In this time of massive uncertainty, one thing we are sure of is the direction we're headed. Atlassian stands on the cusp of an exciting new era as a cloud-first company. Cloud is where our customers overwhelmingly want to be, and where our future lies as an enduring company.

Throughout this journey, we've remained focused on using our cloud platform to build products that unleash our customers’ potential. The three interconnected markets we play in – agile software development, ITSM, and work management – amount to $126 billion in annual spend and 1.1 billion users globally across the markets for technical and non-technical teams. We will continue to win by delivering a world-class cloud platform that ties together the kaleidoscope of 1st- and 3rd-party products that organizations need to manage their work.

And we're making bold choices so we can do it faster.

**In this 6-pager**

1. The cloud transforms Atlassian's business.
   - Cloud is already a strong business, driving over $850 million in ARR and a 121% net expansion rate.
   - Migration creates a win-win opportunity with our 30,000 server customers.
   - Subscription revenue is our present and future. We expect to achieve subscription growth in the mid-30s% in both FY21 and FY22.

2. The cloud transforms the value Atlassian delivers for teams and customers as digital transformation accelerates.

3. The cloud transforms how we innovate through a best-in-class development platform.
Our cloud business is strong, and getting stronger ⚽️

Cloud already drives a ton of business: over $850 million ARR as of Q1 FY21, up 35% year-over-year. At the heart of it are millions of engaged users and over 160,000 paying cloud customers.

95% of new customers choose our cloud products, but the story gets even better. **Cloud customers expand their number of paid users 20% faster than server customers**, and our cloud net expansion rate was 121% at the end of Q1 FY21 (for those keeping score, the SaaS industry mean is 117%). When we look at just medium and large-sized customers our net expansion rate jumps up to 130%. Looking at this 🌈 cohort chart, we can see consistent expansion over time for all our cloud customer cohorts – especially after forking our code and moving cloud to a multi-tenant architecture on AWS in 2016.

Cloud customer expansion over time

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**Cloud Annualized Recurring Revenue (ARR)** is calculated by multiplying the cloud monthly recurring revenue (MRR) on the last day of a particular period by 12 for products deployed on Atlassian's cloud platform and represents the annualized revenue run-rate of active subscriptions at the end of a reporting period.

**Net Expansion Rate (NER)** is calculated at the end of any particular period by dividing (i) ARR as of the last day of that period from those customers that were also customers as of the last day of the same period in the prior fiscal year by (ii) the ARR from all customers as of the last day of the same period in the prior fiscal year. Our NER as of Q1 FY21 does not include the impact from Statuspage, Opsgenie, Jira Align and Help. Medium and large customers net expansion rate calculates the NER for customers that have 250+ employees.

Everybody wins in the cloud 🏆

Cloud is a win-win for customers and for Atlassian. Customers get the benefit of 1,200 daily code deployments, data-driven product innovation, and lower total cost of ownership (TCO). In return, Atlassian realizes stronger economics as we share in customers' growing productivity gains. Here's how it breaks down for each segment:

🌱 SMALL CUSTOMERS
(57% of server customers, <100 seats) – This segment will see relatively small changes in pricing, and in some cases could experience decreases when moving from server’s pricing tiers to per-user pricing on cloud.

🌵 MEDIUM-SIZED CUSTOMERS
(27% of server customers, 100-500 seats) – These customers will see greater price increases when they move to standard edition, consistent with the value created by our cloud offerings.

🌳 LARGE CUSTOMERS
(16% of server customers, 500+ seats) – Pricing changes will be most significant for this segment, but these changes will be gradual and offset by the three-year loyalty discount program designed to ease customers through their transition: a 55% reduction off the list price in FY21, 40% in FY22, and 20% in FY23.

Today, we have approximately 30,000 customers using at least one server product, which accounts for approximately 35% of total revenue. Of course, that will decline to 0% as server customers migrate to cloud and data center over the coming three years. As customers move to the cloud, Atlassian products offer some serious bang for the buck. Compared to competitors and peer companies in the SaaS space, Atlassian is higher volume and higher value – and we don't intend to change that.

1 - Loyalty discounts are only available for server customers with 1,000+ users, which is a subset of the "large customers" segment shown above.
Examples of customer pricing

**Jira Software**

**Smaller Customer Segment**

- **Small Customer Segment**
  - **<100 Seats**
  - **Server Maintenance** 50 user server tier (26-50 users) annual maintenance
  - **Cloud Equivalent** 30 users - monthly billing (per-user-pricing) - Cloud Standard

- **Medium Customer Segment**
  - **100-500 Seats**
  - **Server Maintenance** 250 user server tier (101-250 users) annual maintenance
  - **Cloud Equivalent** 125 users - annual billing (100-200 user tier) - Cloud Standard

- **Large Customer Segment**
  - **500+ Seats**
  - **Server Maintenance** 10,000 user tier (2,001-10,000 users) annual maintenance
  - **Cloud Equivalent** 2,200 users - annual billing w/ loyalty discounts Cloud Standard

**Large Customer TCO Comparison**

- **Hosting Costs**
- **System Admin Costs (FTE)**
- **Cloud Annual Subscription**

<table>
<thead>
<tr>
<th>Year</th>
<th>Server Maintenance</th>
<th>Cloud Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$25,200</td>
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</tr>
<tr>
<td>Year 2</td>
<td>$25,200</td>
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</tr>
<tr>
<td>Year 3</td>
<td>$25,200</td>
<td>$92,800</td>
</tr>
</tbody>
</table>

**SaaS per User Pricing Comparison**

ATLASSIAN REMAINS HIGH VALUE AND HIGH VOLUME IN THE CLOUD VERSUS COMPARABLE SAAS PRODUCT PRICING

Based on current monthly cloud listed pricing for 10 users
The great (and gradual) migration

To be clear, customer migrations won't happen overnight. True to our “don’t #@!% the customer” value, server customers have a three-year runway to decide which product they’ll migrate to and when to make their move. During this time, they’ll have full access to maintenance and support, as well as a migration program, which includes migration tools, guides, and hands-on support for larger customers. We understand that some customers can’t move to the cloud in the foreseeable future due to factors like regulatory requirements, so we are continuing to invest in our data center products to accommodate them.

We fully expect customers to take advantage of this flexibility. While customers have the ultimate choice over when they move, we estimate that over 50% of migrating server customers will complete their migrations in FY23, FY24, or after. We estimate that number to be approximately two-thirds for medium and large-sized customers given the large number of users, teams, and 3rd-party apps involved in migration.

That said, initial migration demand is strong. Since announcing changes to our self-managed offerings, we’ve seen cloud migration trials for server customers more than double, a 400% increase in traffic to our customer migration hub, and our first three enterprise cloud customers sign on since the offering became generally available in late October.

Over the long-term, we expect that migration will have a positive and gradual impact on revenue. Atlassian products are stickier than a roasted marshmallow. They power mission-critical workflows that customers are deeply invested in. And we’re invested in their success.
Subscription is our present and future 📷

In both FY21 and FY22, we expect to achieve subscription growth in the mid-30s% year-over-year. Today, cloud and data center products account for approximately 45% and 15% of total revenue, respectively and will drive our growth going forward.

**In both FY21 & FY22, we expect to achieve**

**SUBSCRIPTION GROWTH IN THE MID-30s%**

In the spirit of “open company, no bullshit” 📈, this phase of our journey comes with greater short-term variability. We've made several short-term tradeoffs amidst macro uncertainty during the past six months, including the decision to stop selling server products over the next three years, offering free editions of Jira Software, Confluence, and Jira Service Desk, and delaying price increases. These decisions, along with the impact of COVID-19, will affect short-term growth. Based on these factors and our current expectations for the timing of customer migrations, we expect our revenue growth rate to slow from Q1 FY21 through the remainder of FY21 and into FY22 before improving. This is consistent with the expectation articulated in our Q1 FY21 shareholder letter.

Atlassian has a long history of making customer-first decisions and long-term investments in the name of steady, durable growth. Our investment in a world-class cloud platform is no different. Transforming how our customers manage work in the cloud takes patience and persistence, even in this rapidly changing digital world. We believe customers will stand by us, just as we stand by them.

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**The bottom line**

- **Cloud is strong and getting stronger.** It powers $850+ million in ARR, lands 95% of new customers, and drives a 121% net expansion rate.

- **Migration is a win-win.** Our 30,000 server customers benefit from increased innovation and lower TCO on higher-value products as they migrate. In turn, Atlassian's business grows as it shares in customer productivity gains.

- **Migration will build over the next 3+ years.** We expect medium and large-sized customers will take more time to migrate than smaller customers.

- **Subscription is our present and future.** We expect to achieve subscription revenue growth in the mid-30s% year-over-year in both FY21 and FY22.
Customers ❤ cloud, and vice-versa

Digital and distributed is where the future of work had been trending for years. When the pandemic hit, “the future” became “now” whether companies were ready for it or not.

The upside is that companies are set up to embrace distributed teamwork for the long haul, and Atlassian products can help them. The downside is that knowledge workers haven’t yet mastered the art of juggling all the apps necessary to create a virtual office. Not to mention parsing all the content that goes along with them.

According to research Atlassian commissioned on this sudden shift to remote work, people are feeling overwhelmed 😵. 51% of respondents report spending more time in meetings, 53% say they more time coordinating with each other, and 27% have an increased workload. Unleashing the potential of teams has never been more important.

The future of work looks brightest in the cloud. Atlassian's platform delivers flexibility, security, and extensibility with a vastly reduced administrative load. Here’s why 95% of new customers choose cloud and expand their usage so quickly.

• Easy to try, easy to buy, easy to scale as you grow – It only takes a few minutes and a few clicks to get started with Atlassian cloud products. Ditto when you're adding new products, apps, or user seats. Our cloud products are available for free to teams of 10 or fewer, giving us a foothold in companies of all sizes.

• Data-driven product innovation – The cloud lets us capture usage data that helps us make better decisions about which improvements to invest in and powers our machine learning engine 🧠 that delivers millions of time-saving notifications, relevant content suggestions, and reminders every day, all of which improve customer productivity.

• Extensibility and integrations – Atlassian believes in open toolchains, so our cloud platform is designed to make developing Atlassian Marketplace apps and 3rd-party integrations easy. And, as a bonus, integrations make Atlassian products stickier 🤩. For example, when customers add at least one app or integration in Jira Software, dollar churn reduces by approximately half.

• Lower total cost of ownership – The cloud saves customers money and frees IT teams up to work on strategic projects. Jim Thompkins, a program manager at Rockwell Automation says it best: “Before, I had a group of six people that spent 90% of their time on ‘care and feeding’ for the application. Now, we can do it with one person, part-time. It’s night-and-day better.”
The bottom line

- COVID-19 compressed years-long digital transformation timelines into months, increasing companies’ appetite for collaboration tools.
- With the increased pressure put on teams, a low barrier to entry and low TCO are crucial.
- The rapid, data-driven innovation and 3rd-party extensibility we offer turn Atlassian customers into fans.

Cloud isn’t just a platform, it’s a launchpad

From the moment Atlassian decided to become a cloud-first company, we went all-in. Rather than retrofit a legacy system, we forked our product code and spent the past four years building a world-class
platform from the ground up. Because it scales as our customer base grows across millions of new users and thousands of customers, a growing number of enterprises trust us with their digital transformation strategy.

Thanks to a unified architecture that was built for automation, our product development teams make continuous small, low-risk updates that add up to a massive impact for customers. (For all you data fans, we averaged 1,200 deployments per day in fiscal 2020 – triple the number from two years ago 😎.) Since fiscal 2018, we’ve gone from supporting teams of up to 2,000 in the cloud to supporting teams of 5,000, then 10,000, and now teams of any size.

The Atlassian Cloud Development Platform

We launched a full ladder of cloud editions – free, standard, premium, and enterprise – that attracts a vast array of customers. We launched Atlassian Access, our enterprise-grade security and centralized admin offering for cloud, which grew past 1 million paying users in only two years. Now, we’re using our platform to launch interconnected products like Jira Service Management – an integrated approach to ITSM that brings IT, software, and operations teams closer together.

The bottom line

- We’ve put in the “hard yakka” to build a best-in-class cloud development platform that has boosted deployment speed by 300% and delivered a 500% gain in scalability.
- With four pricing options to choose from – free, standard, premium, and enterprise – we can serve customers of any size, knowing they’ll never outgrow us.
- New interconnected products like Atlassian Access and Jira Service Management are testaments to the power of our cloud platform.