



# Investor Day

February 12, 2021

# Agenda

12:00 pm

**Welcome**

**Jayson Noland**  
Head of Investor Relations

12:05 pm - 12:25 pm

**A Culture of Innovation**

**Matthew Prince**  
Chief Executive Officer

12:25 pm - 12:55 pm

**Customer Panel**

**Michelle Zatlyn**  
President & COO

12:55 pm - 1:25 pm

**Product Panel**  
featuring Aly Cabral, David Harnett,  
& Rustam Lalkaka

**Jen Taylor**  
Chief Product Officer

1:25 pm - 1:45 pm

**Investing for Durable Growth**

**Thomas Seifert**  
Chief Financial Officer

1:45 pm - 2:30 pm

**Q&A and Closing Comments**

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# A Culture of Innovation



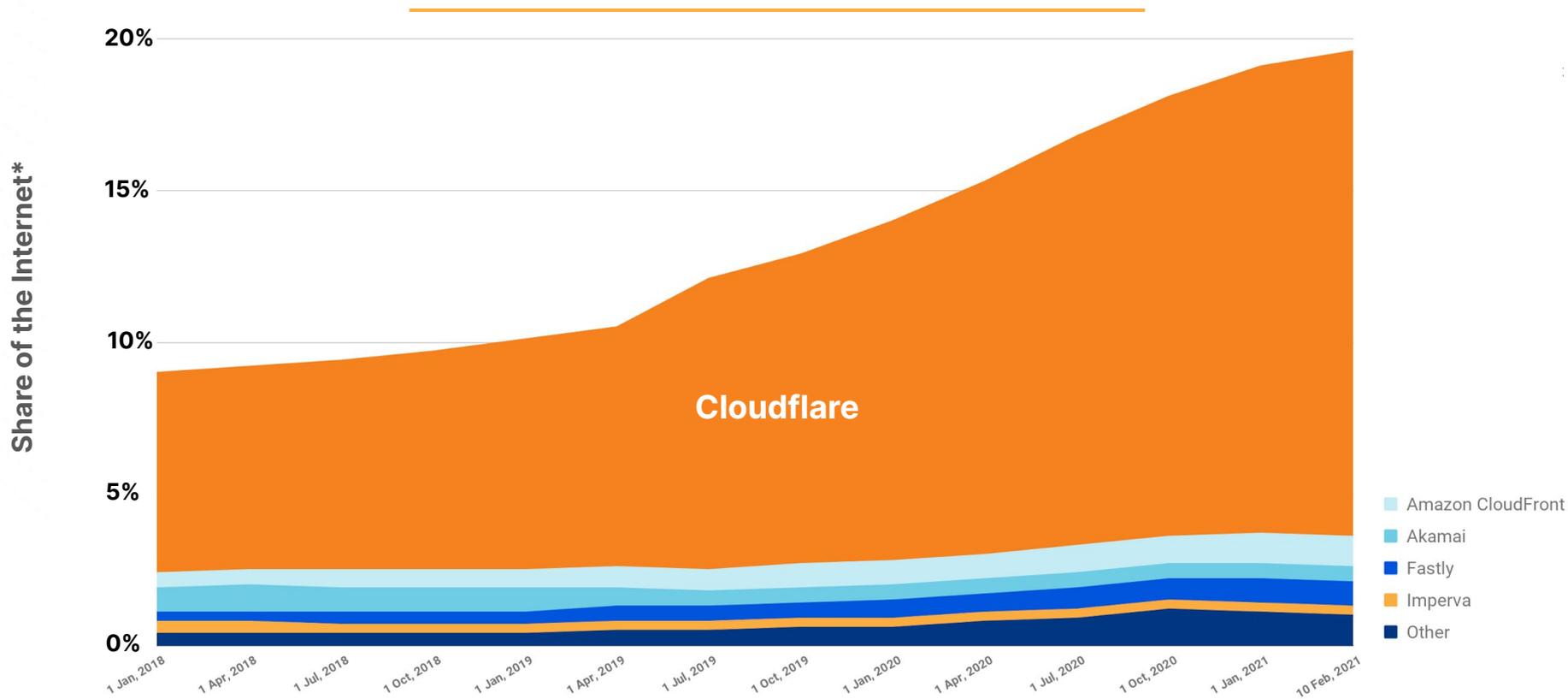
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**Matthew Prince**  
Chief Executive Officer

Cloudflare's mission is to  
**Help build a better Internet**

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# Helping Build a Better Internet



# An Integrated Global Cloud Platform



## Cloudflare Zero Trust Services



## Cloudflare Network Services



## Cloudflare Application Services

### Cloudflare for Teams Suite

- VPN
- Content Filtering
- Remote Browser Isolation
- Data Loss Prevention
- Access Management

- Magic Transit
- Network Interconnect
- Smart Routing
- Firewall-as-a-Service

- Web Application Firewall
- Rate Limiting
- Load Balancing
- Bot Management
- Video Delivery
- CDN

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### Cloudflare One



### Cloudflare Edge Developer Platform

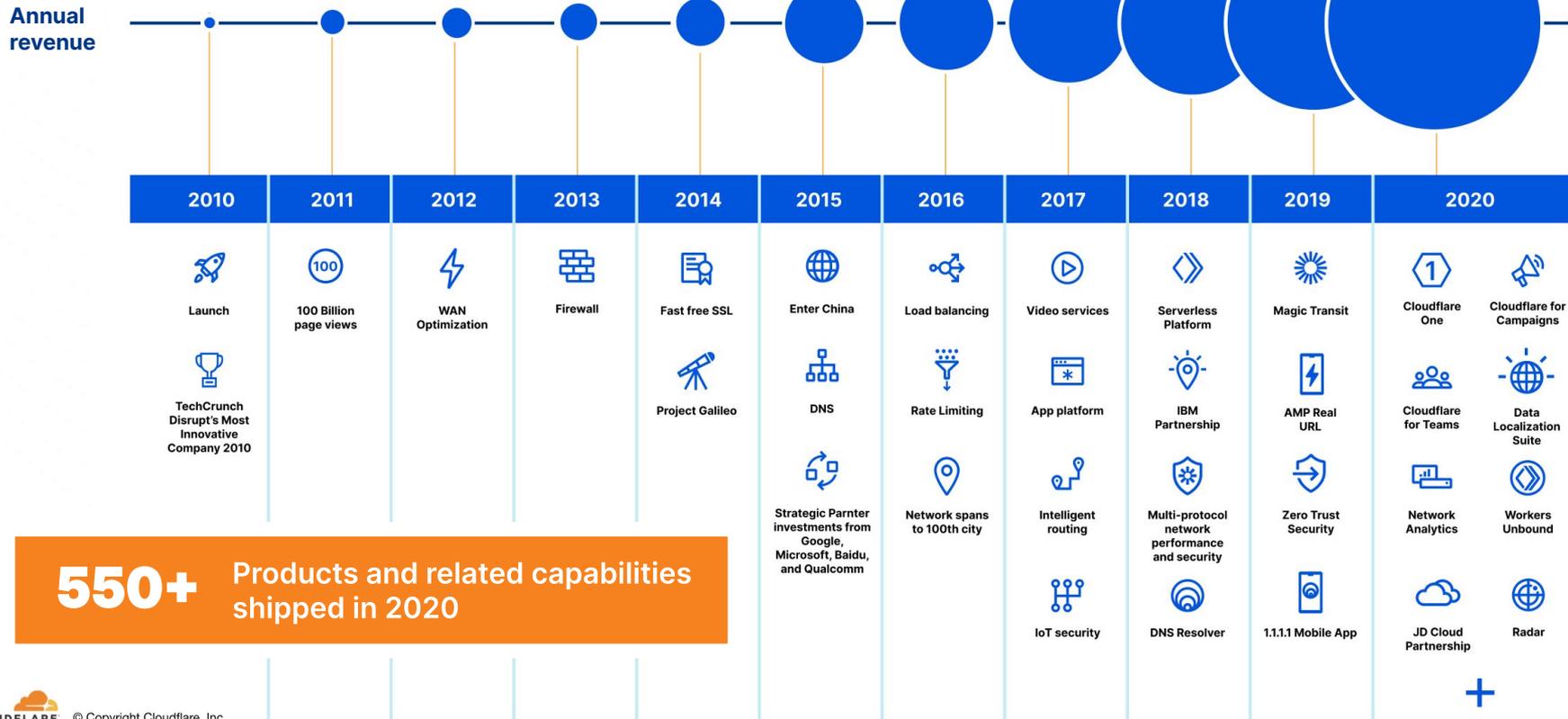
- Workers
- Workers KV
- Pages
- Durable Objects
- Video Streaming



### Cloudflare Global Network

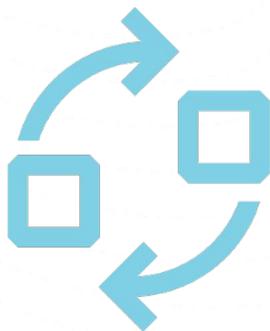
- Global edge:** 200+ cities, 9,100 interconnects, 59 Tbps of network capacity, China network
- Building blocks:** SSL/TLS, mTLS, DNSSEC, DNS over HTTP, Authoritative/Recursive DNS
- Compliance/Privacy:** ISO, COC, PCI, GDPR compliant, Data Localization Suite

# A Culture of Innovation



# The Cloudflare Innovation Machine

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Differentiated product  
and engineering  
structure



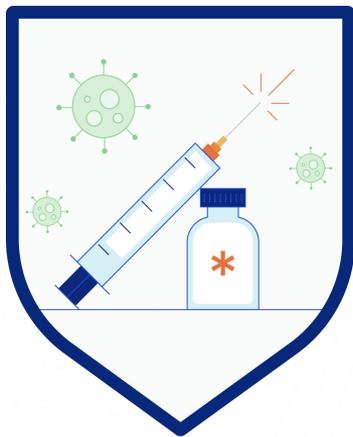
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Broad customer base



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Nimble development  
platform



## Introducing Project Fair Shot: Ensuring COVID-19 Vaccine Registration Sites Can Keep Up With Demand



Bottom line is Cloudflare saved lives today. Our County will forever be grateful for your participation in getting the vaccine to those that need it most in an elegant, efficient and ethical manner.

**-Tyler Penny, Web Services Administrator,  
County of San Luis Obispo**

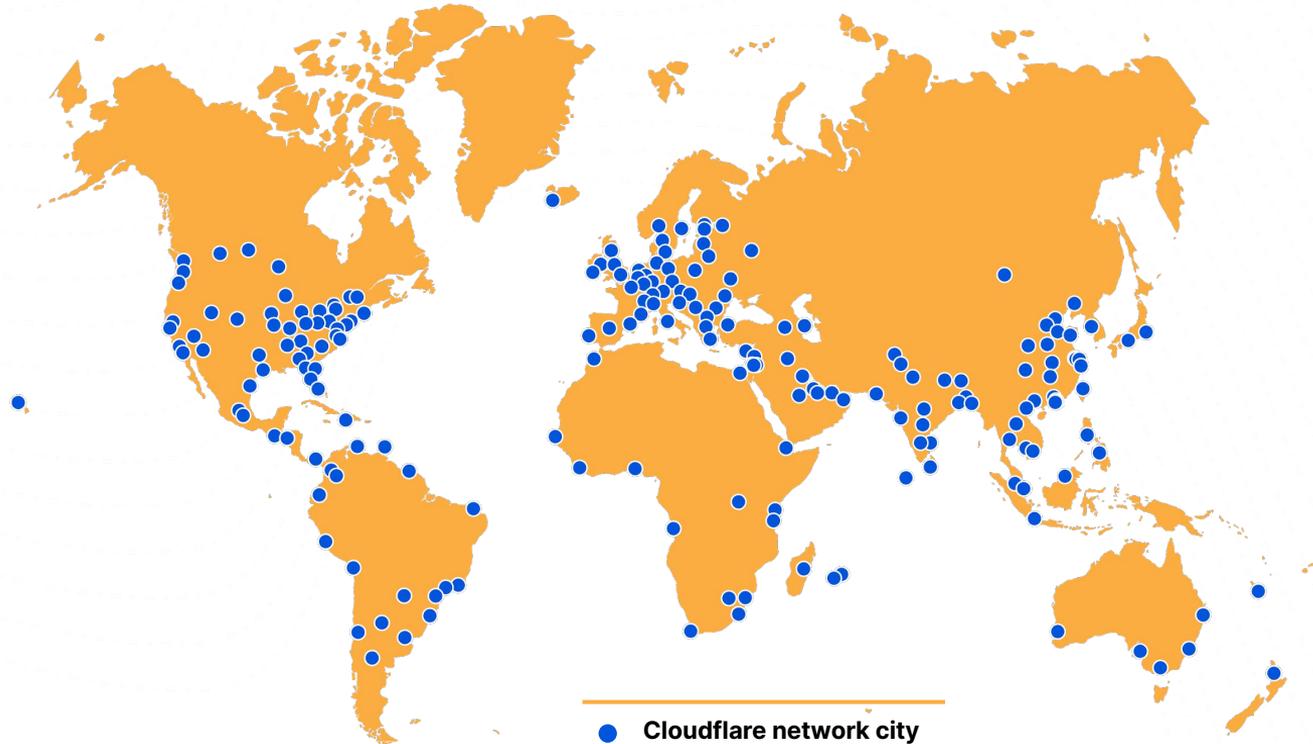


Project Fair Shot has enabled RSVPify's critical vaccination scheduling portals to seamlessly handle mass traffic surges without breaking a sweat. Our team and partners sleep better at night knowing Waiting Room is watching.

**-Ari Driessen, Co-Founder & CEO, RSVPify**

# A Global Network Powering Our Platform

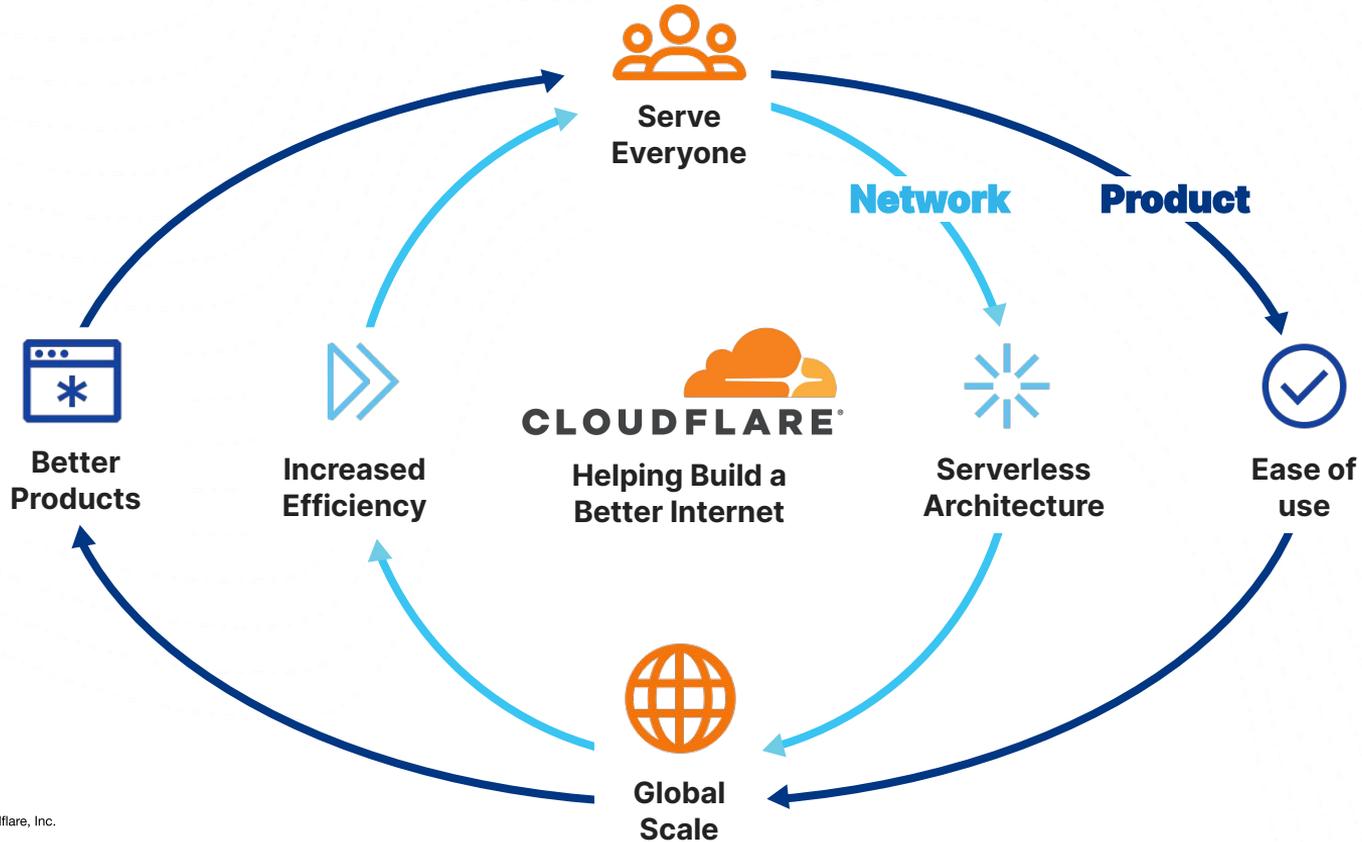
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# Strategic Sales Hiring

												
<b>David Roth</b>	<b>Matthew Harrell</b>	<b>Amy Lee</b>	<b>Harnish Kanani</b>	<b>Masakazu Aoba</b>	<b>Boris Lecoeur</b>	<b>Bob Laskey</b>	<b>Bobby Guhasarkar</b>	<b>Irene Chang</b>	<b>Tracye Shaw</b>	<b>Christina Kan-Duley</b>	<b>Ash Mathur</b>	<b>Richard Armstrong</b>
Head of Enterprise Sales - East	Head of Channel Sales & Partnerships	Revenue Chief of Staff	VP, Head of Customer Success	Head of Japan	Head of France	Head of North America Enterprise Sales	VP, Marketing	Expansion Sales Leader	Mid Market Sales Leader	Customer Advocacy Marketing Leader	VP Sales, Canada	Head of Solutions Engineering - Americas
Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:	Previously:
												
												
												

# Our Platform is a Durable Moat





# Customer Panel



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**Michelle Zatlyn**  
President & COO



# Product Panel



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**Jen Taylor**  
Chief Product Officer



# Investing for Durable Growth



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**Thomas Seifert**  
Chief Financial Officer

# Key Financial Highlights

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**At IPO**

**\$32B**

Total  
Addressable  
Market

**50%**

CAGR  
Revenue  
Growth

**77%**

GAAP  
Gross  
Margin

**387**

Large  
Customers

**Today**

**\$72B**

Total  
Addressable  
Market

**50%**

Y/Y  
Revenue  
Growth

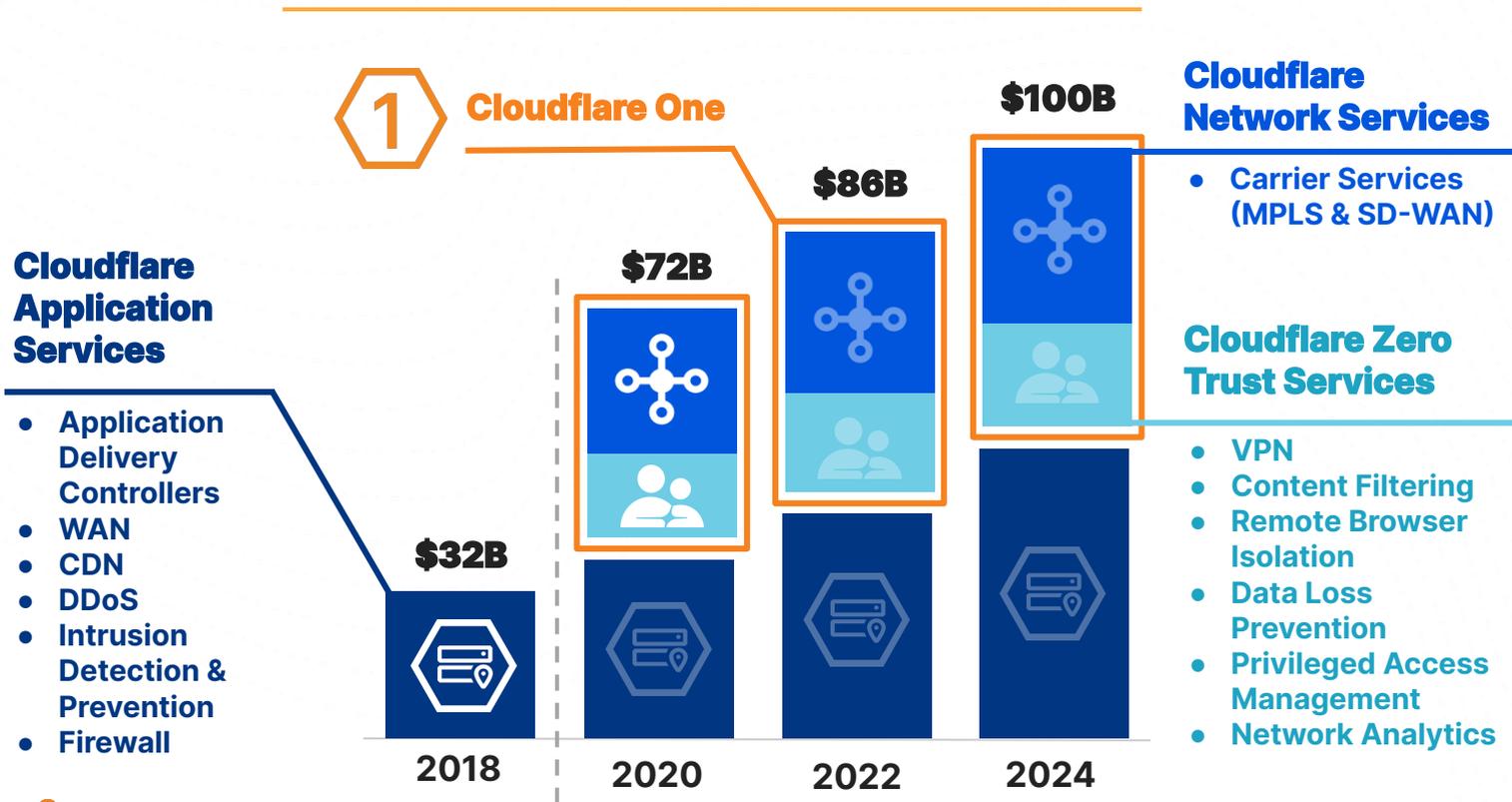
**77%**

GAAP  
Gross  
Margin

**828**

Large  
Customers

# Innovation Drives TAM Expansion



Areas for Potential Incremental Growth



Serverless



Internet of Things

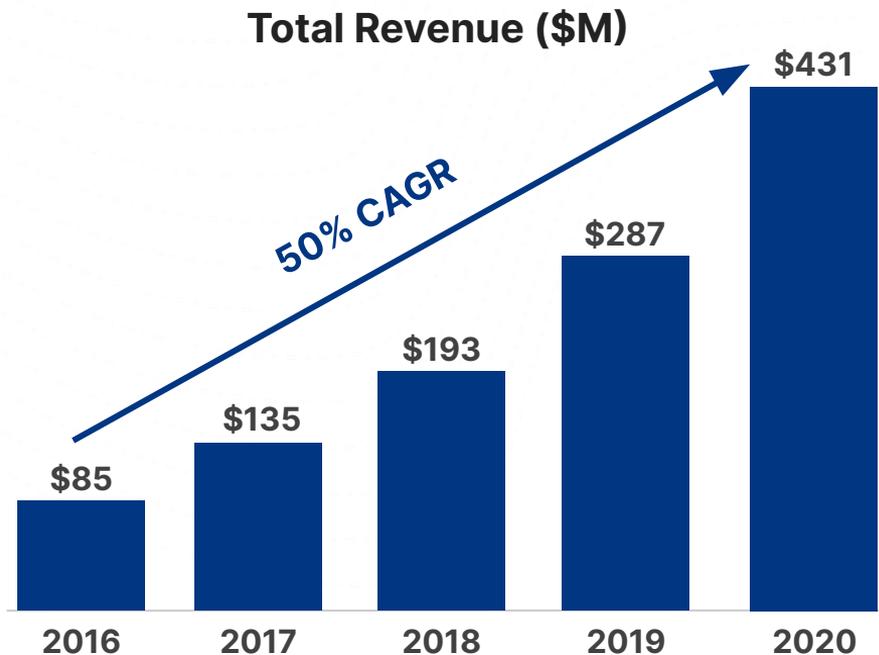


5G Cellular



Consumer

# Delivering Sustained High Revenue Growth



Investment in enterprise sales



Large customer momentum

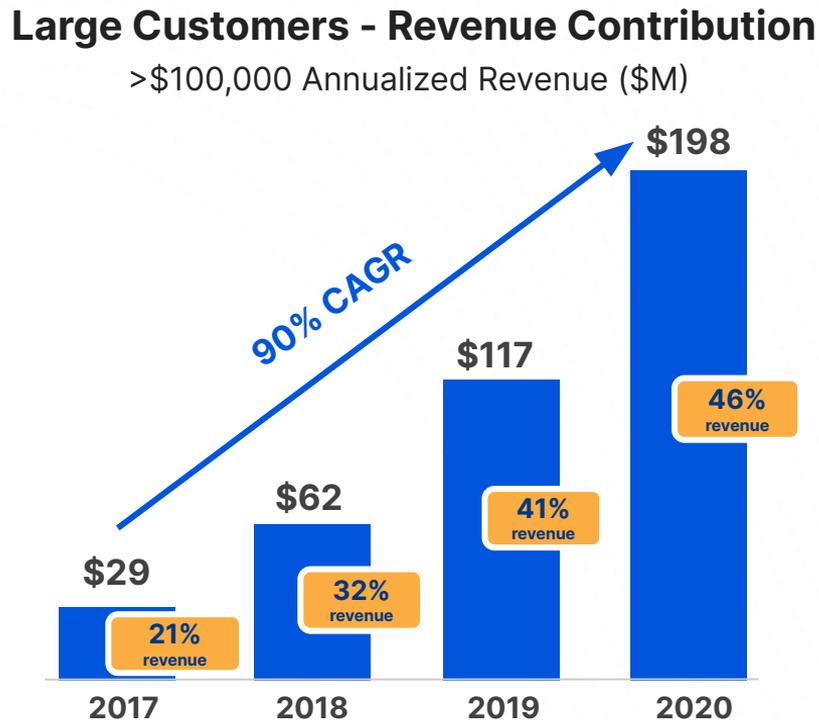
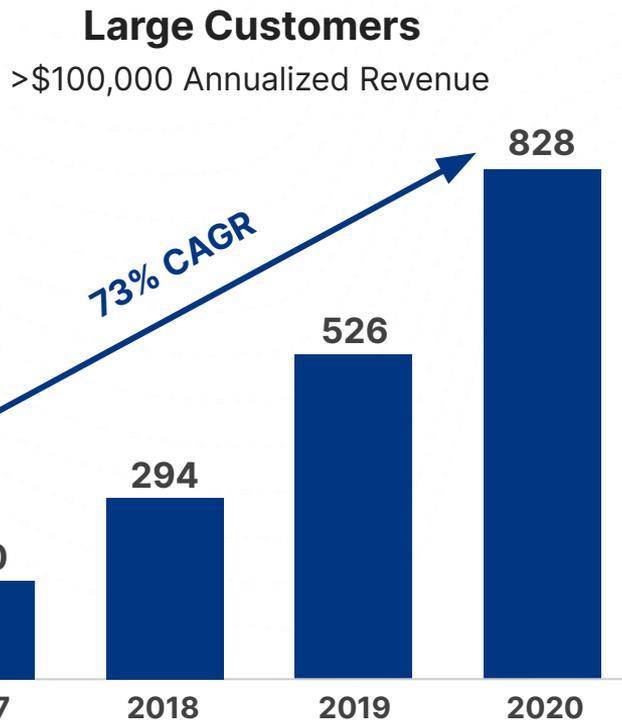


Land and expand strategy drives growth across cohorts



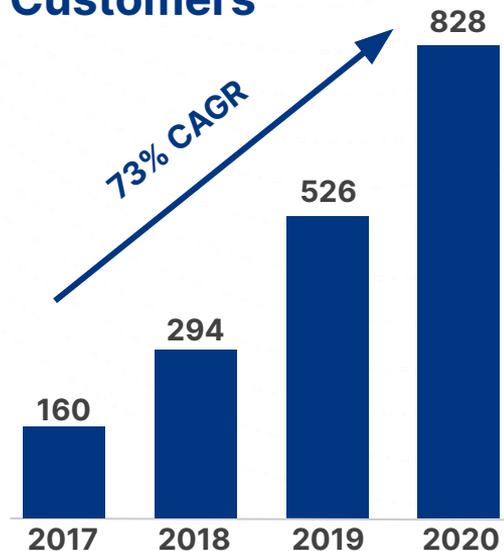
100% subscription-based revenue model

# Investment in Enterprise Sales Yields Significant ROI

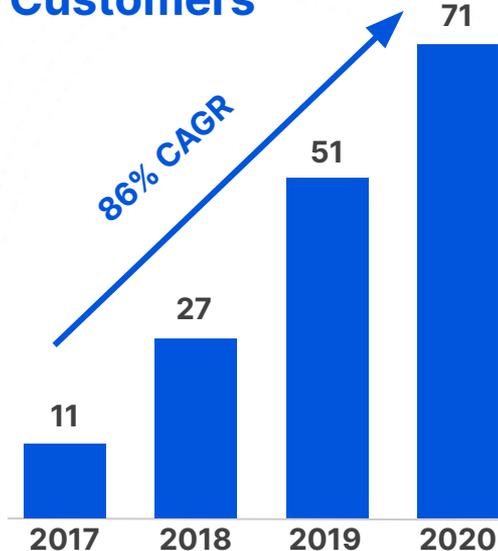


# Significant Growth in Large Customer Cohorts

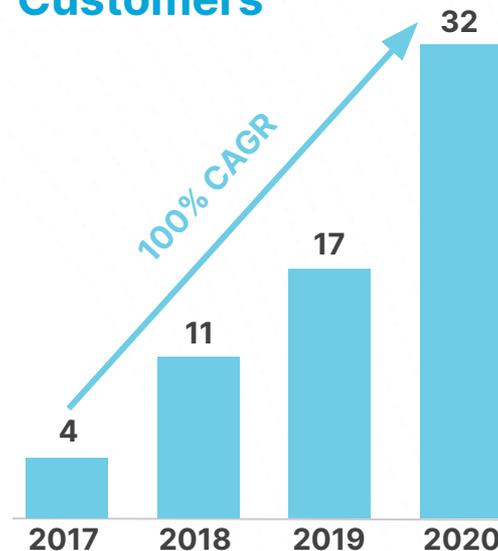
## \$100K+ Customers



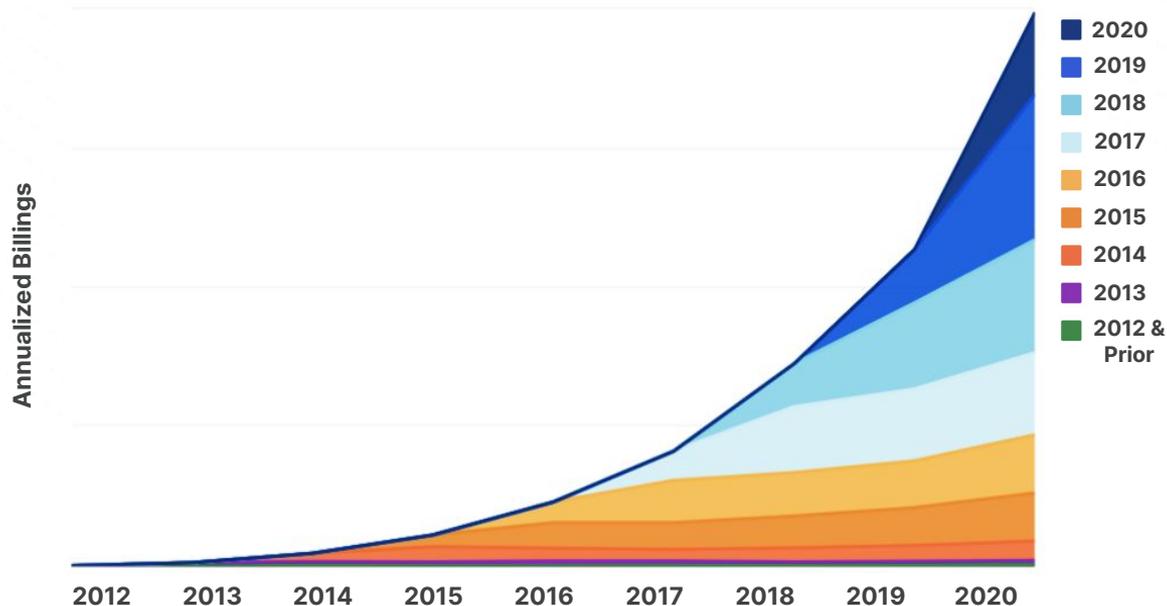
## \$500K+ Customers



## \$1M+ Customers



# Land and Expand Strategy Drives Growth Across Cohorts



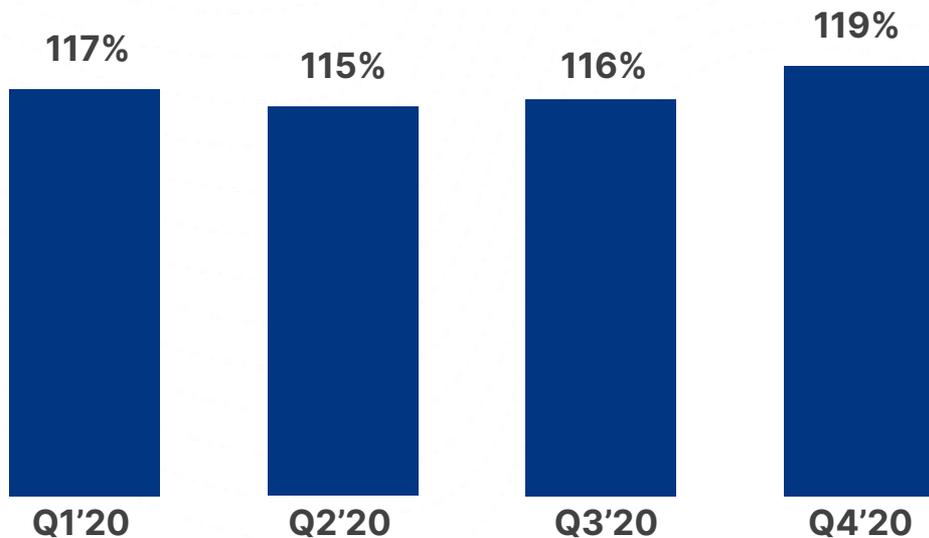
At the IPO,  
**70%**  
of contracted customers used  
**4 or more** products

Today,  
**88%**  
of contracted customers use  
**4 or more** products

Today,  
**79%**  
of contracted customers use  
**5 or more** products



# Strong Dollar-Based Net Retention



**DNR includes all paying customers**



**Large customers are a tailwind to DNR**



**Gross retention remained above 90% for Q4 and through 2020**



**DNR benefits from strong upsell, expansion, and new product introductions**

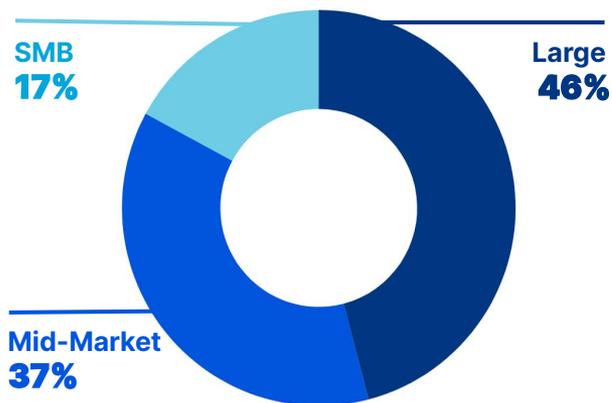


**Cloudflare One offers bundling opportunities**

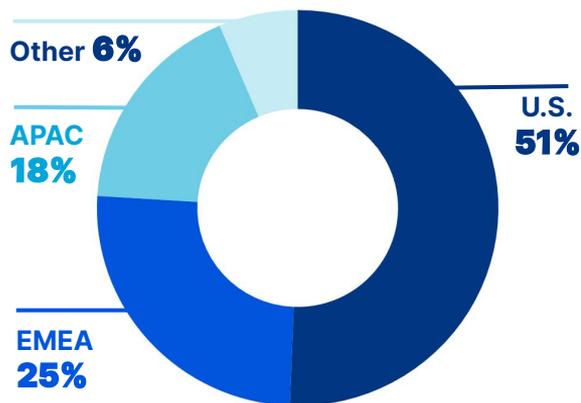


# Broadly Diversified Customer Base

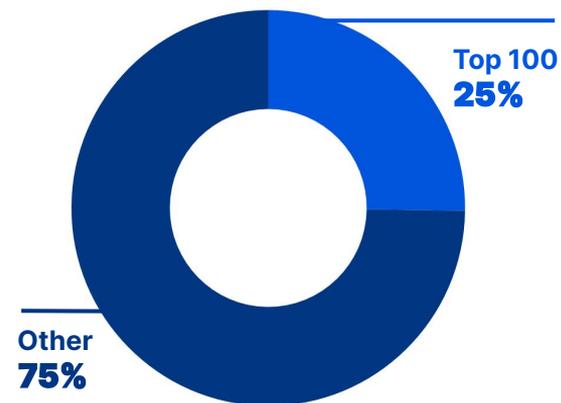
## 2020 Revenue Mix by Customer Type



## 2020 Revenue Mix by Geography



## 2020 Revenue Mix by Top 100 Customers



# Network Efficiency Drives Resilient Gross Margin



Products on the network have increased **87%** since the IPO



Global traffic on Cloudflare's network increased **72%** in 2020

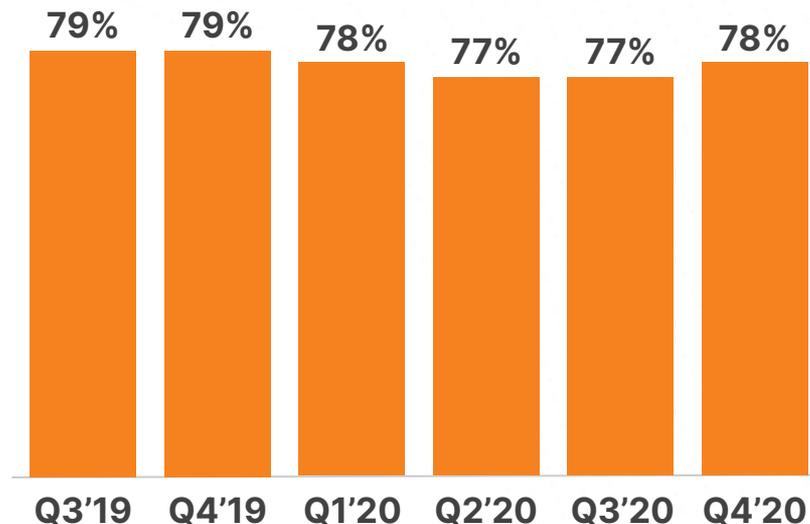


**+1.4M** free & paying customers since the IPO, representing an increase of **64%**



Platform efficiency yields average network capex of **12%** of revenue quarterly since the IPO

## Non-GAAP Gross Margin



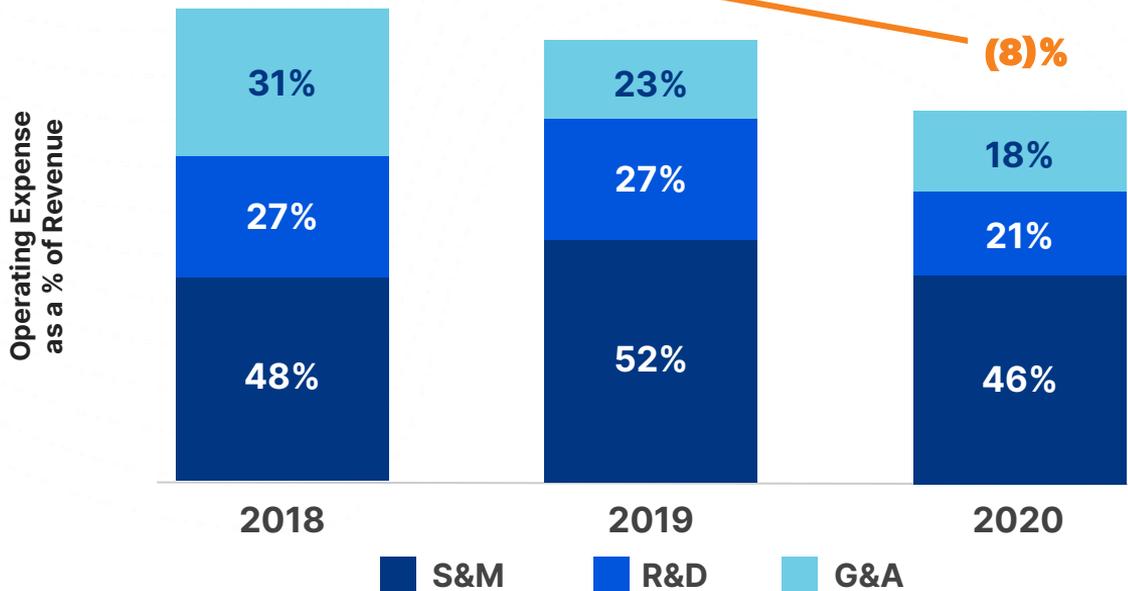
# Increasing Non-GAAP Operating Leverage

Operating Margin (30)%

(25)%

(8)%

**+22%**  
of operating  
leverage since 2018



# Guidance

## Q1 2021

**Revenue** **\$130.0-131.0**  
Y/Y Growth 42%-44%

**Operating Loss** **(\$9.0)-(\$8.0)**  
Operating Margin (7%)-(6%)

**EPS** **(\$0.03)-(\$0.02)**

## FY 2021

**Revenue** **\$589.0-593.0**  
Y/Y Growth 37%-38%

**Operating Loss** **(\$25.0)-(\$21.0)**  
Operating Margin (4%)

**EPS** **(\$0.09)-(\$0.08)**

FY 2021  
Network Capex  
as % of Revenue

**10%-12%**

**Anticipated Operating Profit Break-Even Q1'22**

# Long-Term Model

	2018	2019	2020	Long-Term Model
<b>Non-GAAP Gross Margin</b>	78 %	78 %	78 %	<b>75% - 77%</b>
<b>Sales &amp; Marketing</b> (% of revenue)	48 %	52 %	46 %	<b>27% - 29%</b>
<b>Research &amp; Development</b> (% of revenue)	27 %	27 %	21 %	<b>18% - 20%</b>
<b>General &amp; Administrative</b> (% of revenue)	31 %	23 %	18 %	<b>8% - 10%</b>
<b>Non-GAAP Operating Margin</b>	(30)%	(25)%	(8)%	<b>20% +</b>

# Why We Win



**Innovation is a key differentiator**



**Large TAM with multiple growth vectors**



**Significant large customer growth**



**Efficient business model**

# Q&A



**Matthew Prince**  
Chief Executive Officer



**Michelle Zatlyn**  
President & Chief  
Operating Officer



**Jen Taylor**  
Chief Product Officer



**Thomas Seifert**  
Chief Financial Officer



# Appendix

# Definitions

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**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, 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 that has an active contract with us or one of our partners.

**Large Customers.** 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. 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. 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, 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 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.

**Annualized Revenue:** To measure Annualized Revenue, 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 \$600 of revenue in the quarter, that customer would account for \$2,400 of Annualized Revenue for that year. 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, 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.

**Annualized Billings:** To measure Annualized Billings, we take the billings for each customer in the final month of a period and multiply that amount by 12. This measure provides us a view of what our billings would be had the customer been using our platform for an entire calendar year. Our Annualized Billings calculation excludes (i) our strategic agreement with Baidu, (ii) other agreements that were not entered into through our ordinary sales channels, and (iii) customers using our consumer products, such as 1.1.1.1 and Warp, and that together represent an insignificant amount of our revenue. We include both month-to-month subscriptions and longer-term agreements with our contracted customers in the calculation of Annualized Billings. Our Annualized Billings metric also includes any usage charges by a customer during a period, which represent a small portion of our total billings and may not be recurring. As a result, Annualized Billings may be higher than actual billings over the course of the year.

# GAAP to Non-GAAP Reconciliation

	2018	2019	2020	Q4 2019	Q4 2020
<b>GAAP Cost of Revenue</b>	<b>\$43,537</b>	<b>\$63,423</b>	<b>\$101,055</b>	<b>\$18,198</b>	<b>\$29,065</b>
Less: Stock-based Compensation Expense & Related Payroll Taxes	-\$119	-\$716	-\$1,466	-\$253	-\$478
Less: Amortization of Acquired Intangible Assets	-\$517	-\$125	-\$3,081	-\$31	-\$950
<b>Non-GAAP Cost of Revenue</b>	<b>\$42,901</b>	<b>\$62,582</b>	<b>\$96,508</b>	<b>\$17,914</b>	<b>\$27,637</b>
<b>GAAP Gross Profit</b>	<b>\$149,137</b>	<b>\$223,599</b>	<b>\$330,004</b>	<b>\$65,732</b>	<b>\$96,861</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$119	\$716	\$1,466	\$253	\$478
Add: Amortization of Acquired Intangible Assets	\$517	\$125	\$3,081	\$31	\$950
<b>Non-GAAP Gross Profit</b>	<b>\$149,773</b>	<b>\$224,440</b>	<b>\$334,551</b>	<b>\$66,016</b>	<b>\$98,289</b>
GAAP Gross Margin	77%	78%	77%	78%	77%
Non-GAAP Gross Margin	78%	78%	78%	79%	78%
<b>GAAP Sales and Marketing</b>	<b>\$94,394</b>	<b>\$159,298</b>	<b>\$217,875</b>	<b>\$47,107</b>	<b>\$63,552</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$979	-\$8,709	-\$17,678	-\$3,275	-\$5,363
<b>Non-GAAP Sales and Marketing</b>	<b>\$93,415</b>	<b>\$150,589</b>	<b>\$200,197</b>	<b>\$43,832</b>	<b>\$58,189</b>
GAAP S&M Expense as a % of Revenue	49%	56%	51%	56%	50%
Non-GAAP S&M Expense as a % of Revenue	48%	52%	46%	52%	46%
<b>GAAP Research and Development</b>	<b>\$54,463</b>	<b>\$90,669</b>	<b>\$127,144</b>	<b>\$26,289</b>	<b>\$34,757</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$1,532	-\$13,037	-\$30,497	-\$4,413	-\$9,080
Less: Acquisition-related and other expenses			-\$5,725		
<b>Non-GAAP Research and Development</b>	<b>\$52,931</b>	<b>\$77,632</b>	<b>\$90,922</b>	<b>\$21,876</b>	<b>\$25,677</b>
GAAP R&D Expense as a % of Revenue	28%	32%	29%	31%	28%
Non-GAAP R&D Expense as a % of Revenue	27%	27%	21%	26%	20%
<b>GAAP General and Administrative</b>	<b>\$85,179</b>	<b>\$81,578</b>	<b>\$91,753</b>	<b>\$22,278</b>	<b>\$23,293</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$24,717	-\$14,165	-\$13,875	-\$3,674	-\$3,404
Less: Acquisition-related and other expenses			-\$554		
<b>Non-GAAP General and Administrative Expense</b>	<b>\$60,462</b>	<b>\$67,413</b>	<b>\$77,324</b>	<b>\$18,604</b>	<b>\$19,889</b>
GAAP G&A Expense as a % of Revenue	44%	28%	21%	27%	18%
Non-GAAP G&A Expense as a % of Revenue	31%	23%	18%	22%	16%
<b>GAAP Loss from Operations</b>	<b>-\$84,899</b>	<b>-\$107,946</b>	<b>-\$106,768</b>	<b>-\$29,942</b>	<b>-\$24,741</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$27,347	\$36,627	\$63,516	\$11,615	\$18,325
Add: Amortization of Acquired Intangible Assets	\$517	\$125	\$3,081	\$31	\$950
Add: Acquisition-related and other expenses			\$6,279		
<b>Non-GAAP Loss from Operations</b>	<b>-\$57,035</b>	<b>-\$71,194</b>	<b>-\$33,892</b>	<b>-\$18,296</b>	<b>-\$5,466</b>
GAAP Operating Margin	-44%	-38%	-25%	-36%	-20%
<b>Non-GAAP Operating Margin</b>	<b>-30%</b>	<b>-25%</b>	<b>-8%</b>	<b>-22%</b>	<b>-4%</b>