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**Axon Enterprise, Inc. (AXON)**  
**Q1 2022 Earnings Call**  
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## CORPORATE PARTICIPANTS

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

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

**Luke Larson** *President, Axon Enterprise, Inc.*

**Jim Zito** *Interim Chief Financial Officer, Axon Enterprise, Inc.*

**Jeff Kunins** *Chief Product Officer & EVP-Software, Axon Enterprise, Inc.*

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

## OTHER PARTICIPANTS

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

**Erik Suppiger**  
*Analyst, JMP Securities*

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

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

**Sami Badri**  
*Analyst, Credit Suisse Group*

**Scott Berg**  
*Analyst, Needham & Co., LLC*

**Keith Housum**  
*Analyst, Northcoast Research Partners, LLC*

**Paul Chung**  
*Analyst, J.P. Morgan Chase & Co.*

## MANAGEMENT DISCUSSION SEGMENT

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

Hello everyone. Thank you for joining our executive team for our first quarter 2022 earnings. I hope you had a chance to read our shareholder letter that we posted to investor.axon.com. The remarks we're going to make today, build upon the information in that already 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. And before we go to Rick, we're going to play our quarterly video.

*Quarterly Earnings Video*

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

Great job on that video, Andrea and Angel. And hello everybody. Thanks for joining us today for our quarterly conference call. As we look at what's happening in the world, never has it been more important to emphasize our values, our mission to protect life and protect truth. Especially when life and truth are being egregiously flouted with wanton and reckless lethality with a real disregard for lives lost and where the truth is being distorted and disregarded by Russia in its invasion of Ukraine. As the scaled leader in our category, we are digging into our mission stronger than ever. We are energized about all the great things we're doing and the way our business is scaling. One of the things we highlighted in our shareholder letter is our moonshot goal, which is to cut fatal officer involved shootings in the United States by 50% over the next decade.

We do not have to accept killing as a de facto part of human existence- not in war, not in policing, not in our homes. We look forward to sharing more with you as this year unfolds. I can tell you I've been sharing with our customers about this goal-- brainstorming, how together can we combine product design policies and training--and just the energy in the room when we talk with our customers about this, everyone is excited to join forces and reduce killing. Last week in conjunction with our CFO transition announcement, we raised our full year revenue and just adjusted EBITDA guidance. We're now expecting revenue to grow 25% of the midpoint--and this is on top of 27% revenue growth last year and 28% the year before that. What our growth is demonstrating is what happens when a company builds disruptive products that solve real world problems and invest in R&D to stay in front as the innovation leader.

We're seeing a lot of product successes and not just in TASER and body cameras, but in Fleet in- car cameras with automatic license plate reading. And of course, with a growing suite of cloud software tools and features. We'll be investing some of our expected revenue outperformance this year into new initiatives that will start driving revenue in 2023. One area where we're adding investment this year is international VR training. There's a broad global market for virtual reality training, and it's our fastest growing new category in the US, and we want to stay in front globally by adding new languages and scenarios to accommodate international public safety customers. On a final note, we're welcoming my friend, Jim Zito to the call as our interim CFO. As you may have seen this morning, there was a press release announcing Jawad's new role as president of Aira, an exciting new tech company here in

Arizona. Jawad remains committed to a smooth transition of the CFO role. On behalf of the board and the management team, I want to thank Jawad for his dedication and all the work over the last five years helping Axon innovate and grow. And we wish him the best. We couldn't be more excited about Jim and our future. Jim has played a key role in building our world class accounting and controllership organization, enhancing our internal controls over financial reporting and overseeing the implementation of stronger processes to drive operational rigor, to improve Axon's financial results. As we embark on our CFO search, I'd like to share with you my philosophy on leadership transitions. Our next CFO inherits a culture of operational rigor and a very strong bench. I'm looking for a CFO who is energized about capital allocation discipline and can marry that with understanding how to combine our societal value creation with shareholder value creation. Now I'd like to hand off to Luke who will take you through some of our operational highlights. Luke.

**Luke Larson** *President, Axon Enterprise, Inc.*

Thanks Rick. You saw in the video we played at the start of the call that we are highly focused on attracting world class talent, and we feel great about our ability to do so. And in the future, we expect to continue to do this with our mission driven focus. There's lots of these world class Axon teammates on this call today, many are called in, and I want to give them a huge shout out and thanks for all the work that they've done to help us build a great company. Another key execution item for us has been on ensuring that our supply chain meets our ability to satisfy customer demand. The team has executed well on this front. We have a solid plan in place that has enabled us to meet goals and production has increased in several areas in the first quarter. While we are cautiously monitoring China's latest COVID shutdown, we have visibility into supply chain supporting our revenue guidance at the midpoint throughout the full year and the issues we flagged the past two quarters that led to an outsized backlog are now beginning to return to more normalized levels. Also, I encourage you to check out some of our key product updates in the shareholder letter. Our R&D team is truly staying at the forefront of innovation in the public safety space. Axon Fleet 3 is proving to be a game changer for in-car cameras. To date, we have installed over 6,000 cameras. Fleet 3 transforms the traditional dash camera into one that can automatically scan plates across multiple lanes of traffic at closing speeds of up to a 140 miles per hour, making it disruptively affordable for agencies to deploy our automatic license plate reading in their vehicle fleet. And we believe our ethical design framework to protect citizen privacy and data misuse is not only the right thing to do--it's also a huge strategic advantage. You may have also seen our momentum with records is starting to accelerate. We just had a major city launch in the Tucson region that brings us to more than 25 agencies with nearly 11,000 sworn officers live on Axon Records, including nine that are already using it to fully replace our legacy records management systems. We remain excited and confident in our long-term trajectory. Our short-term focus is on driving customer success one deployment at a time. Speaking more broadly, we recognize that there is a growing sense of macroeconomic uncertainty. As we execute against our robust pipeline and look further into the future, we remain incredibly confident in Axons long-term positioning. We have stellar teams across the organization. We are a product and category leaders. Our customer relationships are strong and unrivaled. This is all underpinned by our enduring mission to protect life while continuing to accelerate the Axon growth flywheel across devices, workflow and intelligence, and always with the long-term mindset. I'm proud that over the last five years, we've had a real focus on scaling a great business with operational rigor and financial discipline. These are areas where Jim Zito has been an instrumental leader, and as we build the future, we will maintain that rigor. Now I'm super excited to turn it over to Jim for his first earnings call.

**Jim Zito**, *Interim Chief Financial Officer, Axon Enterprise, Inc.*

Thanks Luke. Hello everyone. It's great to be joining you today, especially at a time when the business is demonstrating tremendous momentum. I'd like to share some of my background and the role I've played over the past nearly five years at Axon, building the strong culture of financial rigor and discipline that Rick spoke to. I joined the company in 2017 after previously serving as the global controller of GE Healthcare Digital, a nearly \$2 billion global software company inside General Electric. I spent the first eight years of my career as an auditor at PwC, seeing the insides of Fortune 500 companies and how they operate at scale. These experiences prepared me to have an impact at Axon from the moment I arrived. I've helped to build out our account controllership organization, enhancing our internal controls and overseeing the implementation of stronger processes to drive operating rigor, to improve our financial results. I've partnered with our SVP of FP&A, Arvind Bobra and other cross-functional leaders across every part of our company to lead the creation of the internal plumbing necessary to enable our culture of rigor and discipline to succeed. You've seen that translate to our results. We've established an impressive track record of execution at scale with cost discipline and strategic capital allocation and we remain confident in our ability to continue to deliver accelerating growth, profitability and cash flow. I'm energized by this opportunity to support the company as interim CFO. This is a natural transition given my role over the past five years. I'm honored to lead our world-class finance team, and I've already hit the ground running. To touch upon a few themes related to the quarter, in February, we added adjusted free cashflow targets to how we talk about our Financial Strategy. And we've started to deliver already in Q1, our operating cash flow of \$44 million dollars supported \$32 million in adjusted free cash flow. We've raised our full year revenue outlook to a range of \$1.05 to \$1.1 billion, reflecting 25% annual growth at the midpoint. And our upwardly revised Adjusted EBITDA outlook reflects improved bottom line expectations as well as the opportunity to invest some of our revenue out performance into new initiatives that can start contributing revenue quickly. And with that, we look forward to taking your questions.

## QUESTION AND ANSWER SEGMENT

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

Thank you, Jim and team. Can we bring everybody up into gallery view? Thanks. And thanks analysts. I have you all in the queue. I see you putting your hands up. We will get to it! We'll take our first question from Jonathan Ho at William Blair.

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

Hi, good afternoon. And congrats on the strong results. I just wanted to start out with the guidance raise and, maybe try to better understand what's given you the confidence. What is it that you're seeing in the demand environment to raise the revenue guidance so much early in the year?

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

Yeah, thanks for the question, Jonathan. Ultimately, it's a few things. The first is we've got a really, really strong team that's doing great work around the globe, across a lot of different products and a lot of different markets and, you know, this diversified kind of revenue strategy gives us a lot of different ways to achieve our goals. Now when we combine that with bookings from last year and years prior, which is a really good forward indicator of revenue, and just the strong pipeline that we've built up through this year, that we see, you know, a high probability of closing, I think it just gives us a lot of confidence across the board. So, we're certainly proud of the way the team came out of the gate in Q1. And we hope that's the low point of the year moving forward.

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

Excellent. And then just in terms of some of your commentary around the supply chain, can you talk a little bit about what you're seeing, how you've been able to navigate the challenges and, you know, just given some of the uncertainty around China, what again, sort of underpins your confidence that these supply chain issues won't persist? Thank you.

**Luke Larson** *President, Axon Enterprise, Inc.*

Yeah, thanks, Jonathan. I would just reiterate; we're monitoring that situation and we also have line of sight to the guidance that we provided. We've been able to bring down the backlog and we've got a diversified product portfolio. If we do see a single issue, we can actively manage that and de-risk it. One kind of key highlight, I would give our supply chain team a huge shout out in that when they go out and they're talking with our suppliers, our strategic plan and mission aligns with a lot of the type of orders that they want to fulfill. What we're hearing is that they'll prioritize Axon because of our life saving products over other companies that might not have as critical of impact in the world. And we've just got a ton of confidence in the team and the results that we've delivered the last six months and the outlook for the next 12 months.

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

Thank you.

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

Thanks, Jonathan. We'll take our next question from Sami Badri at Credit Suisse. Go ahead.

**Sami Badri** *Analyst, Credit Suisse Group*

All right. Thank you very much. It's also my first conference call. I appreciate the time. My first question is you've raised adjusted EBITDA for the year, but you did not increase free cash flow. I wanted to just get a little bit of an explanation around that, given profitability, stepping up. And the other piece is, it sounds like you guys are working on all products with a good bit of demand in this demand backdrop environment. Is there a reason why you wouldn't reinvest a lot of the incremental cashflows into even more CapEx and build out an even bigger platform to service public safety?

**Jim Zito** *Interim Chief Financial Officer, Axon Enterprise, Inc.*

Yeah. Thanks Sami. I can take the first one. This is the first year we've added free cash flow guidance and we've got a fairly wide range. Um, I think the main driver of why we didn't update the free cash flow guidance is largely the revenue over performance is going to be spread over most of the rest of the year. And there's typically a lag between that revenue over delivery and sort of that translate into cash. We could see some of that cash flow over delivery slip into Q1 and next year.

**Sami Badri** *Analyst, Credit Suisse Group*

Got it. That explains that part. The other part I have on supply chain constraints, is there a specific amount of, you know, maybe a charge you had to take to expedite specific components and parts to make sure that you could make your deliveries, or generally speaking, you have been getting

prioritization from your suppliers, given the importance of the products that you guys are shipping out to public safety individuals.

**Luke Larson** *President, Axon Enterprise, Inc.*

Yeah. Great question Sami. We actually have been paying some expedited fees to get our components in, but our business again is firing on all pistons where we've been able to expand some of our product gross margins that have offset those increases. And this is just an example where we feel really good about the overall mix of our business and the strength of our operations.

**Sami Badri** *Analyst, Credit Suisse Group*

Got it. Thank you.

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

And welcome, Sami.

**Sami Badri** *Analyst, Credit Suisse Group*

Thank you.

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

Okay, we'll take our next question from Eric Suppiger at JMP. Go ahead, Eric.

**Erik Suppiger** *Analyst, JMP Securities*

All right. Um, couple things first off. Um, can you expand a little bit on the question earlier about the supply chain constraints? Have you done anything differently in terms of your inventory management or your purchase commitments? Have you been able to lock in agreements better than what you had had before?

**Luke Larson** *President, Axon Enterprise, Inc.*

Yeah. Great question, Eric. You know, most companies pre COVID had a just-in-time manufacturing methodology, and Axon really never had that methodology because our products you know, we have a five-year life on the TASERS and two-and-a-half-year life on the cameras. And we managed more to our business where oftentimes we would have up to a quarter or six months of inventory based on demand and forecast, and actually gave us a good buffer going into downturn throughout the last 18 to 24 months, we've been proactively working with our suppliers to ensure that we can meet delivery for our customers. In some cases, we have bought up at-risk components to further that as well as looked at different supply chain strategies to make sure we can deliver for our customers.

**Erik Suppiger** *Analyst, JMP Securities*

Okay. And then in terms of the supply constraints, are you seeing different, are you getting better deliveries at this point compared to where you were 90 days ago? Actually, let me rephrase, you had a \$50 million deferred business. How much of that fell in the quarter and what is your confidence that falls in the first half still?

**Joshua Isner** *Chief Revenue Officer,*

*Axon Enterprise, Inc.*

Confidence is high. It falls in the first half. We did ship some of it in Q1, but, you know, we also coupled that with really strong demand out of the gate as well. And we'll continue to ship into Q2 here. And certainly, to answer your question, the outlook from suppliers is getting in terms of the commits into Q2 is getting more promising. So certainly on track to clear the remainder of the backlog in the first half of the year, while delivering another really strong revenue quarter in Q2.

**Jim Zito** *Interim Chief Financial Officer, Axon Enterprise, Inc.*

Yeah. I'd say that that Q4 bit was sort of a bit of anomaly, like higher-than-normal backlog that slipped into the first half of this year. I think we'll get back to more normalized levels of backlog sort of from here going forward.

**Luke Larson** *President, Axon Enterprise, Inc.*

Yeah. Just to add some more color to your specific question around is our service from suppliers better today than it was 90 days ago. We would see Q3 probably the middle to end of Q3 last year as a real low watermark in terms of just not being able to get commitments and having to kind of manage that hand to mouth. In the last six months, we've really worked with our suppliers to ensure we can get those commitments and we feel really good about the year outlook.

**Erik Suppiger** *Analyst, JMP Securities*

Okay. Then one last quick one, Jim Zito, are you one of the candidates for the CFO position, or what is your status?

**Jim Zito** *Interim Chief Financial Officer, Axon Enterprise, Inc.*

I'd say I've been heads down for the last week focusing on executing for the quarter and for us, it's business as usual, we close the books every three months and we've got a great team focused on that. I think as the process plays out, it's a, certainly a very attractive position. The company is clicking on all cylinders, it has a great mission in the world and I'm confident that Rick and the board and the team will consider some internal and external candidates and it's an attractive place to be.

**Erik Suppiger** *Analyst, JMP Securities*

Yep. Great. Thank you.

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

Let me add some color there too. Yeah, Jim and I have talked about this. In any senior position like this, we want to make sure we run a really rigorous process. And we're going to want to make sure that we get a full raft of qualified external candidates as well as internal candidates. This gives us an opportunity for Jim to try the role and see how he enjoys it compared to his role here as Controller. I would say with very high confidence, there's a role for Jim on the team going forward. It may be the CFO role. It may be returning to Controller. We're just going make sure that we've done a process that gets us to a level where we're really confident that we've got the right team and the right this for the next decades.04:35

**Erik Suppiger** *Analyst, JMP Securities*

Thank you.

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

Thank you so much. We're going to take our next question from Scott Berg at Needham. Go ahead, Scott.

**Scott Berg** *Analyst, Needham & Co., LLC*

Hi, everyone. Thanks for taking my questions. Got a couple here. Why don't we start with the cloud revenue growth in the quarter up 47%? You know, it's clearly seeing a lot of momentum over the last year. You know, this is in the area that's been growing in the we'll call it low to mid-thirties for an extended period, but 47 is a nice movement upward. How should we think about the acceleration in the revenues in that business? Is it more driven by Evidence.com or the layering in of some of the customers that have went live on Records or some of the VR training? My guess is it's a component of that, but I didn't know how you might break that up between those different product areas.

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

Yeah, I think ultimately, we're adding a lot of new users every quarter onto our platform. And a lot of that is within new body camera users where an agency might have bought enough body cams to get started but is now kind of going to full deployment. And as we deploy more and more of those users, it certainly adds to service revenue with the same dynamic with Fleet right now. We really feel great about the trajectory of our in-car video business. And certainly, that's helping as well. And then some of our kind of up-and-coming offerings, like some of the software add-ons, as a result of selling more and more of our officer safety plan bundle combined with VR licenses, there's a lot of factors that are all contributing to the growing service revenue. And I think the top line though, is deploying more and more devices around the world that come with those licenses.

**Jeff Kunins** *Chief Product Officer & EVP-Software, Axon Enterprise, Inc.*

Yeah, that's right. And just to add on there, and as Rick talked about earlier, we're incredibly gratified to be able to just keep building out our ecosystem and expanding on all of those vectors, right? It's the combination of existing customers upping into our higher value bundles and plans. And it's about customers, even outside of those adding ala cart add-ons for our diverse range of new products, both premium features on top of our classic products like Evidence.com as well as new things like VR and across the board. And then doubling down on that, the expansion into new market segments like Federal, Justice and the others and global expansion into our geographies. Across all three of those vectors, just seeing both new logos and existing ones growing their bet on the Axon ecosystem with our products.

**Scott Berg** *Analyst, Needham & Co., LLC*

Great, helpful. And then from a follow up perspective, a question I've actually received multiple times recently is, you know, product penetration or how to think about penetration rates on a couple of areas. I think we all understand TASER at least domestically with the police workforce in the United States probably has a high penetration rate, but how to think about TASERs and body cameras, you know, on a more global basis where you are in the penetration rates. And I feel like I was set up on this question

because in a headline of my local newspaper, right, very top right now is all Minnesota troopers now wearing body cameras. They're obviously Axon devices given how they're tied in with TASERs, but how should we think about penetration rates especially on the body camera side given all the things that are happening around politics, justice and other areas today?

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

Yeah. I think we have a very intentional strategy there, and we've had that same strategy for some time now, which is really fortify what we would call the tier one markets, the UK, Canada, Australia, and try to become the market leader across both less lethal and body cameras. And I think the teams executed really well in that regard over the last few years, such that we're able to expand our focus beyond that now into several other large markets around the world. And so now we're really focused on repeating that same mechanism in those markets building up a salesforce that's capable of selling both products, working with early customers, and then kind of using that same land and expand approach to growing and becoming the market leader in those categories. I think we're doing this in a very calculated way to make sure that we can really be successful in every market we enter. And I'd include the federal government in the United States as part of that as well. And we continue to scale up teams that are capable of delivering those kinds of outcomes. We feel like there's plenty of room to grow outside of the United States and in the federal government. And we'll continue to execute to fulfill that TAM as we go here.

**Jeff Kunins** *Chief Product Officer & EVP-Software, Axon Enterprise, Inc.*

Yeah. And building on that. I mean, even in our classic categories like TASER and body cameras, as we shared before, the bottom line is our penetration and is still pretty modest and there's a tremendous amount of white space to keep growing. And then as another example of where we can take, even where we have penetration of a category like body cameras by adding on new products on top of that, it expands the overall opportunity. One of the fastest growing products we have is Respond, which is our live streaming and other connected camera features on top of a body camera, so as customers who may have already bought a body camera, up either through a bundle or ala cart, it's an example of just continuing to grow the category. Even if that overall socket has already been filled with the basic camera.

**Scott Berg** *Analyst, Needham & Co., LLC*

Awesome. Congrats on the great quarter. Thanks for taking my questions.

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

Thanks guys. Next question from Will Power at Baird. Go ahead.

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

Okay, great. Thanks for taking the question. I guess a couple of questions maybe first, just to follow up on cloud revenue and the strength there. It felt like some notable acceleration in the Records business. Of the 25 agencies using it, nine with at least close to full replacement, so I'd just love to understand what's helping accelerate the adoption there. Have there been new features added and how do we think about the trend lines from here? Is the expectation that every couple quarters you're going to add a few more key Records customers? What kind of keeps the momentum going there?

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

For those [analysts] that out of covered Axon for a little while now, I remember a couple years ago when we launched the officer safety plan that part of the strategy there was to introduce Records as part of that bundle. And now several major cities and counties and state police agencies have all adopted that plan and they have the built-in option, activate Axon Records as part of that. Now some might start with the first module of Records, which is Standards, and some are going all in like Tucson on the Records product and getting deployed quickly. And we have a very, very healthy queue of customers waiting to deploy Records now. We continue to invest in the COGS resources necessary, meaning professional services and deployment personnel to accelerate how fast we adopt Records. And I'll tell you it's a really fun feeling that we went live with Tucson, you know, and, and we just kind of, it was up and running and we moved on to the next customer after that without any real challenges as we got going. And we expect to see more and more of that in the Records product. And we're really confident in the team across product and services, that's deploying this product and really, really excited about what the future holds for Records.

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

Thanks. Yeah. Great to see some success there. Maybe just switching gears, you know, big focus like everybody, of course, has been Europe. I'd love to get your perspective on any Ukraine or Russia exposure. I think you have a small customer in the Ukraine. I think it's pretty small, but more broadly, how are you seeing that conflict impact sales trends, appetite for your broader suite of products across the continent there?

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

Yeah, I think in the Ukraine we do have a small TASER business there and we'll see what the future holds. Obviously a very tragic development over there over the last couple months. I would say across Europe at this point, the nice thing about our products is they have applicability every day, regardless of the state of current affairs. And so, we continue to see strong demand both in terms of the desire for more transparency across public safety and also an alternative to the bullet. And so, I really believe that we're seeing a lot of really exciting growth indicators in some major European markets. I'm sure we'll talk more about those as time goes on but the demand in Europe continues to grow in both product lines.

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

Good. Thank you.

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

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

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Thanks guys. Congratulations on a good quarter. Not trying to get too far into the details here, but I kind of noticed like the TASER X2 and the X26P, the volumes were down significantly, I guess, year over year. And obviously they're very volatile, but I know you guys have planned the next generation of the TASER

device as well. So perhaps provide the color in terms of the plan for the TASER portfolio and where it's heading, was it concentrated, you know, focus drawdown on the older products now or whatnot?

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

I think it's largely just a shift in demand. The TASER 7 has sort of hit its stride. And now we do still have customers, particularly those that have really long approval timelines in international or federal spaces that might still be on some of our more legacy devices, but I'm pleased to see that I think we got it right with TASER 7 and it's really hitting the mark. And of course, you know, our goal with next generation systems is to continue to move the ball down field toward making the bullet obsolete.

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Great. And I'll let you go with that. I know you guys get a little sensitive about TASER 8, so I'll let you go with that. Obviously, we saw the recurring payment base for the TASER weapons drop down 45% from 64% last year. Was this more international sales this quarter or perhaps cover on all that dropped expecting the trend go upward on that one?

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

Yeah. That, that metric is largely dependent on the mix. When we have kind of a number of international shipments that can bring that down, I'd say there's no change at all in terms of the momentum of service plans in the United States or in our tier one markets. In fact, I believe every TASER that has been sold into the UK that is deployed right now is on a payment plan. And I think we're looking to repeat that in Canada and Australia as well. And when we get some of these one-time large orders from markets outside of our tier one markets, they're generally not on plans. Some of that's due to, you know, the risk of collectability if we're working with a first-time distributor or first-time customer. There's a lot that goes into that, but I wouldn't say there's any developments that would give us less confidence in that metric over time.

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Great. Appreciate it. Thank you.

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

Okay. Next up, Erik, Lapinski from Morgan Stanley. Go ahead, Eric.

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

Thanks for taking my question. Maybe if we could just talk about Fleet for a second. I know you guys talked a lot about the early traction you're seeing there. I guess I'm curious, is that mostly coming from maybe customers that weren't already on body cameras and have had in-car cameras? Are you seeing kind of a cross of using and deploying both? I tend to think like state police, maybe haven't gotten as far on body cameras, so just wondering if the early interest in Fleet is more from that angle or if it's on body camera customers already?

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

Yeah. We're very, very excited about Fleet in general. I think it's a great case study in how the first product kind of demonstrated the use case. And then the subsequent couple versions of the product have kind of propelled us into a place where we're among the market leaders, if not the market leader in that space. And customers in the state police use case often are doing most of their patrolling on highways, so Fleet is a very natural product line for them to adopt. But we're seeing it across cities and counties as well as kind of a supplemental viewpoint for the body camera. So that's been nice to see, and I think one of the exciting things about Fleet long-term is the adoption of additional software within the Fleet offering. ALPR, license plate recognition has become one of our fastest selling add-ons because customers are really valuing that additional capability at a far lower cost than they're used to and being able to deploy it in every car, which they're not used to historically, so certainly excited for what the future holds in Fleet and excited about the additional revenue opportunities that come along with just the core system there.

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

Yeah. Let me take this one as well. Fleet 1 and Fleet 2, there we won deals because people were on our body cameras and they loved the software. And they bought our Fleet cameras largely for the first reason because they wanted them to work with their body cameras. With Fleet 3, we are going toe-to-toe. It is the best in-car video system in the market full stop. We've got customers buying it who have never had body cameras with us, and it is winning head-to-head against the other systems in the market. And in particular, our ALPR performance, I just really can't compliment Jeff and his team enough on the great work they did there. The imaging design of those systems have one imager really optimized to be able to do three lanes in poor light conditions at high speeds, and still be able to get ALPR and have a second imager of it's really focused on getting the right level of resolution balancing video size and video performance, so it's, it's a pretty killer combination now that we've got, I think, the best body cameras and the best Fleet cameras and hands down, you know, the strongest software ecosystem. And that's why we're, we're really seeing the demand for Fleet 3 outpace our expectations and the attach rate on ALPR is also above expectations as well.

**Jeff Kunins** *Chief Product Officer & EVP-Software, Axon Enterprise, Inc.*

Okay. I can't resist one really small build on that as well. Thank you for that great information on both. I think one other thing that speaks to why something like ALPR built into every single vehicle at a disruptively affordable price is a game changer for the mission impact too, because if an agency only has a few cars with an old school, expensive ALPR unit, then when they're going get a hit on something is going be piecemeal, few and far between where those vehicles happen to be in any moment, but the immediacy of every vehicle they're just driving down the road, going to wherever they're going, and instantly if a car, or stolen car, whatever it is just happens to pass them three lanes over, boom, it alerts. And they can action on that immediately because they're physically present right there. And that mesh of having every single vehicle have that capability because it's become disruptively affordable and effective is a perfect example of technology, enabling the mission combined with the right business model for it.

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

Thanks. I appreciate all the info. Then on the contract cycles for Fleet, or even the replacement cycles for that product versus body cameras, is it a similar kind of typically five-year contract and ship once or

twice within that? If you could, just kind of help us better understand the difference in the actual hardware cycle.

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

Sure thing. For body cameras, our historically normal contract length was five years. We're actually seeing that expand out to 10 years in some cases with some of our largest customers, which is really exciting. Now what that contemplates is, the customer receives their first cameras up front, and then every two and a half years, they receive a camera refresh. With Fleet it's a five-year life cycle, so they're kind of maintained, and that is also a good thing for agencies because reinstalling camera systems in cars is much more involved than swapping out body cameras, so I wouldn't say there's much demand to accelerate that cycle. And for body cameras we're at two and a half years. And for, for Fleet, it's more like five years.

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

Got it. Thank you. Congrats on the quarter, guys. Thanks.

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

Thanks. You know, there's one other thing I feel compelled to add. It's not just the hardware, our real secret sauce is the mission mindset of the people. And I know that can sound cliché, but I can tell you, we had a major state patrol recently deployed from a competitor they moved over to Fleet and they asked me to come up because they wanted to award a trooper hat to their program manager who had led the installation. In that case, I think it was Jennifer Schupp, who just did a fantastic job, and you can't overstate how important that is when people are just passionate. We just received tremendous kudos for Jeff and his team. We had a recent big software go live where the chief, called me and said, "hey, we feel like you guys, we can rely on you. You're in the trenches with us. You know, nobody's saying, it's not my job. Nobody's leaving at five o'clock." We had people there past midnight, helping bring that agency live. That is the intangible thing you'll never see on our financial statements. There's no way to represent it there. That is probably our greatest single competitive advantage is the passionate people that we have rallied around our mission.

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

All right. And last, but certainly not least. Paul Chung at JP Morgan. Go ahead, Paul.

**Paul Chung** *Analyst, J.P. Morgan Chase & Co.*

All right, thanks guys for taking my question. So, just on the commercial sector, can you kind of expand on the momentum there you're seeing across verticals? You mentioned some key wins there. Where are you seeing some of that momentum and how's that market evolving and how material can this be over time, as a follow-up?

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

Let me make an intro. And then I'll hand it to Josh to give some more detail. I think what we're seeing is we've solved a very difficult use case, which is these super critical interactions between and police in the public that handle it, that happen in very difficult environments, sort of out in the wild and there's zero

room for failure. And then these videos that come off this, this is stuff that has to be protected to meet the federal rules of evidence and state rules of evidence. So that the level of security and reliability we've built in to handle this very difficult and demanding consumer area really is starting to port nicely into other, let's say less mission critical areas. But as you can imagine, the ability to record every enterprise on earth probably has some variable where they are recording interactions, incidents, whether it's a delivery person delivering something or a paramedic interacting with a patient on down the line. And in all of these business use cases, most of that documentation happens today with people filling out forms with a pen and paper or typing in on a computer. And we believe this sort of video business record that we've created in law enforcement can now begin to port to these other areas where there's great efficiency gains, and ultimately, you're getting a more fulsome record of what actually happened by recording that human interaction. And because we're building the tools to extract transcripts and be able to get smarter about how to extract metadata and alerts and things from these cameras to be able to then populate that into more structured data forms, I think just creates virtually, you know, I don't want to get too excited here, but almost any enterprise could have a need to use this type of way to document what's happening in their interactions, whatever they may be. With that, let me hand it over to Josh to maybe be a little more specific.

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

Yeah. I agree with everything Rick said and our small kind of scrappy team working on this, led by Mike Shore, is doing a really good job finding our early customers and just like in the public safety space, getting those early customers happily deployed leads to more and more opportunity. We're in that phase now, and we've already signed contracts with some really big names that are household names in terms of other vendors in the commercial space, that are deploying our products and really believe this is a big part of our future. I think we're at this point, not making many product investments and seeing these companies adopt body cameras and this evidence management software, and I think going into our next round of planning, we will make some more investments to make this even more attractive to future customers outside of public safety. And we're really excited about where that road leads.

**Paul Chung** *Analyst, J.P. Morgan Chase & Co.*

Yeah. I know you started with Arizona Diamondbacks, but can you, can you kind of work that's kind of in your hometown, but can you work on a league level kind of expand across the whole country, the different support leagues and is that kind of your sales strategy as well?

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

We can, and we will, but that still represents a pretty small TAM in the grand scheme of things. I think we're focused on deploying with like Fortune 500 companies that see a need for this, whether it's last mile delivery services or retail or other risk management opportunities, whether it's in hospitality, there are some really kind of clear use cases where we're getting a lot of positive feedback on the use of cameras. And I think we're seeing it at kind of a macro level as well. In the UK, there was some coverage about the deployment of body cameras in retail, and we're seeing that same thing in the US, so we're excited about where this will lead.

**Paul Chung** *Analyst, J.P. Morgan Chase & Co.*

And then lastly, the Consumer segment, what's been the reception of the Strikelight? Is it tracking to your expectations? Are you seeing some momentum in Consumer or will that kind of take some time for adoption? Thank you.

**Luke Larson** *President, Axon Enterprise, Inc.*

I can touch on that a little. We saw, just given some of the focus around our core business, we were really ramping up to deliver that. Our Consumer business is still relatively small part of our business. I would say the demand for Strikelight 2 has been high and I think I might be the highest purchaser. I was giving it to a lot of friends and family and hearing good response from them. But I think it's a little too early to tell.

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

Yeah, I would say we're proud of those products. They're nice refreshes but they're not going lead to explosive, exponential growth. They're leading to continued nice growth in the consumer segment. As we look to next generation sort of TASER technology, I think that's where we might start to see things that break out of the historical demand curves that we've been in. So, stay tuned. I think you'll see innovations come to our core market first, as we look to obsolete the bullet and then from there, we'll leverage some of the newer stuff that I think could really begin to expand consumer adoption.

**Paul Chung** *Analyst, J.P. Morgan Chase & Co.*

Great. Thanks.

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

Thank you. Is there anyone who has a follow up? Do you want to put a hand up? I'll give you a second here. We don't have anyone else in the queue. Thank you so much for joining us. Rick is going to close us out.

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

Awesome. Well, hey, we know it's been a rough environment out there for all of our investors. As I tell my team, we try not to focus at all really on things that are outside of our control. I'm really proud of the results the team has continued to turn in, despite all the challenges the world has thrown at us. Obviously for us to raise guidance in this environment, it took a fair amount of confidence for us to look across the business and have the confidence to come forth and share an increasing outlook when most of the world is pulling back. I couldn't be prouder of the team, more thankful of our investors and more excited for the future. We look forward to seeing some of you at Accelerate later this month and back on our earnings call in a few months from now and the shareholder meeting, of course. We've got some busy times coming up. Thanks everybody. And thanks again to our fantastic team for just continuing to deliver.

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