

04-Nov-2021

Cloudflare, Inc. (NET)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Jayson A. Noland

Head-Investor Relations, Cloudflare, Inc.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

OTHER PARTICIPANTS

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Alex Henderson

Analyst, Needham & Co. LLC

Shaul Eyal

Analyst, Cowen and Company. LLC

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

James E. Fish

Analyst, Piper Sandler & Co.

Trevor J. Walsh

Analyst, JMP Securities LLC

Joseph Gallo

Analyst, Jefferies LLC

James Breen

Analyst, William Blair

Andrew James Nowinski

Analyst, Wells Fargo Securities LLC

Amit Daryanani

Analyst, Evercore Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Julian, and I will be your conference operator today. At this time, I would like to welcome everyone to Cloudflare's Q3 2021 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. Jayson Noland, Head of Investor Relations, the floor is yours.

Jayson A. Noland

Head-Investor Relations, Cloudflare, Inc.

Thank you for joining us to discuss Cloudflare's financial results for the third quarter 2021. With me on the call we have Matthew Prince, Co-Founder and CEO; Michelle Zatlyn, Co-Founder, President and COO; and Thomas Seifert, CFO. By now, everyone should have access to our earnings announcement. This announcement, as well as our supplemental financial information, may be found on our Investor Relations website.

As a reminder, we'll be making forward-looking statements during today's discussion, including, but not limited to our customers, vendors and partners' operations and future financial performance; anticipated product launches and the timing and market potential of those products; the company's anticipated future revenue, financial performance, operating performance, non-GAAP gross margin, non-GAAP net loss from operations, non-GAAP

net loss per share, shares outstanding, non-GAAP operating expenses, free cash flow, non-GAAP effective tax rate, dollar-based net retention rate, paying customers and large customers.

These statements and other comments are not guarantees of future performance, but rather are subject to risks and uncertainties, some of which are beyond our control, including, but not limited to the extent and duration of the impact of the COVID-19 pandemic and adverse conditions in the general domestic and global economic markets. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. These forward-looking statements apply as of today and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call.

For a more complete discussion of the risks and uncertainties that could impact our future operating results and financial condition, please see our filings with the Securities and Exchange Commission, as well as in today's earnings press release.

Unless otherwise noted, all numbers we talk about today, other than revenue, will be on an adjusted non-GAAP basis. All current and prior period financials discussed are reflected under ASC 606. You may find the reconciliation of GAAP to non-GAAP financial measures in our earnings release on our Investor Relations website. For historical periods, a GAAP to non-GAAP reconciliation can be found in the supplemental financial information referenced a few moments ago.

We would also like to inform you that we'll be virtually participating in the Jefferies Cybersecurity Summit on November 10; the RBC Capital Markets TIMT Conference on November 16; the Credit Suisse Annual Technology Conference on December 1; and the Wells Fargo TMT Summit on December 2.

Now, I'd like to turn the call over to Matthew.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

Thank you, Jason. We had a landmark quarter. In Q3, we achieved revenue of \$172 million, up 51% year-over-year. We continue to see particular strength across our large customer segment, those that pay us more than \$100,000 per year, and ended the quarter with 1,260 large customers, up 16% quarter-over-quarter and 71% year-over-year.

Our average contracted customer now spends over \$100,000 annually with us, up from an average of \$72,000 when we went public just over two years ago, evidencing our success selling to larger and larger enterprises.

Our dollar-based net retention remains strong at 124%, and we achieved a record gross margin of over 79% in the quarter. It was also a milestone quarter because we reached profitability, delivering a positive operating margin and EPS. When we went public, we anticipated we'd reach breakeven in the second half of 2022. At our Investor Day earlier this year, we updated that forecast to Q1 of 2022, but our continued strong growth and relentless efficiency allowed us to reach this milestone even earlier.

While we are proud to be profitable, I want to repeat what I said in our earnings call last quarter. We have a long-term operating margin target of 20%. We remain confident in our ability to reach that long-term target, but we are not in a rush to get there. When we say long-term, we really mean it.

As long as we can achieve extraordinary growth, we anticipate that we will pour our profits back into our research and development and sales and marketing machine. We are nowhere close to being out of ideas for new products to build or customers to buy them.

We anticipate that we will hover just below or just above breakeven likely for years to come. Rather than depositing our profits in the bank, we will pour them back into our business, investing in innovation and bringing more customers on to our platform. And that's exactly what we've done, already evidenced by our torrid pace of new product announcements through Q3 and into Q4 and our record growth in new large customers.

We tend to roll new products out during what we call Innovation Week. Since our last call, we hosted two of these: Speed Week, where we released new speed-enhancing features and demonstrated we run the fastest security, Zero Trust and all-round delivery network in the world; and Birthday Week, which is our annual celebration of Cloudflare's launch, where we announced new products that we think of as innovative gifts back to the internet.

These weeks don't just deliver new products; they're also some of the most effective marketing we do to attract new customers. During Birthday Week this year, for example, our organic inbound leads spiked nearly tenfold. I think this is because customers want to bet on the companies that are committed to innovation. And we've proven through these weeks over the years that innovation is deep in cloud Cloudflare's DNA.

Prior year's Birthday Week have had to double the size of the encrypted web, unmetered DDoS mitigation, and launch Cloudflare Workers, our serverless computing platform. Our strategy has always been to get these products to market early, and then relentlessly iterate to improve them until they're best-of-breed and significant new lines of business for us.

I'm particularly excited this year about three Birthday Week product announcements: R2, an Object Store being developed for Cloudflare Workers; our first e-mail security product, which is an area customers have been asking us to enter for some time; and Cloudflare for Offices, which will make connecting to our Zero Trust network from many of the world's highest occupancy building a matter of merely plugging in a patch cable.

We have two more innovation weeks scheduled before the end of the year: Full Stack Week, where we'll detail the newest developments around our Workers' serverless computing platform; and CIO Week, where we'll launch more products aimed at CIOs and demonstrate how Cloudflare is the network they can plug into and not have to worry about anything else. Stay tuned.

I'm often asked about how Cloudflare innovates so quickly. We have demonstrated not only the ability to release new products, but then build those products into meaningful new lines of business. The key to our pace of innovation starts with our flexible platform. Every server that makes up Cloudflare's network is able to run every one of our features.

Workers, which we've opened up to customers is, first and foremost, the computing platform on which our developers build most of our own features. And our fully software-defined network then routes traffic to wherever it'll be handled most efficiently. This is important because it means new products don't get held up by procurement.

But it doesn't stop there. One of our secrets to success is our broad customer base, that we have millions of customers, many of whom use our services for free, means that we have an eager pool excited to test new features before they're released.

While traditional B2B companies have expensive QA teams, we regularly ask volunteers from our community to be our earliest alpha testers. Our iteration cycles can then be extremely fast. And by the time a feature makes it to production at one of our enterprise customers, it's bulletproof, having been through the paces under real network conditions.

Not everything will be a runaway success, but this is the fertile soil from which innovative new products spring so readily. The conventional wisdom in business is that you should focus and do one thing well, that's a great strategy for building a good company, but it has never been the Cloudflare way. We are intent on building not just a good company, but an iconic one, delivering on our mission of helping build a better Internet.

We are building the network that any business can plug into and not have to worry about anything else. That's what our customers tell us they need. It requires us to do many things and over time become great at them all. You earn your place as a platform one feature at a time. But increasingly, one repeated theme I hear from our customers is that we have earned that place, not just as a feature provider, but as their foundational networking platform. With that in mind, let me highlight some wins in the quarter.

A Fortune 500 pharmaceutical company expanded their use of a Cloudflare One platform. They signed a \$600,000 expansion deal, bringing their total contract to over \$2 million. They're using a broad range of our services, including Cloudflare Gateway, our Zero Trust web application gateway. They appreciate how the various pieces of our platform fit together to provide one unified network. It was a competitive deal and our unified approach beat out all other Zero Trust vendors with their narrow point solutions.

A Fortune 500 manufacturing company adopted Cloudflare One to protect its 50,000 employees. They signed a two-year contract worth over \$0.5 million. Their previous hardware-based approach couldn't keep up with the latest security threats they were seeing. The technical team was familiar with Cloudflare, many having used our pay-as-you-go products for developers and championed us to the C-suite buyer.

At the same time, the C-suite buyer had heard from a peer at another manufacturing firm how much they enjoyed working with Cloudflare and appreciated our rate of innovation. This is a great example of how we're seeing success selling both bottoms-up and tops-down within organizations.

A large European software company adopted our Zero Trust solutions. They signed a three-year, \$600,000 deal. Evaluating Cloudflare versus other leading Zero Trust solution, they judged our products to be richer, more flexible, more scalable, and easier to deploy. They also appreciated our integrated approach, providing a single platform to solve their broad set of network security, performance and reliability needs.

A Fortune 500 retailer adopted Cloudflare Workers to build scalable online retail applications ahead of Black Friday. They're using Durable Objects to manage what they anticipate will be extremely high traffic volumes this holiday season. They appreciate our customizability and effortless scalability. They've stress-tested their application with over 100,000 transactions per second, and Workers handled it without breaking a sweat. They signed a \$200,000 annual deal, and we anticipate the account will grow significantly as they move more of their online retail application onto our platform.

A Middle Eastern financial services provider signed a three-year, \$600,000 deal. They appreciated our global network with locations across the Middle East and our ability to deliver services that kept their sensitive customer data local in the regions they serve. Handling data locality requirements is one of the superpowers of edge computing over traditional cloud. The customer has already become a champion to other enterprises in the region.

A national airline signed \$180,000 contract for our Cloudflare One services. They appreciated the better accuracy and lower false positive rate of our security product. This is a customer that we started talking to right near the beginning of COVID. While our sales cycles are usually very fast, still typically less in the quarter, this one was slow as they are in an industry that was highly impacted by the pandemic. But I highlight it as a deal we won in Q3 because I think it shows light at the end of the tunnel. Even highly COVID impacted industries like airlines are starting to return to normal. And as they do, they're once again calling us to help with their network security, reliability and performance needs.

If I step back, I will note that Q3 2021 was different in many ways than Q3 2020. While last year, the seasonality of summer seemed to disappear as people canceled vacations and worked without a break; this year, much of the world came out of lockdown in apparent desperate need of a vacation. July and August were quieter than normal and the quarter ended up being more backend-loaded than we usually see.

Talking with peer companies and listening to earnings calls over the last two weeks, we don't believe there was anything about that unique to us. But refreshed from a much needed holiday, IT organizations now seem to have returned, ready to roll up their sleeves and modernize their stacks for a post-COVID world.

October started out very strong. In just the first week, a prominent social network chose Cloudflare One as their Zero Trust solution, signing a contract worth at least \$1 million annually. That same week, one of the largest video-conferencing services came under attack and onboarded onto Cloudflare, signing an \$8 million annual deal. They push a lot of traffic, and we believe we are the only network provider with the scale and agility to have been able to onboard them over a weekend.

And the coolest part, we not only mitigated the attacks, but their network performance actually improved. On top of that, we're confident, over time, we'll save them more in other providers' network bandwidth fees than we charge them ourselves, which is a totally magical experience and the recipe for a very sticky customer relationships.

We have no intentions of slowing down. And I wanted to thank all the teams working hard to help our customers, build our business, and live up to our mission of helping build a better Internet.

With that, I'll turn it over to Thomas to walk through the numbers. Thomas, take it away.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

Thank you, Matthew, and thank you to everyone for joining us. We delivered another excellent quarter, driven by record large customer additions which continue to outpace top line revenue.

We achieved an important milestone in the third quarter, reaching non-GAAP, operating profit and net income profitability for the first time. This milestone is a testament to the strength of our business model and our ability to drive both high growth and operational leverage.

Turning to revenue. Total revenue for the third quarter increased 51% year-over-year to \$172.3 million. You may recall in third quarter 2020, we had a one-time benefit of \$1.9 million related to a customer renewal. Excluding this one-time benefit, our year-over-year revenue growth would have been 53.5%. The growth in revenue was driven by another quarter of strong customer demand, both in terms of new local acquisition, as well as expansion within our existing customer base.

From a geographic perspective, we saw continued strength in both the US and internationally. The US represented 53% of revenue and increased 53% year-over-year. EMEA represented 26% of revenue and increased 62% year-over-year. APAC represented 14% of revenue and increased 25% year-over-year.

We're especially impressed by the accelerating growth we are seeing in Europe, which is driven by strength in large customers and expansions. We continue to expand our China network with JD Cloud and are seeing performance improvements for our customers of 30% or more compared to our previous China networks.

Turning to our customer metrics. We exited the quarter with 132,390 paying customers, representing an increase of 31% year-over-year. We had another record number of large customer additions in the third quarter, adding 172 large customers sequentially and 524 customers year-over-year. We ended the quarter with 1,260 large customers, representing an increase of 71% year-over-year. We saw significant expansion from our large customers, which allowed us to maintain a strong dollar-based net retention rate of 124%, consistent with last quarter.

Third quarter gross margin was 79.2%, representing an increase of 120 basis points sequentially. Network CapEx represented 15% of revenue in the third quarter. We remain committed to building out the footprint and capacity of our network and expect network CapEx to be 12% to 14% of revenue for fiscal 2021. The increase in our network CapEx range is due to increased investment in advance of strategic customer growth.

Turning to operating expenses. Third quarter operating expenses, as a percentage of revenue, decreased 3% sequentially and year-over-year to 78%. We had another strong hiring quarter where we saw total number of employees increase 32% year-over-year to approximately 2,240 at the end of the quarter. Sales and marketing expenses were \$77.6 million for the quarter. Sales and marketing as a percentage of revenue was flat sequentially and year-over-year.

Research and development expenses were \$32.8 million in the quarter. R&D as a percentage of revenue decreased 1% sequentially, and decreased to 19% from 21% in the same quarter last year.

General and administrative expenses were \$23.9 million for the quarter. G&A, as a percentage of revenue, decreased 2% sequentially and year-over-year to 14% from 16% in the same quarter last year.

We continue to see strong operating leverage in the third quarter with operating margin improving 530 basis points year-over-year. Operating income was \$2.2 million, compared to an operating loss of \$4.5 million in the same period last year.

In the last few years, we repeatedly accelerated our timeline for profitability from an initial target of second half of 2022 at the IPO, to most recently the first quarter of 2022, as provided at our Investor Day earlier this year. We achieved breakeven in the third quarter due to the inherent operating leverage characteristics of our business model.

That said, I will echo what Matthew emphasized. Now that we have achieved breakeven, we intend to reinvest excess profitability back into the business for growth. We remain confident in our ability to reach our long-term operating margin target of 20% or higher. And when we say long-term, we really mean it. Cloudflare is optimized for innovation, and we plan to continue to launch new products, grow our customer base, relentlessly execute and reinvest for growth to pursue the significant market opportunity ahead of us.

Turning to net income and the balance sheet. Our net income in the quarter was \$1.4 million or net income per share of \$0.00. Our effective tax rate for the third quarter was 53%. We wanted to provide some additional color on financing activities we pursued in the third quarter.

In August, we took advantage of favorable market conditions and successfully launched \$1.3 billion principal amount of a zero interest convertible senior note due in 2026. The additional capital secured at these attractive terms position us with greater flexibility to continue to invest and scale the business while cementing our strong financial position.

We ended the third quarter with \$1.8 billion in cash, cash equivalents and available for sale securities. This includes approximately \$790 million of net proceeds from our convertible note issuance during the quarter.

Free cash flow was negative \$39.7 million or 23% of revenue, compared to negative \$17.9 million or 16% of revenue in the same period last year. Operating cash flow was negative \$6.9 million in the third quarter or 4% of revenue, which decreased \$14.4 million sequentially and decreased \$8.9 million year-over-year.

Worth noting is the \$29.4 million cash outflow included in operating cash flow and free cash flow related to the repurchase of the 2025 convertible senior notes. As we mentioned previously, we expect to continue to see some level of variability in cash flow margins due to ongoing fluctuations in working capital, the growth in our large enterprise business and seasonal factors.

Remaining performance obligation, or RPO, came in at \$545 million, representing an increase of 13% sequentially and 60% year-over-year. Current RPO was 75% of total RPO. We remain optimistic and confident in the continued growth of all business. As such, we are pleased to raise guidance of both the quarter and full year.

For the fourth quarter, we expect revenue in the range of \$184 million to \$185 million, representing an increase of 46% to 47% year-over-year. We expect operating loss to be in the range of \$1 million to a breakeven. And we expect net loss per share of \$0.01 to breakeven.

For modeling purposes, please note that if we report positive net income in Q4, we expect our share count to be 345 million fully diluted shares, versus 320 million basic shares if we report a net loss. We expect a tax expense of \$1.6 million.

For the full year 2021, we expect revenue in the range of \$647 million to \$648 million, representing an increase of 50% year-over-year. We expect operating loss for the full year in the range of \$10.5 million to \$9.5 million. And we expect net loss per share over that period in the range of \$0.06 to \$0.05, assuming approximately 312 million common shares outstanding. We expect a tax expense of \$5.9 million.

In closing, we are very proud to have crossed the significant milestone of profitability, which is only two years after our IPO and one year ahead of the expected timeline we initially shared at the time of our IPO.

We would like to thank all Cloudflare employees for their continued dedication to innovate and deliver, and our customers, partners and the community for their endless trust and support.

And with that, I'd like to open it up for questions. Operator, please poll for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Matt Hedberg from RBC Capital Markets. Please go ahead. Your line is open.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Great. Thanks, guys. And congrats on the results here. I guess Matthew or Thomas, success in large customers was again super impressive now and I think clearly this is a reflection of your products and vision. But can you talk about other aspects that could be positively impacting some of these large deals like direct rep productivity, maybe it's partners influencing deals. And I know everybody wants to know about the competitive landscape as you move up into the larger enterprise here?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah. I'll start Matt, and then Thomas can weigh in with some more. So I think that success often is the combination of doing lots of things well, and we really have continued to march up-market to larger and larger customers over time. So I think a couple of things are true. One, as we have successfully launched more and more products, we're seeing those products attached to our existing customers.

And so, about half of the customers that are new large customers are existing customers that spend more with us and grow into that category. But the other half, are totally new logos to us. And I think that is both our success of building out our sales team and our go-to-market motion, where increasingly we have absolutely topnotch field sellers with relationships to sell into those larger and larger accounts and we're seeing success in going up-market.

I think that what we want to deliver and what we're building, if you fast forward 10 years from now, it's going to look like a traditional enterprise sales team. What's different about how we're building that is, as we've always said, that we get to invest behind the demand, not in front of it. And I think that the difference is that makes it less likely that we make a mistake as we continue to move up-market.

In terms of the competitive landscape, I don't think we've seen a significant change. I think our win rates across competitors continue to be very attractive and improving, we still think that there are a whole bunch of legacy hardware boxes that are out there that we are replacing. And I think we're on the right side of history. And so, more and more customers returning to us.

I think the last thing is that COVID was a real wake-up call for IT organizations. And what I hear over and over again from the largest companies, even folks that were very cloud-reticent in the past, is that they never want to live through something like that again. And so, organizations that might have been hesitant to use a service like Cloudflare now see us as a no-brainer.

And so, I think while COVID was difficult insofar as IT organizations really batten down the hatches and shut things down, I think what we're seeing now is that people are coming out the other side. People are saying, okay, I need to embrace the cloud, I need to embrace a service like Cloudflare. And I think we're in a unique time where everyone is taking our phone calls.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

That's super helpful. And then, I have to ask about R2. Obviously, that was a really exciting announcement this quarter. I know it's going to take time to impact the model. But perhaps you could talk a little bit more, double-click on really how this positions you guys as really an edge cloud provider even more so now with R2?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah. So R2, for those who might not be following along as closely as Matt, is our Object Store. And if you think about what are the key components of being a cloud provider, you have to have compute, but you have to have a way also of storing data. And some of those things are data basis, which we are building out in various ways; some of those are also ways that you store objects. So those are like files that would be at the edge.

And because of where we sit, where we are the network in front of many of the largest cloud providers' customers, we were able to really study how customers were using various cloud providers. And we came to the conclusion that the right thing for us on our product road map was to build an Object Store.

And one of the things that is unique about where we sit versus some of the more traditional and legacy cloud providers is that because we are distributed at the edge, it allows us to be significantly more efficient in the bandwidth usage that we have. And so, while typical cloud providers have to pay a series of middlemen to deliver from Ashburn, Virginia to the other side of the Earth, we are already on the other side of the Earth and we have usually a direct connection to all of those other networks that are there, which means that we have an inherent competitive advantage in terms of the cost of bandwidth delivery that we can provide.

And so, we see that because of the fact that we have that attractive pricing, we should be passing that on to customers. And we're excited for building out R2 and seeing how that further enhances our Workers platform, which every day people are building more and more complicated applications on. And I think this is going to allow that to just accelerate.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Thanks, Matthew.

Operator: Your next question comes from Alex Henderson from Needham. Please go ahead. Your line is open.

Alex Henderson

Analyst, Needham & Co. LLC

Q

Great. I was hoping you could talk a little about the scale of the TAM implied by the R2 product. I mean, clearly, it's a big opportunity, but it's hard for us to really grasp the scale of that opportunity since most of the data associated with the revenues would be masked underneath the larger companies business?

And while you're at it, if you could talk a little bit about the Bitcoin/blockchain announcement e-mail announcement and, therefore, Offices. What does that add to your potential opportunity, that would be very helpful as well?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Alex, that's a mouthful of things to go through. We had an entire week of announcements, and I think you just listed all of them for me to summarize. But let me start. So I think that it's early days in terms of R2. But what I think that we hope is that R2 can be very disruptive in the market and not only allow us to capture more of the Object Store spend, but also put downward pressure on all of the different cloud providers to eliminate their egress fees.

It is completely absurd that these companies are charging nothing to send data to them, but then charging what can be massive markups, 80 times what the wholesale price is to take data back out. And we don't think that's sustainable and we want to push that down.

The reason why that's attractive to us is we think that our long-term opportunity is really to be the fabric that connects together the various cloud providers. And in an ideal world, what we hear from customers is that they want to use some Cloudflare services, but they want to use Google services and Microsoft services and Amazon services and pick the best of what they need across all of those different providers in order to deliver a more robust application.

And I think that is the inevitable way that the market will play out over time. And that being that fabric that can connect those different networks together is a very powerful position for us to be in. And so, R2 is both, I think, an opportunity for us to grow TAM, but it's also an opportunity for us to accelerate what I think is the inevitable next generation in the cloud, which is allowing customers to pick the best-of-breed across multiple clouds.

And I'm optimistic that across the entire industry, if we really do encourage competition on a feature-by-feature basis and we don't lock customers in, in artificial ways like charging for egress, but not ingress, that actually will expand the TAM of the entire cloud industry. And so, I'm bullish on kind of everyone who's in the space.

On the rest of the announcement, e-mail is one of those areas that customers have been asking us for quite some time. I think it stagnated as a solution. And so, we think that with the network that we have and the data that we see across all of what we provide in terms of our DNS service as well as our other services, that we'll be able to provide a really outstanding product around that.

One of the things that we're hearing from customers they're particularly excited about is really a mix of our browser isolation technology with an e-mail security product. Imagine, for instance, if you could make sure that any link that is in any e-mail didn't actually get executed on your local computer, but instead got executed in a isolated browser which was running out at our edge. We have all the components to be able to do that. And if you look back at all of the security incidents that have happened across the space, that one technology closes the biggest hole in most enterprise IT spaces. So it's an area that we think is extremely exciting.

Cloudflare for Offices is our announcement about putting our equipment and starting with about 1,000 of the most populated and most trafficked office buildings in the world. And we think that that's just an easier on-ramp to get customers onto our network. And one of the things that we're particularly excited about with that is that we can actually create an MPLS replacement to connect various branch offices together, but to do it in a way which is almost instantaneous to turn up, whereas you usually have to wait weeks or months to get a private network like that turned up otherwise.

And I think that what we announced around Web 3.0 and the crypto space, again, I think that we want to be the bridge between what was the traditional web and what may be coming with Web 3.0. And we've been investing in this space for quite some time. I think we don't know exactly where it's going to go, and I don't think anyone necessarily does. But we have a really brilliant team that's thinking about this. And we want to be positioned that if

it does become the next thing that Cloudflare helps provide the rails to make sure that Web 3.0 works as well as some of the optimistic forecasts suggest it could.

So, again, I think that if you're not following our blog, if you're not following our innovation weeks and you're interested in Cloudflare, we try to make these announcements as accessible as possible, and we try to make lots and lots of bets. We don't know that all of them are going to be home runs. But if you look back in the history of Birthday Weeks, things like Cloudflare Workers and Durable Objects were products that we announced during that time, and those have then subsequently become very significant lines of business for us.

Alex Henderson

Analyst, Needham & Co. LLC

Q

So just to conclude then, you're not just going to be the fourth cloud, you're actually going to be the first true network cloud. And that's what the point of all of those?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Again, I think we are focused on how we can be the network that any company plugs into and literally doesn't have to worry about anything else.

Alex Henderson

Analyst, Needham & Co. LLC

Q

Perfect. Thank you very much.

Operator: Your next question comes from Shaul Eyal from Cowen. Please go ahead. Your line is open.

Shaul Eyal

Analyst, Cowen and Company. LLC

Q

Thank you. Good afternoon, guys. Congrats on the strong performance. Matthew, great performance on the Workers, Cloudflare One, Teams. Also, wanted to hear a little bit, any wins associated with the Magic Transit products, your ability to displace MPLS? And I have the follow-up on R2.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah. Thanks, Shaul. I think Magic Transit is really one of our key winners and I think it's shown – it's been a very easy product for our existing sales team to sell to our existing customers. And so, a number of the wins that I highlighted in the quarter, including the pharmaceutical company, the Fortune 500 manufacturing company, they are adopting Magic Transit as part of the overall bundle.

But I think the thing that I'm hearing more and more is that customers are increasingly not seeing us as providing one single point solution or one single feature, but that we have earned being a platform to provide an overall solution to, again, be that network that customers can plug into and not have to worry about anything else.

And so, Magic Transit is part of a lot of these deals. It becomes very sticky as part of it. We think that that will further accelerate with what we're doing for Cloudflare for Offices. And again, it's been a very natural addition to sell to our existing customer base. Also, the deal that I highlighted that happened early in Q4, the large video-conferencing service, that really was the – in fact, when we were designing Magic Transit, we said one day if we

build this right, this particular customer would be able to sign up, and not only we'd be able to help them, protect them from a security perspective, but we'd also be able to actually accelerate their traffic. And that's exactly what ended up happening.

The customer came under an attack. We were able to very quickly onboard them in their time of need. They have a global customer base themselves, and they were very pleasantly surprised when, not only were we able to stop the attack, but that their own internal measurement of performance got better. That's why we call Magic Transit magic is it really does what customers feel like magic.

Shaul Eyal

Analyst, Cowen and Company. LLC

Q

Got it. Understood. And maybe one more on R2. I know it's early days, but how would you characterize the level of signups so far?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Off the charts. I mean, I think that we were surprised by how much it resonated across the customer base. We usually, during these innovation weeks, see an uptick in our inbound interests. But in terms of the organic lead that we saw, as I mentioned in the prepared remarks, we saw a tenfold, so 10x increase in the number of organic inbound interests.

And I think it points to that customers, whether they're small or large, feel like the egress fees that they're being charged by the sort of legacy cloud providers are egregious and they're looking for a solution. And if we can help provide that, I think that's a very exciting opportunity for us.

Shaul Eyal

Analyst, Cowen and Company. LLC

Q

Thank you so much.

Operator: Your next question comes from Keith Weiss from Morgan Stanley. Please go ahead. Your line is open.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you for taking the question, and very nice quarter, guys. This quarter is showing a seasonal slowness and [indiscernible] (00:39:48). I hate to see what your quarters look like if you don't see seasonal slowness. There's really no signs of weakness in this [ph] brand (00:39:55). We've talked a lot about the expanding solution portfolio. And you're right. It's absolutely incredible how quickly it's been expanding. And we've also talked about sort of building out that direct sales force behind that move up-market.

Can we perhaps kind of bring the two together? Like, as you guys expand that solution portfolio and you're innovating in different directions. I mean, you're dealing with core security guys and now guys who are working on the e-mail side of the equation and core networking guys and on core developers on Workers. Does the distribution strategy in itself have to change? Do you have to get more segmented or do you have to restructure the sales force at all to deal with that expansion of the solution portfolio?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah, Keith. So, first of all, I noticed your question to Satya, which sounded like it was about us, but you didn't namedrop us. So you're a little bit.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

I was just talking about large opportunities that are out there for many different cloud providers to try to...

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Right. Well, I appreciate it. And again, you can't be too much in the doghouse if you're still question number 4. So we're constantly adjusting how our sales team works. And so, for instance, used to be that our solutions engineering team was with both presale and post-sale. Now, we have specialized teams that are different for pre-sale and post-sale. And that's an adjustment that's come over time. I think that we have specialists in individual products that specialize in various areas, and we have internal training to make sure that our sales enablement is strong across our team.

And so, as we continue to go up-market, that requires a different sales motion and a different type of seller. And we are amazed that over the last 12 months, we've had nearly a quarter million people apply to work at Cloudflare, which is just astonishing. And so, if you look across that, about half of those applicants are for our go-to-market team and the caliber and quality of the people that we're getting is great. And so, as we continue to build that out, we will continue to not believe that what we did yesterday is the solution for what we need to do tomorrow. And we'll hire a different type of salesperson to service larger customers, and then also have specialization across it.

One thing I think that is interesting internally that we do is a lot of these new products come out of a group that we call ETI, which stands for Emerging Technology and Incubation. And that group, their goal is to take lots of shots on goal and launch lots of products. And then when a product takes off, like a Workers or a Teams, when it's the right time, those products then graduate to our more traditional product and engineering group. And the ETI group does have a small go-to-market team that helped with these new functions, kind of writes the initial playbook. And certain products like Magic Transit are a very easy add-on to our existing customer base.

Something like Teams is actually – sometimes it is a different buyer. And so, we're having to figure out how to navigate horizontally inside organizations. And as I highlighted in one of the examples, more and more we're building the relationship with the C-level executives so that we have that executive sponsorship. And again, you've got to do multiple things right in order to continue to execute the way we are. And so, what our sales team will look like and what our go-to-market team will look like in five years will be very different than it is now. But I think it's a very natural progression from where we are now to where we're going.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Outstanding. Thank you very much, guys.

Operator: Your next question comes from James Fish from Piper Sandler. Please go ahead. Your line is open.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Hey, guys. Nice quarter. You guys started to do recently some more for larger enterprise customers around privacy. What are your expectations for that privacy part of the business over the next few years as it pertains to helping to protect consumers' identities? And then broadly what's your strategy for expanding more into identity security in and of itself?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Thanks, Jim. So when we launched the company, there were really three pillars that were the kind of core values at Cloudflare in terms of sort of how we thought about products: we thought about how do we build products that make you more secure; how do we build products that make you more reliable; and how do we build products that make you fast. And whenever we think about products, we're thinking about how we can do one or more of those things.

I think what's become clear over the last four years has been there are two additional things we would add to that list. One is efficiency. So how do we build products that help customers save money and really just have a very clear ROI for them? And then the last is privacy, where we have never and we will never sell our customers data or our customers' customers data. And so, I think that that has made it very easy for us to commit to the privacy regulations that are springing up around the rest of the world and to be thinking about our products in ways to build them to comply with those regulations.

And so, I see that there are a number of customers. So, for example, the Middle Eastern Bank that I highlighted in the prepared remarks, they really appreciated the fact that we have location in the market that they serviced and that we could help them keep their data there so that they would comply with what are, again, the regulations that come out of this privacy landscape.

And so, I think because of the fact that it's been very easy for us to be privacy first. And that's something that none of the other cloud providers have. They all have advertising businesses attached to them in one way or another. We are very clean in that sense. And so, it has allowed us to be a great partner to organizations that do believe that privacy is a fundamental human right.

And so, I think that that's something that is very much aligned across our business. And I think we don't exactly know where that will go. But I think that if you had to bet that being on the more private side of the Internet is being on the right side of history.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Makes sense. And Cloudflare for Offices has gotten a little bit overshadowed by R2, so just wanted to touch upon that briefly. Any sense of the ramp that we could expect for either the number of offices over the next year, or how you're thinking about that business in particular? Thanks, guys.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah. So I'll predict that the sleeper announcement from our Birthday Week that might be the most impactful to our business over the course of the next 10 years will be Cloudflare for Offices. And what we have seen is that

the excitement from landlords and real estate groups about being able to offer Cloudflare services to their tenants is much higher than we actually expected, not only at the time of the announcement, but then subsequently.

What it really offers is an ability for any tenant to plug into our network and be able to yet have fast connection to the Internet, but also get all the security, reliability and efficiency gain that we deliver. And so, I think that the ramp of that is designed very much to be driven by where customer demand comes from. We've secured the ability to have access to a very large number of the office buildings and to be able to get connectivity from those office buildings out to the rest of the world.

But I think that there's an opportunity that if we execute on the vision that we outlined that the Cloudflare may well have one of, if not the largest backbone network across the entire Internet. And I think again that continues to execute on our vision of how can we be the fabric that connects all of these different services together, with the ability to be programmable and have security built in. Sort of, again what we say our mission is, is to help build a better Internet.

And at some level, what we're doing is thinking about, gosh, if we all knew what the Internet was going to become and we had a time machine to go back 40 years and say, do it differently. I mean, copper is that time machine, and we continue to think about how can we make Internet itself fundamentally better and deliver real value to our customers. So I'm extremely excited about Cloudflare for Offices. Watch this space because I think there are going to be a lot of exciting partnerships as we bring that forward and that it will be something that we can deliver real value to customers around the world.

Operator: Your next question comes from Patrick Walravens from JMP Securities. Please go ahead. Your line is open.

Trevor J. Walsh

Analyst, JMP Securities LLC

Q

Hey, thanks. This is Trevor Walsh on for Pat. Thanks for taking our questions. Matthew, I wanted to just see – you had mentioned in your prepared remarks around a lot of the wins, talked about Zero Trust over the quarter as kind of the driving force. And just wanted to see if you could provide some further details around whether those were coming in via RFPs or RFIs just generally for – as part of a larger kind of ecosystem of Zero Trust vendors or players? Or was it really more Cloudflare [indiscernible] (00:50:10) competitively centric that way and kind of how those played out?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Trevor, thanks for the question. Almost all of those cases, those were competitive deals that were coming through either RFP or RFI process, or they were – even if it wasn't a formal RFP or RFI process, there were other names that were providing more limited set of Zero Trust features. And what we are seeing is that we are winning in those competitive head-to-head deals because, first of all, we are significantly easier to deploy and implement. Secondly, we have a richer feature set, especially when you take into account the entire platform. Third, we deliver significantly higher ROI for the investment that's there. And then, fourth, there's a natural integration across the entire network that is provided.

So I think that this is obviously a newer area that we have gotten into. But I am very proud of our team and the win rates that we have against some better-known vendors in the Zero Trust space. And I think that there is a

very big opportunity for us to continue to deliver because, again, we've built the platform that can scale in a way that I don't think that any other Zero Trust vendor has.

Trevor J. Walsh

Analyst, JMP Securities LLC

Q

Awesome. Great. And maybe one quick one for maybe Thomas, best to handle. And I also noticed that you guys expanded the proprietary network again this quarter. I was wondering if any of the supply chain issues kind of made that process a little bit more challenging shall we say, given some of the constraints there.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

A

Not really. Our infrastructure team has managed us and the footprint of the network really well through COVID and the supply chain disruptions. We ordered early, we signed long-term agreements, and we sometimes ordered ahead of our need just to make sure that we are protected. So I would say we saw hardly any impact in our build-out during the third quarter from the supply chain and the interruptions.

Trevor J. Walsh

Analyst, JMP Securities LLC

Q

Great. Thanks all. Congrats on the quarter.

Operator: Your next question comes from Brent Thill from Jefferies. Please go ahead. Your line is open.

Joseph Gallo

Analyst, Jefferies LLC

Q

Hey, guys. You have Joe on for Brent. Really appreciate the question and congrats on the results. Can you guys provide just an update on the APAC region and how the rollout is going in China and maybe when we can expect growth in that region bouncing back to more company norms?

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

A

We are actually happy with the progress we are seeing. Remember, on the last two earnings calls, we said it would take us about towards the end of the year until we are back to historical growth rates in APAC and I think that this still holds true. We've seen the first quarter-over-quarter improvement in the third quarter, where year-over-year growth rate is slightly picking up and the team there is doing a really good job to get us on target. So I think we are on track to what we said before and will be back to historical growth rates by the end of this fiscal year.

Joseph Gallo

Analyst, Jefferies LLC

Q

It's great to hear and it's great to hear about the strength in large deals. Maybe just an update also on the federal business and any initiatives there?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Sure. So I can take that. As we talked about last quarter, we, along with Accenture, were able to secure a big deal across the business. We don't anticipate, as we said last time, that that will have a material impact on revenues

until 2022. But that is going very well, and I think that what we're seeing is more and more agencies within the federal business are excited to work with us.

We also anticipate that early in 2022, we will reach our moderate full FedRAMP compliance. We're already able to with the achievement that we have sell into the federal government under the provisional compliance that we have in place. And so, I think that that puts us in place to be able to deliver that. We're hiring right now to be able to build out our federal team to be able to handle what we anticipate will be strong demand.

Joseph Gallo

Analyst, Jefferies LLC

Q

Thanks, guys.

Operator: Your next question comes from James Breen from William Blair. Please go ahead, your line is open.

James Breen

Analyst, William Blair

Q

Thanks. Just to kick off on one of the other questions that was asked around sort of distribution. You guys are offering more products and you have things like Cloudflare One and Workers and so forth. Is there a section of your customer base that's maybe not large enterprise and not the small and that can be served by a channel partner type of sales scenario, where you're not putting as much as your own resources into it, but can still generate sales in that spaces so that mid-market enterprise starts to really figure out that they need a lot of the products that you're offering?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah, Jim. I think that channel is something that has been part of our mix for quite some time, but is not yet at the place where we think there's an opportunity for it to be. And so, channel has always been a challenge for SaaS companies. And I think, historically, one of the problems for channel partners with us was if for a lot of our traditional products, it took five minutes to onboard. And so, there wasn't a lot of value to add for a value-added reseller.

But I think what you're seeing is as our products are getting more sophisticated, that channel partners are able to really create value in specialization and customization for that. So you see all that with Accenture, which we went to market with, obviously, on the large end of that. We have had a long term channel partnership relationship with IBM, which has been very successful for us. But I think that expanding the our use of the channel in 2022 is one of the focus areas. And I agree with you that that's an area where we can get even further leverage in are go-to-market spent.

James Breen

Analyst, William Blair

Q

Great. Thanks.

Operator: Your next question comes from Andrew Nowinski from Wells Fargo. Please go ahead. Your line is open.

Andrew James Nowinski

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you for taking the questions. I just wanted to follow-up on the Cloudflare One and the SASE market. Other vendors claim you need a – more of a proxy-based architecture to apply to very popular user bases to really be effective in that sort of Zero Trust market. I'm just wondering if you could provide any more color on whether that comes up in your bakeoffs in that Zero Trust or SASE space. Thanks.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah, Andrew. So we are a proxy. I think sometimes people think that because we started out as what's known in the industry as a reverse proxy, that we can't be a forward proxy. But it turns out that it's as easy to make the traffic flow one way through the pipe as it is to make it flow the other way through the pipe. And so, what's really powerful is because we've not only built that proxy infrastructure and we are in more than 250 cities worldwide, we have an incredible amount of capacity and scalability, and we have all of the existing security features built in that I think that our proxy, when it's compared head-to-head with some of the other providers, shines both on a performance perspective where we actually usually will accelerate customers' traffic, whereas other solutions typically slow it down.

And then, also on a broad security threat basis where we're increasingly seeing attackers launch things like denial-of-service attacks and the traditional providers just don't have the capacity to be able to stay ahead of that, whereas we do, because that's part of what has been our more historic product.

I think what we are building out is actually more of the clients that exist on individual devices to augment the proxy services. And so, the great news for that for us is that because we've had consumer-facing products like Cloudflare WARP, we have the world's biggest QA organization where there are literally tens of millions of people using WARP every day, kicking the tires and making sure that it works well not only on desktops and laptops, but on really difficult environments like mobile phones where usually competitive solutions will massively burn battery life or decrease performance.

So I think that we are very well-positioned to be able to win that space. I think our challenge is just making sure that people – that there's awareness and that we really refine our go-to-market motion. But we're seeing success and we're seeing wins. And when we go head-to-head with some of the other competitors out there, I really like our win rates.

Andrew James Nowinski

Analyst, Wells Fargo Securities LLC

Q

That's great. Thank you for that color. And then, maybe shifting gears, I just wanted to ask another question on R2. Do you think that some of the more typical use cases where you'll see storage deployed on R2 are the traditional enterprise workloads, or do you think that maybe it's more next gen use cases like autonomous cars, et cetera? Thanks.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Well, the interest, I mean – so we're focused on the present and focused on building solutions for companies that exists today and problems that that exists today. And so, we have an internal rule that anyone who mentions driverless cars when talking about Cloudflare Workers has to do a shot. And so, I think that I would rather bet on applications that exist today.

And what we're seeing, for example, from the very large retailer that's concerned about the traffic volumes over Black Friday, we're building a solution that easily scale to them to over a 100,000 requests per second. If you do the math out on that, that is across one customer, well over a trillion requests per quarter. And we see nearly a trillion requests per day from the users of Workers.

So our ability to scale and deliver real applications has really been built over the fact that we had that product in market for the last four years. And as we add things like R2, I think it just continues to make it a richer platform and that we're seeing real large retailers, financial services, healthcare adopt. And if someday driverless cars use it too, that's great. But in the meantime, we'll focus on real problems of the moment.

Andrew James Nowinski

Analyst, Wells Fargo Securities LLC

Q

That's great. Thank you, guys.

Jayson A. Noland

Head-Investor Relations, Cloudflare, Inc.

A

Julian, can we take questions from one last analyst please.

Operator: Certainly. Your last question will come from Amit Daryanani from Evercore. Please go ahead. Your line is open.

Amit Daryanani

Analyst, Evercore Group LLC

Q

Perfect. Thanks. I'm glad I made it under the line there. I guess I have two. They're both on R2 as well. Matthew, I'm wondering if AWS tomorrow was to take the egress fees to zero, in theory, what would the value proposition for R2 become in that scenario? And I'm trying to understand what would you say are the reasons one should go to R2 versus AWS beyond the egress fees?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

If AWS takes egress fee to zero tomorrow, I will do a dance of joy for all of our mutual customers. And that will put us in a position, I think, of finally realizing what is the ultimate opportunity of the cloud, which is, how do we allow customers to take advantage of the best of what Amazon offers, the best of what Google offers, the best of what Microsoft offers, the best of what Oracle offers, and the best of what Cloudflare offers. And if we can be the fabric that connects all of that together, that's great.

In the meantime, because I don't think that AWS is going to take egress fees to zero tomorrow, we're going to make products that perform at least as well as theirs do, but don't rate customers over the cold for what are egregious egress fees. So I hope that your hypothetical comes true. I think it's unlikely that it would, but that would be a great thing for customers. And I think it would force us to continue to innovate in that space, just like it would force everyone else to innovate in the space. And who wins in that case is customers.

Amit Daryanani

Analyst, Evercore Group LLC

Q

Fair enough. And then, I think you've probably talked about the goal is eventually become the fourth major public cloud I think. And I am curious, to be that, what does that do to your TAM, which you've talked about being \$100 billion in a couple years? What does it do to that? And then, what sort of CapEx investments do you need to make to achieve this goal?

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Well, again, I think the good – taking the second part of the question first – the good news is we've made substantial CapEx investments around the world, and the efficiency of running an edge network like ours is actually substantially lower CapEx versus traditional centralized cloud providers. We get the benefits of taking advantage of the entire Internet and the routing system around the world, and then can put data wherever it makes the most sense for customers and store it there. So we've got substantial storage and compute capacity across our entire network.

One of the things that was important about the fact that we started out very much as a security company is that security applications require significant compute. And so, we have actually deployed, unlike some of the more point CDN solution, when you look at our nodes, they're very heavy on compute, and that's part of why we've been able to scale-up our computing solution as quickly as possible. They also have a ton of disk in them. And so, that means that there's storage that we can provide in those locations.

We're confident that we can provide the R2 service in a way that has very attractive economics for us. And we're also confident in part because our infrastructure team has gotten so good at building to the capacity that we need that as – if we do see demand, which is significant that we will be able to invest in CapEx behind that demand.

So I don't think that as a percentage of revenue, R2 meaningfully changes our CapEx spend. But if it is wildly successful, our CapEx might go up. But that would be correlated with our revenue going up. Does that make sense and answer your question?

Amit Daryanani

Analyst, Evercore Group LLC

Q

Yeah. Perfectly. Thank you very much.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Thank you.

Operator: We are out of time for questions today. I would like to turn the call back over to management for closing remarks.

Matthew Prince

Chairman, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

I appreciate everyone at Cloudflare for the hard work of delivering what really was a milestone quarter for us. We are incredibly proud of achieving profitability. And I just wanted to repeat one more time what I said, what Thomas said, which is, we are nowhere near out of ideas of things to build and customers to sell them to. And so, we are going to continue to reinvest our profits back into the business in order to build what we really believe is going to

be one of the truly iconic technology companies. Thank you all for being investors. Thank you for tuning in. We'll see you next quarter.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.