they're large and small.

The thing that I think is most interesting, though, is that, increasingly, as we talk to the AI companies and over 80% of the major AI companies are Cloudflare customers and rely on us as we have a great relationship with them and as we talk to others, it's clear that as agents are accessing all of these sites and the volume that they're accessing them on, the sort of give to get that you have with human traffic is different.

And so, if you look at some of the things that we've announced this week during Agents Week, things like cloudflare.pay, that's us setting the foundation to be able to say how do we charge agents some – again, what will be a very, very small fee, fractions of a penny for every request that goes through, but for the request that pass through that traffic, because somebody has to pay for the bandwidth, somebody has to pay for the server, somebody has to pay for the people doing the work to create the content.

And I think that the business model of the Internet for the last 27 years has been largely defined by advertising and really defined by Google. I think the business model of the next 27 years of the Internet is going to be very different and there's no company in a better position to define what it looks like than Cloudflare.

Saket Kalia Q
Analyst, Barclays Capital, Inc.

Totally agree. Thomas, maybe for my follow-up for you. It was great to see the stabilization in gross margins this quarter and we talked a bunch about that at Analyst Day. But maybe you could just talk to us a little bit about some of the puts and takes there and particularly how you see gross margins sort of ebbing and flowing through the second half?

Thomas Josef Seifert A
Chief Financial Officer, Cloudflare, Inc.

Well, as we said at the Investor Day, the important metric for us to focus on is total unit economics, because the behavior of gross margin across the various product is just very different. You can see with all the metrics that we published today that we are tracking ahead of everything we track. So we are quite confident that the total unit economics across all products is going to increase over the course of this year.

Gross margin, I think, will stabilize around the level we have. But as I said, more importantly, it is to focus on the unit economics and here we will continue to see expansion over the course of the second half of the year.

Saket Kalia Q
Analyst, Barclays Capital, Inc.

Very helpful. Thanks, guys.

Operator: Your next question comes from the line of Matt Hedberg with RBC Capital Markets. Please go ahead.

Matthew Hedberg Q
Analyst, RBC Capital Markets LLC

Great. Thanks for taking my question, guys. Congrats on the quarter. Just stellar results here. I wanted to start, you guys had, I think, Matt, you said 2 million developers out of this quarter. That was, obviously, impressive. I guess, with so many options for developers and questions about open-weight and open source models these days, what are the most important elements about Workers that give developers the confidence to platform on it, really as you know, the Internet is fundamentally changing to support machine-to-machine traffic?

And then, maybe as a kind of a follow-up to that, there's, obviously, been a lot of buzz about Cloudflare OS and we saw that you open sourced it this week. That's great. When we think beyond the developer, talk about how Cloudflare OS opens up the opportunity to really every employee in an organization.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.
A

Yeah. I made the team triple check the developer numbers, because we added more developers in a quarter than we did in all of last year and we thought last year was pretty good. I think it's being driven by a handful of different things. The first is that Cloudflare Workers is turning out to just be the perfect platform for building agents and agentic workloads. It's extremely lightweight. You only get charged for when it's actually doing work. You can spin things up and spin them down very, very quickly.

And so, it has become the go-to place for sophisticated developers to be able to launch code. And we're pretty conservative how we count these. There are big companies that have one developer account, even though there's lots of people that are working behind it. But across the board and you can see this in part by the paying customer count, there's just lots of small developers that are driving more and more use of the platform. And again, I think that's great because those small developers, some of them will turn into nothing, but some of them will turn into major things as well. And that's really always been the key story of Cloudflare.

I think the other thing is, it kind of dovetails into your second question, which is we're seeing that the number of developers generally is going up massively, where people who never thought of themselves as being able to write code or create things are doing exactly that. My EA is using some of the vibe coding platforms in order to build tools in order to run things around her house and she's writing code and deploying it to Cloudflare. And that's really remarkable.

And so if you look at companies like Lovable and Replit and Base44 at Wix and others that a lot of times that where those – that code is actually getting deployed and where the preferred target of that code is going is actually to Cloudflare. And again, I think that's driving more and more developers.

Cloudflare OS is – we talked last quarter, and I think there was some head scratching in some corners about, we said that we were just seeing so much more efficiency across our team, not just our developers, but our finance team, our legal team, our procurement, across management and how are we getting that. And the answer in large part was we'd really built a set of tools with Cloudflare OS that allowed everybody on our team to be able to take advantage of some of the tools that I think at most organizations are somewhat limited to the developer platform. And we got enough questions about that, and we were proud enough about the work that we, just the other day, open sourced that project. And already, the reaction has been amazing to see how many large companies are saying, wow, this is exactly what we need.

I think the thing that's – and there's a lot of companies that are doing this, including a lot of startups that have really promising potential, but I think the thing that's unique about us is that because we started out as a security company, and I think describing Cloudflare as just a security company today is obviously misunderstanding us, but we still have that DNA at our core. It allowed us to hook into things like our systems of record in a way that was very secure, auditable, that we could actually sample against, that we could put controls around, that gave us the ability to allow people who are across the organization to have the access of these very powerful tools, but do it in a way where we felt it was still safe and responsible.

I think that's where most organizations are hitting kind of roadblocks internally in terms of turning more AI tools loose across the organization. And I think one of the reasons that we've been able to move faster than others and one of the reasons that we're so excited about open sourcing Cloudflare OS is because of the fact that at our foundation, we're a security company, we understand how to do these things securely and that's allowing us to move fast without breaking things.

Matthew Hedberg
Analyst, RBC Capital Markets LLC
Q

Thanks, Matthew.

Operator: Your next question comes from the line of Sanjit Singh with Morgan Stanley. Please go ahead.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. Thank you for taking the question. I wanted to pick up on Matt's question. I think probably one of the other reasons why you're seeing such impressive developer traction is that you guys have one of the most thorough sort of agent stacks across infrastructure, runtime, model serving, the data layer, Durable Objects. It's pretty impressive in the market. At what point, Matt, do you think that there's going to be like a security opportunity around, not just running and orchestrating these agents, but securing those agents? And what does a security portfolio for agent – orchestration agents themselves look like?

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.
A

Yes, Sanjit, first of all, I mean, I think kudos to all of the team that's been working on the developer platform, especially the agents part. I mean, they've just been in an absolute animal mode, releasing more and more features and really building, first and foremost, the tools that we need ourselves, but the tools that we need ourselves it's turning out the rest of the world needs as well. I think the opportunity is already there. I mean, the number one thing that's causing our phone to ring from big companies is them saying, listen, we know we have to do AI, but we need to do it more securely.

And so it's been especially interesting in sort of the SASE Zero Trust space. I think that if you listen to a lot of the Zero Trust vendors that are out there talking about human seeds and things like that, I think we've sort of shortcutted a lot of those conversations by saying, like, do whatever you want with the humans in your org, but you're going to have even more agents and you've got to have a proper security model for those agents.

So I was just in London a few weeks ago, meeting with a large government agency there that was well down the track with one of the sort of first-generation Zero Trust companies to implement that across a big chunk of the UK government. And we sort of started talking about agents and what their plan was and how they were thinking about it. And very quickly, it became clear that the vendor that they were considering really hadn't thought about this, whereas it's been core – because of the fact we have a developer platform to how we did things, and they literally canceled the RFP and are now reevaluating this with a sort of agents first approach.

I think you're going to see that more and more across organizations. And because of the fact that we come at this from a developer platform place, I think that's what's really allowed our SASE and Zero Trust platform to actually gain share pretty significantly in the last six months.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Yeah, it'll be really cool to see how that plays out. As a follow-up, Tom, on the Investor Day, you had some like great slides going through the different revenue models. And particularly with respect to the pool of funds, I think you had a chart there about some of the larger customers really early renewing on a pull of funds basis and some of the revenue timing and revenue headwinds associated with that. As we got into Q2 and as we look into the back half, do you think are we at a point where those customers have sort of leaned into usage and we're sort of past those initial revenue headwinds when it comes to those early pool of funds renewals?

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.
A

Yeah, the trajectory of the business is clearly up and to the right for both revenue as well as operating income. But as we said at Investor Day, their business model is also going to evolve. It's moving away from a purely ratable SaaS model towards a much more diversified mix of pool of funds, consumption-based structures and also what we call T-shirt sizes. As the business accelerates, that also leads to more and more customers burning through their T-shirt sizes faster, pool of funds are getting consumed faster and getting renewed. So we are really stacking these things on top of each other. And that leads to, you would call it a higher standard deviation across the individual customers.

So the momentum over a multiple quarter is clearly pointing up into the right. You don't – you not only see this in revenue, you also see this in RPO and CRPO, but moving – how we move from quarter-to-quarter becomes a little bit more difficult to forecast. That's why we continue to be prudent in terms of how we set the guidance, but the trajectory is clear – is clearly up into the right.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Understood. Very clear. Thank you very much.

Operator: Your next question comes from the line of Gabriela Borges with Goldman Sachs. Please go ahead.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC
Q

Hey, good afternoon. Thank you. Thomas, your comments just now on the momentum in the business are very clear, and certainly, we can see it in the acceleration over the last several quarters. My question for you high level is, and for Matthew, too, you all have been in this very consistent growth rate for the past three years now in the high 20s, low 30s. And I think about the trends that are happening in your business, is there a scenario where the structural growth rate of Cloudflare actually ends up being higher over the next three years as all of these businesses try come together?

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.
A

I'll take a stab at it and then Matthew can jump in. A lot of factors, I think, play into that. The one for sure is the innovation flywheel and that we address and disrupt a TAM that becomes bigger and bigger, from $30 billion at our IPO to a north of $300 billion at this point in time. I think the flywheels that come with Act 3 and now especially with Act 4 are accelerating. Every time we move to a new act, the maximum deal size goes up by factors. $1 million contracts at Act 1, double-digit million dollars at Act 2, hundreds – triple digits in Act 3. So it's a combination of a lot of factors. And then we clearly said this today, the larger the customer cohort, the faster the growth rate. So I think there are a lot of independent growth vectors coming – pointing all in the right direction and generate the momentum that you see in the numbers.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

And Gabriela, the only thing I think I would add is that there's probably some downsides to having a CEO who's the founder of the company – co-founder the company. But one of the maybe downsides or upsides as you look at it is that I remember when our growth rates were a lot higher and I miss those days and so won't be upset if we get back to even higher growth rates.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, well said. Hey, my follow-up is on the triple play around Monetization Gateway wallets and ID that you announced intra-quarter. Talk a little bit about why this is hard to do and how you think about the moat here? Who do you think the competition will be? And I remember with Act 4, your comments were always, look, we need to get to critical mass. We need enough of the industry to accept this as a standard. How do you think about the adoption curve for the Monetization Gateway wallets ID triple play? Thank you.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Sure. I love the question because it's not – like we don't at Cloudflare think about how we create moats. We think about our mission as being how do we help build a better Internet. And that has turned out to be a way of creating a really durable business. But in this case, I think – I like the other part of your question even more, which is why is this hard. I think when we started to think about this and we said, the business model of the Internet is going to change dramatically. What does it change to? Something like micropayments was going to be a part of it.

And so then the question is, how do you pull that off? And again, to give rough numbers, and these are not audited, but they're directionally kind of accurate, but we handle, let's say, about 0.5 billion requests per second through Cloudflare's network. We roughly estimate that somewhere between 1% and 10% of those, you could monetize through some sort of a micro transaction. And again, these would be tiny fractions of pennies. But that means that you, day one, on launching something like this, you'd need to be able to support, call it, 10 million transaction – financial transactions per second and be able to scale up to, call it, 100 million financial transactions per second.

To give you some sense, Visa – and again, these are from memory, but Visa, which is the largest payments network in the world, at peak during the holidays, handles about 20,000 transactions per second. So you have to build something that's three orders of magnitude bigger than Visa in order to pull this off. That is, we didn't actually set out to build that ourselves. We thought maybe we could partner with someone and maybe someone else could do it, but unfortunately, a lot of the world that's building kind of these next generation payments networks thinks that they're competing with Visa, as opposed to thinks that they're trying to figure out how you help build a better Internet and how you ensure that there's a healthy and successful business model for the Internet going forward.

And so, like, as we do this, if we're able to do it, I think that the scale that we're able to operate at and how we do that efficiently is incredibly important. Not to mention the fact that, today, north of 20% of the Internet already sits behind us. And if we can make it one-click simple for them to turn this on, and one way to think of this is, a lot of that is our free customers. What if we made it less than free? What if being part of Cloudflare, we actually sent you money for being part of us because we were generating that through a series of micro transactions largely serving agents. I think that that then just continues to accelerate the flywheel across all of our business. And as I said, I have never been more excited for the future of Cloudflare. I've never been more excited for the future of the Internet. And the Internet business model is going to change, and there is no company better positioned to lead that change than we are.

Gabriela Borges

Analyst, Goldman Sachs & Co. LLC

Q

Clearly, well said. Thank you.

Operator: Your next question comes from the line of Fatima Boolani with Citi. Please go ahead.

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Q

Oh, good afternoon. Thank you for taking my questions. Matthew or Thomas, I was hoping you could put a little bit of a quantitative framing on how big the book of business, so to speak, has become for you on Workers and Workers AI combined just so we can have a sense and feel for the magnitude of impact this is having on your top line in terms of proportion and to the extent there are any particular capabilities or SKUs inside these portfolios that are driving the outsized monetization momentum for you.

And then, as a related matter, there has been a multiyear focus on beefing up the enterprise go-to-market motion and having those seats at the table on a more consistent and more strategic basis. But I'm wondering, with the center of gravity sort of shifting back into the hands of developers and everything that you're doing from an innovation standpoint to cater to developers, do we see a little bit of a reversion back to sort of more PLG. I'd love to get some of your perspectives on that. Thank you.

Matthew Prince

Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Sure. So, I will start out not fully answering your question and then Thomas can continue to not fully answer your question. I think we haven't broken out by product area what our revenue or revenue growth rate is, but I can say that the Workers platform continues to be something that really drives an enormous amount of both new customer adoption and real revenue growth. And I think for a while, we were saying that we were playing for adoption, we weren't playing for revenue. I think that has tipped and we are now very much, again, not trying to maximize every dollar by any means, but that Workers has become a meaningful contributor to revenue.

I think it shows up in the anecdotes that I gave about customer wins. More and more of them are signing pool of funds deals because of the fact that Workers is part of it and that their developer teams are saying, hey, yeah, sign with Cloudflare, use their Zero Trust, use their reverse proxy services, but also make sure that we've got something available where we can use their Workers platform. And so, that tends to drive that and drive a lot of consumption through that as well.

I think that – so, for sure – and again, I think you see this in the paying customer count that the PLG, kind of product-led growth, is definitely going great. But you're also seeing, if you just look at like – you do this across earnings calls, you add up, we give basically the same number of customer win examples every time. If you just added up the dollar amount of those contracts and figure out what the average is, those have been ticking up and up and up. And I think that that is still very much a function of a great enterprise sales team where people want –

if you're going to sign $10 million plus contracts, no one is putting it on a credit card. Those are deals that humans negotiate with each other and there needs to be a level of trust and relationship and a knowledge that if something goes wrong, someone's there to fix it. And that's what great enterprise sales leaders do.

What I think our enterprise sales team is doing is getting more technical. And again, that – well, even those people who are great salespeople, but they weren't particularly technical, I think we're giving them the tools to become much more technical. And I think over time, I mean, what I've challenged our team and the sales team, and I think that I will – that this challenge will be met fairly quickly, is who's going to be the first salesperson who is in a meeting and while sitting in that meeting, delivers a feature before they even leave the meeting and it gets shipped to production. We're building the system to be able to do that. And I think our sales team has leaned in to say, yeah, it's really important to still go build relationships, but we need to be technical. We need to be able to understand and talk to the technical leaders that are on the team. And at the end of the day, the best product is still what's going to win.

Operator: Your next question comes from the line of Jonathan Ho with William Blair. Please go ahead.

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Good afternoon and congratulations on the really strong results. At Investor Day, you set a goal of GAAP profitability by 2028 at the latest. Just based on the guidance that you gave for the second half, how are we tracking against that goal? And what are some of the dials that you have in terms of relative or incremental opportunities? Thank you.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

A

Yeah. I think the keyword was latest by end of 2028. We are pacing ahead of that very clearly. Without the impact of the restructuring charges, the GAAP net loss would have been around $18 million. So that is almost striking distance.

I think what is the levers we have and that we are pulling are, of course, the acceleration of top line, building in operating leverage, all the automation. We talked about Cloudflare OS is helping drive performance and discount analysis. So, we're putting a lot of levers, but we are clearly ahead of our targets at this point.

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Perfect. And then, is there a way that you could maybe rank order for us the relative strength in pipeline growth that you're seeing just based on the act or product families? Any color would be appreciated. Thank you.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

A

Well, I think what the visibility we gave at Investor Day continues to hold true. The worker products are still the fastest-growing acts we have and across the complete product stack and feature stack of Act 3 and followed by the SASE products and Act 2. Nothing has changed from Investor Day to this earnings call regarding the dynamics behind the business and how the pipeline builds.

Jonathan Ho
Analyst, William Blair & Co. LLC
Q

Thank you.

Operator: Your next question comes from the line of Adam Borg with Stifel. Please go ahead.

Adam C. Borg
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Awesome. And thanks so much for taking the question. Maybe for Matthew, just on the channel opportunity. So partners reached 31% of revenue this quarter, continuing to track up to the right. And as I think about kind of the growing mix of Act 2, which should drive more channel usage or necessity relative to Acts 3 and 4, which may not require as many partner touch points, how do we think about the partner involvement going forward and have we kind of tapped out of this mix or is there still room for the partner contribution to go higher in coming quarters? Thanks again.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.
A

Yeah, Adam, I think that there's definitely room for the partner mix to continue to go higher. I think that that has been a real improvement across our business, is how we've interacted with partners, how we've made sure that they can be successful, how we've trained them, how we've given them very clear rate cards, which was something that we were traditionally very bad at. And that I think we're seeing. And when I talk to partners, they really appreciate how we've been a good partner to them and we've had them succeed alongside us.

I think the partner ecosystem is certainly changing. I think that the people who were winners yesterday may not be the winners tomorrow because AI and other tooling is going to really change how people deliver services. We've focused the partners very much on sort of our Act 2 products, the SASE and Zero Trust, and seen great success there, but been willing to attach other products to that, but SASE and Zero Trust is a place where we definitely see partners winning.

We're also seeing some partners who are taking the developer platform and running with it. And so for Cloudflare OS, which we talked about before, we've had a lot of interest from large systems integrators saying that they want to – for people who don't want to deal with the open sourced version of this, they want to take that and run with it and implement it. And that's again one of those great partner opportunities because it's not just how do you get the software installed, but then it's how do you get all of the various systems of records connected. How do you make sure that kind of sources of truth get incorporated? How do you make sure that all of all of that is in place? And that's a incredible opportunity for partners and we think that that could drive very significant business because that in turn, we expect in lots of cases, will drive more of our developer platform adoption.

And so I think I would guess that our partner – our share of revenue through partners will continue to tick up over time. I don't think it'll ever get to sort of 90% plus of some of the first-generation Zero Trust companies or the hardware companies of old, but I think it will continue to tick up over time. And I wouldn't be surprised if it gets north of 50%, even maybe over 60%.

Adam C. Borg
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Really helpful. Thanks again.

Operator: Your next question comes from the line of Ryan MacWilliams with William Blair (sic) [Wells Fargo]. Please go ahead.

Ryan MacWilliams
Analyst, Wells Fargo Securities LLC

Q

Formerly with William Blair, many years ago. But – so it may be still early here, but as AI agents become more complex and require more calls to LLM over the course of what a agent is doing, does that make edge inferencing more important for AI agent use cases? And are you seeing more companies build with high AI performance, low latency requirements in mind?

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah, Ryan, I think that it's – inference is one piece of a more complicated puzzle. And so what I think that we're seeing is what agents need is the ability to have very ephemeral, low cost places to create code, do inference, access the network, coalesce information, store some things and pack all of these things together. It's not simply the inference that matters. The real key is how do you orchestrate all of those pieces together.

And so – and in the ideal case, your agent doesn't run just in one place. It runs in many places. It might be operating in literally different places around the world where it has to access information, it has to get different things. So you want effectively for the entire network to – as the old Sun saying was become the computer, the network is the computer. As a fun side anecdote, when Oracle bought Sun, they failed to register the trademark – reregister the trademark, the network is the computer. And so now Cloudflare owns that trademark, which I think is appropriate. We've never really used it for much, but it's a fun sort of thing.

I think that's exactly what agents need. They need the network to be the computer. And so, yes, inference needs to exist at – and again, I've always shied away from the term edge because I kind of think it's meaningless. Is Cloudflare the edge, or are we the core, or are we everything? I think what we are is we are wherever you need storage, wherever you need compute, wherever you need inference, wherever you need network, we're there and are able to orchestrate that across the global network that we have.

And so that's what we're seeing agents need. And I think that in addition to the network, the fact that we've got these primitives where if – back when I was in college, if you wanted to stand up a new service, you had to buy a physically new server. Then VMware came along and was able to take one server and make it into many. That was still pretty heavyweight. And so you had folks like Docker that came along that made containers. That really drove the first generation of the cloud.

Agents need a new generation of the cloud. And that new generation of cloud, even things like containers are too heavy. As Rita on our team walked through at Investor Day, if every knowledge worker on Earth ran an agent that was running in a container, we don't have enough CPU to actually power that. We'd need to increase the amount of CPU that's accessed by many orders – many, many times.

And so what we've done, which is a new version, which is much lighter weight in terms of our sandboxing technology, which we called isolates, that is – that gives you the ability and the scale to actually deploy and run code in a way that is going to keep up with the demands that agents have. And so I think, yes, it's the network, yes, it's the fact that that network is everywhere, and whether you want to call that the edge or whatever, it is what it is. But it's also that we've got the underlying platform that allows us to scale for what's coming, which is going to just be an incredible increase in the use of the Internet generally.

Ryan MacWilliams
Analyst, Wells Fargo Securities LLC

Q

Yeah, I thought your agent development lifecycle release this week was pretty cool, like giving agents everything to build other agents.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

That's amazing.

Ryan MacWilliams
Analyst, Wells Fargo Securities LLC

Q

Yeah, that was really cool. Thomas, just on NRR, more finance question. Along with like the big deals in the quarter and some new Workers wins, along with some ramping pool of funds deals, just any help that we can get on modeling net retention or thoughts there for the rest of this year as implied by the guide? Thanks.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

A

What I would say is that the performance was really driven across the board. There's not really one thing to point out. This was an impressive quarter in many ways, but what stood out most for me was that the strength came across all products, across all customer cohorts, across all types of contract interactions we have with our customers. So there's not really one thing to point out. It was strength across the full spectrum and breadth of what we are doing.

Ryan MacWilliams
Analyst, Wells Fargo Securities LLC

Q

Appreciate it. Thanks.

Operator: We have time for one more question, and that question comes from the line of Patrick Colville with Scotiabank. Please go ahead.

Patrick Colville
Analyst, Scotiabank

Q

Thank you very much for taking my question. I guess, look, as I've got the last question, I might ask a two-parter, please. Matthew, can I ask you – I mean, it's clear that the Cloudflare engine is humming with multiple cylinders firing. One of the decisions that you've made is not to participate in the AI CapEx kind of arms race. We're seeing hyperscalers and neoclouds sign these kind of massive GPU AI infrastructure contracts, including tonight, one of your competitors disclosing an aggregate nearly $3 billion AI infrastructure contract value. I guess, Matthew, what was your thinking in kind of not joining this AI infrastructure arms race?

And then, Thomas, if I may, I mean, very clear from Matthew's comments throughout this call that the cyber risk is rising. Can I ask you, Thomas, I mean, is that rising cyber risk hitting the Cloudflare financial model in 2Q? Or is it kind of still conversations in 2Q and this is more of a kind of back half 2026 thing? Thank you.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Sure, Patrick. So I think not all revenue is created equal. And if you're selling what is just commodity compute, if you're basically letting a AI company use your balance sheet and your credit rating in order to buy servers that are the same as everybody else's servers, then like that's just not attractive business for us. And so I think that we're very disciplined. It's not that we don't get asked. But I don't think that's particularly interesting for us.

I will say that we have a lot of interaction with the largest AI providers that are out there. And they're – again, they're all customers of ours. And so I think that it's – that you could imagine in ways where – that we would find something that where we could actually be a bigger and bigger player in providing the services to power more and more of the serious AI players that are out there in more meaningful and deep ways. But ultimately, like, we're not going to do that just selling commodity hardware because that, again, is bad business for us.

I think the other thing that's different about us is that we've just always focused on how we can squeeze as much out of every CapEx dollar as possible. And so how is it that we can, not just throw money at a problem, but actually say how do we get more utilization out of that? And so our team is constantly trying to figure out how can you get more inference, how can you get more CPU, how can you get more out of the memory or storage that we have in every box that we have. And I think that that's just a very different attitude than you see elsewhere.

And so, again, we know what the typical kind of inference loads are at the hyperscalers and their GPU utilization. And it's super low. And that's not the hyperscalers fault. It's that what they're selling is just a box and it's up to the customers in order to actually maximize the utilization. And customers often don't have the diversity of traffic or the ability to really schedule things in order to get the highest possible utilization.

And so if we can, and in some cases, get 10 times as much utilization out of every CapEx dollar, then we can play these games and continue to grow revenue, but it's really high-quality revenue and it's revenue that doesn't require us to just throw money at it.

Again, I think it's worth repeating things that somebody has said before, which is we're just in a very different business than the hyperscalers. The hyperscalers, the traditional first-generation cloud, are in the business of buying a server and then trying to sell it back, lease it back and get 5 turns of revenue off of it. We are in a very different business, where we're selling actually work getting done. And then instead of it being up to the customer to get as much out of the server as possible, we need to do the work to get as much out of the underlying equipment as possible and build the scheduling and efficiency and everything else that's out there.

And I think that that is fundamentally the difference in our business and why like I don't think we want to get into the business of renting servers because, over time, it's a commodity business and it's not very attractive.

Operator: Thank you. Matthew Prince, I would like to turn the conference back over to you.

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

I appreciate everyone at Cloudflare just delivering what has been an exceptional quarter. We're helping define the future of agents. We're helping define the future of the Internet. We're helping make sure that the Internet has a successful and sustainable business model. Some of the proudest work that I've done in my career and I'm really proud of everyone, and everything that they've done in order to make that happen.

Thank you so much for being part of the earnings call today and we'll see you back here again next quarter.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.