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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Hello, everyone. Welcome to our Q3 2022 earnings. Thank you so much for joining us and our executive team today. We hope that you've had a chance to read our shareholder letter at investor.axon.com. Our prepared remarks today are meant to build on 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. And we discuss these risks in our SEC filings.

Before we turn the call over to Rick, we will do our investor video.

>>Quarterly Earnings Video @ <https://vimeo.com/768598492><<

EARNINGS VIDEO SCRIPT

Angel: Welcome back, everyone! This quarter we are taking you to the Axon booth at the International Association of Chiefs of Police conference.

This is a big customer-facing event. We bring our A-game to boost our sales pipeline — and generate customer enthusiasm for the Axon Ecosystem.

Let's hear from Andrea who is there on the ground!

Andrea: It's great to be back in person for the first time in three years. The Axon booth is packed! You can really see that Axon is the technology leader.

You'll notice there is a giant rocket behind me — our big theme this year is our moonshot goal.

First, for the youth out there — a quick history lesson.

Angel: Sixty years ago, US President John F. Kennedy rallied the nation behind a mission to go to the moon.

Kennedy challenged us not because it was easy, but because it was hard. And most importantly, he said this was a challenge that we were NOT willing to postpone — humankind would go to the moon by the end of the decade.

The Apollo 11 moon landing was in 1969. After eons of a human history of gazing up at that white ball in the night sky — a human stepped onto it, in what was a giant leap for mankind.

Andrea: We are setting a new moonshot mission — one that we are also unwilling to postpone.

We want to cut gun-related deaths between police and the public by 50% in the next 10 years. When we say we, it's with a capital 'W' — meaning all of us — because Axon is partnering with law enforcement, community leaders and more to rally around this idea and make it happen.

This moonshot goal is all about the sanctity of life. Last year in the U.S., more than 60 officers and more than 1,000 civilians died from gunfire during incidents involving the police and the public. Saving lives, and promoting peace, justice, and strong institutions, is a goal we can all agree upon.

Rick: It is intended to be a driving like measurable, you know, moonshot, it means obviously a big tech project, something that feels like it might even be impossible, but we've been doing our homework. And we believe after looking at the data that with some focused effort over the next 10 years, we can cut gun related deaths between police and the public by 50%.

Angel: If you're watching this video, you are a part of this mission. Consider yourself recruited.

Society doesn't have all the answers yet. This is going to involve diverse perspectives, open dialogue, and realistic, research-based and responsible solutions.

Andrea: For our part, Axon is committed to investing in better technology, training and data that will help achieve better outcomes and deepen trust between law enforcement and the communities they protect and serve.

Angel: Axon is investing in:

- Non-lethal and de-escalation tools and training;
- Next-generation cameras and evidence capture devices;
- Real-time response and communications tools;
- Community impact, engagement and feedback solutions; and
- More comprehensive and actionable use of force and response to resistance reporting.

We are also funding third-party research to provide insights into common contributing factors to gun-related deaths between police and the public.

Andrea:

This is big. This is happening. And this is really, really important. This is the moonshot for our generation. And we welcome you on this journey with us.

That's a wrap. Our business is solid. And our demand outlook remains strong.

Angel?

Angel: You can read more at investor.axon.com. And we look forward to seeing you in 2023!

Join us on our mission:

<https://www.thisisourmoonshot.com/>

/END VIDEO

MANAGEMENT DISCUSSION SEGMENT

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

Thank you, Andrea and Angel. Our year-to-date results are pretty exciting with revenue growth of 32% in the first nine months. What's the secret sauce that's driving this revenue growth? Josh and Brittany will provide color on the details, and we also outline them for you in our shareholder letter. But at the highest level -we provide products that solve real world problems- our solutions work, we make our customers happy. We keep them safe and the public benefits. We benefit and our shareholders benefit. I've been spending a lot of time with customers and communities on our moonshot goal because helping the public to dream with us, deepens our relationships and answers about the broader questions about why we invest in the areas that we do. It also paves a path for us to keep innovating in areas that will make a difference. We have been really heartened by the buy-in we've seen on the moonshot, bringing together groups that you don't normally see alongside each other.

These include the Fraternal Order of Police, the African American Mayors Association, the Major County Sheriffs of America, the National Organization of Black Law Enforcement Executives, and the National Policing Institute, to name just a few. A common reaction I've been getting about our moonshot goal is, "well, this all sounds great, but how are we going do this?" Look, we don't have all the specific answers just yet- just like when Jack Kennedy challenged the nation to put a human on the moon, not all the tech existed yet. But we have a good idea of where Axon can invest to move the needle. Using technology to solve deeply entrenched challenges is why I founded the company and why we're here today. Axon has been and will continue to double down on our investment in things like:

Number one, non-lethal tools, such as our enormously successful TASER platform. We believe the majority of TASER adoption remains in front of us- because we're still under 10% penetrated in terms of our global TAM and we're working on some really exciting technology over the next ten years to help hit our goal.

Number two, virtual reality. We're seeing a lot of interest in our VR training, which we sell on a subscription to customers.

Number three, cameras and sensors that never miss a moment. Over the next few years, you're going to see this introduce next-generation, body cameras, and we'll deepen the tie between our real-time operations and our devices.

Which brings me to number four- real-time and remote response. The public safety sector deserves public safety-grade communications tools that are as easy to use as consumer technology. They deserve better situational awareness, and it will help them improve their decision-making and their ability to respond effectively. Also, we believe that remote response can limit human exposure to danger. Our thinking is that removing the officer from harm's way

leads to safer outcomes for everyone. And this is why we're investing in Axon Air, our drone solutions as a first responder, as well as counter-drone technology.

Number five- We're investing in community impact, engagement and feedback tools, such as My90, which is a tuck-in acquisition we completed last year of a company that essentially allows the public and rank-and-file officers to anonymously deliver feedback to police leadership. This tool is already helping police departments deepen trust with their communities.

Number six - we're investing in more comprehensive and actionable response to resistance reporting. This includes both traditional use-of-force and de-escalation data. Data collection tools today either don't exist, or they don't talk with each other very well or the data is just not collected in a way that's very useful. We believe the public is hungrier for better data, especially on incidents involving use-of-force. And we believe we can meet this need and we need this data to reach our moonshot.

Now we know the moonshot goal will not be easy, but we also know that the private sector and companies like Axon have a unique role to play. As I look at our team, which includes leaders like Josh and Brittany, I'm confident that they'll ensure we continue to invest prudently with a high degree of accountability, to all of our stakeholders driving the business model that creates impressive value creation, solves some of the most challenging problems facing modern society and delivers great shareholder returns. With that, I'm going to turn it over to Josh.

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

Thanks a lot, Rick. During last quarter's call, I mentioned that the primary thing we can control is where we collectively focus our attention. Our sites remain set on continued top line growth, which I will address, and margin expansion over the long term, which Brittany will cover. We are increasingly confident that we can do both well in parallel. On the top line, we are very pleased with quarterly revenue of 34% and our Q4 outlook for 40% growth at the mid-point. We're having a strong year and we are seeing a strengthening of demand across all product lines. Brittany will unpack the revenue growth in the quarter for you shortly, but I'd like to take a moment to touch upon what we believe will sustain healthy growth rates of 20%-plus for the years to come.

We're growing along two axes.

The first is expanding our product suite for existing customers. Both Rick and the shareholder letter talked about a product roadmap where we believe we can continue to deliver premium solutions to customers at a compelling value proposition for them.

We want to make it super clear that our state and local law enforcement business is nowhere near saturated — we see a long and wide runway for continued growth.

We believe that in the next five years, you will see Axon emerge as the leading operating system for public safety- strengthened by our strategy of focusing on the customer experience

and not cobbling together point solutions that don't work well together, which is the current state of the industry outside of Axon.

The second axis is diversifying into new markets by both adding new types of customer profiles or users, and by adding to our core customer base.

You can think of our core customers as falling into roughly four categories of funding sources. The U.S. state and local governments, the U.S. federal government, international government customers, and commercial enterprises. Simultaneously the types of users we are adding to our platforms is expanding beyond law enforcement. We are adding attorneys, fire and EMS personnel, corrections and the U.S. military. And the funding for those types of users generally rolls up into the four sources I mentioned.

I'd like to update you on two of those four — first, our progress with the U.S. federal government, and second, touch upon international growth.

We are very excited about our U.S. federal government business.

In the first three quarters of 2022, the federal government has booked contracts exceeding \$200 million, up from an approximate \$15 to \$20 million run-rate just a few years ago. Annual revenue has grown to the tens of millions and our deliverables now extend over the next several years.

Our progress with the federal government is a direct result of our intentional investments in both sales channel and product. We have been building trusted relationship with agencies that are now finding value in our products and missions and our commitment to helping them be successful.

And while we can't necessarily name all of our customers — the breadth and depth of the federal government's interest in our entire product line continues to excite us.

And now turning toward global expansion, we continue to refine our international go-to-market strategy.

We see two things as being the drivers and even the accelerators to international growth.

The first is continuing to innovate on our TASER platform — we believe the total TASER install base has room to grow by more than 5x over time. And as we continue to develop technology that potentially matches a pistol in terms of stopping power, we think we have the opportunity to become the primary defense weapon in several international markets.

The second thing we are focusing on is helping European customers overcome their historical resistance to cloud solutions. This is a playbook we ran in the U.S. starting in around 2012. Domestic state and local customers at first were very averse to cloud-hosted software — and we successfully evangelized the cloud to build a business that now tops \$400 million in annual recurring revenue.

We are starting to chip away at cloud acceptance in the EU, and we see European governments starting to adopt cloud for other commercial services, we believe that bodes well for our international SaaS business. Just like in the US, once we overcome that initial aversion, strong adoption of evidence management will follow.

Finally, last quarter, I told you that I am working on building the team that Axon needs for the next five to 10 years.

We are thrilled to introduce Brittany Bagley as our Chief Financial Officer and Chief Business Officer. She brings a wealth of experience, not only as a public company CFO, but also as a seasoned board member and investor in the technology sector. We sought to attract an executive who brings a next-play mindset, versatility, mental toughness, and a strong capability to deliver outsized outcomes — and we are excited that Brittany brings all of those qualities to Axon. Based on working with Brittany over the last 40 days, I can say with confidence and excitement that the future of Axon’s core strategic and financial functions is very, very bright. And I’ll hand it over to Brittany.

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Thank you, Josh.

Hi everyone — I’m thrilled to be on my first official Axon earnings call. I want to start with a big thank you to the team for making it such a great quarter and to Jim Zito for doing such a nice job in the interim CFO role. It’s an exciting time to have joined such an incredible company.

I’d like to share a little about why I joined Axon, and where you’ll see me put my focus over the coming quarters.

While there were many reasons to join, three main ones that I would like to highlight include the strong leadership team, the company’s inspiring mission to protect life, and the compelling business model.

On that last one especially, I think the combination of the hardware ecosystem the Company has been building along with innovative software solutions, creates a powerful flywheel that is both high growth and profitable, which provides a relatively rare position in the technology world. Additionally, delivering mission-critical products to public safety customers, who purchase on long-term contracts, makes Axon’s revenue both recurring and dependable. As Josh discussed, we continue to have a lot of growth in front of us, and I look forward to supporting our mission and a profitable growth trajectory.

To that point, my areas of focus will be on helping the team continue to execute and deliver strong results over the next several years. As both CFO and Chief Business Officer, I get to take a strategic and holistic view of the business to ensure we’re making the right long-term decisions to deliver on our mission and our financial promise.

Near term, that means spending time better understanding Axon's gross margin potential and how that can help move the needle on other metrics we care about, including overall profitability and cash flow. We see opportunities to improve gross margin by investing in automation, driving manufacturing efficiency and improving fixed cost absorption as we scale. Driving the revenue mix further toward software is also a key gross margin lever over the longer term.

We are also focusing on controlling OpEx by enhancing financial discipline, while still investing in research and development and sales channel expansion to support future growth.

In addition to leaning in on operational areas of the business, I am also focused on helping Axon to deliver upon its strategic ecosystem vision — leveraging partnerships, investments, and M&A — to truly become the leading technology hub for public safety.

Turning now to the quarter:

Our domestic business grew 37% year over year in Q3 and continues to make up more than 80% of our revenue. This strength came across the board, supporting strong TASER segment growth at 19%, along with great Software and Sensors segment growth at 51%, which was driven by sensors growth of 51% and Axon Cloud growth, also at 51%.

One of the great things we're seeing domestically, is strong demand for the premium versions of our products and bundles. Beyond the strength in our core business, and the traction we're seeing on our software and cloud revenue, we continue to be excited about other areas of growth, including our international business, which delivered 20% growth in Q3.

We had a strong Q3 gross margin of 62%, which represented more than 100 basis points of sequential improvement. The increase was primarily due to the strength of Axon Cloud and the overall product mix in the quarter. Axon Cloud gross margin in Q3 benefitted from our new long-term contract with Microsoft Azure. While this benefit will continue, we also have low-to-no-margin professional services costs, which supports set up of these contracts, and the mix can change quarter to quarter. That doesn't change our view on exceeding the long-term target of 80%+ for the software business, but we do expect quarterly variations as a result.

In addition to the sequential gross margin improvement, the strong top-line revenue allowed us to achieve good operating leverage in the quarter and resulted in Adjusted EBITDA of \$68 million, or 21.7%.

Finally, I wanted to touch on our Outlook.

Given the strong quarter, we are raising our annual revenue guidance to a range of \$1.15 billion to \$1.16 billion, which reflects about 34% annual growth at the midpoint. This also implies Q4

annual revenue growth of 40% at the midpoint.

Turning to our Adjusted EBITDA, we are raising our outlook from \$200 million to a range of \$215 million to \$220 million, which we believe demonstrates strong performance on profitability. Our Q4 Adjusted EBITDA is expected to be in the range of \$49 million to \$54 million. Implied margins are down slightly sequentially from Q3 on product mix and less OpEx leverage but remain strong overall with an almost 19% EBITDA margin implied at the midpoint for the year.

We are proud of our performance and outlook, and they speak to the bigger picture that Rick and Josh talked about — which is the overall strength of the business we are building. We look forward to delivering another strong Q4 and setting ourselves up well for 2023 as we execute against our financial objective of profitably delivering a 20%+ topline CAGR going forward.

With that, I would like to open it up to questions. Back to Andrea.

QUESTION AND ANSWER SEGMENT

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Thank you. We have you all in the queue, so if you're on the call, assume we've got you in the queue. Thank you so much. We'll take our first question from Josh Reilly at Needham. Go ahead, Josh.

Josh Reilly *Analyst, Needham & Co., LLC*

All right. Thanks for taking my questions. Very impressive results here in the quarter. I guess maybe starting off, you had a pretty significant revenue beat here, obviously. How much of a tailwind are you seeing now from stimulus government funds from programs like the ARPA beginning to hit budgets? Or is that something that you see more of as an impact in 2023 and beat in Q3 is driven more by budgets that haven't been impacted to date by those budgets?

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

Yeah, Josh, I appreciate the question and nice to see you again. I don't necessarily think there's a ton of correlation between our momentum and results and any one time or kind of recurring government subsidy for police products. I think ultimately, we're building a very strong business where there's a very high ROI on our products and our customers continue to see that, and not only buy more of them, but buy more at more premium levels and licenses. And so, while those are nice moment in time types of tailwinds for some customers, I don't think they have any major implication on our continued growth. And we're very confident that independent of those factors, we're building a very strong, consistent business.

Josh Reilly *Analyst, Needham & Co., LLC*

Got it. That's super helpful. And then the TASER gross margin was down sequentially and remains probably below where you guys wanted. I know that's a focus now for Brittany as you're evaluating cost there, but was there anything specific in the quarter that brought the margin down sequentially or any color there would be helpful?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Yeah, I would say that we have been investing in everything related to our manufacturing capacity, as well as supply chain for the TASER. And so you have seen that impact the gross margin this quarter and a little bit year-to-date. I think it'll be one of the big areas of focus as we look to improve gross margins is making sure we can really scale into those costs and scale as we get leverage on gross margin over time.

Josh Reilly *Analyst, Needham & Co., LLC*

Got it. Thanks guys. Congrats again.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Next question from Jonathan Ho at William Blair. Go ahead, Jonathan.

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

Thank you. Let me echo my congratulations as well. I want to just start out with your commentary around sort of the higher end bundles and maybe customer behaviors that are leading to more selection of that higher end bundle. And I just want to understand why you're seeing this behavior and whether you expect it to persist or not.

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

Yeah, certainly Jonathan, I think the first thing I'd say on those bundles is even though we're seeing a lot of demand, there's a ton of white space ahead of us in terms of adoption of those bundles, especially in state and local. And the adoption is driven by the idea that in those bundles we're adding more and more value-added add-ons. And so Jeff's team is doing a fantastic job understanding some of what the customers are wanting in future releases of our products and then going back and building those things that are highly valuable. An example of that is transcription. And another example is VR, both of which exist in our more premium version of the officer safety plan, and that's driving a lot of customers toward those bundles. And so, we'll continue to iterate on that strategy and make sure that the things that are the most highly valued in tandem with our core products appear in bundles in a way that make the customer excited about the potential of buying all of these items and features at one time and one license.

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

Hey, Josh, I would add in as well, what I'm seeing with customers, I can't think of a customer that's gone up to a premium bundle then gone down the other direction that the more stuff they use from us, the more value they see in it, and there is sort of this flywheel effect where when I'm hearing from customers is they just want to put more of their solution set with Axon. They struggle with technology; they're hamstrung by really long complex procurement rules that make it very difficult for them to be agile in what they're doing. I think we've earned their trust and it's really incumbent on us to keep earning it every day so we don't break this dynamic, but it does seem to me that they're pretty consistently moving up the ladder each time we launch something that integrates with the other stuff. It's paying off that it's working well. And again, a lot of that just goes to the awesome execution in Jeff and the product team.

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

Excellent. Excellent. And just as a follow up, with the U.S. fed opportunity, U.S. federal government opportunity, what's been most impactful in terms of helping you break into this market? I mean, obviously it's been a target for a number of years, but it seems like things have improved from a step function perspective. What initiatives or, you know, what level of education do you have to sort of provide to kind of get further into the U.S. fed opportunity? Thank you.

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

I'll start, and then maybe hand back over to Josh. I think investing to get FedRAMP accreditation for the Evidence.com system early, it was a bit of a bet when we did it, right? It was expensive. It was difficult to invest in that. And I think to this day, we're still the only FedRAMP accredited or certified system and all these federal agencies that want to use the cloud, that obviously gives us a tremendous advantage. And then we've obviously seen things like the Biden administration moving toward standardization with body cameras, and then Richard Coleman, who we hired a few years ago has really, I think, just done a great job building out a team that really understands the federal space and is building some fantastic relationships.

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

Yeah. Just add to that, Rick, especially on the last point. For us, every problem starts with how do we build a strong team full of subject matter experts that we can trust their instincts and expertise to execute? And when we brought Richard in, that was 25 years into our business and we hadn't quite cracked the code on how to run a growing federal business and bringing him on along with a very talented team, as well as more product focus has just unlocked this amazing opportunity. And even though we we've had a phenomenal year and seen a literal 10x in bookings at this point in the last few years, we still think we're very, very much on our own side of the field and have a long way to go to maximize the full opportunity across federal. But we really believe we have the team in place to do that.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Thanks guys. Next question, Eric Lapinski. Go ahead, Erik from Morgan Stanley. Thanks Erik.

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

Thanks guys. I maybe want to just follow up a little bit on the federal side because it looks like at least the deal with the veteran affairs was pretty comprehensive across the product portfolio, whereas I know you're in other federal agencies, maybe with some products, but not all of them. I guess just would be curious, as you're moving into newer federal agencies, do you see the opportunity for more of a sizeable kind of across the spectrum deal up front? I maybe hadn't seen one that included Fleet previously, so it'd be good to just kind of understand the vision there that some federal customers are having and if you are seeing more of that?

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

Let me start first and then I know Josh is going to want to talk to this too. I would say this is where we see the advantage. We talk about being a mission focused business, and a lot of times that can sound like puffery or fluff, but it really is true. We are running this business to solve problems we're passionate about. And of course, we also want to run a rigorous business where we have financial models that make sense, but the finances come from the problems we solve and infusing that in every employee, you know, right? I'm just so impressed with the team and the attitude they've got, where it's all about keeping our customers productive and safe and happy. And we really give a lot of latitude to our teams to make things right. And where that pays off is we don't think of these as just contracts we're going to sell and make a few bucks and move on to the next one. And so we get phenomenal customer references and the investments we make in really delivering a great product to the end user, not focusing on winning the bid RFP, sort of bureaucratic process, I think builds the types of things where you see these relationships, where people even relatively early on they are crosschecking with their other agency customers that are similar, and they're getting the confidence to give us a large part of their technology ecosystem. I think that's the underlying thing, the focus of the team on really the passion around the business to build things that really delight and protect our customers, that give customers the confidence to go do that. But I'll turn over to Josh to maybe give a little more color to federal specifically.

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

I think Jeff was going to chime in first, Rick.

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

Yeah, sure. I totally echo everything Rick said. And then combined with that, you've heard us talk a lot, whether it's in margins or in many other places about scale and our flywheel and leverage over time, but in the way we invent and deliver our products for customers is we do these market segments expansion. The same thing is true there as well. Cause you can think of leverage where we've spent a decade on our core DEMS and cameras products, and then even

longer on TASER. And at this point, even internally, what we have is small surgical, dedicated parts of our engineering team for these expansion markets like Federal who can inherit all of the common aspects of those products that are already fit for purpose for all segments we're competing in, but then overlay on top of that in a very focused way, what our federal customers need to tailor those existing products to unlock federal. And then over time as that keeps getting even more and more large and well situated, you'll see us build bespoke products that might be first for federal after we've earned the right by building out those sockets with loyalty to the products that we already had.

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

And I'd just add finally, I think to your question about Fleet specifically, Erik, in federal, I think it's just an example of, in some cases we'll have one or two products off the bat that are nice fits for the customer, and we'll land and expand for lack of a better term from there. And then there will be other customers that see the value across the board in terms of what we offer and want to engage in a more extensive contract up front. I think we still maintain the belief that either way longer term, the customer ends up in the same place, which is very happy with Axon's full suite of products. And the VA's a great example of an agency that trusted us on day one to deliver all of it. And in some other cases, we'll see that same phenomenon over time.

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

Awesome. Thank you. That's really helpful. And maybe if I could just sneak in a follow up, but more focused on Records. It looks like in the release you included at this point, you have forty agencies and twelve doing a full replacement. As we think about obviously a full replacement of very intensive workload, how much are you being relied on for that type of work? And do you see opportunity to potentially streamline that or build software around it over time that makes it kind of more simplified, I guess, moving fully to Records? And just to understand maybe some of the timelines you're seeing with those twelve.

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

Sure. I'll take that. So like we said, we're, you know, I think like you see, when you talk to anyone in the industry, these are big complex deployments, just like E R P systems and things like that and there's nothing that will ever change the fundamental physics that those are big complex systems because they have big complex work to do, but we remain extraordinarily optimistic and confident in our long term trajectory and growing our leadership position in this segment. But we're approaching it in we think, a humble and disciplined way, one deployment at a time. And as you heard us share, we are both continuing to go up and to the right steadily in agencies adopting Records overall and for their full deployments and our ability to continue to scale out the number of those that we're working on simultaneously and the amount of bespoke work per each successive deployment, both of those are going in the right direction. And so I think you'll see continued steady and accelerating momentum there, but we also are not going to get over our skis and be too chest-beaty before we've earned it.

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

Awesome. Thanks. Congrats on another good quarter.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Thank you. Keith Housum at Northcoast. Keith, you're up.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Thanks. I'll unmute myself here. Guys, again, I'll echo what everybody else to saying regarding the phenomenal quarter. But as we look at some of the individual results, Axon Fleet sales were down 15% per prior year and Axon Dock was down as well. Could the quarter have been even better? I'm assuming if you had access to some of the materials [inaudible].

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

Yeah, certainly Keith and I don't necessarily want to speculate on what the quarter could have been. We're really proud of where we landed, but I think it is an indicator that the future looks bright for a variety of reasons, including increased Fleet shipments. We did run into one or two minor items with the hubs that power our Fleet unit from our supplier, but the good news is in Q4 you'll see that demand rebound substantially, and we expect to see our best ever shipment of Fleet quarter of shipments, for Fleet specifically in Q4. And, you know, the strong demand continues well into the future there. And we're very excited to continue to build on our market lead in that product line.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great. I mean, this is my follow up and maybe Brittany, I'll put you on the hot seat here for your first time. As we talk about the moonshot goal, how does that fit into Axon's existing R&D budget and the financial profile?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

I think the way we philosophically think about it is that we can achieve both really healthy top line growth and head toward that moonshot and do that profitably and have a really nice bottom line as part of the business. And to your point, that will be a balance for us as we go forward. But of course, with our growth, we're not going stop innovating. We're not going to stop investing in R&D. We're not going stop coming up with great new products. And it's just that a lot of those will be focused on helping achieve that mission, but all inside the financial profile that we think is the right long-term profile for the company.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

I guess if I say it another way, you don't necessarily see that significant expense increase for R&D as a result of this large goal, correct?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

No, there there's nothing specifically we're calling out on that. I do think we will continue to invest in R&D, and we've been consistent on saying that, but this wouldn't necessarily change that profile in a way we're calling out today.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great. Thank you, appreciate it.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Sami Badri at Credit Suisse. Go ahead, Sami.

Sami Badri *Analyst, Credit Suisse Group*

All right. Thank you. My first question was on the 20% annualized growth target. I was hoping you could kind of give us an idea on how you were going to get there, either by new subscriptions, existing subscriptions that are seeing some price increases as a function of new features, maybe you could kind of give us an idea on the composition of that 20% growth? And then my second question is on CapEx. It looks like your guidance was reduced for the year. Could we just go through the puts and takes on that please?

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

Sure. I'll start with the revenue growth question and then hand it over to Brittany for the CapEx question. I think Sami, one of the beauties of our business and business model is there's a lot of different ways we can achieve exciting growth and it's not one specific thing. I think some of the things you mentioned are very much in play. We'll continue to invest in new products that delight customers and cause customers want to buy more at higher pricing tiers and more premium bundles. But I think it really boils down to two specific things. One is we're going do a really good job of building new products for our existing customer base, meaning state and local U.S., especially how do we introduce new products, into that base over time? And the second one is applying existing products to newer markets like international federal and enterprise. And we really believe we're doing those things well in parallel, and we'll do them even better in parallel next year. And of course, by doing so that opens up growth opportunity on both of those axes. I'll probably leave it at that for now and, and hand it over to Brittany for the CapEx question.

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Thanks Josh. I think the only thing I would add is I think it's exciting how many levers I see the business having in terms of where and how it can grow. There's an enormous amount of opportunity. So now you have to focus and make sure you're executing against them and going after the right ones. But the opportunity is there, I think from a CapEx standpoint, what we just highlighted is we are making some CapEx investments this year and some of those are getting really pushed out to next year. It's more of a timing piece than a fundamental change in strategy.

Sami Badri *Analyst, Credit Suisse Group*

Got it. I have one more question and it's mainly on working capital and just inventory. Do you foresee inventory levels just consistently stepping up from now all the way, perhaps maybe until the end of 2023, just the function of supply chains and components and all those other factors that are essentially increasing inventory levels?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

I'd say there are two things right now that are driving our inventory investments. One is we are still not out of supply chain challenges, so we still have products that are supply constrained that we would like to get back in stock and get to a better inventory position. And then I think too, just with the types of growth we're seeing across some of our products, we need to continue to invest in inventory to support that top line growth. I do think you'll continue to see that be just a strategic area of investment. I think at the same time, one of the things I talked about is really making sure we are doing a good job with our free cash flow. And so as we get to '23, we'll have to work to make sure we're appropriately balancing strong free cash flow generation with making sure we have that inventory we need to support the top line.

Sami Badri *Analyst, Credit Suisse Group*

Got it. Got it. Thank you.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Thank you. Paul Chung with J.P. Morgan, go ahead.

Paul Chung *Analyst, J.P. Morgan*

Hey guys, can you hear me? Yeah. Okay. So just another follow-up on the free cash flow. You're putting up record numbers here and kind of seeing free cash flow conversion surge as well. So talk about how the firm has driven the higher conversion. Is this kind of sustainable here?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

I think it's been a big area of focus. The team has done a nice job, specifically stepping up what they've been doing from a collection standpoint and paying more attention to our accounts receivable. And so that's a lot of what gets us as we go through the rest of the year, to our key free cash flow targets. And again, of course we need to balance with our inventory investments and making sure we're in the right place from that standpoint, making sure from a CapEx standpoint, we're investing in the business where we need to invest in the business, but there should be some good free cash flow characteristics that we can continue to focus on.

Paul Chung *Analyst, J.P. Morgan*

Okay, great. And then just to follow up, on the investments you're pursuing, we saw a lot of that at the show. Where are you seeing some momentum across your investments? What can really become more material over time, where do you get excited about on the investments there?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Yeah, well I'll start and then maybe I'll let Jeff jump in a little bit, but I get excited in a couple places. One, there really is this incredible ecosystem that the company has created where the hardware and the software have a flywheel to benefit each other. You heard us talking about how more customers are buying the premium parts of our business. And so that's really proving out the software. I get excited that we can make investments in partnerships that continue to drive that ecosystem. At the same time, with my CFO hat, we're going to be thoughtful and we're going to be disciplined about where and how we invest, but I really do think we have a unique opportunity in front of us with that as a lever to continue to pull things in. And I think what's great is, the more you can bundle some of these products together, the more powerful each one is. And it's just a great opportunity there, but Jeff, I know you spend a lot of time thinking through the ecosystem and products and where we should make investments, so if you want to add anything...

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

Sure, absolutely. Thanks Brittany. Again, thanks for the question. Yeah, I think of it, of course, very similarly, I think kind of three core areas. One, as Josh said earlier, and Rick alluded to, in people not stepping down the power of our bundles. I sort of bely my own Amazon roots and the power of things like Prime or other similarly situated models. The fact is that giving customers a fair price that they already think is a great deal, even for a subset of the benefits that they already know they want to use, and that they also have access to what feels like free to them, an additional and steadily growing set of product benefits that just light up. In fact, just today, I was talking with one of my team members who was at one of our major city customers, who's already in a particular level of our bundles, but they weren't using Performance. They had been approached at IACP by another company with a standalone product. We helped them realize and remember that they already had access to Performance, and boom, they instantly started using it and now they're more excited than ever about the bundle.

I think the second across our ecosystem, as you know, you've heard Andrea and all of us talk about is not just our own first party products, but more and more and more the story or the narrative or the idea of the Axon network is becoming more and more tangibly real as customers have and use both our own products and our partners' products, whether that's Flock or Fusus or DroneSense or DEDrone. It's great that they can sometimes buy those on one piece of paper, but the actual products themselves light up in ways that were just moments in a video, or a demo vision idea not too long ago, and now they're real.

And then the third that gets me excited about our own products is more and more these magical connections and leverage from our software services, adding value to our hardware, even once that hardware has already been deployed. And the two greatest examples of that are first, Respond, with many hundreds of thousands of our AB3 body cameras that now have Respond paid licenses connected with them and those agencies using those real-time connected features of Respond, which is both a paid add-on and great value; and second, ALPR as a software connection to Fleet 3 are an absolute peanut butter and chocolate combination

that our customers are finding in having both the world's best hands down standalone in-car camera system and also being connected to the world's best cloud-powered democratized access, price point, and ethically designed ALPR system. It's those connections, both inside our first party products and across Axon and our partners' products, that's super exciting for me.

Paul Chung *Analyst, J.P. Morgan*

Great. Thank you very helpful.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

I love it. Will Power at Baird, go ahead. Will, you are up.

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

Okay, great. Thanks. I guess a couple of questions. First one is probably for Josh, maybe Jeff, but you know, nice acceleration in the software revenue in the quarter. I guess I'd love to get any other cover around the key drivers of that. How much of that's tied to OSP 7+ adoption, Attorneys and DEMS. I mean, what's kind of leading to that acceleration what you've seen last few quarters?

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

Yeah, certainly. Will, nice to see you again. I think it's really just a combination of a few things. Driving more users to our more premium licenses, expanding our user base to more software only use cases. Outside of kind of core state and local, you mentioned Attorneys, that's certainly a big one and there are others along that same realm. And then just increased overall adoption across Evidence.com, even within state and local, we continue to add new users every quarter. And we see some of that also in federal and international and enterprise as well. So, it goes back to focusing on selling more into our existing markets and then opening up new markets in parallel. And that's one of the places we're seeing some of the result. And of course, there's a lot more work to do there as well.

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

Okay. And then maybe just a second question for Brittany. As we look at EBITDA margins going forward, I know you touched on, it sounds like you expected EBITDA margins to dip in Q4. I guess it would be great to get any additional color there. There's going to be higher revenue that I think at least, we were modeling previously, obviously down from Q3 other seasonal issues there, Q3 obviously was helped by the outperformance on the revenue side. But then I guess in tandem with that, just your broader thought process on EBITDA margin expansion over the next few years, as you move into '23, what does that kind of comp look like relative to '22? Any other kind of framework you can help us with there?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Yeah, so I think the couple of things going on in Q4 are, we talked about having slightly less leverage on our OpEx. We do continue to invest in OpEx as we head into the fourth quarter of the year. We have also talked a little bit about how it's still a very positive margin for the overall

year, so we'll get to almost 19% EBITDA margins. But I think if you look at sort of last year to this year, what you really saw was gross margins came down year over year, and that's a lot of what was impacting our EBITDA margins year over year. We actually have managed to get some OpEx leverage if you look at some of those numbers. And as we look and start thinking about what that is going to be like in the future, it's one of the main reasons that I'm really starting by digging into gross margins and where can we get some continued leverage and gross margins, that all can then flow through to the bottom line and support what we come out with in terms of longer-term EBITDA targets. We'll have more for you on '23 when we get to our Q4 earnings call, but really looking forward to digging in there and being able to provide some more of that color.

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

Okay. Thank you.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Jeremy Hamblin at Craig-Hallum, go ahead.

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

Thank you. Congrats. Brittany, I want to follow up on that last point, actually. So, gross margin performance was pretty solid in the quarter, especially with a lot of the revenue upside tied to AB3 cameras. You're obviously still getting familiar with the company and the opportunities and so forth, but I sense there is a notable tone change in terms of opportunity on gross margin and that may be a key focus on a go-forward basis of where there's opportunity, so I wanted to get a sense for the timing of how much low-hanging fruit you think there is, because, if you're going to gain 500 basis points, how much of that is easy and how much of it is you're going to have to work hard? I wanted to get a sense of how much opportunity you think there is overall, and then also the timing and how much of the gains you think could happen in the next 18 to 24 months versus a five or six-year slot?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

Yeah, appreciate the question. I mean, I would say I think that the business has been well-run. I wouldn't say there's any glaring low-hanging fruit, but I would also say it's a business that's come through many of the supply (and still in many) of the ongoing supply chain challenges. The company has been paying PPV and having to invest in manufacturing capacity and automation and all things I think that have been talked about but should start to see some benefits going forward as we continue to grow, as we continue to get scale on some of those investments. Hopefully as we get to a more normalized supply chain, the growth in software, which is higher margin for us, so that product mix is very important going forward. I think all of those things are the things that we're going to need to do to drive gross margin improvement.

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

Okay. And in a similar vein then in terms of your OpEx growth, a sense might also be, you know, there's been a lot of investment over the last few years and a lot of that was new product rollout, and not that you're not still iterating from there, but I do get the sense that now you're going to mature or realize some of the opportunities that have taken four or five years to lay the foundation and start to see a little scale. Is that a correct read, that obviously continue to invest, but maybe the rate of growth in your OpEx might be a little bit lower than what it's been the last few years?

Brittany Bagley *Chief Financial Officer & Chief Business Officer, Axon Enterprise, Inc.*

I think that we're certainly looking to get some good OpEx leverage as we continue to grow, but I also I don't want to leave you with the impression that we're not going to continue to invest in that growth because the opportunity in front of us is just so enormous that you should all want us to be investing behind going after that. And I think we're going to continue to be really thoughtful about where we do that and make sure we're getting a good return on those investment dollars both from an R&D standpoint and then some of these new channel opportunities are big and you're starting to see that payoff in federal. We would like to keep doing that and keep driving that top line growth, just doing that profitably and making sure there's a good balance there and a good focus on really getting return for the dollars we're investing.

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

Great. Thanks so much for the color.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

Thank you. We'll go a couple minutes over. Erik Suppiger at JMP, go ahead.

Erik Suppiger *Analyst, JMP Securities*

Yeah, thanks for taking the question. On the international front, can you talk a little bit about the near-term strategy? I'm not sure if there's a timeline associated with the 5x opportunity that you envision there, but can you talk a little bit about your lead products and how you're going to develop the international markets?

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

Sure. I think generally speaking, the focus Erik, is really to land with one product, whether it's on the CEW side, the video side, interview room, in-car video, any of our digital evidence management products. And there, we'll bet on ourselves to continue to grow the adoption and numbers and volume of that one product, but we'll also grow the adoption and volume of other products along the way. So right now, we remain focused on doing everything we can to grow in UK and Canada and Australia being our tier one international markets, but also just finding one product to fit in all of these other large national police forces and from there supplement

with our additional products. And I think it's working well. We've seen a lot of interesting TASER adoption this year in markets where we haven't really participated before, but we also see a tremendous pipeline going into next year and the year after, not only across TASER, but across body cams and cloud. So we're very excited about the prospects of international and it's really about that land and expand strategy that we talked about earlier in the call.

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

Let me jump in and help. I think in particular, this moonshot right, one could look at that and say, "okay, well, how do I tie that back to the financial returns of the company?" And what we're trying to do is push ourselves particularly not to think of the TASER as a product that we're going to incrementally keep making marginally better than the last version, but how do we obsolete the bullet? How do we become the primary defensive weapon and one that doesn't kill? When we do that, we will move the TASER from a specialist item that a few officers or a specialized team may have to where every officer is going to need one. Now in the United States, police will carry a TASER on one hip and a gun on the other. In most international markets we don't see that dynamic happen where that's seen as I think, maybe a more American approach to carry both devices. When we start to approach the stopping power reliability of a pistol with a non-lethal weapon, I think that'll be a game changer. Now not in the United States, the United States has unique challenges because of the gun culture broadly in the country. Cops are going to need to carry both for quite some time. But if you think about France, Germany, Spain, or pick your international country where officers are routinely wearing handguns, if we can give them something that's similar in performance, stopping power, I think we'll see those countries potentially shift to where a TASER energy weapon can become their primary device. And suddenly we go from 5%- 10% of a police force to approximating a hundred percent. I think that sort of thinking is going to pay off in really breakout moments of growth for us, particularly in the international space. The other piece is the cloud. We are hammering away. It's taken longer than I thought it would, in Europe in particular, to get acceptance to the cloud over the same objections we saw in the U.S. a decade ago. We're seeing some bright spots, some signs of light. And I think if we get one or two leading customers to crack and prove the cloud is safe, that we'll start to see the dam break there as well. I'm particularly excited about the international opportunities led by TASER and the cloud.

Erik Suppiger *Analyst, JMP Securities*

Does the TASER take time, you had talked about, you know, the moonshot and, and getting to the point where it starts to obsolete the bullet, does that imply that the lead product would be the sensors and the DEMS until the TASER starts reaching that level? Or how do you think between those two?

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

Well, I'd say in many markets the TASER is already a lead product. It tends to bring us, I think, into more markets because of its unique value proposition, but I think that will accelerate as we continue to step up its capability to move from a specialist capture tool to a highly reliable personal defense system. I don't know if you want to make any additional commentary, Josh?

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

I think that covers it, Rick.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

All right. We'll take questions from one more analyst and then Rick will close us out. Logan Hennen from Northland Securities, you're up.

Logan Hennen *Analyst, Northland Securities*

Thank you. And congrats again, on another great quarter. With our first question, we were hoping that you guys could shine a little light around what percentage of sales is currently coming from the federal government and how do you guys expect that to change come fiscal year '23 and '24?

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

Yeah, Logan, I appreciate the question and thanks a lot. I don't know that we're going to go into that level of detail right now. I'd say our focus in federal continues to remain on growing bookings and total contract value with the expectation that flows to the top line in revenue, not only upfront as those contracts are signed, but over time. But at this point, we're not prepared to break out federal revenue and maybe we will reassess later, but at the moment we're going to stick with the way we're reporting it.

Logan Hennen *Analyst, Northland Securities*

Okay. Yeah. Understandable. Our next question is, what should we anticipate for Q4 bookings? What have you guys noticed so far, and do you expect that to be the highest of any quarter this year?

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

We do expect Q4 to be our highest bookings quarter of the year, for sure. And maybe even ever, depending on a few factors there. We're certainly excited about it, but that's the extent to which we'll elaborate on that right now.

Logan Hennen *Analyst, Northland Securities*

Perfect. Thank you.

Andrea James *Corporate Communications Officer, Axon Enterprise, Inc.*

All right. Thank you, Logan. And thank you everyone. We're going to have Rick close us out.

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

Awesome. Thanks, Andrea. And of course, thanks for our shareholders. It is with great pride that we're able to deliver results like this, and it is an amazing team. I've got to tell you, Josh Isner, having watched him grow in his career, is just an amazing team builder and coach. And he gets a lot of credit for helping us find and recruit Brittany. This is her first call with you guys,

but I can tell you but we're already feeling the magic that she's adding to the team. And of course, Jeff and the amazing team he has built over in product, and he's continuing to just bring in amazing talent. There's never been a better time to be at Axon. You know, the moonshot, we didn't blindly make that promise without some pretty clear vision of how we're going to get there. To get to the moon, we're working on the Saturn V and the Eagle Lander, and a lot of really awesome tech you can expect to see over the next couple years. With that, I'm going to wish you all a happy holiday season. Thank you for your patience and sticking with us. Many of you have been following the company for a long time. We're delighted to see the investments we're making in the past pay off. And we're excited to show you where today's investments will pay off tomorrow and the future. If I don't see you all, enjoy your holidays and we look forward to talking to you in the new year.

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