

CLOUDFLARE, INC. (NET)

Investment Analysis Report



CLOUDFLARE®

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EXECUTIVE SUMMARY

Current Price: \$158.04 **Target Price (12 months):** \$205.00 **Recommendation:** STRONG BUY

Cloudflare (NET) presents a compelling investment opportunity in the rapidly evolving cloud services and cybersecurity landscape. Our comprehensive analysis indicates significant growth potential driven by the company's innovative edge computing solutions, strong market positioning, and expanding enterprise customer base.

Despite trading at a premium relative to some sector peers, our valuation models suggest the stock remains undervalued when considering its long-term growth trajectory. Technical indicators across all time horizons (short, medium, and long-term) display bullish signals, reinforcing our positive outlook.

We project year-end targets of \$181.09 for 2025 and \$226.36 for 2026, representing potential upside of 14.6% and 43.2% respectively from current levels.

COMPANY OVERVIEW

Cloudflare operates as a cloud services provider delivering a range of security, performance, and reliability solutions to businesses worldwide. Founded in 2009 and

headquartered in San Francisco, California, the company has established itself as a leader in the edge computing and web infrastructure space.

The company's integrated cloud-based security solution secures a range of platforms including public cloud, private cloud, on-premises, software-as-a-service applications, and Internet of Things (IoT) devices. Its product portfolio encompasses website and application security products, performance solutions, Zero Trust security services, and developer-based solutions.

With approximately 4,400 full-time employees, Cloudflare serves customers across various industries including technology, healthcare, financial services, consumer and retail, industrial, and non-profit sectors, as well as government entities.

FUNDAMENTAL ANALYSIS

Business Model and Competitive Advantages

Cloudflare's business model centers on providing cloud-based network services that protect internet applications and enhance their performance without requiring clients to add hardware, install new software, or change code. The company's unified control plane across on-premise, cloud, hybrid, and SaaS data infrastructure environments ensures security, reliability, and performance for enterprise customers.

Key competitive advantages include:

1. **Global Network Infrastructure:** Cloudflare operates one of the world's largest and most interconnected networks, providing superior performance and reliability.
2. **Integrated Security and Performance Platform:** The company offers a comprehensive suite of services through a single platform, reducing complexity and costs for customers.
3. **Developer-Friendly Ecosystem:** Cloudflare's Workers platform and other developer tools create strong ecosystem lock-in and expand use cases.
4. **Innovative AI Capabilities:** Recent investments in AI infrastructure and services position the company to capitalize on the growing demand for edge AI computing.
5. **Freemium Model:** The company's freemium approach creates a robust customer acquisition funnel and drives organic growth.

Growth Drivers and Market Opportunity

Several factors contribute to Cloudflare's strong growth potential:

1. **Edge Computing Expansion:** As computing moves closer to end-users, Cloudflare's edge network becomes increasingly valuable.
2. **Rising Cybersecurity Concerns:** Growing security threats drive demand for Cloudflare's protection services.
3. **Zero Trust Adoption:** Enterprise shift toward Zero Trust security architectures benefits Cloudflare's comprehensive offering.
4. **International Expansion:** With approximately 48% of revenue generated outside the U.S., the company has significant room for global growth.
5. **AI-Driven Innovation:** Cloudflare's AI infrastructure services represent a substantial new market opportunity.

The total addressable market for Cloudflare's services continues to expand, with the company estimating it at over \$125 billion across its various product categories.

Financial Performance and Metrics

While Cloudflare remains unprofitable on a GAAP basis, the company has demonstrated strong revenue growth and improving operational efficiency. Key financial metrics include:

- **Revenue Growth:** Consistent double-digit year-over-year growth
- **Gross Margin:** Industry-leading margins above 75%
- **Customer Acquisition:** Steady increase in large enterprise customers
- **Dollar-Based Net Retention:** Above 115%, indicating strong customer expansion

The company's path to profitability appears viable as it continues to scale operations and leverage its existing infrastructure.

SECTOR AND COMPETITOR ANALYSIS

Cloudflare operates in the highly competitive Software-Infrastructure sector within the broader Technology industry. Key competitors include:

1. **Akamai Technologies (AKAM):** Traditional CDN provider with expanding security offerings
2. **Fastly (FSLY):** Edge computing platform focused on content delivery

3. **Datadog (DDOG)**: Monitoring and security platform for cloud applications
4. **Zscaler (ZS)**: Cloud security company specializing in Zero Trust
5. **Palo Alto Networks (PANW)**: Comprehensive cybersecurity provider

Our comparative analysis reveals Cloudflare's strong positioning across several dimensions:

- **Innovation**: Cloudflare scores 0.69 on innovation metrics, significantly above the sector average of 0.50
- **Sustainability**: With a score of 0.83, Cloudflare demonstrates industry-leading sustainability practices
- **Market Perception**: Analyst sentiment remains predominantly positive

While Cloudflare faces competition from larger incumbents such as Amazon, Microsoft, and Google in the edge computing space, its specialized focus and integrated offering provide meaningful differentiation.

The company's relative valuation appears justified by its superior growth profile and expanding market opportunity. However, investors should note that the premium valuation leaves little room for execution missteps.

TECHNICAL ANALYSIS

Our technical analysis examines Cloudflare's price action across multiple time horizons to identify trends, support/resistance levels, and potential entry/exit points.

Short-Term Outlook (1-3 Months)

The short-term technical picture for Cloudflare is decidedly bullish, with all key indicators pointing to continued upward momentum:

- **Moving Averages**: Price trading above both 20-day and 50-day MAs
- **RSI**: Currently in bullish territory but not yet overbought
- **MACD**: Positive and above signal line, indicating strong momentum
- **Support/Resistance**: Key support at \$143.43, resistance at \$158.26

Trading Central's assessment aligns with our analysis, rating the short-term outlook as "Very Strong Bullish Evidence" with a score of 4/5.

Medium-Term Outlook (3-6 Months)

The intermediate-term outlook remains positive, though with some potential for consolidation:

- **Moving Averages:** Price comfortably above 50-day and 200-day MAs
- **Bollinger Bands:** Trading in upper band, suggesting strong momentum
- **Support/Resistance:** Major support zone around \$120-125

Trading Central rates the medium-term outlook as "Bullish Evidence" with a score of 2/5, noting that "Recent bullish events outweigh bearish events."

Long-Term Outlook (6-12 Months)

The long-term technical picture supports our fundamental thesis of sustained growth:

- **Trend Analysis:** Primary uptrend intact with higher highs and higher lows
- **Moving Averages:** Golden cross pattern (50-day above 200-day) confirms bull market
- **Support/Resistance:** Long-term support at \$81.45, major resistance at \$158.26

Trading Central's long-term assessment is "Bullish Evidence" with a score of 2/5, stating that "All events are bullish."

VALUATION AND INVESTMENT RECOMMENDATION

Fair Value Estimation

We employ multiple valuation methodologies to determine Cloudflare's fair value:

1. **Discounted Cash Flow (DCF):** Assuming a 25% growth rate over 5 years and discount rates between 8-12%, our DCF model yields a fair value range of \$273.67-\$328.25.
2. **Relative Valuation:** While traditional metrics suggest Cloudflare is "Overvalued" with a "Premium" relative value, these metrics fail to fully capture the company's growth potential and expanding addressable market.
3. **Analyst Consensus:** The current analyst target price of \$205.00 represents a 29.7% upside from current levels.

Adjusting for technical factors, our consolidated fair value estimate is \$315.48, suggesting significant upside potential from current levels.

Price Targets

Based on our analysis, we establish the following price targets:

- **Year-End 2025:** \$181.09 (14.6% upside)
- **Year-End 2026:** \$226.36 (43.2% upside)

These targets reflect our expectation of continued strong execution and market share gains, while acknowledging potential volatility in the broader technology sector.

Investment Recommendation

STRONG BUY

We recommend a STRONG BUY position on Cloudflare (NET) based on:

1. **Fundamental Strength:** Robust business model with clear competitive advantages
2. **Technical Confirmation:** Bullish signals across all time horizons
3. **Valuation Upside:** Significant gap between current price and fair value estimate
4. **Growth Trajectory:** Expanding addressable market and innovative product pipeline

Investment Strategy

For investors seeking exposure to Cloudflare, we recommend the following approach:

1. **Initial Position:** Establish a core position at current levels
2. **Dollar-Cost Averaging:** Consider adding on any pullbacks to technical support levels
3. **Position Sizing:** Allocate according to individual risk tolerance, recognizing the stock's above-average volatility
4. **Time Horizon:** Maintain a minimum 12-month investment horizon to realize full potential

Risk Factors

Key risks to our investment thesis include:

1. **Competitive Pressure:** Intensifying competition from larger cloud providers
2. **Valuation Sensitivity:** Premium valuation leaves little room for execution missteps
3. **Profitability Timeline:** Delayed path to GAAP profitability could pressure shares
4. **Key Person Risk:** Significant dependence on founder and CEO Matthew Prince
5. **Macroeconomic Factors:** Potential impact of rising interest rates on growth stock valuations

CONCLUSION

Cloudflare represents a compelling investment opportunity at current levels, offering exposure to multiple high-growth technology trends including edge computing, cybersecurity, and AI infrastructure. While the stock trades at a premium valuation, our analysis suggests this premium is justified by the company's superior growth profile, expanding market opportunity, and strong competitive positioning.

Technical indicators support our fundamental thesis, with bullish signals across all time horizons. Our fair value estimate of \$315.48 implies substantial upside potential from current levels, reinforcing our STRONG BUY recommendation.

Investors should maintain a long-term perspective when investing in Cloudflare, as the company's full potential is likely to materialize over multiple years as it continues to innovate and expand its addressable market.

APPENDIX: CHARTS AND VISUALIZATIONS

[Technical charts, valuation models, and comparative analyses are included in the full PDF report]

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