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# EDITED TRANSCRIPT

TEAM - Q2 2020 Atlassian Corporation PLC Earnings Call

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## OVERVIEW:

Co. reported 2Q20 YoverY revenue growth of 37%.



## CORPORATE PARTICIPANTS

**James A. Beer** *Atlassian Corporation Plc - CFO*

**Jay Simons** *Atlassian Corporation Plc - President*

**Matt Sonefeldt**; *Vice President, IR*

**Michael Cannon-Brookes** *Atlassian Corporation Plc - Co-Founder, Co-CEO & Director*

**Scott Farquhar** *Atlassian Corporation Plc - Co-Founder, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

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**Heather Anne Bellini** *Goldman Sachs Group Inc., Research Division - MD & Analyst*

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**James Derrick Wood** *Cowen and Company, LLC, Research Division - MD & Senior Software Analyst*

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**Keith Weiss** *Morgan Stanley, Research Division - Equity Analyst*

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**Luv Bimal Sodha** *Jefferies LLC, Research Division - Equity Associate*

**Michael Turits** *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

**Nikolay Ivanov Beliov** *BofA Merrill Lynch, Research Division - VP*

## PRESENTATION

### Operator

Good afternoon. Thank you for joining Atlassian's earnings conference call for the second quarter of fiscal 2020. 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 Matt Sonefeldt, Atlassian's Head of Investor Relations.

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### Matt Sonefeldt; Vice President, IR

Good afternoon, and welcome to Atlassian's Second Quarter Fiscal 2020 Earnings Conference Call. It's great to join this incredible team. On the call today, we have Atlassian's Co-Founders and Co-CEOs, Scott Farquhar and Mike Cannon-Brookes; our Chief Financial Officer, James Beer; and our President, Jay Simons.

Earlier today, we issued a press release and a shareholder letter with our financial results and commentary for our first -- for our second quarter of fiscal 2020. These items were also posted on the Investor Relations section of Atlassian's website.



On our IR site, we have also posted a supplemental presentation and data sheet. During the call, we'll make brief opening remarks and then spend the remainder of time on Q&A.

Statements made on this call include forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made. Further information on these and other factors that could affect the company's financial results are included in filings we make with the Securities and Exchange Commission from time to time, including the section titled Risk Factors in our most recent 20-F and quarterly report on Form 6-K.

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

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

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**Michael Cannon-Brookes** - *Atlassian Corporation Plc - Co-Founder, Co-CEO & Director*

Thanks, everyone, for joining the call today and for your continued support. Q2 was a strong quarter. We grew revenue by 37% year-over-year and posted record levels of profitability and free cash flow. We also added over 5,000 net new customers during the quarter and now have well over 164,000 customers.

During Q2, we made continued progress against our long-term goals. We are constantly focused on long-term opportunities, including how we help teams collaborate through our products, how we win in large markets and how we continue to scale a durable business.

This quarter's product highlights connect to those themes. We passed \$1 billion in lifetime revenue through the Atlassian Marketplace. Driving customer value through a large developer ecosystem has been one of our continued long-term focuses. The launch of Forge, our new cloud app development platform, reinforces the value we create for customers by making it easier and cheaper for developers to build cloud apps on the Atlassian platform.

We do have bittersweet news to share this quarter. Our long-time President, Jay Simons, has decided to leave Atlassian in July for new adventures. Jay helped us pioneer our unique, low friction, customer-centric business model over the last decade. He's also built an incredible sales and marketing leadership team to continue to drive that growth. Jay is a permanent part of our culture. And while we have a few months left to ensure a smooth transition, we'll miss his presence in the office dearly.

We provide more detail on these announcements and many other updates in our shareholder letter that we issued earlier today. And with that, I'll pass the call to the operator for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Derrick Wood with Cowen and Company.



**James Derrick Wood** - Cowen and Company, LLC, Research Division - MD & Senior Software Analyst

James, I wanted to ask about a comment in the shareholder letter about the pull-forward effect. And you did mention that you pulled forward from second half '20 and fiscal '21, but you did raise the fiscal year guidance by more than your Q2 beat. So just trying to get a little sense of where that shows up? I suspect maybe more on the bookings and deferred and billings side. If you could give us any color on how to think about the impact to billings growth as we move into the second half, that would be helpful.

**James A. Beer** - Atlassian Corporation Plc - CFO

Sure. Well, first of all, I'd like to start by saying how pleased we were with the overall level of demand right across the organization, across our products, across our deployment options, and indeed, across our geographies. And so yes, there was some pull-forward activity that played out in Q2. But even with that, we were pleased to be able to record the revenue result versus our original guide.

And in terms of the guide for the full year. Yes, you're quite right. We were able to add both the degree to which we beat in the quarter as well as some additional monies. And that's really reflective of our overall level of confidence in the top line environment.

So in terms of the billings part of your question. The first thing I'd really like to also remind you of is, as we've talked quite a few times in the past, we really focus on revenue as our primary top line measure, and that's because our model is really quite different to that of the typical enterprise software company. Recall what a significant proportion of our business is booked on an annual cycle, either maintenance or annual subscriptions. And in fact, our cloud business, recall more than 3/4 of that, is recorded on a monthly subscription. So that very much illustrates our orientation towards the revenue line. That said, clearly, the deferred revenue accounts give you a sense for the degree of the pull forward in addition to what I would put at about a \$10 million beneficial effect at the revenue line.

If you look at the deferred revenue lines and contrast historical activity sequentially quarter-to-quarter, you can pull out that there's a pull-forward benefit in the aggregate of approximately \$50 million, 5-0. And I would expect that to most -- primarily draw -- reflects that revenue would be drawn away from Q3. But the long-term deferred revenue results and the sequence of that line item also gives you a feel for the amount of activity that we booked in Q2 that was relating to contracts that will become earned more than a year from now.

So take a step back. Yes, pull forward activity, both in the revenue line and the deferred revenue lines. But still very pleased with the underlying organic revenue growth rate that we generated across our product set.

**Operator**

Your next question comes from the line of Nikolay Beliov with Bank of America.

**Nikolay Ivanov Beliov** - BofA Merrill Lynch, Research Division - VP

James, I was wondering if you can comment on the behavior of the data center customers in the quarter [indiscernible] to your expectations in light of the -- that they had the first price increase there. And long-term DR came in probably a little bit higher than we thought and my understanding was that you were consciously trying to limit the number of multi-year kind of like a grandfathering of deals. So I was just wondering what you saw there?

**James A. Beer** - Atlassian Corporation Plc - CFO

Yes, sure. Certainly, our data center business had a strong quarter. We've recorded an impressive volume of new unit sales. But you're right, yes, this was the first price increase that we had rolled out for our data center products a few months back. And so we did see pull-forward activity related to our data center customers. These customers tend to be larger than the average for us. And I think the degree of second quarter activity



in terms of our pull forward is somewhat related to the fact that those types of companies, larger scale companies, take a little longer to get through their decision-making and approvals process.

I think it's also important to note that our partners had an important role to play in the pull-forward activity generally. And we've seen this in prior years. I think we've talked in the past about we have a significant proportion of our total partner base located in Europe and Asia. And so we saw quite significant pull-forward activity there being driven by those entities.

Yes, we had reduced the length of a renewal, an early renewal from 3 years which was the case last year, down to a 2-year maximum this year. But the long-term deferred revenue result just really illustrated the depth of demand, the interest level in committing to Atlassian's products for the longer term. And this was very much illustrated in the data center business, in particular.

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#### **Operator**

Your next question comes from the line of Ittai Kidron with Oppenheimer.

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#### **Ittai Kidron - Oppenheimer & Co. Inc., Research Division - MD**

Congrats on a great quarter, great results. I just -- again, regarding the pull-in effect. I guess I'm trying to take a different approach here. I'm sure that every year when you try to figure out what the price adjustments are you going to make before the calendar year-end, you have certain outcomes in mind. And clearly, this exceeded your expectations quite materially. I guess what can I learn from that on what was your ultimate price adjustment? Could it be that -- why can't I read this to mean your price increases were quite significant and just forced a signal -- a greater portion of your customer base to pull in than otherwise?

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#### **James A. Beer - Atlassian Corporation Plc - CFO**

Well, as we've spoken about before, when we rolled out those price increases for FY '20, we expected the total aggregate effect on our revenue growth rate in fiscal '20 to be about the same as that, that we saw in fiscal '19. And that breaks down across our deployment options a little differently.

So as we've just been mentioning, this is the first year for data center price increases. Server price increases we're driving approximately similar outcome in fiscal '20 versus fiscal '19. And on the cloud side, we projected a lesser impact on revenue growth rate in fiscal '20 versus fiscal '19. And things continue to play out along the lines of our original expectations.

So nothing particularly to observe there. I think the pull-forward volumes that we saw are really just illustrative of the effectiveness of our partners. They're clearly expecting the price increases that we rolled out 3 or 4 months ago now. And they have taken that as a specific event that has allowed them to drive an additional level of sales activity in their markets. And again, we feel -- so that's just illustrative of the underlying demand for our products and the desire to commit to them over the longer term.

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#### **Jay Simons - Atlassian Corporation Plc - President**

And maybe the only thing to add, Ittai, and we've said it before, like, naturally, in any given year, there's lots of puts and takes. Like some products are going to move up, some are going to stay the same. Some tiers of products will move up, some will move down. So there's sort of lots of different dials that were turning. Just a reminder that the pricing philosophy for us is bedrock and that doesn't change. We want to remain the high-value, low-price leader. Give people ways -- customers easy ways to start and lots of great ways to grow with us. There's absolutely no change there.

And I think maybe another question you're not asking or maybe asking or someone will ask later, customer response to all of those changes is in line with expectation, I think that's the result of the time that we put into planning these changes and the really customer-centric, customer-friendly approach to how we deploy them.

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**Ittai Kidron** - *Oppenheimer & Co. Inc., Research Division - MD*

Very good. Good luck. And thanks, Jay. Good luck to you going forward.

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**Jay Simons** - *Atlassian Corporation Plc - President*

Thanks.

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**Operator**

Your next question comes from the line of Keith Weiss with Morgan Stanley.

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**Keith Weiss** - *Morgan Stanley, Research Division - Equity Analyst*

Very nice quarter. I had a question about sort of the subscription growth as it relates to maintenance growth. And what I mean by that is subscription growth has been really dead solid at 50% plus growth. You guys continue to drive that really well. Maintenance growth hasn't diminished at all because of the sustained really solid 20%-plus growth there. I was always under the impression that sort of part of this price increases was kind of a carrot-and-stick approach, trying to push guys from on-premise into the cloud. It doesn't seem like there's any real [dedication] in that maintenance space. Does any of the subscription strength come from maintenance customers switching over or will we see that at any time in the future? Just become more of like maintenance customers pushing over towards more cloud solutions?

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

Yes, Keith, thanks for the question. You're right. Certainly, the maintenance line continues to be quite steady. Now there are a few things going on within that line. First of all, we continue to be quite pleased with the progress of the rate and pace of customers coming over from our behind the firewall options: server, data center; over to the cloud. And so within that maintenance line that obviously is reflective of server renewals, we're benefiting now from 3 or so years of price increases. And so that's offsetting the natural gradual decline in the unit volume as some of those customers move over to the cloud.

Absent that effect, we continue to record very high renewal rates for the rest of the customers who continue to utilize our server products at the moment.

The other line, I just sort of really more draw your focus to is, of course, the new -- the license line for the revenue accounts. And that's where the new server based activity is recorded, either a brand-new customer or a current customer adding additional new licenses. And while we certainly have a good number of those current server customers expanding the license count with us, a part of what we were doing with our pricing strategies, particularly this past year, was to make sure that there was every incentive available for our brand-new customer to Atlassian to choose the cloud. And so not surprisingly, you would expect to see that license line gradually decline over time.

Now in this past quarter, Q2, we recorded a low teens growth in that line. And so that was really more of a driver from the pull-forward activity that we've been talking about quite a bit on the call already, combined with, of course, the effect of recent years' price increases.

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**Operator**

Your next question comes from the line of Rishi Jaluria with D.A. Davidson.



**Hannah Rudoff** - D.A. Davidson & Co., Research Division - Research Associate

This is Hannah on for Rishi. I'm just following up on the previous question.

(technical difficulty)

could talk about what kind of conversion rate and success rate you've been seeing.

(technical difficulty)

[free] cloud trials for existing [on-premises] customers. If you have any quantitative color you can give

(technical difficulty)

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**Jay Simons** - Atlassian Corporation Plc - President

Rishi (sic) [Hannah], it's Jay here. No specific quantitative color other than qualitatively, we're really happy with how it's performing and how it's opening the aperture on more and more customers beginning to try the free editions of products that we've introduced. And over the long term, that's a good thing. It just means we're getting more people to try the product that we can grow.

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**James A. Beer** - Atlassian Corporation Plc - CFO

And while it's early, we would continue to look to the guide that we laid out when we started the fiscal year as to the impact of free on the revenue economics of the company this year.

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**Operator**

Your next question comes from the line of Alex Kurtz with KeyBanc Capital Markets.

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**Alexander Kurtz** - KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst

Yes, if we just look at the subscription growth of 50% in the quarter. Obviously, we spent a lot of time here talking about the pull-forward effect. But maybe dive into expanded seats, new product expansion, different types of larger customers, anything else that we can kind of look at beyond just the price increase and what may have happened this quarter?

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**Jay Simons** - Atlassian Corporation Plc - President

I would say, all of the things that you mentioned were at play in the quarter as they should be. I think for the type of quarter that we turned into, in addition to the pull-forward effect that James mentioned, just the underlying performance of the business is -- was where we wanted it to be. So no specific rabbit holes to chase on any of those things. They were all working in the way that we wanted.

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**James A. Beer** - Atlassian Corporation Plc - CFO

Yes. And just on the pull forward, there would be a modest element of that \$10 million revenue total that I mentioned earlier from the pull forward that would accrue to the subscription line. Because recall that the data center business is accounted for there. And so that's what drives a little bit of pull-forward effect there. But the larger single beneficiary of the pull-forward revenue effect was, of course, the license line. And then I think, as we've talked about in the past, the other revenue line, that's where we record our portion of our app vendor partners' sales.



And oftentimes, we see customers when they're recommitting to our products, extending the term of our products, they tend to do the same thing with their different app vendor partners as well. And so that can drop some additional revenue into that other line.

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**Operator**

Your next question comes from the line of Arjun Bhatia with William Blair.

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**Arjun Rohit Bhatia** - *William Blair & Company L.L.C., Research Division - Analyst*

James, maybe this one is probably for you. But I think you had mentioned a 1% headwind from some of the cloud initiatives that you were rolling out this year during the Q4 call last year. If I look at the growth rate in the first half of the year, it's obviously held up very well. Definitely, I imagine to some of the demand trends that you've been talking about. But is there any reason that we should think that, that 1% headwind from the cloud initiatives plays out in the back half of the year or should we think of that as being embedded in the first half numbers that you've put up already?

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

Well, thanks for the question. Just a reminder as to the 3 elements of that 1 point of revenue growth headwind that we talked about when we did our initial fiscal year guide. So the first point was that we saw something of a change in our mix as we saw -- as we expected, more cloud growth relative to our other deployment options. So that has something of a rev rec effect, particularly when you think about one of my earlier points in that more than 3/4 of our cloud customers take a monthly subscription. So that was the first thought.

Second, that we were rolling out free editions of both Jira Software and Confluence, and then also that we were offering free trials of our cloud products to customers who currently utilize our server products and so forth. So those were the 3 drivers. And I think it's fair to say that the 3 elements of those -- so 2 of the 3 drivers would be more relevant to the back half of the year because the free editions have been gradually rolled out in recent times, and we would look to continue to build up that gradual rollout as the year proceeds.

The mix effect, that's really much more of a gradual effect felt throughout the year.

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**Arjun Rohit Bhatia** - *William Blair & Company L.L.C., Research Division - Analyst*

Congrats on the quarter.

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

Thanks.

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**Operator**

Your next question comes from the line of Heather Bellini with Goldman Sachs.

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**Heather Anne Bellini** - *Goldman Sachs Group Inc., Research Division - MD & Analyst*

Jay, congrats and best wishes on your future endeavors. I had a question. I wanted to start with Mike. I was wondering if you can give us your view of how you see the market for collaboration software evolving. And there's a lot of companies going after the market from different parts or different angles. And I guess I'm wondering, how do you see these converging at some point down the road, do you see that happening? And if so, how do you see it playing out? And also, how are you feeling about the pace of adoption that you've seen as you start to add some of these adjacent



offerings such as Trello and Opsgenie? How have them -- they've been doing kind of versus what you would have expected? And then I've got a follow-up for James.

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**Michael Cannon-Brookes** - *Atlassian Corporation Plc - Co-Founder, Co-CEO & Director*

Look, Heather, it's great to get a question and give James a little break. Look, I mean, on the market side of things for collaboration, I still think we're in very early innings, right? If you think about knowledge workers, how much work is still done in spreadsheets and e-mail and other documentations as both knowledge workers digitize, business processes digitize in all departments in companies around the world. There's a reason that we talk about targeting Fortune 500,000 and the 800 million to 1 billion knowledge workers on the planet today, let alone that number itself growing. We obviously feel very good about where we're positioned and how that market is evolving in lots of different spaces from Trello, all the way up through Jira Software across Confluence and JSD, horizontally, et cetera. So I think we're incredibly bullish on the overall space and opportunity.

If I had to thread between that and your question on Opsgenie and Trello and other things in terms of adoption across our base, I would go back to our long-term philosophy, right? As per James' answer on free, on the previous question, we're rolling that out pragmatically across the base and across the products over Q2 and then through Q3 and Q4 as we learn, right? We're big on test, measure, learn, taking slow, steady steps and learning and moving forward. It's no different when it comes to integration of acquisitions, it's no different when it comes to new products. Part of the durability and strength of our business has been creating a very efficient business over a long-term that's patient and thinks about the future. It's no different when it comes to integrating Trello, integrating Opsgenie, et cetera. Obviously, we've got some great Trello numbers and Opsgenie numbers in the letter. We're very excited about where both are. And both were great product additions to our family for the long term. But at the same time, we think about them over a 5- to 10-year time frame and doing the right thing by the customers over the long term.

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**Heather Anne Bellini** - *Goldman Sachs Group Inc., Research Division - MD & Analyst*

Okay. Great. And then, James, I had a follow-up for you. You gave some very helpful color, so thank you, in regards to the pull forward on revenue and on the deferred revenue line as well. So that was helpful. I just want to make sure, just kind of thinking through expectations here and based on some of your comments about how the pull forward is going to impact the second half of this fiscal year and then next year, is it reasonable for us to be assuming that the sequential growth in short-term DR in the March quarter is going to be less than what you experienced in Q3 last year? And I bring it up just because that was a period where similarly you obviously had a great December, and I know you guys measure yourself on a revenue basis. But then there was a lot of confusion in March. So I'm just trying to think through kind of where would you kind of be helping us think through expectations just given how enormous this quarter was.

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

Yes, Heather, as you say, we don't guide to that line. But directionally, the deferred revenue sequentially in Q2 was obviously very strong. And so of the order of about \$25 million more than was the case in Q2 of last year. And recall that Q2 of last year was the quarter in which we saw effectively the totality of the pull-forward effect. And so we'll see how demand plays out in Q3. As I've said, we've been quite pleased with the underlying strength, generally, absent this pull-forward effect. But clearly, we do believe that there was a material volume, that \$50 million-type figure that I referred to a little earlier, that is sort of outside the normal sequential deferred trend line.

And one of the other things that I think is relevant to how you're asking the question is that whereas in some years past, this pull-forward effect has been really very largely a renewals effect. This year, we saw more of a balance, I would say, between renewals accounting for about 2/3 of the total and about 1/3 of the pull-forward effect really in our judgment coming from new activity. It's easier for us, obviously, to tag the renewals. We know exactly when a customer is due to renew. And so we can contrast that with when they actually do renew. But we also look in great detail at the trends around our new business. And so hence, my comment about 2/3 renewal, 1/3 new activity.

But that latter element is harder to predict. So we'll see how much, particularly our partners to have really driven this pull-forward activity pretty consistently over the last 3 years. It's really not driven by our "direct to the website type" business. We'll see how that activity plays out in the fullness of time.

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**Operator**

Your next question comes from the line of Brent Thill with Jefferies.

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**Luv Bimal Sodha** - Jefferies LLC, Research Division - Equity Associate

This is Luv Sodha on for Brent Thill. Congrats on the quarter and congrats to Jay. It's been great to speak with you over the years. I had 2 quick questions. One was on the M&A strategy. This quarter has been a solid quarter in terms of cash flow generation. So could you maybe talk about how you were thinking about deploying that cash over the next few years? And whether the philosophy is still doing tuck-ins or whether you're sort of thinking about doing something really transformational on that side?

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**Scott Farquhar** - Atlassian Corporation Plc - Co-Founder, CEO & Director

Right. Thanks for the question. It's Scott here. I'll just remind you like, we have a -- we're really proud at Atlassian. We have built out the capability to build products internally, which we've shown over a long period of time. We have an ecosystem and marketplace that allows us to augment our products with things created outside of Atlassian. (inaudible) \$1 billion of lifetime sales. And we've -- one of my proudest moments of doing this job is when you meet people outside the business who have built their entire careers building it around Atlassian. And of course, we have the ability and track record of bringing in acquisitions and successfully introducing them to our existing customer base and integrating with our products to create a solution and an experience that is harder to do outside having the products under our stable.

So we've got a pretty good track record of M&A. We've done dozens of acquisitions over time. We have a great team here. And I'm always reminded that the statistics are against companies having accretive shareholder value through M&A. So we're always very careful about how we think about it. Culture fit's the most important thing that we think about, first and foremost. Then we look at, do they share our mission. Our mission is to unleash the potential of every team. And so can we accelerate their mission by bringing us together. And then we look at, do they have a similar business model to us. And afterwards, we then look at geographic footprint, and technology and so forth. So that's the philosophy we take and I think we've done a really good job.

As to looking forward, as you would know, we wouldn't be talking about any potential candidates on our -- on a call like this. But just know that, over time, we'll continue to do M&A in a similar fashion to what we've done historically.

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**Luv Bimal Sodha** - Jefferies LLC, Research Division - Equity Associate

Great. And just one quick follow-up. I know margins were really strong. And obviously, some of that was because of the head count that you guys are pushing that into the back half of the year. But over the longer term, should we expect to see sort of more leverage on -- especially on the R&D side in terms of -- on the margin expansion?

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**James A. Beer** - Atlassian Corporation Plc - CFO

No, I would just reiterate really what we've been saying now for some time, and that over time, we would expect the opportunity to expand our free cash flow and operating margins. But we are very focused on this very large market that is in front of us. We're exceptionally well positioned to go after it. And we want to make sure that we're making the right moves that will allow us to do so to the best of our ability, and that will be a very good outcome for our shareholders in our view. So no change in our perspective around margins.

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**Operator**

Your next question comes from the line of Michael Turits with Raymond James.

**Michael Turits** - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

Of course, Jay, congrats and good luck on all things. Two questions. First one for Mike and Scott. A lot of the development and acquisition has been, let's call it, on the ops side. And yet you do have lots of products in the more technical dev side, what you call, co-built and shipped, Bitbucket, SourceTree, Bamboo. And there's been a lot of visibility of companies in that space building consolidated platforms. Can you talk for a minute about your strategy in that more developer centric side of the business?

**Scott Farquhar** - *Atlassian Corporation Plc - Co-Founder, CEO & Director*

Thanks for the question, it's Scott here. Yes, that's called -- DevOps is the trend and the name that people are giving to that. And just a reminder to people who aren't maybe familiar with exactly what that is. You've seen a trend in companies over the last 10 to 20 years where due to the changing pace of business, you see more and more departments working hand-in-hand with each other. And we saw that 20 years ago with Agile, which was software developers working closely with business analysts and then the business side in order to make things happen faster and more effectively. And what we're finding now is that as customers move to the cloud, as they start building, more and more software becomes part of their business, that you're seeing the development teams and the operations team, those people supporting the software that's running -- they're coming closer together in order to make faster cycle times.

And as a sort of any relatively nascent market, there's a lot of noise around it. There's a lot of different people doing very small point things. And the part that we play really well in, which is what we've always played well in, is having a broad portfolio of products. And the advantage of that is that those portfolio of products touch people across the entire life cycle.

And so when we look at DevOps, we don't just look at it how the dev and ops get together. It's okay, well, how do the entire business understand what is happening and bringing all that together. And if you look at our product portfolio, it runs all the way from business people using Confluence to write requirements and discuss what the customers need, all the way through to Opsgenie, which is waking people up overnight if something goes wrong.

And because we cover that broad base, that's why customers turn to us because our customers aren't looking for just very small point solutions.

Now whether there's new things in the market because it's changing, we have an ecosystem, integrations and a partner network, all that allow us to work and collaborate with those point solutions that don't make sense for us to build out or they're nascent. And customers look to get Atlassian to sort of be the backbone for how work moves across their organization, even if there are maybe slightly [indiscernible] work that get used in niche products.

**Michael Turits** - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

Okay. And then very, very quickly for James. I think you made similar commentary on this last year. But you did say pull forward out of fiscal '21 as well. So how should we think about that at this point, which is obviously early?

**James A. Beer** - *Atlassian Corporation Plc - CFO*

Yes. So obviously, the long-term deferred revenue kind of gives you a sense for what will play out in the second half of fiscal '21 in terms of that roll off activity. And then in the short-term deferred revenue line, again, I think of Q3 as being the primary donor quarter of revenue into Q2. And then other effects -- lesser effects in Q4 of FY '20 and the first half of fiscal '21.

**Operator**

Your next question comes from the line of Jack Andrews with Needham.

**Khanh Minh Ngo** - *Needham & Company, LLC, Research Division - Research Analyst*

It's Khanh Ngo filling in for Jack this afternoon. You guys made some previous comments that you don't expect material revenue in FY '20 for Cloud Premium for Jira Software. Can you provide an update to the impact on the quarter of Cloud Premium? And separately, for those that do choose to upgrade, what's the typical uplift?

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

So I'll take the first part, no change to our view that Cloud Premium products, Jira Software, Confluence, JSD, we're very pleased with our launch of those products. But I wouldn't expect those to have a material impact on our fiscal '20 revenue.

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**Jay Simons** - *Atlassian Corporation Plc - President*

Yes. And then the uplift is -- 2x is basically the entry point and then it diminishes there as you have more volume -- as you get into the higher tiers and have more volumes and users.

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**Operator**

Your next question comes from the line of Gregg Moskowitz with Mizuho.

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**Gregg Steven Moskowitz** - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Congrats, everyone, on the quarter. And Jay, you've been a tremendous asset to Atlassian, best of luck in whatever you do next. So for Mike or Scott, given that we're beginning a new calendar year, customer budgets being reset, strategic priorities being mapped out, et cetera, I'm curious to hear your expectations as it relates to adoption of DevOps as well as broader collaboration across IT. Are you expecting continued steady progress? Or are there any changes in trajectory that you think we could see in 2020?

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**Michael Cannon-Brookes** - *Atlassian Corporation Plc - Co-Founder, Co-CEO & Director*

Yes, mate, it's Mike. Look, I think, continued steady progress is what we expect to see. Obviously, development as a whole, the creation of software, technology-driven businesses, extending into DevOps and how that flows through the rest of the business is a growth area of investment for companies large and small all around the world. So that's a great space to be in. And our products that then work off that as we work to more and more teams is a very strong space. But I don't expect to see any major changes in that at a broad scale.

From our perspective, obviously, we continue to see, advocate for and feel pull from the customers over the move from server and on-premise products to the cloud, and that's something that we continue to talk about, continue to see and continue to work with customers to manage that sort of decade-long transition that's happening there. I think we're doing a really good job at the moment, but there's always work to be done. And you can see that in our continued enterprise releases on the cloud side, continued releases of migration tooling for our customers and our partners to help those companies to move to the cloud and get access to all of those features and the benefits of running the software in their cloud. And you've seen us over the years, continued to really support premium, as we just talked about. Access, which is a great product for Atlassian and for the customers in terms of protecting their users and content across a large number of cloud services. And then things like pushing the [scale] limits and other things to the cloud as well as our channel and other things moving in that direction. So that's probably the biggest move we're going through and expect to see continued momentum of this year.

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**Gregg Steven Moskowitz** - Mizuho Securities USA LLC, Research Division - MD of Americas Research

That's great. And then just maybe a quick one for James. It's hard, frankly, to find much to pick at this quarter. But your net new logo was up 5,000, were a little lower, I believe, in the year ago period. Just wondering if there's anything that you would attribute that to?

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**Jay Simons** - Atlassian Corporation Plc - President

I might take that, Gregg. I mean as we said before, customer count can fluctuate quarter-to-quarter. But this quarter is in the range with where we're really pleased and it's healthy growth year-over-year at 17%. Some of the fluctuations in any given quarter, up or down can be influenced by pricing and packaging changes. We've talked about things like new monetization levers in Trello, naturally free plans in cloud, and we talked about the headwind effect on revenue. And so those things can be puts or takes in customer count. We're pleased with the early signals from some of those long-term moves like free plans, as we mentioned earlier. And that's ultimately going to add to the long-term growth opportunity that we focus on at Atlassian.

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**Operator**

(Operator Instructions) Your next question comes from the line of Keith Bachman with Bank of Montreal.

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**Keith Frances Bachman** - BMO Capital Markets Equity Research - MD & Senior Research Analyst

James, I wanted to target this question to you, if I could. And it really relates to the March quarter revenue guidance and the question is, what's different from last year? And what I mean by that in the context of, if I think about the December '18 quarter, the timing of the price increase was roughly the same. The impact of the price increases was roughly the same, probably a little bit higher in the December '18 quarter. And yet, if I look at the -- and if I look at the revenue and sequential growth in December '18, it was about 12%. You guys did a little bit better than that this quarter. And yet, you're guiding revenues to decline sequentially in the March quarter -- March -- this March '20 quarter. Last year, you actually grew sequentially off the same sets of attributes I just described, over 3%. So I'm trying to understand why you think revenues will be down 3% when in similar circumstances last year, revenues actually grew sequentially 3%?

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**James A. Beer** - Atlassian Corporation Plc - CFO

Yes, Keith, I'd really bring us back to this discussion of the pull forward activity that we've been talking of. Yes, we have that 1 point of revenue growth headwind that I referred to and broke out on one of the earlier questions. But the pull-forward activity is significantly more material to answering your question. And so really that's what I would point to. Recall that this was the first year where we had raised prices on our data center business. And that, as I indicated a little earlier, was really quite strong. Our partners around the world, but particularly those in EMEA or in APJ really took that on board. In fact, we have given them additional incentives to drive data center business as we think about the margin structure that we share with our partners. So really, that's what I'd point to as to the Q3 guide.

Again, we're very pleased to, from a full year guide perspective, have been able to add to our previous guide the full beat that we were able to record in Q2 plus additional monies beyond that as well. So quite pleased with the overall...

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**Keith Frances Bachman** - BMO Capital Markets Equity Research - MD & Senior Research Analyst

I guess, James, just to interject with... Yes, just to interject, if I could. It appears, again, last December quarter, you had pretty material pull throughs. In addition to it, the numbers just would seem to suggest that the guidance, even with those pull forwards, since the situation was similar last year, does seem a tad conservative. I'm just -- it may be what you said in terms of there was more new customer activity this year than perhaps renewals. But otherwise, it just seems extraordinarily conservative for the March quarter.

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**James A. Beer** - *Atlassian Corporation Plc - CFO*

Yes. Well, as you say, the new activity was a larger proportion of the pull-forward total than we have seen in the past. And so that's our judgment, and we'll see how much of that new activity, in essence, in Q2 was a replacement for what would otherwise have played out in Q3. But also, you'd consider that the deferred revenue increment that we recorded in Q2 sequentially was really quite substantially different to that we saw in the prior year as well. So those are the things that have helped us arrive at our expectation, and therefore, guide for Q3.

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**Keith Frances Bachman** - *BMO Capital Markets Equity Research - MD & Senior Research Analyst*

Okay. Jay, good luck to you.

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**Jay Simons** - *Atlassian Corporation Plc - President*

Thanks, Keith.

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**Operator**

Your next question comes from the line of Ari Terjanian with Cleveland Research Clinic.

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**Ari Nareg Terjanian** - *Cleveland Research Company - Research Analyst*

Yes, this is Ari from the Cleveland Research Company. Congrats on the great results. Two questions, if I may. First, just any update on demand for Jira Align and if you've seen any deployments there? And how you're thinking about it for 2020? And then just a bigger picture question. We hear more about on in our work, just people, -- partners using Atlassian as kind of a more generic low-code app development platform. Can you just give your thoughts on how you view Atlassian in that regard? And if maybe Forge is a further step in that path?

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**Jay Simons** - *Atlassian Corporation Plc - President*

Yes, this is Jay. I'll take the AgileCraft -- or the Jira Align question and then hand it over to Scott. We are really pleased, I think, with the results in the quarter and the continued demand that we see. And as we've said before, we feel like we're in a really good position to own the large-scale Agile transformation initiatives that are bubbling up at some of the world's largest companies. And this is the segment that we target with Jira Align. It's already a segment that is ripe with massive adoption of Jira at the team and tribe level. And so I think connecting all of that collaborative work that exists in Jira up to the strategic level of these big organizations is a huge and really important opportunity for us. And maybe one anecdote. Just a couple of weeks ago, we hosted 4 companies that were all Fortune 100 companies that took a day out of their busy schedules to just spend time with our field operations teams and talk about the work that we're doing with Atlassian broadly but also with Jira Align and the role that I just described. So short answer is, it's going great.

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**Scott Farquhar** - *Atlassian Corporation Plc - Co-Founder, CEO & Director*

Scott here. I'll just continue on the question about low code and Forge. We've been in the business for a while now. And one of the powers, and particularly Jira, but -- as most of our products is the flexibility that they offer. And we were chatting with a large Australian bank just last week. And their workflow across the bank are mission critical, all implemented inside Jira. And that's HR workflows, procurement workflows, it basically manages their entire business. And of course, that also helps [indiscernible] Jira Align. Like the more work that's in those products, the more you want to get a kind of top-down view on how and where work is happening.

And if you think of the ways we're investing there, indiscernible that's a huge opportunity for us to take more of these business workflows. We've invested in a simpler Jira interface, we call that next-generation Jira. And I'm -- it's delightful to use for everyone, it's business users can create drag and drop workflows, fields, get going really quickly. But the extensibility of Jira is where technical teams turn to because they can use it as a no-code environment, drag and drop. They can then augment that with low-code, as in -- by writing functions or integrations to other systems, and that -- the improvements we've made, as I said, with the UI ones and the interface. We've also, as you've seen, we've acquired a product in automation. And that's where we're seeing increasingly as customers put more and more work into our products, they want to make sure how do they reduce the amount of time they spend on that work. And so automation makes that a much more appealing thing for our customers. I've gone on for a very long time, but that is an area that we focus on. And of course, when you graduate then to actually coding, we have all the products that are available with all our Jira and all our DevOps products for those people that need to write kind of coding and integrated development environment.

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### Operator

Your next question comes from the line of Jonathan Kees with Summit Insights Group.

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**Jonathan Allan Kees** - *Summit Insights Group, L.L.C - MD & Senior Application Software Analyst*

Great. And I'll add my kudos, too. Congrats for the quarter. I guess I wanted to, among other things, get a confirmation. I'm listening to how you guys are talking about the quarter [on both the market,] where you are with the demand. You're talking about, it's a bullet -- you're bullish in terms of the market. You feel good in terms of where you're positioned. You're confident in terms of the strong demand. And is it fair to say then that you haven't seen much competitive thrusts or changes from some of your peers, including a very big one out in Redmond? And then also, especially since you're also talking about, you're still seeing a lot of spreadsheets, a lot of users are still on spreadsheets. Is this also fair to say that you still see a lot of greenfield opportunities? And lastly, another thing which is probably a challenge with other software companies, especially software companies [going] cloud is technicals -- [getting] technical staff. You're looking to ramp up. And you yourself say in your shareholder letter, it's ambitious, your R&D staffing for the second half. You're not going to make any changes in terms of where your R&D center is and your R&D hiring plans are going to be for the second half, is that also fair to say?

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**Michael Cannon-Brookes** - *Atlassian Corporation Plc - Co-Founder, Co-CEO & Director*

Jonathan, it's Mike here. There's a lot in that question. If I start from the back forward. Absolutely, look, we're -- if there are a few things that have defined Atlassian, it's a combination of our long-term focus, patience, openness with shareholders, staff and everybody else and our ambition to unleash the potential of every team.

This is a good example. As we wrote in the shareholder letter, we missed on execution this quarter when it came to hiring and some of the things inside the business. And that's not a good thing. That's something we've got to improve. And we're committing to continuing to do that. And we're open about doing that.

The R&D hiring environment. I think any company will tell you is not simple, not an easy thing to do. And we're trying to scale the company patiently, but urgently at the same time. And we're just being open about, sometimes we don't hit that. We didn't this quarter. We've got to redouble our efforts to do it next quarter and the quarter ahead. It doesn't get any easier from here. But sometimes, that's going to happen, and we're pretty honest about that.

From a competitive standpoint, look, Seattle has lovely coffee, that's important. We continue to treat competitors the same way we always have. We're very aware of what they're doing. At the same time, we focus on the customers and the value we deliver to them, and we've long believed if we continue to deliver great value products, and we're patient to show value to customers, it will come back to us in value for shareholders and for employees over time. We've demonstrated that over almost 2 decades now, and we don't intend to change that stance. It's baked into our business model. It's baked into the ethos and thinking of the founders and then hence, it's been baked into the company in our DNA at a very deep level.



Competitive environment will always shift. Development -- software development is a very competitive area. The collaboration space is a very competitive area. We're very positive on where we stand and we're going to attack that by focusing on our customers and making sure we're delivering value for them in their needs, whether those competitors are large companies, small companies, start-ups, open source projects, we'll continue to be aware of what they're doing and focus on delivering customer value.

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**Operator**

There are no further questions at this time. I will now turn the call over to Scott Farquhar for closing remarks.

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**Scott Farquhar - Atlassian Corporation Plc - Co-Founder, CEO & Director**

Thanks, everyone, for joining the call today. And we really appreciate all your support and look forward to keeping you updated on our progress. I hope you have a great rest of the week and an amazing weekend.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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