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Atlassian Corporation Plc

Third Quarter Fiscal Year 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Mike Cannon-Brookes, *Co-Founder and Chief Executive Officer*

Murray Demo, *Chief Financial Officer*

Jay Simons, *President*

CONFERENCE CALL PARTICIPANTS

Gregg Moskowitz, *Cowen & Company*

Ittai Kidron, *Oppenheimer*

Bhavan Suri, *William Blair & Company*

Austin Dietz, *Raymond James*

Richard Davis, *Canaccord Genuity*

Rob Oliver, *Robert W. Baird*

Sanjit Singh, *Morgan Stanley*

Nate Cunningham, *Guggenheim Partners*

Ben McFadden, *Pacific Crest Securities*

Zach for John DiFucci, *Jefferies*

Michael Lilinshtein, *BMO Capital Markets*

PRESENTATION

Operator:

Good afternoon, ladies and gentlemen. Thank you for joining Atlassian's Earnings Conference Call for the Third Quarter of Fiscal 2017. As a reminder, this conference call is being recorded and will be available for replay from the Investor Relations section of Atlassian's website following this call.

I will now hand the call over to Mr. Ian Lee, Atlassian's Head of Investor Relations. Please go ahead.

Ian Lee:

Good afternoon and welcome to Atlassian's Third Quarter Fiscal 2017 Earnings Conference Call. On the call today we have Atlassian's Co-Founders and CEOs, Scott Farquhar and Mike Cannon-Brookes in Sydney, and our Chief Financial Officer, Murray Demo, and our President, Jay Simons in San Francisco.

Earlier today, we issued a press release and a shareholder letter with our financial results and commentary for the third quarter of fiscal year 2017. These items are also posted on the Investor Relations section of Atlassian's website at investors.atlassian.com. On our IR website, there is also an accompanying presentation and data sheet available.

We'll make some brief opening remarks and then spend the rest of the call on Q&A.

Statements made on this call include forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

In addition, during today's call we will discuss non-IFRS financial measures. These non-IFRS financial measures are in addition to and not as a substitute for or superior to measures of financial performance prepared in accordance with IFRS. There are a number of limitations related to the use of these non-IFRS financial measures versus their nearest IFRS equivalents and may be different from non-IFRS measures used by other companies. A reconciliation between IFRS and non-IFRS financial measures is available in our earnings release, our shareholder letter and our updated Investor Data Sheet on our IR website.

Further information on these and other factors that could affect the Company's financial results is included in filings we make with the Securities and Exchange Commission from time to time, including the section titled Risk Factors in our most recent Forms 20-F and 6-K.

A quick housekeeping note before we proceed with the rest of the call. Many of you should have received the save the date email for our U.S. user conference Atlassian Summit which is being held in San Jose from September 12th to the 14th. The primary days of this event are September 13th and 14th when we will host most of the open sessions and keynotes. This year we will also be holding our first Investor and Financial Analyst Session. We'll provide more details in the near future but please mark those dates on your calendars.

I will now turn the call over to Scott for his brief opening remarks before we move to Q&A.

Scott Farquhar:

Good afternoon. Thanks everyone for joining today. We had another great quarter, achieved annual revenue growth of 36% year-on-year and generated over $68 million of free cash flow, which is more than the annual free cash flow we recorded for fiscal 2014 or fiscal 2015. Like last quarter our performance was broad based. We achieved solid growth across our product families and across our cloud server and data center products.

We closed the acquisition of Trello in February and we're tremendously excited to have Trello onboard and part of the Atlassian family. Including Trello, we finished the quarter with over 85,000 customers. (Inaudible) potential teams in the Fortune 500,000. While we still have a long way to go to reach that target, we are making great progress and have the target of 100,000 customers firmly in our sights.

In our shareholder letter we noted that we just past the 2,000 employee mark. Mike and I never imagined we'd get to this size when we started the company in 2002 and it's been a privilege to work with so many talented colleagues over the year, and the strong results we have just announced were only possible because of the team around us. So, a quick shout-out to every Atlassian everywhere. You've been key to helping us get to where we are today and you'll be key to our future growth.

With that, I'll turn the call over to our Operator for Q&A.

Operator:

We will now begin the question and answer session. To ask a question, you may press star, then one on your touch-tone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Gregg Moskowitz of Cowen & Company. Please go ahead.

Gregg Moskowitz:

Okay. Thank you very much. Good afternoon everyone and congratulations on a good quarter. Scott, just wanted to follow up on your brief comments regarding the contribution in the business from all the three areas, and in Q2 you saw really strong data center performance. How would you characterize the data center business this quarter by comparison? Is it a continuation of that trend? Any additional commentary would be helpful.

Jay Simons:

Hey Greg, this is Jay. While we don't break it out, it was another great quarter for data center. I think as we said last quarter and the quarter before, there had been high demand for this product when we introduced it. We've expanded the data center offering to include nearly all of our key major products, and I think we've been happy with the growth. I think there's a lot of room for us to continue to reach out to customers that are looking to deploy our products with the capability, high availability, zero downtime, upgrading things that are important for really big companies. I think we're really proud of what we've accomplished so far.

Gregg Moskowitz:

Okay, terrific. Then in the shareholder letter, you alluded to upcoming price increases. I know that it's certainly premature to discuss that in depth, but just from a high level can you say if this will pertain to some on-prem products, cloud products or both, and then also if you were able to just perhaps provide any color on the underlying rationale behind the price increases, that would be useful.

Murray Demo:

Gregg, yes. In terms of the pricing and what we've got in the shareholder letter, we have not communicated to customers and so that's why we're trying to provide information now to the financial community but we don't want to get in front of our customer communications, so we're leaving it the way it is right now. We're not signaling to any specific area of the business. What we wanted to do was two things. One is we wanted to make sure that all investors are aware of this. They may miss it when a communication comes out; we want to make sure everybody's aware of it, when that happens at some point in the future. Then two, is obviously everyone is going to try to figure out what does this mean in terms of the financials for fiscal 2018, and we've provided that it will have an impact of low single-digit points of revenue growth, and we just want to underscore that low. That will help everyone try to sort through what to make sense of that in terms of the revenue for fiscal 2018.

We'll have more to discuss on this topic on our next earnings call when we're in a position to talk more about it.

Gregg Moskowitz:

Okay. Thanks, Murray. Just one last one if I could. On Trello, you mentioned in the press release that Trello added almost 13,000 customers, pay customers on a net basis, but about how many total Trello customers are there in your paid base? I'm just trying to get some sense of customer overlap, if that were possible.

Mike Cannon-Brookes:

It's Mike here. We haven't disclosed that. We only disclosed obviously the net new contribution that Trello brings. There's an overlap as well underneath that, but for people obviously looking at the customer number over time, we need to explain where it has a big jump up.

The only sort of extra stats we've put in there since the close of the acquisition this quarter obviously. It's now past 22 million users and was 19 and change when we announced the acquisition in January.

Gregg Moskowitz:

Right, exactly. Terrific.

Murray Demo:

I'll just add one thing to Gregg which is the number of customers that are overlap are far smaller than the ones that are net new to us, and even for those that may be overlap, if it's like in one department of a large company in Europe and one department in North America there's still huge opportunity in those to "overlap customers" in terms of just more seats and more products.

Gregg Moskowitz:

Okay. That's terrific. Thanks very much, guys.

Operator:

Our next question comes from Ittai Kidron of Oppenheimer. Please go ahead.

Ittai Kidron:

Thanks and congrats guys on a good quarter. Murray, just wanted to touch, kind of going back to Trello about the impact in the quarter. I think you were looking for $1 million in the quarter and I think you got it for $4 million for the year. Are you still on track for that or you're running a little bit ahead of that?

Murray Demo:

We did note that it was $1 million in Q3 and we achieved that $1 million in Q3. We're targeting $3 million in Q4. We are going through that whole thing with the deferred revenue. We've noted that there was about $2 million of deferred revenue that we booked after the haircut, so we did take a haircut there. We were able to recognize some of that deferred revenue. It did go to revenue in Q3 and it will in Q4. So far we're on track, yes.

Ittai Kidron:

Very good.

Murray Demo:

We're quite pleased with the results.

Ittai Kidron:

That's great. Then going back to the price increases that you alluded to that we'll get some more detail on. I'm not going to ask about the details about price increases. Maybe you could give us a little bit of the color on why do you feel you need to do them here? Are you not seeing any competitive pressures? We're just trying to kind of get into the drivers behind it, not necessarily the numbers but the logic.

Murray Demo:

We'd prefer to say more at a later date on that. We don't take these things lightly. We've put a lot of work into the analysis that went into this and we're very thoughtful with it, but at this point we'd prefer not to talk about it and rather just kind of focus on our commercial operations and communication to customers. Then when we're in a position to say more to the financial community we will. What we did provide today is sort of the financial implications of our decision.

Ittai Kidron:

Very good. All right, good luck guys.

Jay Simons:

Thank you, Ittai.

Operator:

Our next question comes from Bhavan Suri of William Blair. Please go ahead.

Bhavan Suri:

Hey guys, can you hear me okay?

Ian Lee:

Yes we can, Bhavan.

Bhavan Suri:

Great, thanks. Congrats, obviously, and very nice job, especially on that free cash flow number. I guess let me dive in a little bit here. As you look at the collaboration space, you added Trello, but obviously

HipChat is pretty well integrated and Jira and we're seeing Slack obviously with Jira being a big integration. Can you just talk a little bit about how Trello fits into that, and is HipChat going to be part of that, or do you look at sort of a different collaboration product that fits with the Trello user base, sort of a hosted more integrated sort of collaboration, communication, chat interface? How should we think about how those three products will sort of interact going forward?

Mike Cannon-Brookes:

Thanks, Bhavan. It's Mike here. I think all of our products have various connections, pathways, integrations between them, right? Trello comes into the family and works very well with HipChat. It works very well with Confluence. It actually works quite well with Jira. You've seen us in the quarter launch already integrations with Bitbucket, HipChat, Confluence and Jira for Trello to allow those customers using both for different purposes to connect them in various different ways.

I think you'll see obviously some of the products appeal more to the broader all-teams market. Trello obviously has a huge broad penetration. You can see that in the base of 22 million users around the world and the rapid growth that it's undergoing. I think you'll see that both drawing our products in but also we have a huge customer base within which Trello is still I think relatively unknown so there's good opportunities in both directions. I don't think there'll be sort of discrete sets of products as much as you describe it, as much as they'll be sort of a web of connected applications, both inside the Atlassian family and then outside the Atlassian family, and we intend to be a really good citizen and playing with all of those to put the customer need first, right, whichever way they want to connect products together.

Bhavan Suri:

Got it. Fair enough. Then obviously Trello has had pretty tremendous growth, right? So, 19 million users, which were growing at 50%, now 22 million virtually in a quarter. Is there something on the marketing viral side? Obviously Jira with developers and you think about sort of your approach to developers as forums and they all talk to each other and it drives this viral approach. What's the marketing? What is sort of this viral—you know, I use Jira, it's great. The next guy uses Jira, it's great, and Trello obviously seems like it's doing really well but in a sort of very different market. How do you think about sort of bringing those two communities together? Does it make sense to bring those communities together? Is there any learnings you guys have picked up from one, from Trello that you could bring to sort of Jira or Confluence or Bitbucket, HipChat, etc.?

Mike Cannon-Brookes:

I think the Trello team obviously did a fantastic job and we're super excited to have them onboard. There are certainly learnings we can take from how they've grown Trello around the world, internationally, a lot of different markets, and really, really tackling that end user growth in a lot of small, medium enterprises around different parts of the world, different market segments. So, there's certainly a lot we can learn from them.

We obviously have fantastic go-to-market model and marketing engine that we have our own strengths that work very well, so I think bringing the two together that there's certainly a lot of shared strengths we can get there.

The opportunity belying both the existing Atlassian family and obviously the newest member in Trello is just message. So, we're very excited about that opportunity and 22 million against a billion knowledge workers on the planet, we've got some headroom so we're excited about that.

Bhavan Suri:

One last one, quickly for me, for Murray. Murray, obviously R&D—and I would never tell you to stop R&D obviously because technology companies live on R&D—but at some point you want to get great scale out of that. When should we think of R&D starting to ramp down as a percentage of revenue, just given scale more than anything else? Do you think at least for the foreseeable future it kind of stays where it is as potential revenue? Thanks for taking my questions, guys.

Murray Demo:

Yes, Bhavan. We're going to continue to invest in R&D. It's the lifeblood of the company. Obviously as time passes we would expect to see some scale just because of the revenue growth as much as it really is on the expense side. But for right now, we're going to continue to invest. We've got a large market opportunity and there's just a lot more for us to do to capture that, and we think we've got a model that generates good profitability and tremendous cash flows.

We like the model. We like our opportunity. We're going to continue to invest.

Bhavan Suri:

Makes sense. Thanks guys, congrats again.

Mike Cannon-Brookes:

Thank you.

Operator:

Our next question comes from Michael Turits of Raymond James. Please go ahead.

Austin Dietz:

Hey guys. This is Austin Dietz filling in for Michael. Just a question around the Atlassian stack bundle. What's been the impact on your products? Do you feel like you have it priced properly? Would you say it's driving more revenue? Thanks.

Murray Demo:

Hey Michael. Yes, it's basically it's a bundling of all products for customers that are looking in a single instance to kind of standardize across the portfolio. I would say there's a small number of customers that are going to take everything. We do think that there's a nominal discount when you buy multiple products at once, and again, I think it's a relatively immaterial kind of impact because there's just small customers that are going to choose everything all at once.

Austin Dietz:

Okay, great. Thanks.

Operator:

Our next question comes from Richard Davis of Canaccord. Please go ahead.

Richard Davis:

Hey, thanks. It seems to me that if you guys are going to get as big as I think you can, that you're going to have to be more than a gaggle of kind of one-off tools. So when you kind of sit down, how do you think about communicating that differentiation that you have over, you know—we all know the cool Point Solutions guys. How do you differentiate yourself there in terms of communications? Then also, kind of what are you doing on the programming front to kind of make components of your platform kind of more connectivity and stuff like that? The way I think about it is a little bit kind of like what Microsoft did when they unified the Office Suite; you're trying to do it in a different layer. Thanks.

Mike Cannon-Brookes:

Hi Richard, it's Mike here. It's a great question. We're constantly spending time on trying to make sure that our applications play better together. At the same time we've always been wary of building a sort of a walled garden suite approach. I think the way the SaaS world is working, people will use lots and lots of different applications from lots and lots of different vendors, so we need to play well with people outside of the building, much to I think it was Ittai's question earlier about connections in and out of different products. We certainly invested a lot in making them play together. You can see that in the various different fronts. Obviously the design language that you've seen us implement over the last couple of years, bringing the products together so there's a familiarity moving between them. That makes a big difference in the Office world. You had shortcuts that were the same. For example, you know how to operate Excel, you know how to operate PowerPoint, that sort of thing. You've also seen at Summit last year we previewed the new home experience, for example, bringing a lot of the applications together to give you sort of a centralized dashboard and experience of moving across apps. You see the same sorts of things on mobile.

You'll see us continue to harmonize across the applications to allow better experiences which customers quite obviously work at. It gives us an advantage when they're picking a second or a third tool, but at the same time we're very cognizant of the need to play well with all of the other applications that they use outside of our stack. So, we're always balancing between us.

Richard Davis:

Perfect. Thank you so much.

Operator:

Our next question comes from Rob Oliver of Baird. Please go ahead.

Rob Oliver:

Hey, thank you guys. Just really a follow-up to Richard Davis' question. As you guys land with more products at the enterprise level, can you talk a little bit about how you're leveraging the expert partner network to manage that expand, which I think addresses one of the concerns out there, that you guys eventually are going to need a salesforce and things like that, and so how you're managing that partner network would be great. Thank you.

Jay Simons:

Hey Rob, this is Jay. The short answer is no differently than we've done for years. We've got a number of different land points we can land with, you know, virtually any product, you know, JIRA, Confluence, HipChat, Bitbucket, and then both expand with other products, expand with additional use cases, as either we through our marketing, or our channel through kind of direct touch with the customer, expand the number of use cases that those products can be applied to. Then, we can also expand, in the case of the server products, through that data center upgrade path, where, you know, as customers onboard hundreds to thousands, to tens of thousands of users on a particular product or multiple products, they seek to basically have a high-availability solution because the products have become mission-critical.

Again, the approach is no different than what we've done nearly since our inception. We've got a great network of partners in hundreds of different countries that work with customers intimately and understanding kind of the expansion path and what the products can apply to. We try to make that also friction-free in the way that we market the products and expand kind of the use cases that they can apply. Then, the data center upgrade path is also a relatively friction-free path that they can understand and, when they're ready, move to it.

Rob Oliver:

Great. Thanks, Jay.

Operator:

Our next question comes from Sanjit Singh of Morgan Stanley. Please go ahead.

Sangit Singh:

Hi, thank you for taking the question, and congrats to the entire team for another strong quarter. I want to actually ask a question about the marketplace business, from two standpoints; the first from just a financial perspective. It's a low base, but we see growth accelerating year-over-year, and I just wanted to get a sense of—can you talk through some of the things that are driving momentum in the marketplace business? Then secondly from a more strategic standpoint, about the openness of the Atlassian platform, do you see a situation where an Atlassian product or the Atlassian platform can provide a gateway to other common applications, so that a user can essentially stay within the Atlassian environment but connect to common applications, and just spend more time on the Atlassian platform? Is that part of the product strategy here longer term?

Mike Cannon-Brookes:

Hi, Sanjit. Look, you know, the marketplace is doing very well. We're very happy about how it's continuing to grow. Obviously, it plays a really important role for our customers in fulfilling a lot of other use cases in and around our products that let us sort of fill out. So, when you see the marketplace growing, I think it's both a credit to all of the vendors in there that are really spending time in those customers and finding those use cases and building them on top of our applications, but it's also a great example of the commerciality of the marketplace working really well—you know, attraction begets vendors. So, you see quite a lot of vendors now growing their software businesses significantly, having a second product, a third product, and that's—it's just a really great virtuous cycle that we're in at the moment in terms of marketplace growth. You see that. For anyone who's been to Summit for the last couple of years, you know, the size, professionalism and sophistication of the vendor community, in the exhibits, in their marketing, it's just continuing to grow as they build out great products around the Atlassian family, and that's a fantastic story for both sides.

I'll pass it over to Scott for the second question then.

Scott Farquhar:

The gateway to other applications—when you think about HipChat, JIRA, Trello, they're places where people often start their day and where a lot of work and movement of work happens, so it makes sense. We have lot of integrations between those products and other third parties, and people use them as the launching pad. So people will have conversations and things inside HipChat, and more than just having a link to those applications, those applications can actually build rich experiences inside HipChat, so they don't need to leave, for the casual use case, and it's a starting point for third parties. Now obviously we have a huge identity system that captures a lot of users and their teams inside organizations, and that's something that we're increasingly leveraging with third parties to make it easier for those third parties using Atlassian.

Mike Cannon-Brookes:

I just want to add one thing there, Sanjit, that I think is important, that people sometimes miss. If you think about both Confluence and Trello, they often play a really important coordination role across lots of other enterprise applications that a customer may be using. So, you'll often see Trello cards representing, you know, maybe work items in an HRIS system, or software code, or CRM sales customer records, and they use Trello to move across all those applications in a single board, right? So, they have a single kind of interface to lots of different applications, where each card then links through to a further, you know, a deeper enterprise application in your vertical, and that's a really powerful place. Because we're across a lot of different applications, it's a very flexible way of working. You can't do that inside an HRIS application or a CRM application. You need a sort of layer above both of them. Confluence has the same aspect in terms of creating a piece of content and then pulling in lots of different third-party SaaS application content, first-party from our family as well, and then presenting a view or a document across that with link-through, but in both cases we become, as Scott mentioned, that sort of starting point. So, I don't think that's often given attribute that both of those are really powerful at doing that.

Sanjit Singh:

That's great insight and context. Just one follow-up. At the Amazon event in San Francisco last week, they announced CodeStar, and I guess—just a question here and a topic just to revisit—for a product engineering team and for product developments teams, is there necessarily a strategic reason for your development platform or development suite to be next to the data strategically? Does that make sense, or is it just something more along that they just want to be able to run it in whatever environment they feel most comfortable?

Mike Cannon-Brookes:

On the data storage side of things for developers, as we increasingly see, storing bits in the cloud is less—is more of a commodity we're seeing with other—in other markets. What the actual proprietary, and the bit that people pay us for is how people interact, the teamwork that happens around that. Where the bits are stored on disc (phon) is less relevant, and the teamwork aspect is the area that Atlassian a deep history of doing well at, and so competitors can come and offer the storage part, but people ask for how teamwork happens, and in development, the workflows that we have built things around, and those workflows may start in JIRA, they may even go to Code, they go to Design, and then they come back. There's actually a lot of different applications involved in development of workflow, but JIRA then coordinates that workflow for a large number of our customers.

Sanjit Singh:

Got it. Thank you very much.

Operator:

Our next question comes from Ben McFadden of Pacific Crest Securities. Please go ahead.

Scott Farquhar:

Hello, Ben?

Operator:

Pardon me. Our next question actually comes from Nate Cunningham of Guggenheim. Please go ahead, sir.

Nate Cunningham:

Hi, guys. Thanks for taking my question. For Murray, I'm curious about the Q4 op margin guidance. It seems to imply a pretty small increase in sales and marketing spending. Is that the right way to think about? From a percentage of revenue perspective, should we expect to see that continue to come down to the levels we were seeing in 2013 and 2014?

Murray Demo:

No, we haven't really provided specific guidance around each of the op ex categories, R&D, Sales and Marketing, and G&A. Now, in the fourth quarter, which we're in now, we have our European Summit, our first summit in Europe, and AtlasCamp, so there's going to be marketing spend that's going to happen this quarter in and around this major event. So, based on that, I wouldn't think of it along that somehow that's going to—we're going to see more leverage there. We are targeting approximately 14% in the fourth quarter. We just did 15%. So, it's another quarter of investment for us. But, in the areas of sales and marketing in particular, we've got a very exciting Summit next week that we definitely are investing in, to make sure it's a success.

Nate Cunningham:

Okay. Thank you.

Operator:

Our next question comes from Ben McFadden of Pacific Crest Securities. Please go ahead, sir.

Ben McFadden:

Hey, guys, thanks for taking my questions. I wanted to start—I know you're doing well with the data center offerings on the enterprise side. I just wanted to start with sort of the cloud offering and the fact that it caps out at 2,000 users. I'm just curious as to what degree you're seeing customers sort of reach fairly close to that 2,000 mark, and to what degree do you plan on increasing the functionality on how many users can access the cloud option over time, or is it more about proving the value proposition as far as upgrading to something like the data center offerings?

Jay Simons:

Hey Ben, it's Jay. So, the short answer is we see increasing demand for—you know, larger instances in the cloud will increase that capacity, and we see that increasing today. I think, historically, larger customers have selected to choose the server products for various reasons. As we've mentioned, with the success of data center, there's an upgrade path where for really large mission-critical usage, they have that as an option, but back to—I think what we've celebrated as a company is just customer choice. So, whether you're a small company or a large company, we want to give you options that are preferable to you, whether you want to run it behind a firewall in your own infrastructure, whether you want to run it on our infrastructure in the cloud, or even in a hybrid situation where you might want a private cloud on AWS. So, I think we're committed to all those options for companies of all shapes and sizes.

Ben McFadden:

Great. Then, Murray, I just wanted—I think a lot of the questions on earnings calls this month have been around ASC 606. I know you're tied to IFRS 15, I believe. I was just curious as far as whether anything has changed as far as how you think about your rev rec going forward and how that could potentially be impacted by some of these new standards coming out.

Murray Demo:

Yes, of course, like in all companies, we're looking at that. We don't have a plan right now to go change how we operate. Our cloud business, we're not going to see a change, and our server plus maintenance business, we don't see that there's going to be a change. It would just be in the data center area where we might see some revenue move to being recognized upfront and not totally on a subscription basis. At this point, we're not looking to change how we operate. That obviously could change in the future, but we're not in that position. We're trying to retool our whole business so we can get some kind of revenue recognition treatment. We just don't see it impacting us that greatly, and with the model we have today, we think works really well for customers. So, it has to be more customer-driven than it's going to be sort of the financial side.

Ben McFadden:

Great. Thank you.

Operator:

Our next question comes from John DiFucci of Jefferies. Please go ahead.

Zach:

Hey guys, thanks. It's Zach (phon) John here. Could you comment on the—I think JIRA Core was released early last year—how you're seeing it progress versus the JIRA software product; and then kind of in that same vein, how you're seeing adoption outside of the traditional software user with end customers?

Scott Farquhar:

Scott here. We're quite pleased by the launch of JIRA Core. It's going really strong outside of our sort of core technical market. We said, at Summit last year, is that over half of those people attending Summit use JIRA Core, which in tremendous growth. We haven't disclosed individual stats around that, beyond saying that we're still kind of early in that progress outside of technical teams. JIRA Core and Trello work hand in hand inside organizations. Trello is more when you don't need a workflow around things and JIRA Core is when you do want workflow and more customizability and order trails, and other things inside organizations, so those two continue to work really well together. Yes, so we're pleased with how JIRA Core is going.

Zach:

Great, thanks, and then if I could get one more. On the competitive front, you've got Slack and Teams out there making at least some noise, publicly, and I was just wondering if you've seen any changes or expect anything to materially change in the way you approach go to market, or even at customers you talk to?

Jay Simons:

Hay, Zach, it's Jay. No, not really. We've been in this market for 15 years. The competitive dynamics haven't really changed much in that time. Some of the names of changed. But, at a high level, it's a big market that we're continuing to grow into, and I think one of our main advantages is the strength and kind of breadth of the team portfolio. We're building kind of multiple products that fulfill really critical needs for teams, to better manage work, create and share content, communicate through real-time messaging and video. So, even in a situation where we're losing head-to-head against one particular competitor in a category, we still have an opportunity to sell around that competitor, and we often do. I think naturally in any market it's one foot in front of the other, but we feel good about our footing.

Zach:

Okay, yes, that makes sense. Thanks a lot, guys.

Operator:

Again, if you have a question, please press star, then one. Our next question comes from Keith Bachman of BMO Capital Markets. Please go ahead.

Michael Lilinshtein:

Hi, this is Michael Lilinshtein in for Keith Bachman. I just had a few questions. One is, continuing on the competition, Microsoft recently acquired Intentional Software. Their mission statement is similar to you guys, which is helping teams be more productive. I'm curious, have you guys seen them in past, and do you see this trend moving forward with more Microsoft moving into similar product spaces that you're in?

Scott Farquhar:

It's Scott here. Intentional isn't something we've come across in the past ever. From the little I know, they're sort of more of a research house than shipping software, and so I'd be interested to see what Microsoft does with them, but we haven't come across them in the past or seen anything that they do.

Michael Lilinshtein:

Okay. Then, I guess on the last quarter, I feel like you guys mentioned channel partners had a pretty good influence on some of the sales. I'm just curious, are you seeing more channel partner influence versus, I guess, the viral marketing moving forward in this recent quarter?

Jay Simons:

Hey, Michael. No, not materially different. I think they're both working hand-in-hand. Remember, we're a word-of-mouth business that's chasing the Fortune 500,000. The channel kind of complements that really high-volume automated focus by removing additional friction customers where they need it, especially in local markets where they don't speak English. I think they had another positive impact on the company in this quarter, but not materially different than they've had in the past.

Michael Lilinshtein:

Okay, makes sense. Thanks, guys.

Murray Demo:

I would just add—this is Murray—we had a little higher receivables last quarter because we did have a little bit of that budget flush, and some of that does tend to come through channel, and this quarter, the receivables came down a little bit as they collected on that, and kind of more normalized in terms of where we are on a kind of a seasonal basis, not being on a calendar year end.

Michael Lilinshtein:

Makes sense. Thanks, guys.

Operator:

This concludes our question and answer session. I would like to turn the conference back over to Mike Cannon-Brookes for any closing remarks.

Mike Cannon-Brookes:

Thanks everyone for joining the call today. We really appreciate your time, and look forward to keeping you updated on our progress as we go forward. Thank you.

Operator:

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.