

Background

- With mobile devices, connected homes, connected vehicles, the internet of things, and 5G networks, our demand for data is growing rapidly year-over-year, requiring ever-increasing speed, reliability and security
- Cloudflare's mission statement is "to help build a better internet" by delivering improved performance, reliability and security (the 3 pillars of content delivery)
- Founded in 2009 and IPO'd in Sep 2019 at a valuation of \$4B

Tailwinds

- Increased data flowing over the internet, more internet-connected devices, the need for better cybersecurity, and 24/7/365 availability
- Rollout of 5G devices is expected to act as a significant catalyst for market growth
- In particular, e-commerce, finance, and gaming companies are increasingly adopting content delivery networks (CDNs) and edge computing technologies
- Edge networks are enablers for many other megatrends:
 - Connected autonomous vehicles need low latency processing logic - e.g. truck convoy
 - Telemedicine data from monitoring devices needs to be secure and close to the patient
 - Cloud gaming needs ultra-low latency

Leadership

- Co-founder CEO Matthew Prince, has an 88% Glassdoor rating
- 15% insider ownership (11.6% by CEO) with low levels of insider selling

Total Addressable Market (TAM)

- Forecasted by Cloudflare to grow to \$117B by 2025, and made up of three components
 - Content delivery networks: \$23B
 - Edge computing: \$21B
 - Secure access service edge (modern network security): \$73B
- Cloudflare have expanded their security capabilities beyond application services to add network services and zero-trust security services, competing with companies such as

Zscaler

Customers

- Developer-friendly and has a free tier for CDN services, allowing a land-and-expand SaaS rollout model (evidenced by revenue growth of large customer accounts)
- Paid customer accounts grew to over 111,000, up 10% quarter-over-quarter (increase of 11,000 customers vs 4,800 in prior quarter)
- Large customers (spending \$100K+) increased by 92 bringing the total to 828 in the last quarter. Enterprise customers accounted for 46% of revenue in 2020 vs 21% in 2017

Network Effects

- Cloudflare has over 200 points of presence (PoPs) in over 100 countries, putting 99% of the connected population within 100ms of their edge
- Cloudflare have over 59 Tbps of network capacity, handle 18M+ web requests per second on average, and block an average of 72B cyber-threats a day

Competitors

- Cloudflare provide a wider set of features than competitors, and are generally perceived to be executing better, releasing more features and enhancements
- Fastly currently reputed to have the superior technology, with 100x faster start-up times, however customer growth at Fastly is slowing compared to Cloudflare
- Akamai are 10X larger in terms of revenue, however annual revenue growth has slowed to 12% as they struggle to innovate
- Shopify have selected Lucet (from Fastly) to deploy new capabilities for their customers

Financials

- Market cap \$23B, very high price to sales ratio of 52, but not inconceivable that Cloudflare's continued rapid growth scales into this valuation, particularly given wide TAM
- Q4 revenues of \$126M (2020 FY \$430M), increase of 50% YOY
- Dollar-based net retention rate of 119% in Q4 2020 (3% increase from the prior quarter)
- Adjusted gross margin 78%
- Q4 free cash flow loss of \$23.5 million, 19% of revenue compared to 28% in Q4 2019