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# Atlassian Valued at \$3.3 Billion Selling Business Software Sans Salespeople

By Douglas MacMillan



Atlassian founders and co-chief executives Scott Farquhar and Mike Cannon-Brookes

Atlassian

Atlassian, an Australian maker of online collaboration tools for businesses, is gunning for the same market as fast-growing startup Box Inc. And like Box, Atlassian is also now one of the world's most valuable venture-backed companies with a new investment valuing the company at \$3.3 billion.

The similarities stop there.

Atlassian, founded in 2002 by co-chief executive officers Scott Farquhar and Mike Cannon-Brookes, builds software to help IT departments, computer programmers and other professionals work together online. It's one of several young technology companies, including Box and [Workday](#) Inc., to move business applications to the Web, lowering the cost of licenses and freeing workers to store and access files from anywhere.

But Atlassian is breaking from the mold of most enterprise software companies, which invest heavily to employ armies of salespeople to push products to new customers.

Atlassian doesn't employ a single salesperson. With the money it saves, the company invests heavily on research and development, building products with the aim that they are good enough to spread by word of mouth (helped along by a modest marketing budget for billboards and online ads).

"Fifteen years ago, as long as you had the best distribution you would win," Mr. Farquhar said in an interview. "It didn't matter whether Oracle was worse than SAP. These days, people are making decisions based on how good the products are."

Mr. Farquhar said Atlassian is profitable as a result, and it has been cash-flow positive each quarter for the past 12 years. Its sales have risen an average of 40% annually over the last five years, and its revenue run-rate, or the amount the company would generate by extrapolating current revenue over the next 12 months, is over \$200 million.

Atlassian's profitability stands in stark contrast to Box, the online-storage company founded just three years later that last month filed its public IPO prospectus. Last year, Box doubled its revenue to \$124 million but it racked up a loss of nearly \$169 million. Box spent more than 100% of its revenue — or \$171 million — on costs like sales commissions, advertising and stock compensation. Box also had negative operating cash flow of \$91.8 million.

Atlassian says it spends just 15% to 20% of its annual revenue on sales and marketing and a much greater share, 35% to 40% of sales, on research and development. Box spent about 37% of its sales last year on R&D.

A spokeswoman for Box declined to comment, citing quiet-period restrictions for companies going public.

Atlassian's sales costs could grow over time, however. The company initially served small teams of developers, who often seek out the highest-quality software on their own. But as the company expands and aims to sell tools to larger businesses, it may need to bring in salespeople who can help manage those relationships, said Thomas Murphy, a research director at Gartner Inc. About

35,000 organizations use Atlassian products, up from nearly 12,000 in July 2010.

“Eventually, it’s not just the developer making the decision any more,” Murphy said. “Now Atlassian is trying to figure out, where and how do we service really big accounts? Often they want a sales guy.”

Atlassian also differs from Box and most other private technology companies of its size by never taking a direct injection of outside funding. Like the company’s previous funding from Accel Partners in 2010, Atlassian’s employees will cash out of some shares at a valuation of \$3.3 billion, according to a person familiar with the transaction. In the tender offer, T. Rowe Price and Dragoneer Investment Capital will purchase up to \$150 million from existing shareholders.

Because Atlassian is generating cash every year that it then reinvests, the company is in no hurry to raise money in the public markets, Mr. Cannon-Brookes said. “We don’t have the pressure other companies have to get through a public offering,” he said.

Still, Atlassian has more than 800 employees – some who have worked there for more than 10 years – and the company needed to give them liquidity as it puts off an IPO. Employees will be able to sell a portion of their shares in the secondary financing. Accel, the only previous outside backer, will also sell a portion of its shares, said Rich Wong, a partner at Accel and member of Atlassian’s board. Msrs. Farquhar and Cannon-Brookes, who cashed in some of their shares in the 2010 financing, are not selling in this funding round.

Atlassian’s valuation of \$3.3 billion is roughly eight times the valuation from 2010, when Accel purchased shares valuing the company at \$400 million, according to a person familiar with the matter.

Atlassian chose T. Rowe Price and Dragoneer because their expertise in the public markets may eventually be needed when it comes time to do an IPO, Mr. Cannon-Brookes said.

Atlassian’s most popular product is Jira, a system for creating and tracking service-desk tickets across an organization. Over the years, it’s added Confluence, a tool for team collaboration and document-sharing; Stash, an application for sharing code; and HipChat, a chat program the company acquired in 2012.

While Atlassian has added new types of services, its founders say it has no intention of competing directly with Box and larger players like Google Inc. and Microsoft Corp. in the crowded market for online storage. “We may have a feature around storing files but it’s not the hanger we’re going to hang our hat on,” Mr. Farquhar said.

Atlassian more directly competes with companies including Rally Software, which went public last year, and GitHub, a San

Francisco-based startup that raised funding in 2012 in a round of funding valuing it at about \$750 million.

—Evelyn M. Rusli contributed to this article.

**(Correction:** A previous version of this article incorrectly reported that GitHub raised a funding round last year. The investment came in 2012.)

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