

Cloudflare, Inc. (NYSE: NET)

Equity research report · 25 October 2026 · Data as of 23 October 2026 close

Item	Summary
Verdict	Watchlist , from fundamentals. Unchanged. Becomes interesting at \$215 to \$230 .
Technical read (chart only)	Conflicts . The chart is in an uptrend while the fundamentals say wait; the tag reflects the price chart only and does not change the verdict.
Price (23 October 2026 close)	\$325.73, down 9.2% from \$358.82 on 25 September
Probability-weighted fair value	\$261.07 (19.9% below the price); base case \$250.94
Investment Score	65.5 / 100 (September: 67.9 on a comparable seven-factor basis)
Market value / valuation	About \$122 billion; 33x 2027 consensus revenue of \$3.70bn and 194x 2027 consensus EPS of \$1.68
Next results	Q3 2026 on 5 November 2026, after the market close (announced)

Core thesis. A month of heavy product news has not changed what the shares need to go right. Cloudflare launched agent-payment tools and a publisher billing service, opened an AI workspace product, signed a channel partnership with Deutsche Telekom and reported more than 10 million developers on its platform. None of it carries disclosed revenue yet. The shares swung from a high-multiple software sell-off in mid-October, when they closed as low as \$291.69, to a rally on cybersecurity demand after critical PHP flaws, and ended at \$325.73, 9.2% below the September report. At about 33 times 2027 consensus revenue the stock still prices in years of growth above 30%. The weighted fair value is \$261.07 and the base case \$250.94. The verdict stays Watchlist, and the level of interest is \$215 to \$230.

Biggest risk. Valuation. With the third quarter guided at about 31% growth, against 36% in the second, any sign that growth is settling near 30% could take the multiple down faster than revenue grows.

Investment memo

Would this be a purchase with new money today? No. Cloudflare is one of the best-run growth companies in its field: revenue grew 36% in the second quarter, the fifth quarter of acceleration in a row, and management has a habit of guiding low and beating. The problem is that the price already pays for that. Three cases give \$376.61, \$250.94 and \$140.65, weighted 30/45/25 to \$261.07, about 20% below the price. Even the bull case, with 2027 revenue of \$4.0bn on 35 times, is worth only 16% more than today. The name becomes interesting at \$215 to \$230, where the base case offers 9% to 17%. What would change the view without a lower price is evidence in the 5 November report that growth is holding in the mid-thirties with gross margin stabilising, because that would justify the bull multiple for longer. What would make it worse is growth that settles near the guided 31% while gross margin keeps sliding.

1. What has changed since the September report

The September report opened coverage at Watchlist at \$358.82, with a weighted fair value of \$289 and a base case of \$298, and named a price near \$260 as the level of interest. It asked for evidence that restructuring savings were reaching margins while growth held above 30%. The month brought neither a price near that level nor that evidence, because the third-quarter results are not due until 5 November. Consensus estimates are unchanged: 2027 revenue of \$3.70bn and EPS of \$1.68 on both dates.

The value is lower because this report applies lower multiples, not because the business weakened. The base case uses 2027 revenue of \$3.72bn, close to consensus and the same as September's \$3.70bn, at 25 times rather than 30 times. The reason is the guide: the third quarter is guided at about 31% growth, down from 36%, and a 30 times multiple on 2027 revenue already assumes the premium survives a slowdown toward 30% and a gross margin that fell to 73.1% from 76.3% a year earlier. The bull case uses \$4.0bn at 35 times, against \$3.87bn at 40 times. The bear case is close to unchanged at \$140.65 against \$143, on the same 15 times. The bull case now carries 30% against 25%, because the agent-payment and publisher billing tools moved from announcement to beta during Birthday Week and Mastercard opened early access to agent payments after a pilot with Cloudflare. The base case carries 45%. The weighted value falls to \$261.07 from \$289, and the level of interest moves to \$215 to \$230 from about \$260.

The Investment Score is 65.5, against 67.9. No factor score changed. The prior score is restated without its technical factor for comparability. Factor weights changed on 18 October 2026, so part of the change in the Investment Score reflects the new weights: Valuation, scored 2, now carries 20% rather than 15%.

2. Business and industry

Cloudflare runs a global network that sits between users and websites, applications and AI services. Customers pay subscriptions for security (web application firewall, bot and DDoS protection, zero-trust access), network services and a developer platform for running code, storage and AI models at the edge. Revenue is recurring and grows as customers add products and traffic. The industry tailwinds are strong: more traffic comes from AI agents and crawlers, security spending is resilient, and developers are building agent applications that need cheap, distributed compute. The competition is broad, from hyperscalers to security specialists such as Zscaler and Palo Alto Networks and content-delivery rivals such as Akamai.

3. Financials

Measure	Q2 2026	Q2 2025	Comment
Revenue	\$696.1m	\$512.3m	+36%; Q3 guided \$736-737m, about +31%
Non-GAAP gross margin	73.1%	76.3%	Heavier AI and paid traffic carries lower margins
Non-GAAP operating income	\$96.1m (13.8%)	n/a	GAAP loss of \$205.7m includes \$150.7m of restructuring and other charges
Non-GAAP EPS	\$0.29	\$0.21	Q3 guided \$0.34; 2026 guided \$1.25-1.26
Free cash flow	\$56.4m (8%)	n/a	Operating cash flow \$117.6m
Cash and investments	\$4,162.8m	n/a	30 June, before \$2.46bn of net convertible proceeds in August
Convertible notes	\$3,270.3m	n/a	Carrying value at 30 June; \$2.5bn of zero-coupon notes due 2031 added in August
2026 guidance	\$2,864-2,870m	n/a	Revenue; non-GAAP operating income \$443-445m

Company Q2 2026 results release, 6 August 2026, and the August convertible notes announcements.

The growth is real and accelerating, and the business is profitable on a non-GAAP basis with positive free cash flow. Two weaknesses sit underneath. Gross margin fell three points in a year as lower-margin traffic grew faster than the rest, and stock-based pay remains large relative to free cash flow, so per-share value depends on dilution staying contained. The balance sheet is sound: on our estimate cash and investments of about \$6.6bn after the August notes exceed convertible debt of about \$5.8bn, a net cash position of about \$0.9bn, and the notes carry little or no coupon.

4. Company developments

Development	Status and date	What is known	What is forecast (and by whom)	Impact
Agent payments and publisher billing	Beta, Birthday Week 28 Sep-2 Oct 2026	Monetization Gateway lets sellers price resources and collect payments from AI agents; Pay Per Use gives enrolled publishers usage reports, billing and payouts from verified AI buyers.	No revenue disclosed or guided.	Medium
Mastercard agent payments early access	20 Oct 2026 (reported)	Mastercard opened early access to AI agent payments after pilots that included Cloudflare.	None.	Medium
Deutsche Telekom partnership	Announced 29 Sep 2026	Direct network interconnection; Deutsche Telekom adds Cloudflare security to its enterprise portfolio and T-Systems offers Cloudflare connectivity. No financial terms.	None.	Medium

Development	Status and date	What is known	What is forecast (and by whom)	Impact
Cloudflare OS (AI workspace)	Partners announced 19 Oct 2026; waitlist	Builds and runs AI tools and automations in Cloudflare's infrastructure; integrations with Asana, Box, Canva, GitHub, Notion and others. No pricing.	None.	Medium
Developer platform launches	Birthday Week; Basin GA 1 Oct 2026	Basin data platform and AI Search generally available; observability bundled with simpler pricing; more than 10 million developers (20 Oct).	None.	Low
Post-quantum certificate authority	Announced 29 Sep 2026	Planned public certificate authority issuing free certificates.	None.	Low
Insider sales	Forms 4 and 144, 5-19 Oct 2026	Officer and director sales under Rule 144 notices, continuing a regular cadence.	None.	Low
Q3 2026 results	5 Nov 2026, after the close	Guided revenue \$736-737m, non-GAAP operating income \$129-130m and EPS \$0.34.	Consensus revenue about \$738m.	Dated

Company press releases and blog, September-October 2026; Deutsche Telekom newsroom, 29 September 2026; press reports of 20 October 2026; SEC Forms 4 and 144.

No High development appeared in the period. The agent-payment and publisher billing tools are the most important items, because they are a new way for Cloudflare to earn money from AI traffic rather than only to carry it, but they are in beta with no disclosed revenue, and their effect on 2027 revenue is too uncertain to size; the bull case is where they show. The Deutsche Telekom partnership adds a large European sales channel with no disclosed terms. The verdict, scenarios and levels would be the same without any of these items. The restructuring of May 2026 remains the main operating change, and the 5 November report is the first full quarter after it.

5. Growth drivers

Driver	Status and date	Likelihood	Impact	Fact or forecast
Large-customer expansion	Dollar-based net retention 120% in Q2	High	High	Fact: reported
Security demand	Critical PHP flaws in October lifted security names	High	Medium	Fact: market event. Revenue effect unknown
AI agent traffic and payments	Tools in beta; Mastercard early access	Medium	Medium-High	Forecast: no revenue disclosed
Developer platform	More than 10 million developers	Medium-High	Medium	Fact: company figure
Restructuring savings	About 1,100 roles cut in May 2026	Medium	Medium	Forecast: savings not disclosed
Europe through Deutsche Telekom	Announced 29 Sep 2026	Medium	Low-Medium	Fact: announced. Terms not disclosed

6. Competitors

Company	Overlap	Position against Cloudflare
AWS, Microsoft Azure, Google Cloud	Edge, security and developer services	Bundle services into large cloud contracts; Cloudflare has lost some consolidated deals.
Zscaler	Zero-trust access	Larger in secure access for large enterprises.
Palo Alto Networks	Network security platform	Broader security suite; growing slower.
Akamai	Content delivery and security	Older network; slower growth and much lower valuation.

Cloudflare's edge is a single network that runs every product in every location, which keeps its cost per request low and lets it ship quickly. The risk is that hyperscalers win when large customers consolidate spending, and that AI labs build their own agent infrastructure.

7. Management

Co-founder Matthew Prince leads the company, and management has a long record of setting guidance it then beats. The May restructuring was a bold call, cutting about a fifth of staff while growth was accelerating, and the next two quarters will show whether it lifted margins without hurting sales capacity. Insiders sell regularly under Rule 144 notices, which is normal for a founder-led company with heavy stock pay but adds steady supply.

8. Risks

Risk	Probability	Severity	Comment
Multiple compression as growth slows	Medium	High	Q3 guided at about 31% after 36%; the stock trades at about 33x 2027 revenue.
Long-term yields	Medium	High	The 10-year closed at 5.00% on 23 October; most of the value sits years out.
Gross margin drift	Medium	Medium	Non-GAAP gross margin 73.1% against 76.3% a year earlier.
Hyperscaler competition	Medium	Medium	Large customers can consolidate spending with a cloud provider.
Restructuring side effects	Low-Medium	Medium	A 20% headcount cut could slow sales or product work.
Major outage	Low-Medium	Medium	A network-wide failure would be a trust event.
Dilution	High	Medium	Heavy stock pay; convertibles convert above about \$497.

The business risk is moderate and the valuation risk is high. The Risk score of 4 out of 10 (where 10 is lowest risk) agrees with that profile: a sound balance sheet and recurring revenue, against a price that leaves little room for disappointment.

9. Valuation

With small earnings relative to the price, Cloudflare is valued on enterprise value to 2027 revenue, plus net cash of about \$0.9bn, divided by about 374 million diluted shares. At \$325.73 the market pays about 32.7 times 2027 consensus revenue of \$3.70bn, which implies about 29% growth next year, and about 194 times 2027 consensus EPS. The base case applies 25 times to \$3.72bn: still a large premium, for growth near 30% with rising margins, but one that allows for the guided slowdown and the lower gross margin.

Case	Probability	Revenue and earnings outlook	Inputs	Fair value
Bull	30%	Growth holds in the mid-thirties, agent payments and publisher billing start to earn revenue, and margins rise after the restructuring.	2027 revenue \$4.00bn at 35x	\$376.61
Base	45%	Growth settles near 30% as guided, margins improve slowly and the new tools stay small.	2027 revenue \$3.72bn at 25x	\$250.94
Bear	25%	Growth slows toward the mid-twenties, gross margin keeps falling and the multiple moves toward large software peers.	2027 revenue \$3.45bn at 15x	\$140.65
Weighted	100%			\$261.07

Our calculation: multiple times 2027 revenue plus net cash of about \$0.85bn, divided by 374 million diluted shares. Consensus 2027 revenue \$3.70bn from 32 analysts and EPS \$1.68 from 33, as published 25 October 2026.

Probabilities. The bull case needs the run of accelerating growth to continue past a guide that points the other way; the record of beating guidance and the move of the new tools into beta support it, so it carries 30%. The base case, at 45%, is what the guidance and consensus describe. The bear case carries 25%: no evidence yet points to a slowdown below guidance, but the multiple has fallen sharply before when growth decelerated, and the gross-margin trend is the weak spot.

Macro drivers. The main one is the long-term interest rate, because almost all of Cloudflare's value lies in cash flows many years ahead. The 10-year Treasury yield closed at 5.00% on 23 October, down from 5.18% in late September, while September consumer prices rose 3.7% on the year and the Federal Reserve meets on 27 and 28 October. The second is enterprise technology spending, which so far is holding up; security budgets in particular tend to be protected in a slowdown.

10. Sentiment

Firm	Date	Action	Target
Oppenheimer	9 Oct 2026	Outperform, maintained	\$430 (from \$380)
Barclays	12 Oct 2026	Overweight, maintained	\$400 (from \$355)
RBC Capital	13 Oct 2026	Buy, maintained	\$405
TD Cowen	13 Oct 2026	Buy, maintained	\$375 (from \$355)
Morgan Stanley	22 Oct 2026	Buy, maintained	\$370
Citi	22 Oct 2026	Buy, maintained	\$400

Broker actions as published, October 2026. Short interest about 2.7% of float (30 September 2026).

Analysts are firmly positive ahead of the results, and four of the six October actions raised targets, to between \$370 and \$430. Short interest is low. Options activity turned bullish after the PHP vulnerability news. The positive consensus is part of the risk: with expectations this high, an in-line quarter can disappoint.

11. Investment Score

Criterion	Score	Weight	Change	Basis
Business Quality	 9/10	15%	unchanged	Global network in front of a large share of web traffic; broad security, network and developer products; 36% growth in Q2.
Financial Strength	 7/10	15%	unchanged	About \$6.6bn of cash and investments against about \$5.8bn of zero and low-coupon convertibles; positive free cash flow, GAAP losses.
Competitive Advantage	 8/10	15%	unchanged	Scale and cost per request; fast product cadence; channel reach widened by the Deutsche Telekom partnership.
Management	 8/10	10%	unchanged	Founder-led, with a record of conservative guidance followed by beats.
Growth Potential	 9/10	15%	unchanged	Five quarters of accelerating growth; agent payments and AI products add options with no disclosed revenue yet.
Valuation	 2/10	20%	unchanged	About 33x 2027 consensus revenue and 194x 2027 consensus EPS; the price sits about 20% above the weighted value.
Risk (10 = lowest risk)	 4/10	10%	unchanged	Valuation risk dominates; gross margin has drifted lower and stock pay is heavy, against a sound balance sheet.
Investment Score		100%	-2.4	65.5 / 100

Scored 1-10, where 10 is always best, including Risk. The Investment Score is the weighted sum of the seven factor scores.

No score moved. Business Quality, Growth Potential and Management rest on the second-quarter results and guidance, which have not changed since September. Financial Strength stays at 7 on the same net cash position. Competitive Advantage stays at 8; the Deutsche Telekom channel helps but carries no terms. Valuation stays at 2: the price is lower, but at about 33 times 2027 revenue it still sits about 20% above the weighted value. Risk stays at 4. The September report already scored Risk with 10 as lowest risk, so no restatement was needed for direction. The prior score is restated without its technical factor for comparability, from 68.0 to 67.9. Factor weights changed on 18 October 2026, so part of the change in the Investment Score reflects the new weights.

12. Recommendation

Watchlist at \$325.73, unchanged. The name becomes interesting at **\$215 to \$230**, where the base case of \$250.94 offers 9% to 17%. The range is meant for use after the 5 November results, which will update the growth and margin inputs the base case rests on. A quarter with growth in the mid-thirties and a stable gross margin would justify revisiting the range

upward; one with growth near the guided 31% and a lower gross margin would push it down. No cut-loss or take-profit applies because no position is recommended. No High development drove the verdict.

What would change the view	Direction
A price in the \$215 to \$230 range with growth near 30%	Toward Buy
Q3 revenue well above the \$736-737m guide with non-GAAP gross margin at or above 73.1%	Toward Buy
Disclosed paid revenue from agent payments or publisher billing	Toward Buy
Operating margin fails to rise after the restructuring while growth slows	Toward Avoid
Dollar-based net retention falls back below 115% or large-customer additions slow	Toward Avoid
A further sustained rise in long-term yields while the multiple stays near record levels	Toward Avoid

13. Technical read

Chart as of 23 October 2026 close

Verdict: Watchlist, from fundamentals. Technical read (chart only): Conflicts. The chart is in an uptrend while the fundamentals say wait, so watch it closely without changing the rating; a close back below the 50-day average near \$319, then the 20-day low of \$285.05, would bring the chart into line with the verdict.

The chart state is an uptrend: the 50-day average is rising and the price sits above the 50, 100 and 200-day averages, 33.0% above the 200-day. The October dip to \$291.69 held well above the 200-day average, and the 7.3% gain on 23 October took the price back near the 20-day average. RSI at 50.6 is neutral and the MACD is below its signal line, so momentum has not yet turned back up.

Indicator	Value	Reading
Trend	Uptrend	Above the 50, 100 and 200-day averages; 50-day rising
20-day SMA / EMA	\$333.76 / \$323.76	Price 2.4% below / 0.6% above
50-day SMA / EMA	\$319.24 / \$316.97	Price 2.0% / 2.8% above
100-day SMA / EMA	\$290.62 / \$294.58	Price 12.1% / 10.6% above
200-day SMA / EMA	\$244.92 / \$265.16	Price 33.0% / 22.8% above
RSI (14)	50.6	Neutral
MACD (12,26,9)	-5.45 / signal -0.80	Negative and below signal
ATR (14)	\$18.44	5.7% of price a day
Volume	20-day 3.0m vs 50-day 3.1m	Participation fading slightly (-2.3%)
Support	\$319.24; \$285.05; \$272.74	50-day average; 20-day low; 60-session closing low
Resistance	\$333.76; \$370.35	20-day average; 52-week high

Computed from daily prices, 300 completed sessions from 15 August 2025 to 23 October 2026; distances measured against the \$325.73 closing price.

The Technical read looks only at the price chart. It does not change the verdict or the Investment Score and only guides entry timing.

Sources

- Cloudflare, Announces Second Quarter 2026 Financial Results, 6 Aug 2026 (Exhibit 99.1): sec.gov and cloudflare.net
- Cloudflare press releases, 15 Sep-20 Oct 2026, including AI Workspace Platform partners (19 Oct) and 10 million developers (20 Oct): cloudflare.com/press
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- The Block, Mastercard opens early access to AI agent payments, 20 Oct 2026
- Cloudflare, Announces Date of Third Quarter 2026 Financial Results, 13 Oct 2026: cloudflare.net
- Broker actions, Forms 4 and 144, as published October 2026 (moomoo news, notice and research channels); consensus and short interest: Yahoo Finance, 16-25 Oct 2026

- Beating The Bull economic data posts, 14-23 October 2026
- Daily price history: Twelve Data; closing price: Alpha Vantage, 23 Oct 2026

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