

CLOUDFLARE, INC.
Supplemental Financial Information
For the fourth quarter ended December 31, 2021

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 Income (Loss) from Operations and Non-GAAP Operating Margin. We define non-GAAP income (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 Income (Loss) and Non-GAAP Net Income (Loss) per Share, Diluted. We define non-GAAP net income (loss) as GAAP net income (loss) adjusted for stock-based compensation and related employer payroll taxes, amortization of acquired intangible assets, acquisition-related and other expenses, loss on extinguishment of debt, 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, diluted, as non-GAAP net loss divided by the weighted-average common shares outstanding. Calculation of non-GAAP net loss per share, diluted excludes all potentially dilutive securities as their effect is antidilutive. We define non-GAAP net income per share, diluted, as non-GAAP net income divided by the weighted-average common shares outstanding, adjusted for dilutive potential shares that were assumed outstanding during period. Currently, potential dilutive effect mainly consists of employee equity incentive plans and convertible senior notes. We believe that excluding these items from non-GAAP net income (loss) 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 network provides a key indicator of growth of our business and our future business opportunities. We define a paying customer at the end of the quarter as a person or entity who has generated revenue during such quarter, excluding (i) customers that were not acquired through ordinary sales channels, (ii) customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. An entity is defined as a company, a government institution, a non-profit organization, or a distinct business unit of a large company that has an active contract with us or one of our partners.

Paying Customers (> \$100,000 Annualized Revenue). While we continue to grow customers across all sizes, over time, our large customers have contributed an increasing share of our revenue. We view the number of customers with Annualized Revenue greater than \$100,000 as indicative of our penetration within large enterprise accounts. To measure Annualized Revenue at the end of a quarter, we take the sum of revenue for each customer in the quarter and multiply that amount by four. For example, if we signed a new customer that generated \$1,800 of revenue in a quarter, that customer would account for \$7,200 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through 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 network. Our dollar-based net retention rate is a key way we measure our performance in these areas. Dollar-based net retention measures our ability to retain and expand recurring revenue from existing customers. To calculate dollar-based net retention for a quarter, we compare the Annualized Revenue from paying customers four quarters prior to the Annualized Revenue from the same set of customers in the most recent quarter. Our dollar-based net retention includes expansion and is net of contraction and attrition, but excludes Annualized Revenue from new customers in the current period. Our dollar-based net retention excludes professional services and the benefit of free customers that upgrade to a paid subscription between the prior and current periods, even though this is an important source of incremental growth. 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)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Revenue	\$ 91,250	\$ 99,721	\$ 114,162	\$ 125,926	\$ 138,055	\$ 152,428	\$ 172,347	\$ 193,596
Cost of revenue ⁽¹⁾⁽²⁾	20,821	24,164	27,005	29,065	32,084	35,029	37,525	42,496
Gross profit	70,429	75,557	87,157	96,861	105,971	117,399	134,822	151,100
Operating expenses:								
Sales and marketing ⁽¹⁾	46,965	51,376	55,982	63,552	69,974	75,995	85,877	96,219
Research and development ⁽¹⁾⁽³⁾	33,354	28,131	30,902	34,757	39,527	41,349	46,770	61,762
General and administrative ⁽¹⁾⁽³⁾	26,181	20,754	21,525	23,293	27,724	28,927	28,669	34,183
Total operating expenses	106,500	100,261	108,409	121,602	137,225	146,271	161,316	192,164
Loss from operations	(36,071)	(24,704)	(21,252)	(24,741)	(31,254)	(28,872)	(26,494)	(41,064)
Non-operating income (expense):								
Interest income	2,569	1,857	1,316	846	544	373	385	668
Interest expense ⁽⁴⁾	(67)	(5,007)	(9,828)	(10,062)	(10,234)	(10,444)	(12,448)	(16,108)
Loss on extinguishment of debt	—	—	—	—	—	—	(72,234)	—
Other income (expense), net	485	(219)	(208)	113	148	(877)	361	(426)
Total non-operating income (expense), net	2,987	(3,369)	(8,720)	(9,103)	(9,542)	(10,948)	(83,936)	(15,866)
Loss before income taxes	(33,084)	(28,073)	(29,972)	(33,844)	(40,796)	(39,820)	(110,430)	(56,930)
Provision for (benefit from) income taxes	(338)	(1,938)	(3,504)	177	(833)	(4,310)	(3,095)	20,571
Net loss	\$ (32,746)	\$ (26,135)	\$ (26,468)	\$ (34,021)	\$ (39,963)	\$ (35,510)	\$ (107,335)	\$ (77,501)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.11)	\$ (0.09)	\$ (0.09)	\$ (0.11)	\$ (0.13)	\$ (0.12)	\$ (0.34)	\$ (0.24)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	296,077	299,321	301,689	303,813	305,947	308,263	314,543	320,331

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

Cost of revenue	\$ 305	\$ 329	\$ 354	\$ 478	\$ 523	\$ 803	\$ 1,040	\$ 1,337
Sales and marketing	3,579	3,975	4,761	5,363	6,835	7,579	8,271	10,184
Research and development	7,127	6,917	7,373	9,080	11,058	11,280	13,971	24,747
General and administrative	3,606	3,347	3,518	3,404	4,648	4,486	4,742	5,830
Total stock-based compensation and related employer payroll taxes	\$ 14,617	\$ 14,568	\$ 16,006	\$ 18,325	\$ 23,064	\$ 24,148	\$ 28,024	\$ 42,098

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

Cost of revenue	\$ 731	\$ 700	\$ 700	\$ 950	\$ 700	\$ 700	\$ 700	\$ 846
Total amortization of acquired intangible assets	\$ 731	\$ 700	\$ 700	\$ 950	\$ 700	\$ 700	\$ 700	\$ 846

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

Research and development	\$ 5,776	\$ (51)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
General and administrative	554	—	—	—	—	—	—	380
Total acquisition-related and other expenses	\$ 6,330	\$ (51)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 380

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

Amortization of debt discounts and issuance costs	\$ —	\$ 4,303	\$ 8,562	\$ 8,764	\$ 8,971	\$ 9,183	\$ 12,334	\$ 15,686
Total amortization of debt discounts and issuance costs	\$ —	\$ 4,303	\$ 8,562	\$ 8,764	\$ 8,971	\$ 9,183	\$ 12,334	\$ 15,686

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

(unaudited, in thousands, except per share amounts)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Revenue	\$ 91,250	\$ 99,721	\$ 114,162	\$ 125,926	\$ 138,055	\$ 152,428	\$ 172,347	\$ 193,596
Cost of revenue ⁽¹⁾⁽²⁾	19,785	23,135	25,951	27,637	30,861	33,526	35,785	40,313
Gross profit	71,465	76,586	88,211	98,289	107,194	118,902	136,562	153,283
Operating expenses:								
Sales and marketing ⁽¹⁾	43,386	47,401	51,221	58,189	63,139	68,416	77,606	86,035
Research and development ⁽¹⁾⁽³⁾	20,451	21,265	23,529	25,677	28,469	30,069	32,799	37,015
General and administrative ⁽¹⁾⁽³⁾	22,021	17,407	18,007	19,889	23,076	24,441	23,927	27,973
Total operating expenses	85,858	86,073	92,757	103,755	114,684	122,926	134,332	151,023
Income (loss) from operations	(14,393)	(9,487)	(4,546)	(5,466)	(7,490)	(4,024)	2,230	2,260
Non-operating income (expense):								
Interest income	2,569	1,857	1,316	846	544	373	385	668
Interest expense ⁽⁴⁾	(67)	(704)	(1,266)	(1,298)	(1,263)	(1,261)	(114)	(422)
Other income (expense), net	485	(219)	(208)	113	148	(877)	361	(426)
Total non-operating income (expense), net	2,987	934	(158)	(339)	(571)	(1,765)	632	(180)
Income (loss) before income taxes	\$ (11,406)	\$ (8,553)	\$ (4,704)	\$ (5,805)	\$ (8,061)	\$ (5,789)	\$ 2,862	\$ 2,080
Benefit from income taxes	913	1,041	1,046	1,643	1,270	1,497	1,508	1,949
Net income (loss)	\$ (12,319)	\$ (9,594)	\$ (5,750)	\$ (7,448)	\$ (9,331)	\$ (7,286)	\$ 1,354	\$ 131
Net income (loss) per share, basic	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ 0.00	\$ 0.00
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic	296,077	299,321	301,689	303,813	305,947	308,263	314,543	320,331
Net income (loss) per share, diluted	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ 0.00	\$ 0.00
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, diluted ⁽⁵⁾	296,077	299,321	301,689	303,813	305,947	308,263	342,439	345,838

(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.

(5) For the period in which we had non-GAAP net income, diluted non-GAAP net income per share is calculated using weighted-average shares, adjusted for dilutive potential shares that were assumed outstanding during period.

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

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Assets								
Current assets:								
Cash and cash equivalents	\$ 109,063	\$ 313,983	\$ 111,959	\$ 108,895	\$ 187,476	\$ 247,551	618,231	\$ 313,777
Available-for-sale securities	478,791	755,108	939,338	923,201	847,748	785,991	1,195,646	1,508,066
Accounts receivable, net	39,778	43,646	48,783	63,499	71,240	75,853	84,705	95,543
Contract assets	1,779	2,224	2,086	3,538	3,660	5,249	5,049	6,079
Restricted cash short-term	—	—	2,187	2,591	2,659	2,659	471	521
Prepaid expenses and other current assets	18,193	17,163	23,026	28,230	27,085	28,650	26,475	29,433
Total current assets	647,604	1,132,124	1,127,379	1,129,954	1,139,868	1,145,953	1,930,577	1,953,419
Property and equipment, net	100,174	114,549	122,423	123,688	135,795	156,719	176,556	183,736
Goodwill	16,399	17,167	17,167	17,167	17,167	17,167	17,167	23,530
Acquired intangible assets, net	4,900	4,200	3,500	2,800	2,100	1,400	700	1,254
Operating lease right-of-use assets	48,234	46,150	45,106	43,148	41,745	44,456	101,260	130,314
Deferred contract acquisition costs, noncurrent	28,171	33,880	37,714	44,176	48,982	56,587	61,607	70,320
Restricted cash	8,847	8,847	6,660	6,660	6,660	6,660	6,660	6,660
Other noncurrent assets	4,202	7,138	11,276	13,058	13,209	16,990	20,987	2,838
Total assets	\$ 858,531	\$ 1,364,055	\$ 1,371,225	\$ 1,380,651	\$ 1,405,526	\$ 1,445,932	\$ 2,315,514	\$ 2,372,071
Liabilities, Temporary Equity, and Stockholders' Equity								
Current liabilities:								
Accounts payable	\$ 14,301	\$ 17,278	\$ 16,995	\$ 14,485	\$ 20,475	\$ 29,558	\$ 34,561	\$ 26,086
Accrued expenses and other current liabilities	10,565	11,834	16,640	20,217	24,022	33,483	33,841	38,085
Accrued compensation	17,307	20,242	21,990	25,410	31,724	31,098	37,185	65,905
Operating lease liabilities	17,009	17,239	17,265	17,717	17,990	20,031	23,450	25,175
Liability for early exercise of unvested stock options	12,006	10,735	9,679	8,603	7,517	6,477	5,505	4,651
Deferred revenue	37,096	43,419	48,435	54,945	66,418	79,829	92,415	116,546
Current portion of convertible senior notes, net	—	—	—	—	—	—	—	12,117
Total current liabilities	108,284	120,747	131,004	141,377	168,146	200,476	226,957	288,565
Convertible senior notes, net	—	365,949	374,511	383,275	392,246	401,428	1,143,308	1,146,877
Operating lease liabilities, noncurrent	33,795	30,869	29,675	27,309	25,627	26,936	81,113	109,037
Deferred revenue, noncurrent	996	1,599	1,637	1,891	5,064	4,728	4,561	4,680
Other noncurrent liabilities	9,104	9,273	7,951	9,859	10,403	11,268	6,425	7,114
Total liabilities	152,179	528,437	544,778	563,711	601,486	644,836	1,462,364	1,556,273
Temporary equity, convertible senior notes	—	—	—	—	—	—	—	4,439
Stockholders' Equity:								
Class A common stock; \$0.001 par value	154	184	233	249	256	263	273	277
Class B common stock; \$0.001 par value	143	116	69	55	51	46	45	44
Additional paid-in capital	1,038,544	1,194,125	1,212,074	1,236,993	1,264,182	1,296,824	1,456,371	1,494,512
Accumulated deficit	(333,896)	(360,031)	(386,499)	(420,520)	(460,483)	(495,993)	(603,328)	(680,829)
Accumulated other comprehensive income (loss)	1,407	1,224	570	163	34	(44)	(211)	(2,645)
Total stockholders' equity	706,352	835,618	826,447	816,940	804,040	801,096	853,150	811,359
Total liabilities, temporary equity, and stockholders' equity	\$ 858,531	\$ 1,364,055	\$ 1,371,225	\$ 1,380,651	\$ 1,405,526	\$ 1,445,932	\$ 2,315,514	\$ 2,372,071

CLOUDFLARE, INC.
Consolidated Statements of Cash Flows – Quarterly

(unaudited, in thousands)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Cash Flows From Operating Activities								
Net loss	\$(32,746)	\$(26,135)	\$(26,468)	\$(34,021)	\$(39,963)	\$(35,510)	\$(107,335)	\$(77,501)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:								
Depreciation and amortization expense	10,563	11,550	12,916	14,358	15,218	16,027	17,030	18,332
Non-cash operating lease costs	4,543	4,789	4,802	5,631	5,346	5,658	6,736	7,351
Amortization of deferred contract acquisition costs	3,499	3,963	4,623	5,239	6,060	6,855	7,773	8,579
Stock-based compensation expense	12,897	12,449	14,745	16,243	18,042	20,547	23,049	28,498
Amortization of debt discount and issuance costs	(456)	89	13,232	8,764	1,879	1,985	2,140	15,686
Net accretion of discounts and amortization of premiums on available-for-sale securities	—	4,303	(4,055)	1,394	8,971	9,183	12,334	2,353
Deferred income taxes	(117)	(2,504)	(4,187)	663	(1,513)	(5,103)	(4,062)	19,416
Provision for bad debt	2,209	284	301	574	1,470	539	902	893
Loss on extinguishment of debt	—	—	—	—	—	—	72,234	—
Exchange of convertible senior notes attributable to the accreted interest related to debt discount	—	—	—	—	—	—	(29,353)	—
Other	(197)	102	22	74	79	5	27	400
Changes in operating assets and liabilities, net of effect of acquisitions:								
Accounts receivable, net	(8,120)	(4,152)	(5,438)	(15,290)	(9,211)	(5,152)	(9,754)	(11,731)
Contract assets	284	(445)	138	(1,452)	(122)	(1,589)	200	(1,030)
Deferred contract acquisition costs	(6,486)	(9,672)	(8,457)	(11,700)	(10,866)	(14,460)	(12,793)	(17,292)
Prepaid expenses and other current assets	(1,086)	915	(5,960)	(5,503)	614	(2,079)	2,188	(3,118)
Other noncurrent assets	(658)	(236)	(36)	(1,338)	1,361	229	(128)	73
Accounts payable	1,507	2,826	315	(2,958)	6,181	586	(947)	(3,358)
Accrued expenses and other current liabilities	40	4,139	4,366	8,530	10,119	817	11,211	36,750
Operating lease liabilities	(4,804)	(5,401)	(4,926)	(5,587)	(5,352)	(5,019)	(5,944)	(6,756)
Deferred revenue	6,445	6,926	5,054	6,764	14,646	13,075	12,419	24,250
Other noncurrent liabilities	(1,593)	197	986	802	535	861	(4,845)	(1,178)
Net cash provided by (used in) operating activities	(14,276)	3,987	1,973	(8,813)	23,494	7,455	(6,918)	40,617
Cash Flows From Investing Activities								
Purchases of property and equipment	(11,405)	(19,200)	(15,357)	(10,413)	(22,268)	(13,572)	(28,812)	(28,334)
Capitalized internal-use software	(4,922)	(4,941)	(4,470)	(4,254)	(3,445)	(3,658)	(4,002)	(3,647)
Cash paid for acquisitions, net of cash acquired	(13,639)	(52)	—	(250)	—	—	—	(5,605)
Purchases of available-for-sale securities	(110,609)	(468,828)	(376,710)	(310,868)	(188,377)	(192,828)	(679,678)	(528,382)
Sales of available-for-sale securities	—	—	—	—	—	—	15,756	9,958
Maturities of available-for-sale securities	131,580	192,252	191,212	325,204	261,822	252,522	251,960	201,215
Other investing activities	223	—	172	2	44	6	3	—
Net cash provided by (used in) investing activities	(8,772)	(300,769)	(205,153)	(579)	47,776	42,470	(444,773)	(354,795)
Cash Flows From Financing Activities								
Gross proceeds from issuance of convertible senior notes	—	575,000	—	—	—	—	1,293,750	—
Purchases of capped calls related to convertible senior notes	—	(67,333)	—	—	—	—	(86,293)	—
Cash consideration paid in exchange of convertible senior debt	—	—	—	—	—	—	(370,647)	—
Cash paid for issuance costs on convertible senior notes	—	(12,520)	(22)	—	—	—	(18,760)	(1,037)
Proceeds from the exercise of stock options	2,675	1,660	1,389	1,733	7,964	3,555	5,283	4,583
Proceeds from the early exercise of stock options	32	48	100	61	95	—	—	20
Repurchases of unvested common stock	(70)	(31)	(12)	(44)	(150)	(19)	(19)	(1)
Payments on note payable	(200)	—	—	—	—	—	—	—
Proceeds from the issuance of common stock for employee stock purchase plan	—	5,447	—	5,476	—	7,174	—	7,810
Payment of tax withholding obligation on RSU settlement	(7,115)	(193)	(299)	(494)	(530)	(560)	(943)	(1,601)
Payment of tax withholding obligation on common stock issued under employee stock purchase plan	—	(376)	—	—	—	—	—	—
Payment of indemnity holdback	—	—	—	—	—	—	(2,188)	—
Payments of deferred offering costs	—	—	—	—	—	—	—	—
Net cash provided by (used in) financing activities	(4,678)	501,702	1,156	6,732	7,379	10,150	820,183	9,774
Net increase (decrease) in cash, cash equivalents, and restricted cash	(27,726)	204,920	(202,024)	(2,660)	78,649	60,075	368,492	(304,404)
Cash, cash equivalents, and restricted cash, beginning of period	145,636	117,910	322,830	120,806	118,146	196,795	256,870	625,362
Cash, cash equivalents, and restricted cash, end of period	\$117,910	\$322,830	\$120,806	\$118,146	\$196,795	\$256,870	\$625,362	\$320,958

CLOUDFLARE, INC.
GAAP to Non-GAAP Reconciliations – Quarterly
(unaudited, in thousands, except per share amounts)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Reconciliation of cost of revenue:								
GAAP cost of revenue	\$ 20,821	\$ 24,164	\$ 27,005	\$ 29,065	\$ 32,084	\$ 35,029	\$ 37,525	\$ 42,496
Less: Stock-based compensation and related employer payroll taxes	(305)	(329)	(354)	(478)	(523)	(803)	(1,040)	(1,337)
Less: Amortization of acquired intangible assets	(731)	(700)	(700)	(950)	(700)	(700)	(700)	(846)
Non-GAAP cost of revenue	\$ 19,785	\$ 23,135	\$ 25,951	\$ 27,637	\$ 30,861	\$ 33,526	\$ 35,785	\$ 40,313
Reconciliation of gross profit:								
GAAP gross profit	\$ 70,429	\$ 75,557	\$ 87,157	\$ 96,861	\$ 105,971	\$ 117,399	\$ 134,822	\$ 151,100
Add: Stock-based compensation and related employer payroll taxes	305	329	354	478	523	803	1,040	1,337
Add: Amortization of acquired intangible assets	731	700	700	950	700	700	700	846
Non-GAAP gross profit	\$ 71,465	\$ 76,586	\$ 88,211	\$ 98,289	\$ 107,194	\$ 118,902	\$ 136,562	\$ 153,283
Non-GAAP gross margin	78.3%	76.8%	77.3%	78.1%	77.6%	78.0%	79.2%	79.2%
Reconciliation of operating expenses:								
GAAP sales and marketing	\$ 46,965	\$ 51,376	\$ 55,982	\$ 63,552	\$ 69,974	\$ 75,995	\$ 85,877	\$ 96,219
Less: Stock-based compensation and related employer payroll taxes	(3,579)	(3,975)	(4,761)	(5,363)	(6,835)	(7,579)	(8,271)	(10,184)
Non-GAAP sales and marketing	\$ 43,386	\$ 47,401	\$ 51,221	\$ 58,189	\$ 63,139	\$ 68,416	\$ 77,606	\$ 86,035
GAAP research and development	\$ 33,354	\$ 28,131	\$ 30,902	\$ 34,757	\$ 39,527	\$ 41,349	\$ 46,770	\$ 61,762
Less: Stock-based compensation and related employer payroll taxes	(7,127)	(6,917)	(7,373)	(9,080)	(11,058)	(11,280)	(13,971)	(24,747)
Less: Acquisition-related and other expenses	(5,776)	51	—	—	—	—	—	—
Non-GAAP research and development	\$ 20,451	\$ 21,265	\$ 23,529	\$ 25,677	\$ 28,469	\$ 30,069	\$ 32,799	\$ 37,015
GAAP general and administrative	\$ 26,181	\$ 20,754	\$ 21,525	\$ 23,293	\$ 27,724	\$ 28,927	\$ 28,669	\$ 34,183
Less: Stock-based compensation and related employer payroll taxes	(3,606)	(3,347)	(3,518)	(3,404)	(4,648)	(4,486)	(4,742)	(5,830)
Less: Acquisition-related and other expenses	(554)	—	—	—	—	—	—	(380)
Non-GAAP general and administrative	\$ 22,021	\$ 17,407	\$ 18,007	\$ 19,889	\$ 23,076	\$ 24,441	\$ 23,927	\$ 27,973
Reconciliation of income (loss) from operations:								
GAAP loss from operations	\$(36,071)	\$(24,704)	\$(21,252)	\$(24,741)	\$(31,254)	\$(28,872)	\$(26,494)	\$(41,064)
Add: Stock-based compensation and related employer payroll taxes	14,617	14,568	16,006	18,325	23,064	24,148	28,024	42,098
Add: Amortization of acquired intangible assets	731	700	700	950	700	700	700	846
Add: Acquisition-related and other expenses	6,330	(51)	—	—	—	—	—	380
Non-GAAP income (loss) from operations	\$(14,393)	\$(9,487)	\$(4,546)	\$(5,466)	\$(7,490)	\$(4,024)	\$2,230	\$2,260
Non-GAAP operating margin	(15.8)%	(9.5)%	(4.0)%	(4.3)%	(5.4)%	(2.6)%	1.3%	1.2%

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

(unaudited, in thousands, except per share amounts)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Reconciliation of interest expense:								
GAAP interest expense	\$ (67)	\$ (5,007)	\$ (9,828)	\$ (10,062)	\$ (10,234)	\$ (10,444)	\$ (12,448)	\$ (16,108)
Add: Amortization of debt discount and issuance costs	—	4,303	8,562	8,764	8,971	9,183	12,334	15,686
Non-GAAP interest expense	\$ (67)	\$ (704)	\$ (1,266)	\$ (1,298)	\$ (1,263)	\$ (1,261)	\$ (114)	\$ (422)
Reconciliation of loss on extinguishment of debt:								
GAAP loss on extinguishment of debt	—	—	—	—	—	—	\$(72,234)	\$ —
Add: Loss on extinguishment of debt	—	—	—	—	—	—	72,234	—
Non-GAAP loss on extinguishment of debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Reconciliation of provision for (benefit from) income taxes:								
GAAP provision for (benefit from) income taxes	\$ (338)	\$ (1,938)	\$ (3,504)	\$ 177	\$ (833)	\$ (4,310)	\$ (3,095)	\$ 20,571
Income tax effect of non-GAAP adjustments ⁽¹⁾	1,251	2,979	4,550	1,466	2,103	5,807	4,603	(18,622)
Non-GAAP provision for income taxes	\$ 913	\$ 1,041	\$ 1,046	\$ 1,643	\$ 1,270	\$ 1,497	\$ 1,508	\$ 1,949

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

(unaudited, in thousands, except per share amounts)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Reconciliation of net income (loss) and net income (loss) per share:								
GAAP net loss attributable to common stockholders	\$(32,746)	\$(26,135)	\$(26,468)	\$(34,021)	\$(39,963)	\$(35,510)	\$(107,335)	\$(77,501)
Add: Stock-based compensation and related employer payroll taxes	14,617	14,568	16,006	18,325	23,064	24,148	28,024	42,098
Add: Amortization of acquired intangible assets	731	700	700	950	700	700	700	846
Add: Acquisition-related and other expenses	6,330	(51)	—	—	—	—	—	380
Add: Amortization of debt discount and issuance costs	—	4,303	8,562	8,764	8,971	9,183	12,334	15,686
Add: Loss on extinguishment of debt	—	—	—	—	—	—	72,234	—
Income tax effect of non-GAAP adjustments ⁽¹⁾	(1,251)	(2,979)	(4,550)	(1,466)	(2,103)	(5,807)	(4,603)	18,622
Non-GAAP net income (loss)	\$(12,319)	\$(9,594)	\$(5,750)	\$(7,448)	\$(9,331)	\$(7,286)	\$1,354	\$131
GAAP net loss per share, basic	\$ (0.11)	\$ (0.09)	\$ (0.09)	\$ (0.11)	\$ (0.13)	\$ (0.12)	\$ (0.34)	\$ (0.24)
GAAP net loss per share, diluted	\$ (0.11)	\$ (0.09)	\$ (0.09)	\$ (0.11)	\$ (0.13)	\$ (0.12)	\$ (0.34)	\$ (0.24)
Add: Stock-based compensation and related employer payroll taxes	0.05	0.05	0.05	0.06	0.08	0.08	0.09	0.13
Add: Amortization of acquired intangible assets	—	—	—	—	—	—	—	—
Add: Acquisition-related and other expenses	0.02	—	—	—	—	—	—	—
Add: Amortization of debt discount and issuance costs	—	0.01	0.03	0.03	0.03	0.03	0.04	0.05
Add: Loss on extinguishment of debt	—	—	—	—	—	—	0.23	—
Income tax effect of non-GAAP adjustments ⁽¹⁾	—	(0.01)	(0.02)	—	(0.01)	(0.02)	(0.02)	0.06
Effect of dilutive shares	—	—	—	—	—	—	—	—
Non-GAAP net income (loss) per share, diluted ⁽²⁾⁽³⁾	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ 0.00	\$ 0.00
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic	296,077	299,321	301,689	303,813	305,947	308,263	314,543	320,331
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽³⁾	296,077	299,321	301,689	303,813	305,947	308,263	342,439	345,838

(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 Corporation acquisition.

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

(3) For the period in which we had non-GAAP net income, diluted non-GAAP net income per share is calculated using weighted-average shares, adjusted for dilutive potential shares that were assumed outstanding during period.

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

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

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Free Cash Flow								
Net cash provided by (used in) operating activities	\$ (14,276)	\$ 3,987	\$ 1,973	\$ (8,813)	\$ 23,494	\$ 7,455	\$ (6,918)	\$ 40,617
Less: Purchases of property and equipment	(11,405)	(19,200)	(15,357)	(10,413)	(22,268)	(13,572)	(28,812)	(28,334)
Less: Capitalized internal-use software	(4,922)	(4,941)	(4,470)	(4,254)	(3,445)	(3,658)	(4,002)	(3,647)
Free cash flow	\$ (30,603)	\$ (20,154)	\$ (17,854)	\$ (23,480)	\$ (2,219)	\$ (9,775)	\$ (39,732)	\$ 8,636
Net cash provided by (used in) investing activities	\$ (8,772)	\$ (300,769)	\$ (205,153)	\$ (579)	\$ 47,776	\$ 42,470	\$ (444,773)	\$ (354,795)
Net cash provided by (used in) financing activities	\$ (4,678)	\$ 501,702	\$ 1,156	\$ 6,732	\$ 7,379	\$ 10,150	\$ 820,183	\$ 9,774
Net cash provided by (used in) operating activities (percentage of revenue)	(16)%	4%	2%	(7)%	17%	5%	(4)%	21%
Less: Purchases of property and equipment (percentage of revenue)	(13)%	(19)%	(14)%	(8)%	(17)%	(9)%	(17)%	(15)%
Less: Capitalized internal-use software (percentage of revenue)	(5)%	(5)%	(4)%	(4)%	(2)%	(2)%	(2)%	(2)%
Free cash flow margin	(34)%	(20)%	(16)%	(19)%	(2)%	(6)%	(23)%	4%
Key Business Metrics								
Paying Customers ⁽¹⁾	89,223	96,178	100,968	111,183	119,206	126,735	132,390	140,096
y-y growth	21%	24%	25%	32%	34%	32%	31%	26%
Paying Customers (> \$100,000 Annualized Revenue) ⁽¹⁾	556	637	736	828	945	1,088	1,260	1,416
y-y growth	65%	65%	63%	57%	70%	71%	71%	71%
Dollar-Based Net Retention Rate ⁽¹⁾ (for the trailing 12 months ended)	117%	115%	116%	119%	123%	124%	124%	125%
Headcount								
Total Headcount	1,368	1,535	1,697	1,788	1,931	2,050	2,240	2,439
Revenue by Region								
US	\$ 44,215	\$ 48,478	\$ 59,277	\$ 66,221	\$ 71,222	\$ 79,944	\$ 90,734	\$ 100,678
EMEA	23,106	25,912	27,943	32,313	35,532	39,696	45,264	51,637
APAC	17,604	18,589	19,634	20,350	22,879	22,841	24,519	26,298
Other	6,325	6,742	7,308	7,042	8,422	9,947	11,830	14,983
Total	\$ 91,250	\$ 99,721	\$ 114,162	\$ 125,926	\$ 138,055	\$ 152,428	\$ 172,347	\$ 193,596
Revenue by Type of Customer								
Channel partners	\$ 9,159	\$ 10,153	\$ 12,159	\$ 13,829	\$ 15,362	\$ 16,872	\$ 19,527	\$ 22,041
Direct customers	82,091	89,568	102,003	112,097	122,693	135,556	152,820	171,555
Total	\$ 91,250	\$ 99,721	\$ 114,162	\$ 125,926	\$ 138,055	\$ 152,428	\$ 172,347	\$ 193,596

(1) Beginning with our quarter ended March 31, 2020, we 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.