ATLASSIAN

INVESTOR DAY FY22
SECTION 3

BUILDING AN ICONIC 100-YEAR+ COMPANY

Share ...

A ATLASSIAN team'22 | **Building an iconic 100-year+ company**

Investor Day FY22 Section 3

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Investments: past, present, and future

Our goal is to build a company that thrives over the next 100+ years. We make investment decisions and place strategic bets with a long-term horizon, even when it requires making tradeoffs in the short term.

Our durable and profitable growth since our founding in 2002 is proof of this philosophy's success. Starting with our early decision to eschew funding and bootstrap the company, to investing in cloud and enterprise, to introducing Free versions and sunsetting our Server products, we've built a track record of long-term thinking and focused execution that generates "bonza" 🇦🇺 results each and every year.
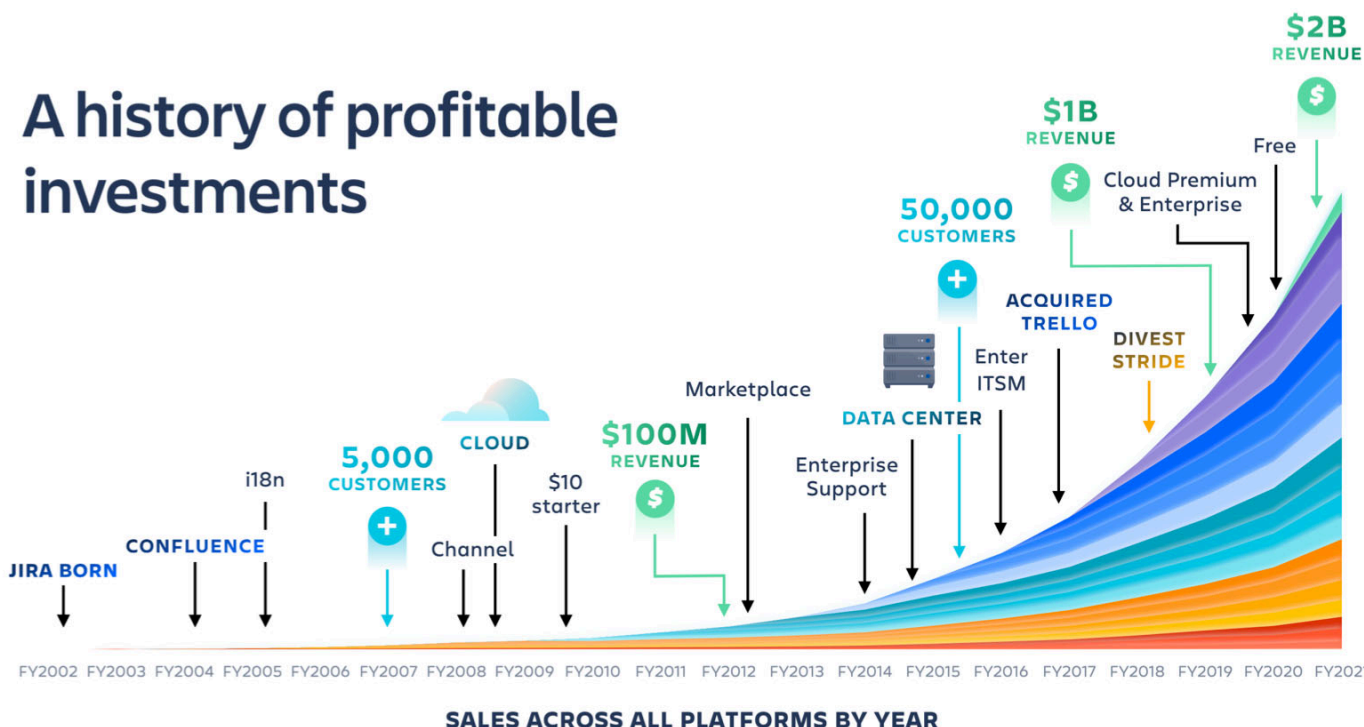
With our patient approach and time horizon, Atlassian is nonetheless able to move quickly when we see an opportunity. But we are also disciplined and optimize for growth over the long term.

Two decades of profitable investments 🔵20

This year Atlassian celebrates its twentieth anniversary. We are proud of the culture of innovation that has seen us evolve and adapt over the last two decades. Whilst there are too many bets and milestones to list, we'd like to share with you some of the meaningful investments we've made that have led to our success.

A history of profitable investments

$2B REVENUE

$1B REVENUE

$ Free

$ Cloud Premium & Enterprise

50,000 CUSTOMERS

ACQUIRED TRELLO

Enter ITSM

DIVEST STRIDE

Marketplace

DATA CENTER

$100M REVENUE

Enterprise Support

CLOUD

5,000 CUSTOMERS

$10 starter

i18n

Channel

CONFLUENCE

JIRA BORN

FY2002 FY2003 FY2004 FY2005 FY2006 FY2007 FY2008 FY2009 FY2010 FY2011 FY2012 FY2013 FY2014 FY2015 FY2016 FY2017 FY2018 FY2019 FY2020 FY2021

SALES ACROSS ALL PLATFORMS BY YEAR

From one product ◈ to many ⚓ ▣ ⚡ ▥ ⬚

Atlassian started with a single product: Jira Software. We quickly realized that our customers needed to collaborate beyond project tracking so we created Confluence to help them organize plans, strategies, and documentation.

We've followed this pattern many times throughout our history. As a trusted vendor, customers look to us to solve their needs, and **by proactively engaging, we consistently find new opportunities** to serve them. This can be in new use-cases for the same customer (such as Bitbucket for software developers), or adjacent use-cases (Jira Service Management for IT teams).

Innovation isn't a linear process, and where we don't see the potential for positive returns we're not afraid to step back, as you saw us do with Stride in the real-time team communications market back in 2018.

Building multiple products has led to our investment in a world-class technology platform that reduces our R&D cost per product, and allows us to bring new products to market faster through our Point A program.

· Revenue mix by product ·

ALL OTHER PRODUCTS
JIRA SOFTWARE + CONFLUENCE

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21
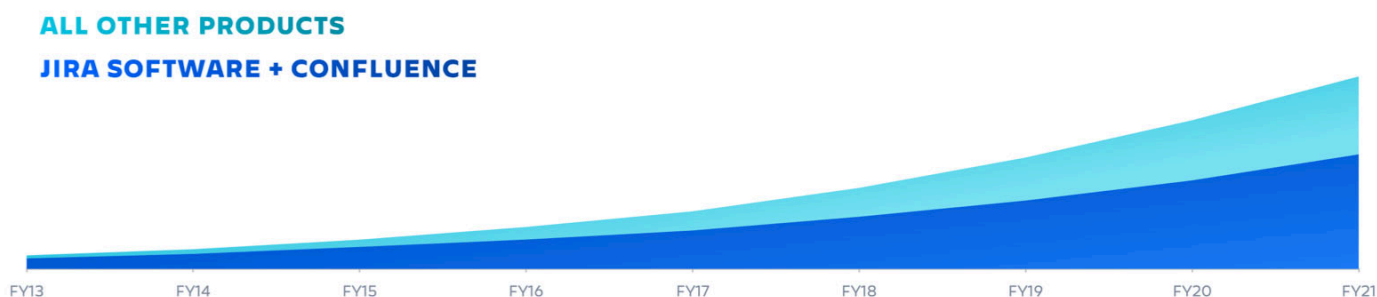
A product edition for every customer 🛒

In our early days, we offered one standard edition of our products. Since then we have aimed to make our products cheaper and more accessible to small customers, and more scalable for enterprise customers.

In 2010, we made the bold move of introducing starter licenses, which allowed small teams to use our products for just $10. Small teams adopted our products in huge numbers, **fueling a decade of growth** for Atlassian as they out-grew their starter licenses and graduated to full-price licenses.

In 2020, we disrupted ourselves again when we introduced Free editions of our Cloud products. This had a short-term revenue impact, but introducing Free led to another long-term uptick in demand.

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Our patience around revenue and philosophy around high volume continue to pay off. Of the new Cloud customers we added over the past year, **more than 70% started out on a Free edition before converting** to a paid edition as their usage grew.
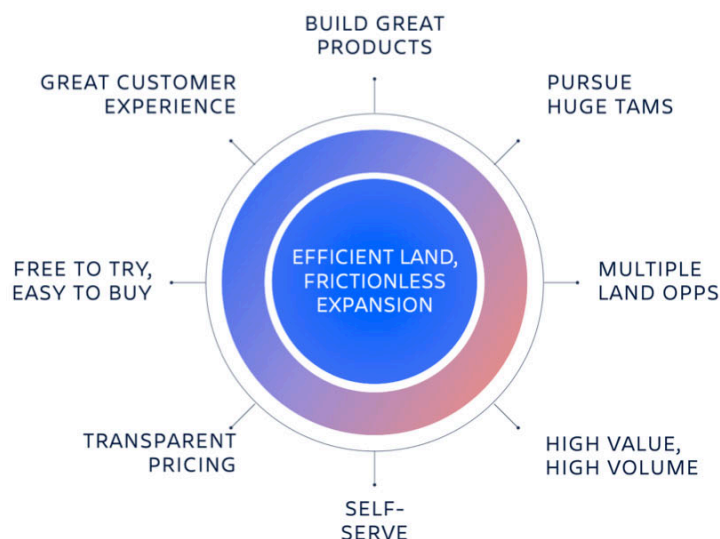
Atlassian now has a full ladder of editions – Free, Standard, Premium, and Enterprise – that meets the needs of customers of all sizes. This was a massive undertaking involving product teams, commerce teams, and customer success teams. The result? Over the past year, as of Q2'22, we saw Premium adoption grow over 100% year-over-year and be a key driver of Cloud revenue growth.

An evolving, efficient, GTM approach 🛍️

Atlassian believes software should be bought – not sold. That's why our hyper-efficient flywheel model starts with more investment in R&D than our peers. But that's not the only way we're different. Early on, rather than building out a traditional sales organization, Atlassian decided to invest in building a self-service purchase experience.

By removing points of friction, Atlassian lands customers of all sizes at scale. We added over 50,000 net new customers in the past year alone.

BUILD GREAT PRODUCTS

GREAT CUSTOMER EXPERIENCE

PURSUE HUGE TAMS

FREE TO TRY, EASY TO BUY

EFFICIENT LAND, FRICTIONLESS EXPANSION

MULTIPLE LAND OPPS

TRANSPARENT PRICING

HIGH VALUE, HIGH VOLUME

SELF-SERVE

We don't hide pricing information behind a sales rep. We make it easy to start using our products for free, and easy for customers to expand their relationship with us through additional users, products, and apps. We provide extensive documentation and other resources so customers can answer questions on their own instead of waiting in a support queue.

· · · · · · · · · · · · · Growing customers to the Fortune 500,000 and beyond · · · · · · · · · · · · ·

CUSTOMERS

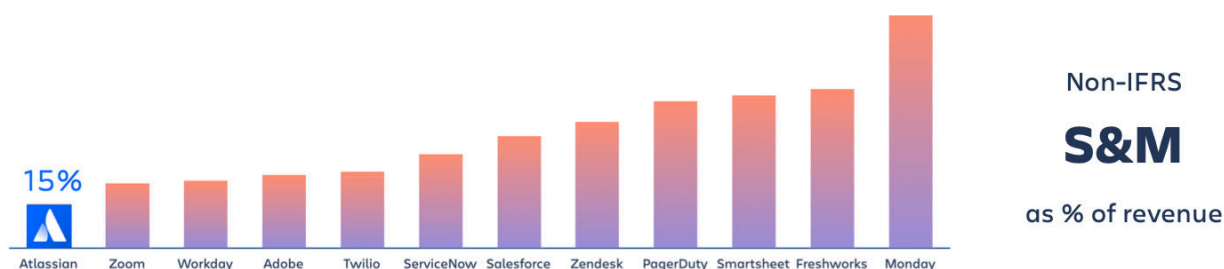|	
230,000	
201,250	
172,500	
143,750	
115,000	
86,250	
57,500	
28,750	
0	FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 Q2'22

FY20 - FY22, reflects a refined customer definition to capture unique domains that have at least one active and paid product license or subscription, with 2 or more seats, excluding starter licenses/subscriptions.
The primary difference between the customer count under the prior and updated definition is that we are no longer including Trello single-user accounts in the customer count.

As we've grown, we've expanded and evolved our customer engagement motion:

- **Channel partners** – Starting over a decade ago with the first channel partner who approached us, Atlassian has since built a network of nearly 700 Solution Partners who can guide customers through the product discovery, purchase, and roll-out phases. Solution Partners play a critical role in building relationships with larger customers in particular as they often have more complex needs. Today, **the channel touches approximately 40% of our total revenues**. And over the past year, new Cloud sales from our Solution Partners were up more than 3x year over year.

- **Enterprise support** – As customers deploy Atlassian to address their ever-increasing mission-critical use cases, we've built out a sophisticated support organization to match. In 2014 we launched a Technical Account Manager program for customers who want expert, strategic guidance to help them solve their trickiest collaboration problems. We also introduced Premier Support for enterprise customers who prefer a dedicated support contact.

- **Customer advocates** – Atlassian also has invested in customer advocates who focus exclusively on expansion and renewal of our existing customers. Because of this targeted focus, Atlassian's high-touch customer teams are much more productive than our peers, allowing us to put more investment back into product R&D.

We believe our approach provides the most value for the most customers, as well as the best returns for Atlassian. And we can run this hyper-efficient GTM machine on approximately 15% of revenue. (For a closer look at our GTM approach, check out the ongoing article series on using the flywheel growth model from our Chief Revenue Officer, Cameron Deatsch.)

Non-IFRS

S&M

as % of revenue

15%

Atlassian Zoom Workday Adobe Twilio ServiceNow Salesforce Zendesk PagerDuty Smartsheet Freshworks Monday

Excludes stock based compensation and amortization of acquired intangibles. All figures are last twelve month data as of June 30, 2020; or last twelve month data as of July 31, 2020 for companies with a fiscal year ending January 31.

Not just a company, a movement ☠️

Teams work differently. That's why a hallmark of all Atlassian products is the ability to configure and customize them. But we knew we couldn't solve every use case on our own, which is why we created the Atlassian plugin system in our early years. And in 2012, we launched the Atlassian Marketplace to ensure that, between Atlassian and our ecosystem of app developers, all our customers' needs are met.

From humble beginnings, **we have cultivated one of the largest and most successful software marketplaces**. We recently surpassed $2 billion in lifetime Marketplace sales, with over 5,000 apps available.

There are large, profitable, and growing companies built on the Atlassian ecosystem. To accelerate their growth, we launched Atlassian Ventures in 2020, which has since invested in 30 organizations in 13 countries. Traditional venture capital organizations have taken note and are now increasingly investing in our Marketplace partners.

We're proud that, between our Marketplace and our channel, there are tens of thousands of jobs in the Atlassian ecosystem, with more created every day.

Cloud: a long history with a bright future 🌤️

Atlassian has long believed that the cloud is the eventual destination for our customers, and we've been hosting customers in the cloud since 2008. Many on-premises software vendors have attempted shifting to cloud-first and failed. But from the moment Atlassian began this journey, we've been determined to get it right.

Building our world-class cloud platform has been a massive investment. In true Atlassian walk-before-you-run style, we continued to iterate on our cloud architecture, then ultimately rebuilt it from the ground up beginning in 2015. We've put in the "hard yakka" 🇦🇺, and now have **one of the most robust cloud platforms on the planet**.

Both our customers and Atlassian are reaping the benefits today. Our platform's multi-tenant architecture enabled the launch of our Free edition, and paved the way for Premium and Enterprise editions. We've been able to bake enterprise-grade security, compliance, and data management into the platform itself, benefiting customers of all sizes: over 99% of new customers choose our Cloud products today.

As a cloud-first company, we'll keep investing in our platform to drive further innovation across our three markets.
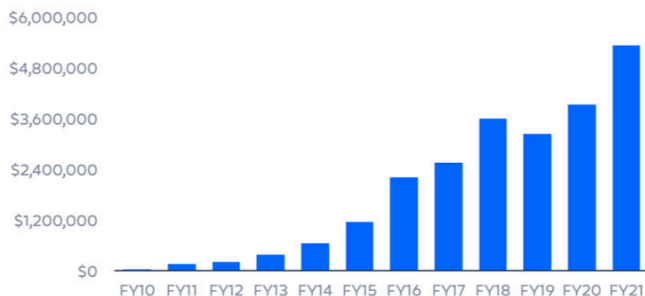
Investing in enterprise 🚀

Customers use Atlassian to power mission-critical workflows. In the words of one customer, "The uptime of Jira is more important than the uptime of MS Exchange."
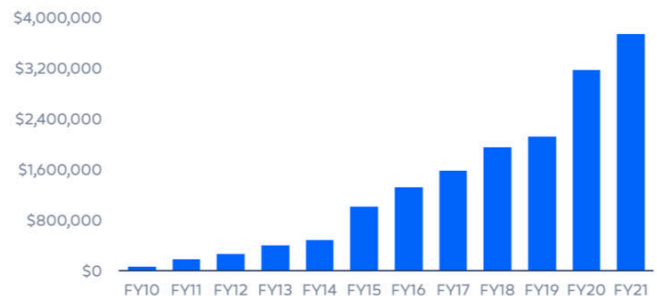
We've invested a great deal over the years in supporting tens- and even hundreds of thousands of users within a single customer organization. We began this evolution in 2014 with the launch of our Data Center offering, and now look to replicate this success in the cloud.

This has translated into incredible growth in large customers. Today, **over 75% of the Fortune 500 use Atlassian products**, and growth in our large customer cohorts in FY22 continues to outpace overall revenue growth.

Telecoms industry leader
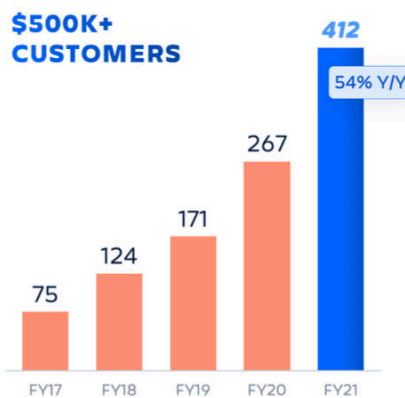

Technology industry leader

Large customer growth

$50K+ CUSTOMERS — FY17: 1,817 · FY18: 2,678 · FY19: 4,091 · FY20: 5,892 · FY21: 8,246 (40% Y/Y)

$500K+ CUSTOMERS — FY17: 75 · FY18: 124 · FY19: 171 · FY20: 267 · FY21: 412 (54% Y/Y)

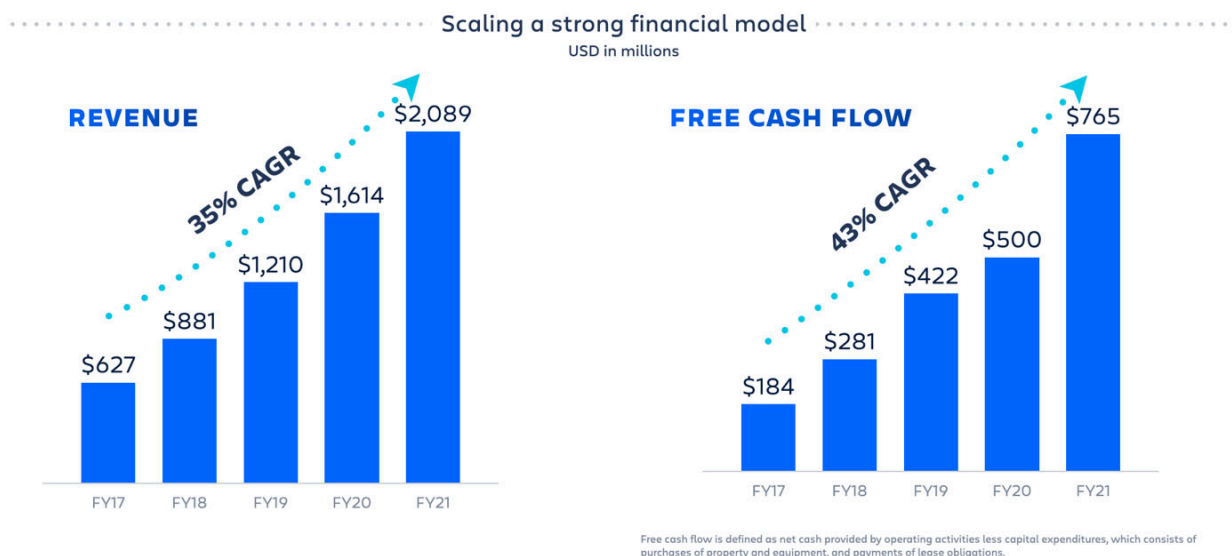**$1M+ CUSTOMERS** — FY19: 59 · FY20: 104 · FY21: 178 (71% Y/Y)

We are encouraged by the number of large customers choosing the cloud, and we continue to invest in scalability (including a new early access program to support 50,000 users), migration tooling, and the Enterprise editions of our Cloud products.

These investments are already paying off. As of Q2'22, **our Cloud net expansion rate for larger customers was above 140%.**

Two decades of financial returns 💰

These investments, always with a disciplined and long-term mindset, have delivered enviable returns. Year after year, through different stages and market cycles, we drive consistent revenue and free cash flow growth.

· · · · · · · Scaling a strong financial model · · · · · · ·

USD in millions

REVENUE

35% CAGR

- $627 — FY17
- $881 — FY18
- $1,210 — FY19
- $1,614 — FY20
- $2,089 — FY21

FREE CASH FLOW

43% CAGR

- $184 — FY17
- $281 — FY18
- $422 — FY19
- $500 — FY20
- $765 — FY21

Free cash flow is defined as net cash provided by operating activities less capital expenditures, which consists of purchases of property and equipment, and payments of lease obligations.

These returns are achieved sustainably. With ambitions to be a hundred-year company, we always optimize for the long term and **invest in building a foundation that set us up for innovations and strategic bets** in years to come.

We also have a strong track record of sharing our plans, then following through. Three years ago, we shared our intent to double down on IT, and now Jira Service Management (JSM) is recognized as a Visionary by Gartner and a Leader by Forrester. We are committed to moving customers to the cloud, and we're delivering on that. At the outset of the pandemic, we said we would play offense and look to hire 1,000+ new employees. We hired over 1,500. We follow through.

Charting a course to $10 billion through future investments 🪧

We operate in three large markets that we are incredibly excited about: agile and DevOps, ITSM, and work management for all. Looking at the opportunities in front of us, we are spoiled for choice. In particular, there are huge untapped, near-term opportunities to invest more in ITSM and Cloud migrations.

Within ITSM, we see strong market demand and are especially keen to expand the capabilities we offer customers, as reflected in our roadmap. Faster to deploy, cheaper to operate and the only product that brings development and IT closer together, JSM has already grown to over 40,000 customers with the potential for many more.

Migrating our customers to the cloud also has a huge ROI and we see strong demand, particularly among enterprise customers. There are compelling unit economics to be generated by migrating customers to the cloud, and the faster we can move, the quicker we realize those gains.

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Beyond ITSM and Cloud migrations, we see further long-term opportunities in investing more in our platform, taking our ecosystem further, and continuing to scale our Enterprise cloud offerings. In addition, the longer-term work management opportunity is the most significant one in front of us.

Across all these opportunities, we currently see **significant potential to invest more**, and to further accelerate our medium and long-term growth. In FY23 you will see us step on the accelerator to go after these opportunities.

Long-term financial profile 💸

We now have a **line of sight to $10 billion in annual revenue** based on our current markets and products. We believe scaling toward 25,000 Atlassians over the coming years will position us to reach untapped corners of these markets, as well as take market share away from competitors. It's an opportunity to build an even stronger, iconic software company that we believe will generate greater total cash flows as a result of our faster investment schedule, well beyond the next decade.

Atlassian is committed to growing profitably and over the long term, we will deliver the same strong free cash flow margins and balanced Rule of 40+ results you've seen our model produce historically.

Reinvesting for growth 🌱

In the nearer term, we expect to see the following financial results across our business:

- In Section #2, we told you about our confidence in the underlying momentum of our Cloud business. **We expect Cloud revenue growth of approximately 50% year-over-year for both FY23 and FY24,** with approximately 10 points of this growth driven by migrations for both years.

- As we ramp up our pace of hiring (primarily in R&D) to move against these opportunities, **we expect operating margins to be in the mid-teens % in FY23.**

- As more customers migrate to the Cloud in the coming years, we will maintain strong unit economics and expect Atlassian's **gross margin to be approximately 80% in FY25.**

We expect our incremental investments to start yielding attractive returns over the next three years and beyond, and we'll continue to evaluate opportunities as time goes by. So while we expect our operating and free cash flow margins to be leaner in the short term, **we expect them to return to historical levels in the long term** – and when they do, we'll be in an even better competitive position with both a stronger set of products and a more powerful platform.

We also want to be clear that our business model will not change. In fact, we'll be leaning even harder into our unique GTM model as we focus our hiring on R&D. Directionally, you'll see the same ratio of R&D and S&M spend as a proportion of total operating expenses that you've traditionally seen from Atlassian.

~~Born~~ *Incorporating* in the USA 🇬🇧 → 🇺🇸

In keeping with our efforts for constant improvement in all areas, we are exploring **redomiciling our parent holding company** from the United Kingdom to the United States.

We believe moving our parent entity to the United States will increase our access to a broader set of investors, support inclusion in additional stock indices, improve financial reporting comparability with our industry peers, streamline our corporate structure, and provide more flexibility in accessing capital.

We do not anticipate significant operational or business model changes as a result.

We also do not expect our overall corporate income tax rate to change materially. Our income tax rate is primarily driven by our operations in the U.S. and Australia. This would not change after we redomicile. Redomiciling to the U.S. would lead us to change our accounting standards from IFRS to U.S. GAAP. We expect the following areas will be affected:

- **Stock-based compensation (SBC)** – The main impact is utilizing "straight-line" ratable expense recognition instead of "graded" front-loaded expense recognition as currently done under IFRS. This change would result in pushing out our currently accelerated recognition of SBC to later years, particularly as we continue to rapidly increase employee headcount.

- **Leases** – Under U.S. GAAP, we will likely see a slight expense delay to later periods.

- **Strategic investments** – On a quarterly basis, we will be required to update the fair value of equity investments in our P&L (within "Other Income and Expenses"), versus showing this on our balance sheet under IFRS. This change would introduce fluctuations on our P&L (non-operating).

- **Exchangeable notes** – The amortization of the debt discount and issuance costs relating to our previously-redeemed exchangeable notes will follow different timing recognition rules under U.S. GAAP. This difference will result in P&L expenses (non-operating) shifting from FY21 to FY22.

- **Income tax accounting** – This will be affected by the above accounting changes, in addition to various tax-specific guidance, including the requirements and methodologies for deferred taxes recognition, valuation allowances, and annual effective tax rate calculations.

This transaction is subject to final approval, including by our Board of Directors and shareholders. We're continuing to work on this initiative in preparation for a final Board review. If we secure Board approval, we would submit the proposal for shareholder approval. Pending all required approvals, we would **aim to close the transaction early in fiscal 2023 and begin reporting under U.S. GAAP for Q1'23.**

Sustainability for continued success 🌎

In concert with our ambition to be a 100-year company, we want to be an upstanding global citizen. Sustainability isn't just about "doing the right thing." It's critical to our long-term success – **business can't thrive on a dying planet or in broken societies**. We're also in an era where an increasingly activist workforce is demanding that businesses not just pay lip service to, but act on the major issues of the day, as detailed in our Return on Action Report.

With that in mind, here are a few highlights from our annual Sustainability Report.

- **Planet** – Atlassian is committed to net-zero emissions by 2040 on a 1.5˚C pathway, and we've already reduced operational emissions by 74.8% since 2019.

- **People** – We've stepped up our diversity, equity, and inclusion (DEI) strategy to include a clear roadmap, milestones, larger budget, larger team, and greater leadership focus. Our immediate focus is to increase the representation of historically marginalized groups.

- **Customers** – Atlassian is building out a human rights program, expanding from security and privacy to a wider range of digital rights for our customers and other stakeholders. Our goals for FY22 include a public statement, due diligence process, and ethical use framework.

- **Community** – Through the Atlassian Foundation, we've donated over USD$35 million, volunteered 117,481 employee hours, and provided free or deeply discounted access to our products to 124,371 non-profits since 2013.

Every single one of Atlassian's values guides us toward responsible corporate citizenship, ethical leadership, and allyship with those still struggling for equality. That's been our mode of operation for the past 20 years, and it's how we'll operate over the next 20 years and beyond.

Here's to the road ahead, and to unleashing the potential in every team. 🏔

> ✅ **The bottom line**
> - Atlassian's efficient, low-touch GTM approach results in stable revenue streams, giving us the leverage to scale up our R&D teams in a big way and get after more of the opportunity we see across our three markets.
> - We have a 20-year history of making profitable investments. We'll continue to monitor our investments closely and throttle back if they don't yield the returns we're expecting.
> - Redomiciling in the U.S., if approved, will improve our access to investors and capital over the long term, as well as streamline business operations.
> - Atlassian also emphasizes ecological sustainability, human rights, and equity as part of our approach to building a lasting, iconic software company.