

Atlassian



What it does

Founded in 2002, Atlassian is an Australian developer of collaboration tools aimed at software developers and project managers. Its products help teams organise, discuss and complete their work; ultimately driving efficiency, time savings and reducing mistakes. Atlassian's stated mission is to unleash the potential in every team.

Why we own it

- 'Software is eating the world' – every business is affected.
- Explosive need for collaboration across organisations.
- A different business model with no direct salesforce, no quarter-end pushes with a large amount of automated sales.
- Interesting culture led by two committed founders who are focussed on the long-term.

How it could be worth many times more

Atlassian offers the premier tools for software development co-ordination globally. Capital-light, scalable business model thanks to largely self-service product offering to customers.

On a ten year view, the addressable opportunity is vast. Atlassian has under 200k paying customers and there are well over 50 million addressable customers (SME's and larger businesses) in the US and Europe alone. Atlassian has around 25 million active users and there are c.1bn knowledge workers globally.

Wider adoption of the core software development franchise – Jira, Bitbucket and Confluence – and a similar outcome in efforts within the broader enterprise beyond developers, see Atlassian's offerings becoming increasingly 'infrastructure-like'.

Salesforce's revenues are 10x higher. Oracle's are 20x higher. Atlassian's growth rates are accelerating and there seem few impediments to the company attaining commensurate scale.

Free cash flow margins currently >30% and gross margins 85% but massive operating leverage from here.

Where we might be wrong

- New forms of collaboration emerge which make Atlassian redundant.
- The big players focus more on collaborative software – Microsoft (Teams), Salesforce (Slack)...
- There is a natural ceiling to what customers are willing to pay.
- Founders change their spots and sell out, hire a large sales team etc.

Short 10 questions

Can sales double in the next five years? **1**

Plenty of room, revenues of \$1bn growing at CAGR >40%.

Ten years and beyond? **2**

Atlassian's products expand beyond developers and IT to the rest of the enterprise.

Competitive advantage? **3**

It works easily and it helps immediately. Provides a consumer type experience for enterprise customers.

Is the business culture different? **4**

Very long term and patient. No salesforce, very different. Collaboration is intrinsically adaptable.

Customers like you? Contribute to society? **5**

Transparent pricing – no haggling. 99% retention rate.

Are returns worthwhile? **6**

Yes, +80% gross margins and ROCE is often north of 50%.

Will they rise or fall? **7**

Operating margin continues to rise with scale.

How is capital allocated? **8**

Primarily on research and development, although acquisitions are getting bigger.

Could it be worth 5x as much? **9**

Sales growth accelerates, collaboration explodes and user growth and paying customers both rise rapidly.

What doesn't the market understand? **10**

Works under the radar in the back office. Unusual corporate structure; an Australian company but US listed.

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