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# Axon Enterprise, Inc. (AAXN)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

**Luke Larson**

*President, Axon Enterprise, Inc.*

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*

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## OTHER PARTICIPANTS

**James E. Faucette**

*Analyst, Morgan Stanley & Co. LLC*

**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

**Joseph Osha**

*Analyst, JMP Securities LLC*

**Scott Berg**

*Analyst, Needham & Co. LLC*

**Charlie Lowell Anderson**

*Analyst, Dougherty & Co.*

**Mark Strouse**

*Analyst, JPMorgan Securities LLC*

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

**William Verity Power**

*Analyst, Robert W. Baird & Co., Inc.*

**Brian Gesuale**

*Analyst, Raymond James & Associates, Inc.*

**Andrew Uerkwitz**

*Analyst, Oppenheimer & Co., Inc.*

## MANAGEMENT DISCUSSION SECTION

**Operator:** You have joined the meeting as an attendee and will be muted throughout the meeting.

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### Andrea James

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

Hello everyone. Welcome to Axon's Second Quarter 2020 Earnings Conference webinar. I'm Andrea James, SVP of Corporate Strategy and Investor Relations. Thank you for joining us over Zoom. We do appreciate that today is a particularly crowded earnings day and our thoughts are with those of you who are dealing with the tropical storm.

And today, we have available Axon's CEO, Rick Smith; President, Luke Larson; CFO, Jawad Ahsan; Chief Revenue Officer, Josh Isner; and Chief Product Officer, Jeff Kunins. And we feel great bringing you the whole team.

First, we're going to give prepared remarks and then we'll bring our analysts on the camera for questions. Analysts, your line should be muted and try to keep them muted until it's time to ask the question and a follow-up. If you have a third question, you can let us know via the chat window. We'll circle back around depending on time.

Axon's moderators, Mark, Doug and Angel will be unmuting your lines or you can mute them yourselves when we call on you. If you get into trouble, type your question in the chat window, we'll read it aloud. And hope everyone has had a chance to read the Shareholder Letter, which we released after the market closed. You can find it at [investor.axon.com](http://investor.axon.com).

Our remarks today are meant to build upon the information in that letter, which is very robust. If for some reason, there's an Internet outage beyond our control or we lose Zoom connectivity, we'll make every effort to post a copy of our prepared remarks to [investor.axon.com](http://investor.axon.com) this evening.

During this call, we will discuss our business outlook and make forward-looking statements. Any forward-looking statements made today are pursuant to and within the meaning of the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

These comments are based on our predictions and expectations as of today, are not guarantees of future performance. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. These risks are discussed in our SEC filings.

Okay. Please go ahead, Rick.

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### Patrick W. Smith

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Thank you, Andrea, and thank you, everyone, for joining us today. During our last quarterly update in May, one of the biggest issues we addressed was how we were managing our business through a pandemic. One quarter later, we have so much more to talk about, because we've all watched thousands of people take to the streets demanding police and public safety reform.

Our company's reason to exist, our mission, is for exactly moments like right now – Protect Life. We are on a mission to make energy weapons so safe and so effective that we make bullets obsolete. We preserve truth. Body cameras protect officers to bad claims and citizens from bad behavior, increasing transparency and reducing social conflict.

We accelerate justice with advanced cloud software and AI that have potential to make the entire justice system more fair and more effective. When you think of gun violence, social conflict and a fair justice system, most people don't think of these as technology problems, but as political problems. We frame them as problems where technology can play a transformative role.

Now, look, technology is no panacea and it cannot solve these problems for us. However, almost any problem can be solved faster and more effectively with the right technology tools to help people solve them. So, as we look at all the pain and anger today, we ask ourselves what can we do to help promote equity. Our superpower is creating technology to address social problems that many others see as impractical. So, we've added a fourth mission to inspire our work, centering racial equity, inclusion and diversity, which might make you wonder how can you build technology to promote equity? If you want to hear specific examples of how we are using technology to support this new mission, you'll have to wait and come join us at our conference, Accelerate, later this month. We believe Axon can't change the policies and cultural norms in policing, but we can build the tech tools to help our customers do it. We are hearing consistent and emphatic calls for change from the most prominent leaders of law enforcement and we are excited to build the tools to help them.

Back when we began investment in body cameras in 2008. We faced innumerable skeptics. But we knew that body cameras were the future. And body cameras started to gain traction after a wave of protests began in Ferguson, Missouri, in 2014, which was really the birth of the Black Lives Matter movement. At the time, we were delivering the right capabilities at the right time, and our investments in cloud software made body cameras suddenly feasible and affordable for all agencies. We invested in body cameras when nobody believed they were possible. And as the investment communities well know us, our core body camera and software business lost money from 2008 to 2019 when it began to turn to profit, those are 11 years of continuous investment in R&D to prove out the feasibility and sustainability of body cameras are now the foundation for our next leg of growth.

In 2020, we're humbled to be developing solutions that once again find themselves relevant to a national conversation about policing. We do not shy away from these hard discussions and we see the pain and the nuance behind demands to defund police. This is really all about reforming and reshaping the justice system, and these are issues that we engage with daily, they're not new to us. We invite input from a broad spectrum of voices. We have the industry's most relevant and productive ethics board. With renewed calls for reform, we can leverage technology and policy changes to improve public safety. We believe that our product moment fit is why our pipeline continues to strengthen as communities see the power of our platform to drive positive change.

And now with that, I'm going to turn it over to our President, Luke Larson.

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## Luke Larson

*President, Axon Enterprise, Inc.*

Thanks, Rick. In a few weeks, on August 25, as Rick mentioned, we'll be hosting our annual technology summit, Axon Accelerate. Due to COVID, we've shifted this to a virtual event, which has allowed us to grow the event to reach a much bigger scale of our audience and customers. We're also able to offer a cutting edge virtual reality track. If you'd like to attend, go to [axon.com](http://axon.com) and register. We're very excited to share some key customer updates and product announcements on how Axon can help officers and the communities they serve ensure everyone makes it home safe.

Our strategic priorities in 2020 are to continue to execute in our core market, while accelerating our path to market in new product categories. Our engineering and product teams are solving some of the most difficult problems at the intersection of the physical and digital worlds to advance our mission. This is also a year where we have walked beside our customers in one of the most challenging environments they have ever faced. Our customer-facing teams have built amazing relationships with our customers, not by selling devices or software, but by becoming trusted advisers on how we can help customers with the important problems they are facing.

We are helping them to source mission-critical technology amid greater public budget scrutiny, helping them to access federal dollars where available, and we aspire to be true partners to our customers. We are emphasizing the mission-critical importance of our OSP 7+ offering. De-escalation, transparency and productivity have never been more critical to police in community relations during this watershed moment and our offering to address these exact situations. This emphasis drove our Q2 results with revenue up 26% year-over-year. This is a strong performance in the context of one of the toughest macros we faced, a global pandemic and massive economic uncertainty. Our strong results were also driven by a stellar quarter for International, up 80% year-over-year to \$34 million. This is on top of 38% international revenue growth in Q1. We are just getting started in large markets such as Brazil and India, and three countries top \$1 million in revenue for the first time in the quarter; Indonesia, Panama, and Thailand.

Turning to the bottom line, GAAP income was affected by stock-based compensation and tax expense. Adjusted EBITDA was \$28 million, reflecting a 20% margin, which showcases our cost discipline and some travel savings related to COVID.

Turning to operations, you will see the inventory build on our balance sheet. This was very intentional. We have adopted well – we've adapted well to an ongoing supply chain environment that we've never seen. Recall that last year we diversified our supply chain in global manufacturing footprint due to tariffs, and it turns out that those initiatives positioned us well to handle COVID-19. Even so, given the number of unforeseen challenges that could lie ahead and the fact that 2020 is full of curveballs, we've elevated our inventory build in the first half. This safety stock helps minimize shipping disruptions and also prepares us for some key Axon Body 3 shipments to major customers in Q3, and TASER orders we are expected to fulfill in the back half the year. Currently, we expect Q3 inventory levels to remain about the same. And by the end of the year, they could come down by as much as 10%.

And with that, I'll turn it over to our Chief Financial Officer, Jawad.

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## Jawad A. Ahsan

*Chief Financial Officer, Axon Enterprise, Inc.*

Thanks, Luke. Our second quarter performance was a testament to our ability to deliver sharp execution in a challenging environment. Although demand remained robust, domestic customers were often banged to constraints dealing with COVID-19, personnel outages, employee safety concerns, and caution about uncertain budgets.

Even with these challenges, Q2 revenue was generally in line with our pre-pandemic expectations. Domestic body camera bookings remained strong and our international expansion continues to accelerate. Our results in the quarter speak to our resilience, as a company, and the critical importance of our products in our customers' lives.

A few years ago, we set out on a journey to transform into an enterprise software company that also sells devices, and our performance this past quarter further solidifies that path. High-margin annual recurring revenue grew 42% to \$183 million. Software revenue was a record 30% of total sales, and we sustained a SaaS net revenue retention of 119%.

Turning to our outlook, we're watching to see whether states shut down in the fall, which could bring renewed caution on budgeting. There is just enough outside of our control regarding COVID-19 that we did not reinstate formal full year guidance. We did provide a range that we are managing toward for Q3. There are two factors to keep in mind when considering our interim Q3 guidance. The first is that we made a strategic and intentional decision to prioritize growing our cloud user base and adding nodes to our network in the early days of our Software and Sensors business. As a result, we have contracts with strategically important agencies, both domestically and internationally, that have served as beachhead accounts that come with a lower margin than average.

The second factor is that the majority of our multi-year contracts come with hardware refreshes at periodic intervals, which come at a lower margin than the SaaS portion of these contracts. The confluence of these two factors will conspire in Q3 to be a headwind on our gross margins, which we expect will normalize by Q4.

Anticipating a question we often receive these days, we are not seeing changes in buying activity due to police defunding concerns. In fact, we've seen some anecdotal acceleration of body camera buying decisions due to agencies wishing to provide transparency to their communities.

We remain confident in our long-term multi-year outlook. We're privileged to be working on solutions to some of society's most entrenched challenges. We are just getting started in several new markets internationally and in several new software product lines. Importantly, the addition of capital from our recent follow-on offering further strengthened our balance sheet and provides us with even greater flexibility to continue investing for growth.

At quarter-end, we had \$675 million of cash and investments and zero debt. Before we move to Q&A, I'd like to share some insight with you as to how we view the company relative to the investments we're making and where we're headed.

The first phase of the company's growth, let's call it Axon 1.0, saw us establishing the TASER business and building an unparalleled sales channel with law enforcement. The second phase of our growth, Axon 2.0, saw us continuing to innovate with the introduction of smart devices, including body-worn and in-car cameras, which integrated seamlessly with our customer-focused cloud network.

Now, we're entering the next phase of our growth, Axon 3.0. We're building a rapidly evolving public safety ecosystem with both connected devices in intuitive workflows, powered by AI, with the increasingly powerful Axon Cloud as our centerpiece. Our mission with this ecosystem is to protect life, capture truth and accelerate justice. Now more than ever, society is driving towards these outcomes, and Axon is uniquely positioned to partner with our customers and deliver on all three.

And with that, Andrea, let's move to questions.

## QUESTION AND ANSWER SECTION

### Andrea James

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thank you, Jawad and team. Thanks so much. Moderator, can you bring everyone up into gallery view? Okay. Thank you. We'll take our first question from James Faucette with Morgan Stanley. Go ahead, James.

### James E. Faucette

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thanks very much. Wanted to ask the team, Rick, Luke, obviously, there's a lot of pressure on police departments that at the very least to have improved efficiencies, et cetera. Where are we now in terms of some of the software products like Records, Dispatch, et cetera, to really effectively reduce time that officers have to spend on paperwork, et cetera, and so they can spend more time in the field and gain efficiencies that way, and how well are you being able to communicate the current capabilities to the customers?

### Patrick W. Smith

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Well, I would say the best answer to that question will be if you tune in to Accelerate. We have some pretty significant new announcements and we'll be showcasing some capabilities that will have a big impact on efficiency, one of which we've been in field trials. It'll go – it's going in the full release, and I can tell you that one agency in Canada was testing one of those capabilities said it was absolutely transformative, they had two homicides happening in the short period time and for a small agency, these create a tremendous levels of workload. And one of our new AI products actually helped them handle two simultaneously that they said without us they would have been a risk actually potentially having those cases at risk of getting disqualified, because they would not have been able to process all the paperwork and evidentiary data to meet the judicial deadlines.

So stay tuned at Accelerate for more. But both Records and Dispatch are live in the field and we're now beginning to start really linking some of the AI capabilities to power the creation of the structured data in those systems from the unstructured data we capture with our body cameras.

### James E. Faucette

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. And then as a follow-up, you mentioned Canada, but it was interesting at least to us to see the big jump in international revenue. Where are you and how should we be thinking about the ability that you have in other international markets to take the success of TASER and take it over to body cameras and some of the other software products in those markets?

### Patrick W. Smith

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Josh, why don't I have you start answering that as the Head of Sales.

### Joshua Isner

*Chief Revenue Officer, Axon Enterprise, Inc.*

A



Yeah. Thanks very much, James, for the question. Ultimately, I think we see a lot of similarities regarding where international is now versus where domestic was four or five years ago when we were very much following the same playbook. We're going to be focused on fewer markets than the entire world and we're going to continue to build out a few markets out of time over the next few years.

I think the investments we made in our Tier 1 markets a couple of years ago building really talented teams there, focusing on expanding both TASER and getting our early body camera and DEMS customers there are why you're starting to see the revenue results now. And as we continue to build bookings up internationally, we expect revenue to follow in future years. And so, our focus is to build very, very talented teams in the markets that we see as potential movers. And we'll start to introduce some of our newer products into those markets that are already showing great results. And as more and more markets kind of come up to speed, we'll introduce our newer and newer products as those markets become larger markets in deployments of body cams and TASERS.

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**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thanks, James. Okay. We'll take the next question from Keith Housum at Northcoast. Go ahead, Keith.

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**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

Q

Thanks. Good afternoon, guys. Rick, in terms of the budget relief which the government is considering, is there any impact to your guidance if budget relief is offered to the state and local agencies over the next several months?

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**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Yeah. I think it'd just be pretty speculative for us to speculate on what might go in there. Obviously, if there's a lot of money specifically earmarked to state and local agencies, we suspect in this environment that it would end up being focused towards a lot of the transparency tools, things we're doing with body cameras, et cetera.

We've also seen a lot of interesting corrections growing around the TASER weapons, because COVID-19 still remains a big issue and particularly in confined environments. So, there's a more focus on maintaining safe distances, traditionally in corrections. If you have an inmate that decides that they're going to become resistant to following the procedures they have to, that has meant correctional officers suiting up and having to go hands-on in a very close, personal, you're covered in each other's sweat and other things you'd really worry about.

So, our plan does not account for any additional federal funding. If it comes in, I think there could be a little bit of upside, but I wouldn't – I don't expect really too much.

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**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

Q

Fair enough. Fair enough. Jawad, just a little bit of housekeeping here. In terms of the EBITDA margins for the next quarter, what's the impact of your large contracts on your EBITDA margins?

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**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah. That was part of what we signaled with our Q3 guidance Keith, we have some large international customers. We have a couple of international – sorry, domestic customers that have we consider to be strategic



beachhead accounts, where their margins are lower on the camera contracts. And as those customers get the refreshes on their contracts in the quarters that we ship, which Q3 happens to be one, we're going to see lower margins, which is why we gave that specific guidance for Q3.

**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

Q

Right. But would it be fair to say the impacts of those shipments can be 2% on EBITDA margins? Is that a fair assumption?

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Well, it – we are anticipating the EBITDA margins to be 12% on our Q3 revenues. We don't have formal guidance for the year. So I can't officially say what that impact is going to be.

**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

Q

All right. Fair enough. Thank you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Yeah, Keith. If you dive into the segment commentary in the Shareholder Letter, we're even more specific on the gross margin thoughts by segment.

**Keith Housum**

*Analyst, Northcoast Research Partners LLC*

Q

Great. Thank you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

We'll take our next question from Joe Osha at JMP. Go ahead, Joe.

**Joseph Osha**

*Analyst, JMP Securities LLC*

Q

Hi. Thank you for taking my question. One of the questions that's come up around this notion of police funding is the idea that some functions might be taken over by non-sworn officers. I'm wondering about how Axon sees the opportunity to address those types of people? Thank you.

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Let me take that one. So, first of all, I had a really interesting call with a major city police chief, where we were talking about the defunding phenomenon and whatnot, and what he related to me was that actually they did reassign portions of its budget to other portions of the city. So, basically, they just shifted some resources out of police to other city agencies, and then his net budget was actually increased fairly significantly for body cameras and transparency tools. So, in that respect, he was pleasantly surprised that the whole defunding discussion actually lead for their agency to a better place, a lot of them focus in on their core mission and a bit more reliance

on partner agencies within the city that could take a little more of the load and it ultimately gave him a little more budget for tech.

Now ultimately, we'll see how this plays out in other agencies. But we believe that this idea that right now law enforcement, they're doing a lot of social services. They're dealing with homeless people and mental health issues. Because you pick the phone and you dial 911 for a lot of things that maybe don't need a cop, and so as we think about our Dispatch software, what a great time to be introducing a new cloud-based Dispatch capability where we can, obviously, shift our road map and be looking introducing new features, things that would allow agencies to perhaps integrate better with other city agencies that might not traditionally need Dispatch-oriented-type folks to use some of our communication tools in ways that would allow the dispatchers to dispatch non-sworn officers to different types of events. So, we tend to love change as an organization. And times are changing rapidly here and we view that our DNA sets us up well to move quickly to new opportunities.

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**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*

A

That's right. And Joe, I think, when we talked about when we last spoke about – when you think about something like Dispatch and you think about something like Axon Aware and building geolocation and live streaming into our cameras, really being part of a bigger mission for agencies around real-time operations and broadening that lens, this is exactly the perfect scenario for which that is purpose-built. And so even right out of the box, the integration of Axon Dispatch and Axon Aware bringing together the ability to bring other kinds of resources into an incident in real-time is a capability that is just native to our cloud-borne approach to all of these categories.

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**Joseph Osha**

*Analyst, JMP Securities LLC*

Q

Thank you. And just following on that, if I may, is it possible perhaps that we might see an opportunity to deploy Axon Body alongside some of this new Dispatch technology with non-sworn community officers or whatever we're going to call them?

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**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Absolutely. We're seeing also not only the ability for non-sworn officers to be able to use cameras, but for sworn officers to be able to livestream with folks like mental health experts that can be helping them in real-time dealing with complex situations where those officers might need more expertise. But we actually think this could open up some adjacent areas, particularly if you have unarmed, non-sworn people, your ability to identify emerging dangers becomes even more important, because you may have to rapidly route armed officers to the scene to help them.

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**Joseph Osha**

*Analyst, JMP Securities LLC*

Q

Thank you.

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**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Great. Thanks so much, Joe. We'll take our next question from Scott Berg at Needham. Go ahead, Scott.

**Scott Berg**

*Analyst, Needham & Co. LLC*



Hi, everyone. Congrats on a great quarter. Thanks for taking a couple of questions here. I guess, first, I don't know if this is a question for Luke or for Rick. But, Rick, in your newsletter, you talk about OSP pipelines are particularly strong, including the components for RMS. Now, you just signed a really large contract with Baltimore that includes Records, but I guess what are you seeing on the Records' level out there? Maybe from a demand perspective that would suggest those OSP 7 contracts with Records will actually be implemented and utilized, because that seems early given the commentary, but obviously great if that's the case.

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*



Sure, I'll go ahead and give that to Josh. Or Jeff if you want to take it.

**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*



Yeah. I'll go ahead and take that. So, I love that question. And so, again, like we talked about last quarter, we're thrilled that well more than a dozen agencies are already live signed or being actively deployed on records using one or modules of product. And we're incredibly confident of the trajectory, as you've seen with the Baltimore announcement, both committed adoptions among OSP customers, as well as continuing interest for the pipeline beyond that, continue to accelerate well ahead of even our expectations.

And I think the two key things that play there, like we talked about before, the first is the power of the bundle makes it an easy choice for them to take advantage of that benefit at a perceived value point that goes hand-in-hand with what they're already paying for, because it's effectively – it's already included with the money we've already committed to.

And then, second, is this key notion that we've talked about at Axon Standards, which is this use-of-force reporting module. And what's beautiful about Standards is that it just so happens in Records that every agency has to do use-of-force reporting, but they typically use a third-party module for it. They don't actually use their historical RMS. But because Standards is built right into Axon Records, it's the perfect first experience that they can use it as an and rather than an or with their legacy RMS to begin getting value out of that right away with incredibly easy deployment and then from there decide when they're ready to migrate their entire RMS, and that's exactly what happened with Cincinnati and we're seeing that same pattern play out as we go forward, because it's incredibly easy to deploy. It works side by side with what they've already got, and then as they come to love it, whenever they're ready they can quickly decide to adopt full records for their entire RMS needs.

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*



Yeah. And specifically on the pipeline, I would say we are seeing more and more agencies interested in OSP 7+ and we're seeing some acceleration from the agencies that bought OSP 7+ last year in adopting our Standards module of records, as well as a lot of the other key modules like reporting and so forth. So, I'm very confident in our team to be able to convert some of those OSP 7+ opportunities into RMS deployments. We're very focused on it. We're very focused on making sure that our customers are valuing and adopting all of the benefits in OSP 7+ and this is a place where I think certainly the combination of having a very, very strong product organization with a very, very strong channel should lead to outsized results down the road.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Super helpful. Thanks, guys. Then, I guess just as a quick follow-up, Jawad, the company has posted four straight quarters of greater than 25% revenue growth, which is a nice acceleration from the 12-month period before that. Your guidance calls for 15% revenue growth in the third quarter. Is that just some being conservative in the current lights in macroenvironment or are you seeing anything else that's may be tempering that guidance just a little bit? Thank you.

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah. I'll tag team with Josh with you, if that's all right. But we have a plan, an operating plan for the year that informed our guidance and that's still pretty much informs what we're managing to. We outperformed in Q1 and Q2. We were very happy with the performance of our business and our sales team. The investments we've been making in international has been really paying off, some of these new markets, new products, but we don't obviously bank on that. And so, we feel it's prudent to stick relatively close to what our operating plan is, which informed the 15% guidance.

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yes. Ultimately, there are going to be some quarters that have higher revenue growth rates than others, and we feel good about full year. We feel good about kind of our long-term trajectory, but we do view this year as being back half weighted compared to the front half and it just might be an issue between what comes in, in Q3 and what comes in, in Q4 of our kind of large CW deal pipeline.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thanks, team. And also on the back half, just on the comparables, the percentages are lower, but the nominal dollar is much higher as what Josh means on that. Thanks, Scott, for your questions. Okay. We'll turn to Charlie Anderson at Dougherty. Go ahead, Charlie.

**Charlie Lowell Anderson**

*Analyst, Dougherty & Co.*

Q

Thanks. So, I wanted to ask about bookings. It was very interesting to see the bookings trends that very much reflects what we're seeing in the business in terms of international strong, domestic not as strong. I wonder is that just a snapshot in time or is that the way we should think about the trajectory of the business in terms of international continuing to put up the big performance and domestic maybe trailing the performance on a year-over-year basis?

And then, secondly, you made a comment on bookings about the first few weeks of the quarter better than April. I wonder if you could just layer in some context in terms of what that means from your standpoint and what's going on there? And I got a follow-up.

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yeah. Thanks, Charlie. We've got a lot of domestic salespeople and leaders on the call here that hopefully are motivated by that question, and we certainly expect a great back half from our domestic and international teams. I

think there was – if you look back at it, we lost about half of the Q2 due to the pandemic shutdown. Everyone was trying to figure out how to conduct like city council meetings and really conduct business on Zoom for the first time, and that certainly slowed down some of our momentum in the first half of Q2. And then really in June, we lost about two weeks due to the kind of civil unrest and the events that followed the killing of George Floyd. So, I would look at Q2 more as just kind of a unique point in time due to some external factors that slowed us down a little domestically, but we have high expectations of our team and they're very motivated to turn that trend around in Q2 – I'm sorry, in Q3, both domestically and internationally.

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**Charlie Lowell Anderson**

*Analyst, Dougherty & Co.*

Q

Okay. Great. And then a question about the Fleet product. There were some points in the Shareholder Letter about the importance of that product in the back half. So, I wonder we can see what the run rate has been in the past few quarters of the existing product. I'm curious if you could maybe help us with the expectations for how much of a contributor that is. Does it lift to a meaningfully higher level than we've seen historically? Just any context around that launch should be helpful. Thanks.

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**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

So, I think from a bookings perspective, we do expect Fleet 3 to be a contributor in the back half of the year. I think there's still some question about shipping Fleet 3 and shipments depending on how well the T&Es go, might end up in the front half of 2021 as opposed to the back half of 2020. We don't expect that to have much of an impact on revenue. And bookings, like I said, given the fact that we'll be doing T&Es, it will contribute to bookings that we feel great about. Fleet 2 has really stabilized in the last couple of quarters in terms of customer satisfaction and so forth, and we're excited to build on that momentum as we launch Fleet 3, certainly the ALPR and modular capabilities of Fleet 3 where we can do 360-degree recording around the car and so forth are things our customers are excited about. And we absolutely are confident that we're going to get great customer reaction from this product that will be followed by bookings and revenues associated with it.

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**Luke Larson**

*President, Axon Enterprise, Inc.*

A

And just to add one clarifying comment there. So, we're going to be in some pretty in-depth trials in the back half of this year, but we don't expect to be in full production ramp of Fleet 3 until 2021, and that's where we'll see the real growth contribution.

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**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*

A

And then the key, Josh mentioned this, in addition to it being our best-ever in-vehicle camera system, straight up as camera system it will also be the launch, as we've said before of our approach, our pretty disruptive and novel approach to the automatic license plate recognition category in mobile, where fundamentally it's different than the way it's done today in the market by being disruptively more affordable and better – more cost-effective for better outperformance in results by making it a thing that departments can put in every single police vehicle as opposed to a small number of very expensive purpose-built cameras. And, of course, no matter how good any one camera is, it can only be in one place. And then you combine that with it being built from the ground up with ethics and privacy in mind, and our strategic partnership with Flock Safety for a similar approach for fixed ALPR cameras. We really think it's a watershed change in the way ALPR as a category will work.

**Charlie Lowell Anderson**

*Analyst, Dougherty & Co.*

Great. Thank you so much.

Q

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

Thank you, Charlie. Okay. We'll move to Mark Strouse from JPMorgan. Go ahead, Mark.

A

**Mark Strouse**

*Analyst, JPMorgan Securities LLC*

Hey. Thanks, everybody. Thanks for taking our questions. Pretty impressive international growth for the last couple of quarters. Just kind of curious, are you – what trends you're seeing as far as those customers signing up for recurring payment plans? Are these really just kind of one-off purchases?

Q

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

Hey, Mark. Great to see you again and thanks for the question. So, ultimately, I think it's a combination of a few things. Certainly, as we open up new international markets, those first time orders are probably not going to be on recurring payment plans, that's due to our – we want to make sure we have the ability to collect on all of these plans, and when we enter markets for the first time, we'd like to see some payment history there first. So that – those will be kind of onetime contributors to revenue and we expect those to continue from newer markets, as well as markets making their second and third buys in their TASER programs.

A

The teams have done an awesome job, especially in the UK and in Canada driving most of our new deals towards subscriptions. In the UK, I believe almost every or every department is already on a TASER payment plan as opposed to onetime purchases. I think we'll see more of that in Australia over the next 12 months as T-7 starts to get legs there, and same in Canada.

And so, I think in our more established international markets, we'll definitely see more recurring payments on CEWs and video alike. And in our newer kind of first and second time buyer type markets, those will be driven by more onetime revenue transactions there as we ship those new weapons.

**Mark Strouse**

*Analyst, JPMorgan Securities LLC*

Okay. Thanks, Josh. And then, Rick, this is the highest cash balance that you've had in the long time, maybe ever. Can you just talk about your plans for that cash? I mean, obviously, there's a lot of organic investments that you've been talking about for the last several quarters, but how should we think about M&A? How important is that going to be going forward now with this cash trove that you have?

Q

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Yeah. Got it. I can't help but smile. I remember the days when we were struggling to pay the light bill and putting stuff on credit cards. And now we've got almost \$700 million in cash. I would also say that historically, as you know, I'm a skeptic on M&A that I think – I'm a Chicago school guy. The markets are pretty efficient. M&A, a lot of times, always drives up the price of the acquired, frequently to the detriment of the acquirer, and we still approach M&A from that position that it has to be unquestionably more valuable as a part of our ecosystem than as a stand-

A



alone in order for an acquisition to make sense for all the headaches that come with integrating different companies.

That being said, I think we are in a unique position where we have built and we now have this fairly ubiquitous cloud software and connected hardware ecosystem that make things like partnerships with Flock Safety become pretty powerful, as well as we are really building out our M&A function. It's actually under Andrea James who's doing a fantastic job. We've been building out a team. But either we get a ton of inbound inquires, and the vast majority of the time we say no, because we are on a mission, we've got a lot of focus. But we are starting to see – there are things that will be interesting partnerships, and there are some things that could be interesting acquisitions, and we have plenty of cash to have the flexibility to do it when it makes sense. But I just want to reassure you, we start from a position of no and that we have to overcome some pretty skeptical hurdles before we would spend the money, you our shareholders, gave us. We're going to treat it very carefully, as if it's the same money I was using to pay those light bills 25 years ago.

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**Mark Strouse**

*Analyst, JPMorgan Securities LLC*

Good. Thank you.

Q

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**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

Thanks, Mark, for the question. Thanks, Rick. All right. We'll take our next question from Jeremy Hamblin with Craig-Hallum now. Thanks, Jeremy. Go ahead.

A

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**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Thanks, Andrea. So, my question is actually a follow-up really on that cash balance and what you potentially could do with it. You've built some inventory here. You have some clients that may be strapped a little bit in the near term on cash flow. Do you use some of that cash to potentially do kind of TASER 60 type financing in here where we look to bridge the gap in the near term, while there may be some budget crunch and that's one of the uses of cash?

Q

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**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

Yeah. I'll start with this one. So, one of the things I love about our cash balance and our position of our balance sheet is the optionality it provides us. And, Jeremy, you honed in on a couple of things that we've been able to do with that optionality. One is, of course, the inventory build. It was a material amount of cash in the quarter, and we felt like it was the right thing to do. It positions us really well to be able to deliver the much-needed products for our customers in the back half of the year and beyond.

A

And then on the payment plans, which you touched upon, Josh first brought this up when the coronavirus really started becoming problematic for our customers. There were concerns about budgets and we talked about, hey, look, we're signing up multi-year contracts with our customers. We have longstanding relationships with them. We're going to have relationships with them that will extend far beyond the coronavirus. And so, we want to make sure that we're doing right by them, and it's easier for us to get flexible on payment terms to help bridge them to a time when they are no longer – they don't have concerns about budget. And so, when you have 5-10 year contracts, you can get creative in that and that's what we've done. It's been fairly on a smaller scale, it's been fairly negligible across the entire portfolio of contracts, but it is something that we've offered in select cases.



**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yeah. I would just add to that and say like, ultimately, while there've been some data points to suggest individual customers asking for kind of a rework of their accounts receivable, it hasn't been very widespread. I personally attribute this to the fact that we have customers that are paying for value that we are delivering across our product lines. And we haven't seen any of these kind of ask like to push payments out multiple years or to not pay us anything for the next couple of years. I think ultimately our customers are seeing value in what we're delivering and we're very honored to continue to provide that value to this market. And only in very kind of edge cases have we had to entertain situations like that.

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Great. And then just a follow-up question here on your progress on federal contracts. In terms of thinking about the negotiations in those contracts, the tenure of the contracts, are you seeing them extend longer when you're having discussions. It's still somewhat early in the ramp of that channel of business. Are they looking to start shorter contracts and see how it goes and then get into some longer deals? Just any color you can share on progression there.

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Sure thing. So, a gentleman by the name of Richard Coleman has just done a fantastic job over the last couple of years building up our federal pipeline. And for the first time, we are seeing customers willing to engage in multi-year engagements with us on both body cameras but also on the TASER side. So, we're very excited. There are – it's not always easy to get our federal customers to buy hardware in kind of annual phases as opposed to onetime purchases. So, we're learning a little there and there is some of that. But other federal agencies are heavily engaged in these five-year plans for both weapons and video.

Federal takes time, it's a slog, but for the first time in really 10 years here, I feel like we're starting to break through and crack the code of how to work with federal customers and that's largely due to Richard's contributions. And hopefully, we start to see a lot of that growth materialize over the next couple of years here.

**Jeremy Scott Hamblin**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Thanks, guys. Good work. Good to be back on this one.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thanks, guys.

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Welcome back, Jeremy, good to see you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

I think we want to get through to at least, I think, four more analysts. So, we'll keep this going here. Jonathan Ho from William Blair. Go ahead, Jonathan.

**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

Q

Can you hear me okay? Great. So just relative to, I guess, the current budget environment, are you seeing traditional RFP processes perhaps start to stall and could that maybe open up some more opportunities for you to disrupt the traditional, I guess, RFP-driven acquisition process for our RMS, CAD?

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yeah. Great question, Jon, and I think, ultimately, I haven't seen a huge change in procurement methods. I think some agencies still are issuing RFPs. Others are issuing sole sources and others are issuing more like cooperative procurements or piggybacking off of other contracts that are already in place. And so, I'm not sure a ton has changed there. I think the big thing for us is to focus on OSP 7+ adoption, because in that event the customer is already essentially getting the opportunity to deploy our RMS in that bundle. And so, the more we drive up OSP 7+ procurement, the more agencies are exposed to kind of our enterprise software before they make a formal buying decision.

And so, that's kind of how we're looking at things in terms of CAD and RMS. And I think that strategy is paying off and we're seeing a lot of interest in those products via that purchasing mechanism. And certainly, every day that goes by, we're also getting closer to being ready to compete in RFPs for CAD and RMS. We see Baltimore issued an RFI for RMS, and we were victorious. So some competitors that we have a lot of respect for in this market. So, we're excited about where this business is going.

**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

Q

Got it. And then just one for Jawad. In terms of the decision to increase inventory, can you maybe give us a little bit more color in terms of what types of components you had concerns around and maybe what risk you're seeing around the supply chain? Thank you.

**Luke Larson**

*President, Axon Enterprise, Inc.*

A

Yes. Maybe I'd lead off on that and then Jawad could add some additional context. So, as we looked at really our kind of next 6 to 12 months based on our previous experience with really adjusting for tariffs, we wanted to make sure that we were going to be able to supply our customers with key products for two major upgrades, AB3 as well as TASER 7. And so, we made the decision to add additional inventory to ensure that we would have product on hand for those in addition to making sure that we would have a good buffer for any potential supply chain disruptions due to COVID.

We also have a couple of really, really big orders coming in Q3 that are kind of outside the context of our normal inventory build. I would let you know the majority of that inventory is going into finished goods, which is something that me and Josh Isner feel really strongly about if we can build it up into a finished product, we're going to find a home for it.

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah and the only other thing I'd add from a financial standpoint, this doesn't happen often, but there have been times when we left revenue on the table at the end of the quarter because we didn't have inventory, and that's not a great thing to have happened, especially when you've got the flexibility with our balance sheet to be able to have a bit of an inventory buffer. And so, that's why we've committed to it. In addition to the factors that Luke mentioned, we never want to be in a position where we leave revenue on the table.

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**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thanks, guys. We'll take a question now from Will Power at Baird. Go ahead, Will.

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**William Verity Power**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Great. Thanks. Rick, you've suggested that it doesn't sound like you're seeing too much of a negative impact from some of the police defunding initiatives today. But I wonder if you could comment now that we're in the back half of the year on some of the early discussions with respect to municipal budgets, agency budgets for 2021, what's your sense for their expectations and how that could potentially flow through the model?

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**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

A

Yeah, you know, I'm actually going to hand back to Josh, because I think Josh is a little closer to the budgeting side of things. Josh, would you take that one?

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**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yeah. Sure. So, I appreciate the question. I think there has been some reaction from some customers in this regard, right? Like if you're a major city that relies heavily on tourism, then certainly that can have an impact on how you think about budgeting for the next year. The good news here though is that customers are viewing our products as mission-critical products, like the customers, there's no willingness to not outfit police with TASERS or body cams. And of course, computer-aided dispatch and RMS are also in that bucket.

So, I think there is some impact to budgets overall. But when you kind of look at it in terms of is there impact to the budgets that then impacts the product that customers buy from us, I'd say that's a lot less of the case.

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**Luke Larson**

*President, Axon Enterprise, Inc.*

A

Yeah. And I would just add another point there. I think if you looked at our business maybe 10 years ago or even 8 years ago, we were really dependent on one core market or domestic market with one core product. And today, we've got a lot of diversification not only in our product lines but also our geographical and even different market segments. And so, as we see some puts and takes in different segments or products, we are seeing the evidence with international in some of these early other segments, we still feel really confident there.

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**William Verity Power**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay, well, it's good to hear. I guess just a quick follow-up question, maybe circling back to international, given the strength you've had last couple of quarters, any comments you can make with respect to pipelines from here?

I'm guessing a lot of those deals you announced this quarter last when the pipeline prior to COVID, how much is COVID impacting your ability to sell there? How does that then look over the next several quarters?

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Yeah. Thanks a lot. So, there is going to be some lumpiness in international quarter-to-quarter. But on a year-by-year basis, we still expect very encouraging double-digit growth out of our international revenue. COVID it's impacted our ability to travel. But in most of our key markets now, we've got teams on the ground, so it's not like folks are having to travel on planes region to region. We do have teams built out in a lot of key places and distributors supporting us in a lot of key places. So, ultimately, the work that's gone into international started three, four years ago, and so the things that are impacting the quarter-to-quarter results is a thing the teams have been working on for quarters and quarters already.

So, I would expect there's going to be some lumpiness in revenue quarter-to-quarter internationally, but I do have a lot of confidence that we're trending in a very, very strong direction both in terms of bookings and revenue internationally.

**William Verity Power**

*Analyst, Robert W. Baird & Co., Inc.*

A

Great. Thank you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Thank you. Will, we were admiring your collection of phones in the background there. We'll take our next question from Brian Gesuale at Raymond James. Go ahead, Brian.

**Brian Gesuale**

*Analyst, Raymond James & Associates, Inc.*

Q

Thanks, Andrea. Just wanted to ask a question on the net retention rate, which was a really good metric of 119% of net dollars. Can you maybe provide a little bit of color on how we might think of that between additional seats versus additional functionality that drives incremental ARPU and how we might want to think about that mix as we move forward?

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah. I'll start with that one. So that's a metric that we wanted to introduce for some time now. It's something we've been tracking for a while and we felt confident that we have enough data and enough sort of history there to be able to start to publish it. And we feel very confident that number will hopefully tick up over time, it's a dollar retention, it's not a user retention. And so, as we sign more OSP 7, OSP 7+ contracts which are of course at a much higher ARPU, that number will start to tick up.

We, at this point, don't disclose ARPU, because there's a lot of noise in that number certainly between domestic and international, but even within domestic we have different customers at different stages, so we're not yet ready to disclose the ARPU number.

Does that help, Brian? Is that what you're looking for?

**Brian Gesuale**

*Analyst, Raymond James & Associates, Inc.*

Q

Yeah. That's perfect. Maybe just to follow up a little bit. I wanted to just kind of revisit the gross margin kind of assumption for the third quarter. And I know you're not going beyond that. But how might we think about the duration of these headwinds that you mentioned? I'm sure they're not all on a similar rhythm, but how might we think they lift over time?

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah. Our expectation is that the one that we mentioned specifically for Q3 will be resolved within Q3. There may be a little bit of spillover into Q4, but it will be on the order of magnitude of a couple of weeks. It's not going to materially impact Q4. And so, at this point, our best sort of outlook there is that it's going to be resolved within Q3. And then, there are other – I wouldn't necessarily call them a headwind, but we're still working very hard to get our gross margins up in the hardware business. That's something that – obviously, the more software we bring online, that business is printing at 80%-plus gross margin. So, as more of our business shifts to software, our gross margins will lift there naturally.

**Brian Gesuale**

*Analyst, Raymond James & Associates, Inc.*

Q

Thank you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

Great. Thanks, Brian. Okay. Andrew Uerkwitz with Oppenheimer, we'll take your question next.

**Andrew Uerkwitz**

*Analyst, Oppenheimer & Co., Inc.*

Q

Great. Thank you, guys. Appreciate the time. Could you help me understand that based on our research, many of your RMS wins are more similar to the modules, similar to what I think Jeff mentioned with Baltimore with the use-of-force. I assume the expectation is this will lead to kind of a rip and replace the entire system. So, one, am I thinking about this correctly? And then, two, how does the accounting and pricing work over the life of a contract for a city that goes this route? And then, lastly, kind of in that context, Baltimore signed an OSP 7 contract a year ago. And then they just recently announced that RMS module. Does that contract did reset? Does it get extended? When something like that happens, does ASP go up at that point? Can you talk a little bit about the accounting and dynamics of when that happens? Thank you.

**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*

A

Sure. I'll lead off overall and then let the other guys chime in. So, first, on the product point, we're – like we said, we're seeing a great pipeline of both committed existing commitments as well as pipeline from here, both for full Records' deployment, meaning the full replace of their legacy RMS, as well as Standards, which is that first module. And so, for example, just Baltimore since they've already made it public, that's the commitment to move to Records in its entirety and to fully replace their legacy RMS, and we're seeing we are ahead of our expectations on the pipeline there as well as, of course, a larger number of the Standards one.

So, we're seeing success on both. And again, ultimately, our goal and we're confident of this outcome is that we're ultimately going to be on track to become the number one in this category for full Records, and Standards is just a great part of the path to get there because it's such an easy first step for a given agency to take.

And then, I'll let Jawad give more color, but fundamentally, on the accounting, again specifically with regard to OSP 7+, it is part of this overall primification of the way that public safety buys this technology, where just like for a subscription service like that where you are buying a thing that has many benefits to it, you are buying a thing that has many benefits to it regardless of whether and when you choose to adopt any given benefit.

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**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Yeah. And then on as far as how the accounting works, the revenue recognition, so we allocate a portion of the overall bundle to Records. And that portion we start recognizing once the customer has gone live. And let me stop there, is that what you're looking for?

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**Andrew Uerkwitz**

*Analyst, Oppenheimer & Co., Inc.*

Q

Yeah. I think so. And there's a contract reset then, so like Baltimore signed for OSP 7 were they paying 199 a year ago or were they paying less than that and then now that they're rolling out RMS, now they're moving up to that full price, and because they kicked that in there, does that reset the contract or now it's five years from now as opposed to five years a year ago?

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**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

So they're – the price they paid last year is the same they paid this year with a couple of notable exceptions, the first of which is the professional services to deploy RMS is a separate contract. So once they're ready to deploy, they would pay us for the professional services. Second one is, they're going to add or they have added some more users, because the OSP 7+ often covers sworn-officers that are carrying body cams and TASERS, but ultimately they're going to need more users to administer a lot of the elements of an RMS system and see that data and work with reports and so forth. So, we do expect some user uptick as agencies start to deploy RMS.

The third one is in Baltimore's case, they actually did extend their contract as well to co-term with some of their other items they have with us, and I think they extended out a couple of years as part of that. So those are all the dynamics that we expect to see. But I think the most important thing is we're betting on ourselves to be able to upsell additional new features outside of OSP 7+, two agencies that are deploying our RMS. So transcription is a great example of this, and Baltimore paid us additional money per user to deploy transcription as part of their RMS service.

And so, for us, I think we do envision some of these kind of value-added features on top of the OSP 7 deliverables as upsell opportunities, as agencies deploy RMS.

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**Andrew Uerkwitz**

*Analyst, Oppenheimer & Co., Inc.*

Q

Got it. Thank you, guys, so much. I appreciate that color, everyone.

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**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

A

Love the foosball table as well, my favorite college game.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

All right. And we're going to go a little over, and thanks, guys, for your patience. We'll take our next question and that might be a final question from [ph] Pavan Kumar from Northland (00:59:06).

A

Q

Hi, guys. Can you hear me?

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Yes.

A

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

We can hear you. Can't see you, but we can hear you.

A

Q

Yeah. I disabled my video, because I'm having some Internet connectivity issue. Thanks for taking my question. Regarding R&D and SG&A spending as a percentage of revenue in the second half and 2021, which areas or products would get most focus?

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

Yeah, I'll start with that, and Jeff, if you'd like to weigh in. So, right now, the majority of our R&D is on – is being spent on software. We're very excited about what we've got in the pipeline from a software standpoint. As you saw, quarter-over-quarter, our SG&A was actually flat, and our R&D grew, and that was very much by design.

Our R&D growth will outpace revenue growth this year, but at some point we have long-term targets that we've set of 30% on EBITDA, and the way that we're going to get there is by allowing more of the revenue growth to fall to the bottom line. But overall, the investments we're making in R&D, we think are going to help pay off over a long horizon and get our – keep our revenue growth rate above 20%.

A

Q

Great. And regarding competition, like who are the competitors you are seeing most on the Records deals?

**Joshua Isner**

*Chief Revenue Officer, Axon Enterprise, Inc.*

Sorry. Was Records' competition?

A



Q

Yes.

**Jawad A. Ahsan**

*Chief Financial Officer, Axon Enterprise, Inc.*

A

Okay. Yeah. I think there are some competitors that I would characterize as companies that have been in the Records business for a long time and a lot of them are incumbents. And we have a lot of respect for those companies. We certainly believe kind of our new innovative approach to Records will lead to customer adoption and times away from some of those products like we saw in Baltimore. And there are new entrants to the space as well. And ultimately, like the combination of our channel coupled with the amount of investment and talent we're bringing on the product side, we think that we're really well positioned for the long term. I think for the newer competitors, certainly they have more constraints around channels and spend than we might, and for some of the incumbent competitors, they probably have a little more constraint around servicing existing customers as opposed to really innovating quickly. And so, we view ourselves as a really disruptive entrant into this market and we're very hopeful that we can become the market leader in due time here.

**Jeff Kunins**

*Chief Product Officer & Executive Vice President-Software, Axon Enterprise, Inc.*

A

Yeah. That's right. I mean, I think, first, we really like to say that we obsess first and foremost, about our customers. We're happy to have our competitors obsess about us, but we like to focus on the customer. But exactly as Josh said, overall both the legacy providers, as well as some of the new ones, Axon just has a pretty unique combination of assets that makes us different both on the legacy incumbent and the newer start-ups, because the legacy incumbents are simply not cloud-first and born in the cloud and you fundamentally can't deliver the kinds of results that the departments of today and tomorrow need without being born in the cloud.

And on the other hand, the newer startups simply don't have the network of sensors and signals that are connected into cloud services. That can also do the same thing. We're really the only company that has that combination of both, which is why we're so excited about where we're ultimately going to deliver for customers in this category.

Q

Great. Thank you.

**Andrea James**

*Senior Vice President-Investor Relations & Corporate Strategy, Axon Enterprise, Inc.*

A

I think that's all of our questions, looking out at your screens here. Okay. Let's have Rick close this out.

**Patrick W. Smith**

*Chief Executive Officer & Founder, Axon Enterprise, Inc.*

All right. We're a little over, so let's keep it quick. Thank you, everybody, for joining us. We're confident we'll all look back on 2020, is the time that's set in motion, the next leg of policing reform and the next leg of growth for Axon. We hope you stay safe, healthy, and sane during this period of continued disruption, and we look forward to

updating you on our progress against our mission in November. And don't forget to come to our Axon Accelerate in a couple of weeks. And you'll see a lot more detail on our product road map. Thanks and bye-bye.

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**Operator:** Goodbye.

Editor's Note: Text in [] has been added at the request of the company to provide better clarity to its readers, after the completion of the event.

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