

Atlassian Corp Plc (TEAM)

\$172.92 (As of 05/06/20)

Price Target (6-12 Months): **\$182.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: F

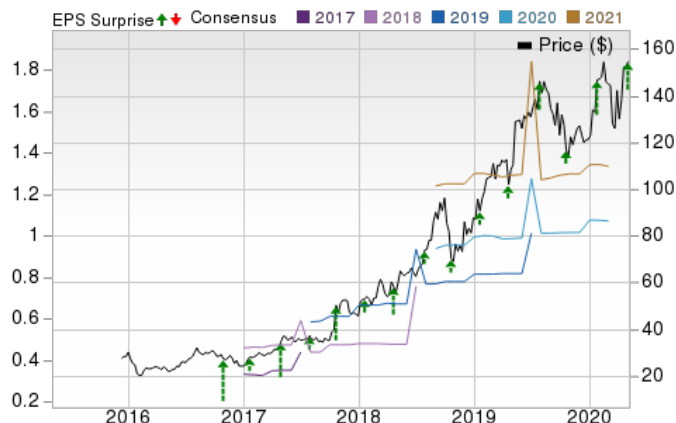
Growth: A

Momentum: B

Summary

Atlassian recently reported stellar third-quarter fiscal 2020 results. The company is benefiting from the rising demand for remote working tools amid coronavirus-led global lockdown. Improvement in product quality and performance, multiple product launches, transparent pricing and the unique sales strategy is a positive. The expansion of its product portfolio through acquisitions is expected to accelerate growth momentum. Also, integration with leading applications like Slack, Dropbox, and Adobe, along with partnerships, will likely expand its paying-user base. Nonetheless, intensifying competition remains a major concern. Moreover, the departure of the company's President Jay Simons might disrupt the smooth functioning of Atlassian's sales strategy.

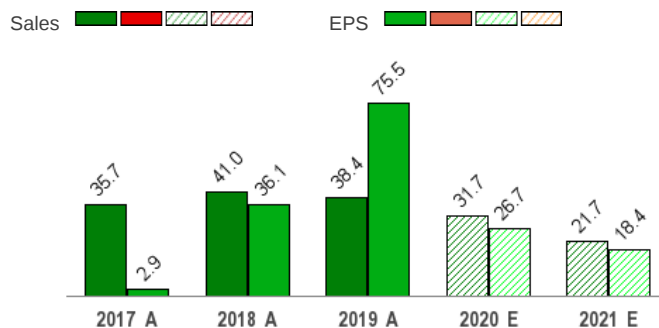
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$179.31 - \$107.00
20 Day Average Volume (sh)	1,867,166
Market Cap	\$21.1 B
YTD Price Change	43.7%
Beta	0.98
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 22% (56 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.0%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	15.5%
Expected Report Date	07/23/2020
Earnings ESP	-1.7%
P/E TTM	157.2
P/E F1	158.6
PEG F1	6.9
P/S TTM	13.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	436 E	481 E	496 E	515 E	1,940 E
2020	363 A	409 A	412 A	409 E	1,593 E
2019	267 A	299 A	309 A	335 A	1,210 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$0.36 E	\$0.30 E	\$0.30 E	\$1.29 E
2020	\$0.28 A	\$0.37 A	\$0.25 A	\$0.20 E	\$1.09 E
2019	\$0.20 A	\$0.25 A	\$0.21 A	\$0.20 A	\$0.86 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

Overview

Atlassian is a global leader and innovator in the enterprise collaboration and workflow software space. The company offers a suite of cloud-based software solutions, which help organizations, collaborate and manage their workforce, such that the teams work better together.

Initially, Atlassian's products were designed to help software developer teams communicate, collaborate, and manage the design and delivery cycle of software. However, over the years, uses of Atlassian's solutions have expanded virally to teams across diverse industries. With its sustained focus on developing new collaboration tools, the company now caters to the need of several corporate functions, including finance, legal, human resource and IT support.

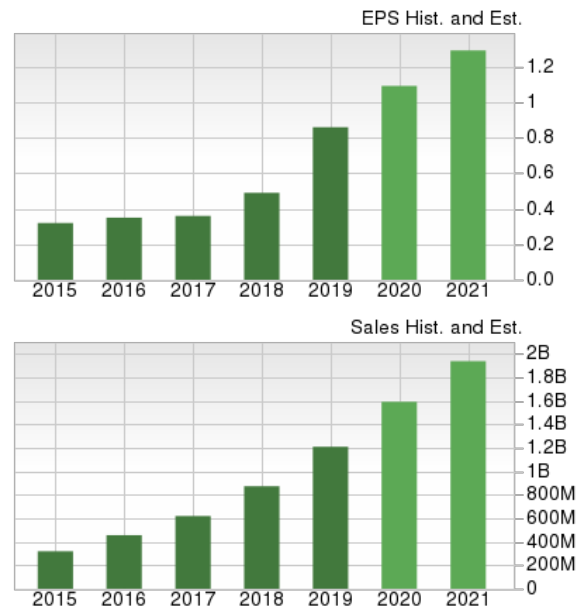
The company has more than 164,000 customers in 190 countries and virtually across every industry sector. Over two-thirds of the Fortune 500 companies, including General Motors, Bank of America Merrill Lynch, and Verizon, are currently using at least one Atlassian solution.

The company has 13 sets of solutions divided under four product categories — Plan, Track, & Support; Collaborate; Code, Build, & Ship; and Security & Identity. Among these 13 products, Atlassian's JIRA, Confluence, Bitbucket, and Trello are the most notable ones.

The company's JIRA team collaboration software leads among the software developer community. Atlassian's sustained focus on adding new features to JIRA software as per customer requirements has helped it stay ahead of its competitor's offerings including Broadcom's Rally Software, Microsoft's Azure DevOps Server and IBM's Rational.

With the Confluence solution, teams can create, share, and collaborate on content. Atlassian's Bitbucket is used by professionals for code sharing. The Trello software adds a visual component that helps organizations keep track of who is working on what project and how far they have reached.

Atlassian generates revenues primarily in the form of subscriptions, maintenance, perpetual license and other sources. Subscription and maintenance, together, contributed nearly 85% to fiscal 2019 revenues of \$1.2 billion.



Reasons To Buy:

- ▲ Due to the heightening coronavirus fears, organizations across the globe are advising employees to work from home unless their role on-site is essential to the company. As the demand for offsite working increases, companies offering remote-working software and services like Atlassian are expected to grow exponentially. The company's Confluence and Trello applications can help organizations collaborate and manage staffs who are currently working from different locations amid coronavirus-induced global lockdown.
- ▲ Atlassian is a global leader and innovator in the enterprise collaboration and workflow software space. The company is poised to grow given the rising demand for automated and improved communication system within organizations. Furthermore, the company will benefit from the ongoing digitalization of work from organizations and the rapid adoption of cloud services. According to a MarketsandMarkets report, the global enterprise collaboration market is likely to reach \$48.1 billion by 2024 from \$31 billion in 2019, indicating a CAGR of 9.2%.
- ▲ Atlassian is currently focused on selling more subscription-based solutions. This unique business model is helping the company in generating stable revenues while expanding margins. Subscription-based service is a high margin business as the incremental cost to add a user declines as the company's user base increases. Subscriptions have been the company's fastest-growing segment which has witnessed CAGR of over 65% between 2014 and 2019. We believe that the strategy will continue to improve the company's top and bottom-line performances.
- ▲ Atlassian's differentiated and easy-to-use products, along with a low and transparent pricing model, help it expand the client base, which has tripled in the last four years. The company has designed and built its team collaboration, application development, and workflow tools in such a way that organizations can easily set up and adopt those without any support. Furthermore, the company has a complete transparent pricing model as prices of all its products are available on the website. Atlassian does not offer any discount to any enterprise, big or small which attracts organizations. Moreover, the company's product prices are significantly lower in comparison to solutions offered by its competitors, including Broadcom, Microsoft, and IBM, which is driving the adoption of its products. Atlassian's approach of pursuing customer volume and targeting every organization regardless of the size, industry, and geography is anticipated to continue driving its top- and bottom-line performances over the long run.
- ▲ Atlassian has a unique go-to-market approach and sells its products mostly online, which contribute approximately 75% to revenues. The company also sells products through third-party vendors which contribute the remaining 25% to revenues. The strategy has helped the company keep sales expenses rock bottom, thereby boosting its margins. Furthermore, what it saves from lower sales and marketing, the company spends in research and development to roll out new products as well as raise the profile of its existing solutions.
- ▲ Atlassian has made strategic acquisitions to expedite growth. Acquired in 2010, Bitbucket has helped the company expand its foothold in the software developer community. The product allows software developers to build, test and deploy code efficiently. The acquisition of Trello in 2017 helped Atlassian expand its reach across multiple industries. Notably, Trello software adds a visual component that helps organizations keep track of who is working on what project and how far they have reached. Last year, the company acquired three businesses – Code Barrel, Good Software, and AgileCraft. These acquisitions have not only expanded Atlassian's product portfolio but have also added to the customer base and incremental revenues. This apart, integration with leading applications like Slack, Dropbox, and Adobe, along with partnerships with the likes of Amazon's AWS and Microsoft, will likely expand the Atlassian paying-user base.
- ▲ Atlassian has a strong balance sheet with ample liquidity position and no debt obligations. Cash and equivalents were \$2.3 billion as of Mar 31, 2020. Moreover, the company has generated \$569 million of operating cash flows in the trailing 12 months. It is to be noted that Atlassian has been able to regularly increase its cash balance as well as its cash from operations since fiscal 2017. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Atlassian is poised to benefit from the rising demand for remote working tools amid coronavirus-led global lockdown. Improvement in product quality, product launches, transparent pricing and online sales strategy are positives.

Reasons To Sell:

- ▼ The team collaboration and workflow-software market is flooded with a wide range of competitors with distinctive strength. Atlassian's JIRA software matches up with solutions like Broadcom's Rally Software, Microsoft's Azure DevOps Server and IBM's Rational. Its Confluence product competes with Slack, Salesforce Chatter, and Google's Apps for Work. Therefore, Atlassian will have to continue delivering prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. Moreover, we believe Atlassian's dominance could be further challenged by new entrants, thus forcing it to resort to competitive pricing to maintain and gain further market share.
 - ▼ The departure of Atlassian president, Jay Simons, in July 2020 could impact the smooth run of the company's sales strategy. Notably, joining in 2008, Simons has built and lead Atlassian's unique go-to-market sales strategy of selling most of its products through online (approximately 75% of overall revenues). Transparent pricing and a no-discount approach are additional features to its sales strategy. The approach helps Atlassian save sales and marketing expenses, while boosting margins. Therefore, we caution that Simon's absence might disrupt Atlassian's sales approach.
 - ▼ As Atlassian has a software-as-a-service (SaaS) based business model, the company is vulnerable to security breaches and cyber attacks. Any security breach can tarnish its image and influence negative customer confidence, thereby impacting client retention and renewal rates.
 - ▼ Atlassian has been focusing on acquisitions to add features to its platform and fuel growth. Since its inception, the company has acquired 13 companies which have helped it enhance its product capabilities, increase the paying-user base and generate incremental revenues. Nonetheless, frequent acquisitions add to integration risks. Furthermore, increased focus on acquisitions could negatively impact Atlassian's balance sheet in the form of a high level of goodwill, which totaled \$633 million, or approximately 17% of its total assets as of Mar 31, 2020.
 - ▼ Atlassian currently has a trailing 12-month Price/Book Value (P/B) ratio of 24.3. This level compares unfavorably with what the industry saw over the past year. Hence, the valuation looks slightly stretched from a P/B perspective.
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Intensifying competition from the likes of Slack, Salesforce Chatter, Microsoft's Azure DevOps Server is likely to make Atlassian resort to competitive pricing in an effort to maintain and gain further market share.

Last Earnings Report

Atlassian Q3 Earnings & Revenues Top Estimates, Up Y/Y

Atlassian reported stellar third-quarter fiscal 2020 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate as well as marked significant year-over-year improvements. The company's non-IFRS earnings per share of 25 cents beat the consensus mark by 25% and jumped 19% year over year. Robust revenue growth and better cost management chiefly boosted Atlassian's fiscal third-quarter earnings.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	4.02%
EPS Surprise	25.00%
Quarterly EPS	0.25
Annual EPS (TTM)	1.10

Quarter in Detail

The company reported fiscal third-quarter revenues of \$411.6 million, which surpassed the Zacks Consensus Estimate of \$396 million. Moreover, quarterly revenues surged 33% year on year, mainly driven by new client additions and increased pricing on certain products. During the reported quarter, Atlassian added 6,261 net new-clients, bringing the total customer count to 171,051.

Segment-wise, Subscription revenues jumped 47% year over year to \$244.2 million. Sales from the Maintenance business increased 21% to \$119.6 million, while Perpetual License business revenues declined 9% to \$21 million. Other revenues climbed 29% year over year to \$26.8 million.

The company's non-IFRS gross profit increased 32% year over year to \$353.1 million. However, non-IFRS gross margin contracted 50 basis points (bps) to 85.8% in the fiscal third quarter.

Atlassian's non-IFRS operating income grew 33% year over year to \$77.2 million, while margin remained flat at 18.8%.

The company ended the fiscal third quarter with cash and cash equivalents and short-term investments of \$2.07 billion. During the quarter, the company generated operating and free cash flow of \$156.3 million and \$140.3 million, respectively.

Outlook

Atlassian stated that the coronavirus outbreak had negligible impact on its fiscal third-quarter results. However, the company cautioned that many of its customers, including small businesses as well as big organizations, are economically sensitive and have been adversely impacted by the pandemic and related setbacks. Therefore, Atlassian believes the impact of the pandemic could increase in its fiscal fourth-quarter performance. As a result, the company issued a wider-than-usual guidance range for the current quarter.

For the fiscal fourth quarter, the company anticipates revenues to be between \$400 million-\$415 million, suggesting year-over-year growth of 19-24%.

Non-IFRS gross margin is anticipated to be approximately 85%. Non-IFRS operating margin is projected to be in the range of 14-17%. The company expects to report non-IFRS earnings per share in the 17-22 cents band.

Additionally, Atlassian has updated its fiscal 2020 outlook. The company now projects revenues of \$1.584-\$1.599 billion compared with its previous forecast of \$1.59-\$1.60 billion.

Non-IFRS gross margin is now expected to be approximately 86% compared with the earlier projection of 85.5-86%. Non-IFRS operating margin is now projected at 21.5-22.5%, higher than the previous expectation of 21-22%.

The company also raised its fiscal non-IFRS earnings outlook to \$1.06-\$1.12 per share from the \$1.03-\$1.09 projected previously.

Operating and free cash flows are now anticipated in the range of \$512-\$542 million and \$445-\$475 million, respectively. Earlier, the company had projected an operating cash flow of \$535-\$545 million and free cash flow of \$475-\$485 million.

Recent News

On Mar 9, 2020, Atlassian revealed about a new study wherein it found that American employees want businesses to play a stronger leadership role on key social issues, including healthcare, environment, and cost of living.

On May 24, 2019, Atlassian revealed that Scott Farquhar and Mike Cannon-Brookes, co-CEOs, co-founders and directors of the company, have adopted a new trading plan in February 2019. The new trading plan is in accordance with the guidelines specified under Rule 10b5-1 of the Securities and Exchange Act of 1934.

Valuation

Shares of Atlassian increased 35.5% in the year-to-date (YTD) period and 47.5% over the trailing 12-month period. Stocks in the Zacks sub-industry increased 5.9%, while the Computer & Technology sector declined 5.1% YTD. Over the past year, while the Zacks sub-industry plunged 4.1%, the sector gained 3.3%.

The S&P 500 Index has declined 12.1% YTD and 3.8% in the past year.

The stock is currently trading at 10.45X forward 12-month sales, which compares to 6.21X for the Zacks sub-industry, 3.4X for the Zacks sector and 3.19X for the S&P 500 index.

Over the past three years, the stock has traded as high as 11.76X and as low as 3.54X with a 3-year median of 6.99X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$182 price target reflects 11X forward 12-month sales.

The table below shows summary valuation data for TEAM

Valuation Multiples - TEAM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	10.45	6.21	3.40	3.19
	3-Year High	11.76	6.65	3.59	3.44
	3-Year Low	3.54	4.87	2.62	2.76
	3-Year Median	6.99	5.72	3.21	3.16
P/B TTM	Current	24.25	6.73	4.49	3.75
	3-Year High	30.66	8.23	5.38	4.55
	3-Year Low	3.36	4.24	3.58	3.02
	3-Year Median	11.31	6.18	4.56	3.91
EV/Sales TTM	Current	11.57	6.93	3.79	2.80
	3-Year High	12.73	7.78	4.43	3.43
	3-Year Low	3.95	4.54	3.05	2.22
	3-Year Median	8.40	6.26	3.80	2.96

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Twilio Inc (TWLO)	Outperform	1
Clarivate Analytics Plc (CCC)	Neutral	4
Evolent Health Inc (EVH)	Neutral	3
j2 Global Inc (JCOM)	Neutral	3
Pinterest Inc (PINS)	Neutral	3
Sogou Inc Sponsored ADR (SOGO)	Neutral	2
SolarWinds Corp (SWI)	Neutral	3
Veeva Systems Inc (VEEV)	Neutral	3

Industry Comparison Industry: Internet - Software				Industry Peers		
	TEAM	X Industry	S&P 500	PINS	SOGO	TWLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	2	1
VGM Score	B	-	-	B	A	C
Market Cap	21.08 B	499.78 M	19.11 B	10.15 B	1.33 B	17.10 B
# of Analysts	11	6	14	4	2	12
Dividend Yield	0.00%	0.00%	2.2%	0.00%	0.00%	0.00%
Value Score	F	-	-	F	A	F
Cash/Price	0.12	0.12	0.06	0.15	0.86	0.12
EV/EBITDA	-37.90	-0.03	11.69	-6.47	1.22	-68.16
PEG Ratio	7.15	3.01	2.48	NA	0.89	NA
Price/Book (P/B)	25.71	4.97	2.58	4.99	1.25	3.96
Price/Cash Flow (P/CF)	569.69	22.81	10.40	NA	8.64	NA
P/E (F1)	164.39	42.95	18.81	NA	17.95	NA
Price/Sales (P/S)	13.89	3.82	1.97	8.37	1.14	13.51
Earnings Yield	0.63%	0.57%	4.99%	-0.40%	5.57%	-0.20%
Debt/Equity	0.00	0.13	0.75	0.09	0.00	0.14
Cash Flow (\$/share)	0.30	-0.00	7.01	-2.34	0.39	-0.77
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.87%	NA	NA	NA
Proj. EPS Growth (F1/F0)	27.06%	-1.66%	-9.86%	NA	-29.63%	-255.73%
Curr. Cash Flow Growth	-48.25%	1.73%	5.88%	3,062.97%	-11.69%	119.87%
Hist. Cash Flow Growth (3-5 yrs)	2.13%	18.18%	8.55%	NA	NA	NA
Current Ratio	0.97	1.46	1.25	11.73	2.88	8.34
Debt/Capital	0.00%	19.18%	44.23%	7.89%	0.00%	12.41%
Net Margin	-13.37%	-14.89%	10.87%	-120.48%	7.60%	-28.85%
Return on Equity	0.84%	-13.19%	16.36%	-72.34%	9.74%	-5.06%
Sales/Assets	0.45	0.62	0.55	0.52	0.77	0.25
Proj. Sales Growth (F1/F0)	31.64%	7.83%	-2.18%	14.02%	7.87%	21.99%
Momentum Score	B	-	-	A	D	D
Daily Price Chg	1.97%	0.00%	-1.27%	-14.85%	3.33%	5.00%
1 Week Price Chg	1.49%	0.08%	0.53%	-4.22%	0.30%	-1.79%
4 Week Price Chg	22.92%	13.20%	0.68%	5.29%	-0.29%	33.44%
12 Week Price Chg	14.11%	-12.26%	-22.30%	-25.98%	-24.22%	-2.80%
52 Week Price Chg	47.58%	-16.10%	-11.55%	-39.95%	-38.00%	-7.03%
20 Day Average Volume	1,867,166	538,626	2,470,143	12,790,105	590,299	2,412,947
(F1) EPS Est 1 week change	17.33%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	15.49%	0.00%	-6.52%	9.89%	0.00%	0.00%
(F1) EPS Est 12 week change	9.01%	-12.31%	-14.84%	1.20%	-32.94%	4.39%
(Q1) EPS Est Mthly Chg	-84.38%	0.00%	-12.48%	16.67%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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