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Axon Enterprise, Inc. (AXON)
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MANAGEMENT DISCUSSION SEGMENT

Andrea James *Senior Vice President, Corporate Strategy & Investor Relations*

Hello, everyone. Welcome to Axon's fourth quarter of 2021 earnings call. We appreciate your tuning in today in the midst of considerable market volatility and global geopolitical risk.

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

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 dot axon dot com. Our remarks today are meant to build upon the information in that robust letter.

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.

We're going to play a quarterly update video. This video was prerecorded before current global events escalated, but we're making the decision to share it today because there's important information about our quarterly update in the video. Okay. Thank you.

[QUARTERLY UPDATE VIDEO]

Patrick W. Smith *Chief Executive Officer & Founder*

All right. Thank you, Andrea. I was just waiting for the cue here. I love watching those videos. We've got the most creative finance team in the business.

As you can see from that video, we have been looking forward to sharing results from the best year in Axon's history. We are heavy hearted to do so on a day when democracy is under attack and a war is breaking out in Europe.

We don't get to choose whether the times that we live in will include geopolitical instability, or global pandemics. What we can choose are our principles and how we respond.

We stand for transparency, truth, and protecting life. Our products are designed to strengthen trust in the rule of law — and they support the United Nation's 16th sustainable development goal to foster peace, justice, and strong institutions.

Our thoughts are especially with the Ukraine National Police, who are our customer as well as our Axon Teammates in Ukraine.

As we kick off 2022, I'm confident Axon's best days are ahead of us. We are prioritizing our people and giving them a platform to further excel at what they do.

Last month, Dr. Richard Carmona announced he will be retiring from Axon's board after 15 years of service. Dr. Carmona has been a tremendous contributor to Axon, helping us shape strategy and positioning as Axon evolved from a single product company known as TASER to where we are today. And he is simply a wonderful human being. We are incredibly grateful to him not only for his 15 years of service, but also for the way forward he helped us define.

As I reflect on what is driving our strength, it's a powerful combination of solving real challenges for our customers, creating a better user experience, and attracting passionate talent.

It's really our emphasis on building software at the core that creates a great user experience — historically many competitors built software to fit RFPs, which checks a lot of boxes but ultimately does not function well in the hands of the user. We have been religious about understanding our customers and building software and products that delight them.

When customers test Axon solutions, they stand apart. As we consider the competitive landscape, one of the most important factors that sets us apart is that we truly have a highly integrated suite. A high performance ecosystem that seamlessly connects hardware and software and our community of users to achieve Axon's mission of delivering a safer world.

When competitors talk about winning market share, it's mostly focused on lower margin hardware buyers who don't yet value great software, and usually aren't ready to advance to the cloud. We look forward to welcoming those customers down the road, just like the many agencies here in the U.S. that are upgrading from competing platforms to the Axon ecosystem.

Perhaps even more important than the technology we've built is the mission mindset of our employees that sets us apart. I regularly hear from chiefs raving about their positive experience with our employees because they are so passionate about helping our customers succeed. I recently got a call from a State Police Colonel asking me to come to their headquarters for a surprise award ceremony where they recognized Axon rock star Strategic Project Manager Jenny Schupp for seamlessly upgrading them onto the Axon platform. Great work, Jenny - so proud to have you on our team!

Great tech and passionate people is just a magical combination and it works.

Our momentum with Fleet 3 has allowed us to continue to capture share with major cities, county sherriffs, and state patrols in the domestic market. We have converted several major agencies in the last year from competing platforms on to our network. The whole ecosystem ties together our body and fleet cameras, TASER weapons, Drones and third party sensors with a growing suite of software capabilities — and it is delighting customers.

We are laser focused on pursuing our mission and driving growth - and it's clear that our people are our best asset. As you've heard from Luke over the years, we have been fortunate to attract people who are

among the best at what they do. I'm incredibly grateful to everyone across the organization for their contributions to our success.

Now, over to Luke to take you through some of our 2021 highlights.

Luke Larson *President*

Thanks, Rick.

In 2021, Axon focused on our commitment to our mission, to our customers, and employees. We continue to be in a period of rapid scale.

Last year, we hired more than 900 new teammates. And we set new company records by filing more than 100 patent applications.

We also supported our customers through a period of turbulence. One of our initiatives included the creation and launch of *Family First*, a free and confidential mental health resources and training package for the families of Law Enforcement.

Another fantastic initiative we launched last year was *Axon's Roadshow* — we hosted 200 events over the course of 6 months where we visited customer agencies and gave demos of our products.

We also grew our international markets, with Sao Paulo Military Police adopting a large body camera deployment, and the Dutch National Police undergoing a large TASER deployment.

On the product front last year, we launched *Fleet 3 & ALPR* —and demand has exceeded our expectations. As a result, Fleet bookings for 2021 far surpassed our projections, and customers have raved and served as incredible references. And our launch of Attorney Premier in December opens up an entire new software category for us in the Justice sector.

And while we're quick to highlight key wins in new market segments, our entire business has been able to achieve record results due to the stellar work that continues to be done by our State and Local teams.

Operationally, last quarter we told you about industry-wide chip shortages that impacted our TASER 7 platform.

We told you we had line of sight to clearing the backlog in the first half of 2022, and that remains the case.

We continue to manage through challenges. including delivery delays, and our supply chain team is navigating extremely well.

We also called out in today's shareholder letter that approximately \$15 million of AB3 revenue is also shifting into 2022 as a result of an elongated supply chain.

I want to note that we have been intentional about overall preparedness, investing in manufacturing capacity and flexibility, thereby improving our ability to build to meet customer demand.

We feel great about our pipeline and bookings in what continues to be a dynamic environment. As Rick noted, you often hear me boast about our teams and the incomparable talent we have at Axon. Recruiting is a major focus for us as we grow — we recently announced that we are opening an R&D hub in London, which will be our fifth after Scottsdale, Seattle, Tampere, Finland and Ho Chi Minh City, Vietnam. If you know someone fantastic who wants to make an impact, we want the best people in the world to come to Axon, so please refer them to us.

Now I'll turn the call over to our Chief Financial Officer, Jawad Ahsan.

Jawad A. Ahsan *Chief Financial Officer*

Thanks, Luke.

I'd like to start by recapping some of our financial highlights over the past few years.

This is our third year in a row of 25%-plus revenue growth. Our annual recurring revenue has tripled over those same past three years to \$327 million. Looking back over five years, our revenue has grown at a CAGR of 26%, from 2016 to 2021. And over this same period, our Adjusted EBITDA has grown at a CAGR of 32%.

We've delivered both exciting top line growth and strong operating leverage, all while making investments that will not only continue these trends for years to come, but more importantly help us achieve our mission to Protect Life.

As we look ahead to 2022 and beyond, we intend to use this momentum to our advantage and stay on offense.

What is that going to look like? We're introducing today a third pillar of our financial strategy, in addition to top-line growth and bottom line leverage - and that third pillar is cash generation.

We're laser focused on building an enterprise that will deliver 20%+ revenue growth for years to come, return increasing amounts of profitability to our shareholders as we grow, and build a free cash flow generating machine that will make our business sustainable for the long term and keep us nimble and flexible. This flexibility will be built on the stable foundation of a subscription-based business model that generates highly recurring cash flows.

We've recently talked about investing for growth in terms of R&D. We're still making those investments, but we also know that our continued growth at this pace will depend on more than just R&D. We'll need new sites and offices around the world as our global footprint expands. We'll need new facilities with new capabilities, both in terms of automation and streamlined manufacturing, as well as showcase spaces for our technology where we can collaborate with and gather feedback from our increasingly diverse customer and partner base. And finally, we'll also need the ability to move quickly when the

right inorganic opportunity presents itself.

It's for these reasons that we gave you more color than usual in our shareholder letter about our cash flow and capex expectations, including formal guidance for 2022. Transparency is of paramount importance to us, and you can expect to hear more from us on this topic. We're incredibly proud of how we've positioned the business to be cash-generative for years to come.

To recap the three pillars in terms of what you can expect from us going forward, it's:

- 1) Continued strong performance on the top line
- 2) Continued discipline in our operations, which will be evidenced by outperforming the Rule of 40
- 3) A strong ramp in operating cash flow that will, after the investments we've laid out, lead to a strong ramp in free cash flow

Looking ahead, we're also very excited by the next wave of new products and technologies that are going to become an important part of our growth story in their own right.

Before we move to questions, I want to echo Rick's comments about the geopolitical crisis we're all facing as global citizens. Our thoughts are with the citizens of Ukraine today. We have never been more proud of Axon's mission to protect life.

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

QUESTION AND ANSWER SEGMENT

Andrea James *Senior Vice President, Corporate Strategy & Investor Relations*

Thanks so much, guys. Moderators, can you bring everyone up into gallery view?

Ok, let's take our first question from Jonathan Ho at William Blair. Go ahead, Jonathan.

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

Hi, good afternoon. I wanted to start out with sort of what was different, you know, between your supply chain expectations around backlog and what ended up materializing around the quarter and what's sort of giving you the confidence that you'll be able to maintain clearing the backlog by second quarter?

Luke Larson *President*

Jonathan, thanks for that question. We had just some material delays that impacted some of our original thinking. We still feel really strong about the total year outlook and our supply chain team has just done a phenomenal job ensuring that we have line of sight to key revenue drivers. If I had to summarize it, I would say, you know, we may see some quarter-to-quarter mix, based on some of those material delays, but we still feel very strong for the year guidance that we published.

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

And then just as a follow-up, when you referenced 25% of bookings coming from new types of customers, I just wanted to get a sense for how much those customers can continue to contribute going forward as we look at that increasing ratio, you know, what can that get to over time? Thank you.

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

Thanks, Jonathan. Nice to see you again. I'd say you know, for international specifically, our goal is to have international outperform the United States in bookings long term. So I think we're just scratching the surface right now in that segment, and the federal government you know, wanting to acknowledge our entire federal team, just two years ago, were you know kind of a \$15 to \$20 million bookings business every year. And last year, we're just short of \$100 million segment and again, we think we're closer to the beginning than the end of that growth. And so, we have a lot of confidence, especially in those two segments. And then, you know, the Justice segment, the Correction segment on Enterprise, where we're starting to see some encouraging momentum as well. You know, one of the things that makes it challenging at times is our domestic segment still grows pretty substantially but certainly, we hope and expect those new segments to outpace domestic and become a bigger and bigger part of that mix over time.

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

Thanks, Jonathan. Next question from Josh Reilly at Needham. Go ahead, Josh.

Joshua Reilly *Analyst, Needham & Co. LLC*

Hey there, thanks for taking my questions and nice job on the quarter and year. So I think, you know, given the news in Ukraine here over the last week, you know, curious how this maybe impacts your European opportunity, given the pipeline there in that region, and I know it's early, but do you anticipate any potential business disruption as a result of what's going on?

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

You know, we've spent years and years building up a really strong team and pipeline in Europe and last year the team really performed well against our goals in terms of normalized five-year bookings are up about 35%. In terms of 10-year bookings, we're up close to 60% in International. So these are deals that take a lot of time and energy to move through the sales cycle. And so the ones that we expect to close this year, largely we've been working on already for quite some time. So I think we're in a place now where we feel like they're insulated from some of the uncertainty but having said that, you know, no one can predict the future in terms of how this will play out longer term. So, of course, there's a little bit more risk there today than there was last week but we still feel really confident in our international and EMEA business throughout 2022.

Joshua Reilly *Analyst, Needham & Co. LLC*

And then, if you look at the increasing guidance, and adjust for the \$15 million of AB3 revenue that's pushed to 2022, how much of that \$40 million dollar increase is related to increase assumptions around TASER versus other products?

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

I think it's a healthy mix. I think we believe the TASER business is going to grow this year across both domestic and our newer segments and then video shipments and some other products, both on the software and hardware side will contribute there. The team did a really nice job of not only closing out a strong Q4 but continuing to develop a pipeline for this year and in Q1 we expect really significant bookings growth over Q1 of last year. And you know, we're pushing really hard to make that trend continue throughout the year. So we think it'll be a mix of factors that drive that revenue and bookings result up.

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

All right, thank you. Will Power at Baird, go ahead, Will.

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

Alright, great. Thanks. Rick, maybe starting with you, you all rolled out a bunch of new exciting products, whether it's, you know, VR, Bolt 2, Fleet 3 you know, on and on Digital Evidence, management for Justice. Look toward the next five years, which of these new product categories get you most excited and what presents the biggest opportunity, I guess growth for the company?

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

Sorry, I had myself muted there. It's my patented move. That's kind of like asking me again, like which of my children I love the most. It's actually it's hard to pick. Over on the TASER side of the business, we've got some crazy, awesome new technology coming over the next 10 years. We are going to outperform a 9mm pistol by 2030. I am highly confident. Over on the other side of the business, like solving problems for attorneys in the criminal justice system, you know, that's high margin software. It's scaling rapidly, quickly. And you know, we're passionate. Our team over there talks about the opportunity to really impact fairness and efficiency in the justice system by having tools that enable, public defenders who may only have literally minutes with their clients to have to work out plea deals to make them able to efficiently be able to process the video evidence and find what they need. So across our whole business, pretty much everything we do, impacts people's lives in an important way because we have public safety, it's really important and foundational work to a modern society. So I'm excited across the board I mean, Consumer, I started this business to focus on the consumer space after you know, a private citizen killed two of my friends, ruining their lives and now spending his life in jail. We need to give people something better than a bullet. It's 2022, and across the board, whether it's improving the efficiency of the justice system or saving lives or just putting medieval technology on the shelf because we've given the world something better, we're just excited across the board. So forgive my enthusiasm, but I actually love my job. I just got back from a two-and-a-half-day roadshow, saw twelve major agencies and I always come back here super pumped. I literally got home about five minutes before the call. You know it's just such an awesome business to be in. And I'll just tell you this, I also I'm watching what's happening in Europe, and I can't help but think like, the world is looking at this quite differently. Like, what is this capricious use of war? It doesn't feel like it fits the modern world. And you know, I think we all were hoping it was gone. But, you know, the global revulsion that you can feel it and I'm

hoping that we're turning a corner here. And I think we're seeing even in military circles the acceptance of killing people is not what it was 100 years ago, and hopefully, we are going to get rid of it being accepted at all at all in the next century.

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

Okay, thank you. That all makes sense. But maybe if I just ask the second one, whether for you or Luke or whoever wants to take it. It has been a challenging hiring environment, especially for R&D talent and technology. I know you're opening a new hub in London, which presumably helps. Maybe just talk about what you're seeing in terms of employee retention, difficulty hiring, how does that factor into plans and outlook here?

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

Yeah, I'm going to take that first and then Luke, I'll have you take the ball. Part of what we're doing in London is really important. We're beginning to continue to expand our global footprint that you know, we've got a lot of customers in the UK and Scotland and across Europe, and we really feel it's incumbent on us to really have a global footprint where we're sourcing talent around the world and putting that talent closer to our customers. So this both helps work with a sourcing talent, but also we think from a customer intimacy perspective, it's going to help there as well, and Luke, with that do you want to take the rest on retention?

Luke Larson *President*

Yeah, great, great question. As we look at the last two years, we've seen this acceleration of remote work and that's given every employee in the world a lot of opportunities. I think a lot of companies are kind of scratching their heads going, how are you possibly going to retain people in this environment? I'm super excited about it at Axon because I think we're going to be the beneficiary of that because we've built an amazing company. So when we go out and talk to candidates, we talk about the purpose and the mission that we have. We talked about the great team that we've built and the talent that we've attracted. I think one really exciting part of the business is the future growth that we see ahead of us. And so that's not only for prospective employees, it's for existing employees as well. And so, you know, I feel really confident about the team that we built, and it's definitely a challenging hiring environment, but we think it's going to be one where we're going to thrive because we've built such a great business.

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

Stay tuned at the end of the call. We've got one more video for you that the team put together that really showcases a bit of who we are and we're getting rave reviews from people seeing it online, who don't even know what we do who want to come work for us. You know, we aspire to have a place that not only works on big problems, but really has a good time doing it and recognizes and celebrates, you know, the humanity of our people. You know, we're all in this together, working on problems we care about and that is resonating with our current employees and with the folks we're trying to recruit.

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

Yeah, thanks. We're really excited to share that video with you at the end. So do stick around. Okay. Meta Marshall at Morgan Stanley, you're up next.

Meta Marshall *Analyst, Morgan Stanley*

Great, thanks. You listed a number of international agencies that you guys were having success within the quarter. Just wanted to get a sense of, you know, where you're seeing the most traction either TASERs or body camera and just whether they're more likely to kind of bundle up front or if there's different needs with the software for those customers that's maybe digging in on the international side and what traction you're seeing there? And then maybe second it sounded like you guys were able to kind of work around and find alternatives for a lot of the products but just getting a sense of if you think increases that'll need to be passed on to customers. Thanks.

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

Yeah, thanks very much for the question. So on International I think our focus is customer acquisition regardless of product, so I think some customers are better suited at the moment for TASERs, are more interested in TASERs and you know, others are pursuing body cameras or in-car video or even Interview Room and for us our strategy has always been to make sure we can delight our customers with one of those products and then over time, expand the ecosystem within each agency and we really believe that's become a competitive differentiator for us in the United States over time, and it will internationally as well. I'd say it's a little less common to see bundling of TASERs and body cams in most markets, the commonwealth countries, it might be a little more common there, but it's still you know, in a lot of these markets, how can we how can we get in there with any of our products and delight customers and build really strong productive trusting relationships. So that's really the focus internationally. And in terms of pricing, I think we feel really good about where we stand right now. We've we address pricing every year and meet as a team and decide kind of how best to go out to market and be fair in terms of the value that we're providing, and we don't at this point anticipate passing any pricing increases along to our customers. We announced our new pricing in January. We feel great about it. We have many of our supplier contracts locked in. Our ten-year deals do contain escalators starting in year six, to account for inflation and new products and new capabilities and so forth and we continue to feel good about that.

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

I want to add on here, Meta. One thing we are working on, it's why we laid it out for you in our cash estimates, is our investment in automation, streamlining manufacturing, labor reduction, right? That's a big investment we're making from a CapEx standpoint to help attack this from the cost side.

Meta Marshall *Analyst, Morgan Stanley*

Perfect thanks for the context.

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

Thanks, Meta. Keith Housum at Northcoast, you're up next.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Thanks, guys appreciate it. I was hoping for a little bit of a crystal ball here, give us a little bit of a highlight in terms of what to expect for this year in terms of new product rollouts or updating existing ones? AB3 is now a few years old, you know TASER 8 is being in-process, and perhaps give us an update where you guys are with the new products or any improvements are changing or updating the old ones?

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

Well, I've got to contain my excitement here, you know that, Keith. The products are, we have some products that are you know, getting to the end of their expected life cycle where we start to expect to see some new ones coming along. So I can't give you any specifics, but you know, we do get on a cadence of approximately two and a half to three years on body cameras and every five years on TASERs and then we just launched Fleet 3. There's a lot going on, but you know unfortunately I can't give you more than that other than to share my smile with you and let you know we got good stuff coming on the way.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Axon Body 3 was last 2018, correct? [inaudible] The next question is for Jawad. You guys said [inaudible] increased freight costs in the fourth quarter. I'm assuming you had other costs dealing with supply chain issues. Can you perhaps give us some context about what the impact was in the fourth quarter and how we should think about that in 2022?

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

Yeah, you know the impact is fairly muted on our margins when you saw gross margin compression. It was largely actually due to supply chain shortages that we had, unable to fulfill demand and so we had some fixed costs that were unable to be allocated over inventory and that caused a little bit of margin compression, but overall, not a not a big disruption. This is again, pointing back to the investments we're making in our in our manufacturing processes in automation to really get out ahead of that. We're seeing results. We've been making those investments for a couple of years. They've been on a bit of a smaller scale, and now we're ramping those up because we're seeing such great benefits from those. And that's something that we expect to continue to pay dividends in the short term and over the next few years. And as we again try to drive toward that long term margin target at 30%.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Okay, so recapping what you said, you don't expect any significant compression in 2022 because of either of those issues.

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

That's correct.

Keith Housum *Analyst, Northcoast Research Partners LLC*

Okay. All right. Thanks, guys. Appreciate it.

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

Thank you, Keith. Next up, it looks like Erik has dropped off, so we'll go to Paul Chung at JPMorgan. Go ahead, Paul.

Paul Chung *Analyst, J.P. Morgan*

Hey, thanks for taking my question. So just, I just want to talk about the kind of push out in 4Q revenues and kind of the impact on the shape of your TASER contribution in 22. And then, how's your visibility on the weapon side and then given the higher subscription bundles, can we expect a little less volatility between quarters? And then I have a follow-up.

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

Yeah, I think it's a good question. The team has worked really, really hard to get as much line of sight into the TASER supply chain as we can, and they deserve a lot of credit for that. I think we feel very much that the outlook on supply chain does support our new revenue guidance. And so, you know, as you remember, in Q4, we did guide to around \$204 million I think and surpassed that. And that just speaks to the fact that the team really did a good job pulling in every component that they could to be able to beat that guidance, and we think we've got a promising path forward in that regard. In terms of quarter to quarter flux, last year it became fairly consistent between Q2 and Q4; there was less kind of swing in the revenue results overall. I do think that is because the team is getting better and better at building a more substantial pipeline across segments, and that allows us to have a little less execution risk quarter to quarter. So certainly every quarter we start with how can we maximize the percentage of the pipeline that we close and then that's going to continue to be a focus and I really believe the team is primed for another really strong year in that regard.

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

Paul, on your visibility question, we've got visibility to a little over half, about half, over half is booked and it's one of the reasons we like to highlight our bookings number because it's a really strong indicator for future revenue growth.

Paul Chung *Analyst, J.P. Morgan*

And then, um, on cashflow, you know, very strong, so despite some of the component shortages here, talk about the working [inaudible] you expect over the year and then kind of benefits of a larger subscription base and then the shape of cash flows as you move through the year. That'd be helpful. Thanks.

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

Yeah, this is one we're really excited about. I'm personally extremely excited about it. We've built a business that is going to be hugely cash generative for years to come. This is something that we've been

building the foundation for many years, and it's really starting to manifest itself in our cashflow statements. Last year, we had a bit of a use of working capital and we expect that that's going to work itself out in the first half of the year. And we obviously laid out the investment in the new campus, the automation, manufacturing initiatives, we have new sites and facilities we're opening around the world. And so that's one of the reasons that we've given more visibility into our capital expenditure, and we've broken that out versus just sort of like recurring business ongoing excluding the one-time items. We are going to give you visibility to those one-time items over the next couple of years. And we expect that once we're through the next couple of years, with those investments, that we're really going to be throwing off pretty significant amounts of cash.

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

Thanks, Paul. And it looks like Astrid Huang has joined us from Raymond James. I don't mean to put you on the spot because your video off, but do you have a question, Astrid? Okay. I'm going to assume not. I'll give you another second. Is there anybody else who has a follow-up? You can kind of come off mute. Don't all jump at once. Will Power has his hand up, go ahead.

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

I'll ask a follow up, but you know, I was, I was intrigued on the corrections market, looked like a nice win in Ohio, I believe. I'd love to get further color as to what the pipeline of opportunities looks like. It seems like that's been a kind of a budding opportunity for a while. Are we finally at the cusp of more significant wins? How do we think about that opportunity moving forward?

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

Yeah, absolutely. Their deploying a body camera in every correctional facility in Ohio was a huge win for the corrections team and one that took multiple years to deliver there. There's a big market here that we often talk about internally, for example, California department of corrections is about the size of NYPD in officer count. So there's a big market out there to go get. We've reworked some of the offerings and packaging and bundling to better suit our corrections customers. And we've continued to build out that team over the last year and a half here. So we're really excited about the progress. There are still a lot of work to do and it's a different sale for sure than a lot of more conventional law enforcement customers. But we expect that to be not only a part of our state and local growth moving forward, but also a part of our federal growth moving forward.

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

Thanks, Will. Jonathan has a follow-up. Go ahead, Jonathan.

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

Given we started the call in VR, I thought it'd be appropriate to just ask, just given the success that you're seeing there, are there any stimulus funding or programs that can maybe drive even faster adoption in that VR space and can remind us of how much of a step up in ASPs and you can see in VR adoption?

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

Yeah, absolutely. So right now, if you buy a VR, our VR offering with TASER 7, it's about a \$17 per month uplift from the TASER 7, and we have some ala carte packages as well. I'd say like all of our products

early on were far more focused on adoption than ASP right now. We believe that this is an extremely emerging and disruptive technology that is going to further our mission to obsolete the bullet. Of course, we can do that through building a better and better TASER and we will. But the other side of that is making sure that we're able to simulate the type of stress that officers experience in the field. And we really, really believe this is kind of our next big product category. And we're really focused on becoming the market leader in this space. And like we said, this product outperformed both our body cameras and X26 in year one of sales, which is a great indicator. And the team is really focused on driving this business segment up past a \$100 million dollars in bookings as fast as we can.

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

Rick, you're off mute, so you're going to close us out. Go ahead.

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

Now you made me want to double check and just make sure that I'm off mute here. Well hey, we're obviously just thrilled with the performance the team has been able to pull together over these past two years despite the pandemic and social unrest and now these new geopolitical challenges. Um, but you know, I had the great fortune to work with just some really awesome people who get out of bed regardless of what's happening in the world. They just get after our mission. We want to conclude by sharing with you a really special project. Our team shot some drone footage of our current headquarters this week. And we'd love to take you through our Scottsdale office, R&D and manufacturing facility. It's pretty cool. Check it out.

[HQ DRONE VIDEO]

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