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Cloudflare, Inc. (NET)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Aaron, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Cloudflare Q1 2025 Earnings Call. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

With that, I'm pleased to turn the call over to Phil Winslow, VP of Strategic Finance, Treasury and Investor Relations. Phil, please begin.

Philip Winslow

Vice President-Strategic Finance, Treasury & Investor Relations, Cloudflare, Inc.

Thank you for joining us today to discuss Cloudflare's financial results for the first quarter of 2025. With me on the call, we have Matthew Prince, Co-Founder and CEO; and Thomas Seifert, CFO. Michelle Zatlyn, Co-Founder and President is traveling internationally and will not be available on today's call. By now, everyone should have access to our earnings announcement. This announcement, as well as our supplemental financial information, may be found on our Investor Relations website.

As a reminder, we'll be making forward-looking statements during today's discussion, including but not limited to our customers, vendors and partners, operations and future financial performance, our anticipated product launches and the timing and market potential of those products, our anticipated future financial and operating performance and our expectations regarding future macroeconomic conditions.

These statements and other comments are not guarantees of future performance and are subject to risks and uncertainty, much of which is beyond our control. Our actual results may differ significantly from those projected or suggested in any of our forward-looking statements. These forward-looking statements apply as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call.

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

Unless otherwise noted, all numbers we talk about today other than revenue will be on an adjusted non-GAAP basis. You may find a reconciliation of GAAP to non-GAAP financial measures that are included in our earnings release on our Investor Relations website. For historical periods, a GAAP to non-GAAP reconciliation can be found in the Supplemental Financial Information referenced a few months ago.

We would also like to inform you that we will be participating in JPMorgan's 53rd Annual Global Technology, Media and Communications Conference on Tuesday, May 13.

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

Matthew Prince

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

Thank you, Phil. We had a strong start to 2025. We achieved revenue of \$479.1 million, up 27% year-over-year. We closed the quarter with 3,527 customers paying us more than \$100,000, a 23% increase year-over-year. Revenue contribution from these large customers grew 32% year-over-year, and they now contribute 69% of revenue, up from 67% of revenue in the first quarter last year.

We saw particular strength with our largest customers, those that spend over \$1 million and \$5 million with Cloudflare per year. Within both of these cohorts, we added a record number of customers, increasing 48% and 54% year-over-year, respectively, which shows the strong return on investment from our go-to-market improvements and large enterprise sales.

Our dollar based net retention was 111%, which is flat quarter-to-quarter. Our churn rates improved in the quarter. We are seeing stabilization in our customers' businesses and reduced pricing pressure from competition.

Our gross margin was 77.1%, again above our long-term target of 75% to 77%. We delivered operating profit of \$56 million, representing an operating margin of 11.7%. And we generated strong free cash flow of \$52.9 million during the quarter.

As we've talked about before, we have a unique view of the global economy based on the volume and diversity of data that flows through Cloudflare's network. In the past, that's given us an ability to make calls on the macroenvironment that turned out to be pressured. Given the nature of the uncertainty this time, we have less of a unique view into what lies ahead. But even without our privileged view, it's clear to everyone the world is a more volatile place today than it was even a quarter ago.

I'm incredibly proud of how our team has navigated this volatility that starts on the cost side. We've been able to manage the continued expansion of our network without a significant change to our CapEx plan. We continue to invest behind actual demand to not get too far over our SKUs and have robust and diversified supply chains to mitigate tariffs and trade risks. This is unique compared with some of our on-prem hardware competition where we're seeing the last potential customer holdout begin to migrate away from them because of the uncertainty tariffs will pose if your solution is a box that has to be shipped.

On the revenue side, our investment in our go-to-market team remains early, but it's already paying off. This quarter we achieved a number of milestones. We landed the largest contract in Cloudflare's history, a milestone deal of more than \$100 million driven by our Workers developer platform.

We closed the longest duration contract in Cloudflare's history for Zero Trust. We delivered another double-digit year-over-year improvement in sales productivity. We saw a quarter-over-quarter improvement in our sales cycle, even as we closed larger deals with more sophisticated buyers, and our new pipeline attainment was ahead of our forecast.

What you see in these results is evidence of what we've been building toward, a company committed to disciplined execution regardless of external factors, a company becoming more mission critical to our customers each day, and a company with growing strategic importance at the center of the Internet.

The short-term may continue to be volatile in terms of external influences, but the long-term remains as full of opportunities for Cloudflare as ever. So we're going to keep a firm grip on the levers of our business, stay prudent with how we forecast and invest in what we know works; an incredible go-to-market team, world-class engineering and innovative products that redefine what's possible for our customers and reinvent the future of the Internet.

That's the playbook for winning that has worked for us before, and we're confident it is the winning strategy regardless of the external environment. And that seems like a good segue to discuss some of our wins in the quarter.

A leading technology company signed a five-year \$130 million pool of funds contract primarily for our Workers developer platform. This marks the largest deal in Cloudflare's history. This existing customer significantly expanded their relationship with Cloudflare. They chose Workers, Durable Objects, Containers and our real-time products. The customer was well down the line with a traditional hyperscaler, but made the decision to switch to Cloudflare when they saw our better performance, lower development cost and more modern platform.

In the words of this customer, "the scale and performance of Cloudflare's network and its proximity to our user base was the most powerful driver to doing more with Cloudflare. Being close to users improves every element of their experience on our platform." That's something the legacy model of the hyperscalers just can't match. And with the confidence of deals like this, our team is actively hunting several more \$100 million-plus deals.

A large technology company expanded their relationship with Cloudflare, signing a two-year \$9.4 million contract, which includes a \$2 million Workers upsell along with Zero Trust and Application Services.

Cloudflare's Zero Trust products were significantly more performance than a first-generation competitor due to our network's expansive global presence, including our distributed international FedRAMP points of presence. Cloudflare is displacing three vendors with this contract, showcasing the strong value proposition of our platform and significant ROI we provide our customers.

An international critical infrastructure provider signed a seven-year \$12.7 million contract, marking our longest duration contract in Cloudflare's history. This customer is going all in on Cloudflare's SASE portfolio with Access, Gateway, DLP, Magic WAN and Magic Firewall along with Application Services.

The strength and breadth of Cloudflare's holistic platform for both Application Services and SASE security controls allows for seamless product integration and was a key differentiator from first generation Zero Trust competitors. In the words of this customer, Cloudflare has by far the broadest and most programmable cloud security and connectivity platform on the market.

A Global 2000 international business services company expanded their relationship with Cloudflare, signing a 5.5-year \$6.4 million contract for our full Zero Trust portfolio. With Cloudflare's unified platform, this customer will displace three vendors as they look to simplify operations, reduce latency, and improve the security gap they have with their incumbent multi-vendor architecture.

A large US government entity signed a two-year \$6.2 million contract for Zero Trust. This customer evaluated several vendors to comply with new federal Zero Trust requirements, and Cloudflare ultimately stood out as the vendor of choice due to our world-class security product and the breadth of our network. This was a partner-led deal and a great example of the progress we continue to make with our partner-first motion.

A government agency in Asia-Pacific signed a three-year \$4.8 million contract for Magic Transit and Application Services. This government entity was looking to modernize its security posture with a cloud-first best-in-class solution for both Layer 3 DDoS protection and Layer 7 application security. They view Cloudflare as a key enabler to their digital transformation and have been blown away by the visibility and intelligence they have at the network layer with Cloudflare.

A Fortune 500 technology company expanded their relationship with Cloudflare, signing a three-year \$9.3 million contract for Application Services. This customer is migrating traffic from a hyperscaler to Cloudflare due to our ability to offer more robust security solutions and greater automation. With this customer also seeing the benefits of our platform, we're currently in discussions on a number of additional opportunities.

These Q1 wins not only serve as a great springboard for the rest of 2025, but are also reminders that while the world may be uncertain, what's absolutely certain is that innovation wins and no company out-innovates Cloudflare. We invest early and are able to develop quickly with nimble teams because of the power and flexibility of our platform.

Two products are just over a year old and have seen remarkable growth. The number of Cloudflare Workers AI inference requests powered by our network are up nearly 4,000% year-over-year. The number of requests running through our AI gateway are up more than 1,200% year-over-year.

We continue to invest in the future, building the first, fastest and most powerful model context protocol, or MCP, server. This technology is key to enabling AI agents. I'm proud that great companies like Asana, Atlassian, Block, PayPal, Sentry, Stripe and many more are building the interface for AI agents to work with their own platform on top of Cloudflare Workers. These companies are choosing Cloudflare because we have a rich developer platform, but also because we combine it with an understanding of Internet performance and security.

The security challenges of an agentic Internet are not trivial, but the best companies know that Cloudflare will be a thoughtful partner in addressing them as we build the future together. A great enduring story is made up of more than one app. We're not bolting AI security through haphazard acquisitions, but instead building the unified platform that supports the future. That shows in the size of the deals we're closing, the length of those deals, and the caliber of the logos of customers that are betting on Cloudflare.

The opportunity ahead of us is as massive as ever. We have the scale, the technology and the team to capture it. The volatility in the world doesn't appear to be going away anytime soon, but we will continue to focus on our customers and execute on our strategy just as we did this quarter.

With that, I'll turn it over to Thomas. Thomas, take it away.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

Thank you, Matthew, and thank you to everyone for joining us. We are pleased with our operational and financial performance during the first quarter, as we expect to fully execute it against the highly volatile external business and geopolitical backdrop to deliver Cloudflare's highest year-over-year growth in net new ACV in three years.

As Matthew mentioned, strength in our business this quarter was driven by large \$1 million plus customers, including our first contract of more than \$100 million, longer term commitments from our customers, including the longest duration deal in Cloudflare's history, ongoing momentum with our Workers developer platform, and continued high prioritization of security by our customers.

We also delivered another double-digit year-over-year increase in sales productivity, saw an improvement in sales cycles, and exceeded our expectations for new pipeline attainment.

Turning to revenue. Total revenues for the first quarter increased 27% year-over-year to \$479.1 million.

From a geographic perspective, the US represented 49% of revenue and increased 20% year-over-year. EMEA represented 28% of revenue and increased 27% year-over-year. APAC represented 15% of revenue and increased 54% year-over-year. We were pleased to see continued robust growth in APAC as key go-to-market initiatives in the region continue to produce strong results.

Turning to our customer metrics. In the first quarter, we had approximately 251,000 paying customers representing an addition of over 13,000 paying customers sequentially and an increase of 27% year-over-year.

We ended the quarter with 3,527 large customers, representing an increase of 23% year-over-year and revenue contribution from large customers increased to 69% of revenue during the quarter, up from 67% in the first quarter last year.

We again saw particular strength in our largest customer cohorts, adding a record number of customers year-over-year, spending both over \$1 million and over \$5 million with Cloudflare, continuing our momentum in the enterprise segment.

Our dollar based net retention was 111% during the first quarter and consistent sequentially. These results reinforce our belief that DNR is stabilizing at these levels, despite continued near-term headwinds from increased traction with pool of fund contracts, which can impact the shape of revenue recognition.

Moving to gross margin, first quarter gross margin was 77.1%, representing a decrease of 50 basis points sequentially and a decrease of 240 basis points year-over-year. Recall that the first quarter of 2025 marks the first anniversary of the extension of the estimated useful life of our network equipment from four to five years, which reduced depreciation for assets and service as of December 31, 2023 by \$6.2 million, or 1.6% of revenue for the first quarter of 2024.

During the first quarter, paid versus free customer traffic increased significantly as compared with the year ago quarter, resulting in a higher allocation of expenses to cost of goods sold from sales and marketing, similar to the fourth quarter of 2024. The underlying economics of our network, driven by its inherent scalability and efficiency remained unchanged.

Network CapEx represented 17% of revenue in the first quarter. As a reminder, there can be some variability in this metric quarter-to-quarter, and we continue to expect network CapEx to be 12% to 13% of revenue for full year 2025.

Turning to operating expenses. First quarter operating expenses as a percentage of revenue decreased by 3% year-over-year to 65%. Our total number of employees increased 19% year-over-year, bringing our total head count to 4,400 at the end of the quarter.

Sales and marketing expenses were \$183.4 million for the quarter. Sales and marketing as a percentage of revenue decreased to 38% from 41% in the same quarter last year.

Research and development expenses were \$76.8 million in the quarter. R&D as a percentage of revenue remained consistent at 16%, compared to the same quarter last year.

General and administrative expenses were \$53 million for the quarter. G&A as a percentage of revenue remained consistent at 11% compared to the same quarter last year.

Operating income was \$56 million, an increase of 32% year-over-year, compared to \$42.4 million in the same period last year. First quarter operating margin was 11.7%, an increase of 50 basis points year-over-year. These results highlight our continued focus on becoming more efficient and more productive, given that operational excellence is a long-term competitive advantage.

Turning to net income and the balance sheet. Our net income in the quarter was \$58.4 million, or diluted net income per share of \$0.16. Variability in foreign exchange rates during the quarter resulted in unrealized losses of \$2.7 million generated from the remeasurement of certain monetary assets and liabilities denominated in foreign currencies.

These unrealized losses primarily related to the remeasurement of our international operating lease liabilities, our recognized in other income and expense and had a negative impact of \$0.01 per diluted net income per share in the first quarter.

We ended the first quarter with \$1.9 billion in cash, cash equivalents and available for sale securities. Maintaining our strong commitment to being fiscally responsible and acting as good stewards of investors capital, we elected a cash settlement of the capped calls associated with our retired 2025 convertible note.

Upon this election during the first quarter, these capped calls no longer met the criteria of equity classification and were reclassified from additional paid-in capital to a derivative asset, which is included in prepaid expenses and other current assets on the balance sheet.

The derivative asset is recognized at its fair value of \$308.3 million, which is expected to settle in cash on May 14.

Free cash flow was \$52.9 million in the quarter, or 11% of revenue, compared to \$35.6 million, or 9% of revenue in the same period last year. We are comfortable with consensus free cash flow estimates for the full year 2025, but would expect the weighting of full year free cash flow generation to be two-thirds in the second half of the year, due to the timing of working capital flows and capital spending.

Remaining performance obligations, or RPO came in at \$1.864 billion, representing an increase of 11% sequentially and 39% year-over-year. Current RPO was 66% of total RPO, increasing 29% year-over-year.

Moving to guidance for the second quarter and full year 2025. As a management team, we've always taken a disciplined, data driven approach to scaling Cloudflare. As we enter 2025, the data gave us confidence to continue to invest to reaccelerate growth.

Our first quarter results underscore that this formula is working despite the highly volatile external business environment. We're encouraged by our momentum to start the year and remain confident that our strategy will drive continued innovation and accelerating growth. However, we are cognizant of the broader global business environment in which we are operating and therefore have taken a prudent approach to our outlook for the remainder of the year.

For the second quarter, we expect revenue in the range of \$500 million to \$501 million, representing an increase of 25% year-over-year. We expect operating income in the range of \$62.5 million to \$63.5 million. We expect an effective tax rate of 20%. We expect diluted net income per share of \$0.18, assuming approximately 364 million shares outstanding.

For the full year 2025, we expect revenue in the range of \$2.090 billion to \$2.094 billion, representing an increase of 25% year-over-year. We expect operating income for the full year in the range of \$272 million to \$276 million, and we expect an effective tax rate of 20%. We expect diluted net income per share over that period to be in the range of \$0.79 to \$0.80, assuming approximately 364 million shares outstanding.

In closing, we continue to focus on creating significant shareholder value with our ongoing commitment to disciplined execution, durable growth and operational efficiency.

I'd like to thank our employees for their dedication to our mission, as well as our customers for trusting us to help modernize, accelerate and secure their businesses during these volatile times.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from the line of Matt Hedberg with RBC Capital Markets. Your line is live.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions, guys. Congrats on the quarter. Obviously, an uneven macro environment. Maybe to start with you, Matthew, you guys sit in front of really 20% of the Internet. It's incredible global visibility. And you've often talked about your crystal ball. Could you comment on trends you're seeing through early May? Has there been any changes in traffic with all the tariff rhetoric?

Matthew Prince

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

A

We haven't seen anything. And I know some other people have commented they have. But if we look back, you know, one, three, six months, there hasn't been a change to what we see in terms of HTTP requests, in terms of overall volume. And that's true both in the US and around the world.

Internet traffic has held pretty steady. But I think part of that might be that – less of our business is sort of a pure media delivery business. The majority of the requests that are going through us are to APIs and other things. It's not as much video streaming and raw bits.

And so, it may be that we're just – we don't see that as directly as some other people. We think those bits are, obviously, way more valuable than sort of the raw streaming video bits, and so we focus on that. I would say that there is one area which we're watching pretty carefully that involves AI and media companies actually. And that is that the – if you look over time, the Internet itself is shifting from what has been a very much a search driven Internet to what is increasingly an AI driven Internet.

So, if you look at just traffic from Google, 10 years ago for every two pages Google crawled, they sent you one visitor. Six months ago, that was up to 6:1. The crawl rate hadn't changed, but what's changed is now 75% of queries to Google, Google answers on Google without sending you back to the original source.

But even in the last six months, the rate has increased even further, where now it's up to 15:1, 15 crawls for every 1 visitor. And if you look at OpenAI, which is 250:1, and Anthropic, which is 6,000:1, it's putting a lot of pressure on the media companies that are there that are making money through either subscriptions or ads on their pages.

And I think while we have not historically had media as a big segment, a lot of them are coming to us because they see us as actually being able to help better control how AI companies are taking their information. And I think that to me is an interesting trend to watch and an area that our team is really focused on.

But the general trends across the Internet are traffic has remained the same and we haven't seen anything that has caused us to believe that tariffs or anything else are changing Internet traffic patterns.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

That's really good to hear. And then maybe just a quick one, Thomas. The revenue beat is great to see. Margins were more or less in line with expectations. How do you – and you talked about CapEx spending sort of within the range you talked about. Are you – how do you think about margins this year? Are you pre-spending for some demand that you're seeing? Just any color on that. We're getting a bit of inbounds on sort of the margin performance this quarter.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

A

Yeah. I mean, as we have reiterated multiple times, our North Star over a rolling average of quarters is the 40% rule. And if you look at revenue upside and margin upside and opportunity, there is still more margin opportunity than there is revenue opportunity. So, we will continue to reinvest in the business if we think there's opportunity to invest and the data points us that way. We've done that in the first quarter, especially investing in our go-to-market activities and we have seen good returns. So the data makes us confident to continue that. But the guidance will be moving forward as it has always been the 40% rule. So there is some more opportunity to invest, but we will make sure that we keep the balance in mind.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Got it. Thanks a lot, guys.

Operator: Thank you for your questions. Our next question is from the line of Joel Fishbein with Truist Securities. Your line is live.

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Q

Thanks for taking the question and congrats on the excellent execution. I know you commented a little bit on this in the prepared remarks, but I'd love to get a little deeper on how sales productivity and sales capacity is tracking, especially as it relates to the enterprise segment. And do you still expect the capacity of ramp reps to accelerate in 2Q and again in the second half? Thanks.

Matthew Prince

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

A

Yeah, thanks, Joel. We've been really happy with improvements in sales productivity across the team. I think Mark Anderson is doing just an excellent job, really building up into – I think we've always been a world-class engineering org. I think we've for a long time been a world-class product org. We're building a world-class go-to-market organization, and we're seeing that show up in continued quarter-over-quarter improvement in sales productivity.

In terms of capacity that – we know that that's going to increase, because you hire someone and they ramp over time. So, we do see that that is going to continue to increase over time. We're hiring dramatically across that or are getting incredible candidates to join us. And I think the word is out that if you want to be at the next world-class sales organization, Cloudflare is the place to go. And that's showing up in the results and that's showing up in just the caliber and quality of the people that we're getting on board. And I think that will very much turn into sales going forward.

Joel P. Fishbein

Analyst, Truist Securities, Inc.



Thank you.

Operator: Thanks for your question. Our next question is from the line of Mark Murphy with JPMorgan. Your line is live.

Mark R. Murphy

Analyst, JPMorgan Securities LLC



Thank you. I'll add my congrats. Matthew, could you comment on this extreme volume of DDoS attacks that you saw during Q1? We were looking at your stats. It looked like they were up more than 300% year-over-year. And the complexity looked like it went off the charts as well with the hyper-volumetric attacks. So, I think our understanding is you do not actually charge based on the size of the attack. But I am wondering if you could see a tailwind from that kind of environment and how you feel about defending against that kind of an attack relative to your competitors.

Matthew Prince

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



Yeah, Mark. I think, first of all, the attacks are, I mean, just getting to what a few years ago would have been an inconceivable size, where there are very, very few networks that can absorb the size and scale of the attacks that are there. What I think is striking is that at Cloudflare, it's not an all-hands-on-deck situation. It's kind of like our system just automatically absorbs these and does it without anyone having to respond.

And it goes back to something that we have talked about a lot over the years. And I think that it's – it isn't always appreciated how important and powerful it is. Most of our competitors run separate scrubbing networks that are completely distinct from the rest of their networks. And that inherently means that they have some limited capacity that's there. Cloudflare has always done it differently and took more engineering work. But it's showing in our ability to defend against attacks that others can't.

And that is that – we made it so that every single server that makes up our network is capable of running every single one of the different functions that we have, including DDoS attacks. And this is being in the weeds a little bit, but when you buy wholesale bandwidth, you pay for the greater of in versus out. So you're sending traffic out and you're sending 10 times as much traffic out, you pay for the out rather than the in. And we're casting proxy so we – our out is always significantly higher than our than our in.

And what that means is that when a DDoS attack comes, it pushes the in up. But even at these hyperscale attacks, the in is not ever getting higher than the out. What that means is that from just a cost perspective because, again, we've designed a much better and more efficient system, it means that we can defend against these attacks without having to pass any costs on to our customers because we don't suffer any additional costs to be able to defend these attacks. And that architectural difference is radically different than what anyone else in the industry does and is part of why we're able to defend against it.

So I don't think that directly the size of the attack going up is something that is going to be a tailwind for us. But I do think that we're already seeing that a lot of the hyperscalers, some of our competitors are actually referring customers to us when they get to the point that their systems aren't able to stay in front of these attacks because they know that the architecture and design of our system is allowed – is allowing us to mitigate what others can't.

So I think what we're seeing is, especially in places like financial services and others, they're recognizing that their existing vendors can't necessarily take on some of these hyperscale attacks. And they're adding software to the mix in order to make sure that, when that attack inevitably comes, that they have a way of doing it. And again, that goes back to just what is a much better architectural design than anyone else in this space.

Mark R. Murphy

Analyst, JPMorgan Securities LLC



Thank you so much.

Operator: Thanks for your question. Our next question is from the line of Andrew Nowinski with Wells Fargo. Your line is live.

Andrew Nowinski

Analyst, Wells Fargo Securities LLC



Great. Thank you for taking the question and congrats on another remarkable quarter. Matthew, you highlighted the longest duration contract in Zero Trust to date as well as, some other notable wins. I'm just wondering if you could double-click on the trends that you're seeing in the SASE market and why Cloudflare is kind of winning more of these larger deals than we've heard in the past.

Matthew Prince

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



Yeah, Andy. Appreciate it. And I'm really proud of our team for this. This is a market that we didn't start out in, but we realized that our network could provide just a better experience. And so we invested in it. And for a while, we didn't have all the features that people who had been doing this for longer than we did had.

I think two things have stood out. First of all, I think we've caught up on all the critical features that are there. And then I think that when people actually go to test our solution versus others, our performance is just significantly better. And again, that goes back to the fact that every server across our network can do everything. So if you're in Rwanda or if you're in Pakistan or you're anywhere in the world, we can actually deliver a SASE solution local to you that has just significantly better performance than anyone else.

I think the last thing is that there's – I think we've had a lot of success bundling together our various solutions. People – our customers say, they don't want to have to think about who's their reverse proxy versus their forward proxy, who's doing all of these things. They really want one solution that gives them a platform to solve all of the

various problems that they may have with a network. And Cloudflare is unique in being able to deliver both things like we were saying about the DDoS mitigation, but then also SASE and it all comes as one contiguous bundle.

And so I think that's something that really has stood out and caused us to win more and more of these deals. And, again, I'm proud of the fact that people are confident that our innovation isn't going to slow down and that gives them the confidence to sign these longer duration deals. But they also then say, head-to-head versus first generation SASE providers, Cloudflare is just a better solution. And that's causing us to win in these head-to-head situations.

Andrew Nowinski

Analyst, Wells Fargo Securities LLC

Q

Thank you. That's great. And as a follow up, Matthew, I think you said you won a number of SASE deals with government agencies as well in both the US and APAC. And I'm wondering if you could just expand on the traction you're seeing in the broader government sector. Thank you.

Matthew Prince

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

A

Yeah. Andy, even the deal in Europe, the long duration deal in Europe is a tangentially government, quasigovernment agency as well. So I think in these cases, the governments are – around the world are seeing that on-premise hardware just doesn't work for what they're doing. And so there are mandates to adopt the Zero Trust approach. And when they do, they see again that Cloudflare can provide this broad set of solutions across the entire platform. And again, proud of the fact that for what are these critical services, governments around the world are choosing Cloudflare.

Andrew Nowinski

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thanks for your questions. Our next question is from the line of Keith Weiss with Morgan Stanley. Your line is live.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, guys for taking the question and congratulations on a strong start to the year. In particular, I wanted to dig into that \$100 million Workers-led deal. Not too many platforms out there that can accrue that much value from one deal. So, just congratulations on sort of building that out. Can you give us any detail in terms of like the use case or what they're using the platform for, give us any more color on what does a \$100 million Workers deals look like in reality on the ground and what they're going to be doing with the platform?

Matthew Prince

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

A

Yeah, Keith, I think that what we're seeing is that Cloudflare Workers has become a complete solution. We have all of the components, compute, storage, database, GPU capacity. And so as people are looking to decide whether they're going to go with a traditional hyperscaler, we're increasingly in the decision mix. And we're seeing places where people are realizing that they can develop significantly faster. They don't have to think about scaling

issues. They don't have to think about a number of things that even if you're using a hyperscaler, you still have to worry about.

And they can just get much better performance at a lower cost. And so in this case, this was a customer that was well down the line with one of the traditional hyperscalers had – and the hyperscalers was confident they were going to win the business. And we met with them, demonstrated what it was that we were able to deliver, help them build a proof of concept. And they just saw significantly better performance and they saw how much easier and faster it was for their developer team to be able to deploy across Cloudflare Workers.

And so, the – we've always said and it's still true that you can't just oftentimes lift and shift the traditional legacy workloads to Cloudflare Workers. But in these cases where someone is building a new feature or extending that feature, we're finding more and more that we're able to win those deals. And I think that I've tried to caution that it was going to take probably a little bit longer for Workers to be delivering real revenue.

I think this shows that this is way ahead of what I would have thought that timing was. And again, I think that that comes back to the fact that the team has just built such a robust platform at this point that people are saying we're going to move off the traditional hyperscalers and move to Cloudflare because the ROI is just so much better, the performance is so much better and the development velocity is so much better.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, definitely seeing that in the developer affinity for the platform. As a follow up, this is more of a go-to-market question. In the quarter, you guys saw a really strong growth in overall customer adds, adding that 13,000 was up almost 80%. But the net adds on the 100,000 side was a lot skinnier, like only 30% up on a quarter-on-quarter basis. Any changes in like go-to-market strategy that caused that, or is that just kind of timing of, kind of when deals are coming in?

Matthew Prince

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

A

I think it's timing. I don't think there's nothing that really – I'll start and then Thomas might say some more. My sense is it's mostly timing and then also we'd actually a really strong quarter last quarter with the 100,000 adds. So there it moves around some extent. I'm very excited that's record quarter for \$1 million adds, record quarter for \$5 million adds. And so I was arm-twisted there. And Thomas, I don't know if there's anything else you'd add.

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

A

Yeah, a couple of small things came together. So first and more importantly, what we didn't see was we didn't see increased churn or contraction. Actually just the opposite. DNR for that cohort even improved by 1-percentage point. I think instead we just saw very – fewer customers who spent less than \$100,000 graduating in the larger customer cohort. And then the quarter had also two days less, which means you recognized less ratable revenue in that quarter. And that hurt a customer group that was just at the threshold of moving in there. So even the two days missing played a role. So a lot of small things coming together and impacting the count, but nothing that disturbs the long trend trajectory we see here.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

But on the reverse side, anything that propelled those 13,000 net customer adds overall? Again, any change on that side of the equation?

Thomas Josef Seifert

Chief Financial Officer, Cloudflare, Inc.

A

I wouldn't think so other than what we said at the beginning. We took the pay – that the investment in the go-to-market transition and transformation is just paying off and that is – in those results, you see across all customer cohort sizes in various ways. So we're quite happy with that trend. And there's some noise quarter-to-quarter.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Super impressive, guys. Thanks so much.

Operator: Thank you. Our next question is from the line of Shaul Eyal with TD Cowen. Your line is live.

Shaul Eyal

Analyst, TD Cowen

Q

Thank you so much and congrats on a solid performance and guidance. Matthew, you mentioned tariffs as potentially being the final straw for some of the final holdouts who are still using boxes. Could you elaborate on those conversations and discussions? And how are you managing your network supply chain?

Matthew Prince

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

A

Yeah. So, I think one of the unsung heroes that we don't talk about always at Cloudflare is our infrastructure team and just their ability to just deliver incredible, just constant, better pricing, getting equipment delivered to every far-flung corner of the universe, managing that. And I think that it was really during COVID where we went from good to, I think, world class at being able to manage that.

And that gives us the ability to have multiple distinct ways to deliver the servers and networking equipment that we need. We're not dependent on any network vendor. We can buy from any of the big network vendors or we have our own white boxes that we can deliver. And that has allowed us to have a lot of flexibility.

And then existing treaties like NAFTA and otherwise allow us to do assembly of equipment in places like Mexico and bring it into the US when we have to do that in a way which is very efficient, or deploy outside the US if we need to, and then route traffic to be able to handle that.

Even using used equipment and moving that around is, again, a very sophisticated way of us just making sure we can continue to invest in our network, build it out around the world. So, I feel very good about our ability to do that. We are hearing from – especially in the financial services and healthcare space that there is concern from – if they're trying to use on-premise hardware from existing vendors, and that is slowing down the demand for what was sort of the expected firewall sort of reset that was being – that was – the number of other vendors in the space were seeing.

I think that's going to put more emphasis on using services like SASE services. And I think Cloudflare will be a beneficiary of that along with others that can actually do this as a service rather than as a physical piece of hardware.

Shaul Eyal
Analyst, TD Cowen

Q

Thank you.

Operator: Thank you for your question. Our next question is from the line of Mike Cikos with Needham. Your line is live.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the questions, guys. Just wanted to start – I think going back to the prepared remarks, Matthew, you had cited sequential improvement in sales cycles, which is something that we would not have expected just given this environment. And kudos to you guys. Can you just spend some time hashing out those dynamics? I'm just curious, what's the sustainability of those improvements that you guys are driving at?

Matthew Prince
Co-Chair, Co-Founder & Chief Executive Officer, Cloudflare, Inc.

A

Yeah. I think that I was surprised by that as well; not only because of the environment generally, but I also think because we're selling to larger customers, bigger deals. And you would naturally expect that that would slow down sales cycles. And again, I think that that's expected and that's something that we can manage around. That is not what we saw this quarter.

I think that we've always been very good at managing sales cycles. I think we've always been good at delivering that. And I think it really is the operational excellence that Mark and his team are driving across the entire sales team. And also it's part of the fact that we have so many existing customers that we can sell more to and expand with. I think that those, obviously, are much faster deals when they come in.

But I don't know that I would expect – in fact, I would not expect that sales cycles will continue to trend down for a long time. But I do think that we have been better than most at being able to deliver very efficient sales cycles. And I'm surprised that as deals have gotten bigger and customers have gotten more sophisticated, that sales cycles have not picked up dramatically.

But again, I don't think – I wouldn't forecast that that's going to be the case forever. I think that it's – I think we will always outperform our peers. But I would expect that sales cycles will tick up slightly over time.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Thanks for that, Matthew. And just for the – a quick follow-up to Thomas. I know we're talking about less certain environment. You guys, obviously, had a larger magnitude when thinking about the 1Q top line beat. Can you just help us think a little bit more as far as the guidance construction here with the reiterated calendar 2025 guide? How much of that is potentially incremental conservatism or prudence, however you want to phrase it, versus visibility moving one way or the other over the last 90 days as it relates to pool of funds deals?

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

A

Well, you used the word that we – that I used for giving guidance. It's prudent in light of the uncertainty we see. We started the year believing in the data that we looked at that investing into reaccelerated growth was the right

thing to do. The first quarter results proved that that was the right decision to be made. You heard from Matthew that our confidence in the long-term outlook is, if anything, increased based on the changes we have seen. But we have to be cognizant that the world around us is a volatile place and the guidance reflects that.

Operator: Thank you for your question. Our next question is from the line of Adam Borg with Stifel, Nicolaus. Your line is live.

Adam C. Borg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Awesome. And thanks so much for taking the questions. Maybe just for Matthew, one of the things when we go back to Investor Day back in March, that Mark Anderson talked about was just around the developer speedboat launching this year, and obviously with the \$100 million-plus Workers deal, would love to get a sense of if that team was involved and, just maybe more broadly, get an update on the developer go-to-market motion more broadly. Thanks so much.

Matthew Prince

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

A

Yeah. I mean, that team is definitely involved. I don't think that had that team not been involved, that we would certainly have closed that deal or closed it as quickly. What I love is that Aly Cabral who's running that team, really came from this – from the product side of the developer platform and said, I now feel like we've got the product nailed, let's go sell it.

And she and the team there are being very deliberate and disciplined. They are going out and talking to customers that we think could really benefit from the increased agility, performance, ROI that our developer platform has. And it's amazing to see that as they go into these conversations and even help customers build out kind of proof of concept for what's there, that is turning into a very large deals that are coming across the transom.

And I think it probably wouldn't have been the right time to do that a year ago. But today, when the developer platform is as robust as it is, that speedboat and those efforts around it are yielding really significant results. And, again, while I still always want to caution people not to get too far ahead of themselves, I'm very excited with what we're seeing from the developer community. And we are much more active at pursuing large deals that we can deliver real value for, and that speedboat team has been critical to doing that.

Adam C. Borg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Excellent. Thanks so much.

Operator: Thank you for your question. Our last question for today will come from the line of Jonathan Ho with William Blair. Your line is live.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Let me echo my congratulations as well. Matthew, could you provide us with an update on the model context protocol that – and the work that you're doing there? And maybe what this implies for Cloudflare's ability to power AI agents as well as the data sources that AI models are accessing? Thank you.

Matthew Prince

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

A

Yeah. So just a little bit of background for people who aren't following this as closely. Anthropic put together a specification called model context protocol, MCP, which is essentially an API to give a standard way for a AI system to be able to connect to a third-party service and interact with it in various ways.

If your bank had an MCP system, then an agent can login and analyze what your spending patterns are. If you've got an MCP server at a media organization, you could login and summarize the news that was out there. Initially these servers when Anthropic first released the protocol were run locally on your own machine, which meant that the barrier to entry really fell on developers.

We worked with Anthropic to be able to take this standard and run it – instead of locally on your machine, run it in the cloud, run it across Cloudflare's network. And it's been amazing to see how great companies like Stripe, Atlassian, Block, many others are adopting our approach to these platforms and using Cloudflare to give agents – AI agents a way to interact with their underlying platform.

There are massive security issues here. And again, I think one of the reasons that people trust us in this space is that they know that we understand how important security is, and it will help invent what the protocols are for secure ability for agents to interact with the overall Internet.

There are also the competing platforms. So Google has released a extension of MCP, which is slightly different. Our strategy is just to support everything, to be the universal translator that can make it so that you can connect to any service which is online. And if there are multiple protocols, it will help rationalize that. And again, I think it's something that is important.

So I think it's amazing to see how quickly companies are able to use our platform in order to stand up these agents and the interaction between these agents. I think it may well turn out that the killer app for Cloudflare Workers is going to be around AI and the interconnection. And the fact that so many of the AI companies, today our estimates are that about 80% of the major AI companies are Cloudflare customers.

And so much of the Internet uses Cloudflare. It puts us in the center of all of those conversations, and it is incredibly exciting to see people building – build in the future on Cloudflare. And totally know where it's all going to turn out, but I'm pretty confident that no matter what, you're going to need networks and you're going to need secure networks and Cloudflare is the best at being able to provide that for whatever the future holds.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Excellent. Thank you.

Operator: Thank you for your question. And ladies and gentlemen, that will conclude our Q&A session for today. I would like to turn the call back over to Matthew Prince for any closing comments.

Matthew Prince

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

I just wanted to say thank you for all of Cloudflare's customers, all of our team members, for just what was a really difficult quarter in terms of the macro environment but one that we executed just in a way that I'm incredibly proud

of. So I can't wait to see what the future holds. I know that it's going to be built on Cloudflare and our network and look forward to seeing you again this time next quarter.

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