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*Earnings Call*

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# Call Participants

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*Co-Founder, CEO & Director*

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# Presentation

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## Operator

Good afternoon, and thank you for joining at Atlassian Earnings Conference Call for the First Quarter of Fiscal Year 2026. As a reminder, this conference call is being recorded and will be available for replay on 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

*Head of Investor Relations*

Welcome to Atlassian's First Quarter Fiscal Year 2026 Earnings Call. Thank you for joining us today. On the call with me today, we have Atlassian's CEO and Co-Founder, Mike Cannon-Brookes; and Chief Financial Officer, Joe Binz. Earlier today, we published a shareholder letter and press release with our financial results and commentary for our first quarter of fiscal year 2026. The shareholder letter is available on the Investor Relations section of our website where you will also find other earnings-related materials, including the earnings press release and supplemental investor data sheet. As always, our shareholder letter contains management's insight and commentary for the quarter. So during the call today, we'll have brief opening remarks, and then focus our time on Q&A.

This call will include forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, our results could differ materially from the results expressed or implied by the forward-looking statements we make. 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 undertake 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 our business performance and financial results is 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 filed annual and quarterly reports. During the call today, we will also discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to and are not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. Reconciliation between GAAP and non-GAAP financial measures is available in our shareholder letter earnings release and investor data sheet on the Investor Relations section of our website. We'd like to allow as many of you to participate in Q&A as possible. Out of respect for others on the call, we'll take 1 question at a time.

With that, I'll turn the call over to Mike for opening remarks.

## Michael Cannon-Brookes

*Co-Founder, CEO & Director*

Thank you all for joining us today. As you've already read in our shareholder letter, we're off to an incredible start to FY '26 with total revenue in Q1 growing 21% year-over-year to \$1.4 billion. Our strong execution fueled cloud revenue growth of 26% year-over-year to \$998 million and accelerated growth in RPO to 42% year-over-year to \$3.3 billion. We continue to make great strides across our strategic priorities of enterprise, AI and the system of work. Not only do our results reflect this, but our customers are taking notice. All up over 300,000 customers, including Databricks, Expedia, Ford and Wells Fargo rely on Atlassian's AI-enabled cloud platform to power their business processes and mission-critical workflows.

We're proud of our ability to continue to deliver AI into the hands of those customers to use today. We've amassed over 3.5 million monthly active users of our AI capabilities across the platform, once again, up over 50% since last quarter. This usage is widespread across both business teams as well as technical teams. I'll repeat what you've heard me say in the past, AI is one of the best things that's ever happened to Atlassian. They need to track, plan and manage work while harnessing your organizational knowledge

are things that don't change in this era. And I'd argue those things become even more important as more software is created and more people have the ability to create amazing technology that changes our lives.

AI is also directly driving demand for our cloud offerings. Customers are choosing to migrate to the cloud and they're upgrading to the Teamwork collection to take advantage of our AI-powered cloud platform. In fact, in less than 2 quarters since we launched Teamwork collection, we've seen it drive a double-digit percentage increase in users as well as upgrades to higher value additions and the consolidation of competitive tools as our customers standardize on Atlassian. We're putting world-class AI at the center of our platform and throughout our entire set of collections and apps.

We've showcased our relentless pace of innovation just a few weeks back at our sold out Team '25 Europe event in Barcelona with AI still in the show. Of course, you can read more about all these announcements in our shareholder letter.

I want to take a moment to thank Atlassians for their tremendous execution and dedication this quarter. Without them, none of these exciting opportunities would be possible. I've talked to hundreds of customers this past quarter from all over the world, small to the biggest enterprises on the planet. And what I'm most proud of is how they're turning to us as a strategic partner to help them transform how work gets done, during a time when AI is changing their world. Collaboration becomes even more important as more creation is enabled, as work evolves and as new opportunities are created for their businesses. And our customers are looking for our help. I feel incredibly bullish about how we're partnering with them and helping their businesses thrive. With that, I'll pass the call to the operator for Q&A.

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from Keith Weiss from Morgan Stanley.

### Keith Weiss

*Morgan Stanley, Research Division*

Congratulations on a really strong start to Q1. A lot of really impressive product innovation, a lot of impressive numbers. I was hoping we could drill into the total revenue guide for the full year. And just to better understand the moving parts in this, and I'm looking at the chart that you guys put forward in terms of total revenue guidance going from 18% to 20.8%, but 3.2% of that coming from data center end of life, which means you're effectively lowering the non sort of end-of-life impact by 50 basis points. So given all of the strength that you're talking about in the letter, the product momentum, why is the full year absent the data center end of life coming down by 50 bps?

### Joseph L. Binz

*CFO & Principal Financial Officer*

Keith, this is Joe. I'll go first, and Mike will follow on with additional context. I'd say the key development that we saw in Q1 was that we had significantly stronger-than-expected cloud migrations from data center, which is a great thing for our business. As you know, this has been a big area of investment for us. It's a key strategic priority. It allows us the opportunity to provide more value to customers in ways that we simply can't on data center, and we can offer capabilities such as automation, analytics and AI, and so basically, it's definitely the most valuable and secure experience we can offer to our customers. So it's a great thing for the business.

Cloud migrations also, however, have an impact on the timing of revenue recognition because cloud revenue is recognized ratably and data center has a combination of upfront recognition and some ratable. And then lastly, the move to cloud also impacts marketplace revenue because we have a lower take rate on cloud app sales than we do on data center apps. All other organic growth drivers in our business in Q1 were either slightly better or in line with our expectations. And we've maintained that same guidance approach on those factors that we held 3 months ago. So we continue to hold a very conservative and risk-adjusted outlook for all the other variables in the growth equation outside of migrations.

So with that Q1 performance and momentum, we've adjusted our full year outlook for a greater cloud migration forecast. And we've left all other organic driver assumptions in place. And because of those revenue recognition timing differences between cloud and data center and the impact to Marketplace, this drives the 0.5 point decline in our organic revenue growth outlook for the rest of the year. And so that's the math underneath the guidance that we're giving for the full year on the organic part of the business. Mike?

### Michael Cannon-Brookes

*Co-Founder, CEO & Director*

Keith, I just wanted to follow on. Joe has laid out the math for you and how it pencils out. I just want to reiterate, this is a really good thing. Increased migrations is good for Atlassian, and it's great for our customers. And you can see that coming through in our results, 26% cloud growth rate this quarter, 42% RPO growth rate and an increase -- significant increase in cloud guidance, right? All while reiterating our long-term 20% CAGR growth rate that we gave out at the end of FY '24. We feel just incredible confidence in our ability to deliver against that. And I think all of the movements that Joe laid out are incredibly positive for Atlassian as a business.

### Operator

Your next question comes from Kasthuri Rangan from Goldman Sachs.

**Kasthuri Gopalan Rangan***Goldman Sachs Group, Inc., Research Division*

I have to applaud you on your decision to do data center end of life. I think this is likely to accelerate the cloud transition, something that personally I have been waiting for, for a few years now. So kudos on that on pulling the plug there. So the strategic question is, given that we've got line of sight into cloud migration, we're not fighting multiple good battles. I wonder if, Mike, you can talk about the playbook -- the clean playbook for cloud migration in the years ahead. What are the things that you have learned from the last quarter or so in terms of tactics, especially with the new CRO coming on board? How are you tackling the field engagements and partnerships with the systems integrators to take this full on because I do think it's pretty exciting what you're on to.

**Michael Cannon-Brookes***Co-Founder, CEO & Director*

Thanks, Kash. Look, I always appreciate the applause, I guess. Let me say a few things about Ascend and cloud migrations. Firstly, the partner and customer reaction has been fantastic. I think that's because we have well telegraphed to our customers, our partners, the entire community, that cloud is the future. It's the best experience for our customers. So we had very little surprise. We're very thoughtful and long term about how we've managed the transition, I think, and the reaction has been very positive as a result.

I think the removal of technical barriers and the delivery of innovation in the cloud has been a combination of effects that's really bringing that through. You see that in the number of customers that mentioned to me, for example, AI is one of the big reasons that they are moving to the cloud. We've learned an awful lot about how to help those customers manage that upgrade through the fast shift program, through our amazing partner network, through a lot of different things over the last 5-plus years. And you see that in doubling the number of migrations -- seats that were upgraded in the last quarter that doubled year-on-year. That's a huge achievement for us. And it is thanks to those partners that you talked about and everybody else, and you see it in us raising the cloud revenue outlook.

So I think cloud is ready for our customers. You see that in FedRAMP Moderate in government cloud, isolated cloud, multi-cloud strategy. So we feel incredibly bullish that we have the experience to do this. We feel that it's the right experience for our customers, and we are thoughtfully managing that migration as you pointed out. So I don't think the playbook has necessarily changed as much as every year and every quarter that goes by, we get better at it. We did lots and lots of large migrations last quarter across different geographies, different industries, pretty much any country that I go to, any city, I can point to a large customer in that geography in their industry that has already moved. So that's what gives us a lot of that confidence going forward, and allows us to reiterate those long-term targets that we laid out.

**Operator**

Your next question comes from Arjun Bhatia from William Blair.

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

Yes. Perfect. I'll add my congrats on a great quarter here. Mike, maybe I'm curious just -- obviously, we kind of knew the end-of-life on data center was coming at some point. I'm curious kind of what made you decide to do that now? Or is it just sort of the technical advancements in cloud that you've talked about comfortable -- more comfortable customers with cloud. And then just -- you're seeing the -- maybe the second part of this question, you're seeing the migration impact already, but I'm curious how you think it impacts cloud migrations for the rest of this year and through 2027. When do you think we start to see the next step of acceleration in data center to cloud migration? Is it still going to take some time? Or is that more immediate?

**Michael Cannon-Brookes***Co-Founder, CEO & Director*

Look, thanks. Look, I would say that we've -- it's a continuum. So we've been investing in building an enterprise-grade cloud platform with AI and all the compliance and governance and scalability and data residency and government cloud. All of the amazing technical achievements that we've invested in over the last 5-plus years are a continuum. We will continue to invest in those. But we feel like good about the ability we have right now to accommodate the vast majority of remaining data center customers in the cloud that we have today. We feel great about our execution of the cloud road map that we've laid out in front of us in things like isolated cloud. And we fundamentally spend a lot of time with our customers.

We feel like now is the right time for that, that we have prepared. They are ready, that our partners are ready. We've said many times on calls, we no longer get the -- if we're moving to cloud. It's a when conversation with every single customer that I deal with. So I would say we just feel very good about the delivery we've had, and so now is a good time for that.

In terms of the expectation of migration, look, I would say that's all -- obviously, we've -- open company [indiscernible] is a core customer value. So we've laid out what we see in front of us for those customers. The multiyear period of that EOL giving them time to migrate, giving them the partnerships and everything else that we need. And we have included that into our guidance and into our results. So the confidence that we feel is included in the guidance that we've given out.

**Joseph L. Binz**

*CFO & Principal Financial Officer*

And then Arjun, I'd just ask -- I'd add one other point that while we expect more momentum on migrations in the short term, there is going to be variability in the pace of these migrations quarter-to-quarter, and they will take time to move, and we expect most customers will migrate as we get closer to the data center end-of-life date in March 2029. So we expect migrations to accelerate in the '28, '29 time frame.

**Operator**

Your next question comes from Ryan MacWilliams from Wells Fargo.

**Ryan Patrick MacWilliams**

*Wells Fargo Securities, LLC, Research Division*

Mike, this is kind of like a high-level question, but there's been a lot of investor conversation around like a super app world where AI interacts with multiple different parts of your software stack from 1 pane of glass. But Atlassian has always made it easy to integrate Jira with some of the other software solutions. And I thought the browser company acquisition was interesting that it also makes it easier to use Atlassian and some other tools. So how do you think about a future where you try to use AI across a bunch of different software solutions and how Atlassian fits in that world?

**Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks, Ryan. Great question. Firstly, I would say we are making amazing progress in our AI capabilities and delivery to customers. I think the company broadly should be incredibly proud of shipping AI to our customers. It turns up as one of the reasons that they are migrating to the cloud when you talk to them. It shows up as one of the reasons that they're moving to the Teamwork collection. It shows up as one of the reasons they are deepening their relationship as a strategic partner with Atlassian is our core investment in AI, which is world-class. We are doing an incredibly good job at delivering AI to customers to give them the benefits today and giving the confidence that we will continue to deliver that into the future.

Jira has always been an incredibly integrated tool. We're very proud of that. The Atlassian platform is incredibly integrated. You can see that there are a number of partnerships that we've signed up in the last quarter, a lot of which are listed in the letter to integrate our platform with other offerings that customers have. It's a core part of our customer value proposition is we believe that your best technology world, your best software world, is a deeply integrated and deeply connected world.

You can see that in the ability to use Atlassian's AI off Atlassian from within other tools. and vice versa to use other tools from within the Atlassian world. And I think that will depend on where the customer workflows are and where they are working. Most prominently, recently, you can see that in Jira's ability to assign work items to agents. Whether those are technical agents from GitHub or Cursor or whether those are nontechnical agents from Canva or Box or someone else.

This is about taking your Jira workflows and business processes, assigning parts of them off to AI or agents as that world evolves and then bringing it back in for collaboration with further users. So I think we will continue to be integrated. I think that's the best outcome for our customers. And I think that our -- everything from the Teamwork graph to the design expertise that we're putting into our AI offerings to just a world-class set of capabilities that come with Rovo is showing up in our customers, and it is a reason that they are more deeply partnering with us. So incredibly proud of the delivery we've had there and a lot of work to do every single quarter as we go forward. We're rolling.

### Operator

Your next question comes from Alex Zukin from Wolfe Research.

#### **Aleksandr J. Zukin**

*Wolfe Research, LLC*

Sorry about that. I was just having some voice issues. Maybe guys, just -- some of the most interesting commentary from the letter, I think, was your commentary about looking at your cohort of customers that are also using some of these AI coding tools and how they're up. Those customers are adding seats to the tune of 5%. What other anecdotes do you have to share in terms of other product attainment and adoption trends that you're seeing from that kind of super user cohort? And then maybe just a quick one on DX, specifically, how you maybe see that accelerating some of the uptake in expansion with respect to the cloud portfolio.

#### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks, Alex. Look, I'm well on record at this point as saying, I firmly believe there will be more developers in 5 years' time. There'll be far more people creating software and a far greater amount of technology in the world, which is great for all of us. And that significantly expands Atlassian's opportunities. Why do I have such conviction? Maybe important to note. We have the best data. We have amazing visibility right now, 300,000 customers, 80% of the Fortune 500, 60% of the Forbes AI 50 Atlassian customers, right? We're mission-critical and central to their business processes. We have tens of millions of developers, engineers, product managers, designers that use our applications across millions of teams. So we have some pretty phenomenal insights into how customers get work done, how they build software and how they build technology.

And as we said in the shareholder letter, we continue to see really healthy user growth. The statistic you gave. We look at a cohort of our customers that were using co-generation tools, GitHub Copilot, [indiscernible], Cursor. We excluded Rovo Dev on purpose, so as to remove bias of our own sort of customer base. And those customers using those cogeneration tools were expanding their paid seats on Jira at a rate 5% faster than those who didn't. They were managing more than 20% more projects than those that didn't. And importantly, all of those 3 and others are working with us in partnership to bring their agents into Jira, into the business processes and workflows that they are using because that's where customers are doing work.

The other anecdotes that we might have. Look, we've given a lot of statistics here, right? The Teamwork graph is phenomenal. It's up over 100 billion objects in connections and continuing to grow at a really incredible clip. Our AI interactions are up. I think it's almost 150% in the last 6 months. We've tripled the number of tokens we processed quarter-on-quarter. So millions of workflows, which involve automation and agents. We are doing a really good job in AI. AI is a fantastic thing for Atlassian's business. And for our customers. It creates lots of great opportunities for us.

You mentioned DX. I think as customers are changing the way they build technology and software, they want to make sure that they are getting the right amount of productivity, where their investment is going and where they're getting back from this increasing engineering force that they have. Every business is becoming a software company at some point. And hence, DX doing a fantastic job at explaining the customers their developer productivity, where they can improve and how they can take actions on that. And especially when it comes to bringing in all of the AI coding tools we have today and the ones that are coming tomorrow and to show those customers how that is working. I think it will be a really great part of our portfolio. It's a fantastic team. So we're incredibly bullish about that when the deal closes, and we can move forward.

## **Operator**

Your next question comes from Gregg Moskowitz from Mizuho.

### **Gregg Steven Moskowitz**

*Mizuho Securities USA LLC, Research Division*

Congratulations on a really good performance. Mike, I also, like Alex, was pretty fascinated by the data you provided that you just spoke to a moment ago. And I'm wondering if it's possible to give us a rough sense of the size of this cohort that might shed some light on if these data would, in fact, be a fair representation of what your customers may be doing, again, particularly the ones who are utilizing vibe coding. And then secondly, for Joe, just to clarify, because the guidance puts and takes are a bit confusing. Is your fundamental growth outlook stronger, weaker or unchanged as compared with 90 days ago?

### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks, Gregg. Look, we wouldn't give out any statistics that we didn't feel were statistically relevant in terms of the size of the cohort that we are going through. Obviously, we are very invested in making sure that this is the case. And I think it's a fair representation of what the best companies in the world are doing, and we believe there will be many more companies that following those parts over the years ahead. As do we believe that AI will continue to improve those abilities and processes. We saw that in our Rovo Dev going GA this quarter, which is doing a fantastic job at a lot of different things, right?

I believe, over half of the security incidents that occur at Atlassian, the findings are coming from Rovo Dev, right? So there are a lot of abilities for AI to continue to improve technical business processes in building software, but also in the service collection, and in AI Ops and the ability to run and operate software. There is a lot of work to be done, a lot of amazing things to be built. But we do think it's going to be great for Atlassian's business.

And we think that human-AI collaboration, whether that's in a software team, whether it's in a business team, whether it's in a service team, is right at the heart of what we do for our customers. And at the same time, I will point out there's a lot of enterprise concerns when I talk to customers around governance, controls, auditability, traceability, permissions. There's a lot of new issues coming up with a lot of this AI technology. And we're right at the forefront of giving enterprises as we've shown in Rovo and in our AI cloud platform, the ability to have the right level of controls and governance that they need and the right level of those change and movement. So incredibly bullish from my point of view on what AI is doing for Atlassian's business, as I've said, and how our 3 big transformations, AI, enterprise and the system of work are delivering today in the cloud growth rates that you see, in our RPO growth rates and our commitment to our long-term targets. So I'll let Joe answer on the financial question.

### **Joseph L. Binz**

*CFO & Principal Financial Officer*

Yes. Thanks, Mike, and thanks, Gregg. Gregg, we fundamentally believe our business in FY '26 will be stronger today than we did 90 days ago. That will show up in better bookings. That will show up in better CRPO, and it's driven by the Q1 outperformance and the fact we expect greater volume of cloud migrations through the rest of the year. Hope that helps.

**Operator**

Your next question comes from Fatima Boolani from Citi.

**Fatima Aslam Boolani**

*Citigroup Inc., Research Division*

Mike, you have A/B tested effectively this concept of consumption pricing. There was some of that introduced last year under the confines of JSM. I'm wondering if you can share an update on how pervasive that modality is in terms of monetizing some of your innovation that's come down the pike in the last 12 to 18 months. And maybe more specifically, how does vibe coding and coding assistant related code generation that is poised to absolutely load software code generation. How do you get to capitalize on that as all of that gets shipped inside Jira environment and is held captive and worked out of a Jira environment. I'd love to get your perspective on how you can capitalize on that trend by way of consumption pricing. And again, how pervasive that is generally within the base today?

**Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks Fatima. Look, we have a series of different consumption-based pricing offerings as we have announced and shown from the Rovo and AI credit world to the service collection world of agents and assets to Bitbucket pipelines to Rovo Dev to Forge, CDP, that is certainly something that we have as an option set for our customers. It's one of our elements of monetization. I think it is certainly, something customers are interested in. It's certainly something that they're also cautious about. I think the most important thing for us when it comes to your question about AI monetization, I would say we are already seeing it, our 3 strategic priorities, right? We reiterate them because they are so important to us, delivering a world-class AI platform, continuing to grow our enterprise capabilities and the system of work across our customers' teams and enterprise.

We're making amazing progress in all 3, and I will say that it's directly driving the results we see in Q1. It's directly driving the cloud growth rate of 26%. It's behind accelerating our RPO to over 40%. So we are already seeing that in everything from cloud migrations to the AI stats we have to the addition upgrades. So this question of monetization -- Teamwork collection, right? Customers that move there, talk about AI. Every customer I talk to mentions AI is one of the reasons that they're moving to the Teamwork collection to the cloud, et cetera. And we have a huge number of customers that presented at Team '25 a couple of weeks ago in Barcelona from Mercedes Benz to Sonos to FanDuel to 24-hour Fitness, all giving amazing feedback on our AI capabilities across business teams and technical teams and our ability to connect both of these is at the core of the system of work.

I think this question of cogen and capitalizing, we've a lot of stats on how it improves Jira. And I think the fundamentals there are about human and AI collaboration you will still need and you will have work items that are assigned to various AI agents that come from probably a lot of different platforms, ours and others. We solve human problems. We always have. And at the core of those human problems is collaboration and that's why we're putting that at the core of our AI platform and making sure we deliver world-class capabilities in all of these ways. And I think we're already seeing that flow through in our monetization and bullishness as we head into the future on our ability to continue to build the R&D to do the world-class work and hence, have greater customer partnership is very strong right now.

**Operator**

Your next question comes from Raimo Lenschow from Barclays.

**Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Congrats from me as well. Mike, one question as we kind of evolve in this new AI world, how do you think about M&A or build versus buy in this for you. I'm thinking about the browser company. I got a lot of questions of people how that would fit into the new world, et cetera. Can you just speak to that, please?

**Michael Cannon-Brookes**

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*Co-Founder, CEO & Director*

Raimo, sure. I can talk to that question. Let me say firstly, I would say that there's no change in our M&A philosophy when it comes to AI or anything else. That's a really important point. We've had the same philosophy for well over a decade now. We look for companies with a great strategic fit to Atlassian. We look for great teams that feel like they belong in our tribe, an opportunity that fits both sides. We have to have the capital to execute. And the timing has to be right. That philosophy hasn't changed.

We don't believe all the innovations outside of Atlassian. We don't believe all the innovations inside Atlassian, we take a very pragmatic and long-term view. I think you can see in some of the stats we gave in the shareholder letter from the Loom acquisition, it's just lapsed 2 years, and it's built a fantastic business north of \$100 million ARR already. That's stand-alone. That's with no contribution from Teamwork collection, driven by AI, and the AI SKU, right, which is growing over 100% year-on-year.

Why is that well? If you go back 2 years ago and have a look at what we said at the time of that acquisition, younger people joining your workforce, video becoming a bigger part of how they want to communicate and collaborate, remote work, distributed companies and AI changing the nature of how video collaboration can work for both consumption and creation. I think we've done a pretty good job of paying out all of those trends and movements as we've navigated through the last couple of years. And Loom is a fantastic part. It's a huge reason why customers are also talking about moving to the Teamwork collection in terms of media reportings and the team has done an amazing job to continue to deliver on innovation. So we continue to think about that when it comes to our acquisitions.

The browser company and DX, look 2 very different acquisitions with different strategic rationales as we've tried to communicate. On the browser company specifically that you mentioned, I think our belief is that AI is going to continue to reshape how and where knowledge workers get their work done, that technical disruptions and changes if you look back at history, have tended to change and shift the interface layers, the points of interaction. And today's browsers were built before we had this explosion of SaaS apps and well before we had any of this AI era, and they weren't really built for knowledge workers.

And we think that by optimizing for knowledge workers and the SaaS apps they use and building an amazing product that fits into today's world and the enterprise world, packing it with AI skills and agents and the Teamwork graph and all the things that we have as well as enterprise-grade security, compliance, governance, especially when it comes to AI, there is a fantastic opportunity for us and that browser company fits all of those criteria I gave earlier in terms of M&A. They're doing an amazing job. And we think between the 2 companies, we can really make an impact here. So just closed, we'll get cracking on doing some amazing work and hope to have some similar results to report to you in 2 years' time.

## **Operator**

Your next question comes from Robert Oliver from Baird.

### **Robert Cooney Oliver**

*Robert W. Baird & Co. Incorporated, Research Division*

Great. Mike, you guys have done a lot of preparation for this cloud move. And it seems like projects like Ascend are working really well, fast shift team. When you think about your extended partner network, how well developed is the cloud motion with them currently? From our checks, a lot of them have been out kind of early on that. But as you guys really accelerate in end of life on D.C., how prepared is your extended partner network to help you guys manage this transition?

### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks, Rob. Yes. Look, I would say we continue to be a long-term thinking company that makes these changes over the multiyear period. I think we've seen that play out over the last 5 years in this cloud migration and I expect it to play out over the next 5 years. The partner program and our channel broadly play a critical role in that transition. I spend a lot of time with lots of different partners all over the world. We have continued to communicate openly with that partner network. It's been well telegraphed to them.

and they have continued to evolve their businesses to understand both how to help customers migrate to the cloud. Fast Shift is an additive element to those partners, and how to explain to customers the benefits of AI, for example, in their business, which is a positivity of moving to the cloud, but again, one of the areas where our partners can really excel and are starting to hit some real wins in terms of delivering those workflow improvements to customers on our cloud platform, which further incentivizes other parts of those large customers to move to the cloud.

So a very thoughtful and measured approach, long-term thinking from Atlassian at the same time with execution. I think the channel touching about 50% of our revenues, you can look at it that way are well mature in how to handle this over the last few years. And I believe that as I said, we are at the right point for the Ascend program to help continue that momentum in the channel.

### **Operator**

Your next question comes from Brent Thill from Jefferies.

### **Brent John Thill**

*Jefferies LLC, Research Division*

I know Brian Duffy is about 10 months in, but I think everyone's curious just to get an update on the go-to-market, some of the changes he's making, what's starting to resonate well and what's ahead. And Joe, if I can sneak one in for you, it's been a great couple of decades working with you. Just maybe the question of why now?

### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Brent, sure. Let me talk a few things about maybe go-to-market and the movement we have there. Brian, it's amazing to think he only arrived 9 months ago. I have to remind myself of that quite often. He obviously brings vast experience and to say he's hit the ground running is an understatement. Huge impact in continuing to evolve our go-to-market motions. It's not revolutionary, as I said. We've been on an enterprise journey for a decade. We continue to strive to be a better and better strategic partner to the largest organizations on the planet. And this is a part of our continued evolution.

We obviously have a massive serviceable -- addressable market, as we've talked to, right, a \$14 billion opportunity in our existing customer base along with our existing products, 80% of the Fortune 500, representing just sort of 10% of our business between DC to cloud migrations with Ascend and the Teamwork collection, service collection, software collection, we have a lot of opportunities in our base. And I think Brian has done a fantastic job, along with all of the sales and marketing teams and go-to-market motions on continuing to execute this quarter, right?

We've made great progress with large enterprises. We have signed some of our largest deals in the quarter in almost every sector, industry vertical and geography, right? Some of the world's largest technology companies, huge global financial institutions, large telecommunications companies have all come on board this quarter, multiples in each category. Moving to the cloud, moving to the Atlassian platform, consolidating on multiple tools into the Atlassian world and at the same time, excited by AI opportunities. And that's up to Brian and team to continue to explain to our customers and help them on that journey over a multiyear period. So I'd say the entire go-to-market team is executing extremely well this quarter, and we should be incredibly happy, and our customers are the beneficiaries of that.

I'll pass to Joe for the second half.

### **Joseph L. Binz**

*CFO & Principal Financial Officer*

Great. Thanks, Mike. And thanks, Brent. It's been great working with you as well. I would make one clarification, as Mike reminds me, it's announced now but transition later. So I wouldn't say the timing is now. In terms of why the announcement now and the transition timing, Just -- I've got a lot of big life events coming up, and I really want to be fully present for those. And I'd say this is something my wife and I have been discussing pretty intensely over the last year. And from a work perspective, I feel like the

finance team is in good shape. I'm a big believer in new energy and new ideas and those being a good thing. And I think that applies to me as it applies to just about anybody else. So that's sort of the logic behind it. And right now, I'm really focused on making sure there's a clean transition and a lot of work to do around that. And I'll be able to update you on what's going to happen next after that when we get down the road and I get a little bit closer to the transition date.

### **Operator**

Your next question is from DJ Hynes from Canaccord.

### **David E. Hynes**

*Canaccord Genuity Corp., Research Division*

Joe, one of the questions I've been getting is whether you're raising the cloud revenue guide only on the back of better than forecast data center to cloud migration. Can you just talk about what you're seeing with the non-migration cloud business? How you're feeling there? And what's actually contributing to the increased cloud outlook?

### **Joseph L. Binz**

*CFO & Principal Financial Officer*

Yes. Great question. Thanks. And I'll try and clarify. So we are raising our cloud revenue outlook by 1.5 points to 22.5% year-over-year. That is only to reflect the stronger migrations performance and the outperformance in Q1. So we now expect migrations to make a mid- to high single-digit contribution to cloud revenue growth in FY '26. And for that migration upside to land in the back half of the year, just given the data center expiration base. And to your question directly, it's important to note we haven't made any changes to our other organic drivers of cloud revenue growth in our guidance. So we continue to maintain a conservative and risk-adjusted approach on all those other variables in the cloud and from a cloud revenue growth driver perspective for the rest of the year.

### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

I can probably jump on DJ, just to say 1 or 2 things, if I might. Firstly, it's worth reiterating that our expansion rates 120% NER, et cetera, aren't changing. So when Joe says, we are continuing with our cloud, the guidance in other areas I think those are really strong numbers, and we should reiterate that. We feel great strength in the cloud, right? Teamwork collection going very, very well, only 2 quarters in. Our AI delivering our enterprise platform. All of these things lead to a very strong cloud business in and of itself that continues to grow. And the Ascend program and migrations are additive to that, which is really great.

When I talk to our customers that are already in the cloud at scale, they are bullish about their continued adoption of more apps and collections of more areas that they will move to Atlassian. And you can see that showing up in both our paid seat expansion rates, our cloud growth rate in and of itself, our RPO growth rate and our recommitment to our 3-year 20% CAGR that we gave out. So incredibly bullish about the cloud business as a whole as a result of AI enterprise and the system of work. All the things that we've been saying for a while now continue to come due with our customers. And I'll tell you, having spent a lot of time with them. they're all incredibly excited about what we are delivering to them every single day, and it's a credit to the entire Atlassian team.

### **Operator**

Thank you. That's all the questions we have time for today. I will now turn the call over to Mike for closing remarks.

### **Michael Cannon-Brookes**

*Co-Founder, CEO & Director*

Thanks, everyone, for joining the call today. As always, thank you to all of the Atlassian team for an amazing quarter. To all of those on the call, we appreciate your thoughtful questions and continue to support and have a kick ass day, and let's go.

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