



Investor Presentation

As of December 31, 2023

Safe Harbor



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Cloudflare at a Glance

2010

Launched

189K+

Paying Customers

310+

Cities in Network

>60%

Of Revenue from Large Customers

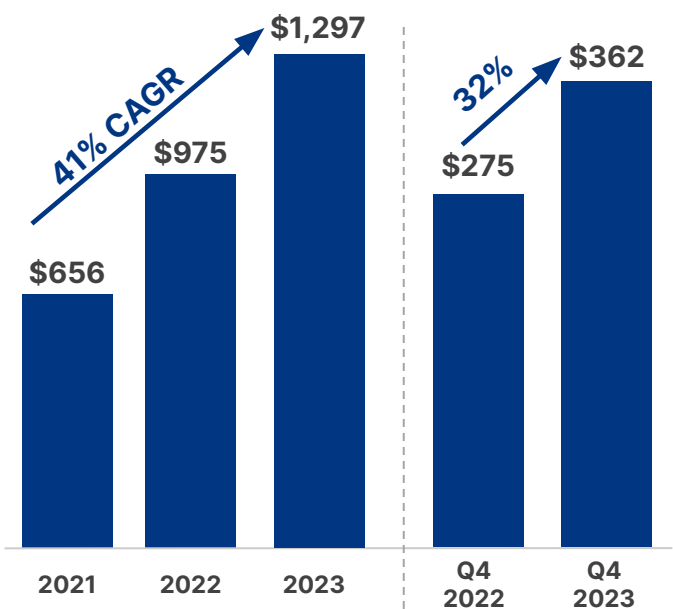
3,682

Employees

78%

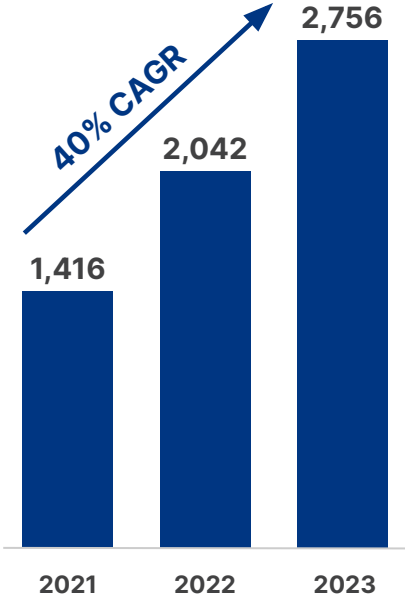
FY23 Non-GAAP Gross Margin

Total Revenue (\$M)



Large Customers

> \$100,000 Annualized Revenue



Note: Unless indicated otherwise, all data in orange shaded area of slide are as of December 31, 2023, except revenue from Large Customers and Non-GAAP gross margin are for twelve months ended December 31, 2023. Large Customers data are as of three months ended December 31 of their respective years. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation, and "Large Customers" definition.

Environmental, Social, Governance (Impact)



Helping build a green Internet

Committed to setting near-term emissions reduction targets (Science Based Targets initiative)

Powered by 100% renewable energy

Offsetting or removing historic network emissions (2025)



Human Rights and Democracy

Protecting local government election websites in 33 US States

Protecting 2,400 journalists and human rights defenders online in 111 countries through

Project Galileo

Completed independently reviewed human rights audit (GNI)



Sustainable Communities

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

UN Global Compact

Diversity, Equity, Inclusion Report

1% Pledge Participant

ESG Disclosures (GRI/ SASB)



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

Cloudflare recognized by the **White House** and State Department at 2023 Summit for Democracy

For more information, visit

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

Impact Spotlight 2023: Shielding schools from online attacks

Cloudflare announced Project Cybersafe Schools at the White House's Back to School Safely: K-12 Cybersecurity Summit in August 2023.

Cloudflare provides eligible school districts with Zero Trust cyber security solutions that help minimize exposure to harmful online content and common cyber threats such as phishing and credential harvesting. We provide these products for free and with no time limit.

This program was inspired by ongoing conversations with fellow members of the Joint Cyber Defense Collaborative. Cloudflare worked with officials from the Cybersecurity & Infrastructure Security Agency (CISA), the Department of Education, and the White House to determine how we could partner to protect K-12 schools in the United States from cyber threats, particularly since small schools often lack the resources and capacity to combat evolving threats.

Apply for Project Cybersafe Schools at cloudflare.com/lp/cybersafe-schools.

Matt Schneider and Zaid Zaid from Cloudflare.



The White House's >>
Back to School Safely:
K-12 Cybersecurity
Summit.

Project Cybersafe Schools

Program participants



Eligibility requirements

- ✓ K-12 public school districts
- ✓ Located in the United States
- ✓ No larger than 2,500 students per district

The offering



Area 1 Cloud Email Security

Safeguards inboxes by stopping sophisticated threats such as phishing and credential harvesting.



Gateway DNS Filtering

Protects against threats by preventing users from reaching unwanted or harmful online content.

“

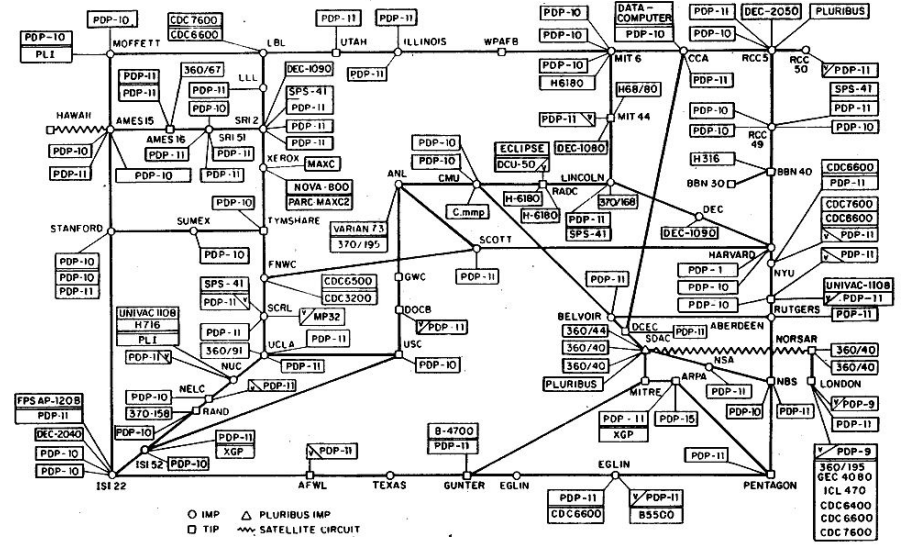
Every day, our schools face cyber attacks that can slow Internet access, threaten leaks of confidential student data, and hinder their ability to teach children in a secure online space.”

Matthew Prince, CEO and Co-Founder, Cloudflare

Cloudflare's mission is to
Help build a better Internet

The Internet
was not
built for
what it has
become.

ARPANET LOGICAL MAP, MARCH 1977

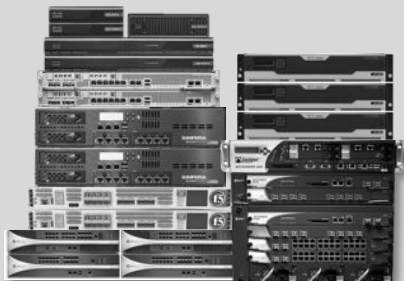


(PLEASE NOTE THAT WHILE THIS MAP SHOWS THE HOST POPULATION OF THE NETWORK ACCORDING TO THE BEST INFORMATION OBTAINABLE, NO CLAIM CAN BE MADE FOR ITS ACCURACY)
NAMES SHOWN ARE IMP NAMES, NOT NECESSARILY HOST NAMES

From Endless Hardware to a Global Cloud Platform

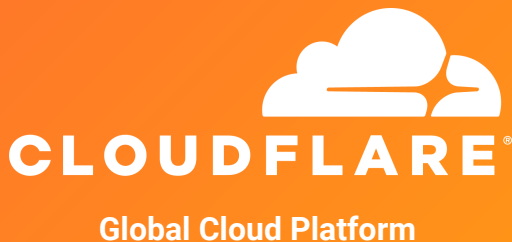
BAND-AID BOXES

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

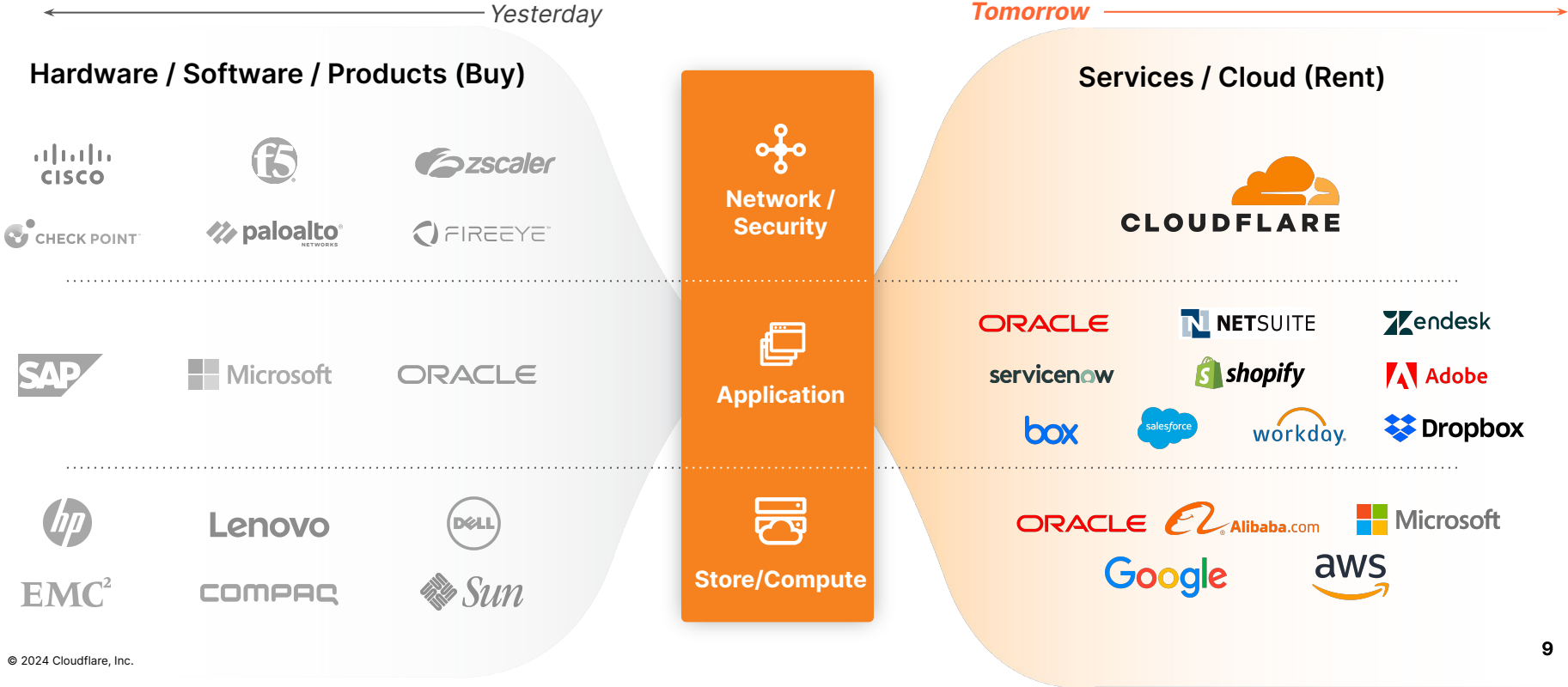


BETTER INTERNET

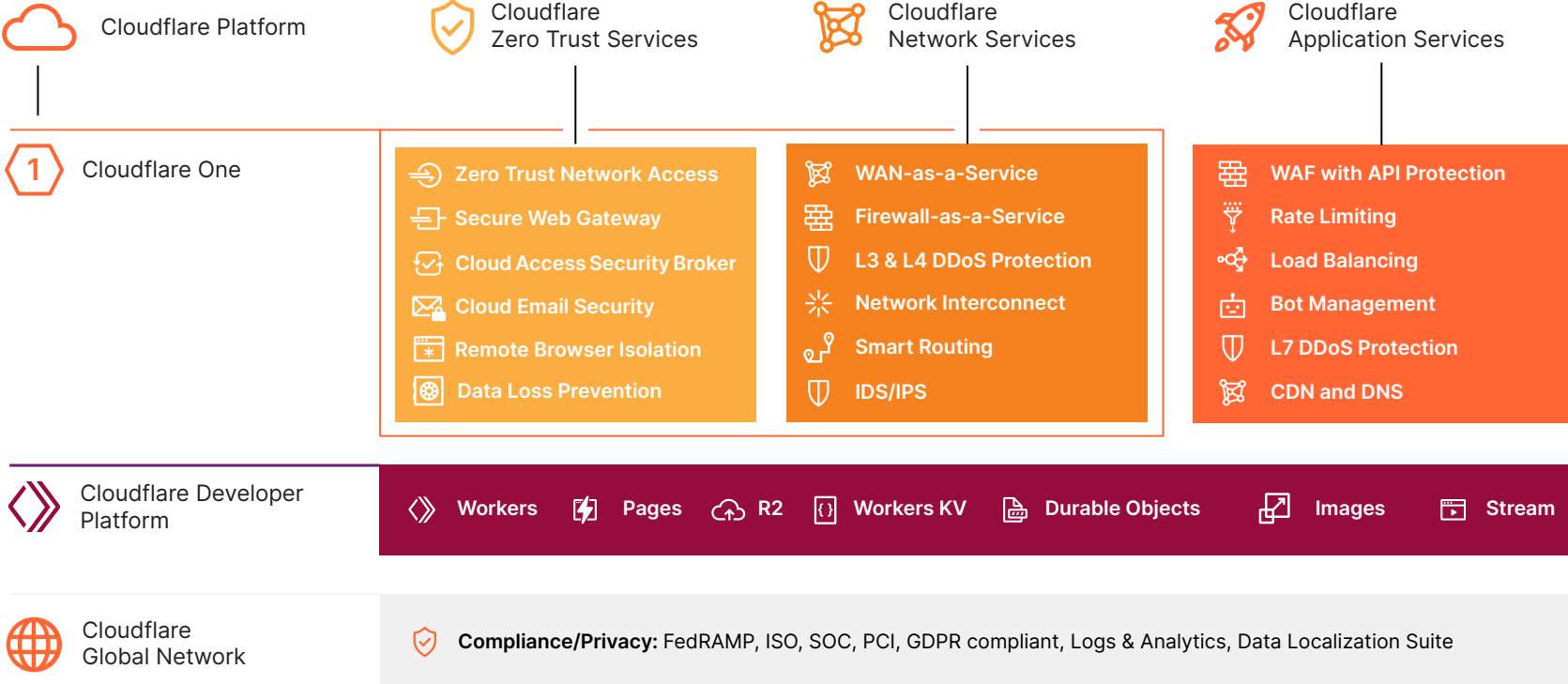
- Easy-to-use, flexible, and scalable
- Unified control plane
- Serverless cloud architecture
- Cloud, hybrid, on-premise, and SaaS
- Broad, integrated product platform



Evolution of the Enterprise Stack



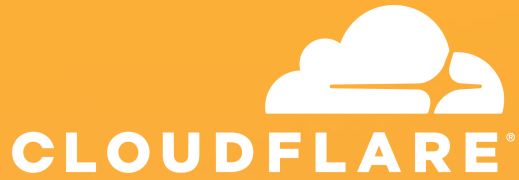
An Integrated Global Cloud Platform



We Operate at Massive Scale



Cyber threats blocked per day is average over the three months ended December 31, 2023. All other figures are as of the three months ended December 31, 2023. See Appendix for “Paying Customers” and “Large Customers” definitions.



Our Flexible, Scalable, & Efficient Serverless Architecture

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

A Global Network Powering our Platform



310+ cities

in 120+ countries, including mainland China



13,000 networks

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



248 Tbps

of network capacity and growing



189,000+ Paying Customers



30%+

of the Fortune 1,000 are Paying Customers
as of December 31, 2023

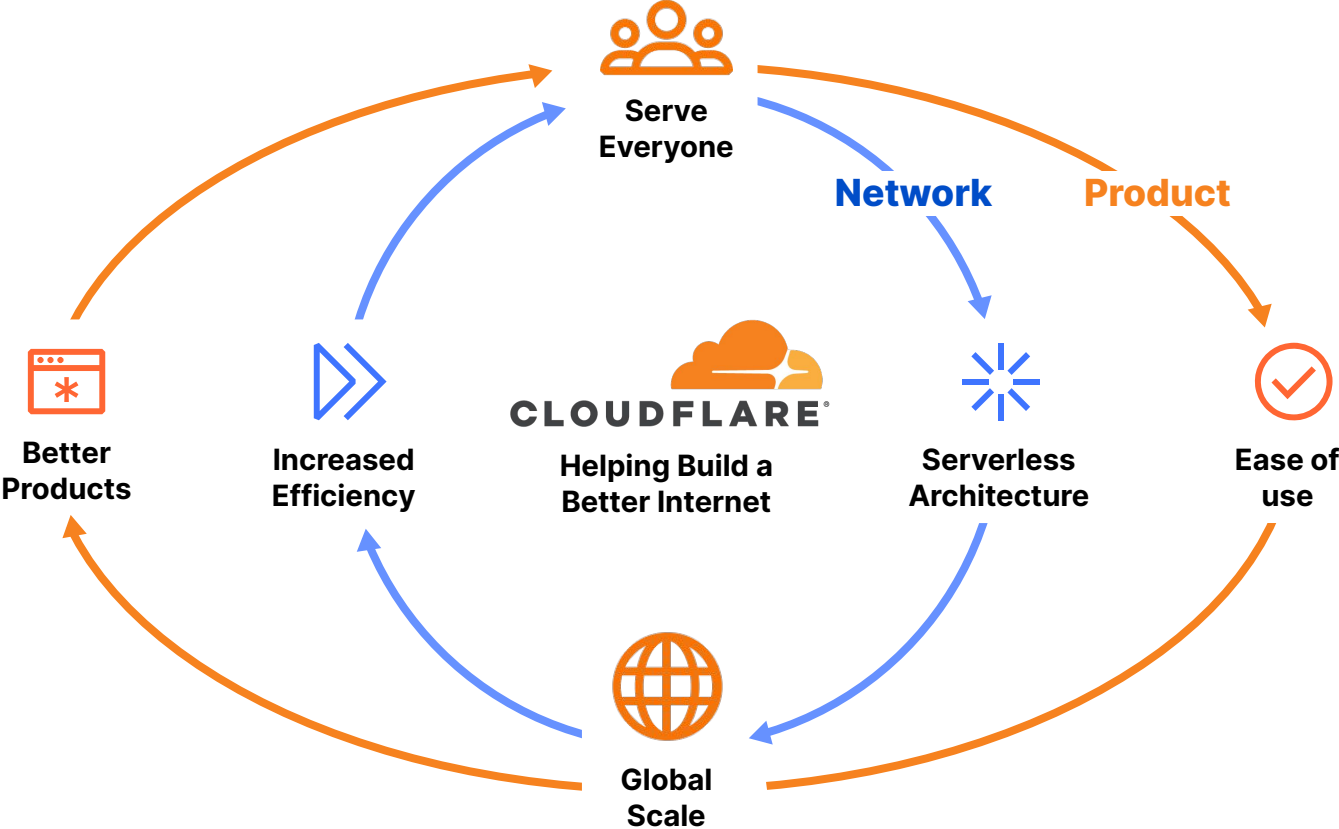
35%

year-over-year Large Customer growth in Q4'23

~95%

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

Our Product & Network Flywheels Drive Our Business



Data Intelligence & Quality Assurance at Scale

Global sensor network

with paying customers in 180+ countries.

Machine learning systems
improve products with
every customer's request.

Immune system for the
Internet blocking an average of
~182 billion cyber threats each
day.

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

Note: Cyber threats blocked per day is approximate average over the three months ended December 31, 2023. Other figures as of the three months ended December 31, 2023.

Our Competitive Advantages



**NETWORK
SCALE**



**EASE
OF USE**












**SHARED
INTELLIGENCE**

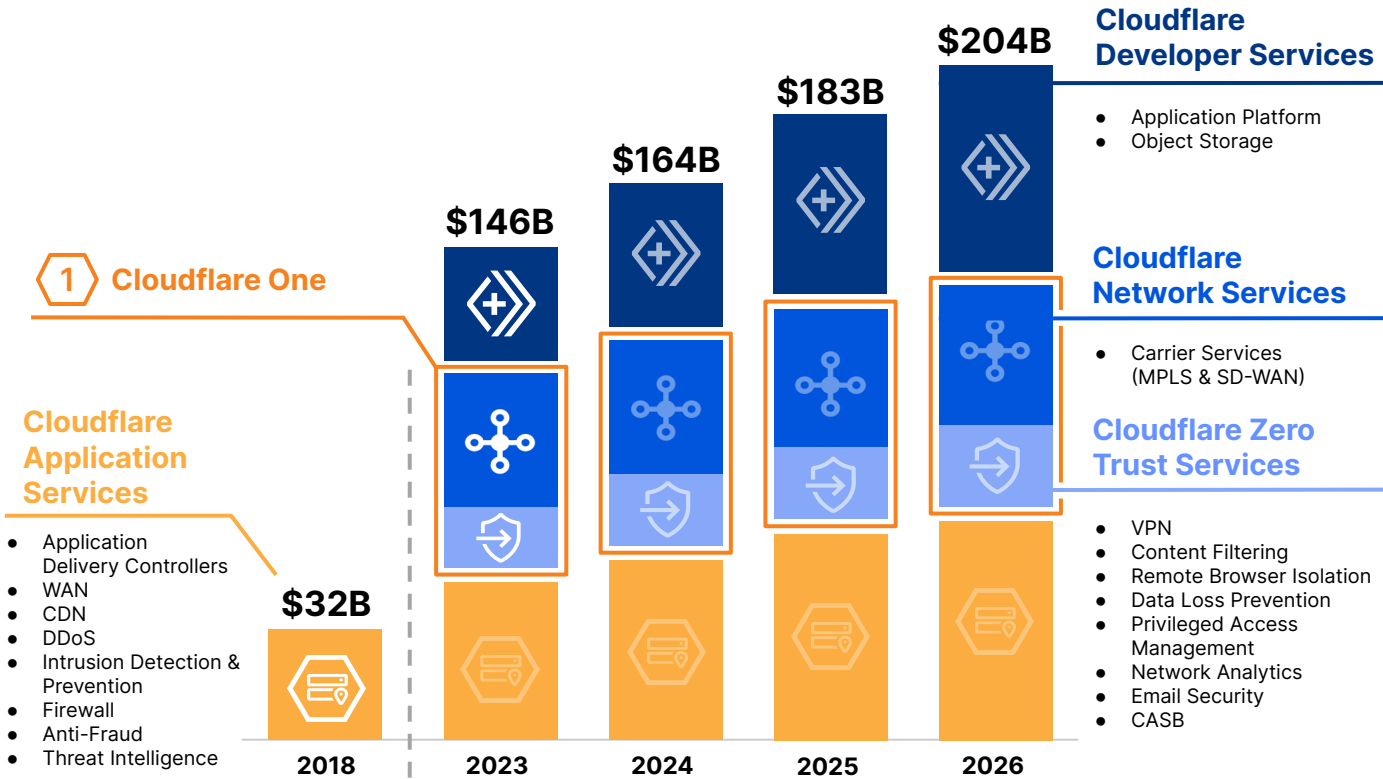


**NO
TRADE OFFS**






Our Favorable Competitive Position

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

Consistent & Deliberate TAM Expansion



Areas for Potential Incremental Growth

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

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

Traditional Go-To-Market Model Inverted

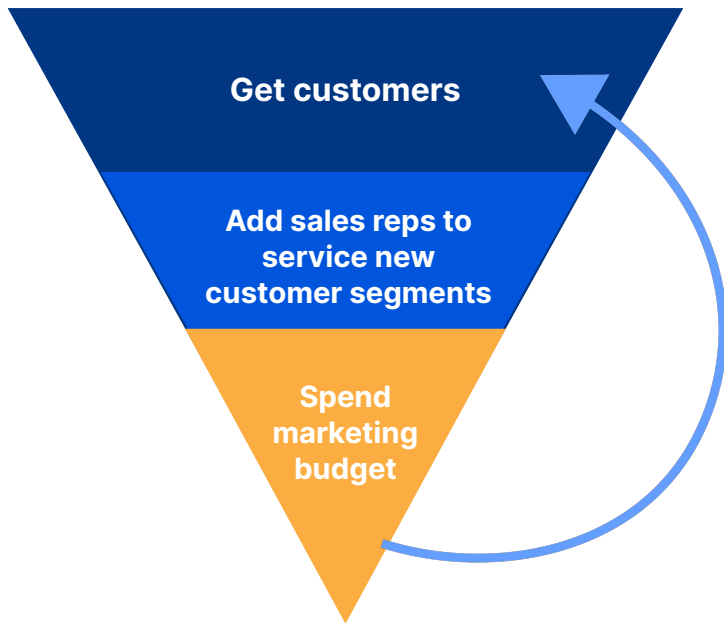
We don't build ahead of the curve.

Sources of Leverage

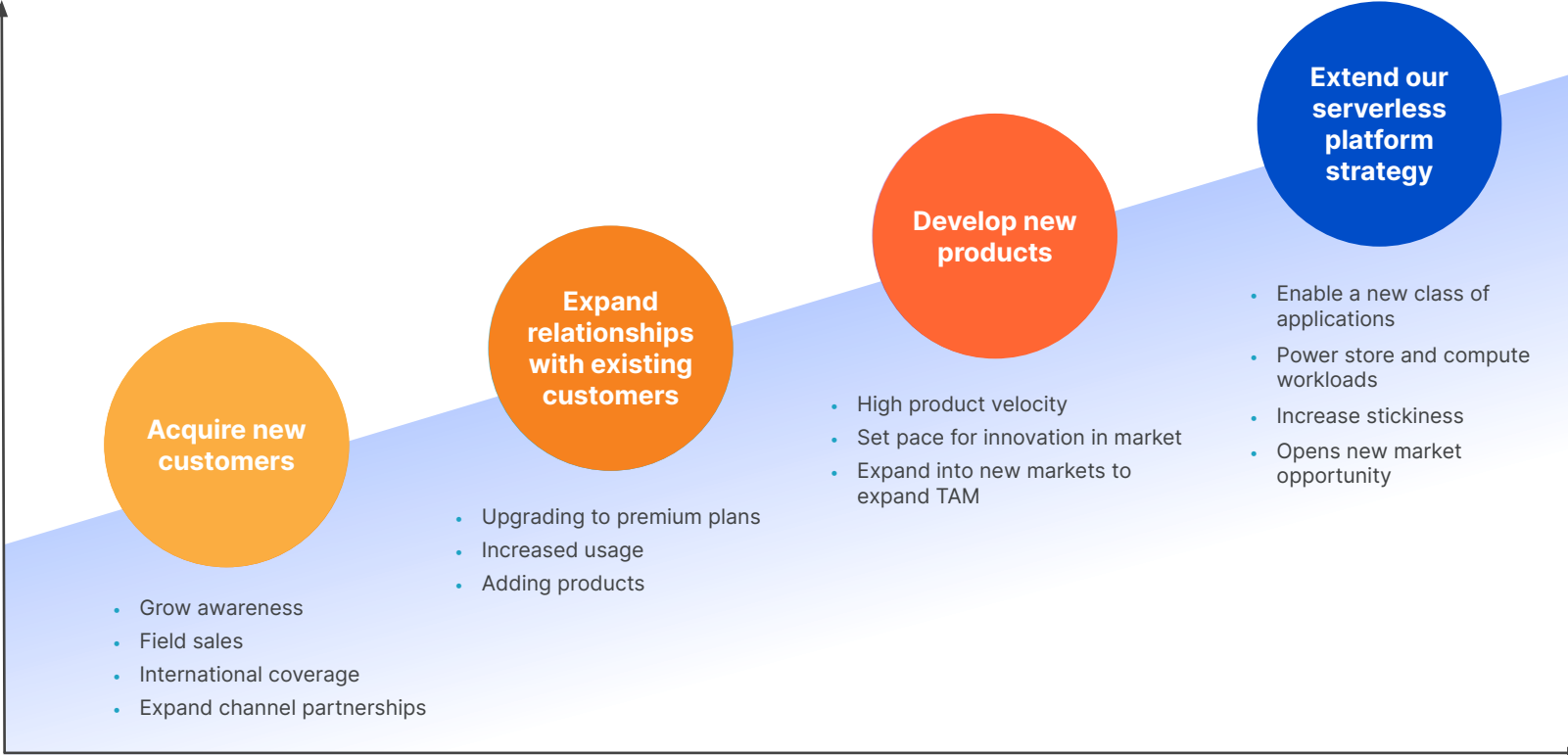
- Self service adoption for customers of all sizes
- Natural expansion
- Pulled into new geographies
- Pulled up market



CLOUDFLARE[®] Model



Our Strategy for Growth



Financial Overview

Key Financial Highlights

\$164B

Large
Addressable
Market in 2024

33%
Y/Y

FY23 Revenue
Growth

78%

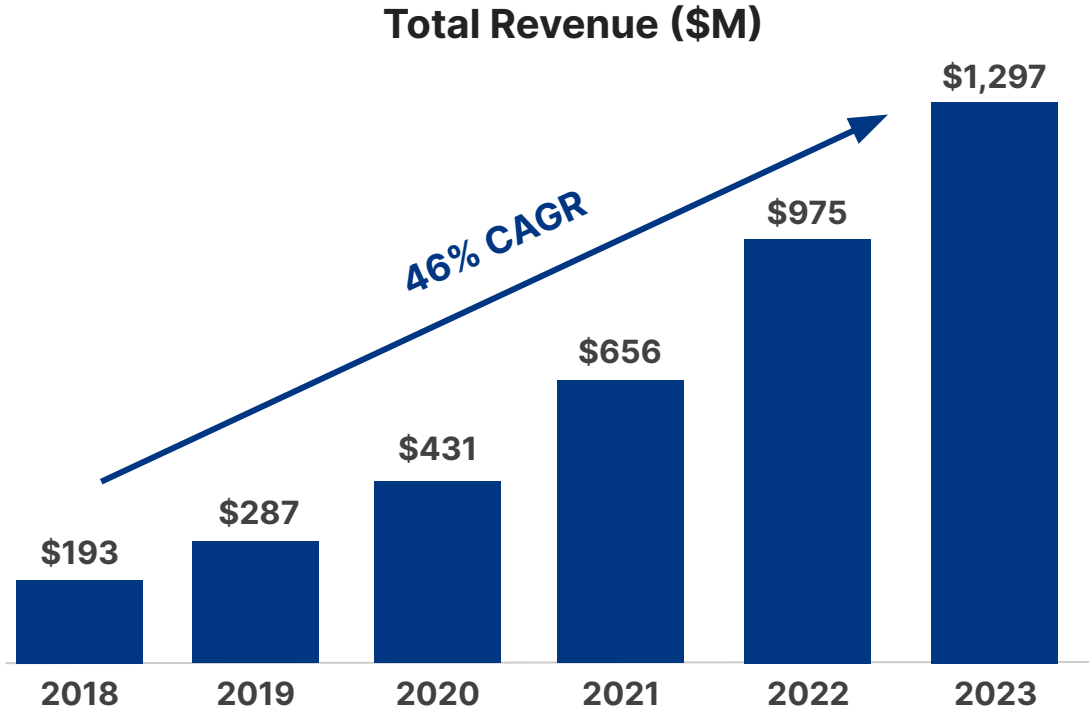
FY23 Non-GAAP
Gross Margin

2,756

Large
Customers

Note: Total Addressable Market represents 2024 expected spend from our analysis based on IDC data. Year-over-year revenue growth and Non-GAAP gross margin are as of the twelve months ended December 31, 2023. Large Customers are as of December 31, 2023. See Appendix for GAAP financial measures and GAAP to Non-GAAP reconciliation, and how we define "Large Customers."

Track Record of Delivering Revenue Growth



Investment in enterprise sales



Large customer momentum



Land and expand strategy drives growth across cohorts

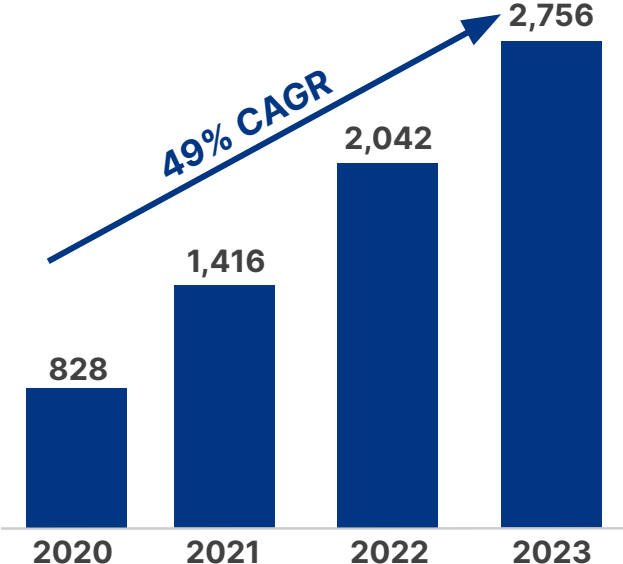


Strong penetration across the entire product portfolio

Large Customer Growth

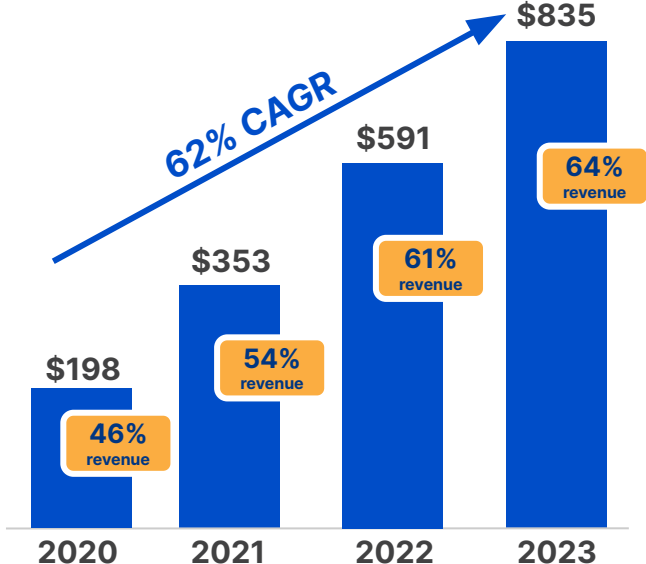
Large Customers

>\$100,000 Annualized Revenue



Large Customers - Revenue Contribution

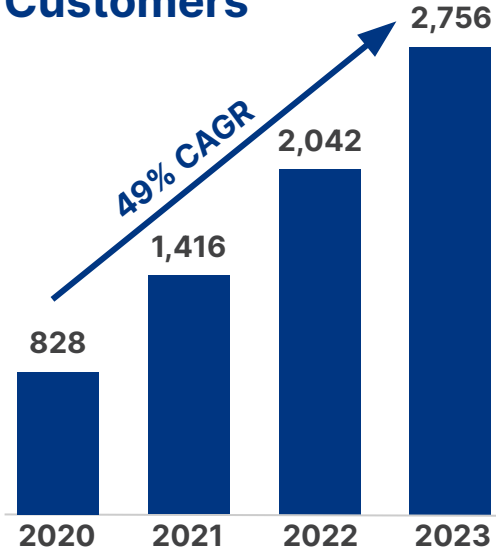
>\$100,000 Annualized Revenue (\$M)



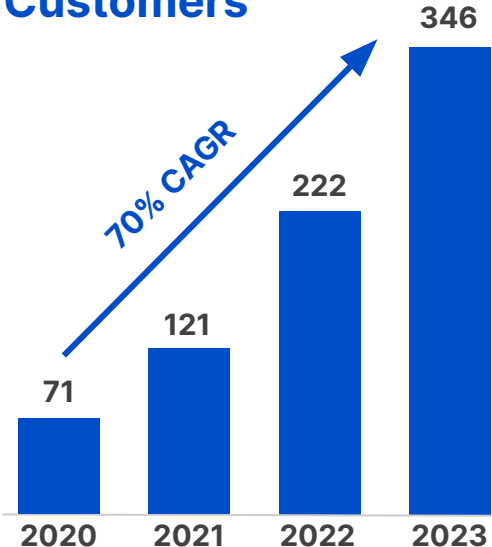
Note: Large Customers data are as of three months ended December 31 of their respective years. Methodology for Annual Large Customer Revenue Contribution takes the Large Customers as of three months ended December 31 of each year, and sums the actual spend of those customers in the respective years. See the Appendix for how we define "Large Customers."

Significant Growth in Large Customer Cohorts

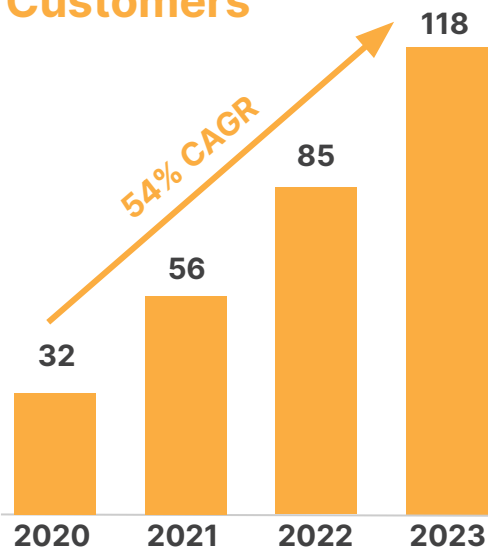
\$100K+ Customers



\$500K+ Customers

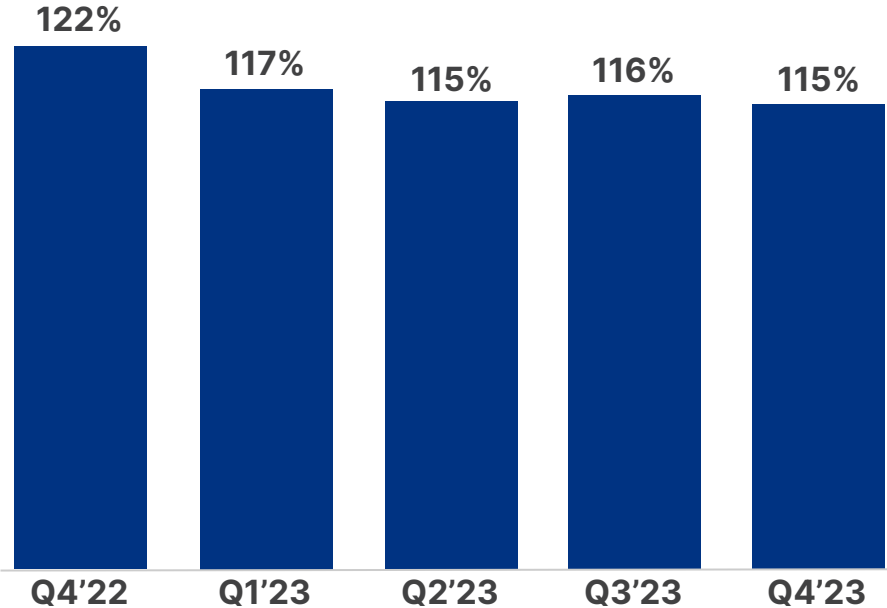


\$1M+ Customers



Note: Large Customers data are as of three months ended December 31 of their respective years. See the Appendix for how we define "Large Customers," which are the same as \$100K+ customers. \$500K+ and \$1M+ customers are defined in the same manner, except we use \$500K+ and \$1M+, respectively, of Annualized Revenue instead of \$100K+.

Strong Dollar-Based Net Retention



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



DNR includes all paying customers

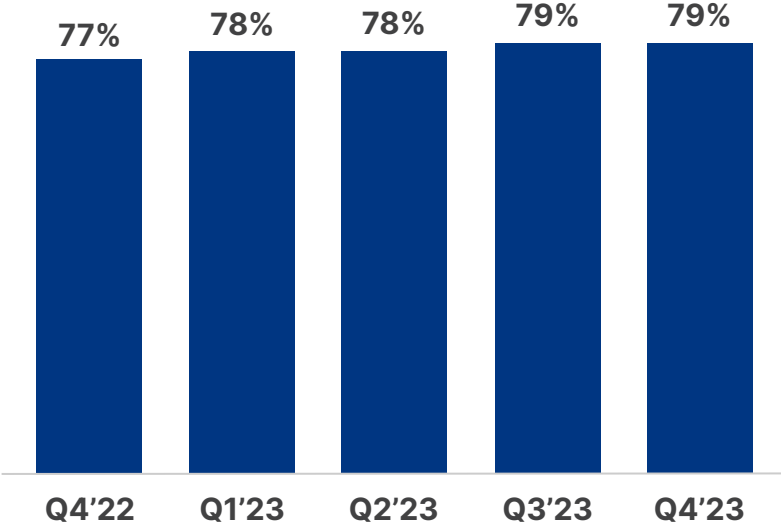


Large customers are a tailwind to DNR



Continuous innovation offers expansion opportunities

Non-GAAP Gross Margin



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

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Attractive & Consistent Gross Margin

Serverless architecture deployed on commodity hardware

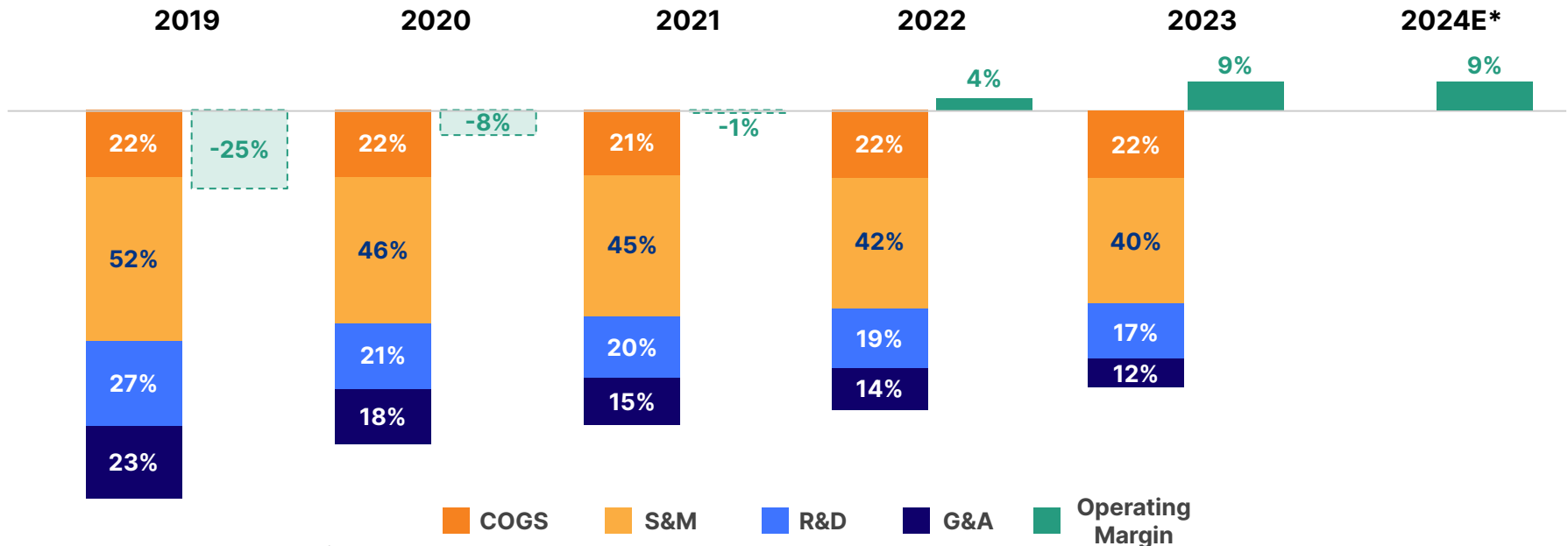
Single software stack across the network

Symbiotic relationship with ISPs

Leverage idle capacity across network

Elasticity of & Leverage in Our Operating Model

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



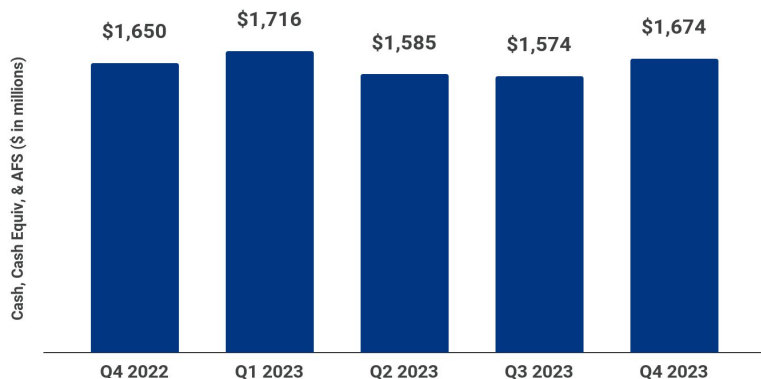
Note: See the Appendix for GAAP to Non-GAAP reconciliation.

*2024E is based on full-year mid-point guidance provided by us on February 8, 2024. This forward looking guidance speaks only as of such date and the inclusion of such guidance in this presentation should not be interpreted as a confirmation or affirmation of such guidance as of any other date. Except as required by law, we assume no obligation and do not intend to update these forward-looking statements or to conform these statements to actual results or to changes in our expectations. Please refer to slide 30 for more details.

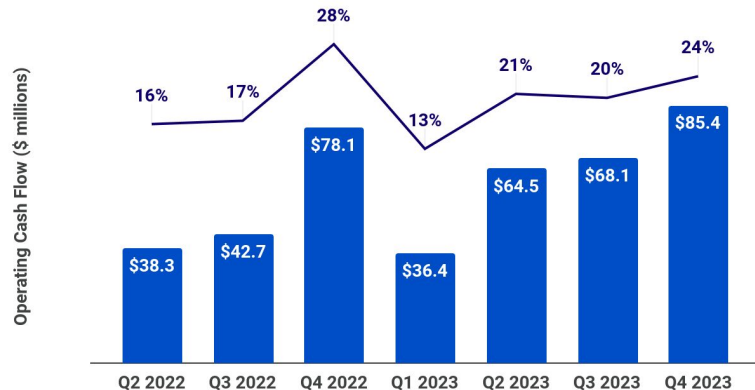
Strong Cash Position

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

Cash Balance



Operating Cash Flow & Margin



Guidance

Q1 2024

Revenue **\$372.5 - \$373.5**
Y/Y Growth 28% - 29%

Operating Income **\$34.0 - \$35.0**
Operating Margin 9%

EPS **\$0.13**

FY 2024

Revenue **\$1,648.0 - \$1,652.0**
Y/Y Growth 27%

Operating Income **\$154.0 - \$158.0**
Operating Margin 9% - 10%

EPS **\$0.58 - \$0.59**

FY 2024
Network Capex
as % of Revenue

10%-12%

Note: These forward looking statements were provided by us on February 8, 2024. This forward looking guidance speaks only as of such date and the inclusion of such guidance in this presentation should not be interpreted as a confirmation or affirmation of such guidance as of any other date. Except as required by law, we assume no obligation and do not intend to update these forward-looking statements or to conform these statements to actual results or to changes in our expectations.

Long-Term Operating Model

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

| | 2021 | 2022 | 2023 | Q4 2023 | | Long-Term Model |
|---|------|------|------|---------|--|------------------|
| Gross Margin | 79 % | 78 % | 78 % | 79 % | Leverage efficiency and elasticity of our network and ingress/egress dynamics | 75% - 77% |
| Sales & Marketing (% of revenue) | 45 % | 42 % | 40 % | 40 % | Scale go-to-market operations with a focus on improving productivity | 27% - 29% |
| Research & Development (% of revenue) | 20 % | 19 % | 17 % | 16 % | Continue to prioritize product innovation | 18% - 20% |
| General & Administrative (% of revenue) | 15 % | 14 % | 12 % | 11 % | Benefit from economies of scale and automation | 8% - 10% |
| Operating Margin | (1)% | 4% | 9% | 11% | | 20%+ |
| Free Cash Flow Margin | (7)% | (4)% | 9% | 14% | | ~25%+ |

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

Our Business Model



Disrupting a large and growing total addressable market



Widely distributed global cloud platform



Expansive product portfolio; open to developer innovation



Highly efficient business model and low fundamental cost structure



High growth subscription revenue model with attractive gross margin

Appendix

GAAP to Non-GAAP Reconciliation (Annual)

| | 2020 | 2021 | 2022 | 2023 |
|--|-------------------|-------------------|-------------------|--------------------|
| GAAP Cost of Revenue | \$101,055 | \$147,134 | \$232,610 | \$307,005 |
| Less: Stock-based Compensation Expense & Related Payroll Taxes | -\$1,466 | -\$3,703 | -\$6,770 | -\$8,360 |
| Less: Amortization of Acquired Intangible Assets | -\$3,081 | -\$2,946 | -\$13,444 | -\$17,702 |
| Non-GAAP Cost of Revenue | \$96,508 | \$140,485 | \$212,396 | \$280,943 |
| GAAP Gross Profit | \$330,004 | \$509,292 | \$742,631 | \$989,740 |
| Add: Stock-based Compensation & Related Payroll Taxes | \$1,466 | \$3,703 | \$6,770 | \$8,360 |
| Add: Amortization of Acquired Intangible Assets | \$3,081 | \$2,946 | \$13,444 | \$17,702 |
| Non-GAAP Gross Profit | \$334,551 | \$515,941 | \$762,845 | \$1,015,802 |
| GAAP Gross Margin | 77% | 78% | 76% | 76% |
| Non-GAAP Gross Margin | 78% | 79% | 78% | 78% |
| GAAP Sales and Marketing | \$217,875 | \$328,065 | \$465,762 | \$599,117 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$17,678 | -\$32,869 | -\$53,692 | -\$76,711 |
| Less: Amortization of acquired intangible assets | - | - | -\$1,725 | -\$2,300 |
| Less: Acquisition-related and other expenses | - | - | -\$265 | \$0 |
| Non-GAAP Sales and Marketing | \$200,197 | \$295,196 | \$410,080 | \$520,106 |
| GAAP S&M Expense as a % of Revenue | 51% | 50% | 48% | 46% |
| Non-GAAP S&M Expense as a % of Revenue | 46% | 45% | 42% | 40% |
| GAAP Research and Development | \$127,144 | \$189,408 | \$298,303 | \$358,143 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$30,497 | -\$61,056 | -\$112,277 | -\$140,074 |
| Less: Acquisition-related and other expenses | -\$5,725 | - | -\$3,682 | \$0 |
| Non-GAAP Research and Development | \$90,922 | \$128,352 | \$182,344 | \$218,069 |
| GAAP R&D Expense as a % of Revenue | 29% | 29% | 31% | 28% |
| Non-GAAP R&D Expense as a % of Revenue | 21% | 20% | 19% | 17% |
| GAAP General and Administrative | \$91,753 | \$119,503 | \$179,769 | \$217,965 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$13,875 | -\$19,706 | -\$45,027 | -\$62,355 |
| Less: Acquisition-related and other expenses | -\$554 | -\$380 | \$0 | \$0 |
| Non-GAAP General and Administrative Expense | \$77,324 | \$99,417 | \$134,742 | \$155,610 |
| GAAP G&A Expense as a % of Revenue | 21% | 18% | 18% | 17% |
| Non-GAAP G&A Expense as a % of Revenue | 18% | 15% | 14% | 12% |
| GAAP Loss from Operations | -\$106,768 | -\$127,684 | -\$201,203 | -\$185,485 |
| Add: Stock-based Compensation & Related Payroll Taxes | \$63,516 | \$117,334 | \$217,766 | \$287,500 |
| Add: Amortization of Acquired Intangible Assets | \$3,081 | \$2,946 | \$15,169 | \$20,002 |
| Add: Acquisition-related and other expenses | \$6,279 | \$380 | \$3,947 | \$0 |
| Non-GAAP Loss from Operations | -\$33,892 | -\$7,024 | \$35,679 | \$122,017 |
| GAAP Operating Margin | -25% | -19% | -21% | -14% |
| Non-GAAP Operating Margin | -8% | -1% | 4% | 9% |

GAAP to Non-GAAP Reconciliation (Quarterly)

| | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--|------------------|------------------|------------------|------------------|------------------|
| GAAP Cost of Revenue | \$67,788 | \$70,432 | \$75,221 | \$78,069 | \$83,283 |
| Less: Stock-based Compensation Expense & Related Payroll Taxes | -\$1,289 | -\$1,803 | -\$2,126 | -\$2,367 | -\$2,064 |
| Less: Amortization of Acquired Intangible Assets | -\$4,311 | -\$4,311 | -\$4,314 | -\$4,313 | -\$4,764 |
| Non-GAAP Cost of Revenue | \$62,188 | \$64,318 | \$68,781 | \$71,389 | \$76,455 |
| GAAP Gross Profit | \$206,912 | \$219,743 | \$233,273 | \$257,534 | \$279,190 |
| Add: Stock-based Compensation & Related Payroll Taxes | \$1,289 | \$1,803 | \$2,126 | \$2,367 | \$2,064 |
| Add: Amortization of Acquired Intangible Assets | \$4,311 | \$4,311 | \$4,314 | \$4,313 | \$4,764 |
| Non-GAAP Gross Profit | \$212,512 | \$225,857 | \$239,713 | \$264,214 | \$286,018 |
| GAAP Gross Margin | 75% | 76% | 76% | 77% | 77% |
| Non-GAAP Gross Margin | 77% | 78% | 78% | 79% | 79% |
| GAAP Sales and Marketing | \$132,050 | \$137,001 | \$146,688 | \$150,214 | \$165,214 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$18,487 | -\$15,868 | -\$20,734 | -\$20,674 | -\$19,435 |
| Less: Amortization of acquired intangible assets | -\$575 | -\$576 | -\$574 | -\$575 | -\$575 |
| Less: Acquisition-related and other expenses | - | - | - | - | - |
| Non-GAAP Sales and Marketing | \$112,988 | \$120,557 | \$125,380 | \$128,965 | \$145,204 |
| GAAP S&M Expense as a % of Revenue | 48% | 47% | 48% | 45% | 46% |
| Non-GAAP S&M Expense as a % of Revenue | 41% | 42% | 41% | 38% | 40% |
| GAAP Research and Development | \$79,703 | \$81,539 | \$89,610 | \$90,593 | \$96,401 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$30,276 | -\$30,216 | -\$36,573 | -\$36,353 | -\$36,932 |
| Less: Acquisition-related and other expenses | - | - | - | - | - |
| Non-GAAP Research and Development | \$49,427 | \$51,323 | \$53,037 | \$54,240 | \$59,469 |
| GAAP R&D Expense as a % of Revenue | 29% | 28% | 29% | 27% | 27% |
| Non-GAAP R&D Expense as a % of Revenue | 18% | 18% | 17% | 16% | 16% |
| GAAP General and Administrative | \$45,850 | \$48,475 | \$53,147 | \$55,939 | \$60,404 |
| Less: Stock-based Compensation & Related Payroll Taxes | -\$12,572 | -\$13,863 | -\$12,156 | -\$17,463 | -\$18,873 |
| Non-GAAP General and Administrative Expense | \$33,278 | \$34,612 | \$40,991 | \$38,476 | \$41,531 |
| GAAP G&A Expense as a % of Revenue | 17% | 17% | 17% | 17% | 17% |
| Non-GAAP G&A Expense as a % of Revenue | 12% | 12% | 13% | 11% | 11% |
| GAAP Loss from Operations | -\$50,691 | -\$47,272 | -\$56,172 | -\$39,212 | -\$42,829 |
| Add: Stock-based Compensation & Related Payroll Taxes | \$62,624 | \$61,750 | \$71,589 | \$76,857 | \$77,304 |
| Add: Amortization of Acquired Intangible Assets | \$4,886 | \$4,887 | \$4,888 | \$4,888 | \$5,339 |
| Add: Acquisition-related and other expenses | - | - | - | - | - |
| Non-GAAP Loss from Operations | \$16,819 | \$19,365 | \$20,305 | \$42,533 | \$39,814 |
| GAAP Operating Margin | -18% | -16% | -18% | -12% | -12% |
| Non-GAAP Operating Margin | 6% | 7% | 7% | 13% | 11% |

Key Business Metrics

Paying Customers

| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 148,184 | 151,803 | 156,000 | 162,086 | 168,159 | 174,129 | 182,027 | 189,791 |
| y-y growth | 24% | 20% | 18% | 16% | 13% | 15% | 17% | 17% |

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

| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1,537 | 1,749 | 1,908 | 2,042 | 2,156 | 2,352 | 2,558 | 2,756 |
| y-y growth | 63% | 61% | 51% | 44% | 40% | 34% | 34% | 35% |
| % of revenue | 58% | 60% | 61% | 63% | 62% | 64% | 65% | 66% |

Dollar-Based Net Retention

| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| | 127% | 126% | 124% | 122% | 117% | 115% | 116% | 115% |

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

Definitions

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

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

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