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Atlassian Corp. Plc (TEAM)

Q4 2021 Earnings Call

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Analyst, Morgan Stanley & Co. LLC

Rob Oliver

Analyst, Robert W. Baird & Co., Inc.

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Analyst, Citigroup Global Markets, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for joining Atlassian's Earnings Conference Call for the Fourth Quarter of Fiscal Year 2021. 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 Martin Lam, Atlassian's Head of Investor Relations. Sir, please go ahead.

Martin Lam

Senior Manager-Investor Relations, Atlassian Corp. Plc

Good afternoon and welcome to Atlassian's fourth quarter of fiscal year 2021 earnings call. Thank you for joining us today. On the call today, we have Atlassian's Co-Founder and Co-CEO, Mike Cannon-Brookes and our Chief Financial Officer, James Beer.

Earlier today, we issued a shareholder letter and press release with our financial results and commentary for our fourth quarter and full fiscal year 2021. The shareholder letter is available on Atlassian's Work Life blog and the Investor Relations section of our website where you'll also find other earnings-related materials including the earnings press release and supplemental investor datasheet.

During the call today, we will make brief opening remarks and then spend the remainder of time on Q&A. This call will include forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause 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, and we assume no obligation to update or revise such statements should they change or cease to be current. 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 entitled Risk Factors in our most recent Form 20-F and quarterly Form 6-K.

During today's call, we will also discuss non-IFRS financial measures. These non-IFRS financial measures are in addition to and are not a substitute for or superior to measures of financial performance prepared in accordance with IFRS. The reconciliation between IFRS and non-IFRS financial measures is available in our shareholder letter, earnings release and investor datasheet on the IR website.

During Q&A, please ask your full question upfront so that we can be fair and easily move on to the next speaker. With that, I'll turn the call over to Mike for opening remarks.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

Thanks for joining the call today, everyone, wherever you are in the world. Scott's out on holiday. So, it'll be just James and I taking your questions today. We're in lockdown here in Australia. So, I hope you and your loved ones are safe wherever you are. As you've already read in our shareholder letter, our Q4 was a ripper of a quarter as

we say down here. We added over 23,000 net new customers. We generated revenue of \$560 million, up 30% year-over-year.

Importantly, we grew subscription revenue 50% year-over-year with cloud revenue up 47% year-over-year. And our cloud migration momentum continues to build. Our strong Q4 caps off another year that we're incredibly proud of. We entered FY 2021 staring down headwinds and we exited stronger than ever before. I'm proud of our resilience and our ability to execute during a difficult year. We've continued to deliver innovation to technical and non-technical teams, building new products and new capabilities on top of our world class cloud platform. We surged past 200,000 customers and \$2 billion in revenue. We followed through on what we said that we would do. We played offense. We've added more than 1,500 Atlassians to our team. And we'll continue to play offense into FY 2022 and beyond. We still have a lot of work to do, but the opportunities in front of Atlassian have never been greater, and we're keen to seize those opportunities.

Before we move to Q&A, I want to take a moment to thank the thousands of Atlassians around the world whose resilience, passion and commitment drive the innovation that we continue to deliver to our customers every day, every month and every quarter.

With that, I'll pass to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of David Hynes from Canaccord. Your line is now open.

Luke Morison

Analyst, Canaccord Genuity LLC

Hey, guys. This is Luke on for DJ. Thanks for taking the question. So, I just had a quick one, I guess, product-oriented thinking about your ITSM capabilities. That whole solution set has been considerably bolstered over the last couple years starting with Jira Service Desk and adding incremental functionality with OpsGenie for incident management, Mindville for asset management, Confluence solves knowledge management. It feels like a really full complete solution at this point, which begs the question do you feel like there are other areas there that would still be logical additions to become part of the platform? Thanks.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

Thanks. Maybe, I can take that one. Look, we are extremely uniquely positioned in ITSM. We see that positioning resonating with customers every single day. As companies are increasingly blending the line between their software folks and their ops folk, between dev and IT, however you say it, we have a single unified pane of glass as we say in JSM and then extending to the whole Atlassian family. I think, we've been very thoughtful and consistent in how we've grown that from two, three years ago when we said we were doubling down on the IT space. And then almost every quarter or six months since then you've seen a steady drumbeat of improvements as we've continued to build the capabilities and go after the opportunities that exist there. We're still going to keep doing that.

We believe in the opportunities in the broader IT space very deeply. We think we're the only company that can address those unique requirements, as those companies head into the future from 50 person companies, all the

way up to 500,000 person companies. We're very unique in our breadth and span there, and you see it turning up in the results. So, I guess, I don't have a concrete answer other than we deeply believe in the opportunity in front of us in that area, and our uniqueness and position, and it's – I think, it's showing in the business we're getting with customers.

Operator: Thank you. Your next question comes from the line of Keith Weiss from Morgan Stanley. Your line is now open.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Great quarter, guys, and a really fantastic end to the fiscal year. It really seems like something has catalyzed or something has shifted over the past two quarters. You talked in the letter about the 70% acceleration in large customers coming over to cloud. Prior, you guys were a little bit more cautious on the pace of that transition. 23,000 customer adds is just a eye-popping number compared to like the 8,000 you did a year ago. Is there something in particular? Is it the macro environment? Is it just like the product strategy gelling, the distribution strategy gelling? Is there something you could point to for that sort of what seems like a catalyst or an inflection point and the momentum on the cloud strategy in just, like, overall customer additions?

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

Yeah. Hey, Keith. That's a – look, I think, we're in a great position across the board, and we continue to take our long-term thoughts in mind. If you think about the last year, in such a maelstrom, boneheaded moves that are really easy to make, and we've kept our heads. We've been very sensible about how we have made decisions throughout these last 12 to 18 months and continue to focus on the long term and focus on our customers.

And so, the strength that you are seeing across the board in so many different areas comes from thousands of really smart, really thoughtful long-term decisions that we've made that are continuing to drive the pace and progress of Atlassian and the value to the customers. I don't think anything particularly has changed in the last two years in that philosophy and strategy, which I always say is more important than individual decisions.

You can certainly point to things like free, which has significantly expanded our funnel and ability to grow the customer number at various sites. You can point to the continued integration of Trello. You yourself have probably asked the whole series of Trello question over the last four years, and our answers have been very consistent and very much the same. And that is four years' worth of work from the Trello team and the all the parts of Atlassian in bringing that in and continue to make it part of the family. That continues to pay off, as is our broader shift in migration to the cloud, which gives us a lot of fantastic capabilities for those customers right on top of our platform and all the other things that cloud brings us.

So, I don't have a singular shift. I don't think there's any individual thing that's changed. I think, it's our 20 years of Atlassian history and making long term decisions and continue to execute it at a very, very high level against those decisions. That is, that continues.

Operator: Thank you. Your next question comes from the line of Rob Oliver from Baird. Your line is now open.

Rob Oliver

Analyst, Robert W. Baird & Co., Inc.

Great. Thanks guys for taking my question. I appreciate it. Mike, I've got one for you. Just I saw that you quoted Randall Ward from Appfire in the investor letter, and a big – it strikes to me one of the things we're seeing playing out for you guys is like the very methodical investment you've made in both the partner network and those who build apps on your platform. Now you're up over 700. Just wondered if we could just get an update on your philosophy there as that seems to me to be contributing nicely to the kind of early success you're having here in Enterprise, if I understand that right. And I might squeeze in one for James at the same time just to say that you guys have set up some fairly conservative targets or at least they seem so to investors around the server customers and migration of businesses up through FY 2023. And given the success you guys are having right now whether there's any thought of sort of reconceiving those targets? Thanks, guys.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

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Hey, Rob. Look, our channel marketplace continue to be extremely important pillars of the business going forward. They bring – always have bring, and continue to do so in the cloud unique capabilities to our customers that we can't bring, right? And we really value them for that. They're in geographies. They're in industries. They're in parts of the world that we can't be. And that continues to be the case in the cloud. Broadly you can see that's working. Again, in the shareholder letter we said that our channel partner sales are up over 300% year-on-year when you look at their cloud sales. So, we've done a lot of work to help out our channel partners understand the cloud. It's a big strength of Atlassian's business and that's resonating with their customers that are our shared customers, and it's – that's really working. Nothing different in the philosophy there. We have to get our customers through this migration journey, and we have to get the channel and our partners through the migration journey. So, we do a lot of that – the driving, the cloud migration but also cloud in general.

Obviously from the point of view of the technology partners in the marketplace, we continue to have great progress with Forge in terms of allowing both our customers and our partners to build and extend Atlassian products, which has always been a hallmark of our philosophy. We've always been highly extensible and believed in customer's ability to extend our products. Forge is a way to do that that meets the cloud regulatory and compliance requirements that we've talked about that are incredibly challenging for SaaS businesses going forward and we're really taking an engineering first approach to that. Forge allows us to solve those problems, gives great security and peace of mind to the customers using those extensions and technologies and we continue to improve that, as we've mentioned, with more than 500 apps on the Forge platform, both from third parties and customers, and we expect that to continue to grow. So, no change in broad philosophy to your question around the partner ecosystem, but we continue to help them and they continue to help us on the long-term migration journey that we're on.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

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Well, I'll jump in for the second part of your question. We're certainly pleased with the developing momentum that we have along the migration's timeline. Mike mentioned the statistic with regard to our partners increasing their migration sales activity and cloud orientation, you know, 300% year-over-year. More broadly, we talked about a 2x volume of migrations year-over-year.

And then I think another important element of this is that quarter-over-quarter our larger customers, we saw – so those are the 1,000 users plus. We saw them growing migration activity 70% quarter-over-quarter. So clearly with those facts demonstrating nice momentum. We came into this process what little less than a year ago with around 30,000 server customers. So, yeah, we're pleased with our momentum. We've got plenty of work ahead of us. We have a ramp to execute on. We feel good about our ability to execute on that ramp. But it's a little early to change our thinking around the overall timetable that we've spoken about and that is that we would expect around half of

those customers to be migrating in fiscals 2023 and 2024 and probably that would equate to something of the order of two-thirds of the larger customers migrating in that timetable.

The other thing I would mention is we're pleased with the early pace of the enterprise additions of our cloud SaaS products. And I think that will be another important element in terms of bringing more of these larger cloud – excuse me, server customers to be ready to move over to the cloud.

Operator: Thank you, sir. Moving on, your next question comes from the line of Tyler Radke from Citi. Your line is now open.

Tyler Radke

Analyst, Citigroup Global Markets, Inc.

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Yes. Thanks for the question. You talked about your hiring plans in the letter and it seemed like on the R&D side as you've historically been focused there, that's where the bulk, majority of your investments are going. I was wondering if you could just kind of talk about both the R&D and sales and marketing side? I guess, on R&D what are you most focused on, is it cloud investments? I know you have kind of talked about introducing some new products in the collaborative work management space. And then on the salesforce side just how much importance is there in hiring sales reps to make this cloud transition to the enterprise customers, where things are more complex? Thank you.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Hey, Tyler. I can take that one. Look, we continue to say that the people are really important to us. We've made it quite clear in your shareholder letter, as we did a year ago. We're going to continue to take opportunities on the front foot that we have, continue to build our team. Again, a year ago we said we'd be adding over 1,000 Atlassians; we ended up adding 1,500, which is a fantastic achievement in the year that we've had for our talent teams and everybody around the business that has continued to do that. Again, more than a third – I think, more than a third of our staff at this stage haven't stepped into an office at this point ever.

So, we've had some challenges. It's been an interesting year for hiring and we've done extremely well against that. Part of what we're saying in the shareholder letter there is, we're going to continue to do that in the year ahead. We see the opportunity in front of us haven't been greater and we're going to continue to play offense on that side of things. And I expect this a lot of detail and questions around that.

You mentioned the R&D. For sure, that is an area that we will be continuing to hire in. It's long been one of our hallmarks and the broader strategy in the long term investing heavily in R&D hasn't changed, and we will continue to be doing that. We've been successful in hiring fantastic engineering, design and product management staff all around the world and we'll continue to do that in the year ahead.

On hiring R&D and on sales and marketing, before we get into the second half of your question, TEAM Anywhere is a big and important strategy that I think investors would do well to understand. Our ability to hire staff all over the world, to integrate them and to execute them into our culture is a big change in the last 12 to 18 months, and I believe is an opportunity for us to both differentiate the company, but also to differentiate ourselves from competitors out there. And I believe it's starting to pay off. We have a lot to learn in this area, but that's – it's really, really important. You see that in R&D, but we're also going to see it in sales and marketing and other areas that you mentioned.

In terms of what R&D is focusing on, it's probably the same as it always has been. We have a fantastic set of products that have huge opportunities in front of them in our three major markets. We've talked about Point A, a little bit last quarter. We have five products in the Point A program at the moment that we are co-developing with customers and collaborating on. All of them are resonating very well at this stage in a whole series of different areas across our three markets. And so, we will continue to invest in furthering those products and capabilities.

And our broader cloud platform, the enterprise aspects of the cloud platform, all the way up to the scale aspects of our cloud platform. What we are continuing to try and what we are doing at a world-class scale in our cloud platform is an extremely non-trivial effort. And so, there's a lot of R&D and engineering investment that goes into continuing to maintain that platform and improve it day in, day out on behalf of the customers. Sales and marketing wise, again, we're being very consistent to our strategy, and we have a high velocity sales and marketing model that I'm sure you're well familiar with. We are continuing to see the opportunities that are in front of us, with our sales and marketing staff, and that goes all the way from the marketing team in landing thousands and thousands of customers every quarter up to our Enterprise sales teams that work with our largest customers and continuing to deliver value to them in the largest customers in our customer base.

Operator: Thank you. Your next question comes from the line of Gregg Moskowitz from Mizuho. Your line is now open.

Gregg Moskowitz

Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you very much and congratulations on not only a terrific quarter, but what has also been a transformative year for Atlassian. So, for I think one of the most impressive datapoints in my view was the significant acceleration in cloud revenue, 47% year-over-year versus 35% the prior quarter. Obviously, cloud is ratably recognized, but James, if you could speak to what drove this great acceleration, that would be helpful. And then for Mike just getting back to large customer cloud migrations up 70% quarter-over-quarter, what if anything do you think has changed over the past 90 days to get large customers more comfortable with migrating that again might drive that sort of increase? Thank you.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Great. I can take the first part of your question around the cloud revenue. I'm really pleased with the underlying performance of the business. I would point to three particular drivers. The premium editions that have been in the marketplace for a year or two now are proving to be very much popular with our customers. We continue to see a nice development in the proportion of the total number of customers, who are choosing the premium edition. And we're very much following a strategy we've talked about really for a long time now and that is very consistently adding new functionality and new capability to these editions.

And as we do that there's a greater and greater pool of our Standard cloud customers and indeed others who are migrating over from behind the firewall product. There's an increasing attraction to those expanding capabilities of the premium offer. Now we're just getting going with the Enterprise edition, and I just think that this is another illustration of this long-term strategy to have a full ladder, if you will, really starting with Free, then Standard, Premium, and then Enterprise edition. So that's an important strategy for us that I feel we're executing very well on.

The second thing I'd point to is just the expansion of the number of users at our current customers. That continues to go very nicely, consistent obviously with the value that our customers are seeing in utilizing our cloud products.

And then I think the third thing I would point to is improving rates around churn. There are a few things going on here that I think are very much illustrative of the long-term strategies that we have been pursuing. What we are finding is that initially Free edition customers who then convert to a paid plan are stickier. We see the same thing for our customers who choose the Premium plans. And my expectation would be consistent with Enterprise. We'll see how that plays out in the next year or two.

And then, perhaps not surprisingly those who are migrating from behind the firewalls to the cloud offering are also stickier. So, you've got a few different drivers there in addition to the fact that for the last year, 18 months or so, we've had a variety of specific initiatives where we have used our understanding of the marketplace and the different dynamics, as to usage of the cloud products to be able to identify potential areas where we might see churn and we've been able to work to get in front of those customers and change their minds, and so that's been another important driver of the cloud business.

One other thing to remember although I would say also the migrations, per se, relatively full impact on the cloud growth rate thus far, and then the other thing to remember is that this time last year. We talked in Q4 fiscal 2020 about the fact that we had about a \$10 million revenue headwind as a result of the lockdowns that were ensuing in many parts of the world in those months. And really, that all was impacting our cloud business. So, that's made the comp in Q4 fiscal 2021 a little bit easier or so, but a variety of those drivers that I mentioned that are really proving to yield a very strong win for our cloud business generally.

Gregg Moskowitz

Analyst, Mizuho Securities USA LLC

Super helpful. Thanks for the color, James. And then Mike any quick thoughts on what's driving some of your customer cloud migrations that would be great as well. Thank you.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

Yeah, Greg, it's probably the – some of the factors we've talked about earlier. For sure, the channel getting more comfortable with cloud is probably one aspect I mentioned that is driving that. We've seen more – obviously the larger the customer is, it's more likely that some sort of partner helping them, so that's continuing to build momentum which is good. Second thing I would say is we continue to work harder, and it's not particularly in the last quarter, it's just over the last few years on the enterprise within and the capabilities that come within with access through Premium and Enterprise as James mentioned continuing to resonate with customers, and those all have long term roadmaps that we have in our public cloud roadmap about what we're adding to them over time. So, our customers are not just buying what we've over the last 12 months, but what we have coming up. And our – the more the customers see us deliver against that roadmap. You know, when we tell you, here are the things we're going to do each quarter for the next year, then we got to do them, and that fills confidence in that part of the customer base, that are – well in all the customer base, particularly in that part of the customer base.

And the third thing is just continuing to deliver against some of the performance and scale and governance capabilities that the large Enterprise customers require. You saw it in the last year with things like data residency, and we'll continue to do that more broadly. And if there's a fourth one, it's probably our platform capabilities continuing to evolve in the Enterprise direction. So, automation capabilities, smart at scale that do resonate with the larger customers, because the bigger you are the more value you have, the more teams the more users. The more sort of smart AI machine learning features actually come to help you because we can [indiscernible] (29:23) much more quickly for you, automation capabilities in the platform that we continue to build for the largest customers. It's probably a small part of all of that collection of factors that's driving that success.

Operator: Thank you. Your next question comes from the line of James Fish from Piper Sandler. Your line is now open.

James E. Fish

Analyst, Piper Sandler & Co.

..... Q
Congrats on the quarter, and ripper of a quarter is understating it. I guess, going back to this idea of Free to Premium to Enterprise, I guess, can you walk us through a little bit more of a details on the adoption curve of Standard to Premium to Enterprise, and any sense to the mix within those buckets at this point? And how long it takes to move up stack on average, or why customers might not be moving up at this point, but could move up over the next 12 months? Thanks, guys.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

..... A
Yeah, one of the things I – stuff I think is now the Free edition have really expanded the top of our marketing funnel in an impressive way. We've talked in prior quarter about a 3x type factor. And frankly as each quarter goes by, we continue to refine the experience if you will that the user has with our Free offering, making it easier to invite others in, on their team, not requiring someone go through an admin, it would change the trial lens and so forth associated with a move up to Standard.

So, we continue to refine the way the user experiences and gains value from our Free offering, but then also it introduced some of the additional benefits of Standard paid plan. And so, we're very pleased with how – as we study the different monthly cohorts that have started with Free over the last year or so, how they are moving increasingly towards the paid plans to the degree that we feel very comfortable with the long-term economics of offering free versions of Jira Software, Confluence and Jira Service Management into the market. And I think that was one of the key initiatives of this last fiscal year. That will serve us well out over many years to come. In terms of Premium, yes, we started off 18 months, 2 years or so ago with a relatively modest package of incremental functionality versus the Standard plan. And not surprisingly and we expected this, it was a relatively modest take-up, but that was just getting us out of the gates, if you will.

And we have, as I mentioned in one of our earlier comments, really routinely expanded what's available in that Premium offering and we will continue to do that in the years to come. And we've been very pleased with how Jira Software, Jira Service Management and Confluence Premium editions have increased their impacts on the overall proportion of cloud customers. And then we're just really getting started with the Enterprise, very early days. But encouraging development thus far and again, well, this is one of our key areas of focus for R&D development, and I would expect us to continue to build momentum around the Enterprise editions over the next year or two. Michael, would you add to that?

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

..... A
James Fish, I think, James Beer did a fantastic job actually answering that question. The only one small element of color I would add, and it might be taken for granted, but I just want to make sure everyone understands. A customer does not need to buy one edition across the board. So, one of our advantages in having a family of products is the adoption curves of each product can go at the pace of the particular customer or group, department within that customer's set of teams, whoever is using that particular product. This is where our ladder is very consciously designed to be customer friendly and customer first and is really starting to resonate.

So an example there is you could use Jira Software Enterprise edition or Premium edition in a large company because you have a very mature engineering organization with a lot of capabilities and adopt Confluence Free with a small group of 10 people alongside that as you start to learn about how Confluence can add to your software team. As that Confluence deployment grows, you'd probably move into Standard, and you'd probably move into a Premium overtime if it's a large company and the userbase continues to grow and we have success, right, with your usage.

So, a single customer can buy different editions of different products at the same time depending on their adoption of each of the different areas and opportunities and markets that we have. That's designed like that on purpose so that customers can grow at their own pace in different areas.

Operator: Thank you. Your next question comes from the line of Keith Bachman from BMO. Your line is now open.

Keith Bachman

Analyst, BMO Capital Markets Corp.

Q

Hi. Many thanks for taking the question. The first one, I think is for you Mike. I wanted to hear a little bit about platform paradigm. What I mean by that is, where do you think you are now in terms of say the cloud offering particularly targeting those large enterprise customers that James mentioned would still be migrating late in the cycle? Where are you in terms of the capabilities on the cloud versus sever versus data center? And how might that change over the next year or so in terms of reaching feature parity to already – to catalyze the great momentum you've already started with?

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Hi, Keith. Great question. Look, we are – firstly, it should be said that we're very early in the migration journey. This is – as we've said repeatedly, this is a multi-year journey, and we will continue to evolve with our customers as we go through that journey.

The capabilities of the cloud, it should be mentioned firstly, are incredibly unique already. So, the cloud had some big differentiations in terms of its capabilities that already give you a choice between the two deployment options.

And then we continue to build out our enterprise capabilities. You mentioned the very largest customers. You saw that in the last couple quarters with data residency and continuing to improve things like FedRAMP and a lot of other compliance requirements and enterprise requirements.

Again, we have a public roadmap. We explain to customers where we are at that roadmap and how we're executing against that. That's really resonating with those larger customers. So, I think, we're in a really good spot in terms of how we go through that journey.

As we've said, it had a relatively modest impact on FY 2021, and we are early in that journey over time as we continue to power through that. And those customer migrations are coming from server and data center. It should be said for the largest customers that you mentioned in data center, often that journey is not a singular step.

So that customer can choose to move. They might have 10,000 users, let's say, on data center and they choose to move 500 or 1,000 of them to the cloud for a particular purpose. Maybe it's a unique geographic office. Maybe it's a large project group, department within the company, that is a behavior that we see often where they will

move 500 to 1,000 customers – users, sorry, to the cloud to test us and we like that. That lets us demonstrate our capability, it lets us demonstrate our enterprise strengths to that customer, and we are confident that we can give them a great experience, give them a great total cost of ownership equation with the cloud offering that will then resonate through the remainder of those users. So that customer becomes customer of both cloud and datacenter in that example, and then overtime we will hope that they would move the rest as we demonstrate our capabilities.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Yeah. Just to add on one. Thanks to that, Mike. We're now seeing the 25% of our seats migrating into the cloud are coming from the datacenter and obviously the datacenter is where we tended to have larger customers. And so again, I think as the cloud Enterprise editions become more and more capable, I would expect that that trend of data center to cloud migrations will only increase in the next two plus years.

Operator: Thank you. Moving on your next question comes from the line of Ari Terjanian from Cleveland Research. Your line is now open.

Ari Terjanian

Analyst, Cleveland Research Co. LLC

Q

Hi, all. Thanks for taking the question and congratulations on the great results. Just want to double click on the cloud performance. Just wondering if there are any patterns you've seen, any surprises in terms of the type of customer among these larger enterprise, seems like growth in America has only decelerated 200 basis points. Is it fair to say most of these are the type of customers you'd expect in terms of geography or vertical or are you starting to see some more non-traditional customers start to migrate to cloud as well? Thanks.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Yeah. Just a thought on that. One of the things, we actually shared this – a little bit about this a quarter or so ago is that, we're quite pleased with how we're seeing more cloud take-up within Europe, Middle East, Africa region. And that has been a part of the world that has been very, very focused on utilizing behind the firewall type solutions. And so, we're pleased to see our European-based partners really taking on the opportunity, understanding the value to their customers of our cloud offerings and then obviously the customers themselves. So, again, relatively early days versus say the Americas where I would say there has been a longer history of wide scale cloud adoption. And I would say we're encouraged by that, and obviously, we'll continue to work at that angle.

Operator: Thank you. Your next question comes from the line of George Iwanyc from Oppenheimer. Your line is now open.

George Iwanyc

Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. Mike, with the context of continuing to be on offense, can you maybe share some color what this mean on the competitive front, maybe broadly speaking and then specifically maybe in progress with work automation and work management?

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Sure, mate. I can talk about that. We're – look, we continue to be, as we always have, philosophically aware of what competitors are doing. But we absolutely don't focus on that or on them. We always try to put customers first in a big, big way. And it's very easy to say that. I would say that Atlassian is a company that actually does that, and we have done for a very long time.

Not really any change in the competitive landscape, I would say, is a brief answer. Over the last quarter, we continue to be really positive about the opportunities we have and where we sit with our customers. Talking broadly about work automation, work management, obviously, it's a very, very large space. It continues to be so. We have a number of different offerings targeting that space with customers that we have made very strongly for a whole series of different reasons. Trello continues to power along very strongly. We're very happy with where Trello sits, and how it has continued to grow over the last year. That team has done a fantastic job. And that is – that's an exciting area for our business and continues to be so.

Inside Point A, in terms of innovation and new capabilities, again, Jira Work Management is doing severely excellent work at connecting the Jira family into some of those really exciting areas. It leverages our automation platform, leverages our cloud platform in really good ways to bring the rigor and structure of Jira, which is very needed by a lot of partners, a lot of enterprises into that broader work and management arena, and so we're very excited. Obviously extremely early days for Jira Automation. It's only been in the wild for three to six months at this stage. And continuous to be part of the Point A program because we're really collaborating deeply with our customers about how to continue to grow that.

All the way across to I would say Halp is a good example of a product that is taking an alternative view to how work management can be done. Halp is messaging based service provision tool, a lot of parts of enterprises are actually about one team servicing another team. And we think about that in the ITSM context obviously. But if you look at service-driven organizations in a broader sense, we're going to have to continue to find new ways for teams to service other teams. Be that our legal team, or interactive marketing team and Halp is really resonating strongly because the messaging based paradigm is a very new one. So, we have a lot of very unique capabilities in the broader work management space, and I would say my excitement is extremely high about all of the different investments that we have.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Yeah. Just to add on one other thoughts. While obviously the customer counts that we publish each quarter, those move around from quarter-to-quarter. We have always expected that. The 23,000 number that we posted up in Q4 I think is impressive in terms of demonstrating our competitiveness. Obviously, those 23,000 companies evaluated their alternatives and chose Atlassian. And so, as Mike referred to there, Trello is an important part of that. We've been emphasizing monetization initiatives there now for 18 months or so, as we've discussed in the past.

But this customer increase was broad based, Jira Software, Jira Service Management, Confluence. And so really encouraging and illustrative of I think where we stand on the competitive playing field.

Operator: Thank you. Your next question comes from the line of Fred Havemeyer from Macquarie. Your line is now open.

Fred Havemeyer

Analyst, Macquarie Group

Q

Hey. Thank you and congratulations on a really strong quarter here. I'd like to ask you about some of your integrations and strategy around that, because some of the products highlight in your letter around open DevOps and the importance of integration is really, really drive home where it is that you're focusing some of your efforts in products development and investment outside of some of the other topics we're discussing today. So, I'd like to ask, do you view integrations within the Jira ecosystem, more as an opportunity to improve retention or as an opportunity to also expand user capture by adding essentially more workflows like we addressed within Jira ecosystem?

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Hi, Fred, Mike here. Just look, I think that's an extremely good questions. Strategically, I would say we are very pro integration. Let me explain why that is. We talked a bit before about what we call Cambrian SaaS. So, there is an explosion of SaaS tools happening out there at the moment. It's a very [indiscernible] (47:40) period for new solutions for customers, new applications, niche ones, big ones, small ones. This is a fantastically interesting period to be in SaaS.

We focus on what's best for our customers. And when you're doing so, it takes a lot of practicality, pragmatism, a little dose of humility to realize that those customers are going to use a lot of applications that come from other companies for all sorts of reasons. The best thing we can do is be deeply integrated in all of those places. We believe that's best for the customers. It is then our job to automate workflows, to coordinate data, and to do that the best we can across all of those different applications. And that leads to the best outcome for the customer, which leads them to as you mentioned, be retained or enjoy their Atlassian experience, so stay. It also leads them to have an increasingly integrated, which becomes sticky and more valuable to them, offering set among the different products and applications that we have.

One of our biggest competitive advantages is our developer ecosystem and our extensibility of products. You see that and as Cambrian SaaS continues to throw up new evolutions of products and variants in different directions, that allows us to flow into those directions through integrations, through acquisitions, through extensibility, automation in lots of different manners as we navigate that continually evolving world. And so yes, I think strategically, it's extremely important that it's been part of our open philosophy for customers for a long time now. It's part of Open DevOps as you saw, as you mentioned. And we know that that resonates with customers, both philosophically and since that they like that, they think it's a good position for Atlassian to stand, we've never been a vendor that said, hey, you know, all your stuff is with us and you don't need anybody else. No, we don't believe. That's not what we tell customers. That's not what we talk to them about. So, philosophically, that resonates with them. We know from their usage, from their satisfaction, that we are then a better vendor for them. So, we see that in their numbers, in lots of different places, be that analytical usage base or customer satisfaction report base. And then we believe that results in better economics for Atlassian, which is then shows why those integrations are important for shareholders and the long-term future of Atlassian.

That's the philosophy we've had for a long time. In fact, we can really show that philosophy in ways that we couldn't beforehand because it really becomes apparent. [indiscernible] (50:42) the part that I want to also stress. The data integration piece is really important here. So, we continue to evolve our data platform as a part of our platform to connect objects, to connect elements across the Atlassian and third-party spaces so that we can give smarter and better answers to customers.

We saw that show up a little bit in the insights features we shipped in Jira Software that don't just leverage Jira Software data. They can leverage data from cloud providers, CI/CD providers, lots of other [indiscernible] (51:26) ecosystem, to give you the best answers in Atlassian's products and outside of Atlassian's products. I think that's

a long-term strategic piece here as well is to be able to coordinate and understand data across multiple vendors, gives you those automation capabilities, but also gives you insights in unique places that we can get answers fast.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Just a couple of things to add on to what Mike has commented on there, one thing that we've seen, going back to talking about churn a few minutes ago, is that when our marketplace vendors, partners are part of the relationship with the customer, when the customer uses an app, our dollar churn declines by around 50%. So, that's an interesting illustration of the stickiness part of your question. And then, in the Shareholder Letter this quarter, we put quite a bit of materials talking about the different types of partners. And one comment we make is an interesting illustration of how these illustrations drive user growth we talked about. They'd request access to Confluence now directly from a Slack channel. So, it's just an illustration of the sort of thing that Mike has been talking about here.

Operator: Thank you. Your next question comes from the line of Brent Thill from Jefferies. Your line is now open.

Luv Sodha

Analyst, Jefferies LLC

Q

Hey, guys. Congrats on the nice finish to the year. My name is Luv Sodha. I work with Brent Thill. I wanted to ask a quick question to Mike. First one, could you give us some insight into the impressive net new customer adds? And what are these customers landing with? Historically, Jira and Confluence have led that motion, but do you see the new customers kind of adopting the entire solution suite or there is still certain products kind of leading the charge? And then, one for James, obviously, the fiscal 2022 guidance for subscription revenue growth is low to mid-40s, which is ahead of what you'd said previously of mid-30s. Could you may be shed some light into what's driving this optimism and what level of migrations is kind of embedded into this new guide? Thank you.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Thanks, mate. Look, on the new customer number, a few points I would say. First, we did say 6,500 of those [indiscernible] (54:18) were Trello single user accounts. So, the 23,000 is a really impressive number. Even if you take out the 6,500 Trello single user customers, you still end up with a very strong quarter for customer adds. As we say all the time that customer number goes up and down, we don't focus on it, we focus on the activities inside the business that lead to the best long term customer acquisition.

Inside that, James has already mentioned free obviously continuing to draw that and power the sort of the part of the iceberg is below the water. I guess we don't talk a lot about free – they're not customers, right. So if they're using the free offerings we don't count them as customers. So as they convert into being customers, they might have actually been using Atlassian's applications for a long time. So, part of that is just a general rising tide as free thing available for 12 to 18 months now and continues to be so.

The biggest strength in the number that gives me confidence I would say is the fact that it's very across the board. So, there is not a particular area that is excelling here. We see strength across the software agile and DevOps spaces. We see strength in ITSM in Jira Service Management, in Health and Confluence. And we see strength across the work management arena, Jira Work Management, Trello, Halp, again and Confluence. And it's a very across the board [indiscernible] (56:03) that we're seeing. So, there's not a particular good answer to your question of which sector. In fact, the answer is look it says there are lots of long-term activities across all the

areas and opportunities that we have in front of us in the business. We're proud of where we are and the execution we've done. I'll turn to James for the second part of your question.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Yeah. Thanks, Mike. A few thoughts around the guide. So both cloud and data center, the two components of subscription revenue, good organic tailwinds if you will. We have spoken quite a bit about the cloud business in the last hour or so. So, we wouldn't repeat all of those points. But similarly, we've got a lot of new demand for data center. We have increasing demand in terms of user account from current data center customers. We also raised prices on the data center business around five months ago. And so, that's a benefit that we'll increasingly start to see as the next several months play out. And then in terms of loyalty discounts, you'll recall that we have stepped down the size of the discounts that we offer to migrating server customers for – both the case where they would migrate to the cloud and to the data center. So that provides something as the relative tailwind as well.

In terms of the effect of migrations, obviously that's also going to continue to benefit both the cloud and data center businesses in the coming year. I would expect migrations to drive approximately mid single-digit growth on our subscription revenue growth in fiscal 2022 year-over-year. And while obviously not a subscription revenue issue, the server business, obviously we stopped selling new server licenses five months ago. We'll stop selling server upgrades to current licenses in the seven months' time also. And so, then that server business will just naturally decline over time as those customers migrate over either to cloud or to data center.

Operator: Thank you. And your last question is from Michael Turrin from Wells Fargo. Your line is now open.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey, there. Thanks. It's looking even more fantastic than usual phrasing in the letter this time. So, kudos there. I wanted to go back to one of the hat trick core markets and just touch on ITSM. You referenced your service management now you spend more than 30,000 customers. It's a big number. I was just hoping maybe we could touch on whether the more explicit move towards ITSM is influencing either the type of customer or the pace at which you're adding customers you're seeing engagement from that area? Thank you.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

A

Hey, Michael. Look, I think, as I've said before, we're very happy where we sit in the ITSM space. The type of customer – look, we – basically a type of customer that's large that uses ITSM solutions. I think one of the exciting parts inside that is that we continue to lend smaller customers in ITSM as well as those skills of the large companies are more taken up by small businesses who sent 50, 100, 200 person dealings is really thinking deeply around their IT capabilities and technology and strength broadly. And we've long said we're targeting a Fortune [ph] 500,000 (1:00:28) and we have very big aspirations for that. We don't think the ITSM opportunity is restricted to the sort of Fortune 2000 or the Global 5000 or whatever. We think the ITSM opportunity is far, far, far broader than that. And as such we're thinking about it in that manner that plays into Atlassian's core DNA and strengths of how we go about doing what we're doing. So that part is very exciting.

We for sure need to solve the needs of the largest enterprises at the same time. I think you've seen us continue to do that. So the type of customers that I believe we will see in ITSM are as broad as the general Atlassian customer base which I know is not the expectation of some, but I believe that is one of our strengths, our ability to really change the IT and technology capabilities of companies of all sizes small all the way through to the biggest

companies in the world. That's how we think about it and we'll continue to embrace that opportunity to attack that opportunity with vigor and we've said that in the shareholder letter. And two-and-a-half years ago when we said we're going to double down on IT. We meant it when we said that. And we made it just as much today. There's a huge opportunity in that space and there is a lot about free markets that we're playing up against.

Operator: Thank you presenters. Ladies and gentlemen, that concludes our Q&A session for today. I will have it back over to Mr. Mike Cannon-Brookes for any closing remarks.

Michael Cannon-Brookes

Co-Founder, Co-Chief Executive Officer & Director, Atlassian Corp. Plc

Just wanted to say thank you, everyone, for joining the call today. We appreciate your continued support and questions. Thank you to all of the Atlassians on a fantastic year. We look forward to continuing to power into the future. Hope you and your loved ones wherever you are in the world remain safe and healthy, and we'll talk to you next quarter. Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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