CLOUDFLARE

Investor Presentation

June 30, 2021

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Cloudflare at a Glance

2010
Launched

126K+
Paying Customers

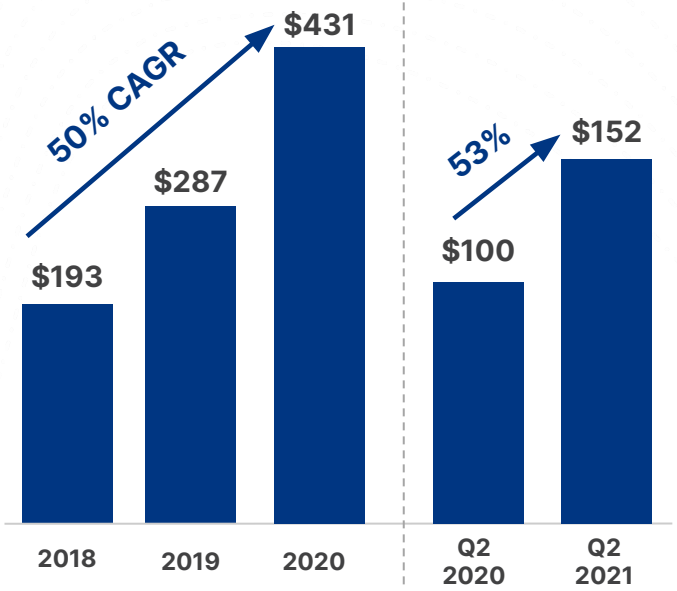
200+
Cities in Network

~19%
Of Fortune 1,000 are Paying Customers

2,050
Employees

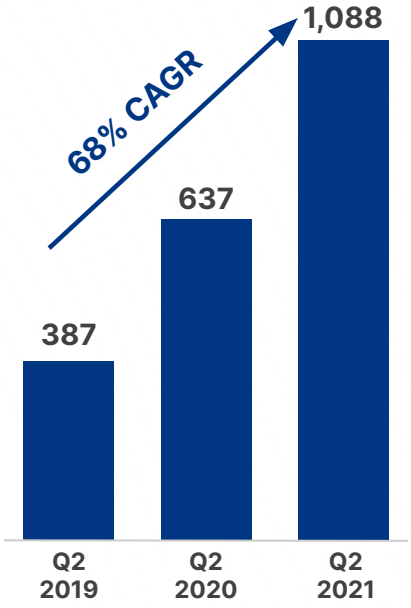
77%
GAAP Gross Margin

Total Revenue ($M)



Large Customers

> $100,000 Annualized Revenue



Note: Q2 2021 data as of or for the three months ended June 30, 2021. See Appendix for "Large Customers" definition.

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Cloudflare’s mission is to

Help build a better Internet

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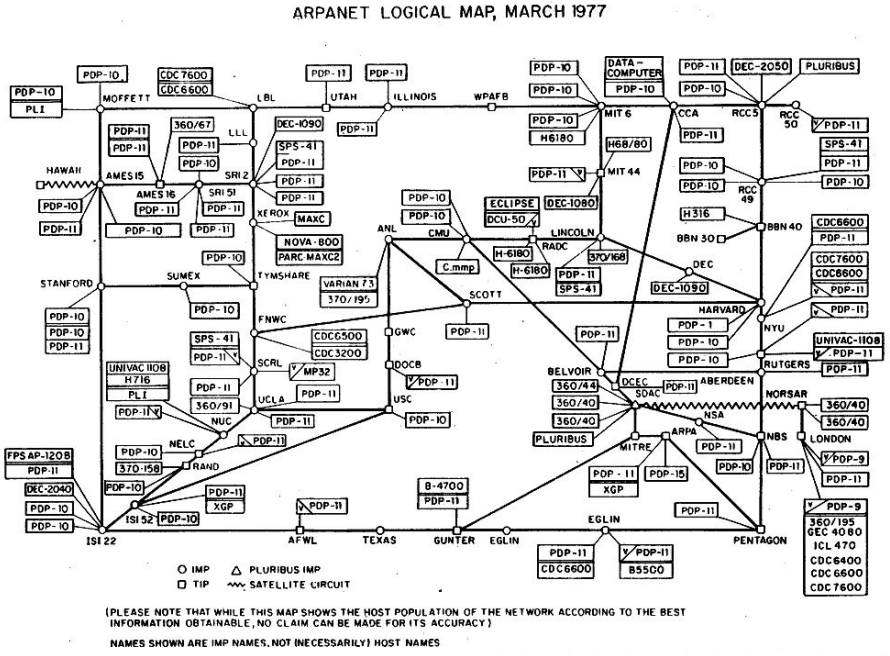
The Internet was not built for what it has become.



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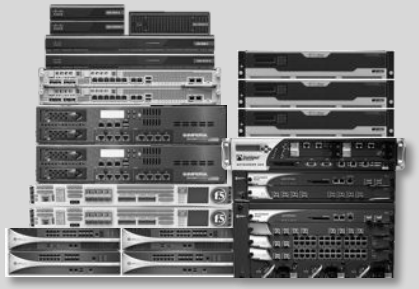
From Endless Hardware to a Global Cloud Platform

BAND-AID BOXES

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



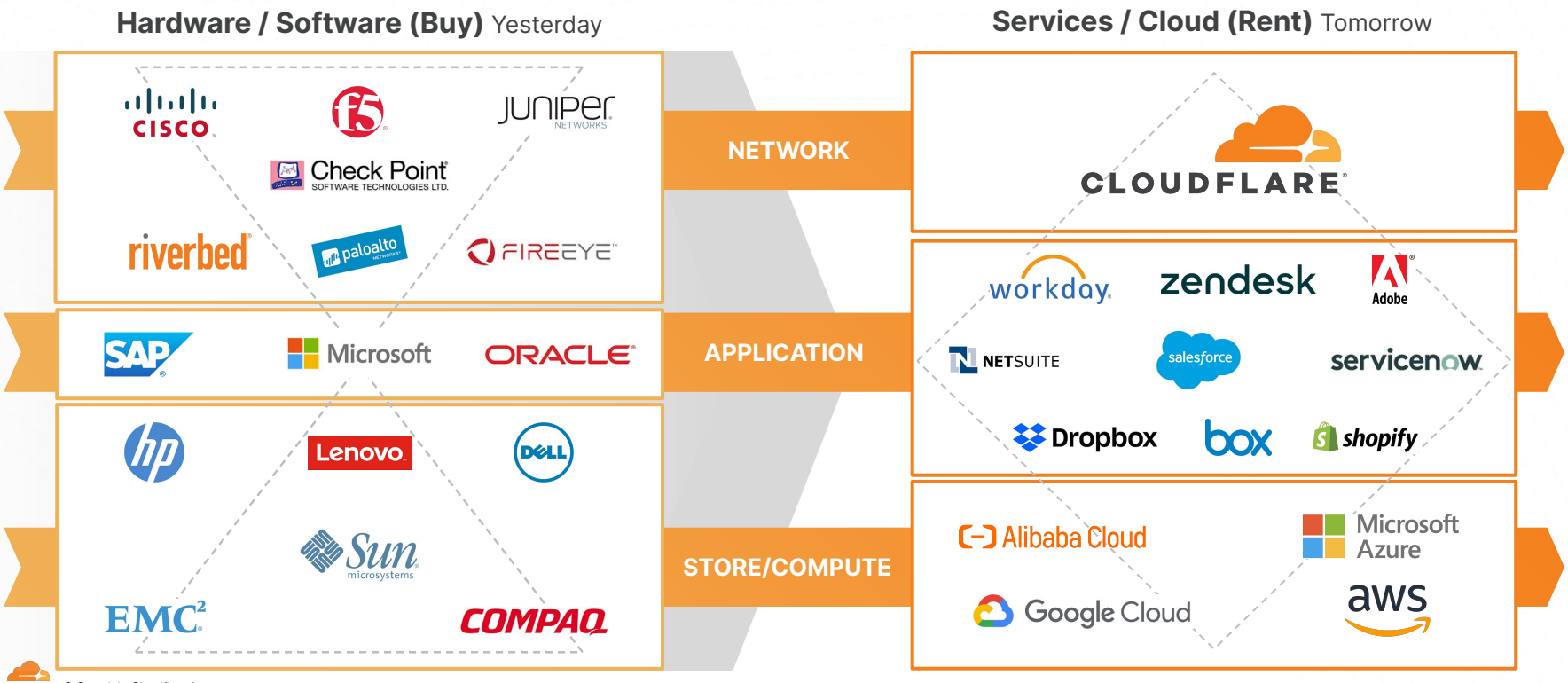
BETTER INTERNET

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

CLOUDFLARE®

Global Cloud Platform

Evolution of Enterprise Stack



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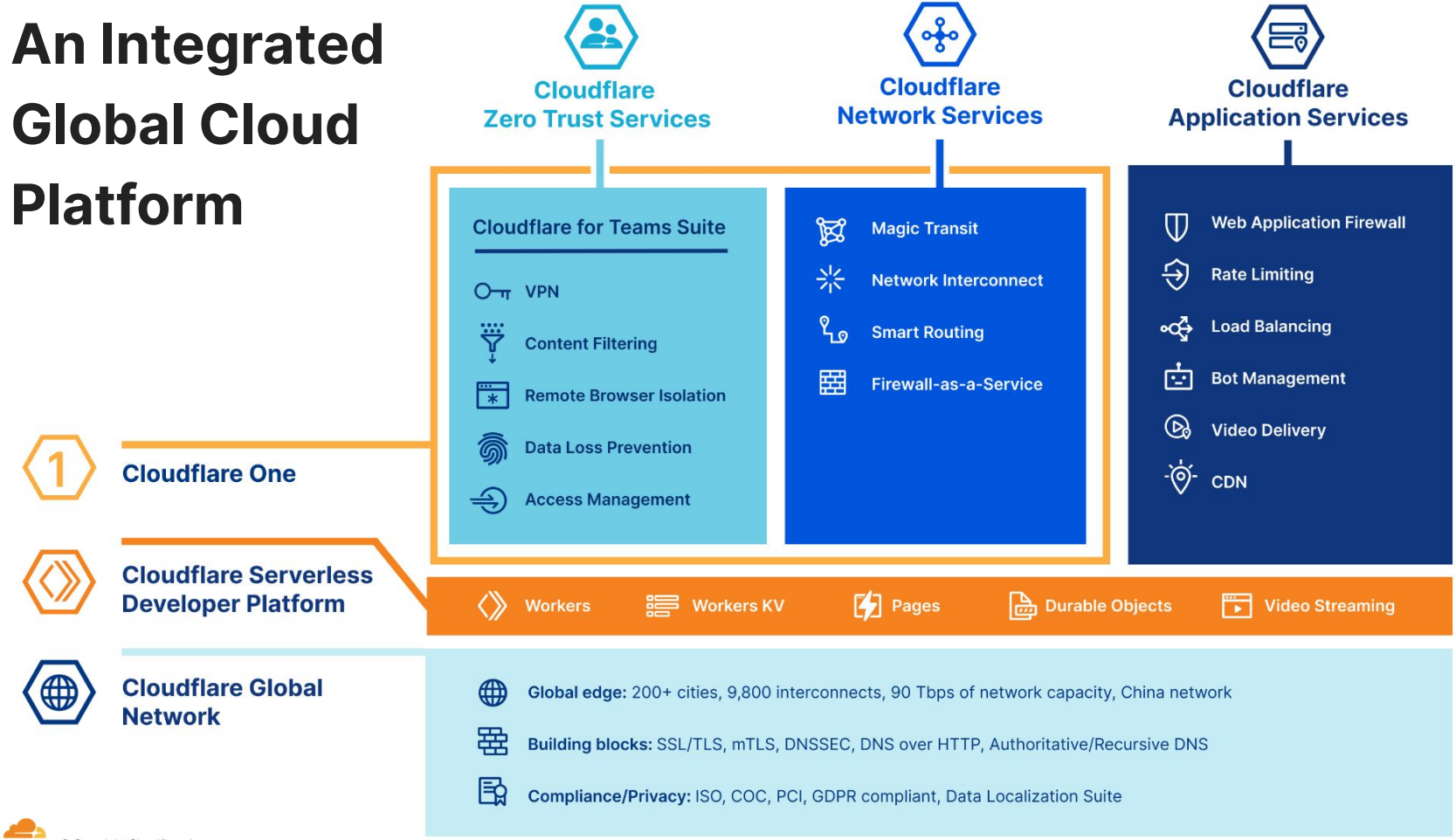
An Integrated Global Cloud Platform



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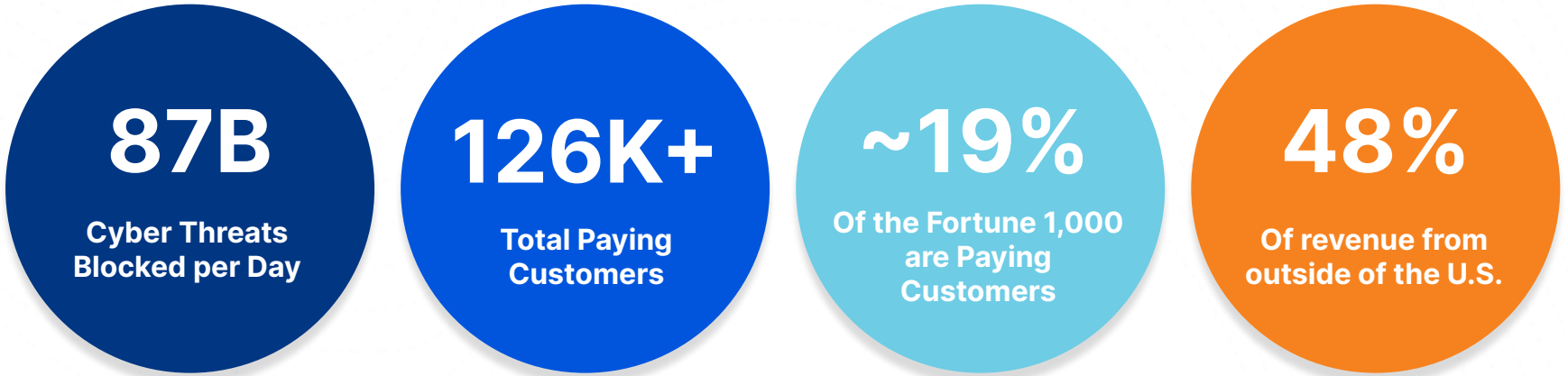
We Operate at Massive Scale



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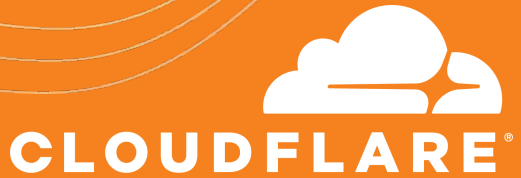
Note: Cyber threats blocked per day is approximate average over the three months ended June 30, 2021. All other figures as of or for the three months ended June 30, 2021. See Appendix for "Paying Customers" definition.



Our Flexible, Scalable, & Efficient Serverless Architecture

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

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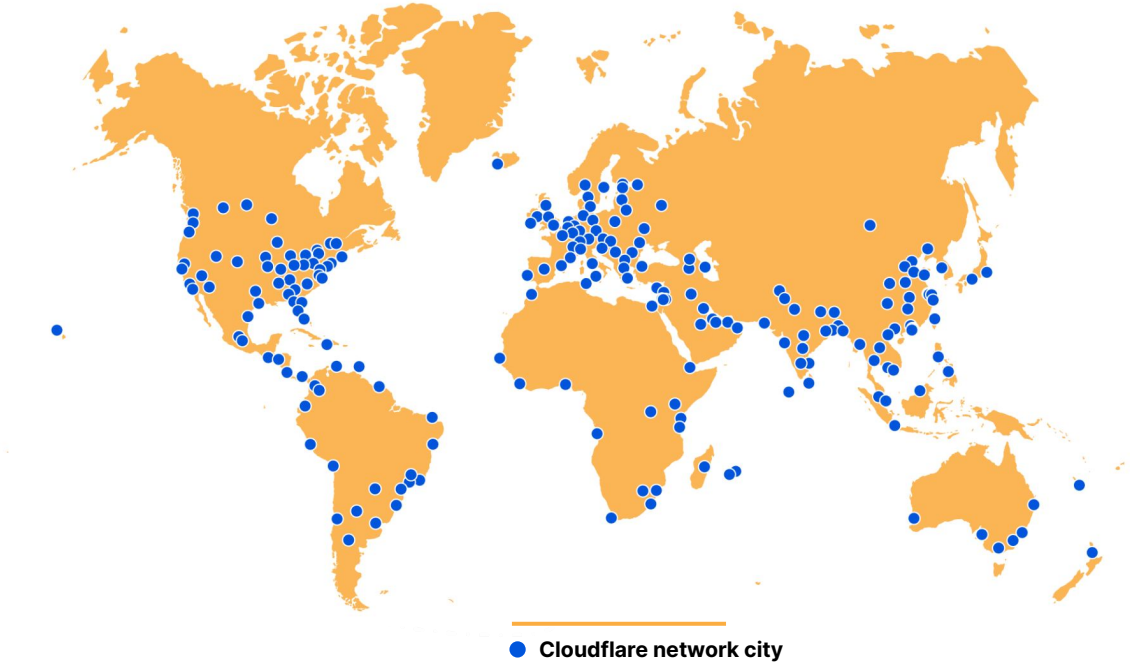
A Global Network Powering our Platform



200+
Cities

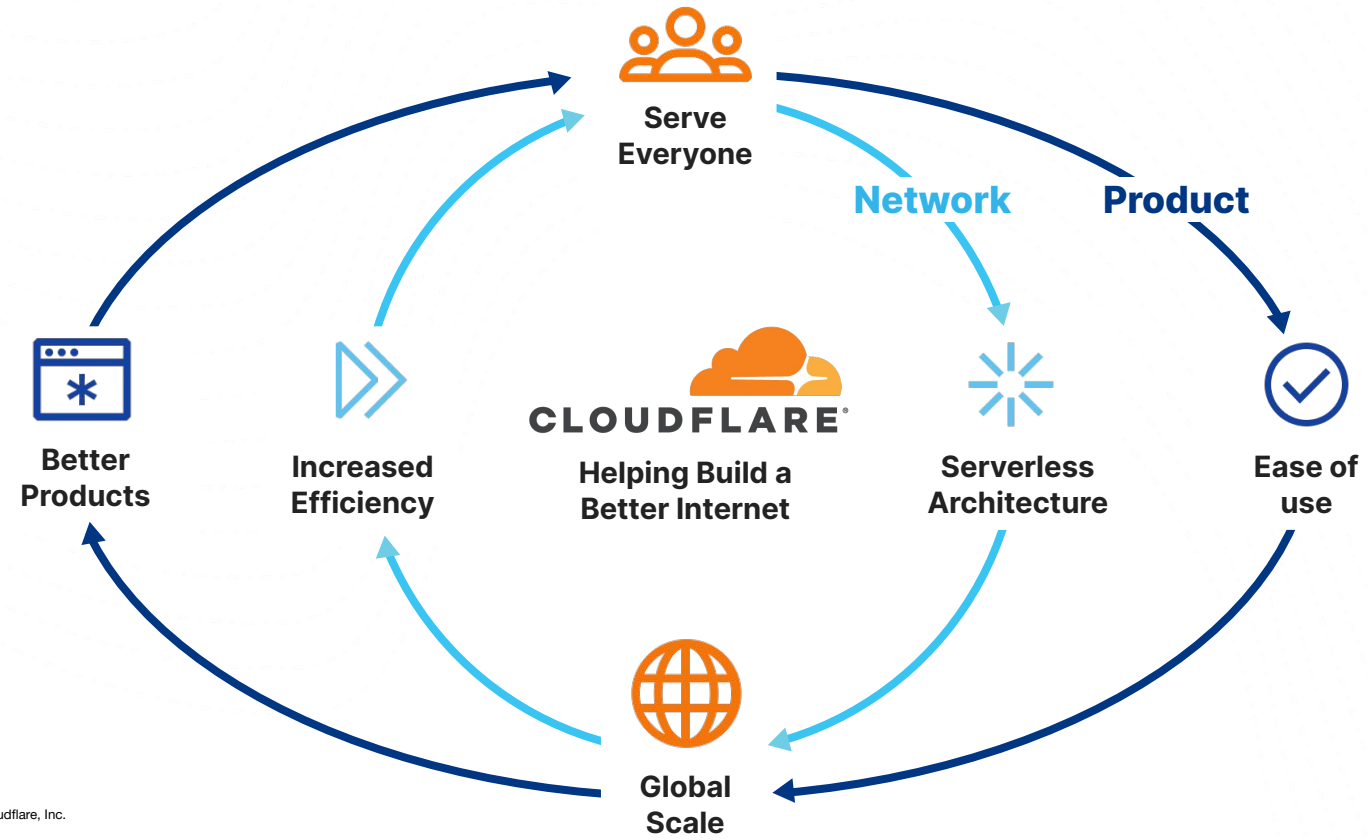
Paying Customers in
180+
Countries

9,800
Interconnects

99%
Of the Internet-connected developed world population is located within 100 milliseconds of our network

CLOUDFLARE © Copyright Cloudflare, Inc. Note: All figures as of June 30, 2021.

Our Product & Network Flywheels Drive Our Business



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Data Intelligence & Quality Assurance at Scale

Global sensor network
with paying customers in 180+ countries.

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

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

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

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Note: Cyber threats blocked per day is approximate average over the three months ended June 30, 2021. Other figures as of the three months ended June 30, 2021.

Our Competitive Advantages

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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

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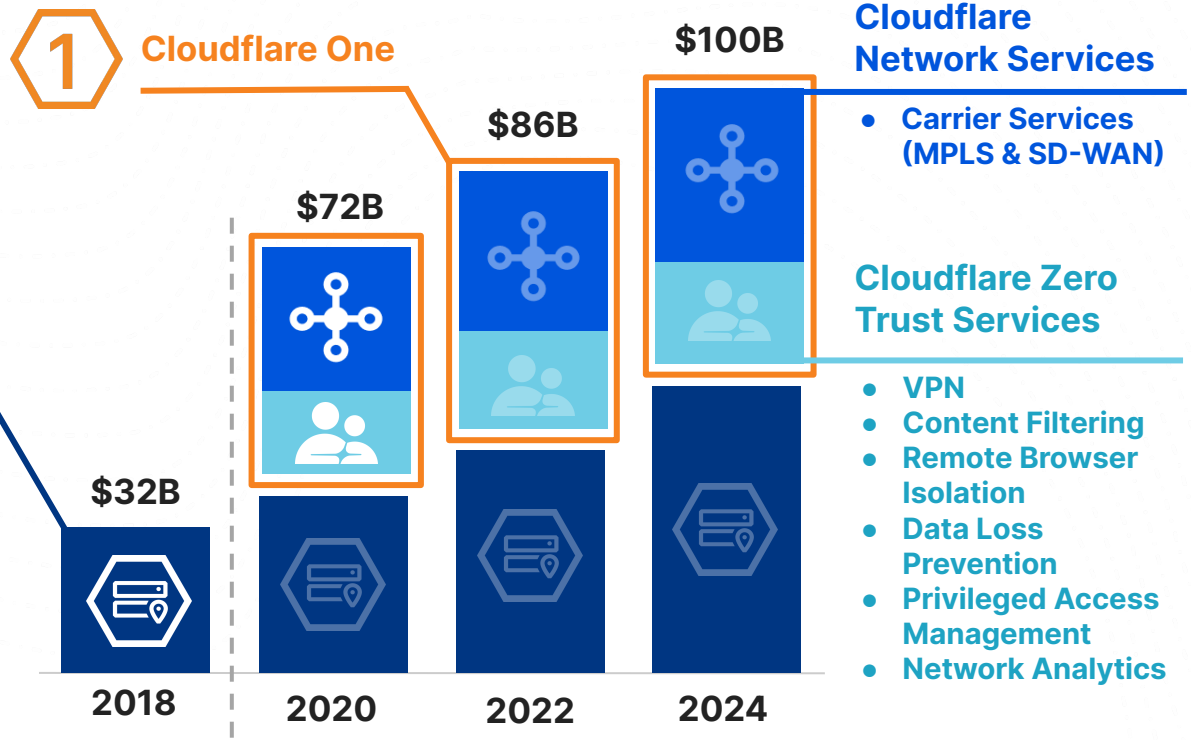
Innovation Drives TAM Expansion



Cloudflare Application Services

- Application Delivery Controllers
- WAN
- CDN
- DDoS
- Intrusion Detection & Prevention
- Firewall

Cloudflare Network Services

- Carrier Services (MPLS & SD-WAN)

Cloudflare Zero Trust Services

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

Areas for Potential Incremental Growth

- Serverless
- Internet of Things
- 5G Cellular
- Consumer

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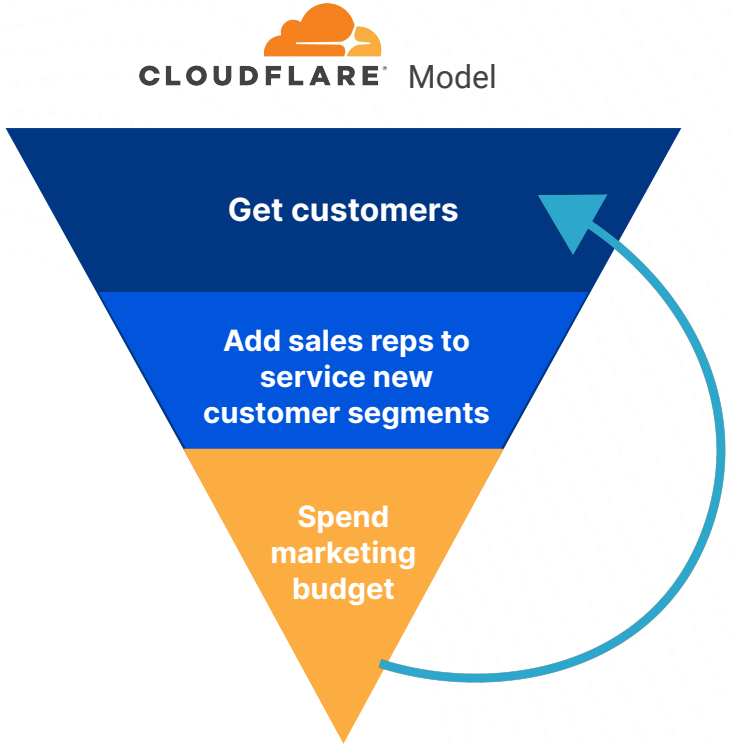
Note: Total Addressable Market represents expected spend by year from our analysis based on IDC data. Figures reflect the markets addressed by our current product offerings.

Traditional Go-To-Market Model Inverted

We don’t build ahead of the curve.

Sources of Leverage

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



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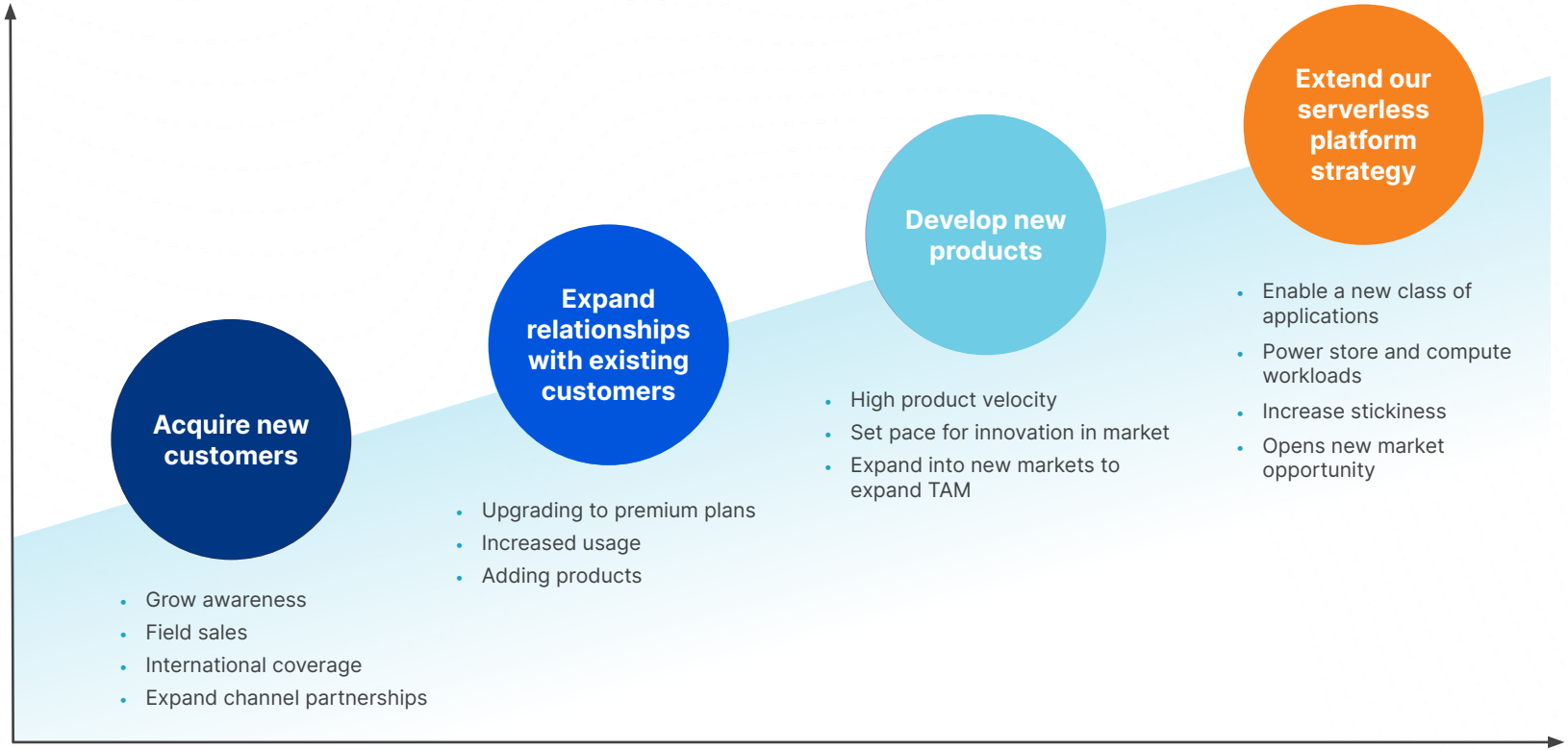
Our Strategy for Growth



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Financial Overview

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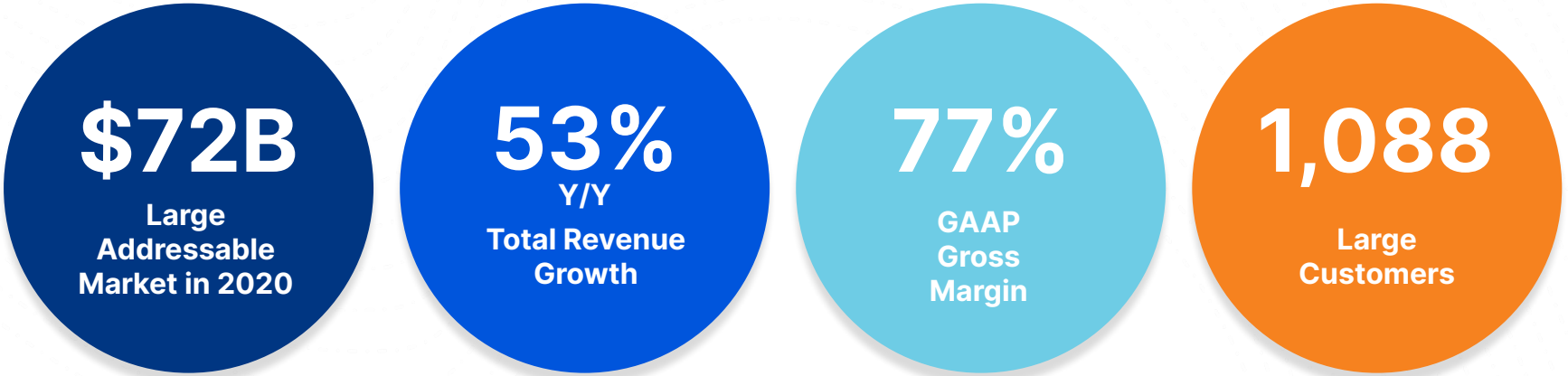
Key Financial Highlights



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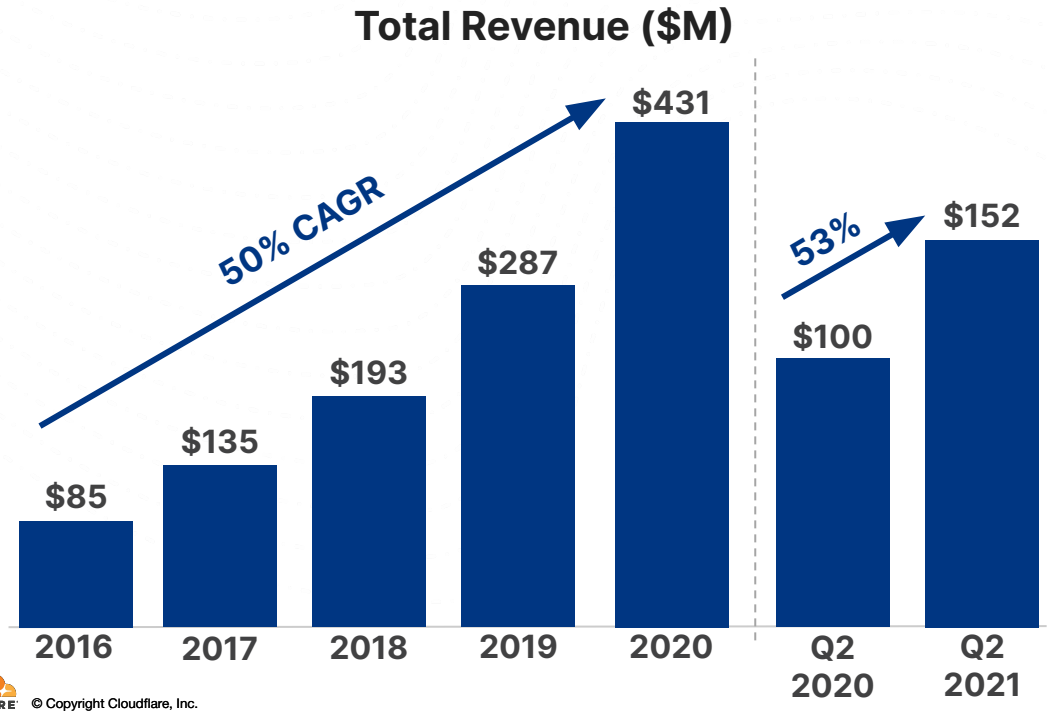
Note: Total Addressable Market represents 2020 expected spend from our analysis based on IDC data. All other figures as of or for the three months ended June 30, 2021. See the Appendix for how we define “Large Customers.”

Track Record of Delivering Revenue Growth



- Investment in enterprise sales
- Large customer momentum
- Land and expand strategy drives growth across cohorts
- 100% Subscription-based revenue model

Note: Subscription-based revenue includes related support services and usage fees.

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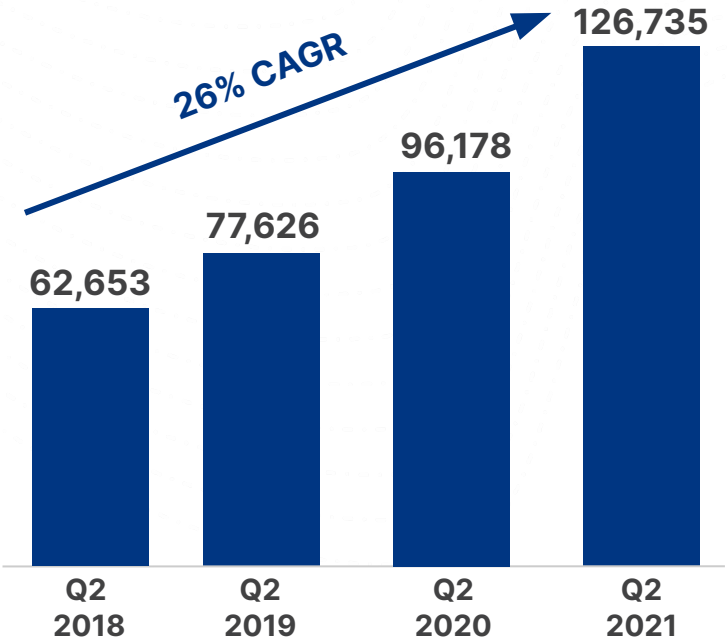
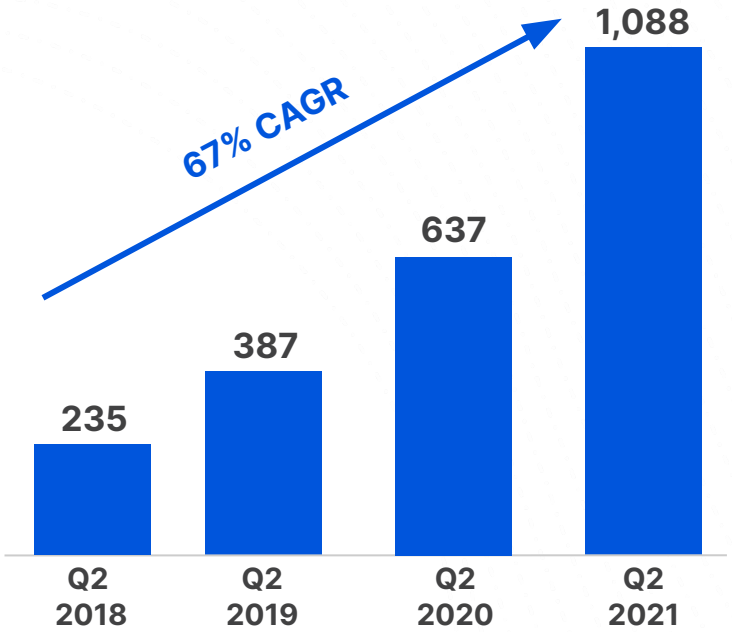
Rapid Customer Growth

Paying Customers



Large Customers

>$100,000 Annualized Revenue



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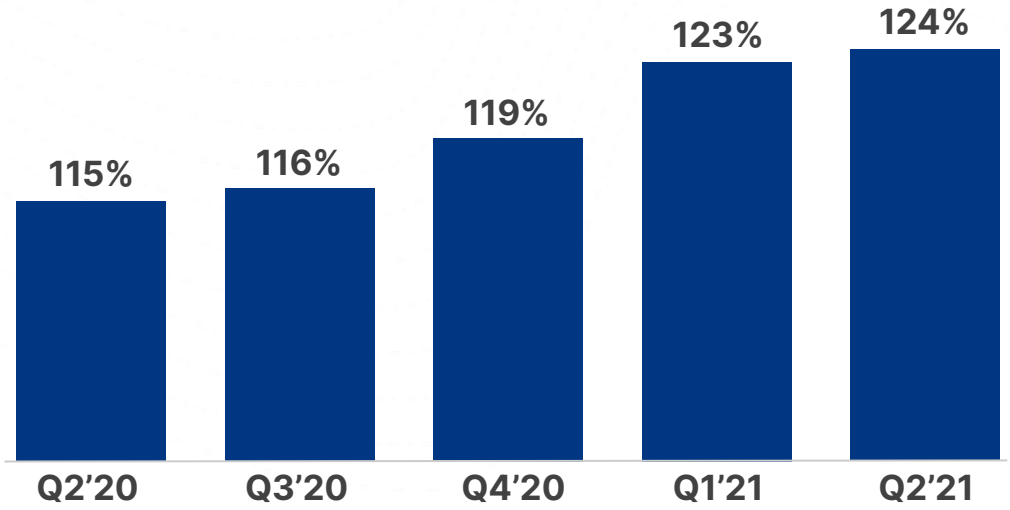
Note: See the Appendix for how we define “Paying Customers” and “Large Customers.”

Strong Dollar-Based Net Retention



- DNR includes all paying customers
- Large customers are a tailwind to DNR
- Gross retention above 90%
- DNR benefits from strong upsell, expansion, and new product introductions
- Cloudflare One offers bundling opportunities

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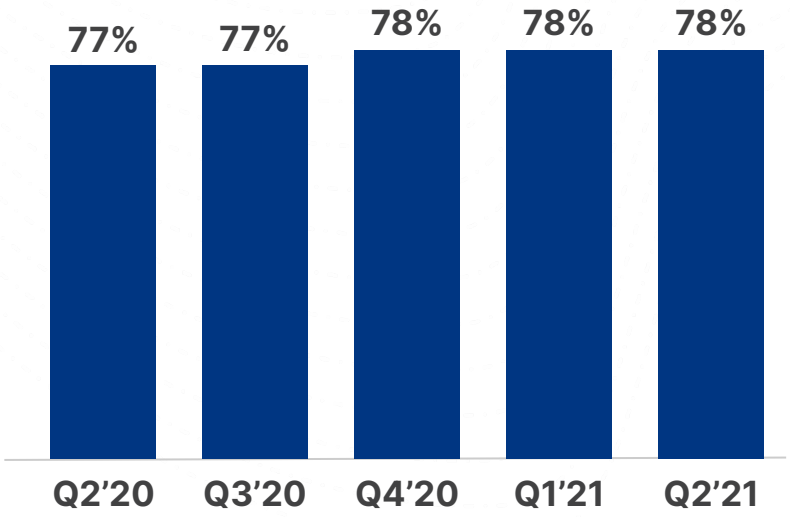
Note: See the Appendix for how we define "Dollar-Based Net Retention." Gross revenue retention is defined as 1 - gross revenue churn.

Non-GAAP Gross Margin



Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

Single software stack across the network

Symbiotic relationship with ISPs

Leverage idle capacity across network

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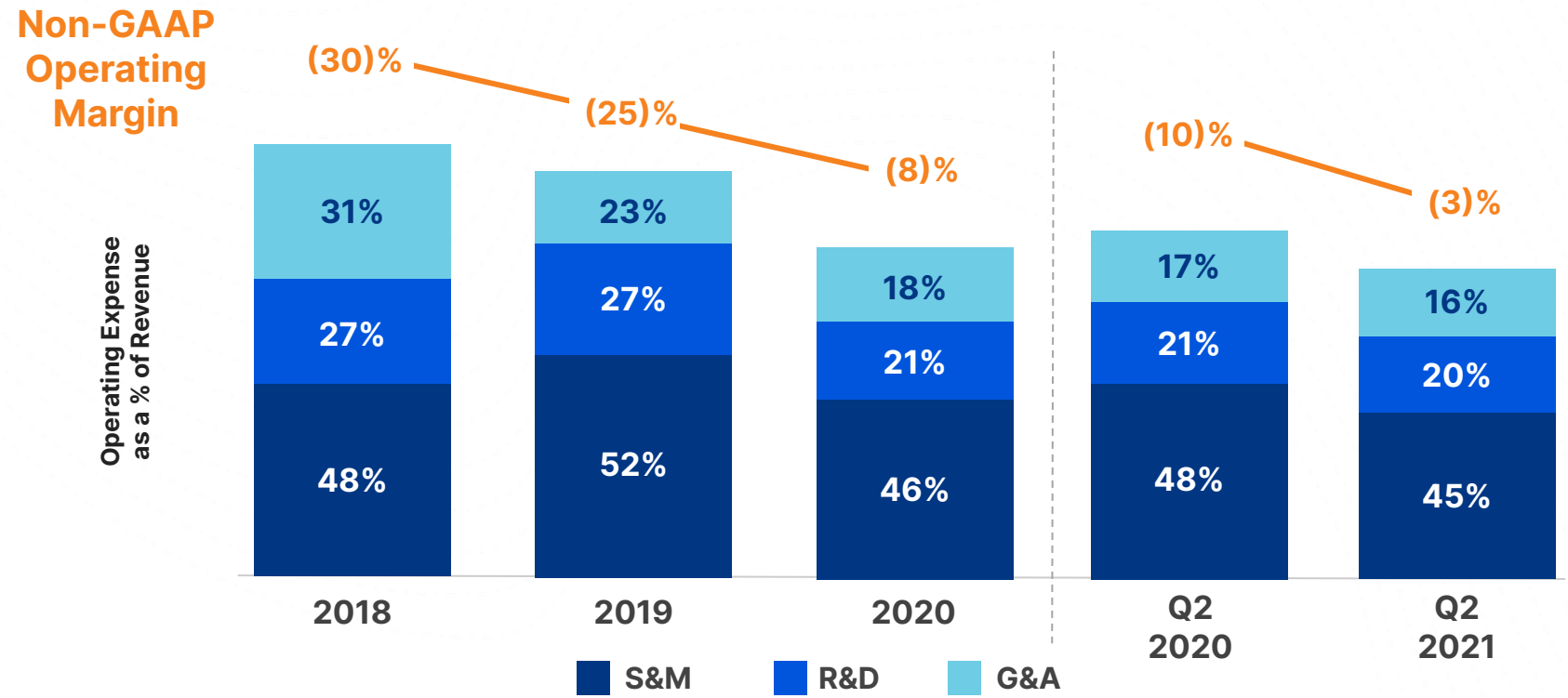
Note: See Appendix for GAAP to Non-GAAP reconciliation.

Leverage of Our Operating Model



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

Long-Term Model

	2018	2019	2020	Q2 2021	Long-Term Model
Non-GAAP Gross Margin	78 %	78 %	78 %	78 %	**75% - 77%**
Sales & Marketing (% of revenue)	48 %	52 %	46 %	45 %	**27% - 29%**
Research & Development (% of revenue)	27 %	27 %	21 %	20 %	**18% - 20%**
General & Administrative (% of revenue)	31 %	23 %	18 %	16 %	**8% - 10%**
Non-GAAP Operating Margin	(30)%	(25)%	(8)%	(3)%	**20% +**

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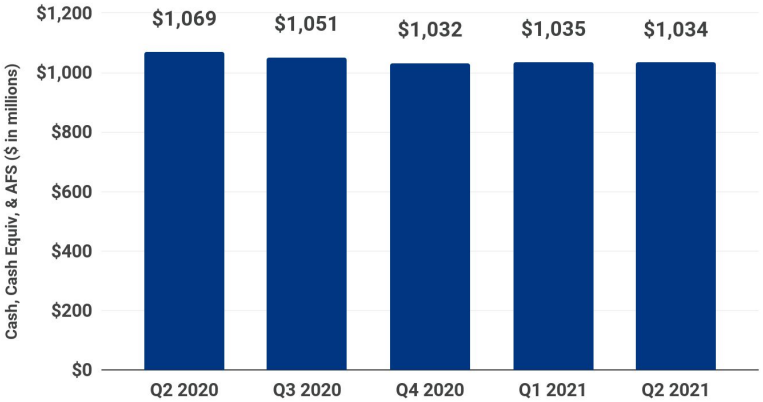
Note: Metrics shown are Non-GAAP. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation.

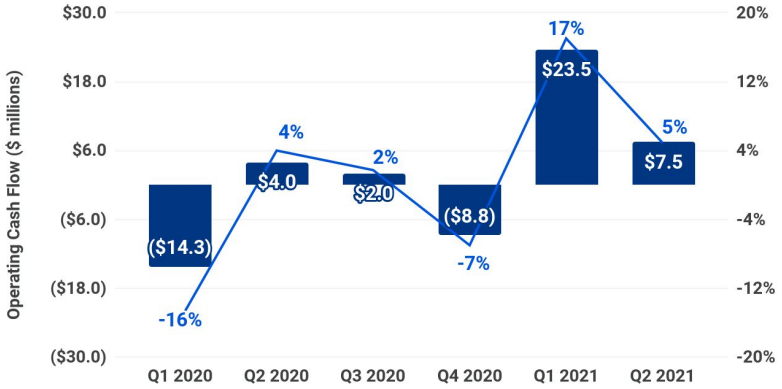
Strong Cash Position

- Raised $565 million, net of fees and expenses, in our IPO that priced on September 12th, 2019
- Raised $562 million, net of fees and expenses, in our Convertible Notes Offering that priced on May 13th, 2020

Cash Balance



Operating Cash Flow & Margin



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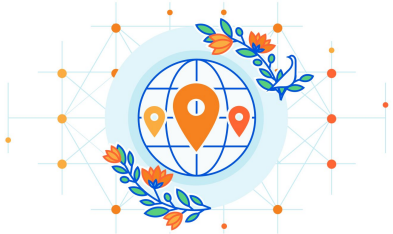
Environmental, Social, Governance

Building a Greener Internet

Green Compute on Cloudflare Workers

Published first Greenhouse Gas Emissions Report



Promoting Human Rights

Launched Project Pangea

Athenian Project International Expansion

Building Sustainable Communities

Released first Diversity, Equity, Inclusion Report

Joined the 1% Pledge

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

We are powering our network with 100% renewable energy and committed to removing all historical emissions from our global network by 2025

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Our Business Model

- Disrupting a large and growing total addressable market
- Widely distributed global cloud platform
- Expansive product portfolio; open to developer innovation
- Highly efficient business model and low fundamental cost structure
- High growth subscription revenue model with attractive gross margin

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Appendix

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GAAP to Non-GAAP Reconciliation (Annual)

	2018	2019	2020
GAAP Cost of Revenue	**$43,537**	**$63,423**	**$101,055**
Less: Stock-based Compensation Expense & Related Payroll Taxes	-$119	-$716	-$1,466
Less: Amortization of Acquired Intangible Assets	-$517	-$125	-$3,081
Non-GAAP Cost of Revenue	**$42,901**	**$62,582**	**$96,508**
GAAP Gross Profit	**$149,137**	**$223,599**	**$330,004**
Add: Stock-based Compensation & Related Payroll Taxes	$119	$716	$1,466
Add: Amortization of Acquired Intangible Assets	$517	$125	$3,081
Non-GAAP Gross Profit	**$149,773**	**$224,440**	**$334,551**
GAAP Gross Margin	77%	78%	77%
Non-GAAP Gross Margin	78%	78%	78%
GAAP Sales and Marketing	**$94,394**	**$159,298**	**$217,875**
Less: Stock-based Compensation & Related Payroll Taxes	-$979	-$8,709	-$17,678
Non-GAAP Sales and Marketing	**$93,415**	**$150,589**	**$200,197**
GAAP S&M Expense as a % of Revenue	49%	56%	51%
Non-GAAP S&M Expense as a % of Revenue	48%	52%	46%
GAAP Research and Development	**$54,463**	**$90,669**	**$127,144**
Less: Stock-based Compensation & Related Payroll Taxes	-$1,532	-$13,037	-$30,497
Less: Acquisition-related and other expenses			-$5,725
Non-GAAP Research and Development	**$52,931**	**$77,632**	**$90,922**
GAAP R&D Expense as a % of Revenue	28%	32%	29%
Non-GAAP R&D Expense as a % of Revenue	27%	27%	21%
GAAP General and Administrative	**$85,179**	**$81,578**	**$91,753**
Less: Stock-based Compensation & Related Payroll Taxes	-$24,717	-$14,165	-$13,875
Less: Acquisition-related and other expenses			-$554
Non-GAAP General and Administrative Expense	**$60,462**	**$67,413**	**$77,324**
GAAP G&A Expense as a % of Revenue	44%	28%	21%
Non-GAAP G&A Expense as a % of Revenue	31%	23%	18%
GAAP Loss from Operations	**-$84,899**	**-$107,946**	**-$106,768**
Add: Stock-based Compensation & Related Payroll Taxes	$27,347	$36,627	$63,516
Add: Amortization of Acquired Intangible Assets	$517	$125	$3,081
Add: Acquisition-related and other expenses			$6,279
Non-GAAP Loss from Operations	**-$57,035**	**-$71,194**	**-$33,892**
GAAP Operating Margin	-44%	-38%	-25%
Non-GAAP Operating Margin	**-30%**	**-25%**	**-8%**

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GAAP to Non-GAAP Reconciliation (Quarterly)

	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
GAAP Cost of Revenue	**$24,164**	**$27,005**	**$29,065**	**$32,084**	**$35,029**
Less: Stock-based Compensation Expense & Related Payroll Taxes	-$329	-$354	-$478	-$523	-$803
Less: Amortization of Acquired Intangible Assets	-$700	-$700	-$950	-$700	-$700
Non-GAAP Cost of Revenue	**$23,135**	**$25,951**	**$27,637**	**$30,861**	**$33,526**
GAAP Gross Profit	**$75,557**	**$87,157**	**$96,861**	**$105,971**	**$117,399**
Add: Stock-based Compensation & Related Payroll Taxes	$329	$354	$478	$523	$803
Add: Amortization of Acquired Intangible Assets	$700	$700	$950	$700	$700
Non-GAAP Gross Profit	**$76,586**	**$88,211**	**$98,289**	**$107,194**	**$118,902**
GAAP Gross Margin	76%	76%	77%	77%	77%
Non-GAAP Gross Margin	77%	77%	78%	78%	78%
GAAP Sales and Marketing	**$51,376**	**$55,982**	**$63,552**	**$69,974**	**$75,995**
Less: Stock-based Compensation & Related Payroll Taxes	-$3,975	-$4,761	-$5,363	-$6,835	-$7,579
Non-GAAP Sales and Marketing	**$47,401**	**$51,221**	**$58,189**	**$63,139**	**$68,416**
GAAP S&M Expense as a % of Revenue	52%	49%	50%	51%	50%
Non-GAAP S&M Expense as a % of Revenue	48%	45%	46%	46%	45%
GAAP Research and Development	**$28,131**	**$30,902**	**$34,757**	**$39,527**	**$41,349**
Less: Stock-based Compensation & Related Payroll Taxes	-$6,917	-$7,373	-$9,080	-$11,058	-$11,280
Less: Acquisition-related and other expenses	$51	$0	$0	$0	$0
Non-GAAP Research and Development	**$21,265**	**$23,529**	**$25,677**	**$28,469**	**$30,069**
GAAP R&D Expense as a % of Revenue	28%	27%	28%	29%	27%
Non-GAAP R&D Expense as a % of Revenue	21%	21%	20%	21%	20%
GAAP General and Administrative	**$20,754**	**$21,525**	**$23,293**	**$27,724**	**$28,927**
Less: Stock-based Compensation & Related Payroll Taxes	-$3,347	-$3,518	-$3,404	-$4,648	-$4,486
Less: Acquisition-related and other expenses	$0	$0	$0	$0	$0
Non-GAAP General and Administrative Expense	**$17,407**	**$18,007**	**$19,889**	**$23,076**	**$24,441**
GAAP G&A Expense as a % of Revenue	21%	19%	18%	20%	19%
Non-GAAP G&A Expense as a % of Revenue	17%	16%	16%	17%	16%
GAAP Loss from Operations	**-$24,704**	**-$21,252**	**-$24,741**	**-$31,254**	**-$28,872**
Add: Stock-based Compensation & Related Payroll Taxes	$14,568	$16,006	$18,325	$23,064	$24,148
Add: Amortization of Acquired Intangible Assets	$700	$700	$950	$700	$700
Add: Acquisition-related and other expenses	-$51	$0	$0	$0	$0
Non-GAAP Loss from Operations	**-$9,487**	**-$4,546**	**-$5,466**	**-$7,490**	**-$4,024**
GAAP Operating Margin	-25%	-19%	-20%	-23%	-19%
Non-GAAP Operating Margin	**-10%**	**-4%**	**-4%**	**-5%**	**-3%**

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Definitions

Paying Customers. We believe our ability to grow the number of paying customers on our network provides a key indicator of growth of our business and our future business opportunities. We define a paying customer at the end of the quarter as a person or entity who has generated revenue during such quarter, excluding (i) customers that were not acquired through ordinary sales channels, (ii) customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. An entity is defined as a company, a government institution, a non-profit organization, or a distinct business unit of a large company 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 at the end of a quarter, we take the sum of revenue for each customer in the quarter and multiply that amount by four. For example, if we signed a new customer that generated $1,800 of revenue in a quarter, that customer would account for $7,200 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through 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 network. Our dollar-based net retention rate is a key way we measure our performance in these areas. Dollar-based net retention measures our ability to retain and expand recurring revenue from existing customers. To calculate dollar-based net retention for a quarter, we compare the Annualized Revenue from paying customers four quarters prior to the Annualized Revenue from the same set of customers in the most recent quarter. Our dollar-based net retention includes expansion and is net of contraction and attrition, but excludes Annualized Revenue from new customers in the current period. Our dollar-based net retention excludes professional services and 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.

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