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Cloudflare, Inc. (NET)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the Cloudflare Fourth Quarter 2025 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference to Phil Winslow. You may 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 fourth quarter of 2025. With me on the call, we have Matthew Prince, Co-Founder and CEO; Michelle Zatlyn, Co-Founder and President; and Thomas Seifert, CFO.

By now, everyone should have access to our earnings announcement. This announcement, as well as our supplemental financial information, may be found on our Investor Relations website.

As a reminder, we will 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 uncertainties, 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 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 financial 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 our supplemental financial information referenced a few months ago.

We would also like to inform you that we will be participating in Baird's Silicon Slopes Conference on February 26 and Morgan Stanley's Technology, Media and Telecom Conference on March 3.

Now, 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 terrific quarter. We achieved $614.5 million in revenue, up 34% year-over-year. We now have 4,298 customers paying us more than $100,000 per year, up 23% year-over-year. Revenue from these

large customers grew 42% year-over-year, contributing 73% of our revenue in the quarter, up from 69% in the fourth quarter last year.

Our dollar-based net retention was 120%, up 1% quarter-over-quarter and 9% year-over-year. Our gross margin was 74.9%, just below our long-term target range of 75% to 77%. We delivered operating profit of $89.6 million, representing an operating margin of 14.6%, and we generated strong free cash flow of $99.4 million during the quarter, again exceeding expectations.

We blew away our previous record for new ACV in the quarter, with strong year-over-year and quarter-over-quarter acceleration. In Q4, new ACV book grew nearly 50% year-over-year, making it not only a record quarter in absolute ACV dollars, but also the fastest growth rate we've delivered since 2021. We've talked for the last two years about our journey from product-led growth to true enterprise sales. I'm proud to report our go-to-market engine is firing on all cylinders.

Some highlights. Global sales productivity increased year-over-year for the eighth consecutive quarter, surpassing our all-time high productivity set back in Q4 of 2021. And we believe there's still significant headroom. Year-over-year growth in net sales capacity increased at the fastest pace since 2022. Our sales team achieved the highest quota attainment we've seen in the last four years. For the fifth consecutive quarter, we added a record number of customers that spend over $1 million per year. And after starting the year, signing our largest total contract value deal in Cloudflare's history of $130 million over five years. This quarter, we closed the largest annual contract value deal in our history, $42.5 million per year. This momentum today is the cumulative result of two years of effort to retool our go-to-market team to match our already world-class engineering and product teams. We've long been a place where the best engineers came to earn their stripes. The team Mark Anderson has built deserves credit for making Cloudflare a destination where the best salespeople now know they can come and win.

Speaking of winning, let me highlight some of our customer wins in the quarter. A leading AI company expanded their relationship with Cloudflare, signing a two year, $85 million pool of funds contract for our full platform, selecting Cloudflare as their single long-term infrastructure provider with a 100% traffic allocation. Following a rigorous RFP, they selected Cloudflare over major hyperscalers not just for our unified stack and rapid innovation, but also for our strategic neutrality. This win underscores a growing trend. The most sophisticated AI companies are choosing Cloudflare as their mission-critical, independent platform to connect, protect, and build the future of the AI-driven internet.

Another leading AI company expanded their relationship with Cloudflare, signing a one year, $5.4 million contract for our Workers Developer Platform and application services. What's most compelling about this win is that it was a classic build versus buy scenario against the hyperscalers. In an industry where being first matters are ready to deploy Developer Platform provided the agility and speed-to-market they couldn't find elsewhere. With Cloudflare, this customer is now able to manage heavy global traffic with five nines availability. This deal is a testament to our shift from being just a vendor, to instead being a strategic innovation partner for the world's most sophisticated AI companies.

A Fortune 100 technology company expanded their relationship with Cloudflare, signing a three year, $5.8 million contract representing a notable upsell from their initial engagement with us in mid-2025. As a leader in AI, this customer operates under a strict mandate for global resiliency, requiring a multi-vendor architecture to ensure zero downtime for their application performance. We beat out the competition not on price, but rather on performance and engineering innovation.

A Fortune 500 technology company expanded their relationship with Cloudflare, signing a two year, $45 million pool of funds contract. While this customer leverages hyperscalers for their primary infrastructure, they found those providers unable to manage the complexity of global third-party applications at scale. They chose Cloudflare to displace a long time incumbent, not only for the extensibility of our Workers developer platform and our superior application services, but for our ability to fill critical gaps in the hyperscaler model, underscoring Cloudflare's role as a necessary fabric for secure, performant, multi-cloud operations.

A major international consumer goods company expanded their relationship with Cloudflare, signing a three-and-a-half year, $6.6 million contract for application services and our Workers developer platform. For years, this company relied on a fragmented architecture of multiple legacy vendors, which created significant operational complexity and gaps in their security. Despite an incumbent offering significant discounts to keep the business, this customer chose Cloudflare because of our next-generation architecture and Workers developer platform, which allowed them to customize their edge traffic. We didn't just replace three incumbents, we replaced a legacy mindset, proving once again that when you give developers the best tools, the entire enterprise follows.

A European Global 2000 technology company expanded their relationship with Cloudflare, signing a three year, $5.8 million pool of funds contract to provide seamless access to our entire platform. We signed our first deal with this customer back in February. After quickly realizing the power of Cloudflare's platform, they came back to us looking to move from a small, variable commitment to a deep strategic partnership. Unlike their legacy incumbents, our combination of best-of-breed security and our Workers developer platform enables sophisticated automation to manage their global infrastructure and greater flexibility to innovate at scale. It's early days with this customer and we're already in discussions regarding AI Crawl Control.

A large United States government entity expanded their relationship with Cloudflare, signing a two-and-a-half year, $2.2 million contract for our Zero Trust portfolio, including Access, Gateway, DLP, CASB, and Email Security. We solved complex compliance requirements that the first generation Zero Trust incumbent we displaced could only handle manually and demonstrated our ability to address their most sophisticated use cases that neither a hyperscaler nor the incumbent could solve. After seeing Cloudflare in action, their security team told us they were, quote, "shocked" by the simplicity, automation capabilities and power of our platform.

A US media company signed a three year, $3.1 million contract for AI Crawl Control, along with application services and Workers. This customer was facing a massive increase in AI scraping, which was crushing their network and driving up infrastructure costs. They chose Cloudflare to gain visibility into which AI models are consuming their data, allowing them to protect and eventually monetize their unique content. By leveraging Cloudflare Workers to replace years of complex technical debt from an incumbent, they were able to migrate massive internet properties into production in just two weeks. This deal proves that as AI accelerates, Cloudflare is the partner of choice for companies looking to protect their IP, while improving performance, reducing operational costs, and enhancing their security postures.

So what's the trend across all these wins? I think first vendors are once again being sorted between nice to haves and must haves. The quantitative metrics and qualitative wins this quarter again demonstrates that Cloudflare is squarely in the must have bucket as a non-negotiable linchpin of the modern technology stack.

Second, we're seeing the shift to AI and agents drive more demand for Cloudflare services. What we're witnessing is a fundamental replatforming of the internet. AI is driving a paradigm shift in how software is both created and consumed, and that is turning out to be the biggest tailwind for Cloudflare's network and Workers developer platform.

If you look at the last 30-plus years of the internet and software ecosystem, they were built for human consumption, people in seats and clicks. Now, the agentic internet is emerging and we can already see its trends. If humans looked at five sites when they were making a decision, agents might look at 5,000. If humans had to fall back on generalized software and interfaces, agents allow for infinite customizability of every software application for every need. If humans follow a common circadian rhythm to work, agents never need to sleep. Agents, in other words, are the ultimate infrastructure multiplier. In turn, they are reshaping the very economics of software. The industry is transitioning from a business model defined by seat licenses to one where the winners are those providing the compute, connectivity and rails and guardrails for these new digital workers at scale. Cloudflare was built for this moment. We are uniquely architected to capture value on both sides of the agentic interactions. That means we win when AI applications are built on Cloudflare Workers, but we also win just from the increased usage of all of our products and agentic internet drives.

Let me explain. When the cost of generating code drops to near zero, the volume of new applications explodes. It's not a coincidence that most so-called vibe coding platforms are either built on Cloudflare Workers or have us as their preferred deployment target. We exited 2025 with more than 4.5 million human developers active on our platform. It's a lot more if we count their agents. Developers are using Workers to run autonomous logic across our global network. Containers for sandboxes and AI gateway to manage inference with caching, rate limiting, and observability.

AI usage is even driving adoption of our Zero Trust platform to ensure that data is compartmentalized and access granted in limited and controlled ways. And it's not just established developers. I'm proud that we're ranked the number one cloud platform in the latest Stack Overflow survey for developers learning to code. But the opportunity extends beyond just the developers building on Workers. We're seeing agentic workloads generate an order of magnitude more outbound requests to the web than traditional user-driven applications.

Over the month of January alone, the number of weekly requests generated by AI agents more than doubled across the Cloudflare network. This is driving increased demand for our whole platform. This is where Cloudflare's scale becomes our moat. With more than 20% of the web already sitting behind Cloudflare's network, we are effectively the global control plane for the Agentic Internet. That's creating a number of new growth opportunities both with our traditional business as well as what we've begun calling Act 4, helping invent the future business model of the internet. If AI agents are the new users of the internet, Cloudflare is the platform they run on and the network they pass through. This creates a virtuous flywheel. More agents drive more code execution on our Workers' developer platform, which in turn drives more demand for Cloudflare's performance, security, and networking services. At scale, this compounds powerfully. Given the opportunity we have ahead and how effectively and efficiently our team is executing on it, I wouldn't trade places with any CEO of any other company, public or private.

But just to keep things grounded, let me turn it over to Thomas to walk through our financials. Thomas, take it away.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

Thank you, Matthew. And thank you to everyone for joining us. Entering the year, we outlined the specific factors that gave us confidence to invest in reaccelerating growth over the course of 2025. We are proud to report robust fourth quarter and full year 2025 results that validate the strategy and demonstrate our ability to execute our commitments, driving accelerating growth, innovating rapidly, and delivering financial and operational excellence. We achieved total revenue for the fourth quarter of $614.5 million, accelerating for the third consecutive quarter to 34% year-over-year, providing clear evidence of the continued momentum in our business.

From a geographic perspective, the US represented 49% of revenue and increased 31% year-over-year. EMEA represented 27% of revenue and increased 31% year-over-year. APAC represented 16% of revenue and increased 50% year-over-year.

Turning to our customer metrics, in the fourth quarter, we had approximately 332,000 paying customers, representing a record addition of nearly 37,000 paying customers sequentially and an increase of 40% year-over-year, driven again by an uptick in customers, including those graduating from the free tier to small paid accounts, particularly for our developer platform product.

We ended the quarter with roughly 4,300 large customers, representing an increase of 23% year-over-year. Revenue contribution from large customers was 73% of revenue during the quarter, up from 69% in the fourth quarter last year.

For full year 2025, revenue from large customers represented 69% of total revenue compared with 67% in 2024 and 64% in 2023. We again saw particular strengths in our largest customer cohorts. We ended the year with 269 customers that spent over $1 million with us, representing a 55% increase year-over-year in the record addition of 96, $1 million-plus customers in 2025. For some perspective, we only had 96, $1 million-plus customers in total just two-and-a-half years ago, now, that is what Cloudflare is adding in a single year, and we're still just getting started, moving up market into the enterprise. This continued significant expansion with our largest customers drove an acceleration in our dollar-based net retention rate to 120% in Q4, up 1% sequentially and 9% year-over-year.

Moving to gross margin. Fourth quarter gross margin was 74.9%, representing a decrease of 40 basis points sequentially and a decrease of 270 basis points year-over-year. During the fourth quarter, paid versus free customer traffic again increased significantly both year-over-year and quarter-to-quarter, resulting in the highest allocation of network expenses to cost of goods sold versus sales and marketing ever. The underlying economics of our network, driven by its inherent scalability and efficiency remained unchanged.

Our Workers developer platform also delivered another quarter of outsized growth. While the relative revenue contribution across our [ph] four Acts (00:18:22) can impact near-term gross margins, the unit economic margin of our business remains very consistent.

Network CapEx represented 13% of revenue in the fourth quarter. We expect network CapEx to be 12% to 15% of revenue for full year 2026.

Turning to operating expenses. Fourth quarter operating expenses, as a percentage of revenue, decreased by 3% year-over-year to 60%. Our total number of employees increased 21% year-over-year, bringing our total head count to approximately 5,200 at the end of the quarter. Sales and marketing expenses were $214.4 million for the quarter. Sales and marketing, as a percentage of revenue, decreased to 35% from 36% in the same quarter last year. Research and development expenses were $94.9 million in the quarter. R&D, as a percentage of revenue, decreased to 15% from 16% in the same quarter last year. General and administrative expenses were $61.2 million for the quarter. G&A, as a percentage of revenue, remained consistent at 10% compared to the same quarter last year. Operating income was $89.6 million, an increase of 33% year-over-year compared to $67.2 million in the same period last year. Fourth quarter operating margin was 14.6%, consistent year-over-year. These results highlight our continued commitment to operational excellence.

Turning to net income and the balance sheet. Our net income in the quarter was $106.8 million or diluted net income per share of $0.28. Free cash flow was $99.4 million in the quarter or 16% of revenue compared to $47.8 million or 10% of revenue in the same period last year. We are comfortable with consensus free cash flow estimates for 2026.

We ended the fourth quarter with $4.1 billion in cash, cash equivalents, and available-for-sale securities. Remaining performance obligations or RPO, came in at $2.496 billion, representing an increase of 16% sequentially and 48% year-over-year. Current RPO was 63% of total RPO and grew 34% year-over-year.

Moving to guidance for the first quarter and full year 2026. As a management team, we've always taken a disciplined, data-driven approach to scaling Cloudflare and remain committed to creating significant long-term shareholder value with our focus on delivering durable revenue growth, while maintaining the strong unit economics of our business.

As we transition into 2026, we have visibility into multiple independent growth vectors that give us confidence in our ability to continue to execute against this winning formula. For the first quarter, we expect revenue in the range of $620 million to $621 million, representing an increase of 29% to 30% year-over-year. We expect operating income in the range of $70 million to $71 million, and we expect an effective tax rate of 20%. We expect diluted net income per share of $0.23, assuming approximately 377 million shares outstanding.

For the full year 2026, we expect revenue in the range of $2.785 billion to $2.795 billion, representing an increase of 28% to 29% year-over-year. We anticipate revenue to be weighted 46% in the first half of the fiscal year. We expect operating income for the full year in the range of $378 million to $382 million. We expect an effective tax rate of 20%. We expect diluted net income per share over that period to be in the range of $1.11 to $1.12. We expect approximately 377 million shares outstanding based on the assumption of a cash settlement of our 2026 convertible notes.

In closing, the strength in our fourth quarter and full year results reinforces our conviction in our strategy and our ability to deliver exceptional long-term value for our shareholders and customers as we continue to pursue the massive opportunity ahead of us.

And with that operator, please poll for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] In the interest of time, we ask that you please limit yourself to one question. Thank you. Your first question comes from Matt Hedberg with RBC. Your line is open.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question, guys. Congratulations on a stellar year. It's been quite a year of acceleration. I wanted to kind of wrap two questions in one, if I could. It's obviously been a volatile start to 2026 from a tech perspective. Obviously, the hyperscalers are spending more on CapEx and being punished for that. And at the same time, SaaS vendors are being punished for AI disruption. And I think part of that is we all hear the news around AI agents like OpenClaw and things like [ph] Claude Cowork (00:23:54). So I guess, Matthew, my question is, in the short-term, how do these agents impact Cloudflare? But then also, is there a longer-term perspective on that? And maybe as a related question, how are you guys providing the picks and shovels for this agentic infrastructure without absorbing all the GPU costs that some of the hyperscalers are?

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

A

Yeah. Thanks, Matt. As I said on the call, there's not another CEO that I would trade places with. I think that we're perfectly positioned for this moment, and the team is extremely excited for it. Obviously, there's – I think there's kind of oftentimes in the market strong reactions in both directions. And I don't think every SaaS company is dead. But I do see just the rate at which entrepreneurs and developers are able to build new disruptive ways of taking on what have been legacy incumbents in a way that I've never seen before. And what I'm proud of is a lot of them are building that on top of Cloudflare.

I think on the other side of the equation, you've got a bunch of the agents of the world that are interacting with the internet, and they're interacting with it at a volume that we've just never seen before. And that's just driving more need for what are classically Cloudflare's services. So the fact that more than 20% of the internet sits behind us means that the agents have to interact with us, which means we have a seat at the table in defining exactly what the rules and the rails and the guardrails of the future of agentic commerce is going to look like and be. And we are sitting in the middle of that. And so it's been amazing across our business. We've seen, obviously, an enormous amount of strength from our Cloudflare Workers platform. But our Zero Trust platform is getting more and more adoption, because it's built from a sense of agentic AI from the beginning.

Our standard Application Services platforms are getting more adoption, because people need to be able to keep up with all this new traffic that's coming to the internet. And as we're thinking about, really, what's the future business model of the internet going to be, I think Cloudflare sits in the position to help define that. And so that's been great.

In terms of the CapEx spend, I think we're in a different business than the hyperscalers. The hyperscalers are in the business of buying machines and then renting them back, so that they basically get five times what they paid for them over the course of their useful life. And again, it's great business for them, but it's not the business that Cloudflare's in. Cloudflare is in the business of getting work done. And so what we are constantly doing is having research teams inside of Cloudflare figure out how you can run AI workloads significantly more efficiently. The hyperscalers actually have no incentive to do that. They don't want AI workloads to be more efficient, because that just means you have to lease fewer machines from them. Whereas we, because we only charge you for the

actual work that's getting done, that means that we're just getting, oftentimes, as much as 10x the amount of work off of the same GPU that you might get with a hyperscaler. That advantage is part of how we're able to just wring much more out of the CapEx that we spend than others are.

Our CapEx has picked up a little bit, and I think that that's in response to the fact that we've seen an increase in terms of the Workers, but it's nowhere close to what we're seeing from the hyperscalers. And we continue to think that we will be able to invest behind the demand. I hope you'll – I'm sitting in the Alps right now at the Olympics with Michelle, actually. And so I hope you'll forgive it. But I do feel at times like we're kind of Goldilocks, where we have a business model which I think is going to sustain whatever AI brings. AI agents aren't going to replace the massive global network that we have. But we've also done it in a way which is much more capital-efficient than some of the hyperscalers. And again, I feel very fortunate to be running this company right now and incredibly proud of our team.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Thanks, Matthew.

Operator: The next question comes from Keith Weiss with Morgan Stanley. Your line is open.

Keith Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you for taking the question. And congratulations on an amazing quarter and a really amazing year that you guys put together. I think maybe to continue on the discussion you were just having, Matthew, a lot of what's happening with how agents are using the internet, how internet traffic is evolving, it's interesting, because it involves the Application Services that you guys have had on board for a while, but also makes use of a lot of the newer capabilities coming on with Workers and what you're doing there. Can you talk to us a little bit more about that, how you're seeing the evolution in that internet traffic? And where does it go next? And where do some of those like – newer acquisitions like Human Native and Astro, where do they fit into that vision?

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

A

Yeah. So we're always on the lookout for really smart teams that have done great things to help bring them on board and incorporate them into Cloudflare. And I think both with Human Native and Astro, they perfectly fit that model. In Human Native's case, they're really helping us think through what is the next business model of the internet going to look like. It's going to move, I think, away from advertisements. It's going to move away from subscriptions. It's going to move to something else. And the Human Native team, who came out of Google and who are just extraordinary in thinking about what that future business model looks like, I think that you're going to see extraordinary things from them. And they fit right in at Cloudflare, and we're excited to have them.

In terms of Astro, Astro is just one of these incredible developer platforms and frameworks, which underlies a lot of what is building kind of the next-generation of the web and it is powering a lot of vibe coding systems and targets that people are developing new applications for. And again, it made a ton of sense for them to fit in.

What I think is maybe – what I think our role is at some level is both to help invent what the future looks like, but then also to take the internet that we've had, the internet that we've built over the last 40 years, and bring it along with that. And so what we're always trying to do is both work with great companies like Anthropic on their MCP protocols, work with everyone that's in the space trying to define what that future looks like. But then because our

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Application Services sit in front of people and one of the things that people don't understand is that it's a lot different than what people think of sort of just traditional CDNs or other things like that, is that we're actually able to rewrite the content that flows through us as it flows through us. So if it turns out that agents are better at speaking, I don't know, Latin than they are at speaking English, we can literally rewrite the content that's behind Cloudflare into Latin rather than being in English. Now, that's not going to be what agents are good at. But they are going to be better, probably, at speaking code than they are going to be maybe at speaking other things that we might invent.

So I think that what we're able to do and part of the reason we think that our legacy business is going to be incredibly durable is that it's going to be able to automatically bring along all of the rest of the internet that already sits behind us into whatever comes next. And I think we're going to figure that out.

So one of the things I'm thinking a lot about is what happens to small businesses in an agentic commerce world? There's a lot of ways where agents could be very consolidating and actually put a lot of pressure on small businesses. And so I think us, in combination with great companies that we're working with like Shopify or Visa or PayPal or Mastercard, we've got to figure out how do we make sure that we bring all of these small businesses along, give them the right tools. And that's exactly the sort of thing that we're thinking about as we think about Act 4.

And again, it's not going to require you to have to go in and rebuild things. We want to make it one click simple where as soon as we figure out, this is what really works, you push a button, and that's just – whatever you had as your old shopping marketplace, that just comes along with it and gets to support whatever agents are going to be providing in the future. I don't know exactly what all those things are going to look like, but we've got an incredible team. We're making smart acquisitions to augment that team and great partnerships with terrific companies to try to think about what that future is. But one way or another, we're at the center of that future.

Keith Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Outstanding. Thank you, Matthew.

Operator: The next question comes from Jonathan Ho with William Blair. Your line is open.

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Good afternoon, and hope you are enjoying the Olympics. It seems like most of the vibe coding platforms are either built on Cloudflare Workers or have Cloudflare as their preferred deployment target. Can you give us maybe some examples of how companies are using Cloudflare Workers for their AI projects? And why are these companies maybe picking Cloudflare versus alternative platforms on hyperscalers? Thank you.

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

A

Yeah. I mean, it's – one of my favorite things is to sit down with Ali Cabral, who used to run platform at Cloudflare, and said, I want to get closer to customers. And so she's actually running our go-to-market effort around our developer tools. And she just has story after story of amazing examples. And so some of the ones she shared with me recently, there's a Fortune 500 pharmaceutical company that literally built a vibe coding platform on Cloudflare where their internal developers are using Workers AI and Durable Objects to build AI-assisted tools, which, again, I think directly proves that some of the largest enterprise customers are trying to figure out, how do

we stay on top of that? How do we give our teams the tools that we need? And they're turning to Cloudflare because it's so easy to incorporate everything that we have and go from idea to application faster than you can anywhere else and in a way that allows rapid prototyping that doesn't blow the budget, which is something that every company is trying to figure out.

[ph] Another (00:34:54) publicly traded technology company is migrating their plug-in sandbox infrastructure to Cloudflare containers for secure, isolated execution of code at scale, which lets their customers then prompt deployments directly to their system, but do it in a way which is secure. Because one of the things that's really scary sometimes about deploying AI tools, especially to customer-facing applications, is there can be a lot of damage that they do if one of these agents goes rogue or something goes wrong. The way that we've architected sandboxes allows to them – and containers allows them to do this secure, isolated code deployment.

And again, it all comes as part of the toolkit of Cloudflare Workers, which is allowing them to go really quickly. Another example, a leading financial services company has partnered with us to launch an official MCP server designed to allow AI agents like Claude or Cursor or OpenAI to interact directly with the company's payment services. The whole thing is built on Cloudflare Workers. And this allows merchants to manage commerce tasks, such as creating invoices, checking transactions, processing payments, using natural language commands, and using things that are running on Cloudflare.

So again, it's so fun to get the download from Ali, where she's just listing big company after big company after big company in addition to all of the startups and everyone else that's building on the platform. And I think what they like about us is, first, you get a complete toolkit. Second, that toolkit has been architected in a modern way to build exactly what you need for agents and AI applications. And then third, you get it in a way that can scale up infinitely if it becomes wildly popular and can scale down instantly to zero, so you don't blow the budget if somebody's not actually using the system. That's very different than the hyperscalers, which in order to be able to get access to a GPU at a hyperscaler at anything close to a competitive price, you often have to commit to leasing that server for an entire year, which, again, if the project that you're leasing it for doesn't go well, that's out of your budget.

And so I think the fact that we've built, again, a complete toolbox, which is a modern architecture of how developers want to build applications, and then delivered it in an incredibly cost-effective way, that's what is driving so much success from our Workers developer platform.

Operator: The next question comes from Gabriela Borges with Goldman Sachs. Your line is open.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good afternoon. Thank you for taking my question. Matthew and Thomas, I wanted to ask you a little bit more about the large deal that you closed this quarter. And it reminds me a little bit of the $100 million-plus deal from last year. Give us a sense on how the pipeline is trending for these types of deals. What sort of engagement across the Acts that are you able to convert when you have these larger deals? And what are you learning from the two sort of large deals that you've closed so far? How do you apply those to get the conversion rate up for whatever's in the pipeline? Thanks so much.

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

A

Yeah. I'll start, Gabriela and then Thomas might have a little bit more to add. What I'd say is we see an incredibly strong pipeline. And I think where that pipeline comes from is typically customers that are already using us, us getting to know them, us often embedding developers directly with their teams to understand what their use cases and needs are, and then figuring out where there are opportunities for us to be able to do something for them that maybe they had budgeted it with a hyperscaler, maybe they'd budgeted it somewhere else, and they're all of a sudden able to realize that if they do it with Cloudflare, they can do it faster, they can do it in a way which is much more scalable. And they can do it in a way which is much, much more cost-effective.

And so I think that the work that we're doing to really embed with customers is driving success there. And again, we're still not to a point where we're going to be doing a $100 million deal a quarter. But we'll get to that point. And I think we see an enormous total addressable market for the Cloudflare Workers platform. And I think that will shift more and more spend away from what people are using the hyperscalers for.

So I feel very confident. And again, I think the success has really been, how do we take all these amazing tools that we have, but then how do we build those deep relationships with customers in a sophisticated go-to-market organization? And I think you'll just see more and more success from that.

Gabriela Borges
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much.

Operator: The next question comes from Fatima Boolani with Citi. Your line is open.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Thank you so much for taking my questions. Matthew and Thomas, this is for both of you. I'd love to hear you both opine on this. The pool of funds contracting and engagement vehicle has seen a tremendous amount of success. You've only compounded the credibility and trust with that sales motion. So I was hoping you could give us a sense of what the next phase and leg of pool of funds traction is for the business. And Thomas, any sense of how we should think about higher variability, more usage-oriented revenue, creating more volatility in the model or revenue forecasting, rather, and how we should think about that and internalize that as we think about the model over the next year or two? Thank you.

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

A

Yeah. Fatima, I'll start, and then Thomas can answer the second [ph] variability (00:40:56) question. So I think what pool of funds really represents is customer trust and their commitment to knowing that they may not know exactly what features they're going to use. They may not know exactly how much they're going to use. But they know that they believe that Cloudflare is going to provide a series of tools and features that are going to be critical to their business. And they know that they want to have access to any of those tools, regardless of what needs come up. And so I think that your question was sort of, what's the next – what's our next trick? I think we've got a long way to go with this trick. It still represents a relatively low percentage of revenue, although growing quickly.

And so I think that that's going to be something that as we build deeper relationships with customers, as we make sure that they understand everything that we have to offer, that we'll be able to deliver across that broader set of features. And then, Thomas, I'll turn it over to you to talk about variability.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

Yeah. Sure. Maybe some more color on pool of funds in the fourth quarter. It was about 20% of ACV in the fourth quarter booked around mid-teens for all of 2025. With a higher share of pool of funds, we have a higher share of variable revenue in the overall number. So there's some volatility that you might expect for that. And we're trying to compensate for that as we guide. I think it's fair to say, as revenue from pool of funds still has grown and continues to grow, we can expect that sequentially bigger Q4s and sequentially smaller Q1s, I think, as compared to just linear revenue recognition deals.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Thank you.

Operator: The next question comes from Gray Powell with BTIG. Your line is open.

Gray Powell
Analyst, BTIG LLC

All right. Great. Thanks for taking the question. And congratulations on the really strong results. So yeah, look, I know there's a lot of excitement around the newer products, particularly developer services. But we've also been picking up good data points just around an increased need for things within core Application Services. And I know you hit on this in the prepared remarks, but could you talk about – can you just talk more about what you're seeing there, particularly as customers look to deploy AI? Have you seen any material pickup in Act 1 relative to prior quarters? And just how should we think about the growth profile there?

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

Yeah. I think that, so Gray, first of all, thank you for asking about some of the other products. The teams that work hard on them every day are proud of building the best products that they have in the world. And even though they aren't the ones that always get the most attention, they still form a lot of the foundation of what we do at Cloudflare. And they're still incredibly important to us.

I think in this particular case, the first place that we saw just demand was actually from a lot of the AI companies, where the AI companies would say to us, we can't continue to operate our systems unless we can have the security and ability to deal with the load, which Cloudflare provides by default. Every time you run a query against an AI company, it's pretty expensive to deal with those queries. And so being able to sort out who's a human and who's not a human, which is something we're the best in the world at, is really important for the AI companies. And that's driven, actually, just a lot of those initial relationships that are there.

What really took off in Q4, though, was where we saw other companies, media companies, e-commerce companies, companies that were just doing more traditional things online, seeing such an enormous uptick in how agents were interacting with their systems. And if any of you have used a tool like ChatGPT or Grok or Claude and you just watch how many different things it is looking at for every query that you send out, that's just an order of magnitude increase in the volume of queries that are coming to the internet. And so the people who are providing what is that internet that they're querying against, they need ways to do that in a way which is efficient and able to continue to scale. And Cloudflare is – and again, those Application Services functions that we have, the kind of Act 1 products that we have, are really critical of being able to deliver that. But it goes beyond that.

If you look at something like the new agents that people are running on their own machines often, the amazing thing is that people are waking up very quickly. We're sort of speed-running all of the security challenges that are out there, where all of a sudden, you say, I've just given my agent access to everything in my life, what could go wrong? People are very quickly figuring out, a lot could go wrong. And so you've got to put controls in place. And that's exactly where our Act 2 or Zero Trust products come into play, where we've actually seen a real uptick, even in a self-service business, of the Zero Trust products.

Now, that's not going to deliver huge revenue from people that are just self-service home customers. But as we see those reps, as we become more familiar in the market for those products that we're able to provide, that's just going to help us sell even to large enterprises. And so again, across the AI spectrum, I know that AI is putting pressure on some companies that are out there. It's not putting pressure on Cloudflare.

We are seeing it as nothing, but a tailwind for us, both for our developer tools and kind of the Act 4 stuff that we're working on, but actually for even our legacy products like Application Services and Zero Trust as well.

Gray Powell
Analyst, BTIG LLC

Q

That's really helpful. Thank you.

Operator: The next question comes from Shrenik Kothari with Robert Baird. Your line is open.

Shrenik Kothari
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thanks for taking my question. Again, congrats on the great execution. And really excited about the opportunities ahead. So Matthew, just double-clicking into Act 4, right, particularly in light of the wins, like the media company signing that $3.1 million contract for AI Crawl Control. So as you're engaging with publishers, can you share early feedback around adoption towards these opt-out controls to block scraping, but also the evolution of a structured marketplace model here? And I had a quick follow-up.

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

A

Yeah. So I think this is an exciting area. It's an area that I think we've been leaders in. And we're sort of in this interesting position because we're not an AI company. We're not building a foundational model. We're also not a media and content company. But 80% of the AI companies use us. So we know them. We have deep relationships with them. And then a huge percentage of the internet uses us as well. And increasingly, more and more of the world's publishers use us. And so I think we've been sort of that neutral honest broker between the two sides that can come together and say, okay, like in order for this to all work, the internet needs to have a business model. Like people who create content deserve to get paid. And one of the things that actually surprised me, to some extent, which might be relevant to a lot of you listening in, is we've actually been getting calls, not just from like the Associated Press and BBC and The New York Times, but we've been getting calls like increasingly from banks, where their research teams are saying, we're actually seeing fewer people subscribe to and read our research because the AI companies – people are just turning to AI companies, and they're slurping all the data down and taking that intellectual property. Again, I think journalists deserve to get paid, but so do research analysts. And so you all deserve to be able to monetize the work that you're creating. And we're going to have to create some new business to support that because AI bots don't click on ads. And it's going to be something which is different going forward.

The reaction from the content creator side has been just overwhelmingly positive. And we come back to something pretty simple, which is just, if you create content, it should be up to you who gets access to it and who doesn't. And we can provide the tools to do that.

On the AI company side, they also again, nobody wants to pay for something that they were getting for free. But I think that they understand that we're a fair broker. And when we walk them through what happens if we don't create some healthy ecosystem here, they say, we get it, we just want to make sure that everyone is treated fairly. And so I think that's a big piece of it.

We've seen a lot of other companies start to try and kind of follow in this trend. Microsoft and Amazon have announced content marketplaces. And they may be successful. But what we're hearing from both the AI companies and from the content creators is that because Cloudflare is that trusted, neutral third-party, that we can be that honest broker between them, that they would rather us be the ones that figure out what that future business model looks like as opposed to one of the hyperscalers, which is out there creating their own foundational model themselves and might have just very different incentives.

So I think 2026 will be the time that we start really talking about what this future business model looks like and how that is going to impact us financially. But we are mostly focused on something which is really simple, which is we believe the internet is important, we believe AI is incredible. But in order for AI to be even more incredible, the internet needs to be even more robust and full of great original content. And in order for that to happen, there has to be a way for those content creators to get paid by AI companies. And that's what we're trying to figure out.

Shrenik Kothari
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks a lot, Matthew. Super helpful.

Operator: The next question comes from Adam Borg with Stifel. Your line is open.

Adam C. Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Awesome. And thanks for taking the question. It's great to see the continued go-to-market maturation. And Matthew, so when maybe thinking about the channel mix, I think that ticks up to over 28.5%. So good ongoing momentum there. As we think about the new fiscal year, maybe you could provide a quick update on the channel priorities for 2026, especially in the context of driving Act 2 and Act 3. Thanks so much.

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

A

Yeah. So I'll start, and then Thomas may have a little more to add. I think that one of the things that was really important to Mark Anderson was that in order to really be able to scale and get leverage in a true enterprise sales team, you need to be channel first. And so I think that's something that we really embarked on two years ago. I think we had the willingness to do it. I think we had the margin structure to be able to support it. I think that we were thought of well and we're a good partner, generally, to channel partners and have been. What I think was missing for a long time for us was, first, our products for a long time were too simple. And it was like you – tagline our site used to be, give us five minutes, and we'll supercharge your website. Like I think there's not a lot of value that a value-added reseller can add if they're doing that.

Today, when you look at the large value-added resellers, when you look at the giant systems integrators, they're seeing that there's an enormous amount of complexity. There are places where there's integration with other products. There's also, because of workers with the developer platform, an ability for them to actually create their own intellectual property and then sell that over and over again in specific verticals or specific industries. And that's really taken off. I think we started to figure that out really two years ago. I think what we've really focused on over the course of the last of 2025 was, how do we now make it easier for channel partners? How do we actually publish a price list where they can quote deals without having to check with our team and doing all of that work for us?

And that was complicated work. But we did that in the second half of 2025. And I think you're going to see the fruit of that through 2026. So we just had our sales kickoff a couple of weeks ago in Las Vegas. And it was just extraordinary to talk to and listen to partners who, again, I think for a long time, were like, hey, we want to work with you, but you don't quite understand us, [ph] for now (00:54:13) they're saying, you've got the team that understands us. You've made our job simpler. And we're going to go out there and just sell the hell out of Cloudflare's products. I think that is how you become, again, a true enterprise sales company. And I think Mark Anderson and the rest of his team deserve an enormous amount of credit in teaching me and the rest of the organization how to do that. And a big part of that is about channel and partners.

Adam C. Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks so much.

Operator: Your last question comes from the line of Jackson Ader with KeyBanc Capital Markets. Your line is open.

Jackson Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking our questions, guys. And Matthew, thank you for recognizing the plight of research analysts. I'll make sure I pass that along...

[indiscernible] (00:55:02)

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

A

You definitely deserve to eat. Like definitely it's important, AI should not take your job, Jackson.

Jackson Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

It's common. Yeah. We'll see. My question, though, is actually just following up on the channel discussion that you just went through. I'm just curious, one of the only downsides to think about a channel presence is that it does make you a little less nimble, right? If you wanted to add sales heads, you could do that a little faster than maybe trying to supercharge the channel. So I'm curious how you guys are thinking about hiring direct sales people if you see further demand signals, like we're going to continue to accelerate, how nimble can you be to like really lean in on the go-to-market motion?

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

A

Yeah. I'll start. And Thomas will say something smarter than I did. But I think that the channel makes you more nimble, not less nimble. We are going to continue to hire great people internally. I think we are hiring and ramping at a rate which is very, very healthy. But then the channel gives you leverage to be able to do that and execute as well. And so I don't think that that's – I don't see it as a constraint on our nimbleness, I actually see it as a way of just offering leverage to our already very successful inside sales and field sales teams that then use the channel to be able to support themselves. And again, I think it's been – we've seen – I think it's still early days. But we've seen through the growth just real success there.

And I don't think we'll ever get to 90% plus of business going through the channel, like the old hardware companies of old, some of the software companies of old, even companies like Zscaler and Netskope that have gone there. I think we will be less than that. But I do think that we can do a lot more with the channel. And I think we've got a lot of what had been the things that have held that back cleared out of the way. And I think that will actually make us faster and more nimble rather than slow us down.

Thomas Josef Seifert
Chief Financial Officer, Cloudflare, Inc.

A

Yeah. The only thing I would add is, for us, this is not an either/or from a capital allocation perspective, but how we stack both vectors on top of each other, so you can accelerate both growth vectors independently. And we've been really successful at this. With the productivity metrics that we shared, we are full speed ahead on adding sales capacity. And we do this early in the year just to get a head start.

Jackson Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. All right. Great. Thank you, guys.

Operator: This concludes the question-and-answer session. I'll turn the call to Matthew Prince for closing remarks.

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

I just wanted to thank everyone in the Cloudflare team for an incredible 2025. There's a ton of work that goes into having a quarter like the one that we just did. I'm proud of everyone who helped achieve it. We've got 2026 ahead of us. And again, as I said, I couldn't be more excited to be the CEO of Cloudflare and I wouldn't trade places with anyone.

Thank you all. See you back here next quarter.

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