



Investor Presentation

Q1 2020

Safe Harbor

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

Forward-looking statements are subject to significant risks, uncertainties and assumptions. Actual results could differ materially from our current expectations as a result of many factors, including those identified in the “Risk Factors” section of our most recent filings on Forms 10-K and 10-Q filed with the Securities and Exchange Commission. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. Except as required by law, we assume no obligation and do not intend to update these forward-looking statements or to conform these statements to actual results or to changes in our expectations.

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

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

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Key Metrics

as of Q1 2020

2010

Launched

2.8M

Free & Paying
Customers

200+

Cities in
Network

13%

Of Fortune
1,000 are Paying
Customers

1,368

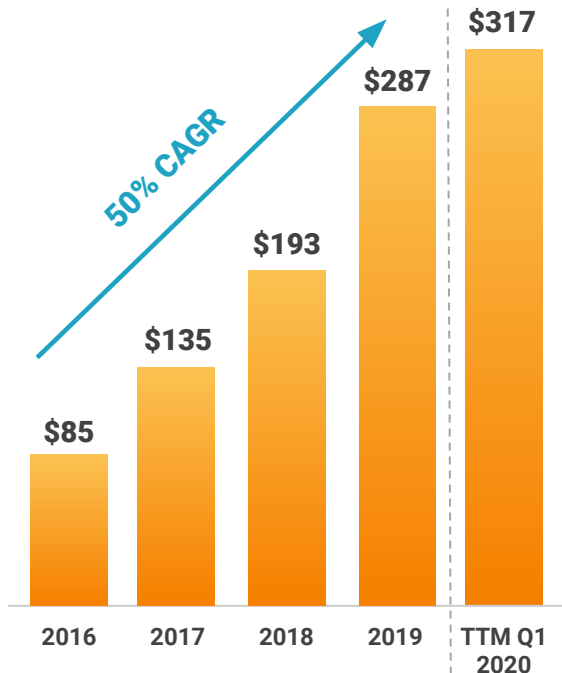
Employees

77%

GAAP Gross
Margin

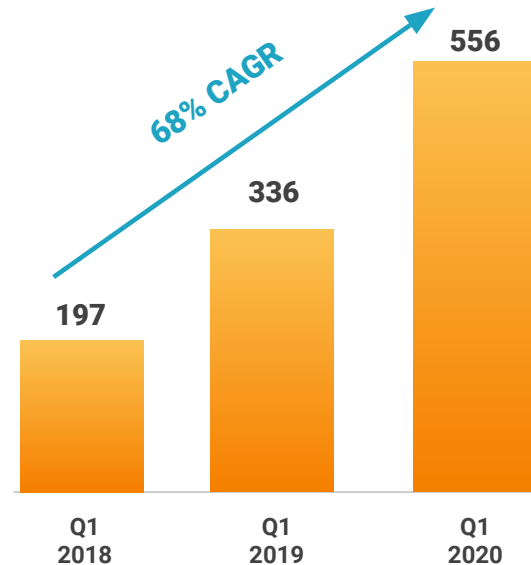
Cloudflare at a Glance

Annual Total Revenue (\$M)



Large Customers

> \$100,000 Annualized Revenue

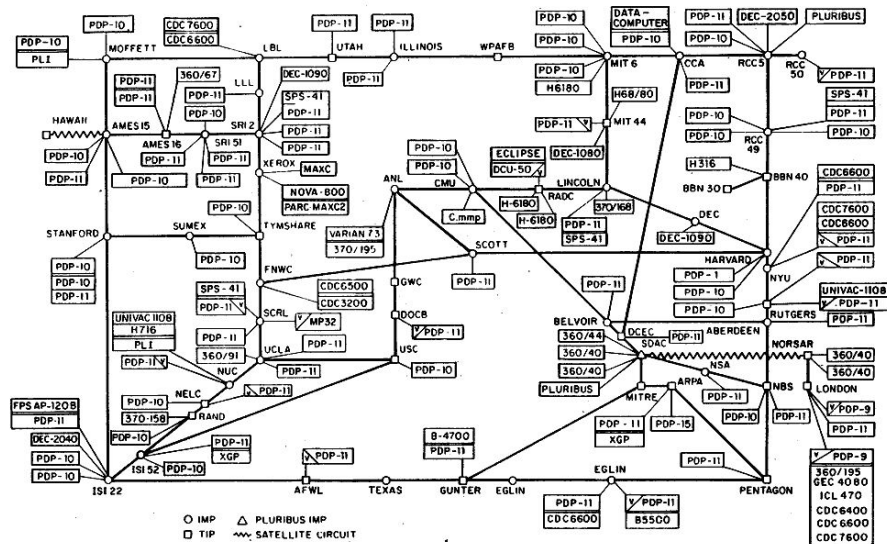


Note: Q1 2020 data as of March 31, 2020. GAAP Gross Margin is for the quarter ended March 31, 2020. See Appendix for Large Customer definition.

Cloudflare's mission is to
Help build a better Internet

The Internet was not built for what it has become.

ARPANET LOGICAL MAP, MARCH 1977



(PLEASE NOTE THAT WHILE THIS MAP SHOWS THE HOST POPULATION OF THE NETWORK ACCORDING TO THE BEST INFORMATION OBTAINABLE, NO CLAIM CAN BE MADE FOR ITS ACCURACY)
NAMES SHOWN ARE IMP NAMES, NOT NECESSARILY HOST NAMES

From Endless Hardware to a Global Cloud Platform

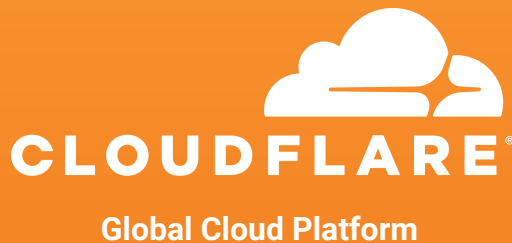
BAND-AID BOXES

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



BETTER INTERNET

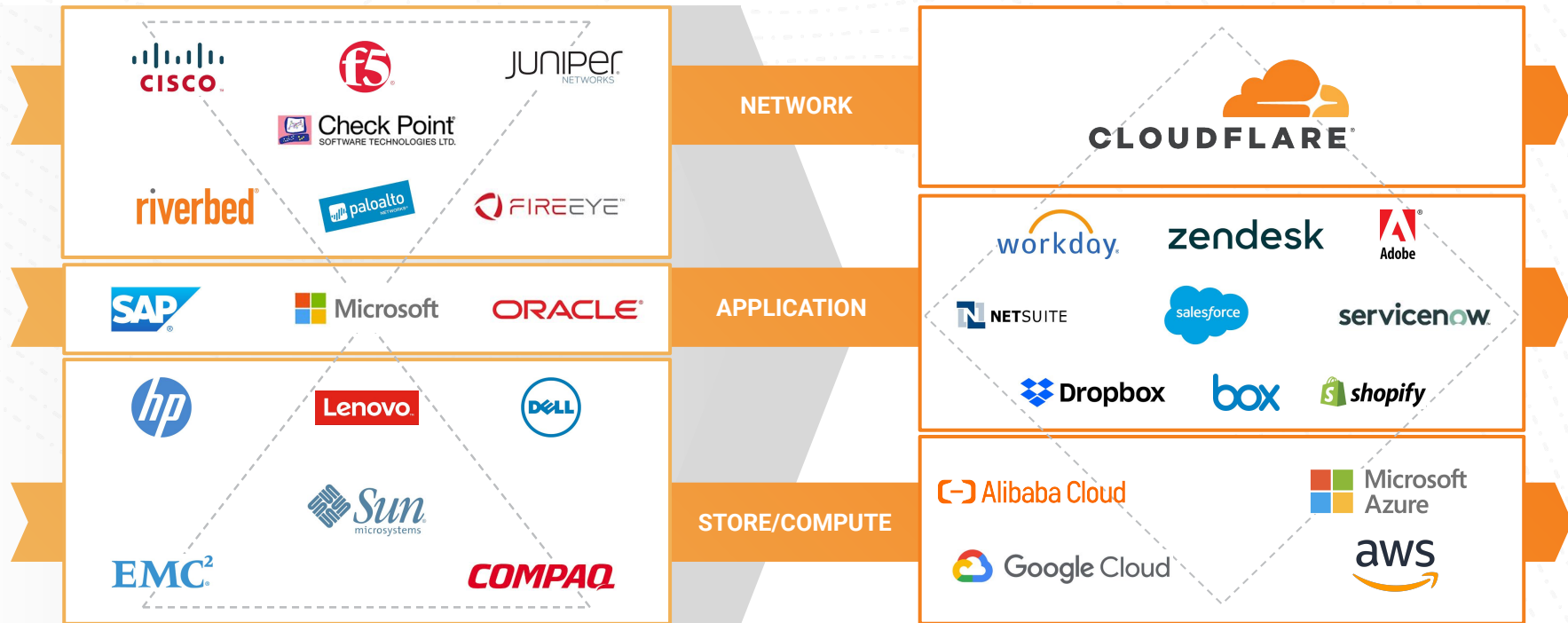
- Easy-to-use, flexible, and scalable
- Unified control plane
- Serverless cloud architecture
- Cloud, hybrid, on-premise, and SaaS
- Broad, integrated product platform



Evolution of Enterprise Stack

Hardware / Software (Buy) Yesterday

Services / Cloud (Rent) Tomorrow



An Integrated Global Cloud Platform

SECURITY



Firewall



IoT Security



Bot Management



SSL/TLS



DDoS Protection



Secure Origin Connection



Infrastructure Protection



Rate Limiting

TEAMS



Zero Trust Security



Gateway

PERFORMANCE



Cache



Mobile Optimization



Intelligent Routing



Image Optimization



Content Optimization



Mobile SDK

RELIABILITY



Load Balancing



Domain Name System (DNS)



Anycast Network



DNS Resolver



Virtual Backbone



Always Online

PLATFORM



Serverless Compute



Cloudflare Apps



Analytics

We operate at a massive scale.

27M+

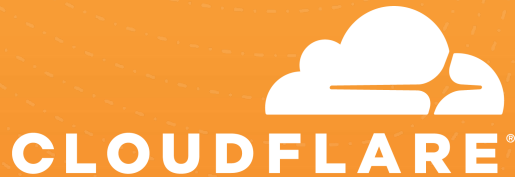
Internet
Properties

2.8M

Total
Customers

13%

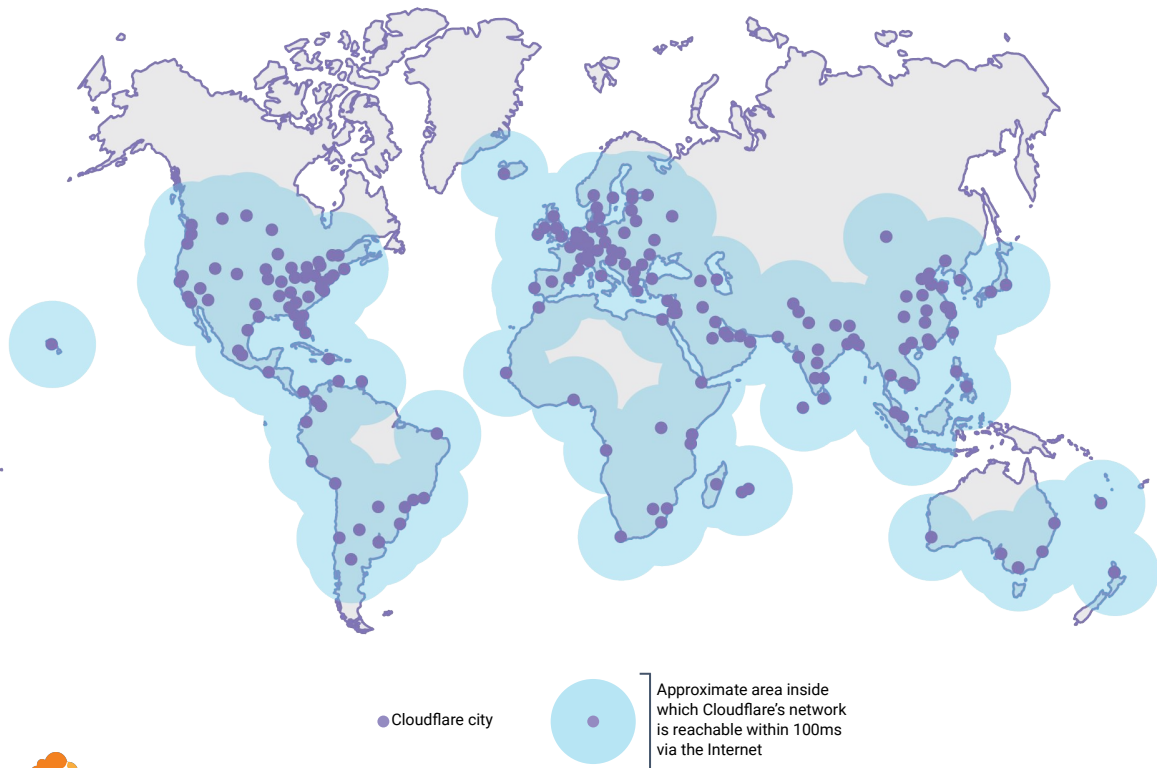
Of the Fortune 1,000
are Paying Customers



Our Flexible, Scalable, & Efficient Serverless Architecture

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

A Global Network Powering Our Platform



200+

Cities

95+

Countries

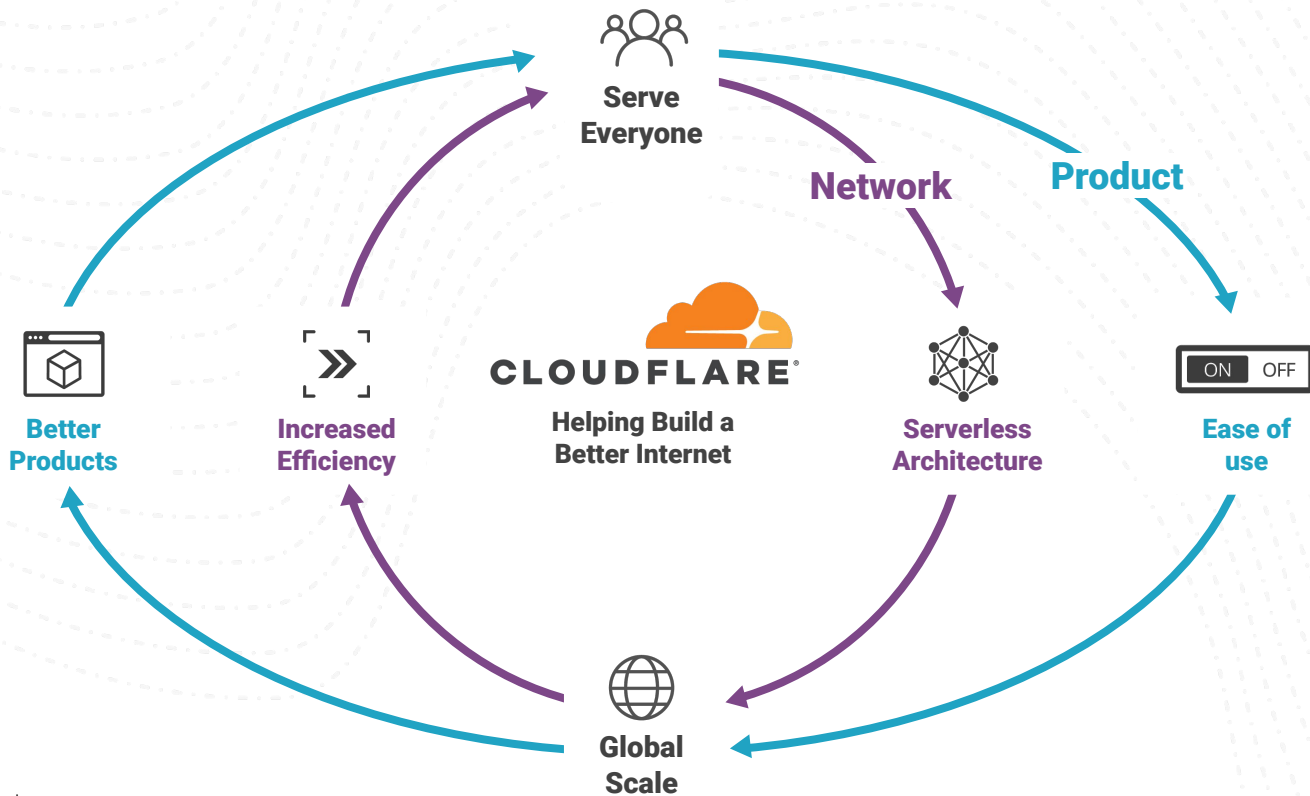
8,500+

Interconnects

99%

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

Our Product & Network Flywheels Drive Our Business



Data Intelligence & Quality Assurance at Scale

Global sensor network

through 27M+ Internet properties with paying customers in over 160 countries.

Machine learning systems

improve products with every customer's request.

Immune system

for the Internet blocking an average of 45.1 billion cyber threats each day.

Rapid development cycles

and QA through free users volunteering to test new products.

Our Competitive Advantages



Our Favorable Competitive Position

Limitations

On-Premise



- Complex and expensive
- Not suited to address cloud-based and hybrid deployments

Point Solutions



- Architected to deliver single point / more narrow product portfolio
- Customers are increasingly looking for an integrated platform offering security, performance, and reliability through a single vendor

Public Cloud



- Inability to serve as a unified control plane across on-premise, cloud, hybrid, and SaaS infrastructure
- Customer lock-in and competition concerns

Disrupting Large, Well Established Legacy Markets

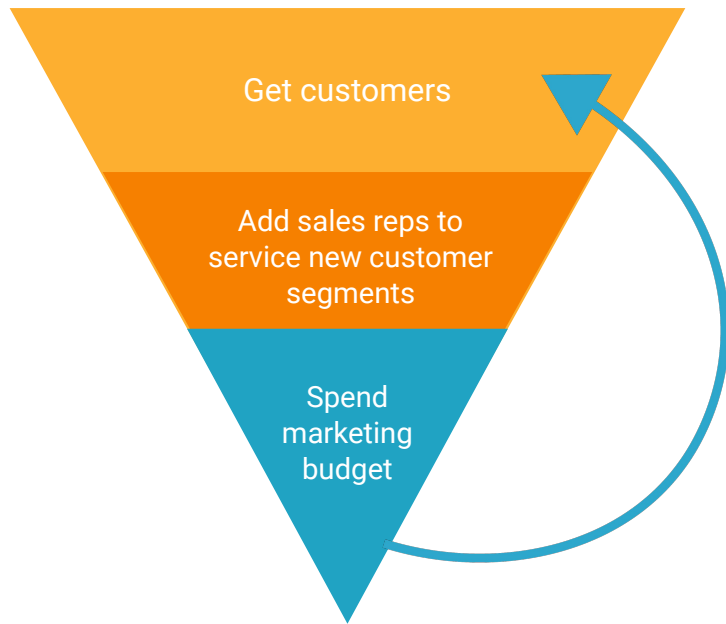


Traditional Go-To-Market Model Inverted

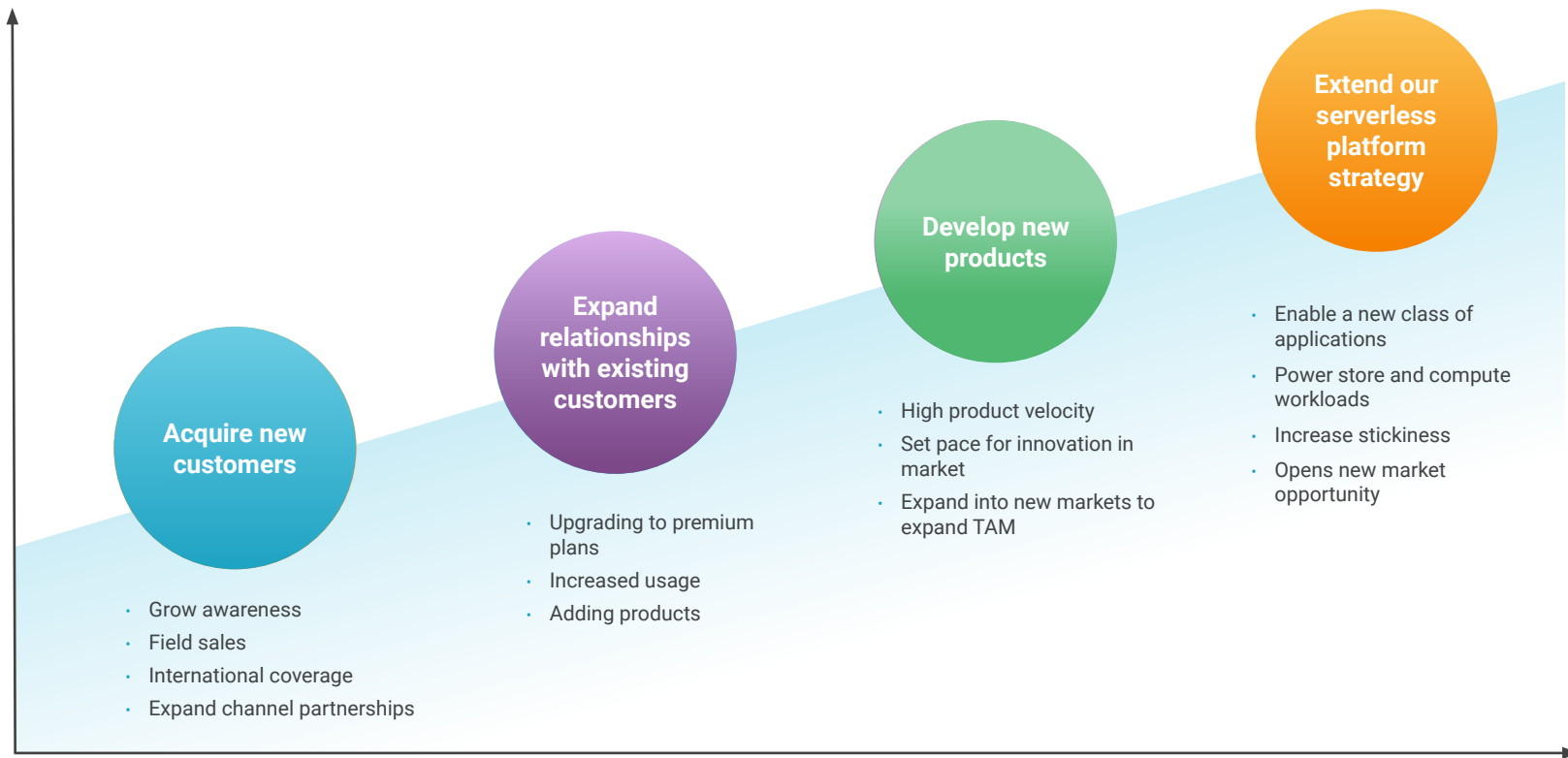
We don't build ahead of the curve.

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

\$32B

Large Addressable
Market

50%

CAGR

High Revenue
Growth

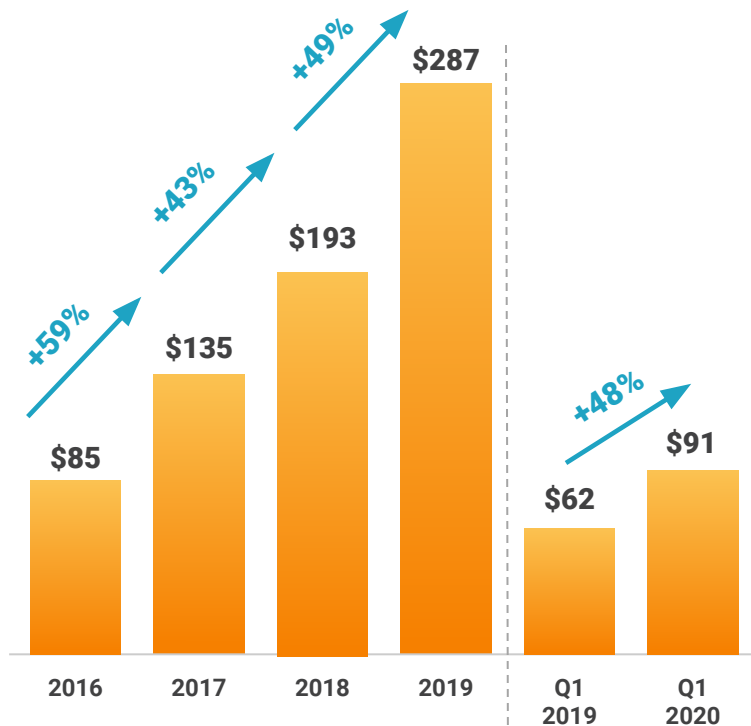
77%

Attractive GAAP Gross
Margin

\$\$

Efficient
Business Model

Total Revenue (\$M)



Strong Revenue Growth

100% subscription-based revenue

52% outside of the United States

Dollar-Based Net Retention consistently above 115% for last 9 quarters¹

Growing Large Customer contribution

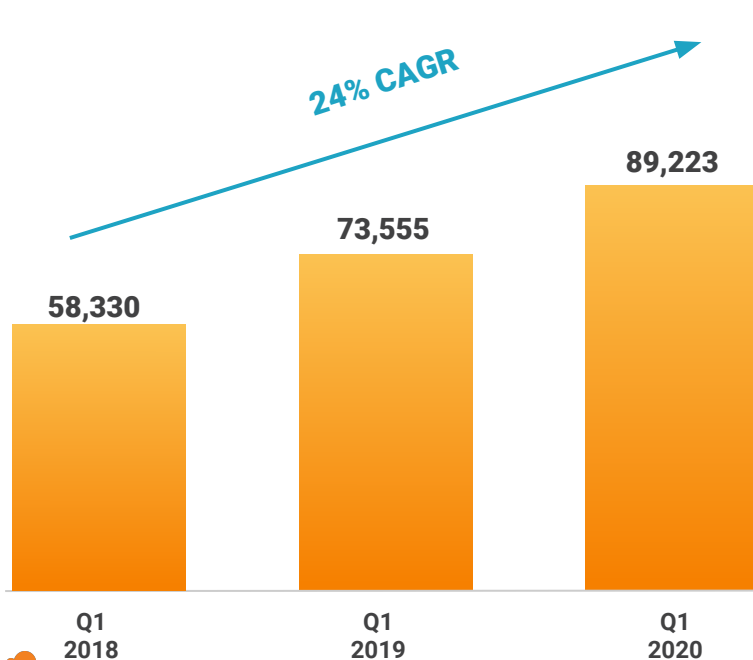
Multiple independent growth vectors

Note: Subscription-based revenue includes related support services and usage fees. Revenue outside the United States is for the three months ended March 31, 2020. See Appendix for the definitions of Dollar-Based Net Retention and Large Customers.

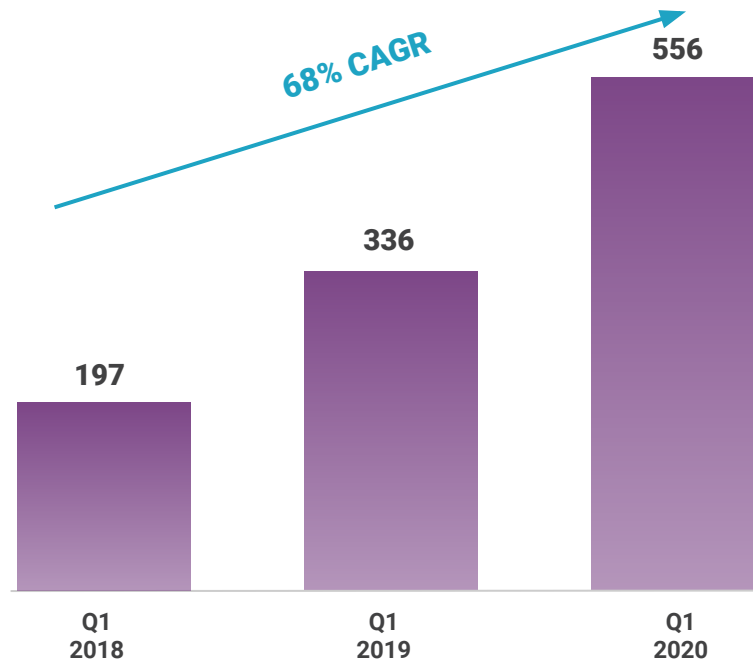
¹ See our earnings release and related supplemental materials dated May 7, 2020 for a discussion of how we changed the methodology by which we calculate Dollar-Based Net Retention.

Rapid Customer Growth

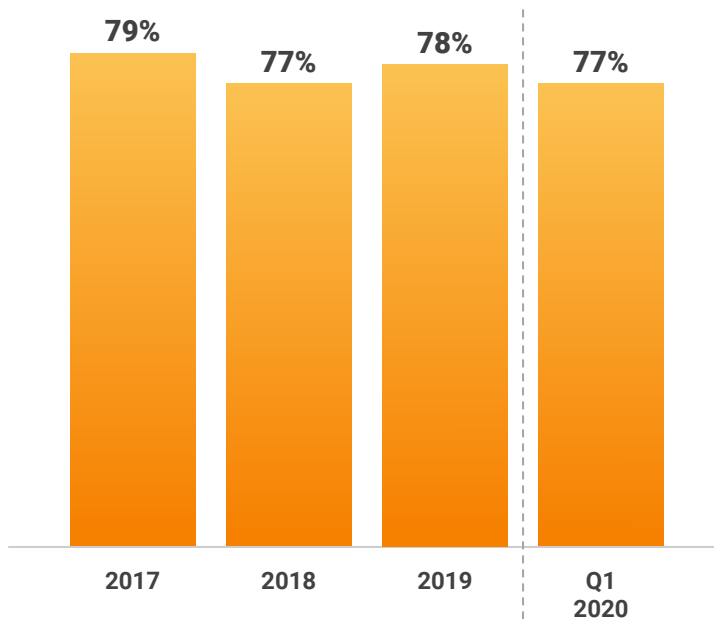
Total Paying Customers



Large Customers >\$100,000 Annualized Revenue



Gross Margin



Attractive GAAP Gross Margin

Serverless architecture deployed on commodity hardware

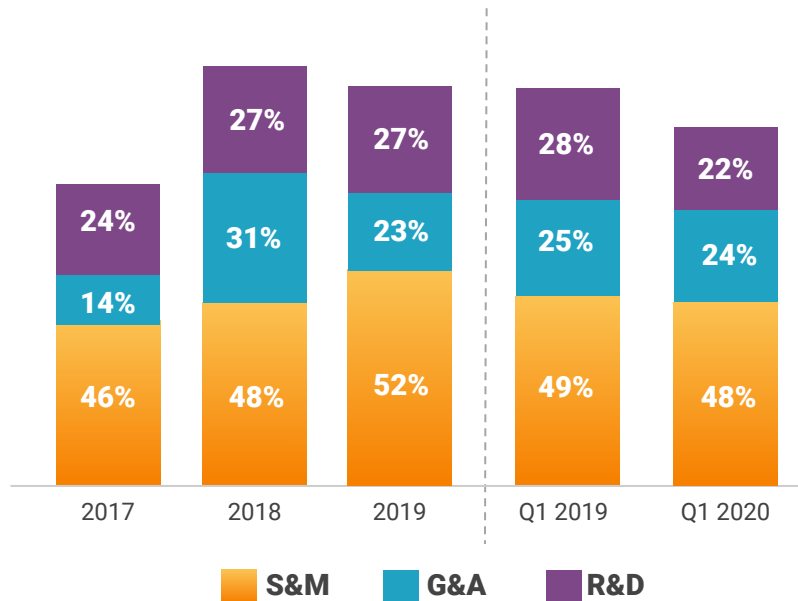
Single software stack across the network

Symbiotic relationship with ISPs

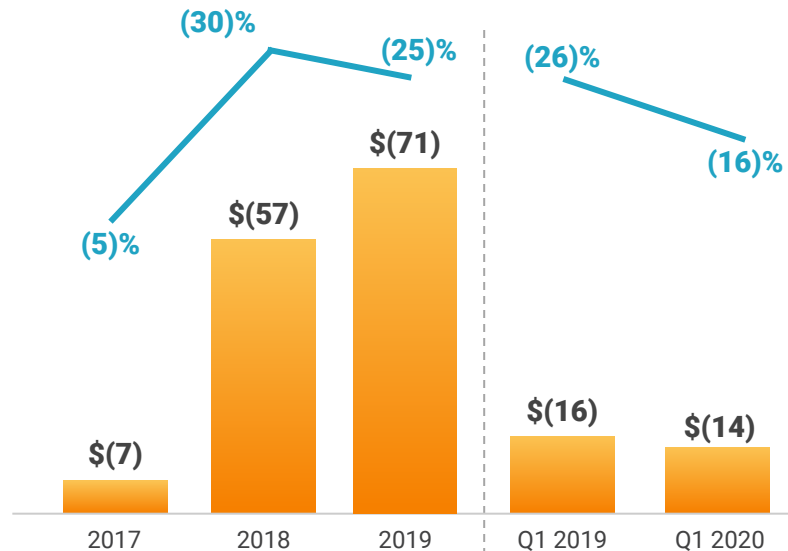
Leverage idle capacity across network

Leverage of Our Platform

Operating Expense as a % of Revenue



Operating Loss and Margin



Long-Term Model (Non-GAAP)

	2018	2019	Q1 2020	Long-Term Model
Gross Margin	78 %	78 %	78 %	75% - 77%
Sales & Marketing	48 %	52 %	48 %	27% - 29%
Research & Development	27 %	27 %	22 %	18% - 20%
General & Administrative	31 %	23 %	24 %	8% - 10%
Operating Margin	(30)%	(25)%	(16)%	20% +

Our Business Model



Disrupting a large and growing total addressable market



Widely distributed Global Cloud Platform; every service on every server



Expansive product portfolio; open to developer innovation



Highly efficient business model and low fundamental cost structure



High-growth subscription revenue model with attractive gross margin

Appendix

GAAP to Non-GAAP Reconciliation

	2016	2017	2018	2019	Q1 2019	Q1 2020
Cost of Revenue	\$ 23,962	\$ 28,788	\$ 43,537	\$ 63,423	\$ 14,360	\$ 20,821
Less: Stock-based Compensation Expense	\$ 64	\$ 47	\$ 119	\$ 716	\$ 32	\$ 305
Less: Amortization of Acquired Intangible Assets	\$ 38	\$ 462	\$ 517	\$ 125	\$ 31	\$ 731
Non-GAAP Cost of Revenue	\$ 23,860	\$ 28,279	\$ 42,901	\$ 62,582	\$ 14,297	\$ 19,785
Gross Profit	\$ 60,829	\$ 106,127	\$ 149,137	\$ 223,599	\$ 47,367	\$ 70,429
Add: Stock-based Compensation & Related Payroll Taxes	\$ 64	\$ 47	\$ 119	\$ 716	\$ 32	\$ 305
Add: Amortization of Acquired Intangible Assets	\$ 38	\$ 462	\$ 517	\$ 125	\$ 31	\$ 731
Non-GAAP Gross Profit	\$ 60,931	\$ 106,636	\$ 149,773	\$ 224,440	\$ 47,430	\$ 71,465
Gross Margin	72 %	79 %	77 %	78 %	77%	77%
Non-GAAP Gross Margin	72 %	79 %	78 %	78 %	77%	78%
Sales and Marketing Expense	\$ 40,122	\$ 61,899	\$ 94,394	\$ 159,298	\$ 30,817	\$ 46,965
Less: Stock-based Compensation & Related Payroll Taxes	\$ 381	\$ 488	\$ 979	\$ 8,709	\$ 279	\$ 3,579
Non-GAAP Sales and Marketing Expense	\$ 39,741	\$ 61,411	\$ 93,415	\$ 150,589	\$ 30,538	\$ 43,386
S&M Expense as a % of Revenue	47 %	46 %	49 %	56 %	50 %	51%
Non-GAAP S&M Expense as a % of Revenue	47 %	46 %	48 %	52 %	49 %	48%
Research and Development Expense	\$ 23,663	\$ 33,650	\$ 54,463	\$ 90,669	\$ 17,649	\$ 33,354
Less: Stock-based Compensation & Related Payroll Taxes	\$ 1,043	\$ 969	\$ 1,532	\$ 13,037	\$ 417	\$ 7,127
Less: Acquisition-related and Other Expenses	-	-	-	-	-	\$ 5,776
Non-GAAP Research and Development Expense	\$ 22,620	\$ 32,681	\$ 52,931	\$ 77,632	\$ 17,232	\$ 20,451
R&D Expense as a % of Revenue	28 %	25 %	28 %	32 %	29 %	37%
Non-GAAP R&D Expense as a % of Revenue	27 %	24 %	27 %	27 %	28 %	22%
General and Administrative Expense	\$ 14,073	\$ 20,308	\$ 85,179	\$ 81,578	\$ 16,048	\$ 26,181
Less: Stock-based Compensation & Related Payroll Taxes	\$ 4,212	\$ 1,251	\$ 24,717	\$ 14,165	\$ 329	\$ 3,606
Less: Acquisition-related and Other Expenses	-	-	-	-	-	\$ 554
Non-GAAP General and Administrative Expense	\$ 9,861	\$ 19,057	\$ 60,462	\$ 67,413	\$ 15,719	\$ 22,021
G&A Expense as a % of Revenue	17 %	15 %	44 %	28 %	26 %	29%
Non-GAAP G&A Expense as a % of Revenue	12 %	14 %	31 %	23 %	25 %	24%
Loss from Operations	\$(17,029)	\$(9,730)	\$(84,899)	\$ (107,946)	\$ (17,147)	\$ (36,071)
Add: Stock-based Compensation & Related Payroll Taxes	\$ 5,700	\$ 2,755	\$ 27,347	\$ 36,627	\$ 1,057	\$ 14,617
Add: Amortization of Acquired Intangible Assets	\$ 38	\$ 462	\$ 517	\$ 125	\$ 31	\$ 731
Add: Acquisition-related and Other Expenses	-	-	-	-	-	\$ 6,330
Non-GAAP Loss from Operations	\$(11,291)	\$(6,513)	\$(57,035)	\$(71,194)	\$(16,059)	\$ 14,393
Operating Margin	(20)%	(7)%	(44)%	(38)%	(28)%	(40)%
Non-GAAP Operating Margin	(13)%	(5)%	(30)%	(25)%	(26)%	(16)%

Note: \$ in thousands.

Definitions

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

Large Customers (> \$100,000 Annualized Revenue). While we continue to grow customers across all sizes, over time, our large customers have contributed an increasing share of our revenue. We view the number of customers with Annualized Revenue greater than \$100,000 as indicative of our penetration within large enterprise accounts. To measure Annualized Revenue, we take the sum of revenue for each customer in the quarter and multiply that amount by four. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through our ordinary sales channels, (ii) revenue generated from customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, and that 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. For example, if we signed a new customer that generated \$600 of revenue in the quarter, that customer would account for \$2,400 of Annualized Revenue for that year.

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