

# Buy Atlassian

Aaron Bush and David Gardner | September 28, 2016 | [Buy Recommendation](#)

CURRENT PRICE: [TEAM](#) \$ 180.36 ↑ \$ 3.54 (2.0%)

**Invest Foolishly!** *We recommend owning 15 or more stocks for at least 3-5 years. Begin with three [Starter Stocks](#). Once you're under way, then consider our monthly new ideas to help build out your Rule Breakers portfolio.*

We're traveling Down Under this month to bring you one of the best emerging tech companies outside the U.S. Australian entrepreneurs Mike Cannon-Brookes and Scott Farquhar founded **Atlassian** ([NASDAQ: TEAM](#)) in 2002 with one simple project and one big idea. Their team's first product was Jira, a project-management tool that lets users track software issues and bugs. The company quickly built on Jira's success, but its big idea hasn't changed a bit: to do for team productivity what Microsoft Office did for personal productivity.

That's an enormous challenge to conquer, but Atlassian has already taken a few important steps toward it: Its products are easy to use, they're constantly getting better, and they can integrate together to help minimize the hassles of getting a group on the same page. With its bootstrapping and venture capital days officially in the rearview mirror, the company hit a big milestone of IPOing last December. Now, with a built-out product portfolio and a half-dozen offices scattered across the planet, it's clear that Atlassian is plowing full steam ahead. We think you should consider joining up through your portfolio.

## Teamwork Makes the Dream Work

When diverse sets of teams work together, they often need new tools to take advantage of new opportunities and solve new problems. Atlassian provides them, and that's made it a big deal. Whether its users are managing a complex project, collaborating with their teams, enhancing customer service, or more, Atlassian can help them in a way that wasn't possible years ago.

Today, the company has five main product categories:

- Jira (planning and product management)
- Confluence (content creation and sharing)
- HipChat (messaging and communication)
- Bitbucket (code sharing and management)
- Jira Service Desk (service and support applications)

Jira (that's a jab at rival Bugzilla — it comes from *Gojira*, the Japanese name for Godzilla) and Confluence are the company's oldest products and largest revenue drivers, but the other pieces are doing their fair share of work, too. Jira Service Desk, a newer release, quickly became Atlassian's fastest-growing product (although individual product numbers aren't released), and the company's ability to build up its product suite gives it more opportunities to attract first-time customers and cross-sell to existing ones.

### WHAT IT DOES

Atlassian sells software platforms that help teams work better together.

### WHY BUY

- Atlassian's products help diverse teams work together in a variety of new ways.
- The company's low-touch marketing strategy keeps its margins robust.
- There's lots of opportunity left to gain new customers and cross-sell to current ones.

### KEY DATA

- **Headquarters:** Sydney, Australia
- **Website:** [www.atlassian.com](http://www.atlassian.com)
- **Sign of a Breaker:** Good Management and Smart Backing
- **Market Cap:** \$6,785
- **Cash/Debt:** \$743.1 / \$0
- **Revenue (TTM):** \$457.1
- **Earnings (TTM):** \$4.4
- **Revenue (2014/'15/'16):** \$215.1 / \$319.5 / \$457.1
- **Earnings (2013/'14/'15):** \$19.0 / \$6.8 / \$4.4
- **Recent Price:** \$31.36

### BUYER'S GUIDE

- **Industry:** Technology
- **Size:** Mid Cap
- **Region:** Worldwide
- **Risk:** 9 out of 25 ([see all our stocks here](#))
- **Crushability:** Jawbreaker ([see the full scale here](#))
- **Most similar to:** Zendesk, SS&C Technologies

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It's also important to note that the Atlassian Marketplace, one of the largest enterprise marketplaces behind **Amazon.com** ([NASDAQ: AMZN](#)) and **Salesforce.com** ([NYSE: CRM](#)), continues to make remarkable progress (it just crossed \$150 million in cumulative sales) as third-party developers create new apps that enhance Atlassian's existing offerings. Not only do Atlassian's products get better, but the more customers take advantage of the marketplace, the more entrenched they become and the stronger Atlassian's competitive advantage becomes.

*Dollar amounts are in millions (except recent price)*

*Data as of Sept. 23, 2016*

## Bigger and Better

Great products are a huge element of what makes Atlassian a top-notch business, and it shows in the budget — roughly 40% of revenue goes to R&D. It can afford to do this in part because of its sales team — it doesn't have one.

Atlassian relies on word of mouth to sell its software, and it counts on its customers' satisfaction to sell them additional services. That enables the company to keep its prices down while making its revenue more profitable. And it keeps Atlassian's focus squarely on what it can offer its users. Because everything is available through the company's website, clients can decide for themselves what they need — which has attracted a wide variety of users from all over the world. Atlassian currently sells to 290 of the Fortune 500, but as management likes to say, its true target is the Fortune 500,000.

Atlassian's unusual approach is working. The company has posted strong growth over the past several years, growing revenue at more than 40% each of the past three years. Top-line growth will decelerate a bit in time, although we think the free-cash-flow margin will remain high (20% or better), thanks to limited marketing expenses and the ability to sell its customers more products. Atlassian added 12,300 new customers in fiscal 2016 for a total of 60,950 — up 25% year over year. And although we don't know exactly how each of those customers' spending habits have trended, we can see that over 1,200 of them chose to spend more than \$50,000 on Atlassian's products this past year, up significantly from last year's tally of 865. Things are definitely moving in the right direction.

If you'd think an organization that helps other teams work better would be a great team itself, you would be absolutely correct. Atlassian has been recognized as [Australia's best place to work](#) two years running, and it shows up on similar lists for companies its size in the U.S. Co-founders Cannon-Brookes and Farquhar have won awards, too, most recently being jointly named to *Fortune's* 2016 40 Under 40. Furthermore, both remain co-CEOs and own significant and controlling stakes of the company. They're here for the long run, and if the past is any indicator of the future, they should continue to generate significant value for shareholders in the years to come.

## Risks and When We'd Sell

As with any booming business, Atlassian could suffer an unforeseen slowdown, which would probably cut down the premium investors are willing to pay. The stock is selling about as expensively as it ever has, which isn't a turnoff for us Rule Breakers, but at 65 times free cash flow, the company must keep excelling to be a major market beater.

The more Atlassian spreads its wings, the more competition it runs into. It's hard to move without bumping into other large successful players. For example, HipChat competes with Slack, Bitbucket competes with GitHub, and Jira Service Desk competes with Rule Breaker **Zendesk** ([NYSE: ZEN](#)). Atlassian can live on if any one product succumbs to the competition. But if it looks like Atlassian is losing out on multiple fronts, then we should rethink our thesis, because a significant portion of Atlassian's competitive edge comes from its ability to cross-sell, and from building its products to work exceedingly well together. These markets are quickly growing and likely large enough to support more than one winner, but if things don't turn out that way, then we may look to head for the exits.

Additionally, as we've seen in a few of our companies, dominant founder-led ownership can be a double-edged sword. These people are fiercely committed and have the most at stake, but if the power gets to their heads, they also have the ability to make bad decisions that others can't veto. Whether awful acquisitions, poor corporate governance, or something else threatens the company, we'll be keeping an eye on management's actions. Also, on the flip side, we're big fans of Cannon-Brookes and Farquhar today, so if either or both should leave the company or sell his position, we'll need to take a deeper look.

## The Foolish Bottom Line

We live in a world that grows more connected and moves faster by the day. No organizations are immune, and they have the best chance to adapt when the teams that work together inside them communicate efficiently and effectively. Atlassian operates at the very center of this dynamic, and it should continue to grow its product suite, gain new customers, and cross-sell ever more in the years ahead. If Atlassian disappeared overnight, thousands of companies across the world would struggle to regain their footing. That's a great sign of a great business, and we believe that Atlassian is deserving of your investment dollars.



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[Aaron Bush](#) owns shares of Amazon.com. [David Gardner](#) owns shares of Amazon.com. [David Kretzmann](#) owns shares of Amazon.com. [Rick Munarriz](#) owns shares of Microsoft. [Tim Beyers](#) owns shares of Salesforce.com. The Motley Fool owns shares of Amazon.com and Microsoft.

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Market data provided by FactSet and Web Financial Group.