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Axon Enterprise, Inc. (AXON)
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MANAGEMENT DISCUSSION SEGMENT

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Hello everyone. Welcome to Axon's third quarter 2021 earnings. I'm Angel Ambrosio, Senior Manager, Investor Relations & ESG.

Today, we have available Axon CEO Rick Smith, President Luke Larson, CFO Jawad Ahsan, and Chief Revenue Officer Josh Isner.

I hope you've all had a chance to read our shareholder letter, which was released after the market closed. You can find it at investor.axon.com. Our remarks today are meant to build upon the information in that robust letter. If, for some reason, we lose connectivity, we will endeavor to post a copy of our prepared remarks to 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, and 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.

Before we turn this over to Rick, we'll play our quarterly update video.

[QUARTERLY UPDATE VIDEO]

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Great job Angel and Andrea and our whole IR team, you guys just really did a nice job on that video. Hope our investors enjoyed it. So as you can see from our results, our teams are continuing to execute at the highest level. Perhaps the strongest growth indicator is record bookings of half a billion dollars in a single quarter. As bookings eventually flow through to revenue, we are on pace to becoming a substantially larger business in the coming years. And the momentum is really strong - with sales contracts booked up 70% year to date compared to last year and we expect another record bookings quarter in Q4. I am proud of the results we're delivering in 2021 and even more energized by the opportunity in front of us. We've demonstrated our ability to scale the business and drive leverage in our model. Now we're expanding our growth story. As we continue to introduce new products, sell into new customer market segments and add sales channels across new geographies, today we're addressing an even larger TAM. As you saw in the video, our current estimates point to a total addressable market, the \$52 billion with our top line projected to reach at least \$1 billion next year, you can see there's been enormous white space ahead.

By way of example, in early October Axon had its largest ever presence at the Association of the United States Army's annual conference in Washington, DC. This provided us with an opportunity to showcase how Axon's transformative solutions for law enforcement position us to disrupt the U.S. defense market, giving us a seat at the table to begin influencing how the U.S. military responds to wars of the future.

As I watched the helicopters evacuate our embassy in Kabul, it struck me that the United States has

effectively not achieved durable strategic success in our last 3 wars. And it's not for lack of sufficient lethality. Our military is the greatest fighting machine in the history of the world, with the most lethal and precise weapons. Yet, the more we killed in Vietnam, the more we lost the hearts and minds of the very people we needed to win over. The same phenomenon has played out in Iraq and Afghanistan. We can no longer kill our way to success in modern conflicts, and I believe the ability to capture bad actors will become ever more strategically valuable and we intend to lead the way.

As the world moves at a faster and faster pace, Axon is remaining at the forefront of bringing transformative technologies to market. We're innovators at our core. You can see that when you look at our history. We signed the incorporation papers for TASER at my dining room table 28 years ago and since that time, our mission has remained unchanged. But our organization has significantly evolved and today we have a broad ecosystem of public safety products. We have continually found new ways to serve our customers through disruptive technologies and software, even when they met with initial resistance. We have always set extremely high bars for ourselves at Axon but we have found that great challenges make us rise to meet them.

Earlier this month, we held our 6th annual Axon Accelerate conference right here in Phoenix. It sure felt great to be back in person with all of our customers and colleagues. The theme of this year's conference and the topic of my opening keynote was that change is inevitable and today, technological change is moving at an exponential pace. From virtual reality raining to our drone program Axon Air to automatic license plate reader technology and transcription, we're unlocking the power of technology to reach our north star of obsoleting the bullet, and outperforming the 9mm pistol in stopping power by 2030. And at Accelerate we just introduced our next moon shot. Together with our customers in public safety, within the next 10 years, we aim to cut officer involved shootings by half. We believe we can accomplish this with new technologies, new training procedures, new policies and even new regulations to guide the way. In fact, I used Accelerate as an opportunity to introduce a regulatory framework, the three laws of first responder robotics, to begin the critically important discussion of how we can use robotics - not to kill each other, but specifically to avoid harming each other with new ways to capture dangerous subjects. Any decision that impacts a human subject from a robot must be made by an authenticated human operator accepting legal & moral responsibility. That's our first proposed law. Second, there should be no lethal force. De-escalation is the primary goal and use minimal force necessary to stop a threat. And then the third, is that any incident of force deployed from a robotic system shall be recorded in audio-video + data and reviewed by an independent oversight committee. I will be hosting a Reddit AMA in December to gather public input on these guidelines.

We are proud of our history of introducing mechanisms of control and accountability to ensure powerful new technologies are used for good. From the data logs in the TASER, to the very existence of body cameras, to our ethical product development framework used to guide our ALPR development to now our leading the way to set the regulatory framework years ahead of advanced non-lethal robotics technology, we are excited to blaze new trails in our mission to end killing.

We were fortunate to close out three days of robust, interactive dialogue among our customers with a keynote address from President George W. Bush. He delivered an incredibly inspiring talk, expressing gratitude to public safety officers and calling for civility to all citizens, which is squarely aligned with our mission to protect life, capture truth and accelerate justice.

And at the end of today's call, we're going to play for you a very powerful moment from Accelerate. So please stay tuned after the Q and A. And with that, I'm going to hand over to Luke Larson, our President.

Luke Larson *President, Axon Enterprise, Inc.*

Thanks, Rick. Let me start by echoing your sentiment around Accelerate. We believe it all starts with creating a great experience for the customer, which means more than just listening - it's anticipating their needs by mapping technologies to insightful opportunities. The level of customer engagement we saw this year is a testament to the transformative power of the public safety platform we've built. We're obsessed with creating value in a unique way that no one else can, by solving real problems with solutions people are willing to use. It was a phenomenal week learning from customers from all over the world and I could not be more excited for the road ahead. Huge shout out to our marketing, sales product teams, and really all the employees that Axon, it made such an impactful experience.

The business continues to grow at a fast pace which means recruiting and fostering the best and most diverse talent is critical to our success. Our ability to retain top tier talent not only allows Axon to move increasingly closer to accomplishing our mission, but also allows us to establish new goals along the way. To do this we need to continue creating an organization that is future-proof, resilient to disruption and at the forefront of innovation.

We are currently hiring for over 300 roles and have embraced remote work as an opportunity to expand our talent pool, pulling from best-in-class resources around the globe. How our employees spend their lives matter, which is why we put a great deal of consideration into the culture we are creating and the values we want to embody as we build the future.

This means we're also doubling down on our JEDI & Learning & Development initiatives. The teams we've built are unparalleled and it's incredible watching the collective hard work and dedication to our mission. We're laser focused on how do we attract, retain and develop the best talent. If you know of someone great that wants to make an impact, send them our way.

As we round out the year, we feel great about our product pipeline. We're finishing 2021 with exceptional bookings, which includes \$30 million of TASER 7 revenue that we expected to deliver in Q4 but is now shifting into the first half of '22. This is the result of industry-wide chip shortages that impacted our TASER 7 platform. The supply chain conversation is universal right now, and while we are not immune, our teams are adeptly navigating the situation. We have incredibly strong relationships and a long history with supply chain partners who are invested in Axon's mission and are aligned in helping us meet our pipeline.

Teamwork is harder than it seems on the surface and as our company scales globally it requires a consistent commitment to operate as one team. We're proud of our supply chain teams who have done a tremendous job helping us manage through the global supply chain crisis. While we have experienced some delays, and the potential for interruption remains, we have line of sight to clearance in the first half of '22, and continue to be confident in our ability to meet the needs of our customers and deliver on our annual revenue guidance in spite of these challenges.

I want to reiterate. We have line of sight to clearing the backlog in the first half - and we feel great about our pipeline and bookings in what continues to be a dynamic environment.

Now I'll turn the call over to Axon's Chief Financial Officer, Jawad.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Thanks, Luke. I also want to start by echoing the excitement over our Accelerate conference. Meeting with our customers, partners and employees from around the world was super energizing. It reinforced for me that Axon sits squarely at the intersection of social justice and advanced technology, with a mission that galvanizes all of our stakeholders.

These stakeholders include you, our investors. While we weren't able to offer an investor track at Accelerate this year, you've been top of mind for us. In light of feedback we received at our last proxy, we've been conducting a listening campaign to gather more specific feedback from our investors on our approach to governance and ESG. The input we've received has been invaluable, and we look forward to sharing the outcome of these discussions in the coming months.

Over the past several years, you've seen us invest aggressively in R&D and channel expansion. We've deployed capital to strategic partnerships, putting an early stake in the ground on emerging technologies and trends. These actions have enabled us to unlock transformative new products like VR and Respond, new customer market segments like Federal and Justice, and new geographic regions, worldwide.

Today, we're excited to share that as a result of our strategic planning and continued investments, we're projecting substantial runway for growth with a new and updated Total Addressable Market, or TAM. Our new TAM is almost double the last one we shared with you in 2018. While our penetration in this new TAM is still relatively low, it's absolutely our intention to serve these markets with the investments we have in flight, which will see us bring exciting new products to market over the next 18 to 24 months.

There are two areas in particular I want to highlight.

First, Federal. We hired Richard Coleman to run our Federal business in 2018, and he has since built a stellar team whose performance has exceeded our expectations. We now view the Federal TAM for Axon as a \$9 billion opportunity across TASER devices, body worn cameras, DEMS and other software.

We count among our customers today several of the branches of the Federal government, including the Department of Justice, the Department of Homeland Security, Customs and Border Protection and the Drug Enforcement Agency.

We've also been driving adoption of our new multi-jurisdictional sharing feature, which is enabling state & local agencies to seamlessly share evidence with U.S. Attorneys. To better serve federal customers who have sensitive law enforcement information, we have made an investment to ensure our software complies with the civilian FedRAMP High and the defense Impact Level 5 security standards. At these security levels, we anticipate being able to offer a DEMS solution to all 90+ federal law enforcement organizations across civilian and defense agencies.

After a strong third quarter in which we added \$35 million in new deals, we are on track to have another record year for Federal bookings.

Next, I want to briefly double-click on Consumer. Axon has since its inception always had a consumer business, but it's historically not been one that we've devoted meaningful R&D to. With the ongoing development of our exciting new TASER device technology, we've committed to releasing a host of new personal safety devices over the next few years that will help advance our mission to truly obsolete the bullet. We also intend to begin offering personal safety solutions through mobile applications over this timeframe.

In our shareholder letter, we highlighted that TASER device penetration is less than 25% in the US and even lower globally, but that represents the professional user. The penetration in consumer is virtually zero in an \$11 billion market, which means we have tremendous runway ahead in just this segment alone. To be clear, we're still very early innings in consumer, but we have the alignment, the technology, the strategy and - most importantly - the mission to drive this growth.

Before we open up the call to questions, I want to highlight three themes we'd like you to take away this quarter:

1. We're significantly under-penetrated on our growing global TAM
2. We're delivering against the Rule of 40, investing for growth while achieving leverage
3. Our year-to-date results and outlook for 2022 are a waypoint toward building a much larger company that is synonymous with public safety and protecting life

As we look ahead to 2022, we are carrying a ton of momentum into the new year. Our 2022 revenue projection has strengthened to at least \$1 billion, on top of what we expect will be at least 25% year over year growth in 2021. We added a record \$28 million in ARR this past quarter, to bring our total ARR to \$288 million. We have an exciting runway ahead of us, and we look forward to sharing updates on our progress in the coming quarters.

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

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Okay. Thanks, Jawad team. As Rick noted, as we move into Q and A, I would encourage you all to stay tuned if they have the time. We have a special surprise for you at the end of today's call. Moderators, can you bring everyone up into gallery view? Okay. Great. All right. Our first question comes from Josh Reilly at Needham. Go ahead, Josh.

QUESTION AND ANSWER SEGMENT

Joshua Reilly *Analyst, Needham & Co. LLC*

All right. Thanks guys. Nice job on the quarter here. Uh, maybe we'll just start with the \$30 million shift in Q4 TASER revenue. Would you expect all of that to hit here in Q1 or will be more evenly spread out through the first half and then what are the puts and takes on the timing of that revenue hitting?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Yeah. Thanks a lot for the question, Josh. I think at this point, we do see it hitting in both Q1 and Q2, and certainly it's a challenging supply chain environment across the world right now, and the team's doing a great job navigating through that. And so of course, we're hoping we can fulfill as much of that in Q1 as we can, but realistically it will be across Q1 and Q2.

Joshua Reilly *Analyst, Needham & Co. LLC*

Okay, great. And then maybe just to follow up on Fleet 3. As that's launching here, is there gonna be any impact to that production ramp, given the semiconductor supply chain challenges, and then is there

going to be any initial impact to gross margin as a result of this ramp, uh, due to the Fleet 3 mix coming in as well?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

So I'll let Jawad answer the second part of that question, but honestly, Fleet 3, the demand has been very, very high, higher than we've ever seen for our in-car video products before. And so we are shipping on record numbers of Fleet 3 as compared to Fleet 1 and Fleet 2 and we expect that to continue throughout next year. We are oversubscribed for the product right now, and I think that speaks more toward the demand than anything else. But we do expect to ship large quantities relative to previous versions and Q1 and moving forward, I'm sorry, Q4 of this year and moving forward into Q1.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

And then Josh, your question on gross margins, we are not expecting at this point any impact from fleet on gross margins.

Joshua Reilly *Analyst, Needham & Co. LLC*

Awesome. Thanks guys. I'll move on in queue here.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Okay, next question comes from analyst, Jonathan Ho of William Blair. Go ahead, Jonathan.

Jonathan Ho *Analyst, William Blair & Co. LLC*

Good afternoon. And congratulations on another quarter of strong results as we look at your revised TAM estimates. Can you talk about maybe why the decision now to sort of update the TAM and, you know, maybe what underpins some of these assumptions, you know, since it seems like the markets appear to be a lot larger than you previously thought.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Yeah. I'll start with that one. Jonathan. Thanks for the question. So we've been, as you know, we've talked about it for the past few years, investing for growth beyond the taser devices and body cameras. And we've given you flavors here and there of the markets that we're aiming toward the new products and segments. And what we wanted to do is reflect accurately how the business, the businesses oriented today. Our TAM has been expanding in the past few years, but that's also because the lens that we're looking at our business through has been widening as well. And things like VR, a bigger presence in federal, more of a focus on consumer. These investments are in flight. Now, as I've mentioned, there's still very, very early innings, but the TAM really speaks more to our ambition. We wanted to align how we're thinking about our TAM opportunity with how we're investing for growth today. And we wanted to make sure that you guys were thinking about it the same way that we are.

Jonathan Ho *Analyst, William Blair & Co. LLC*

And then when we look at this revised TAM opportunity, you know, what are the investments that you need to make to sort of unlock these additional markets and what are the most impactful ones, if you can just highlight that for us.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

The great thing about it is it's not a lot of incremental investment. The beauty of Axon's business today is that the technology we have for TASER, for example, right, we've been investing in TASER for quite some time. We've talked a lot about the next generation TASER technology we're very excited about, and that technology is going to be able to serve our domestic and international law enforcement markets. It's going to be able to serve our federal markets, corrections, enterprise security. It's going to in a large way, be able to translate to Consumer as well. And so what we're really looking to do is gain leverage on the investments that we're already making. The same thing holds true with body camera and DEMs. You look at the body camera and DEMs product. It's really an enterprise solution that happens to be oriented towards law enforcement today and is geared toward law enforcement. We think that there are other use cases for that technology. And there are new areas like VR training that we are making a new incremental investment in that content. There the demand is extremely strong. And in drones, you know, here, we're looking to partner a little bit more and find the right partners to help us get into those markets. But what you should read into this is that we're not looking to really expand or to get too far ahead of our skis. As far as investments into new technologies, it's really driving leverage from the ones that we have.

Jonathan Ho *Analyst, William Blair & Co. LLC*

Fantastic. Thank you.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Next question comes from analyst, Brian Gesuale at Raymond James. Go ahead, Brian. We also have Astrid on the call, so Astrid, if you would prefer to ask the question, you can and go ahead and do that as well. Maybe we'll give you both a second and we will go to Paul Chung from J.P. Morgan.

Paul Chung *Analyst, J.P. Morgan*

Hi, thanks for taking my question. So just on your, you know, your annual software contracts, you know, what do customers kind of want more of, how are you thinking about the dynamic between kind of the new seats and increasing wallet share and know what are some of the upcoming features we should expect to kind of further try that wallet share?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Paul, thanks for the question. I think the good news here is that the product team has done a fantastic job delivering several, you know, value added feature sets over the last couple of years. And we're now seeing the market really start to value those. One of those is performance, which measures, how officers are complying with their agency policy. There's updated redactions and tools. There's a product called Standards, which is kind of our first module of our Records product, and ultimately as we bundle these solutions together and our officer's safety plan offerings, we're seeing more and more customers buy those offerings. In fact, we've seen about double the number of licenses purchased this year. So far in that plan as last year and we're only Q3, or through three quarters, I'd say. So, um, there's a lot of runway ahead for customers to continue to adopt a lot of these feature sets that have been released in our focus is really through customer success, as well as sales, making sure that we do a really good job showing, portraying the value that these new features have. So that that'll be kind of our biggest you

know, focal point for our software sales team over the next year is, moving more and more customers into those offerings. We're certainly confident in our ability to do so.

Paul Chung *Analyst, J.P. Morgan*

Okay, great. And then on the international front, you know, you saw very strong growth there, particularly in Europe. Where are you seeing pockets of strength there in Europe and where are you seeing the most momentum and then how's the traction been in Asia? You called out that contract there in India. Any, any comments or thank you.

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Yeah, absolutely. Thanks for the question. So those who have been with us a while recall for a long time are really disciplined about proving our international strategy and what we call our tier one markets, the UK, Canada, Australia, we feel like we've earned the right to expand beyond those markets now. And we've hired out really talented teams in several markets around the world. In EMEA specifically, we're seeing exciting growth of Netherlands, Italy, in Spain, in Germany, in France, in addition to India where we look at this first contract with Gujarat as kind of as the first indicator that our strategy there is working and we're going to continue to build out a team there across one of the largest policing markets in the world. Another place that we're really seeing a lot of successes, Brazil, which, you know, three or four years ago, we were barred from selling into and now they are again buying both CEWs and our video devices. And so we've gone to the point now where both our sales team has localized into some of these markets and our product team is doing a fantastic job, supporting our customers in those markets to kind of round out the edges and, and achieve that last mile were product market fit. It's really coming together nicely for our international business.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

I want to go back to Brian Gesuale from Raymond James. Go ahead, Brian.

Brian Gesuale *Analyst, Raymond James*

Yeah, thanks very much. Um, you had several really large wins here over the course of the year and some big deployments coming up with body cams, as well as a lot of investments to make to continue to support that TAM opportunity out there. Can you maybe talk about how we might see the margins ebb and flow over the next couple of quarters as you start to bring those customers live and continue to invest in the business?

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Brian, thanks for the question. I'll take that. So over the long term, I want to reiterate that we're driving the business toward 30% adjusted EBITDA margin, 70% gross margins. Over the next couple of quarters, I guess the best way to think about it, when we start off a year, we have a comprehensive list of investments that we want to make in product and channel operational excellence, et cetera. And we set our revenue targets and then determine which of these investments that we're going to fund. As you might imagine, that everything gets above the line. Not everything gets a green light. As we overdeliver on revenue throughout the year, we unlock funding for those items that were below the line, because we do believe that we want to reinvest back in the business. We've got a tremendous opportunity to get after these new product segments and channels and so forth. Had we not had \$30 million of revenue push in 2022 or adjusted EBITDA margins in Q4 would have stayed roughly flat to where they were at the end of Q3, but because we've been unlocking funding throughout the year for these new initiatives,

we're now expecting to finish the year at the EBITDA levels we're guided to, which translates to roughly a 20% adjusted EBITDA margin for the full year.

And then for next year, we're going to reset. Now in two things to note here, the first one is that the new initiatives that we're funding things like VR Training and Federal next generation TASER, body camera Records and Dispatch, Fleet, we're super excited about for all these areas demand is very strong and just like you saw in 2021, you're going to see any over-delivery fall, right to the bottom line. You'll see your margin tend to tick up. And the second thing to note is that we're in the budget process right now. We're going to treat 2022, just like we've been treating prior years, which is we're going to make sure there are going to be things that are below line. So the Q4 margin rate, even though it's going to be slightly lower, we're going to do that as an anomaly.

Brian Gesuale *Analyst, Raymond James*

Great. I appreciate that. And then, you know the ARR that you booked in the quarter, I think sequentially is about as strong as I can remember. Any specific shoutouts to particular lines of software. I know the VR/AR stuff has been, had a lot of momentum over the course of the last couple of quarters. How might we think about some of that strength and what it might look like as we carry that momentum into 22?

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Let me take that would at least to begin with. So we're seeing improving attach rates on our premium services, like Respond, which is the live streaming of body cameras. You know, on our last call, we talked about Charlottesville use that capability as they were taking down the controversial statues, to be able to see where all the officers were and be able to tap into live video streams. There's also a ALPR of course, Fleet and Respond as part of our new OSP 7+ Premium, which is a plan that includes VR and transcription. So I think we're also seeing an improvement in the attach rates in our highest premium plan, in addition to, you know, those individual elements.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Yeah, that's right. It actually is. Um, uh, Brian, just to formalize, it is a record for us. It's the largest single quarter increase we've ever seen in ARR.

Brian Gesuale *Analyst, Raymond James*

I thought so. Hey, congratulations. I'll jump back in the queue guys.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Okay. Our next question comes from Keith Housum at Northcoast. Go ahead, Keith.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Good afternoon guys and congratulations on the quarter once again. I appreciate all the color on the TAM and the penetration. As we look at your TASER weapons, they had a phenomenal quarter this quarter. Can you provide a little color or context in terms of, you know, the percentage of weapons that are being sold as replaced in a refresh versus really into new users?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Thanks a lot for the question, Keith, nice to see you again. Ultimately for us, I think it's, you know, there's three or four markets right now that are, that are adopting TASER, and the answer to your question is really dependent on the market for U.S., state and local. Ultimately our motion, there is more of an upgrade motion where folks are the majority of the market is upgrading from a legacy TASER to the new TASER 7. Now because we sell cameras and TASERS and the same bundles now we are seeing an uptick in that market in terms of first time standard issue users, which is promising and we hope to continue to see that theme well into the future. And then in other markets like international and federal and enterprise security, we're seeing more and more first time TASER users. So, you know, an international, for example, we have a taser first strategy where we really want to bet on ourselves to deliver a really fantastic customer experience to a customer we've never worked with before and they'll adopt our TASERS and then a year two later, once we've put some equity with those customers and go back and sell them additional products from our portfolio. And I think job federal is a little bit of that as well. And then same with our private security channel. So a little bit of a mixed bag depending on the market, but definitely say high demand across all of those markets.

Keith Housum *Analyst, Northcoast Research Partners LLC*

So if you had to aggregate all the numbers, you know, would it be 70% is going to be refreshed 3% new or would you guys for a second year a ballpark that for me?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

I don't have it off the top of my head. I would probably want to avoid any estimate until I've got the data in front of me. So we can come back to you with something like that in a, in a future quarter.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Fair enough. I appreciate that. Just as a follow up on the supply chain, any chance that supply chain issues will expand beyond just the tangible weapons this quarter into body worn cameras?

Luke Larson *President, Axon Enterprise, Inc.*

So, uh, I'll take that one, Keith. We, we feel really good about our pipeline. We've been working closely with all of our suppliers. We've got signed contracts and committed deliverables into Q1 and Q2 and so at this time, you know, in the first half of the year, we feel really confident we're gonna get rid of the backlog on TASERS and keep the momentum going with our full product portfolio. Now I would add the caveat, you know, we are in the middle of a global supply chain crisis, our team has done a phenomenal job navigating that. And I think our supply chain strategy has proven that out over the last two years we feel really, really good about it.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Okay, great. I appreciate it. Thank you.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Thanks Keith. Okay. Our next question comes from Jeremy Hamblin at Craig-Hallum. Go ahead, Jeremy.

Jeremy Scott Hamblin *Analyst, Craig-Hallum Capital Group LLC*

Thanks. I'll add my Congratulations. I want to first start with a question, I think probably for Rick and the product development team. So with this emphasis target to make the bullet obsolete by 2030, right it's been a, it's been a few years now since TASER 7, how many iterations of the TASER product do you expect to roll out between now and then, in that eight year period in getting you to that capability where stopping power can match or exceed the traditional handgun?

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

So I would say two or three product revs between now and 2030. I would just be really specific, I think by 2030, our goal is to outperform the 9mm and I think that's two or three product gens out.

Jeremy Scott Hamblin *Analyst, Craig-Hallum Capital Group LLC*

Okay. And in terms of the investment in your R&D team that needs to be made to achieve a goal like that, is that something that you feel is going to accelerate from what it has been growing at over the last, let's say four or five years?

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

No, not necessarily. The TASER developments are continuing to move along and that business, as it grows is funding the R&D. I did also, you know, at Accelerate start to talk about robotics, and part of this, as well as being able to remove operators from harm's way and some of the most high-risk scenarios and to be able to incapacitate a data target. So in addition to the handheld TASER devices, we know our customers also, like if you have a guy in a barricade situation who's armed, or, I was just talking with a major police chief earlier about incidents, like somebody with a gun standing on his porch, you don't want to get within 25 feet of him. Uh, and so in those cases, being able to deploy a long-range system and ultimately, I've come to believe that doing that through some sort of robotic is better than trying to develop some long-range rifle, will be part of the net solution that it will take for us to cut police shootings in half. We think part of that better weapons that a human can operate themselves, you know, TASER 8, 9, 10, and then also new capabilities where they might be able to engage particularly dangerous subjects from further distances or even outside of the building.

Jeremy Scott Hamblin *Analyst, Craig-Hallum Capital Group LLC*

That's actually a good segue into my follow up question, which is, you know, personnel costs are typically the, the highest expense for most police departments. This has been an incredibly dynamic two-year period in law enforcement, vaccine mandates, civil arrests that we've been going through. I just wanted to get a sense for the insight that you're hearing from police chiefs as to, you know, one staffing with new patrol officers, whether they're getting the personnel that they need and two, the evolution with Axon as a partner in how to potentially stretch the police force that's deployed, you know, in public domains a little bit better or more efficiently so that they can maintain their budgets. Can you just enlighten us a little bit more about what you're hearing from police chiefs?

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Yeah. Well, I think one of the things we can do to best help them stretch their budget is to free officers from having these fairly expensive professionals spend a lot of time on data entry tasks and a lot of the work that we're doing for example, in Records may not read as directly on obsoleting the bullet, but it can read very directly helping agencies leverage their staff. I mean, effectively we could double their

productivity if officers didn't have to spend half their day sitting at a laptop typing up records. We're doing a lot of work there on the back office to connect all these sensors we have in the field, all the way through, not just into the reporting system in an agency, but now moving over into the justice system, or you started to talk about how we're finding there's new efficiency needs for prosecutors and courts that are receiving the sort of deluge of digital evidence that we're producing there, that our customers now producing and handing off, and it's creating new and other interesting areas where we can solve a lot of these efficiency problems that translate very directly into budgetary gains.

Jeremy Scott Hamblin *Analyst, Craig-Hallum Capital Group LLC*

Are they getting adequate staffing or are they having to rely on you even more as a partner? Because, you know, in some cases it does sound like staffing has been a challenge to get, you know, I think there's a lot of people who feel like they've been, um, attacked, maybe is an appropriate word, publicly, and they're not looking to sign up for the job anymore. Um, but I, you know, maybe an opportunity for Axon to, again, stretch those resources.

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

We certainly are hearing that recruiting is particularly challenging in this environment. I do think we're also seeing a shift in public sentiment. I mean, in Minneapolis the bill to replace the police department did not pass. I think we're starting to see a shift in our customers are starting to feel it as well, where people are just realizing that law enforcement is a really a critical function and we need to have real solutions and that requires thoughtful investment, not defunding, but ultimately as it is more challenging for them to hire, then productivity tools do become even more important.

Jeremy Scott Hamblin *Analyst, Craig-Hallum Capital Group LLC*

Thanks for the color. Well done. Best wishes.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Okay. Our next question comes from Eric Lapinski at Morgan Stanley. Go ahead, Eric.

Erik Lapinski *Analyst, Morgan Stanley & Co. LLC*

Maybe if we could go back to the adoption, you're seeing with records and respond, I guess, just curious, are customers generally upgrading to those solutions as they're moving the higher value bundles with body camera contracts? Do you see that some customers actually have room in the budget to do that ahead of their existing contracts? Um, just anything on kind of the cadence of adoption understand it's still early for most customers.

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Yeah, absolutely. Thanks for the question. Ultimately, we believe our products work best together, right? And we believe that digital evidence will be at the heart of every police room for a certain word has seeing that trend. And we expect that to only continue and grow over the next five to ten years. And right now, most of our customers are buying Records in the same offering, the OSP or the officer safety plan offering and that, that strategy is serving us well right now. Where we're doing our best to balance more and more customers signing up for the Records product with nailing the experience for our first adopters. We're hearing more and more positive sentiment from our early customers and Records to attribute to the hard work our product team is doing to deliver that experience. We really believe that stacking one customer onto the next and just doing that enough times to have a really positive, early

experience in Records is what's going to lead to that significant adoption across the market leader. And so that's kind of the motion we're focused on for now.

Erik Lapinski *Analyst, Morgan Stanley & Co. LLC*

Thank you. As we think about Consumer and just as you're building out prospects for channels there, do you expect most of that to be kind of in the direct model? Are there opportunities to expand into storefronts? I guess, shift in how we think of the differences of sales model is as kind of the Consumer opportunity really starts to ramp?

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Yeah, thanks, Eric. I'll take that and maybe turn over to Rick for some additional color. So today it's both today, we sell through distributors and direct to consumers, and we certainly plan in the near term to leverage both of those models going forward. We do think there's an opportunity for us to increase direct to Consumer with some of the products that we're developing. It's not only next generation TASER, but we're also in the process of developing mobile applications for personal safety. And those we're going to be going direct.

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

I'll just kinda leave it at that. I don't want to telegraph too much what we're doing that we haven't announced in terms of products yet, but we're excited about what's coming.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Very excited.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Alright. Our next question comes from Will Power at Baird. Go ahead, Will.

William Verity Power *Analyst, Robert W. Baird & Co., Inc.*

Okay, great. Yeah, congratulations on the strong results. I wanted to come back to you, Rick, or whoever wants to take it. I know you've made the comment on the record bookings, you know, up 70%. I'd just love to get a little more color on the key drivers or components of that strength. Is it dominated by any particular product, geography, as you think about, you know, between sensors, TASER, international, it feels like it's pretty broad base, but any, any further back drop on the drivers would be great.

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Yeah. Let me hand over to Josh. He's just a little closer to the customers in terms of the actual order flow. I'm feeling broad, general support from the customers. And one thing we're hearing is the fact all this stuff works very well together. They see as really being quite valuable. Historically police tech systems are sort of infamous for not playing well with other systems. But with that, Josh, how would you answer that question?

Joshua Isner *Chief Revenue Officer, Axon Enterprise, Inc.*

Yeah, ultimately our bookings are a combination of several factors. I think in our core segments, the more officer safety plan adoption that we see drives bookings up because it is, those are our highest ASP

offerings. In addition to that we're seeing international grow very quickly and we're really, really excited about that. We we're on track for a record year at international by mid double-digit percentages and that's very encouraging to see. We're also seeing that same growth in some of our newer segments, such as the Justice segment had a record quarter. Our Enterprise segment had record quarter, private security sales growing. And then of course new products are also contributing, both Axon Air, our drone offering and VR. VR is our fastest adopted product ever, including the TASER X26, and we're seeing it's the first quarter we've had where every single one of our sales teams exceeded their goal in Q3 and we're expecting that type of momentum to continue across all segments and all products, so very encouraging and stuff. We expect to post an even better result next quarter in terms of total bookings.

William Verity Power *Analyst, Robert W. Baird & Co., Inc.*

Yeah. Okay. That's great. Maybe just a question for Jawad. I know you all provided the revenue guidance or a target for next year. Maybe I missed this, but any framework for EBITDA margins for next year, I know you have a longer term, 30% target. I think this year you largely outperformed where you intended to be, you got investments planned, and then you learned <inaudible> as we kind of put our miles together for, for next year to be in the right zip code.

Jawad A. Ahsan *Chief Financial Officer, Axon Enterprise, Inc.*

Yeah, I appreciate the question, Will. You've certainly nailed the party line. We are driving towards 30% margins long term, and we're going to remain opportunistic about where to invest. We are in the process of setting our budget for 2022. We have not formally guided to EBITDA dollars or margin for next year. The way that we're thinking about it is, as I had mentioned, we have a host of investments that we'd like to fund. Not everything is going to get funded. And as we go throughout the year and hopefully surpass our revenue targets, we're going to unlock more funding. And the reason we're doing that is there's just, there's so much opportunity in front of us. And it's across a variety of categories. It's across multiple products, multiple channels, multiple geographies. And I want to make sure that we're keeping our top line growing. And the way we do that is by investing right and not focusing on EBITDA. So what you can count on from us is we're going to stay disciplined. That's something that Rick and I and the rest of the executive team are very much aligned on, that we want to drive leverage in the business over time, but we also are going to prioritize investing in getting after this TAM that we shared with you today.

Angel Ambrosio *Sr. Manager, Investor Relations & ESG, Axon Enterprise, Inc.*

Okay. And I think that's everybody, unless there are any follow up questions. No. Alright, Rick, over to you to close us out.

Patrick W. Smith *Chief Executive Officer & Founder, Axon Enterprise, Inc.*

Awesome. Okay. Well again, thanks everybody for joining us. We look forward to updating you as we bring the year to a close next quarter. And I do want to close out by sharing a powerful moment that we shared with our customers at Accelerate, where we missed having our investors this year. We celebrated their sacrifice these past two years through the pandemic and widespread social challenges. So with that, let's share the moment. And please stay on, life is short for folks. Don't run to your next call. Take a moment and share this with us. Your investments make this possible.

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