



Cloudflare Announces Fourth Quarter and Fiscal Year 2022 Financial Results

- *Fourth quarter revenue totaled \$274.7 million, representing an increase of 42% year-over-year; fiscal year 2022 revenue totaled \$975.2 million, representing an increase of 49% year-over-year*
- *Delivered GAAP loss from operations of \$50.7 million, or 18.5% of total revenue, and record non-GAAP income from operations of \$16.8 million, or 6.1% of total revenue*
- *Achieved record operating cash flow and record free cash flow for the fourth quarter; operating cash flow was \$78.1 million, or 28% of total revenue, and free cash flow was \$33.7 million, or 12% of total revenue*

San Francisco, CA, February 9, 2023 — Cloudflare, Inc. (NYSE: NET), the security, performance, and reliability company helping to build a better Internet, today announced financial results for its fourth quarter and fiscal year ended December 31, 2022.

"In the fourth quarter, we delivered record operating profit, operating margin, and free cash flow. We also surpassed more than 2,000 large customers paying us over \$100,000 per year and signed a record number of deals greater than \$500,000," said Matthew Prince, co-founder & CEO of Cloudflare. "During economic slowdowns, we believe that it's important to show discipline and optimize for efficiency. We have our hands on the levers of our business and a full-throttle innovation engine that is the envy of the industry. There's no better time to outpace the competition and continue to deliver products on our customers' 'must-have' list."

Fourth Quarter 2022 Financial Highlights

- **Revenue:** Total revenue of \$274.7 million representing an increase of 42% year-over-year.
- **Gross Profit:** GAAP gross profit was \$206.9 million or 75.3% gross margin, compared to \$151.1 million or 78.0%, in the fourth quarter of 2021. Non-GAAP gross profit was \$212.5 million or 77.4% gross margin, compared to \$153.3 million, or 79.2%, in the fourth quarter of 2021.
- **Operating Income (Loss):** GAAP loss from operations was \$50.7 million, or 18.5% of total revenue, compared to \$41.1 million, or 21.2% of total revenue, in the fourth quarter of 2021. Non-GAAP income from operations was \$16.8 million, or 6.1% of total revenue, compared to \$2.3 million, or 1.2% of total revenue, in the fourth quarter of 2021.
- **Net Income (Loss):** GAAP net loss was \$45.9 million, compared to \$77.5 million in the fourth quarter of 2021. GAAP net loss per basic and diluted share was \$0.14 compared to \$0.24 in the fourth quarter of 2021. Non-GAAP net income was \$21.6 million, compared to \$0.1 million in the fourth quarter of 2021. Non-GAAP net income per diluted share was \$0.06, compared to \$0.00 in the fourth quarter of 2021.
- **Cash Flow:** Net cash flow from operating activities was \$78.1 million, compared to \$40.6 million for the fourth quarter of 2021. Free cash flow was \$33.7 million, or 12% of total revenue, compared to \$8.6 million, or 4% of total revenue, in the fourth quarter of 2021.
- **Cash, cash equivalents, and available-for-sale securities** were \$1,649.9 million as of December 31, 2022.

Full Year 2022 Financial Highlights

- **Revenue:** Total revenue of \$975.2 million representing an increase of 49% year-over-year.
- **Gross Profit:** GAAP gross profit was \$742.6 million or 76.1% gross margin, compared to \$509.3 million, or 77.6%, in fiscal 2021. Non-GAAP gross profit was \$762.8 million, or 78.2% gross margin, compared to \$515.9 million, or 78.6%, in fiscal 2021.

- **Operating Income (Loss):** GAAP loss from operations was \$201.2 million, or 20.6% of total revenue, compared to \$127.7 million or 19.5% of total revenue, in fiscal 2021. Non-GAAP income from operations was \$35.7 million, or 3.7% of total revenue, compared to non-GAAP loss from operations of \$7.0 million, or 1.1% of total revenue, in fiscal 2021.
- **Net Income (Loss):** GAAP net loss was \$193.4 million compared to \$260.3 million for fiscal 2021. GAAP net loss per basic and diluted share was \$0.59, compared to \$0.83 for fiscal 2021. Non-GAAP net income was \$44.4 million compared to non-GAAP net loss of \$15.1 million for fiscal 2021. Non-GAAP net income per diluted share was \$0.13, compared to non-GAAP net loss per diluted share of \$0.05 for fiscal 2021.
- **Cash Flow:** Net cash flow from operating activities was \$123.6 million, compared to \$64.6 million for fiscal 2021. Free cash flow was negative \$39.8 million, or 4% of total revenue, compared to negative \$43.1 million, or 7% of total revenue, for fiscal 2021.

The section titled "Non-GAAP Financial Information" below describes our usage of non-GAAP financial measures. Reconciliations between historical GAAP and non-GAAP information are contained at the end of this press release following the accompanying financial data.

Financial Outlook

The following forward-looking statements regarding our financial outlook are subject to substantial uncertainty as a result of challenging general economic conditions, including inflation, rising interest rates, and other impacts of the ongoing COVID-19 pandemic or Russia-Ukraine conflict, reflect our estimates as of February 9, 2023 regarding the impact of these factors on our operations, and are highly dependent on numerous factors that we may not be able to predict or control, including, among others: the COVID-19 pandemic, the Russia-Ukraine conflict, and related challenging macroeconomic conditions and the resulting impact on our customers, vendors, and partners, and the impact on global and regional economies, financial markets, and economic activity generally, such as inflation, rising interest rates, changes in monetary policy, supply chain disruptions, and foreign currency fluctuations; our ability to continue operating in impacted areas; and customer demand and spending patterns.

For the first quarter of 2023, we expect:

- Total revenue of \$290.0 to \$291.0 million
- Non-GAAP income from operations of \$11.5 to \$12.5 million
- Non-GAAP net income per share of \$0.03 to \$0.04, utilizing weighted average common shares outstanding of approximately 342 million

For the full year 2023, we expect:

- Total revenue of \$1,330.0 to \$1,342.0 million
- Non-GAAP income from operations of \$54.0 to \$58.0 million
- Non-GAAP net income per share of \$0.15 to \$0.16, utilizing weighted average common shares outstanding of approximately 344 million

Conference Call Information

Cloudflare will host an investor conference call to discuss its fourth quarter and fiscal year ended December 31, 2022 earnings results today at 2:00 p.m. Pacific time (5:00 p.m. Eastern time). Interested parties can access the call by dialing (877) 400-4517 from the United States or (332) 251-2620 internationally with conference ID 3723782. A live webcast of the conference call will be accessible from the investor relations website at <https://cloudflare.NET>. A replay will be available approximately two hours after the conclusion of the live event and will remain available for approximately one year.

Supplemental Financial and Other Information

Supplemental financial and other information can be accessed through the Company's investor relations website at <https://cloudflare.NET>.

Non-GAAP Financial Information

Cloudflare believes that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Reconciliations of non-GAAP financial measures to the most directly comparable financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty of expenses that may be incurred in the future. For further information regarding why Cloudflare believes that these non-GAAP measures provide useful information to investors, the specific manner in which management uses these measures, and some of the limitations associated with the use of these measures, please refer to the "Explanation of Non-GAAP Financial Measures" section at the end of this press release.

Available Information

Cloudflare intends to use its press releases, website, investor relations website, news site, blog, Twitter account, Facebook account, and Instagram account, in addition to filings made with the Securities and Exchange Commission (SEC) and public conference calls, as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expect," "explore," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential," or "continue," or the negative of these words, or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. However, not all forward-looking statements contain these identifying words. Forward-looking statements expressed or implied in this press release include, but are not limited to, statements regarding our future financial and operating performance, our reputation and performance in the market, general market trends, our estimated and projected revenue, non-GAAP net income (loss) from operations and non-GAAP net income (loss) per share, shares outstanding, the benefits to customers from using our products, the expected functionality and performance of our products, the demand by customers for our products, our plans and objectives for future operations, growth, initiatives, or strategies, our market opportunity, and comments made by our CEO and others. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including: the extent and duration of the impact of the COVID-19 pandemic, the Russia-Ukraine conflict and resulting adverse macroeconomic conditions, such as inflation and rising interest rates, on our and our customers', vendors', and partners' operations and future financial performance; our history of net losses; our limited operating history; risks associated with managing our rapid growth; our ability to attract and retain new customers (including new large customers); our ability to retain and upgrade paying customers and convert free customers to paying customers; our ability to effectively increase sales to large customers; our ability to increase brand awareness; our ability to generate demand for our products; problems with our internal systems, network, or data, including actual or perceived breaches or failures; rapidly evolving technological developments in the market; length of sales cycles; activities of our paying and free customers or the content of their websites and other Internet properties that use our network and products; foreign currency fluctuations; changes in the legal, tax, and regulatory environment applicable to our business; and general market, political, economic, and business conditions. Our actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, risks detailed in our filings with the SEC, including our Quarterly Report on Form 10-Q filed on November 3, 2022, as well as other filings that we may make from time to time with the SEC.

The forward-looking statements made in this press release relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

About Cloudflare

Cloudflare, Inc. (www.cloudflare.com / @cloudflare) is on a mission to help build a better Internet. Cloudflare's suite of products protect and accelerate any Internet application online without adding hardware, installing software, or changing a line of code. Internet properties powered by Cloudflare have all web traffic routed through its intelligent global network, which gets smarter with every request. As a result, they see significant improvement in performance and a decrease in spam and other attacks. Cloudflare was awarded by Reuters Events for Global Responsible Business in 2020, named to Fast Company's Most Innovative Companies in 2021, and ranked among Newsweek's Top 100 Most Loved Workplaces in 2022.

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Source: Cloudflare, Inc.

CLOUDFLARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Revenue	\$ 274,700	\$ 193,596	\$ 975,241	\$ 656,426
Cost of revenue ⁽¹⁾⁽²⁾	67,788	42,496	232,610	147,134
Gross profit	206,912	151,100	742,631	509,292
Operating expenses:				
Sales and marketing ⁽¹⁾⁽²⁾⁽³⁾	132,050	96,219	465,762	328,065
Research and development ⁽¹⁾⁽³⁾	79,703	61,762	298,303	189,408
General and administrative ⁽¹⁾	45,850	34,183	179,769	119,503
Total operating expenses	257,603	192,164	943,834	636,976
Loss from operations	(50,691)	(41,064)	(201,203)	(127,684)
Non-operating income (expense):				
Interest income	8,323	668	14,877	1,970
Interest expense ⁽⁴⁾	(875)	(16,108)	(4,984)	(49,234)
Loss on extinguishment of debt	—	—	—	(72,234)
Other income (expense), net	(1,602)	(426)	577	(794)
Total non-operating income (expense), net	5,846	(15,866)	10,470	(120,292)
Loss before income taxes	(44,845)	(56,930)	(190,733)	(247,976)
Provision for income taxes	1,072	20,571	2,648	12,333
Net loss	\$ (45,917)	\$ (77,501)	\$ (193,381)	\$ (260,309)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.14)	\$ (0.24)	\$ (0.59)	\$ (0.83)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	328,326	320,331	326,332	312,321

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

Cost of revenue	\$ 1,289	\$ 1,337	\$ 6,770	\$ 3,703
Sales and marketing	18,487	10,184	53,692	32,869
Research and development	30,276	24,747	112,277	61,056
General and administrative	12,572	5,830	45,027	19,706
Total stock-based compensation and related employer payroll taxes	\$ 62,624	\$ 42,098	\$ 217,766	\$ 117,334

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

Cost of revenue	\$ 4,311	\$ 846	\$ 13,444	\$ 2,946
Sales and marketing	575	—	1,725	—
Total amortization of acquired intangible assets	\$ 4,886	\$ 846	\$ 15,169	\$ 2,946

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

Sales and marketing	\$ —	\$ —	\$ 265	\$ —
Research and development	—	—	3,682	—
General and administrative	—	380	—	380
Total acquisition-related and other expenses	\$ —	\$ 380	\$ 3,947	\$ 380

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

Amortization of debt discounts and issuance costs*	\$ 1,162	\$ 15,686	\$ 4,659	\$ 46,174
Total amortization of debt discounts and issuance costs	\$ 1,162	\$ 15,686	\$ 4,659	\$ 46,174

* The Company recorded amortization of debt discount as interest expense prior to the adoption of ASU 2020-06 on January 1, 2022.

CLOUDFLARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 204,178	\$ 313,777
Available-for-sale securities	1,445,759	1,508,066
Accounts receivable, net	148,544	95,543
Contract assets	8,292	6,079
Restricted cash short-term	10,555	2,958
Prepaid expenses and other current assets	70,556	29,433
Total current assets	1,887,884	1,955,856
Property and equipment, net	286,600	183,736
Goodwill	148,047	23,530
Acquired intangible assets, net	32,483	1,254
Operating lease right-of-use assets	132,360	130,314
Deferred contract acquisition costs, noncurrent	93,145	70,320
Restricted cash	471	4,223
Other noncurrent assets	6,918	2,838
Total assets	<u>\$ 2,587,908</u>	<u>\$ 2,372,071</u>
Liabilities, Temporary Equity, and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 35,607	\$ 26,086
Accrued expenses and other current liabilities	66,425	38,085
Accrued compensation	42,014	65,905
Operating lease liabilities	33,275	25,175
Liability for early exercise of unvested stock options	1,902	4,651
Deferred revenue	218,647	116,546
Current portion of convertible senior notes, net	—	12,117
Total current liabilities	397,870	288,565
Convertible senior notes, net	1,436,192	1,146,877
Operating lease liabilities, noncurrent	107,624	109,037
Deferred revenue, noncurrent	11,732	4,680
Other noncurrent liabilities	10,526	7,114
Total liabilities	<u>1,963,944</u>	<u>1,556,273</u>
Temporary equity, convertible senior notes	<u>—</u>	<u>4,439</u>
Stockholders' Equity:		
Class A common stock; \$0.001 par value; 2,250,000 shares authorized as of December 31, 2022 and 2021; 286,561 and 277,708 shares issued and outstanding as of December 31, 2022 and 2021, respectively	286	277
Class B common stock; \$0.001 par value; 315,000 shares authorized as of December 31, 2022 and 2021; 43,525 and 45,904 shares issued and outstanding as of December 31, 2022 and 2021, respectively	42	44
Additional paid-in capital	1,475,423	1,494,512
Accumulated deficit	(839,891)	(680,829)
Accumulated other comprehensive loss	(11,896)	(2,645)
Total stockholders' equity	623,964	811,359
Total liabilities, temporary equity, and stockholders' equity	<u>\$ 2,587,908</u>	<u>\$ 2,372,071</u>

CLOUDFLARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Year ended December 31,	
	2022	2021
Cash Flows From Operating Activities		
Net loss	\$ (193,381)	\$ (260,309)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization expense	102,335	66,607
Non-cash operating lease costs	36,332	25,091
Amortization of deferred contract acquisition costs	45,115	29,267
Stock-based compensation expense	202,777	90,137
Amortization of debt discount and issuance costs	4,659	46,174
Net accretion of discounts and amortization of premiums on available-for-sale securities	(263)	8,357
Deferred income taxes	(140)	8,738
Provision for bad debt	4,828	3,804
Loss on extinguishment of debt	—	72,234
Exchange of convertible senior notes attributable to the accreted interest related to debt discount	—	(29,353)
Other	629	511
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(56,195)	(35,848)
Contract assets	(2,213)	(2,541)
Deferred contract acquisition costs	(67,940)	(55,411)
Prepaid expenses and other current assets	(7,701)	(2,395)
Other noncurrent assets	(539)	1,534
Accounts payable	(9,605)	2,462
Accrued expenses and other current liabilities	(5,363)	58,897
Operating lease liabilities	(31,691)	(23,071)
Deferred revenue	102,204	64,390
Other noncurrent liabilities	(253)	(4,627)
Net cash provided by operating activities	123,595	64,648
Cash Flows From Investing Activities		
Purchases of property and equipment	(143,606)	(92,986)
Capitalized internal-use software	(19,758)	(14,752)
Cash paid for acquisitions, net of cash acquired	(88,187)	(5,605)
Purchases of available-for-sale securities	(1,132,951)	(1,589,265)
Sales of available-for-sale securities	—	25,714
Maturities of available-for-sale securities	1,148,770	967,519
Other investing activities	36	53
Net cash used in investing activities	(235,696)	(709,322)
Cash Flows From Financing Activities		
Gross proceeds from issuance of convertible senior notes	—	1,293,750
Purchases of capped calls related to convertible senior notes	—	(86,293)
Cash consideration paid in exchange of convertible senior debt	—	(370,647)
Cash paid for issuance costs on convertible senior notes	—	(19,797)
Repayments of convertible senior notes	(16,571)	—
Proceeds from the exercise of stock options	10,000	21,385
Proceeds from the early exercise of stock options	113	115
Repurchases of unvested common stock	(3)	(189)
Payments on note payable	—	—
Proceeds from the issuance of common stock for employee stock purchase plan	15,291	14,984
Payment of tax withholding obligation on RSU settlement	(2,483)	(3,634)
Payment of tax withholding obligation on common stock issued under employee stock purchase plan	—	—
Payment of indemnity holdback	—	(2,188)
Net cash provided by financing activities	6,347	847,486
Net (decrease) increase in cash, cash equivalents, and restricted cash	(105,754)	202,812
Cash, cash equivalents, and restricted cash, beginning of period	320,958	118,146
Cash, cash equivalents, and restricted cash, end of period	\$ 215,204	\$ 320,958

CLOUDFLARE, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Reconciliation of cost of revenue:				
GAAP cost of revenue	\$ 67,788	\$ 42,496	\$ 232,610	\$ 147,134
Less: Stock-based compensation and related employer payroll taxes	(1,289)	(1,337)	(6,770)	(3,703)
Less: Amortization of acquired intangible assets	(4,311)	(846)	(13,444)	(2,946)
Non-GAAP cost of revenue	<u>\$ 62,188</u>	<u>\$ 40,313</u>	<u>\$ 212,396</u>	<u>\$ 140,485</u>
Reconciliation of gross profit:				
GAAP gross profit	\$ 206,912	\$ 151,100	\$ 742,631	\$ 509,292
Add: Stock-based compensation and related employer payroll taxes	1,289	1,337	6,770	3,703
Add: Amortization of acquired intangible assets	4,311	846	13,444	2,946
Non-GAAP gross profit	<u>\$ 212,512</u>	<u>\$ 153,283</u>	<u>\$ 762,845</u>	<u>\$ 515,941</u>
GAAP gross margin	75.3%	78.0%	76.1%	77.6%
Non-GAAP gross margin	77.4%	79.2%	78.2%	78.6%
Reconciliation of operating expenses:				
GAAP sales and marketing	\$ 132,050	\$ 96,219	\$ 465,762	\$ 328,065
Less: Stock-based compensation and related employer payroll taxes	(18,487)	(10,184)	(53,692)	(32,869)
Less: Amortization of acquired intangible assets	(575)	—	(1,725)	—
Less: Acquisition-related and other expenses	—	—	(265)	—
Non-GAAP sales and marketing	<u>\$ 112,988</u>	<u>\$ 86,035</u>	<u>\$ 410,080</u>	<u>\$ 295,196</u>
GAAP research and development	\$ 79,703	\$ 61,762	\$ 298,303	\$ 189,408
Less: Stock-based compensation and related employer payroll taxes	(30,276)	(24,747)	(112,277)	(61,056)
Less: Acquisition-related and other expenses	—	—	(3,682)	—
Non-GAAP research and development	<u>\$ 49,427</u>	<u>\$ 37,015</u>	<u>\$ 182,344</u>	<u>\$ 128,352</u>
GAAP general and administrative	\$ 45,850	\$ 34,183	\$ 179,769	\$ 119,503
Less: Stock-based compensation and related employer payroll taxes	(12,572)	(5,830)	(45,027)	(19,706)
Less: Acquisition-related and other expenses	—	(380)	—	(380)
Non-GAAP general and administrative	<u>\$ 33,278</u>	<u>\$ 27,973</u>	<u>\$ 134,742</u>	<u>\$ 99,417</u>
Reconciliation of income (loss) from operations:				
GAAP loss from operations	\$ (50,691)	\$ (41,064)	\$ (201,203)	\$ (127,684)
Add: Stock-based compensation and related employer payroll taxes	62,624	42,098	217,766	117,334
Add: Amortization of acquired intangible assets	4,886	846	15,169	2,946
Add: Acquisition-related and other expenses	—	380	3,947	380
Non-GAAP income (loss) from operations	<u>\$ 16,819</u>	<u>\$ 2,260</u>	<u>\$ 35,679</u>	<u>\$ (7,024)</u>
GAAP operating margin	(18.5)%	(21.2)%	(20.6)%	(19.5)%
Non-GAAP operating margin	<u>6.1%</u>	<u>1.2%</u>	<u>3.7%</u>	<u>(1.1)%</u>

CLOUDFLARE, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Reconciliation of interest expense:				
GAAP interest expense	\$ (875)	\$ (16,108)	\$ (4,984)	\$ (49,234)
Add: Amortization of debt discount and issuance costs ⁽¹⁾	1,162	15,686	4,659	46,174
Non-GAAP interest expense	<u>\$ 287</u>	<u>\$ (422)</u>	<u>\$ (325)</u>	<u>\$ (3,060)</u>
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	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Reconciliation of provision for income taxes:				
GAAP provision for income taxes	\$ 1,072	\$ 20,571	\$ 2,648	\$ 12,333
Income tax effect of non-GAAP adjustments	1,179	(18,622)	3,722	(6,109)
Non-GAAP provision for income taxes	<u>\$ 2,251</u>	<u>\$ 1,949</u>	<u>\$ 6,370</u>	<u>\$ 6,224</u>

(1) The Company recorded amortization of debt discount as interest expense prior to the adoption of ASU 2020-06 on January 1, 2022.

CLOUDFLARE, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Reconciliation of net income (loss) and net income (loss) per share:				
GAAP net loss attributable to common stockholders	\$ (45,917)	\$ (77,501)	\$ (193,381)	\$ (260,309)
Add: Stock-based compensation and related employer payroll taxes	62,624	42,098	217,766	117,334
Add: Amortization of acquired intangible assets	4,886	846	15,169	2,946
Add: Acquisition-related and other expenses	—	380	3,947	380
Add: Amortization of debt discount and issuance costs ⁽¹⁾	1,162	15,686	4,659	46,174
Add: Loss on extinguishment of debt	—	—	—	72,234
Income tax effect of non-GAAP adjustments	(1,179)	18,622	(3,722)	6,109
Non-GAAP net income (loss)	<u>\$ 21,576</u>	<u>\$ 131</u>	<u>\$ 44,438</u>	<u>\$ (15,132)</u>
GAAP net loss per share, basic	<u>\$ (0.14)</u>	<u>\$ (0.24)</u>	<u>\$ (0.59)</u>	<u>\$ (0.83)</u>
GAAP net loss per share, diluted	\$ (0.14)	\$ (0.24)	\$ (0.59)	\$ (0.83)
Add: Stock-based compensation and related employer payroll taxes	0.19	0.13	0.67	0.38
Add: Amortization of acquired intangible assets	0.01	—	0.04	—
Add: Acquisition-related and other expenses	—	—	0.01	—
Add: Amortization of debt discount and issuance costs ⁽¹⁾	—	0.05	0.01	0.15
Add: Loss on extinguishment of debt	—	—	—	0.23
Income tax effect of non-GAAP adjustments	—	0.06	(0.01)	0.02
Effect of dilutive shares	—	—	—	—
Non-GAAP net income (loss) per share, diluted ⁽²⁾⁽³⁾	<u>\$ 0.06</u>	<u>\$ 0.00</u>	<u>\$ 0.13</u>	<u>\$ (0.05)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic	328,326	320,331	326,332	312,321
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽³⁾	341,123	345,838	341,676	312,321

(1) The Company recorded amortization of debt discount as interest expense prior to the adoption of ASU 2020-06 on January 1, 2022.

(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.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Free cash flow				
Net cash provided by operating activities	\$ 78,123	\$ 40,617	\$ 123,595	\$ 64,648
Less: Purchases of property and equipment	(40,145)	(28,334)	(143,606)	(92,986)
Less: Capitalized internal-use software	(4,318)	(3,647)	(19,758)	(14,752)
Free cash flow	<u>\$ 33,660</u>	<u>\$ 8,636</u>	<u>\$ (39,769)</u>	<u>\$ (43,090)</u>
Net cash used in investing activities	\$ (19,956)	\$ (354,795)	\$ (235,696)	\$ (709,322)
Net cash provided by financing activities	\$ 8,019	\$ 9,774	\$ 6,347	\$ 847,486
Net cash provided by operating activities (percentage of revenue)	28 %	21 %	13 %	10 %
Less: Purchases of property and equipment (percentage of revenue)	(15)%	(15)%	(15)%	(14)%
Less: Capitalized internal-use software (percentage of revenue)	(1)%	(2)%	(2)%	(2)%
Free cash flow margin ⁽¹⁾	<u>12 %</u>	<u>4 %</u>	<u>(4)%</u>	<u>(7)%</u>

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

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 above 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. 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 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. Prior to adoption of ASU 2020-06 on January 1, 2022, we recorded amortization of debt discount as interest expense.

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, amortization of issuance costs, 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 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) per share, diluted, provides management and investors with greater visibility into the underlying performance of our core business operating results.

Free Cash Flow and Free Cash Flow Margin. Free cash flow is a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less cash used for purchases of property and equipment and capitalized internal-use software. Free cash flow margin is calculated as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors

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