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Atlassian Corp. Plc (TEAM)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for joining Atlassian's Earnings Conference Call for the Third Quarter 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.

Martin Lam

Senior Manager-Investor Relations, Atlassian Corp. Plc

Good afternoon and welcome to Atlassian's third quarter of fiscal year 2021 earnings call. Thank you for joining us today. On the call today, we have Atlassian's Co-Founders and Co-CEOs, Scott Farquhar and 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 third quarter of 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'll 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. 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 through to the next speaker. We also invite you to check out sessions from Team '21, our annual virtual customer conference, which runs through tomorrow, April 30. We've included a link to Team '21 in our shareholder letter and our earnings release.

Lastly, I want to thank Mike and Scott, James and Matt, and all of Atlassian for the opportunity to lead investor relations at this incredible long-term and customer-focused company. 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, Martin, and thank you for joining today from wherever you are in the world. As I sit in Australia, I'm reminded that our national coat of arms displays the kangaroo and the emu. Why those two specific animals you might ask? Because they're unable to walk backwards, they can only move forwards. Australia as a nation must continue to move forward. True to our Australian heritage, Atlassian only moves forward. And we continue to do so at great pace through a strong Q3.

We hope that you've read the shareholder letter where we describe our long-term focus on delivering that innovation to customers. Our investment in our world-class cloud platform makes it possible to develop and deploy this innovation at an ever faster pace. Highlights from the quarter include doubling customer and acquired migrations versus last year, right in line with our expectations, launching Point A, our new product development program. Yesterday, we announced five initial products from Point A for technical and non-technical teams of all sizes, and continuous investment in leading-edge innovation.

We announced amazing updates for the Jira family of products. We're extremely excited about initiatives like Open DevOps and a whole new tray-loaded chip during the quarter, as well as acquisitions of ThinkTilt and Chartio.

We also have posted strong results in Q3. We saw a significant short-term demand for on-premises products as a result of customers purchasing ahead of both the discontinuation of new server license sales and price changes to on-premises products that went into effect during the quarter. More importantly, we made continued progress to

our long-term goal of becoming a cloud-first company. During the quarter, cloud revenue grew 35% year-over-year, and overall subscription revenue grew by 43% year-over-year.

Before we move to Q&A, Scott and I want to thank the more than 6,000 Atlassians whose resilience, passion, and commitment to drive that innovation that we deliver to our customers and who continue to move forward every day. Check out our session from Team '21 to see how we're building a future of modern teamwork to unleash the potential of every team.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Michael Turrin from Wells Fargo. Your line is open.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey there. Thanks for taking the question. Busy week for everyone, it seems like, with the Team conference which looked like a good showcase for some of the innovation on the product side that cloud in particular opens up. So was hoping you could maybe first touch on that, what you're enabling for customers with things like the Point A program and your Work Management.

And then, maybe James, you could also comment on whether some of those recent innovations as well as things like cloud enterprise and the data center strength you're showing here at all alter your view on the mid 30s subscription growth target you've laid out given it looks like you'll come in above there this year at the very least. Thank you.

Michael Cannon-Brookes

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

A

Yeah. Hey, Michael. Good to hear from you again. I can, look, I can talk to Point A. If you've seen all the announcements in the news, Point A itself is a program that we've launched to co-develop some of our new products alongside our customers. It's a period in early thought innovation where we know what we want to build. But the progress, if you like, the shape shifting of the product in its early days is very rapid. And so we really need to notify customers that in the first year or two of a product's life, it's likely to change form very quickly, not in a volatile way but in a really sort of forward moving way. That is done alongside customers and we are true to our philosophy of being open. We're doing it alongside our customers and we're trying to be very clear with them about that.

Point A, as we mentioned in the shareholder letter, all of the products still very strongly on the Atlassian cloud platform. So all of the things that we've talked about from machine learning and automation capabilities to the compliance requirements and enterprise structures that we have through the collaborative capabilities and beta tests and reactions and all sorts of other things, they all appear in all of those Point A products.

So, not only will they solve a series of new challenges that our customers have and deliver unique value to them, from product managers in Jira Product Discovery through to broad-scale organizational goals and large-scale sort of user directories in Team Central, obviously through to Jira Work Management, bringing our business teams,

marketing, finance, and HR, into the Jira family and all of the Jira capabilities that arise for those business teams in a business-friendly environment.

Not only do all of those things arrive in Point A, all of the capabilities that we continue to bring to the cloud platform will arrive in those products as well. So we thought it was a very good example of the innovation that we've been building in the platform that's not just for our existing customers and existing products, but it's as much for the new things that we can continue to build and the advantages of moving into the cloud, both for us in terms of creating things and for our customers in terms of the value that they can get once they have moved there or if they are already there if they are in, obviously very large numbers today.

I can talk more if anyone has any other questions. But let me hand off to James to talk about the subscription growth part of your question.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Yeah, sure. Thanks, Mike. Certainly we were very pleased with the ongoing momentum building right across our cloud business. You mentioned in the question enterprise, very early days for that addition. We're very pleased that it's off to a good start, but early for that to be a material revenue contributor. But I would certainly point to our premium additions as continuing their very nice momentum.

And I'm also really pleased by how our partners as a group are really developing their business practices around our cloud business. That's very encouraging for our future. And then you mentioned the event-driven datacenter volume of activity that we discussed in our pre-announcement press release a few weeks ago. So given all that, yes we are projecting that we would beat the FY 2021 previous target of subscription revenue growth in the mid 30s percent year-over-year. And then for FY 2022 the subscription revenue growth target, we'll address that in 90 days time.

Operator: Your next question comes from line of Arjun Bhatia from William Blair. Your line is open.

Arjun Bhatia

Analyst, William Blair & Co. LLC

Q

All right. Thank you for taking my questions. I wanted to touch on some of the new product announcements you made, specifically around Jira Work Management and it sounds like you made some changes to Trello as well. But as you were going after this business user market, I think we're all aware that there is a lot of incumbents in that space, and a lot of fast growing companies. But I would love to hear how you think that space evolves over time, if you think there's consolidation in the number of tools that business users are using for work management. And then how does Jira Work Management strategically kind of position itself in this market as something unique and compelling to offer compared to some of the other players that are in the space?

Michael Cannon-Brookes

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

A

Sure, mate, William, I can. Sorry, Arjun, I can take that. Look, let me start with the latter part of your question first. A huge number of business teams already use Jira software or the formerly known Jira Core to manage their work. So this is not a new area for us. This is about us doing what is classic Atlassian innovation. This means to our customers seeing what those business teams that use Jira software already are doing and how we can deliver further capabilities to improve what they're already doing in a new and better offering that's tailored to their

needs. We are very confident there are lots of other business teams in our customers that could therefore benefit from that if we can deliver a really good and compelling experience for them.

So you can see that in some of the features, things like calendars and timeline views, more sort of business friendly ways of looking at things. A lot of the new Jira family templates that shipped as a part of Team '21 with a sort of project setup in very specific ways for lots of different circumstances. You can obviously think about those for software things. There's lots of different methodologies and ways that software teams want to set up their project. We can do that for them up front. But we shipped 22 different business templates for different HR and finance and marketing use cases that take advantage of the features of Jira Work Management to deliver for those particular customers.

Jira is a very structured system for work management, so it has a huge amount of power, a huge amount of capability built into the Jira platform and the broader Atlassian platform. For customers that have chosen Jira in a deep way across their business, this is a very logical choice to continue to expand that to business teams specifically where those business teams have to work as they increasingly do with teams in a technology part of the organization. So, when you're working with software teams, when you're working with IT teams or operations teams, you can see a lot of things around legal and compliance for example or finance and AWS billing, which can be quite challenging.

There are marketing teams shipping software and have to understand how to work with designers and software teams and when things are going to arrive and what they're going to look like and how that's going to go together. So the fact that it's all inside the Jira platform provides a lot of very deep integration capabilities, not least things like automation, machine learning. As smart as Jira itself gets smarter as a family of products, we can do a lot of things in terms of cross-linking between.

So I hope that shows a little reasons why we think a lot of business teams will be excited about Jira Work Management. I would point out it's very early days. So again, part of point A is co-developing this with customers and we will continue to do that.

I think the space in general, as you asked at the start of your question is very, very large. As we pointed out, there's close to 1 billion knowledge workers out there. As we look at the continuum of knowledge worker productivity improvements over the next decade to come, there's going to be a lot of work around how do we take things like machine learning and automation and all sorts of data resources, as we have in the Atlassian platform and bring them to knowledge worker productivity, in terms of project management, task management and the flows, right, how we coordinate groups of people which we call teams across large organizations in different functions. We obviously think with the broader Atlassian platform and the different offerings in the Jira family, we are very well positioned to take advantage of those trends.

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

Rob Oliver

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

Q

Great. Good evening, guys. Thank you very much for taking my question. I wanted to just ask about the enterprise conversions. You guys mentioned Splunk in your letter and particularly I think, compelling example. When you look at a company like a Splunk, I think you guys mentioned maybe Northwest Mutual as well, are there patterns or markers that you see for companies like that that are leaping at the opportunity to migrate early? I know you guys have said that it would be mostly SMBs early and enterprises later. But clearly, there are some enterprises, multi-product platform type users that would leap at that opportunity and with the use of data that you

guys are famous for. I'm sure there's some patterns you're identifying there whether it be JSM users or whatever with, or whatever how you're approaching that. Thanks.

Scott Farquhar

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

A

Rob, it's Scott here. Appreciate the question. As we've mentioned before, it's migrating the tens of thousands of customers we have from our server and datacenter offerings across the cloud is a multi-year process. And we still expect the majority of our largest customers to move kind of in subsequent years. And so, we're really excited by some early movement of customers. But it doesn't represent any [indiscernible] (16:58) change in the estimates that we put out previously.

When I look at the customers that move across in general, without speaking to those specific examples, large companies and small all agree that the cloud is the future for them. They don't want to be in the business of managing infrastructure. They look at the features that we're offering in the clouds, whether it's the security features we can offer them or it's the management features or the end user facing features. And they all want to be there.

And so it comes down to a discussion of when are we ready. In some cases for highly regulated industries, we haven't yet got the certification required or when are they ready, which it might be down to the timeframe of which they can schedule that project alongside other projects that they have going on internally. And so we're really happy with the momentum that we're seeing with customers, large and small. It doesn't represent any change. You can see in our forecast that it's a multiyear process.

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

Keith Eric Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you, guys, for taking the question, and very nice quarter. The number in particular that really stuck out to me was that new customer add number, and I know some of is related to kind of single-use Trello. But even when we take that, it's well ahead of what you guys have added historically. I'm sure some of it's related to sort of end of new server licensing, but like that only makes some sense, because your customers didn't realize they needed Jira before, and then all of a sudden because the pricing changes that they do. That doesn't make a ton of sense. Can you help us understand what caused that? What grew such a big spike in customer adds? And are these customers, are they of the same ilk as like historical customer is? Like do they have the same growth potential as what you've seen historically?

Scott Farquhar

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

A

Keith, it's Scott here. I'll take that question. You've been around long enough to know that at Atlassian, we don't spend a lot of time looking at our customer numbers on a quarter-to-quarter basis, just because a customer in a quarter brings very little revenue at the start, and there's just so much variation in quarter-to-quarter. It's not something we manage to internally.

You mentioned the Trello single users. So if I think about kind of this in the broader trend, we've done a lot of changes to our funnel over the last year. We've introduced free versions of our products, and so that's changed our funnel. We've done more optimization around Trello which has led to more single users, also more small teams.

And there, and while customer numbers are a huge indicator of our long-term potential, we don't kind of really I guess get excited by large numbers or small numbers in any particular quarter. And so I think it's too early to say what these customers look like over the long term as we've made these changes to our funnel. We do want to pull out the Trello single users because we believe we're at a teamwork platform and a single user isn't yet a team. They might turn into a team pretty quickly but not at this stage. And so we wanted to give you some indication of that.

But yeah, I think it would be fair to say that there is changes in our customer numbers as we've make changes to these funnels. And it's too early to say what the long-term potential of those and quite get the same as previous ones. Again, our model at Atlassian is land and expand. So obviously we're landing way more companies across the world that gives us a huge opportunity for us to expand into those customers over time.

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

Gregg Moskowitz

Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you very much for taking the question. Curious to hear what you're seeing with respect to demand for Jira Service Management including the premium option that had the CMDB technology. And then, for Point A, apologies in advance for throwing out a baseball analogy to an Australian and British management team, but what inning of a products development are you engaging your customers? And how broad of a level of input are you going to be soliciting from your customers?

Michael Cannon-Brookes

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

A

Hi. Hey, Gregg, I can take both of those. Look, on the ITSM space, we continue to be extremely excited. As we've demonstrated, two years ago, we told you in our shareholder letter which I know you will read sort of word for word, that we were doubling down on IT. And I think you can see over the last two years that we've really done that. The CMDB capabilities you referred to are just the latest of a series of additions that you've seen us make both from internally generated things and external acquisitions [indiscernible] (21:57) world real-time rostering and capabilities because a lot of things in IT nowadays come down to milliseconds and it matters, all the way through to this quarter adding pro forma for ThinkTilt, from ThinkTilt, to continue to drive our automation and low code/no-code in a really native Jira way.

Overall, the traction amongst the customer base is really phenomenal in the ITSM space. We're really excited about where we're going. We do believe we're very uniquely positioned. We're the only company that gives you a single pane of glass across software, operations, and IT staff for modern enterprises that are moving at modern speed, as we like to call it high velocity. That's a very unique position, right, the Atlassian cloud platform continues to deepen its capabilities, which we bring to all of those ITSM customers.

And no matter whether you're a small company or a large company, we continue to see really great traction for those offerings. So I don't think – demand continues to be strong, the CMDB capabilities that went GA during the quarter in the cloud. Obviously we'll continue to get customers excited as we move through that.

I would point out that the low code/no code additions that we've added and will continue to do so, it's not new. Automation has been a focus for us for a long while now. And I think in the quarter you've just seen us bring that, and as we continue to add to all of these capabilities together so you can take the machine learning, the

automation, the forms and the CMDB mentioned. And so it's just an amazing offering [indiscernible] (23:44) so we continue to be really excited about the space.

In terms of baseball analogies, I've sat through many a baseball game, so I think I understand it at least well enough. It's very similar to cricket in terms of drinking beer and watching for a long period of time. I would say that generally we are sort of in the maybe the first or second inning, maybe bottom of the first, probably the second when we start revealing products to customers. I'm very confident of the direction that we're moving in. We have enough of the products built such that we are clear on the boundaries and what problem we are solving for customers. There's a lot of customer research that happens before that.

Once it then gets out, there are a lot of tailoring to their needs, integrations that they need and how the user experience is going to impact. Things like Compass for example are very new ways of looking at the sprawl of one's modern software architecture. And customers are saying, yes, this is a huge problem but I don't know how to solve it because we don't have any tools to solve that. And so we're trying to build a tool to solve something that is a problem they clearly have in a very, very new area. We hope that by the third or fourth inning, it's very clear to customers that the boundaries get very well defined. And that's when you start seeing traction and monetization. In the early days, it's really just about finding that problem fit with the customers.

Operator: Your next question comes from the line of [ph] Brad Hasemeyer from Macquarie (25:18). Your line is open.

Q

So I'm also interested in Jira Work Management. And I'm wondering about how your helping generally less technical users do work, especially in these more modern remote work or hybrid work models. So understanding that it's early days, do you think that Jira Work Management is a product that non-technical teams will pick up on a self-serve basis, or do you anticipate it needing an assist from either your direct sales force or more of your channel partners?

Scott Farquhar

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

[ph] Yeah. Go ahead, friend. (25:50)

A

Michael Cannon-Brookes

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

Look, I think like all Atlassian products, there'll be a large amount of self-serve involved. I think one of the things that's interesting about Jira Work Management, especially when combined with our land-and-expand model and obviously the free program that we've talked about a lot over time, that has great potential not just to land new customers but to land new parts of existing customers. So a Jira software customer that's broad can easily start a new free Jira Work Management account alongside that product offering, alongside that Jira software for the first team or the second team to really get started.

That said, I have no doubt that because of all the capabilities of the broader Atlassian platform, automation, a lot of things we're investing in the data and insight space that we haven't talked about as much but there's a lot there for partners to both explain to larger customers, map to their organizations, which is often a facility that they bring, or understanding those larger customers' challenges and business problems and then say, hey, Jira Work Management could be a piece of the solution to that problem and obviously bring it along to them.

So I would imagine that the channel split that the self-serve motions, etcetera, for Jira Work Management aren't really equally different to our other products in size and scale. Obviously, we think it's incredibly large market, and we continue to invest against that. I would point out, as we've talked about before, probably call it 50% of the broader JIRA family audience is technical, which means about 50% percent of the audience today is non-technical. As JIRA work management continues to grow, you could see that blend getting even further apart. It's usually surprising to people when they hear it's 50/50 at the moment.

And obviously, this has the potential to continue to grow that. We've made no bones of our mission is to unleash the potential of every team. And every team means we're going to have to work out how to help solve problems for marketing, HR, finance, sales, lots of other teams that need to manage projects around the building. And that's what your Jira Work Management is aiming at inside the capabilities and structure and character.

Operator: Your next question comes from the line of Ittai Kidron from Oppenheimer. Your line is open.

Ittai Kidron

Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Nice quarter, guys. I guess I want to just make sure I double down and understand the transition to the cloud. Clearly, you had a massive quarter where customers kind of pulled in purchases. I guess the question is going back to that 30,000 server customers you talked about that should transition over time. Did that number actually increase then in this past quarter rather than decrease? And perhaps, you can talk about churn that you've seen in the conversion. How is that shaped?

And then, lastly, given the magnitude of this pull-in effect, do you get a sense that perhaps customers are really unhappy with your cloud pricing? Does this magnitude of pulling make you feel more comfortable about your transition to the cloud or makes you question the pricing that you've set up for it relative to the historical products?

Scott Farquhar

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

A

Ittai, it's Scott here. Great question. I appreciate you asking it. There's nothing about this last quarter that has changed our belief or our timeframe internally for our customers moving over. And, it may seem weird, as they were hanging, we've had a huge amount of portfolio on the service side of things, how does that affect our cloud transitions? All of our internal cloud transition numbers are looking basically on track is what we had forecast before this. What you've really seen is people take advantage of, okay, you're not sure? Oh, I might be here for a year or two. I want to buy that now and get ahead of any price increases that are happening or, and so it hasn't really changed their forecast timeframe. They really just decided to transact ahead of certain events. So we haven't seen that.

You also had churn, new customers and cloud pricing. On churn, our numbers are, actually, I think we've talked to this before. Our churn numbers across our cloud and across our entire base are better than we had forecasted through this transition. So that is going really well, and there will be some customers who will churn through this process. But we believe that it's better for us and those customers over the long term, like, so that's all going on track.

And on the cloud pricing, we have discussions with our customers. Obviously, the sticker prices is larger in cloud for many of our customers. But when you look at both the features and benefits they get from that, the reduction

in the number of head count that they require to move across like [indiscernible] (31:06) clouds, our customers are super excited about the cloud offering and are very happy with the price that we're providing that at.

So we, I guess and you'll hear the numbers on our website are, sometimes they require a bit of explaining to customers. But once we've done that, they are all signing up, and it really just comes down to the timeframe that they want to move across.

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

Q

On for Brent Thill. Thank you again for the time and taking my question. Wanted to ask one quick one, dig a little bit deeper on that last question around the cloud migration. Could you talk a little bit about the enterprise cloud, the Atlassian enterprise cloud and how that might give some comfort to maybe the larger customers who are maybe waiting to make their decision as to whether or not they commit to the transition early on.

And then a second question around the acquisitions, Chartio, wanted to ask like are you planning to get into the BI space or is this just giving you some basic reporting functionality within the Jira family? Thank you.

Scott Farquhar

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

A

Okay, Scottie. I'll do the first one and Mike can chime in on the Chartio one. Look, if you look at our migrations, we said that small customers can move faster, and we've seen that. And the larger customers just have more inertia and so, it takes some more time to move across. And the larger customers, we've done a lot for them over the last two – I mean, since we started our cloud. But it's accelerated over the last period of time. We've improved scalability requirements and we continue to tick down the size and scale of the instances that we can support in clouds.

We are working on compliance and certifications, and we're again, ticking off the compliance requirements for heavily regulated industries. Data residency is another one, particularly for customers in Europe. And you saw, I think we talked about in our shareholder letter De Volksbank, who is the fourth largest bank in the Netherlands who have chosen to move across. And they're a European customer and data residency obviously is something they consider over there. We looked at data isolation. That's our enterprise offerings allow people who want to make sure their data is not intermingled with other customers. Security, we've improved and continue to improve our Access product that allows effectively integration with security providers and a higher level of security and access control.

I could go on for a very long time here, but we are continuing to improve our enterprise offerings, whether it's in the base product. We chose to get data residency in our base product for every single customer. Then we have our premium offerings that provide more. And then, for the largest companies in the world, we have enterprise versions of our product that cater to those specific needs. So, all those are improving at a very, very rapid clip. And so we're really happy with the progress of our R&D teams on those ones. Mike, do you want to talk about Chartio?

Michael Cannon-Brookes

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

A

Sure. Thanks for the question, Brent. Look, there's no doubt that data is incredibly important to our customers and we have an amazing depth and richness of data that is incredibly important to them. The more customers consume Atlassian products across the family, the more data about the history, project and tasks speeds, how that connects into documentation, who's collaborating with who. We have a phenomenal dataset when we put it all together across our products.

We are exposing that to customers in various different ways. Firstly, this quarter, you've seen – well, firstly, I would argue is I that would start with in the platform infrastructurally, we continue to build a large data lake, where we are cross-referencing and connecting all of the different data points that we have across multiple products and across third-party products, I would say, in the various different markets and workflows that we're involved in, so in software and IT and operations and through to broader knowledge management and work management.

That data lake obeys all of the principles that Scott just talked about. So this is not a trivial engineering exercise across billions and billions of data points, but to do it with data residency in mind and to do it with all of the different enterprise compliance in mind is a nontrivial exercise. That's a part of what the Atlassian platform does in terms of the data and insight features keeping compliance and privacy in mind at all times.

We then take that data lake. We can expose it to customers in a direct way. We have an early access program going on to expose that directly to customers to put it into their broad-scale BI tool and mix and match with whatever data that they have. That's one potential way that that is emerging for customers.

The second way is we're increasingly shipping data and insights features. So usually, that's where we take that data lake, and we combine it with some sort of machine learning capabilities and try to provide insights in a particular customer or user's workflow to help them manage what they are doing at that particular time.

So we shipped a series of features inside Jira software this quarter where that emerged inside their software board. So, for example, we can look at your organization's general task completion rate in terms of how you do agile software. We can look at a particular team's task completion rate, how much work they tend to get through in a given sprint, say, two weeks. And then as they're doing sprint planning, we provide real-time insights to them rather than having to go look at some sort of reporting tool to work out the insights. In real time we say hey, you might be trying to do too much this next two weeks based on our analysis of your last, however long they've been using it, last two years' worth of work. This particular team, this piece of software, this code desk, we know a lot about what's going on. So that is starting to emerge inside the product itself.

And then lastly you get to, as you mentioned, reporting in other areas. Chartio's strength is in its reporting and dashboards capabilities. You'll see this start to emerge I imagine in the Atlassian platform as a broad scale capability much alongside automation and machine learning other things we look at platform-wide across multiple products and also potentially seeing those reports and dashboards appearing inside singular products where that makes sense. It's a fantastic team with a huge amount of experience in this area of dealing with large scale datasets and presenting them.

It also has a lot of capabilities to continue to look at third party data. Often it's not your Jira software data alone that helps with sprint planning. We need to look at both code data and data from other providers as well. So I'm really excited about the space and the team that's joined us there in Chartio and lots of potential, huge amount of work that we're already doing here. But future looks good.

Operator: Your next question comes from the line of Tyler Radke from Citi. Your line is open.

Tyler Radke

Analyst, Citigroup Global Markets, Inc.

Q

Hey guys, thanks for taking my question. Could you help us understand how you're thinking about just datacenter strength kind of continuing into Q4? Obviously really strong number in Q3 And obviously with the end of life of server, you would expect that customers weren't ready to go to the cloud kind of when we have datacenters that are only non-cloud options. Maybe just help us understand how you're thinking about that growth heading into Q4 and just overall subscription growth into Q4. Thank you.

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Yeah, this is James. I'll address that one. Clearly, in Q3, we did see this outsized event-driven datacenter volume, and of course a part of that was customers stepping in front of the price increases that we implemented in Q3. So you won't have that sort of a dynamic playing out in Q4. As I mentioned a little earlier, though, when we look at our subscription revenue growth target now for fiscal 2021, we had previously said mid 30s percent growth year-over-year. And we are confident that we're going to beat that now. We're very much encouraged, as we've been discussing on this call, by the momentum that we're seeing on the cloud business. And as you say, the datacenter business remains strong as well.

Operator: And your next question comes from the line of Robert Majek from Raymond James. Your line is open.

Robert Majek

Analyst, Raymond James & Associates, Inc.

Q

Thanks. In my check I picked up that some customers are planning to convert to cloud last minute in June while they're still able to lock in the 55% discount level. Is that something that you've heard or expect more broadly across the base? And if so, should we expect some new cloud wins to get pulled forward into Q4?

James A. Beer

Chief Financial Officer, Atlassian Corp. Plc

A

Well, this is James again. You're right. We do have the loyalty discount that we've been offering to enterprise scale, so 1,000-plus users, server customers looking to migrate over to the cloud. So there could be some additional volume there ahead of that reduction in the discount rate. But we're certainly not of the mind that that would drive the sort of scale of event-driven activity that we saw in Q3. I think Q3 was really historic for Atlassian, unusual event in terms of us ceasing the sale of new server licenses and then also raising prices on both the server and datacenter side of the business.

So yes, there will be examples like the one you're framing in the question there where we'll continue to fine-tune our various business incentives to further drive our cloud migration timeline. But I'm not of the view that it would drive the same sort of outsized level of activity that we saw in Q3.

Operator: Your next question comes from the line of Jack Andrews from Needham. Your line is open.

Jack Andrews

Analyst, Needham & Co. LLC

Q

Good afternoon and congratulations on the announcements this week. I wanted to ask a couple of questions about Point A. I guess I was curious, given the launch, does this change your framework at all in terms of how you're thinking about building new functionality organically versus maybe making potential acquisitions?

And then I was also wondering if you could provide some color on just in terms of how we should be thinking about what is the portfolio of new products that may come out of Point A look like? And how far afield do you think that you might go from your core mission of improving work management under this new initiative?

Michael Cannon-Brookes

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

A

Yeah. Good day, Jack. Look, on the first part of your question, we've always maintained repeatedly, I think we've been very, very consistent in our philosophical stance. I was going to say since we've been public, but actually were consistent well before that. In terms of, we don't believe all the innovation exists inside the building. We don't believe all the innovation exists outside the building. And so we try to be extremely pragmatic and thoughtful about whether we build or buy our new capabilities that we need or new products or teams in terms of groups of people. And that's always been a strength of ours, I think, to be pragmatic about both of those equations.

Point A is a particular example of internal innovation and programs that are starting to hit the outside world, which is always a very exciting time. Part of that is driven from the cloud platform investments that we've made over the last five years or more. So those investments have taken a large amount of that R&D spend line item that you're always so excited to find out about as a group and building on those platforms. That platform itself will enable us to create new products faster and with less resource spend than they would have otherwise done in past eras. That's why all of those products are in the cloud.

We believe all of those products will be also a carrot or an advantage to customers who are considering moving their existing products to cloud. A lot of the new products that they can work with exist in the cloud only because they're natively built on top of that cloud platform. That lets each of those products benefits from all of the capabilities that we've already put into that cloud platform. So we've had a lot of feedback on Team Central from our customers that are already using it at the amazing breadth that it already has. Well a lot of that has come from three, four years of investment in an absolutely world class editing experience and a linking experience to tie all of your fast objects and data together into various forms. That's being repackaged into a very different method. They're looking at goals, status updates and company directories inside Team Central. But it comes with all of that power sort of from day one. So it's an incredibly full-featured capability set.

Similarly if you look at Compass in terms of looking at the sprawl of the massive amount of software assets that have been created by software teams, so the output of all of your software teams, be that websites or micro services or apps, libraries, whatever it is, that is very natively tied into the services you have in Jira Service Management and all of the capabilities we know about. Your deployments, your source code, your rosters, your real time it sort of arrives as part of the platform in Compass. So although it's sometimes a repackaging of functionality, they can be very full featured from the start. So no change in summary in our approach to building organically versus M&A. We think we have strengths in both areas and continue to look on both sides of the house.

In terms of moving further afield from our mission, I think you've seen that we, besides being I think really good stewards of capital as the founders and leadership team have been over heading towards two decades now, we're also incredibly focused on our mission and focused on the long term. I don't see Point A as being any departure from that if you look across the offerings that we've announced in the last week or two. They're all directly in the hitting zone. There you go. I'm using a baseball analogy, directly in the hitting zone of the mission that we've talked about for a long time and exciting to us to be moving forward continually, like the emu, moving forward toward that mission.

Operator: Your next question comes from the line of Ari Terjanian from Cleveland Research. Your line is open.

Ari Terjanian

Analyst, Cleveland Research Co. LLC

Q

Good afternoon, good evening, good morning. Thank you for taking the question. Just wanted to see if there's any change in thoughts or philosophies around how you're thinking about cloud versus datacenter, and any feedback from customers. Datacenter is something, given the recent strength, you plan to maybe increase R&D or investment around maybe versus previous thoughts, or do you continue to intend to invest a disproportionate amount, focus towards cloud longer term? Thank you.

Scott Farquhar

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

A

Ari, it's Scott Farquhar here. We're clear with our customers that the cloud is the future and the long-term future for our customers to get the best experience at Atlassian. And it will take some time for our customers to move across, but they all understand that that is the best place to get the best experience from Atlassian. Obviously, we're continuing to invest in datacenter, so there's a small number of customers that aren't ready to go to cloud or who aren't yet ready to go to cloud. And so we're continuing our investments there. But long term, both our customers and us know that the best experience they'll get will be in the cloud.

Operator: Your next question comes from the line of Jim Fish from Piper Sandler. Your line is open.

Q

Hey, guys. This is [ph] Quinton (49:02) on for Jim. You touched on it briefly already, but on the data residency capabilities, I think you mentioned during yesterday's Team '21 event that those capabilities for paid customers was focused on just a few areas or geos to start. Are there plans to roll that capability out to the larger global scale or is that plan to follow based on customer demand? Thank you.

Michael Cannon-Brookes

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

A

Yeah, [ph] Quinton (49:34), I can take that. Look, we support a series of geographies at the moment for data residency. The plan is to continue to roll that out I would say, yes, with customer demand. We have strong demand as we've talked about in the Team '21 keynote from various more specific regions in Europe, Australia, Canada. Those are all in some sort of engineering or testing today and will be rolled out by the end of the calendar year, at least. I think [indiscernible] (50:11).

As customers continue to go into different regions, given our platform, it's relatively easy for us to roll out new geographies if we see demand or we see legal, privacy, compliance reasons why we need to roll that out in a particular area for customers. So it's both driven by market forces, if you like, in terms of the governance and regulatory regimes and also by customer demand in those areas. But what we've invested in is in the platform being able to do that relatively rapidly and economically for all of our customers. We continue to believe that broad-scale compliance laws in different parts of the world, there's data, privacy, regulated industries in terms of finance or healthcare or whatever it may be, will continue to evolve over the next five to 10 years.

We need our R&D and our engineering to be prepared for that and our platform to be prepared for that because I think it will be a competitive advantage and will be increasingly difficult for SaaS companies to be able to keep

pace with that for their customers. We are prepared in investing in that future. You see that in our recent announcement in the last quarter, that data residency will be available for all customers that are on paid editions, so standard, premium and enterprise.

We don't believe that data residency is a large scale sort of capital E requirement. It is a small customer requirement as well, for smaller German organizations that need their data to be in Germany. It's not just large German banks for example that have that requirement. That is a kudos to our engineering and infrastructure team. That's a non-trivial thing to do in a very large-scale SaaS platform and SaaS application but that is the future that we are building to be able to have those capabilities for customers that may only have 11, 12 or 13 users and to be able to do that economically for both them and for us.

Operator: Your next question comes from the line of Pat Walravens from JMP. Your line is open.

Q

Thank you so much, team. This is [indiscernible] (52:31) on for Pat. Appreciate the question. So first, I wanted to dig in on IT and ITSM and maybe just from a high level, why those make sense as a focus area. And then secondly, what have you learned in the early days of your premium and enterprise view strategy? Thank you.

Michael Cannon-Brookes

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

A

Yeah, again mate, I can take those. In terms of why IT and ITSM makes sense, look, we obviously have a long-term multi-decade now core strength in software teams, software and engineering teams and expanding out to designers and product managers and the people around the software creation process. Increasingly that has, both in terms of our movement as a company but also the larger industry scale trends, IT and software are increasingly blurring the lines between those two, right, development and IT. Those lines are increasingly blurring as they come together.

It used to be that software teams built something and IT teams ran it. Now you have software teams that are running services for themselves and you have IT teams that are building new capabilities as the world becomes ever more digital and software driven. We think it's an incredible strength of our company to be the only company that spans development, IT and the operations that exist either between those two or across all of those groups as they come together. You see that in Jira Service Management and all of the changes that we've made there and increasingly driving the more rapid pace of IT, as modern IT organizations move, as we like to say, at high velocity, the different speed and cadence to modern IT operations that we're really helping to drive, that a lot of the legacy and old school vendors don't seem to understand.

The strength of having the software teams there shouldn't be underestimated because all of this is coming together into a single spot. So that hopefully explains why we think it's a large and transformative area and why we have some strength to play there. It goes without saying I hope that the digitalization of everything, software and technology is the core competitive advantage for every single business nowadays.

We've seen that never more than in the last 12 months through the pandemic, right, where we had vaccines created digitally, huge logistical operations, lots of businesses in all parts of the world either becoming more digital or using the digital transformation to adapt in an incredibly fluid and challenging environment as we've had in the last 12 to 18 months. So you don't need to look any further than that to see why digitization and software as

an advantage for any business in any industry. And I think that puts us in a really, really core and strong position and we continue to lead in that area.

I can take the premium part of the question as well. Look, premium is obviously for our more advanced customers in whichever product line or SKU they're in or in all of them. Continues to have good traction in terms of there's the clear strategy as to why customers want more capabilities as their usage becomes more advanced. And again, it's part of our editions strategy that we've talked about both on the free end, which you'd remember that free is part of the edition strategy to continue to make it easier for customers to land into a new product or with Atlassian for the first time. And we have been – the journey that they can go on as they stay with us for hopefully a very long period of time through standard and premium and then up to enterprise if that's what their company needs. Again, enterprise went GA last quarter and continues to get very early but very encouraging traction in the largest organizations in cloud.

Operator: Your next question comes from line of Keith Bachman from BMO. Your line is open.

Q

Hey, guys. This is [ph] Dan (56:51) on for Keith. Thanks for taking my question. I wanted to ask quickly about the marketplace business. Obviously, this quarter benefited from the server and datacenter dynamics. But next quarter, it sounds like it will continue to be impacted by some lower take rates. So how do you think about marketplace growth in a more normalized environment? Thank you.

[indiscernible] (57:38)

Scott Farquhar

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

A

Yeah. James can chime. Look, I mean clearly, this quarter, we had the pull-forward effect when our marketplace revenue is recognized 100% at the point in time when it is sold, whereas other revenue is spread ratably across different time periods, depending on if it's server, datacenter, or cloud. But because you don't have ongoing obligations for our marketplace revenue, it's recognized up front. So what you do see is more variability around marketplace. It sort of swings in the revenue line item that we have than you would see in other areas.

Look, in terms of marketplace growth, we have a amazing marketplace in our behind-the-firewall on-premises products, and we have an amazing marketplace in our cloud products as well. We've seen a huge number of our vendors move from, I guess, their behind-the-firewall business to cloud, along with our customer transition. So they are being weighed by our customers as well who are moving across. And as you mentioned, we've reduced the take rates for our marketplace to incentivize smaller vendors to move across. And that has worked, and we've seen vendors both transition their business across, and we're seeing a whole bunch of new vendors who are building only for our cloud platform.

So the marketplace continues to be a huge source of strategic strength for us at Atlassian. We know that customers who use our marketplace product are stickier than ones that don't. We benefit of the ecosystem that is built around it. We know that we can't build everything. Our products get used so widely, 200,000 companies around the world, and we can't build every use case for them. And so the marketplace manages to fill in areas that we can't do. And so again, the customers benefit from that. So I see the marketplace to be just as important. I know it is just as important as our cloud business, as it has been historically in our behind-the-firewall business.

Operator: There are no further questions at this time. I'll turn the call back over to Scott Farquhar for closing remarks.

Scott Farquhar

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

Thank you to everyone for joining our call today. We appreciate your ongoing support. I'll be on holiday with my family next earnings call, maybe tracking some emus across Australia. And so, Mike and James will be holding down the fort for the Q4 call. I hope you and your loved ones remain safe and healthy.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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