



# Investor Presentation

As of September 30, 2023

# Safe Harbor



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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 filings made with the Securities and Exchange Commission ("SEC"). You can locate these reports on our investor relations website (<https://cloudflare.NET>) or on the SEC website ([www.sec.gov](http://www.sec.gov)). 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. Forward-looking statements included in this presentation represent our views only as of the date of this presentation, and 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.

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# Cloudflare at a Glance

**2010**

Launched

**182K**

Paying  
Customers

**300+**

Cities in  
Network

**>60%**

Of Revenue from  
Large Customers

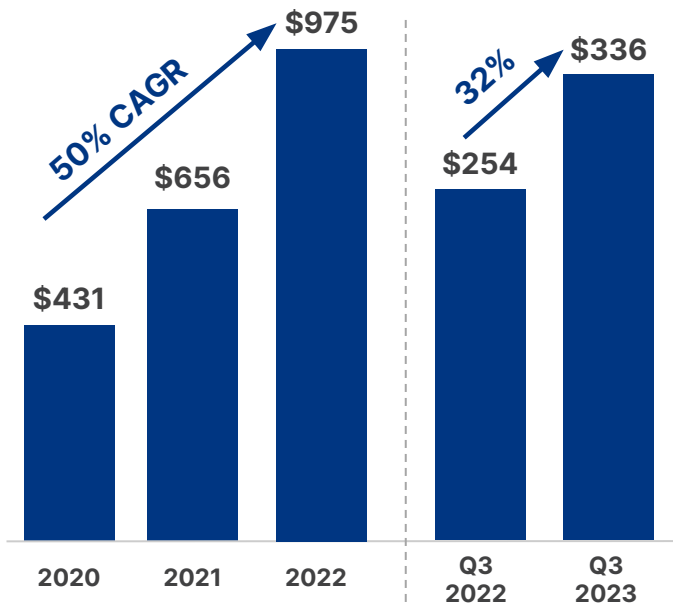
**3,529**

Employees

**77%**

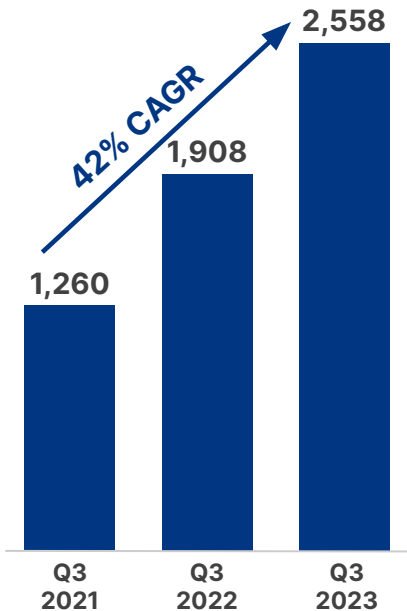
GAAP Gross  
Margin

## Total Revenue (\$M)



## Large Customers

> \$100,000 Annualized Revenue



Note: Unless indicated otherwise, all data in orange shaded area of slide are as of September 30, 2023, except revenue from Large Customers and GAAP gross margin are for three months ended September 30, 2023. See Appendix for "Large Customers" definition.

# Environmental, Social, Governance (Impact)



## Building a Greener Internet

Cloudflare is powered by 100% renewable energy

Offsetting or removing historic network related emissions by 2025

Recycling hardware at 95% of data centers

70,000 Trees Donated

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## Human Rights and Democracy

Protecting more than 2,200 journalists and human rights defenders online in 111 countries for free through [Project Galileo](#)

[Protecting](#) local government election websites in 31 US States

Completed and presented GNI human rights audit



## Building Sustainable Communities

Annual ESG disclosures: GRI and SASB

UN Global Compact Signatory

Diversity, Equity, Inclusion Report

1% Pledge Participant



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

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

Cloudflare recognized by the [White House](#) and State Department at 2023 Summit for Democracy

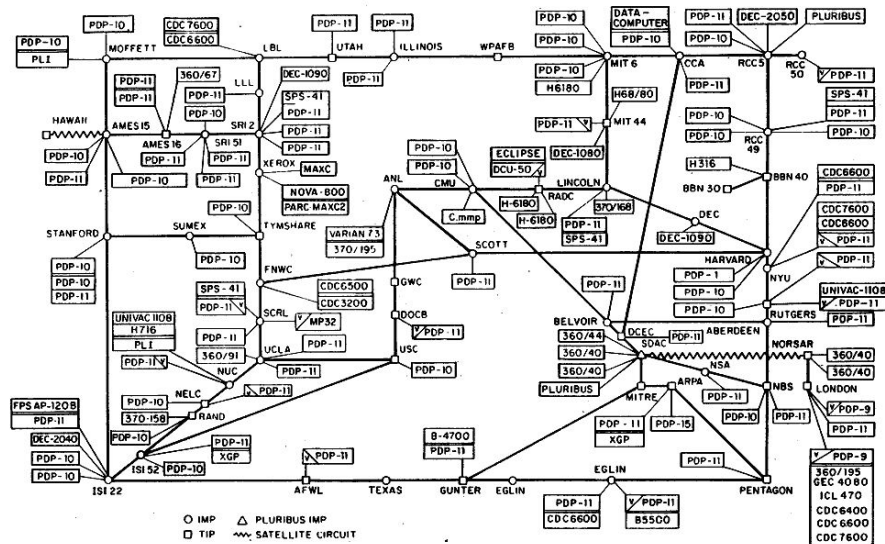
For more information, visit

<https://www.cloudflare.com/impact/>

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

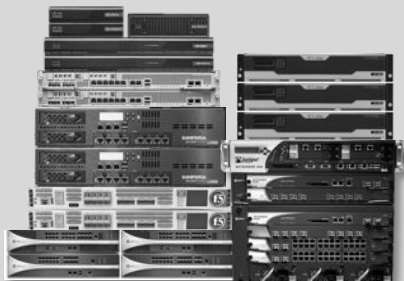


(PLEASE NOTE THAT WHILE THIS MAP SHOWS THE HOST POPULATION OF THE NETWORK ACCORDING TO THE BEST INFORMATION OBTAINABLE, NO CLAIM CAN BE MADE FOR ITS ACCURACY)  
NAMES SHOWN ARE IMP NAMES, NOT NECESSARILY HOST NAMES

# From Endless Hardware to a Global Cloud Platform

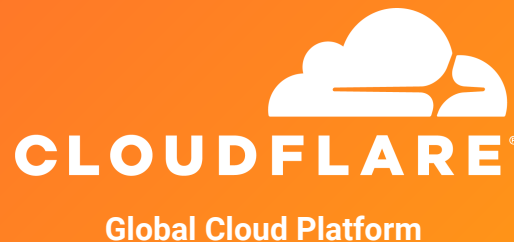
## BAND-AID BOXES

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

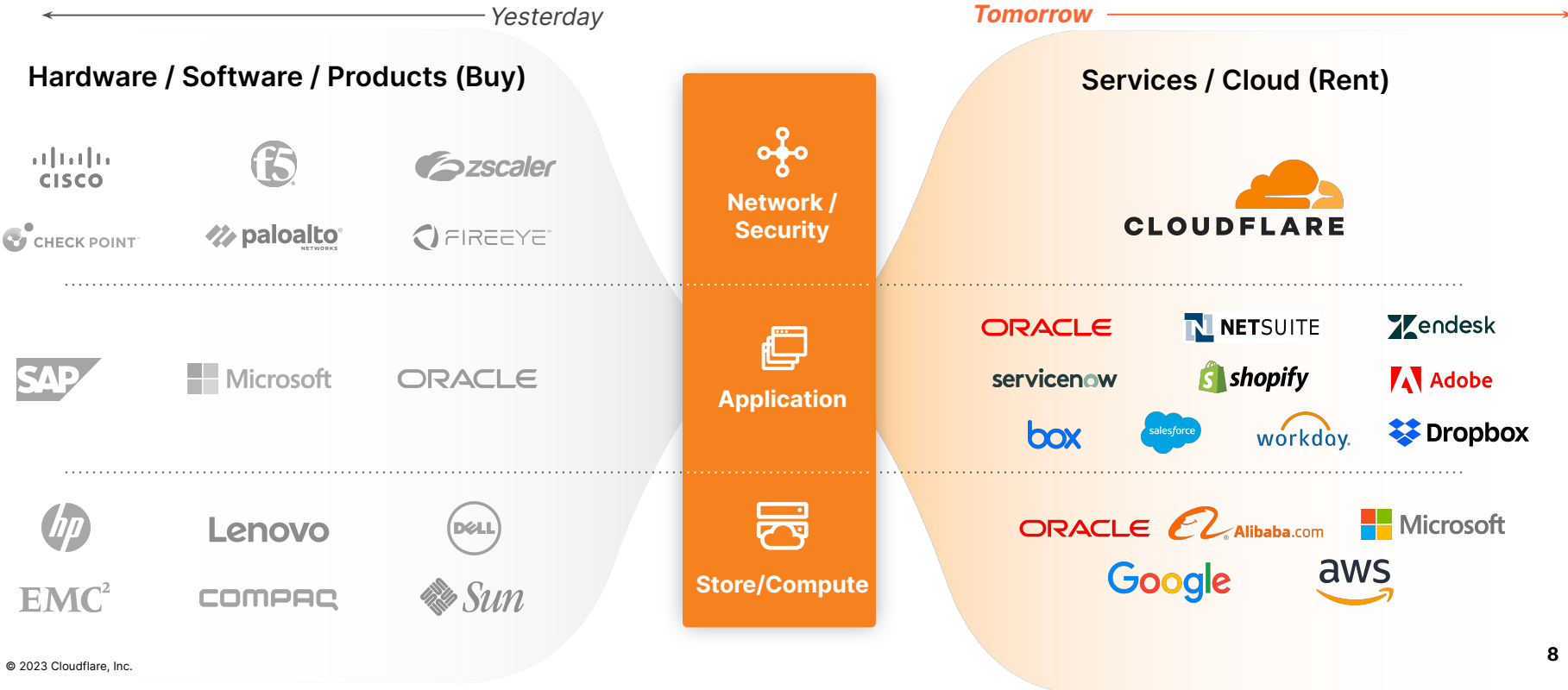


## BETTER INTERNET

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

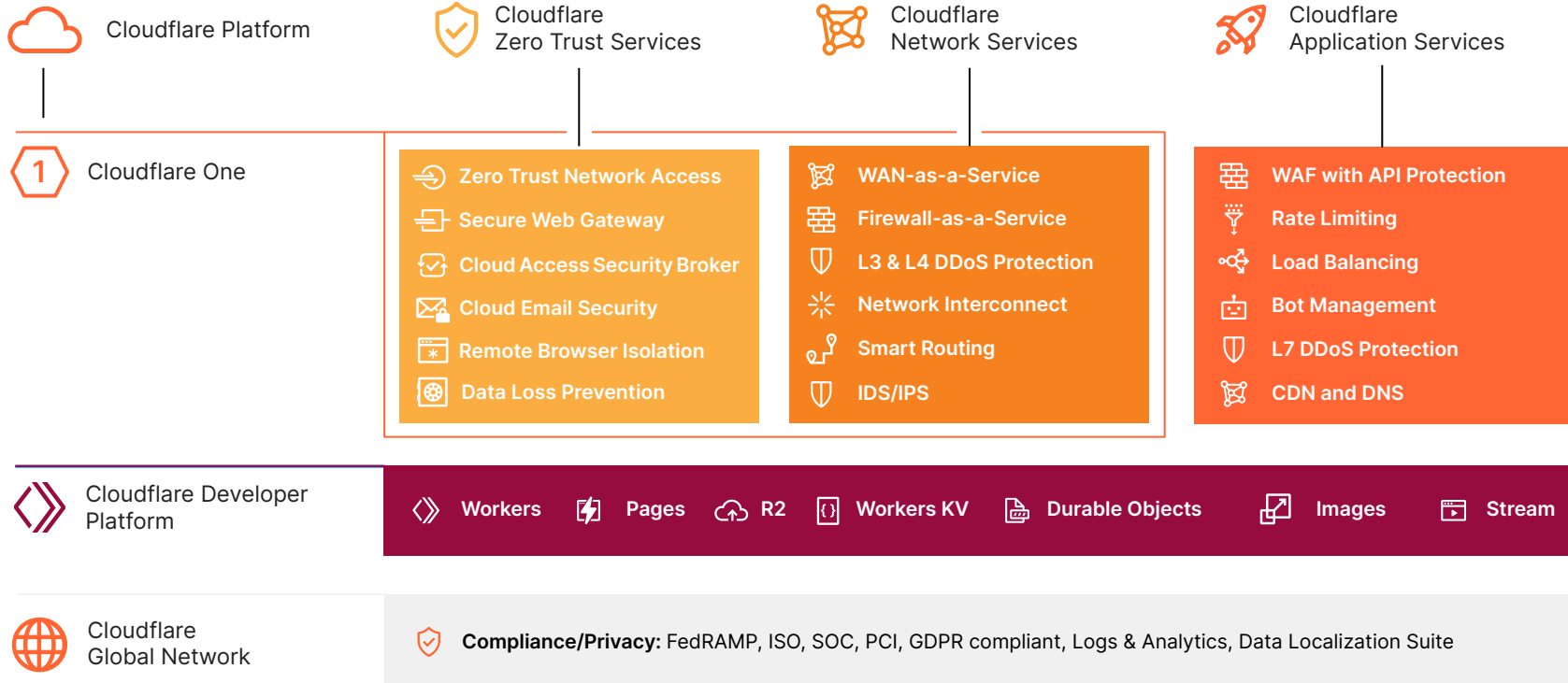


# Evolution of the Enterprise Stack





# An Integrated Global Cloud Platform



# We Operate at Massive Scale

**~170B**

Cyber Threats  
Blocked per Day

**182K**

Total Paying  
Customers

**>60%**

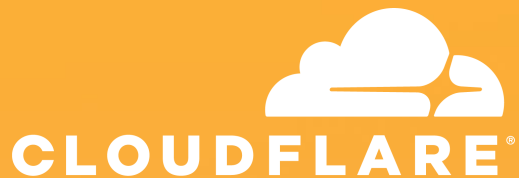
Of Revenue from  
Large Customers

**48%**

Of Revenue from  
Outside of the U.S.

Cyber threats blocked per day is average over the three months ended September 30, 2023. All other figures are as of the three months ended September 30, 2023. See Appendix for "Paying Customers" and "Large Customers" definitions.

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# Our Flexible, Scalable, & Efficient Serverless Architecture

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

# A Global Network Powering our Platform



**300+ cities**

in 120+ countries, including mainland China



**13,000 networks**

directly connect to Cloudflare, including ISPs, cloud providers, and large enterprises



**228 Tbps**

of network capacity and growing



**182,000+ Paying Customers**



**30%+**

of the Fortune 1,000 are Paying Customers  
as of September 30, 2023

**34%**

year-over-year Large Customer growth in Q3'23

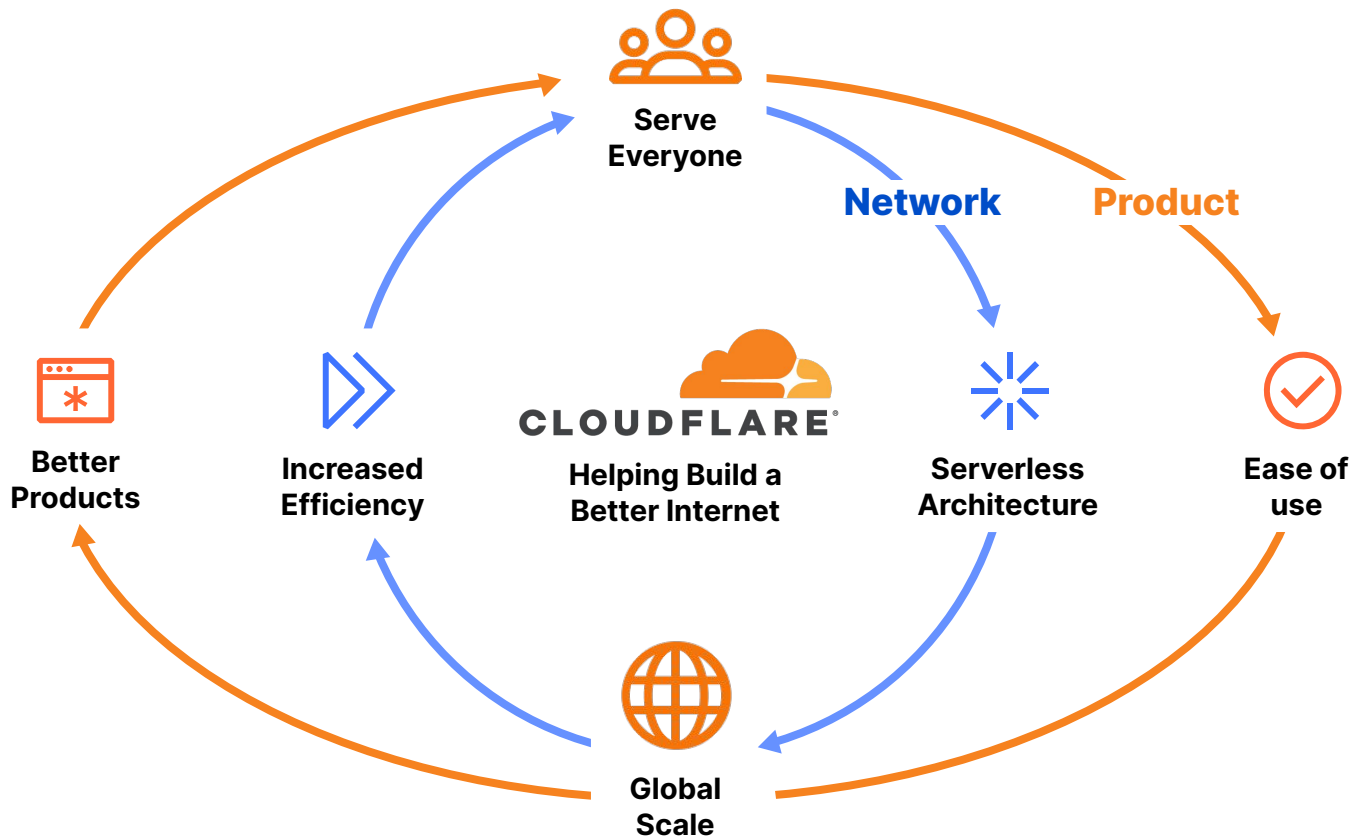
**~95%**

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

Note: Figures as of September 30, 2023. See Appendix for "Paying Customers" and "Large Customers" definitions.

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# Our Product & Network Flywheels Drive Our Business



# 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  
~170 billion cyber threats each  
day.

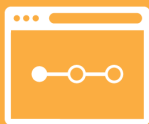
**Rapid development cycles**  
and QA through free users  
volunteering to test new products.

Note: Cyber threats blocked per day is approximate average over the three months ended September 30, 2023. Other figures as of the three months ended September 30, 2023.

# Our Competitive Advantages



**NETWORK  
SCALE**



**EASE  
OF USE**












**SHARED  
INTELLIGENCE**



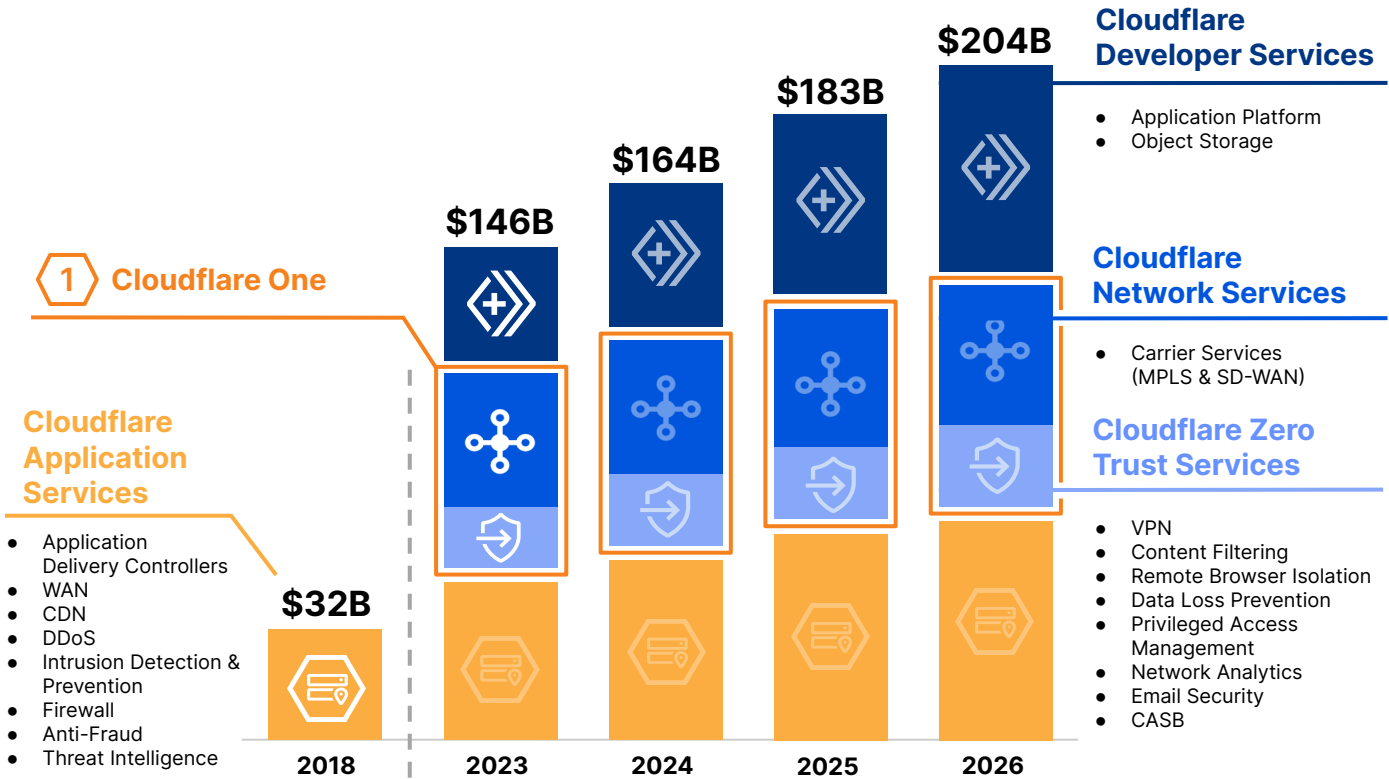
**NO  
TRADE OFFS**

# Our Favorable Competitive Position


Limitations		
 <b>On-Premises</b>	 	<ul style="list-style-type: none"><li>• Complex and expensive</li><li>• Not suited to address cloud-based and hybrid deployments</li></ul>
 <b>Point Solutions</b>	 	<ul style="list-style-type: none"><li>• Architected to deliver single point / more narrow product portfolio</li><li>• Customers are increasingly looking for an integrated platform offering security, performance, and reliability through a single vendor</li></ul>
 <b>Public Cloud</b>	 	<ul style="list-style-type: none"><li>• Inability to serve as a unified control plane across on-premise, cloud, hybrid, and SaaS infrastructure</li><li>• Customer lock-in and competition concerns</li></ul>



# Consistent & Deliberate TAM Expansion



## Areas for Potential Incremental Growth

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

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

# Traditional Go-To-Market Model Inverted

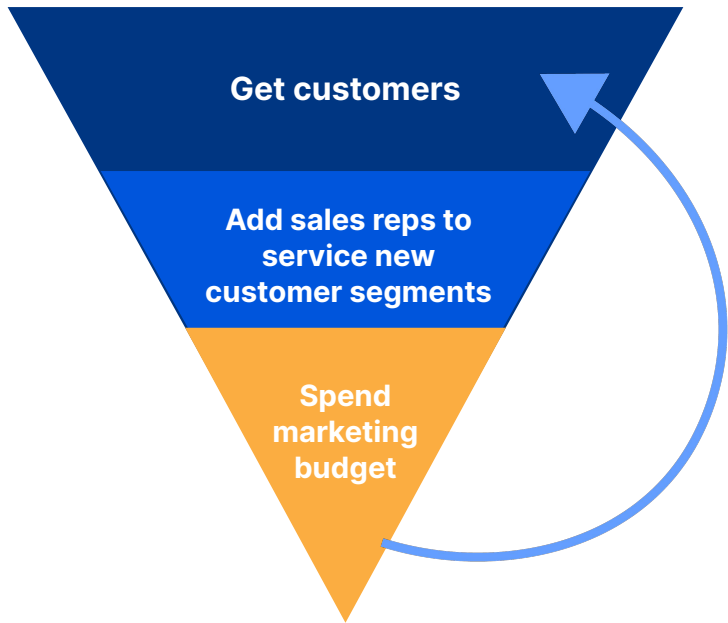
We don't build ahead of the curve.

## Sources of Leverage

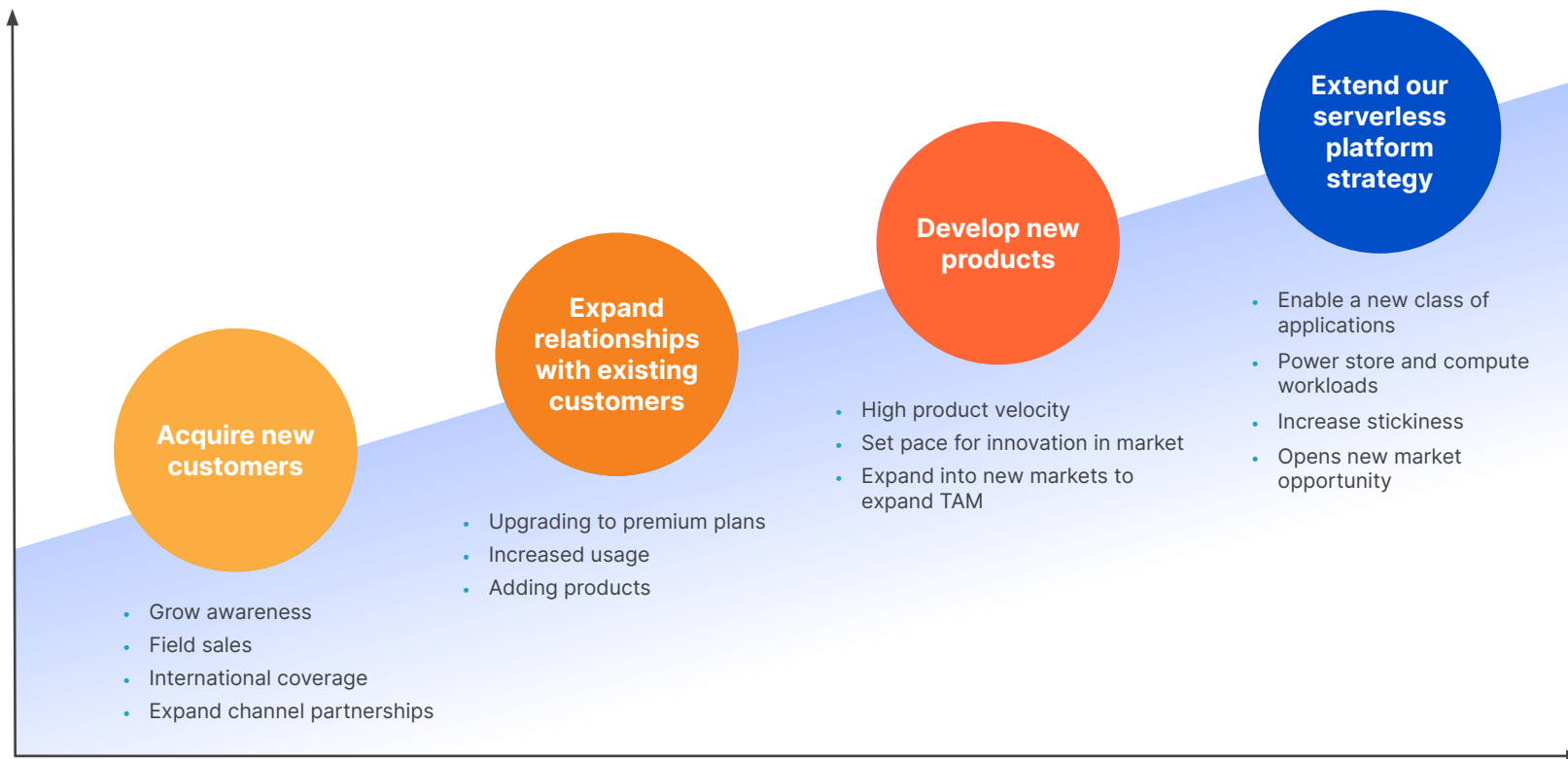
- Self service adoption for customers of all sizes
- Natural expansion
- Pulled into new geographies
- Pulled up market



### CLOUDFLARE<sup>®</sup> Model



# Our Strategy for Growth



# Financial Overview

# Key Financial Highlights

**\$146B**

Large  
Addressable  
Market in 2023

**32%**

Y/Y  
Q3'23 Revenue  
Growth

**77%**

Q3'23 GAAP  
Gross  
Margin

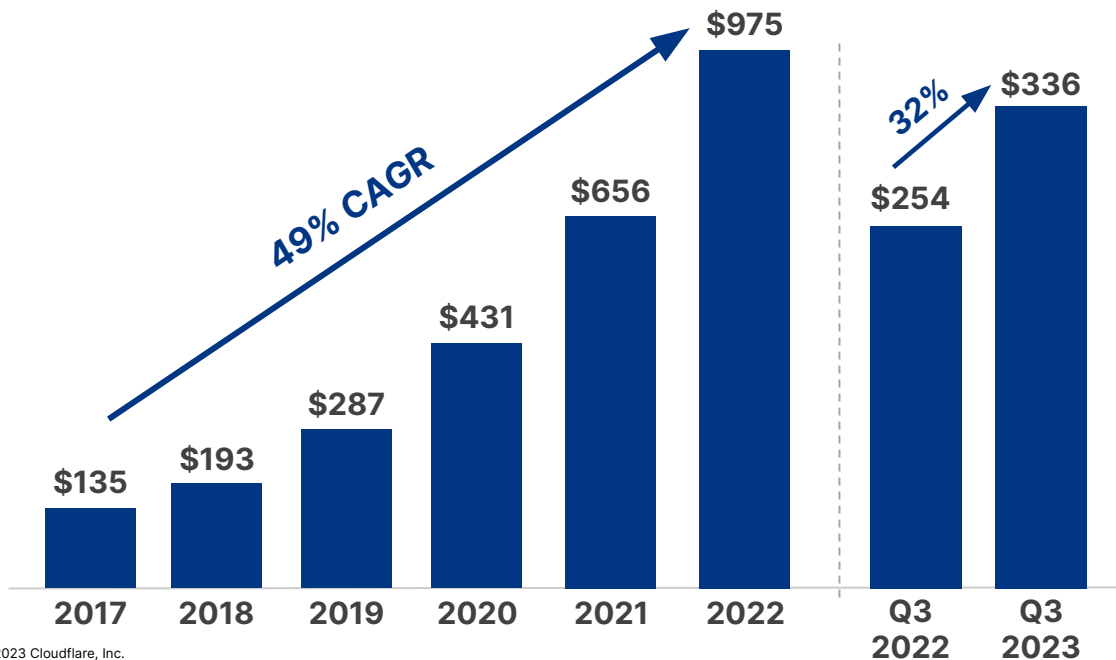
**2,558**

Large  
Customers

Note: Total Addressable Market represents 2023 expected spend from our analysis based on IDC data. Year-over-year revenue growth and gross margin are as of the three months ended September 30, 2023. Large Customers is as of September 30, 2023. See the Appendix for how we define "Large Customers."

# Track Record of Delivering Revenue Growth

Total Revenue (\$M)



Investment in enterprise sales



Large customer momentum



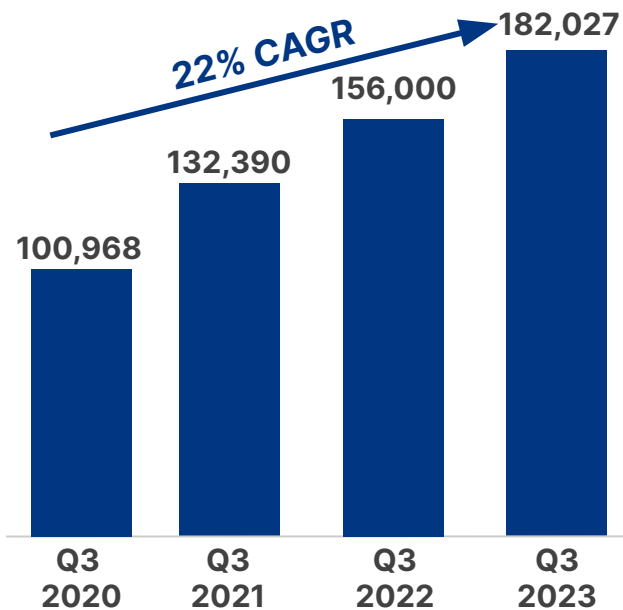
Land and expand strategy drives growth across cohorts



Strong penetration across the entire product portfolio

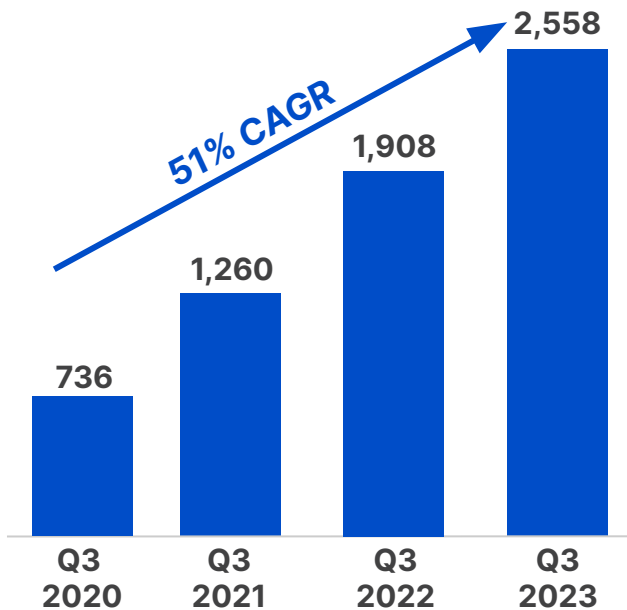
# Rapid Customer Growth

## Paying Customers



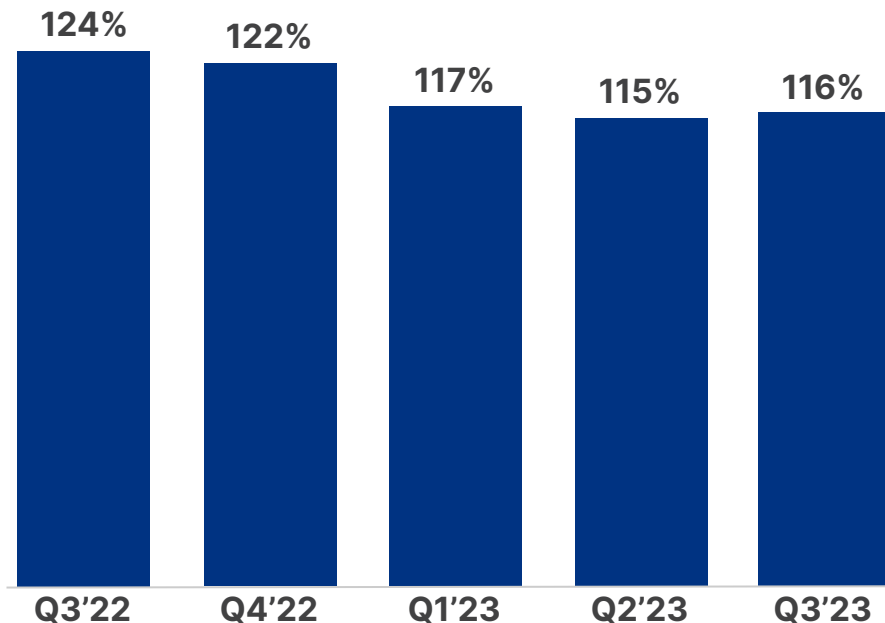
## Large Customers

>\$100,000 Annualized Revenue



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

# Strong Dollar-Based Net Retention



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

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DNR includes all  
paying customers



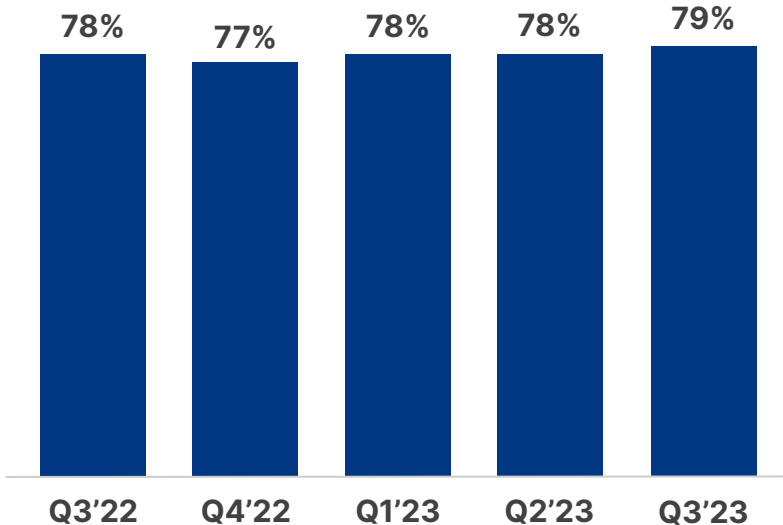
Large customers are a  
tailwind to DNR



Continuous innovation  
offers expansion  
opportunities



## Non-GAAP Gross Margin



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

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## Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

Single software stack across the network

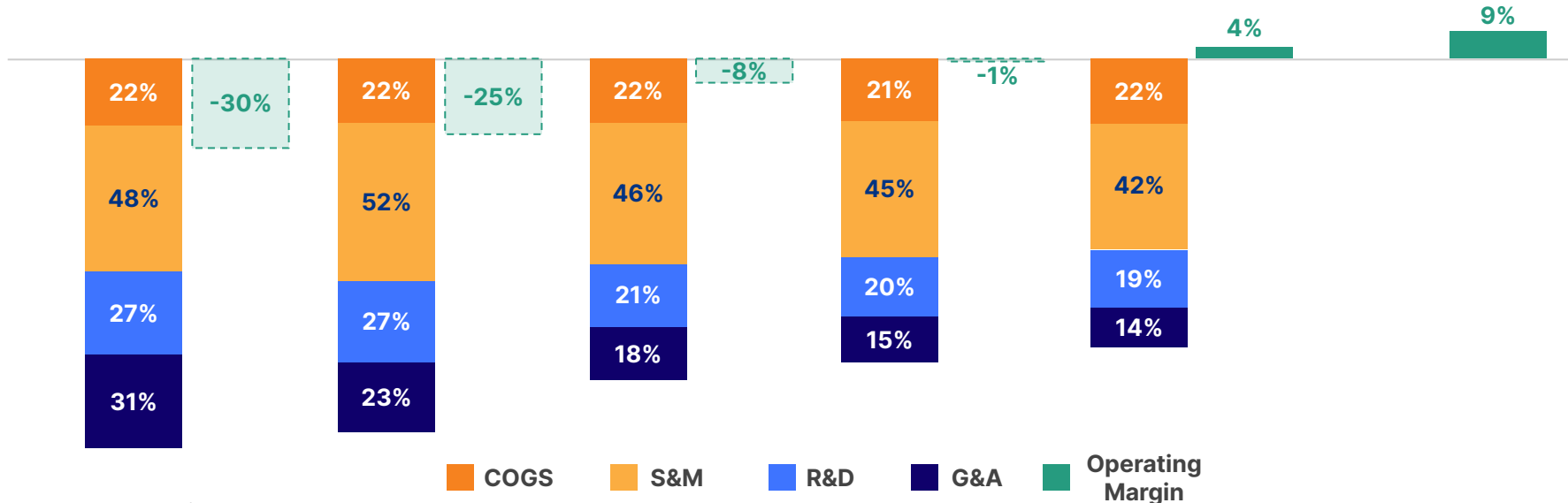
Symbiotic relationship with ISPs

Leverage idle capacity across network

# Elasticity of & Leverage in Our Operating Model

## Non-GAAP Operating Expenses & Operating Income (% of Revenue)

2018                      2019                      2020                      2021                      2022                      2023E\*



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

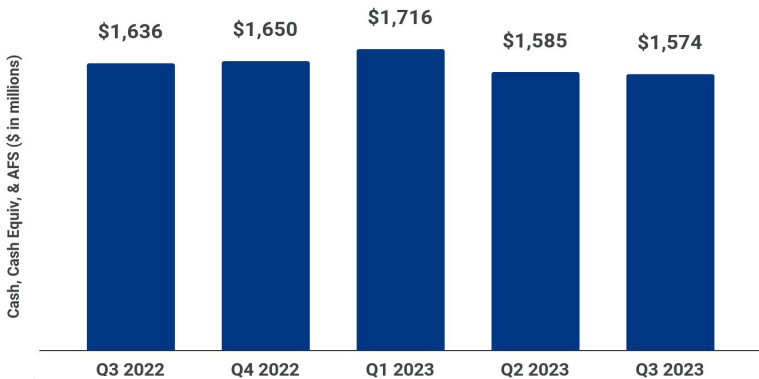
\*2023E is based on full-year mid-point guidance provided by us on November 2, 2023. Please refer to slide 28 for more details.

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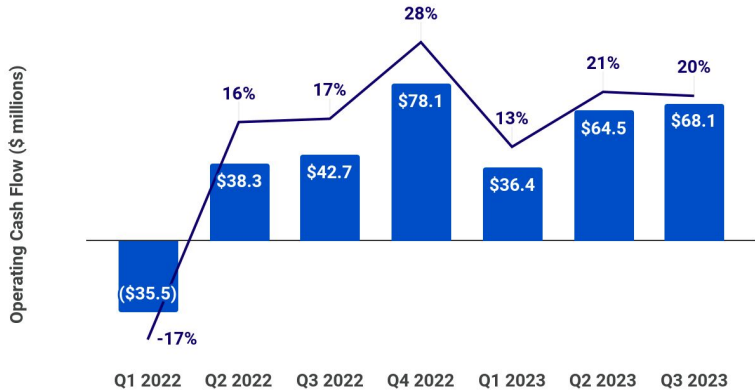
# Strong Cash Position

- Issued 2025 Notes:** Raised \$495 million in our Convertible Notes Offering due 2025 that priced on May 13th, 2020, net of issuance costs and a capped call with respect to the 2025 convertible notes.
- Issued 2026 Notes:** Raised \$790 million in our Convertible Note Offering due 2026 that priced on August 10th, 2021, net of the repurchase of 2025 notes, issuance costs, and a capped call with respect to the 2026 convertible notes.
- Repurchased 2025 Notes:** Repurchased \$123.0 million principal amount for \$172.7 million in cash including accrued interest payable in May 2023. Paid approximately \$35.4 million in cash and delivered approximately 0.5 million shares of our Class A common stock in July 2023 to settle the conversion of approximately \$35.4 million aggregate principal amount of the 2025 Notes.

Cash Balance



Operating Cash Flow & Margin



# Guidance

## Q4 2023

**Revenue** **\$352.0 - 353.0**  
Y/Y Growth 28% - 29%

**Operating Income** **\$28.0 - \$29.0**  
Operating Margin 8%

**EPS** **\$0.12**

## FY 2023

**Revenue** **\$1,286.0 - 1,287.0**  
Y/Y Growth 32%

**Operating Income** **\$110.0 - \$111.0**  
Operating Margin 9%

**EPS** **\$0.45 - \$0.46**

FY 2023  
Network Capex  
as % of Revenue

---

**8%-10%**

Note: These forward looking statements were provided by us on November 2, 2023. This forward looking guidance speaks only as of such date and the inclusion of such guidance in this presentation should not be interpreted as a confirmation or affirmation of such guidance as of any other date. Except as required by law, we assume no obligation and do not intend to update these forward-looking statements or to conform these statements to actual results or to changes in our expectations.

# Long-Term Operating Model

	2020	2021	2022	Q3 2023		Long-Term Model
<b>Gross Margin</b>	78 %	79 %	78 %	79 %		<b>75% - 77%</b>
<b>Sales &amp; Marketing</b> (% of revenue)	46 %	45 %	42 %	38 %	<b>Leverage efficiency and elasticity of our network and ingress/egress dynamics</b>	<b>27% - 29%</b>
<b>Research &amp; Development</b> (% of revenue)	21 %	20 %	19 %	16 %	<b>Scale go-to-market operations with a focus on improving productivity</b>	<b>18% - 20%</b>
<b>General &amp; Administrative</b> (% of revenue)	18 %	15 %	14 %	11 %	<b>Continue to prioritize product innovation</b>	<b>8% - 10%</b>
<b>Operating Margin</b>	(8)%	(1)%	4%	13%	<b>Benefit from economies of scale and automation</b>	<b>20%+</b>
<b>Free Cash Flow Margin</b>	(21)%	(7)%	(4)%	10%		<b>~25%+</b>

Unit economics support 20%+ long-term operating margins.

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

# 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**

# Appendix

# GAAP to Non-GAAP Reconciliation (Annual)

	2019	2020	2021	2022
<b>GAAP Cost of Revenue</b>	<b>\$63,423</b>	<b>\$101,055</b>	<b>\$147,134</b>	<b>\$232,610</b>
Less: Stock-based Compensation Expense & Related Payroll Taxes	-\$716	-\$1,466	-\$3,703	-\$6,770
Less: Amortization of Acquired Intangible Assets	-\$125	-\$3,081	-\$2,946	-\$13,444
<b>Non-GAAP Cost of Revenue</b>	<b>\$62,582</b>	<b>\$96,508</b>	<b>\$140,485</b>	<b>\$212,396</b>
<b>GAAP Gross Profit</b>	<b>\$223,599</b>	<b>\$330,004</b>	<b>\$509,292</b>	<b>\$742,631</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$716	\$1,466	\$3,703	\$6,770
Add: Amortization of Acquired Intangible Assets	\$125	\$3,081	\$2,946	\$13,444
<b>Non-GAAP Gross Profit</b>	<b>\$224,440</b>	<b>\$334,551</b>	<b>\$515,941</b>	<b>\$762,845</b>
GAAP Gross Margin	78%	77%	78%	76%
Non-GAAP Gross Margin	78%	78%	79%	78%
<b>GAAP Sales and Marketing</b>	<b>\$159,298</b>	<b>\$217,875</b>	<b>\$328,065</b>	<b>\$465,762</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$8,709	-\$17,678	-\$32,869	-\$53,692
Less: Amortization of acquired intangible assets	-	-	-	-\$1,725
Less: Acquisition-related and other expenses	-	-	-	-\$265
<b>Non-GAAP Sales and Marketing</b>	<b>\$150,589</b>	<b>\$200,197</b>	<b>\$295,196</b>	<b>\$410,080</b>
GAAP S&M Expense as a % of Revenue	56%	51%	50%	48%
Non-GAAP S&M Expense as a % of Revenue	52%	46%	45%	42%
<b>GAAP Research and Development</b>	<b>\$90,669</b>	<b>\$127,144</b>	<b>\$189,408</b>	<b>\$298,303</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$13,037	-\$30,497	-\$61,056	-\$112,277
Less: Acquisition-related and other expenses	-	-\$5,725	-	-\$3,682
<b>Non-GAAP Research and Development</b>	<b>\$77,632</b>	<b>\$90,922</b>	<b>\$128,352</b>	<b>\$182,344</b>
GAAP R&D Expense as a % of Revenue	32%	29%	29%	31%
Non-GAAP R&D Expense as a % of Revenue	27%	21%	20%	19%
<b>GAAP General and Administrative</b>	<b>\$81,578</b>	<b>\$91,753</b>	<b>\$119,503</b>	<b>\$179,769</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$14,165	-\$13,875	-\$19,706	-\$45,027
Less: Acquisition-related and other expenses	-	-\$554	-\$380	\$0
<b>Non-GAAP General and Administrative Expense</b>	<b>\$67,413</b>	<b>\$77,324</b>	<b>\$99,417</b>	<b>\$134,742</b>
GAAP G&A Expense as a % of Revenue	28%	21%	18%	18%
Non-GAAP G&A Expense as a % of Revenue	23%	18%	15%	14%
<b>GAAP Loss from Operations</b>	<b>-\$107,946</b>	<b>-\$106,768</b>	<b>-\$127,684</b>	<b>-\$201,203</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$36,627	\$63,516	\$117,334	\$217,766
Add: Amortization of Acquired Intangible Assets	\$125	\$3,081	\$2,946	\$15,169
Add: Acquisition-related and other expenses	-	\$6,279	\$380	\$3,947
<b>Non-GAAP Loss from Operations</b>	<b>-\$71,194</b>	<b>-\$33,892</b>	<b>-\$7,024</b>	<b>\$35,679</b>
GAAP Operating Margin	-38%	-25%	-19%	-21%
<b>Non-GAAP Operating Margin</b>	<b>-25%</b>	<b>-8%</b>	<b>-1%</b>	<b>4%</b>



# GAAP to Non-GAAP Reconciliation (Quarterly)

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
<b>GAAP Cost of Revenue</b>	<b>\$61,967</b>	<b>\$67,788</b>	<b>\$70,432</b>	<b>\$75,221</b>	<b>\$78,069</b>
Less: Stock-based Compensation Expense & Related Payroll Taxes	-\$2,157	-\$1,289	-\$1,803	-\$2,126	-\$2,367
Less: Amortization of Acquired Intangible Assets	-\$4,314	-\$4,311	-\$4,311	-\$4,314	-\$4,313
<b>Non-GAAP Cost of Revenue</b>	<b>\$55,496</b>	<b>\$62,188</b>	<b>\$64,318</b>	<b>\$68,781</b>	<b>\$71,389</b>
<b>GAAP Gross Profit</b>	<b>\$191,890</b>	<b>\$206,912</b>	<b>\$219,743</b>	<b>\$233,273</b>	<b>\$257,534</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$2,157	\$1,289	\$1,803	\$2,126	\$2,367
Add: Amortization of Acquired Intangible Assets	\$4,314	\$4,311	\$4,311	\$4,314	\$4,313
<b>Non-GAAP Gross Profit</b>	<b>\$198,361</b>	<b>\$212,512</b>	<b>\$225,857</b>	<b>\$239,713</b>	<b>\$264,214</b>
GAAP Gross Margin	76%	75%	76%	76%	77%
Non-GAAP Gross Margin	78%	77%	78%	78%	79%
<b>GAAP Sales and Marketing</b>	<b>\$116,033</b>	<b>\$132,050</b>	<b>\$137,001</b>	<b>\$146,688</b>	<b>\$150,214</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$11,919	-\$18,487	-\$15,868	-\$20,734	-\$20,674
Less: Amortization of acquired intangible assets	-\$575	-\$575	-\$576	-\$574	-\$575
Less: Acquisition-related and other expenses	-	-	-	-	-
<b>Non-GAAP Sales and Marketing</b>	<b>\$103,539</b>	<b>\$112,988</b>	<b>\$120,557</b>	<b>\$125,380</b>	<b>\$128,965</b>
GAAP S&M Expense as a % of Revenue	46%	48%	47%	48%	45%
Non-GAAP S&M Expense as a % of Revenue	41%	41%	42%	41%	38%
<b>GAAP Research and Development</b>	<b>\$76,432</b>	<b>\$79,703</b>	<b>\$81,539</b>	<b>\$89,610</b>	<b>\$90,593</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$30,049	-\$30,276	-\$30,216	-\$36,573	-\$36,353
Less: Acquisition-related and other expenses	-	-	-	-	-
<b>Non-GAAP Research and Development</b>	<b>\$46,383</b>	<b>\$49,427</b>	<b>\$51,323</b>	<b>\$53,037</b>	<b>\$54,240</b>
GAAP R&D Expense as a % of Revenue	30%	29%	28%	29%	27%
Non-GAAP R&D Expense as a % of Revenue	18%	18%	18%	17%	16%
<b>GAAP General and Administrative</b>	<b>\$45,372</b>	<b>\$45,850</b>	<b>\$48,475</b>	<b>\$53,147</b>	<b>\$55,939</b>
Less: Stock-based Compensation & Related Payroll Taxes	-\$11,763	-\$12,572	-\$13,863	-\$12,156	-\$17,463
<b>Non-GAAP General and Administrative Expense</b>	<b>\$33,609</b>	<b>\$33,278</b>	<b>\$34,612</b>	<b>\$40,991</b>	<b>\$38,476</b>
GAAP G&A Expense as a % of Revenue	18%	17%	17%	17%	17%
Non-GAAP G&A Expense as a % of Revenue	13%	12%	12%	13%	11%
<b>GAAP Loss from Operations</b>	<b>-\$45,947</b>	<b>-\$50,691</b>	<b>-\$47,272</b>	<b>-\$56,172</b>	<b>-\$39,212</b>
Add: Stock-based Compensation & Related Payroll Taxes	\$55,888	\$62,624	\$61,750	\$71,589	\$76,857
Add: Amortization of Acquired Intangible Assets	\$4,889	\$4,886	\$4,887	\$4,888	\$4,888
Add: Acquisition-related and other expenses	-	-	-	-	-
<b>Non-GAAP Loss from Operations</b>	<b>\$14,830</b>	<b>\$16,819</b>	<b>\$19,365</b>	<b>\$20,305</b>	<b>\$42,533</b>
GAAP Operating Margin	-18%	-18%	-16%	-18%	-12%
<b>Non-GAAP Operating Margin</b>	<b>6%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>13%</b>

# Key Business Metrics

## Paying Customers

	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
	140,096	148,184	151,803	156,000	162,086	168,159	174,129	182,027
y-y growth	26%	24%	20%	18%	16%	13%	15%	17%

## Paying Customers (> \$100,000 Annualized Revenue)

	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
	1,416	1,537	1,749	1,908	2,042	2,156	2,352	2,558
y-y growth	71%	63%	61%	51%	44%	40%	34%	34%
% of revenue	57%	58%	60%	61%	63%	62%	64%	65%

## Dollar-Based Net Retention

	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
	125%	127%	126%	124%	122%	117%	115%	116%

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

# Definitions

**Paying Customers.** We believe our ability to grow the number of paying customers on our network provides a key indicator of growth of our business and our future business opportunities. We define a paying customer at the end of the quarter as a person or entity who has generated revenue and has an active contract with us or one of our partners during such quarter, excluding (i) customers that were not acquired through ordinary sales channels, (ii) customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. An entity is defined as a company, a government institution, a non-profit organization, or a distinct business unit of a large company. An active contract is defined as a customer relationship for which we have provided services during the quarter.

**Paying Customers (> \$100,000 Annualized Revenue).** While we continue to grow customers across all sizes, over time, our large customers have contributed an increasing share of our revenue. We view the number of customers with Annualized Revenue greater than \$100,000 as indicative of our penetration within large enterprise accounts. To measure Annualized Revenue at the end of a quarter, we take the sum of revenue for each customer in the quarter and multiply that amount by four. For example, if we signed a new customer that generated \$1,800 of revenue in a quarter, that customer would account for \$7,200 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through ordinary sales channels, (ii) revenue generated from customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. Our Annualized Revenue metric also includes any usage charges by a customer during a period, which represents a small portion of our total revenue and may not be recurring. As a result, Annualized Revenue may be higher than actual revenue over the course of the year.

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