

**CLOUDFLARE, INC.**  
**Supplemental Financial Information**  
**For the second quarter ended June 30, 2020**

**Explanation of Non-GAAP Financial Measures**

In addition to our results determined in accordance with generally accepted accounting principles in the United States (U.S. GAAP), we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with U.S. GAAP. In particular, free cash flow is not a substitute for cash provided by (used in) operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP 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. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with U.S. GAAP. Investors are encouraged to review the related U.S. GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable U.S. GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

**Expenses Excluded from Non-GAAP Measures.** We exclude stock-based compensation expense, which is a non-cash expense, from certain of our non-GAAP financial measures because we believe that excluding this item provides meaningful supplemental information regarding operational performance. We exclude employer payroll tax expenses related to stock-based compensation which is a cash expense, from certain of our non-GAAP financial measures because such expenses are dependent on the price of our common stock and other factors that are beyond our control and do not correlate to the operation of our business. Employer payroll tax expenses related to stock-based compensation was not material for all previous periods presented, and therefore it was not excluded from periods prior to March 31, 2020. We exclude amortization of acquired intangible assets, which is a non-cash expense, related to business combinations from certain of our non-GAAP financial measures because such expenses are related to business combinations and have no direct correlation to the operation of our business. We exclude acquisition-related and other expenses from certain of our non-GAAP financial measures because such expenses are related to business combinations and have no direct correlation to the operation of our business. Acquisition-related and other expenses can be cash or non-cash expenses, and include third-party transaction costs and compensation expense for key acquired personnel. We exclude amortization of debt discount and issuance costs, which is a non-cash expense, from certain of our non-GAAP financial measures because such expenses have no direct correlation to the operation of our business.

**Non-GAAP Gross Profit and Non-GAAP Gross Margin.** We define non-GAAP gross profit and non-GAAP gross margin as U.S. GAAP gross profit and U.S. GAAP gross margin, respectively, excluding stock-based compensation and related employer payroll taxes and amortization of acquired intangible assets.

**Non-GAAP Loss from Operations and Non-GAAP Operating Margin.** We define non-GAAP loss from operations and non-GAAP operating margin as U.S. GAAP loss from operations and U.S. GAAP operating margin, respectively, excluding stock-based compensation and related employer payroll taxes, amortization of acquired intangible assets, and acquisition-related and other expenses.

**Non-GAAP Net Loss and Non-GAAP Net Loss per Share, Basic and Diluted.** We define non-GAAP net loss as GAAP net loss plus stock-based compensation and related employer payroll taxes, amortization of acquired intangible assets, acquisition-related and other expenses, and a non-GAAP provision for (benefit from) income taxes. Generally, the difference between our GAAP and non-GAAP income tax expense (benefit) is primarily due to adjustments in stock-based compensation and related employer payroll taxes, amortization of acquired intangibles associated with business combinations, acquisition-related and other expenses and amortization of debt discount and issuance costs. We define non-GAAP net loss per share, basic and diluted, as non-GAAP net loss divided by the weighted-average common shares outstanding. Since we have reported net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of net loss per share as their effect is antidilutive and accordingly, basic and diluted net loss per share is the same for all periods presented. We believe that excluding these items from non-GAAP net loss and non-GAAP net loss per share, diluted, provides management and investors with greater visibility into the underlying performance of our core business operating results.

**Free Cash Flow and Free Cash Flow Margin.** Free cash flow is a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less cash used for purchases of property and equipment and capitalized internal-use

software. Free cash flow margin is calculated as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our operations that, after the investments in property and equipment and capitalized internal-use software, can be used for strategic initiatives, including investing in our business, and strengthening our financial position. We believe that historical and future trends in free cash flow and free cash flow margin, even if negative, provide useful information about the amount of cash generated (or consumed) by our operating activities that is available (or not available) to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow and free cash flow margin is that they do not reflect our future contractual commitments. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

## Key Business Metrics

In addition to our results determined in accordance with U.S. GAAP and the non-GAAP measures discussed above, we also review the key business metrics discussed below to assist us in evaluating our business, measuring performance, identifying trends, formulating business plans, and making strategic decisions. There are a number of limitations associated with the use of key business metrics as analytical tools, however, and we do not rely upon any single key business metric to evaluate our business. In addition, other companies, including companies in our industry, may calculate similarly-titled business metrics differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of these business metrics as tools for comparison to such companies.

Beginning with the quarter ended March 31, 2020, we have transitioned the method for calculating our key business metrics from a billings-based methodology to a revenue-based methodology. We believe the change in methodology to GAAP-based metrics provides improved disclosures for our investors by better aligning our key business metrics with GAAP and our financial statements and will provide a better representation of these important components of our operating model and business performance as we continue to grow our business.

**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.

**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, 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 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.

**CLOUDFLARE, INC.**  
**Consolidated Statements of Operations – Quarterly**  
(unaudited, in thousands, except per share amounts)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenue	\$ 50,070	\$ 55,499	\$ 61,727	\$ 67,424	\$ 73,941	\$ 83,930	\$ 91,250	\$ 99,721
Cost of revenue <sup>(1)(2)</sup>	11,209	12,956	14,360	14,832	16,033	18,198	20,821	24,164
Gross profit	38,861	42,543	47,367	52,592	57,908	65,732	70,429	75,557
Operating expenses:								
Sales and marketing <sup>(1)</sup>	24,462	28,188	30,817	35,836	45,538	47,107	46,965	51,376
Research and development <sup>(1)(3)</sup>	14,827	15,350	17,649	18,868	27,863	26,289	33,354	28,131
General and administrative <sup>(1)(3)</sup>	36,040	16,098	16,048	17,659	25,593	22,278	26,181	20,754
Total operating expenses	75,329	59,636	64,514	72,363	98,994	95,674	106,500	100,261
Loss from operations	(36,468)	(17,093)	(17,147)	(19,771)	(41,086)	(29,942)	(36,071)	(24,704)
Non-operating income (expense):								
Interest income	387	1,048	913	830	1,079	2,965	2,569	1,857
Interest expense <sup>(4)</sup>	(251)	(266)	(273)	(290)	(407)	(142)	(67)	(5,007)
Other expense, net	(1,240)	(188)	(293)	(86)	(651)	(412)	485	(219)
Total non-operating income (expense), net	(1,104)	594	347	454	21	2,411	2,987	(3,369)
Loss before income taxes	(37,572)	(16,499)	(16,800)	(19,317)	(41,065)	(27,531)	(33,084)	(28,073)
Provision for (benefit from) income taxes	417	188	314	389	(212)	624	(338)	(1,938)
Net loss	\$ (37,989)	\$ (16,687)	\$ (17,114)	\$ (19,706)	\$ (40,853)	\$ (28,155)	\$ (32,746)	\$ (26,135)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.47)	\$ (0.20)	\$ (0.20)	\$ (0.23)	\$ (0.35)	\$ (0.10)	\$ (0.11)	\$ (0.09)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	81,579	84,618	85,078	85,683	118,056	294,418	296,077	299,321

(1) Includes stock-based compensation and related employer payroll taxes as follows:

Cost of revenue	\$ 37	\$ 32	\$ 32	\$ 34	\$ 397	\$ 253	\$ 305	\$ 329
Sales and marketing	290	301	279	275	4,880	3,275	3,579	3,975
Research and development	461	454	417	406	7,801	4,413	7,127	6,917
General and administrative	23,648	275	329	329	9,833	3,674	3,606	3,347
Total stock-based compensation and related employer payroll taxes	\$ 24,436	\$ 1,062	\$ 1,057	\$ 1,044	\$ 22,911	\$ 11,615	\$ 14,617	\$ 14,568

(2) Includes amortization of acquired intangible assets as follows:

Cost of revenue	\$ 147	\$ 108	\$ 31	\$ 32	\$ 31	\$ 31	\$ 731	\$ 700
Total amortization of acquired intangible assets	\$ 147	\$ 108	\$ 31	\$ 32	\$ 31	\$ 31	\$ 731	\$ 700

(3) Includes acquisition-related and other expenses as follows:

Research and development	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,776	\$ (51)
General and administrative	—	—	—	—	—	—	554	—
Total acquisition-related and other expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,330	\$ (51)

(4) Includes amortization of debt discounts and issuance costs as follows:

Amortization of debt discounts and issuance costs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,303
Total amortization of debt discounts and issuance costs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,303

**CLOUDFLARE, INC.****Non-GAAP Consolidated Statements of Operations - Quarterly**

(unaudited, in thousands, except per share amounts)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenue	\$ 50,070	\$ 55,499	\$ 61,727	\$ 67,424	\$ 73,941	\$ 83,930	\$ 91,250	\$ 99,721
Cost of revenue <sup>(1)(2)</sup>	11,025	12,816	14,297	14,766	15,605	17,914	19,785	23,135
Gross profit	39,045	42,683	47,430	52,658	58,336	66,016	71,465	76,586
Operating expenses:								
Sales and marketing <sup>(1)</sup>	24,172	27,887	30,538	35,561	40,658	43,832	43,386	47,401
Research and development <sup>(1)(3)</sup>	14,366	14,896	17,232	18,462	20,062	21,876	20,451	21,265
General and administrative <sup>(1)(3)</sup>	12,392	15,823	15,719	17,330	15,760	18,604	22,021	17,407
Total operating expenses	50,930	58,606	63,489	71,353	76,480	84,312	85,858	86,073
Loss from operations	(11,885)	(15,923)	(16,059)	(18,695)	(18,144)	(18,296)	(14,393)	(9,487)
Non-operating income (expense):								
Interest income	387	1,048	913	830	1,079	2,965	2,569	1,857
Interest expense <sup>(4)</sup>	(251)	(266)	(273)	(290)	(407)	(142)	(67)	(704)
Other expense, net	(1,240)	(188)	(293)	(86)	(651)	(412)	485	(219)
Total non-operating income (expense), net	(1,104)	594	347	454	21	2,411	2,987	934
Loss before income taxes	\$ (12,989)	\$ (15,329)	\$ (15,712)	\$ (18,241)	\$ (18,123)	\$ (15,885)	\$ (11,406)	\$ (8,553)
Provision for (benefit from) income taxes	426	317	320	379	356	497	913	1,041
Net loss	\$ (13,415)	\$ (15,646)	\$ (16,032)	\$ (18,620)	\$ (18,479)	\$ (16,382)	\$ (12,319)	\$ (9,594)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.16)	\$ (0.18)	\$ (0.19)	\$ (0.22)	\$ (0.16)	\$ (0.06)	\$ (0.04)	\$ (0.03)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	81,579	84,618	85,078	85,683	118,056	294,418	296,077	299,321

(1) Excludes stock-based compensation and related employer payroll taxes. See GAAP to Non-GAAP reconciliations.

(2) Excludes amortization of acquired intangible assets. See GAAP to Non-GAAP reconciliations.

(3) Excludes acquisition-related and other expenses. See GAAP to Non-GAAP reconciliations.

(4) Excludes amortization of debt discount and issuance costs. See GAAP to Non-GAAP reconciliations.

**CLOUDFLARE, INC.**  
**Consolidated Balance Sheets - Quarterly**  
(unaudited, in thousands, except par value)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 95,839	\$ 25,055	\$ 32,822	\$ 42,394	\$ 501,706	\$ 138,976	\$ 109,063	\$ 313,983
Available-for-sale securities	93,242	135,602	108,572	82,294	143,399	497,972	478,791	755,108
Accounts receivable, net	25,837	25,155	30,511	29,926	32,205	33,867	39,778	43,646
Contract assets	1,366	1,552	1,372	1,705	1,470	2,063	1,779	2,224
Prepaid expenses and other current assets	6,724	9,373	9,494	9,687	16,898	16,994	18,193	17,163
Total current assets	223,008	196,737	182,771	166,006	695,678	689,872	647,604	1,132,124
Long-term investments	—	—	—	—	16,169	—	—	—
Property and equipment, net	58,380	73,210	81,758	84,640	92,485	101,466	100,174	114,549
Goodwill	4,083	4,083	4,083	4,083	4,083	4,083	16,399	17,167
Acquired intangible assets, net	264	156	125	94	62	31	4,900	4,200
Operating lease right-of-use assets	—	—	—	—	—	—	48,234	46,150
Deferred contract acquisition costs, noncurrent	14,414	15,940	17,846	19,482	21,141	25,184	28,171	33,880
Restricted cash	6,371	6,371	6,371	6,371	6,660	6,660	8,847	8,847
Other noncurrent assets	1,959	1,883	2,507	6,183	3,569	3,528	4,202	7,138
Total assets	\$ 308,479	\$ 298,380	\$ 295,461	\$ 286,859	\$ 839,847	\$ 830,824	\$ 858,531	\$ 1,364,055
<b>Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity</b>								
Current liabilities:								
Accounts payable	\$ 11,474	\$ 14,285	\$ 13,941	\$ 17,128	\$ 9,517	\$ 11,463	\$ 14,301	\$ 17,278
Accrued expenses and other current liabilities	13,958	15,699	17,196	18,577	23,121	28,314	27,872	32,076
Note payable, current portion	308	255	165	74	37	—	—	—
Operating lease liabilities	—	—	—	—	—	—	17,009	17,239
Liability for early exercise of unvested options	14,943	14,323	15,442	14,952	14,629	13,263	12,006	10,735
Deferred revenue	17,187	16,817	23,209	26,757	29,835	30,843	37,096	43,419
Total current liabilities	57,870	61,379	69,953	77,488	77,139	83,883	108,284	120,747
Long-term debt	—	—	—	—	—	—	—	365,949
Note payable, net of current portion	37	—	—	—	—	—	—	—
Build-to-suit lease financing obligation	10,420	10,443	10,466	10,490	10,501	10,506	—	—
Operating lease liabilities, noncurrent	—	—	—	—	—	—	33,795	30,869
Deferred revenue, noncurrent	210	220	1,228	1,007	816	804	996	1,599
Redeemable convertible preferred warrant liability	1,585	1,618	1,736	1,945	—	—	—	—
Other noncurrent liabilities	5,507	6,704	8,781	9,843	10,993	9,803	9,104	9,273
Total liabilities	75,629	80,364	92,164	100,773	99,449	104,996	152,179	528,437
Redeemable Convertible Preferred Stock								
Redeemable convertible preferred stock; \$0.001 par value	331,521	331,521	331,521	331,521	—	—	—	—
Stockholders' Equity:								
Class A common stock; \$0.001 par value	—	—	—	—	87	87	154	184
Class B common stock; \$0.001 par value	84	85	85	86	207	207	143	116
Additional paid-in capital	80,502	82,345	84,668	87,111	1,013,582	1,027,179	1,038,544	1,194,125
Accumulated deficit	(179,191)	(195,878)	(212,992)	(232,698)	(273,551)	(301,706)	(333,896)	(360,031)
Accumulated other comprehensive income (loss)	(66)	(57)	15	66	73	61	1,407	1,224
Total stockholders' equity	(98,671)	(113,505)	(128,224)	(145,435)	740,398	725,828	706,352	835,618
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 308,479	\$ 298,380	\$ 295,461	\$ 286,859	\$ 839,847	\$ 830,824	\$ 858,531	\$ 1,364,055

**CLOUDFLARE, INC.**  
**Consolidated Statements of Cash Flows – Quarterly**  
(unaudited, in thousands)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Cash Flows From Operating Activities</b>								
Net loss	\$ (37,989)	\$ (16,687)	\$ (17,114)	\$ (19,706)	\$ (40,853)	\$ (28,155)	\$ (32,746)	\$ (26,135)
Adjustments to reconcile net loss to cash used in operating activities:								
Depreciation and amortization expense	5,119	5,508	6,170	6,990	7,763	8,556	10,563	11,550
Non-cash operating lease costs	—	—	—	—	—	—	4,543	4,789
Amortization of deferred contract acquisition costs	1,852	2,070	2,319	2,585	2,818	3,099	3,499	3,963
Stock-based compensation expense	24,436	1,062	1,057	1,044	22,911	11,615	12,897	12,449
Net accretion of discounts and amortization of premiums on available-for-sale securities	(72)	(492)	(518)	(334)	(285)	(664)	(456)	89
Amortization of debt discount and issuance costs	—	—	—	—	—	—	—	4,303
Deferred income taxes	2	378	—	—	—	370	(117)	(2,504)
Provision for bad debt	—	171	259	192	410	1,627	2,209	284
Change in fair value of redeemable convertible preferred stock warrant liability	1,039	33	118	209	1,190	—	—	—
Other	82	(16)	4	5	18	277	(197)	102
Changes in operating assets and liabilities, net of effect of acquisitions:								
Accounts receivable, net	(1,412)	511	(5,616)	394	(2,689)	(3,289)	(8,120)	(4,152)
Contract assets	(244)	(186)	180	(333)	235	(593)	284	(445)
Deferred contract acquisition costs	(3,233)	(3,596)	(4,225)	(4,221)	(4,477)	(7,142)	(6,486)	(9,672)
Prepaid expenses and other current assets	(1,608)	(2,649)	(121)	(193)	(7,211)	(96)	(1,086)	915
Other noncurrent assets	—	(124)	(148)	(1,225)	(313)	111	(658)	(236)
Accounts payable	(2,202)	(651)	(2,553)	7,440	(5,881)	(334)	1,507	2,826
Accrued expenses and other current liabilities	28	1,740	1,022	(102)	4,732	6,682	40	4,139
Operating lease liabilities	—	—	—	—	—	—	(4,804)	(5,401)
Deferred revenue	(866)	(360)	7,400	3,327	2,887	996	6,445	6,926
Other noncurrent liabilities	1,156	1,018	2,076	1,061	959	(1,634)	(1,593)	197
<b>Net cash provided by (used in) operating activities</b>	<b>(13,912)</b>	<b>(12,270)</b>	<b>(9,690)</b>	<b>(2,867)</b>	<b>(17,786)</b>	<b>(8,574)</b>	<b>(14,276)</b>	<b>3,987</b>
<b>Cash Flows From Investing Activities</b>								
Purchases of property and equipment	(6,200)	(12,959)	(9,036)	(9,954)	(11,991)	(12,308)	(11,405)	(19,200)
Capitalized internal-use software	(2,029)	(3,728)	(3,397)	(4,074)	(3,861)	(2,658)	(4,922)	(4,941)
Cash paid for acquisitions, net of cash acquired	—	—	—	—	—	—	(13,639)	(52)
Purchases of available-for-sale securities	(81,952)	(58,154)	(14,856)	(30,287)	(111,932)	(380,307)	(110,609)	(468,828)
Sales of available-for-sale securities	—	—	1,978	—	—	—	—	—
Maturities of available-for-sale securities	12,300	16,294	40,498	56,950	34,950	42,600	131,580	192,252
Other investing activities	7	22	22	3	5	14	223	—
<b>Net cash provided by (used in) investing activities</b>	<b>(77,874)</b>	<b>(58,525)</b>	<b>15,209</b>	<b>12,638</b>	<b>(92,829)</b>	<b>(352,659)</b>	<b>(8,772)</b>	<b>(300,769)</b>
<b>Cash Flows From Financing Activities</b>								
Proceeds from issuance of preferred stock, net of issuance costs	149,975	—	—	—	—	—	—	—
Proceeds from IPO, net of underwriting discounts and commissions	—	—	—	—	570,544	—	—	—
Gross proceeds from issuance of convertible senior notes	—	—	—	—	—	—	—	575,000
Purchases of capped calls related to convertible senior notes	—	—	—	—	—	—	—	(67,333)
Cash paid for issuance costs on convertible senior notes	—	—	—	—	—	—	—	(12,520)
Proceeds from the exercise of stock options	3,721	95	681	386	1,832	159	2,675	1,660
Proceeds from the early exercise of stock options	11,817	—	1,638	536	697	38	32	48
Repurchases of unvested common stock	(4)	(17)	(4)	(84)	(67)	(128)	(70)	(31)
Payments on note payable	(90)	(90)	(90)	(92)	(36)	(37)	(200)	—
Proceeds from the issuance of common stock for employee stock purchase plan	—	—	—	—	—	—	—	5,447
Proceeds from build-to-suit lease financing obligation drawdown	28	23	23	24	11	5	—	—
Payment of tax withholding obligation on RSU settlement	—	—	—	—	—	—	(7,115)	(193)
Payment of tax withholding obligation on common stock issued under employee stock purchase plan	—	—	—	—	—	—	—	(376)
Payments of deferred offering costs	—	—	—	(969)	(2,765)	(1,534)	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>165,447</b>	<b>11</b>	<b>2,248</b>	<b>(199)</b>	<b>570,216</b>	<b>(1,497)</b>	<b>(4,678)</b>	<b>501,702</b>
Net increase (decrease) in cash, cash equivalents, and restricted cash	73,661	(70,784)	7,767	9,572	459,601	(362,730)	(27,726)	204,920
Cash, cash equivalents, and restricted cash, beginning of period	28,549	102,210	31,426	39,193	48,765	508,366	145,636	117,910
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$102,210</b>	<b>\$ 31,426</b>	<b>\$ 39,193</b>	<b>\$ 48,765</b>	<b>\$508,366</b>	<b>\$145,636</b>	<b>\$117,910</b>	<b>\$322,830</b>

**CLOUDFLARE, INC.**
**GAAP to Non-GAAP Reconciliations – Quarterly**

(unaudited, in thousands, except per share amounts)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Reconciliation of cost of revenue:</b>								
GAAP cost of revenue	\$ 11,209	\$ 12,956	\$ 14,360	\$ 14,832	\$ 16,033	\$ 18,198	\$ 20,821	\$ 24,164
Less: Stock-based compensation and related employer payroll taxes	(37)	(32)	(32)	(34)	(397)	(253)	(305)	(329)
Less: Amortization of acquired intangible assets	(147)	(108)	(31)	(32)	(31)	(31)	(731)	(700)
Non-GAAP cost of revenue	\$ 11,025	\$ 12,816	\$ 14,297	\$ 14,766	\$ 15,605	\$ 17,914	\$ 19,785	\$ 23,135
<b>Reconciliation of gross profit:</b>								
GAAP gross profit	\$ 38,861	\$ 42,543	\$ 47,367	\$ 52,592	\$ 57,908	\$ 65,732	\$ 70,429	\$ 75,557
Add: Stock-based compensation and related employer payroll taxes	37	32	32	34	397	253	305	329
Add: Amortization of acquired intangible assets	147	108	31	32	31	31	731	700
Non-GAAP gross profit	\$ 39,045	\$ 42,683	\$ 47,430	\$ 52,658	\$ 58,336	\$ 66,016	\$ 71,465	\$ 76,586
Non-GAAP gross margin	78.0%	76.9%	76.8%	78.1%	78.9%	78.7%	78.3%	76.8%
<b>Reconciliation of operating expenses:</b>								
GAAP sales and marketing	\$ 24,462	\$ 28,188	\$ 30,817	\$ 35,836	\$ 45,538	\$ 47,107	\$ 46,965	\$ 51,376
Less: Stock-based compensation and related employer payroll taxes	(290)	(301)	(279)	(275)	(4,880)	(3,275)	(3,579)	(3,975)
Non-GAAP sales and marketing	\$ 24,172	\$ 27,887	\$ 30,538	\$ 35,561	\$ 40,658	\$ 43,832	\$ 43,386	\$ 47,401
GAAP research and development	\$ 14,827	\$ 15,350	\$ 17,649	\$ 18,868	\$ 27,863	\$ 26,289	\$ 33,354	\$ 28,131
Less: Stock-based compensation and related employer payroll taxes	(461)	(454)	(417)	(406)	(7,801)	(4,413)	(7,127)	(6,917)
Less: Acquisition-related and other expenses	—	—	—	—	—	—	(5,776)	51
Non-GAAP research and development	\$ 14,366	\$ 14,896	\$ 17,232	\$ 18,462	\$ 20,062	\$ 21,876	\$ 20,451	\$ 21,265
GAAP general and administrative	\$ 36,040	\$ 16,098	\$ 16,048	\$ 17,659	\$ 25,593	\$ 22,278	\$ 26,181	\$ 20,754
Less: Stock-based compensation and related employer payroll taxes	(23,648)	(275)	(329)	(329)	(9,833)	(3,674)	(3,606)	(3,347)
Less: Acquisition-related and other expenses	—	—	—	—	—	—	(554)	—
Non-GAAP general and administrative	\$ 12,392	\$ 15,823	\$ 15,719	\$ 17,330	\$ 15,760	\$ 18,604	\$ 22,021	\$ 17,407
<b>Reconciliation of loss from operations:</b>								
GAAP loss from operations	\$(36,468)	\$(17,093)	\$(17,147)	\$(19,771)	\$(41,086)	\$(29,942)	\$(36,071)	\$(24,704)
Add: Stock-based compensation and related employer payroll taxes	24,436	1,062	1,057	1,044	22,911	11,615	14,617	14,568
Add: Amortization of acquired intangible assets	147	108	31	32	31	31	731	700
Add: Acquisition-related and other expenses	—	—	—	—	—	—	6,330	(51)
Non-GAAP loss from operations	\$(11,885)	\$(15,923)	\$(16,059)	\$(18,695)	\$(18,144)	\$(18,296)	\$(14,393)	\$(9,487)
Non-GAAP operating margin	(23.7)%	(28.7)%	(26.0)%	(27.7)%	(24.5)%	(21.8)%	(15.8)%	(9.5)%
<b>Reconciliation of interest expense:</b>								
GAAP interest expense	\$ (251)	\$ (266)	\$ (273)	\$ (290)	\$ (407)	\$ (142)	\$ (67)	\$ (5,007)
Add: Amortization of debt discount and issuance costs	—	—	—	—	—	—	—	4,303
Non-GAAP interest expense	\$ (251)	\$ (266)	\$ (273)	\$ (290)	\$ (407)	\$ (142)	\$ (67)	\$ (704)
<b>Reconciliation of provision for (benefit from) income taxes:</b>								
GAAP provision for (benefit from) income taxes	\$ 417	\$ 188	\$ 314	\$ 389	\$ (212)	\$ 624	\$ (338)	\$ (1,938)
Income tax effect of non-GAAP adjustments <sup>(1)</sup>	9	129	6	(10)	568	(127)	1,251	2,979
Non-GAAP provision for (benefit from) income taxes	\$ 426	\$ 317	\$ 320	\$ 379	\$ 356	\$ 497	\$ 913	\$ 1,041

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Reconciliation of net loss and net loss per share:</b>								
GAAP net loss attributable to common stockholders	\$(37,989)	\$(16,687)	\$(17,114)	\$(19,706)	\$(40,853)	\$(28,155)	\$(32,746)	\$(26,135)
Add: Stock-based compensation and related employer payroll taxes	24,436	1,062	1,057	1,044	22,911	11,615	14,617	14,568
Add: Amortization of acquired intangible assets	147	108	31	32	31	31	731	700
Add: Acquisition-related expenses	—	—	—	—	—	—	6,330	(51)
Add: Amortization of debt discount and issuance costs	—	—	—	—	—	—	—	4,303
Income tax effect of non-GAAP adjustments	(9)	(129)	(6)	10	(568)	127	(1,251)	(2,979)
Non-GAAP net loss	<u>\$(13,415)</u>	<u>\$(15,646)</u>	<u>\$(16,032)</u>	<u>\$(18,620)</u>	<u>\$(18,479)</u>	<u>\$(16,382)</u>	<u>\$(12,319)</u>	<u>\$(9,594)</u>
GAAP net loss per share	\$ (0.47)	\$ (0.20)	\$ (0.20)	\$ (0.23)	\$ (0.35)	\$ (0.10)	\$ (0.11)	\$ (0.09)
Add: Stock-based compensation and related employer payroll taxes	0.30	0.01	0.01	0.01	0.19	0.04	0.05	0.05
Add: Amortization of acquired intangible assets	—	—	—	—	—	—	—	—
Add: Acquisition-related expenses	—	—	—	—	—	—	0.02	—
Add: Amortization of debt discount and issuance costs	—	—	—	—	—	—	—	0.01
Income tax effect of non-GAAP adjustments	—	—	—	—	—	—	—	(0.01)
Non-GAAP net loss per share <sup>(2)</sup>	<u>\$ (0.16)</u>	<u>\$ (0.18)</u>	<u>\$ (0.19)</u>	<u>\$ (0.22)</u>	<u>\$ (0.16)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	81,579	84,618	85,078	85,683	118,056	294,418	296,077	299,321

(1) Non-GAAP adjustment for Q1'20 includes \$0.7 million of income tax benefit from valuation allowance release as a result of the S2 Systems acquisition.

(2) Totals may not sum due to rounding. Figures are calculated based upon the respective underlying non-rounded data.



**CLOUDFLARE, INC.**
**Calculations of Key and Other Selected Metrics - Quarterly**

(unaudited, in thousands, except percentages and customer / headcount data)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
<b>Free Cash Flow</b>								
Net cash provided by (used in) operating activities	\$ (13,912)	\$ (12,270)	\$ (9,690)	\$ (2,867)	\$ (17,786)	\$ (8,574)	\$ (14,276)	\$ 3,987
Less: Purchases of property and equipment	(6,200)	(12,959)	(9,036)	(9,954)	(11,991)	(12,308)	(11,405)	(19,200)
Less: Capitalized internal-use software	(2,029)	(3,728)	(3,397)	(4,074)	(3,861)	(2,658)	(4,922)	(4,941)
Free cash flow	\$ (22,141)	\$ (28,957)	\$ (22,123)	\$ (16,895)	\$ (33,638)	\$ (23,540)	\$ (30,603)	\$ (20,154)
Net cash provided by (used in) investing activities	\$ (77,874)	\$ (58,525)	\$ 15,209	\$ 12,638	\$ (92,829)	\$ (352,659)	\$ (8,772)	\$ (300,769)
Net cash provided by (used in) financing activities	\$ 165,447	\$ 11	\$ 2,248	\$ (199)	\$ 570,216	\$ (1,497)	\$ (4,678)	\$ 501,702
Net cash provided by (used in) operating activities (percentage of revenue)	(28)%	(22)%	(16)%	(4)%	(24)%	(10)%	(16)%	4%
Less: Purchases of property and equipment (percentage of revenue)	(12)%	(23)%	(15)%	(15)%	(16)%	(15)%	(13)%	(19)%
Less: Capitalized internal-use software (percentage of revenue)	(4)%	(7)%	(5)%	(6)%	(5)%	(3)%	(5)%	(5)%
Free cash flow margin	(44)%	(52)%	(36)%	(25)%	(45)%	(28)%	(34)%	(20)%
<b>Key Business Metrics</b>								
Paying Customers <sup>(1)</sup>	67,643	72,823	73,555	77,626	80,986	84,154	89,223	96,178
y-y growth	30%	32%	26%	24%	20%	16%	21%	24%
Paying Customers (> \$100,000 Annualized Revenue) <sup>(1)</sup>	261	294	336	387	451	526	556	637
y-y growth	84%	84%	71%	65%	73%	79%	65%	65%
Dollar-Based Net Retention Rate <sup>(1)</sup> (for the trailing 12 months ended)	120%	119%	118%	122%	121%	119%	117%	115%
<b>Headcount</b>								
Total Headcount	793	865	960	1,069	1,191	1,270	1,368	1,535
<b>Revenue by Region</b>								
US	\$ 23,914	\$ 27,778	\$ 30,739	\$ 33,227	\$ 37,605	\$ 43,004	\$ 44,215	\$ 48,478
EMEA	12,648	13,063	14,626	15,997	17,652	20,143	23,106	25,912
APAC	10,223	10,862	12,179	13,610	13,993	15,349	17,604	18,589
Other	3,285	3,796	4,183	4,590	4,691	5,434	6,325	6,742
Total	\$ 50,070	\$ 55,499	\$ 61,727	\$ 67,424	\$ 73,941	\$ 83,930	\$ 91,250	\$ 99,721
<b>Revenue by Type of Customer</b>								
Channel partners	\$ 3,367	\$ 4,146	\$ 6,196	\$ 5,663	\$ 6,554	\$ 8,083	\$ 9,159	\$ 10,153
Direct customers	46,703	51,353	55,531	61,761	67,387	75,847	82,091	89,568
Total	\$ 50,070	\$ 55,499	\$ 61,727	\$ 67,424	\$ 73,941	\$ 83,930	\$ 91,250	\$ 99,721

(1) Beginning with our quarter ended March 31, 2020, we have transitioned the method for calculating our key business metrics from a billings-based methodology to a revenue-based methodology. As a result, the Paying Customers, Paying Customers (> \$100,000 Annualized Revenue), and Dollar-Based Net Retention Rate figures presented herein reflect revenue-based calculations.