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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

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

Okay, welcome to our second quarter earnings call. Thanks for joining our executives on the call. A quick note about the faces you're going to see on the call today. We want to welcome Eric Lapinski to the team at Axon. He joined us earlier this year. He's our Director of Investor Relations and Financial Communications and we're thrilled to have him. And Angel Ambrosio, I just want to say we want to thank her so much. She's been on these calls for over three years and has really helped to lead the way in making us Zoom first on our earnings calls, she's also helped us lead the way in ESG reporting. Angel's not going anywhere. We still work together side by side every day.

Ok onto business: I hope you've all had a chance to read our shareholder letter, which was released after the market closed. You can find it at investor dot axon dot com. Our prepared remarks today are meant to build upon the information and financial tables 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. We discuss these risks in our SEC filings.

Before we go to Rick, we'll play our quarterly update video — which is less than four minutes.

>>Quarterly Earnings Video @ << <https://vimeo.com/852767166?share=copy>

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

Alright, great job, Andrea and Angel. Welcome everyone to our second quarter 2023 earnings call. It's great to be coming back to you with another excellent quarter and an even brighter outlook.

I am fortunate to spend most of my time talking to customers. Reception to our new products has been fantastic. Recently, I met with police chiefs who said once their officers take TASER 10 out in the field, they won't go out again without it. After trials and successful de-escalations in the field, some have even joked that their officers are saying "you'd have to pry my TASER 10 from my cold, dead fingers!"

This is the type of feedback that keeps us moving forward.

Axon Body 4 began shipping in June and we're also getting a great response.

Later you will hear from Brittany, who we recently promoted to Chief Operating Officer, in addition to her role as CFO. Bringing these two roles together under Brittany sets us up for our next phase of operational excellence. As COO and CFO, Brittany will oversee our margin profile from end to end to ensure we execute on our ambition to deliver profitable growth for years to come. Brittany has been a star addition to our team — she brings operational rigor, foresight, stewardship and candor.

We also promoted Josh Isner, who previously served as our CRO, then COO, and is now President. Josh has been an instrumental leader at Axon for more than a decade. During his tenure, he and I have worked side-by-side evolving and growing the company. I've given Josh many challenges over the years and he has never failed to exceed my expectations. As President, Josh will continue to oversee day to day operations while taking on an expanded role within the executive team and with our board members.

Expanding responsibilities for my team allows me to focus on what inspires me — our products and our customers. Product development will always be a key part of my job description. For years you have heard me talk about my futuristic views of what the market needs, and for years we have successfully innovated.

So what's around the corner? I'll touch on two areas: Robotic security and generative AI.

In June we acquired Sky-Hero, which builds upon our strategy for robotic security and is highly synergistic with our product roadmap. Sky-Hero gives us a leading indoor tactical drone solution and complements our existing Axon Air strategy.

While the acquisition will not be a meaningful revenue contributor this year, it fits into our long term vision. We want to make the world a safer place and avoid sending people through the door in highly dangerous situations. Sky-Hero is already selling to U.S. federal government customers, and SWAT teams in the U.S. and Europe who give very strong feedback about the value, durability, usability, and reliability of their technology.

Sky-Hero is based in Belgium and unlocks many new customer relationships across Europe. I was especially impressed with CEO, Yves and his team — which is small and scrappy, and can really move fast. They will fit in great with Axon.

And finally, here's how we're thinking about Generative AI and large language models: Like we've already been doing with traditional AI, we will use these newer technologies to create game-changing new products for our law enforcement customers.

Several years ago we published a video on the future of policing. This video featured scenes where a police officer was able to feed their body camera video into an AI system, which then created a draft report auto-populated off of these details in the audio-video record.

The point is that we were talking about generative AI before it really existed in a usable form. Now I'm not sharing this for bragging rights. What it means is that we don't have to pivot our strategy because our strategy has anticipated this future reality for years. We spend a lot of our time and I spend most of my mental energy studying key technology trends and mapping them against customer needs. We don't wait for the customer to ask for it. We don't even wait for the technology to exist. We map evolving technologies that we believe will mature in the coming years against existing customer pain points and invest early so our ecosystem will be ready to "catch the ball" when the underlying technology matures. This is precisely what is happening now with Large Language Models (LLM) and with broader generative AI. Our mission driven philosophy to leverage exponential technologies to solve problems we care about is the core to our value creation engine. An investment in Axon is investing in the future of AI, and has been for several years.

The flywheel for AI technologies — including LLMs — is powered by signals and data. We have invested hundreds of millions of dollars into building out an ecosystem of wearable cameras and sensors and the world's leading cloud platform that securely hosts the enormous data generated by this expansive ecosystem. Everything we have built over the past decade and a half has been to position us to be able to safely and ethically and securely collect, share and analyze that data for our customers — paving the way for public safety adoption of ever more advanced AI tools. These tools will build upon and expand the AI applications that are already a critical component of the Axon ecosystem.

And just like we evangelized and were the first to bring cloud software at scale to public safety, we think Axon will lead the way in bringing advanced AI, designed with thoughtful ethical controls, at scale to public safety. We're already seeing really promising results from our early work here and we are just getting started.

You're up, Josh.

Joshua Isner *President, Axon Enterprise, Inc.*

Thanks a lot, Rick. It's been an honor and a privilege to have built my career at Axon. I care deeply about our mission, our customers and our team — and I'm proud to help lead an organization that is unapologetic about winning. This team just blocks out the noise and executes, and you see that in our results.

As Rick reflected, we are getting great feedback from customers about TASER 10 and Axon Body 4 and I am especially pleased that this feedback is translating into orders. We closed the first half with strong orders and we expect a greater increase into the second half as we convert more of our new product pipeline. This drove our confidence in increasing our guidance, which Brittany will take you through in a moment.

In Q2, we continued to execute on our 2023 focus areas — revenue, profitability, new market expansion, and new product adoption.

We just finished our *sixth* consecutive quarter with revenue growth above 30%. This kind of growth doesn't just happen — it's a combination of having the right products, the right sales strategy, and the right team to execute on an enormous market opportunity. And our relationships with our customers are truly deep — we don't just look for a transactional sale, we partner with our customers and make sure they are successful, and they keep coming back to us so we can help them solve more problems.

Our cloud business grew 62% year over year — we are in the early days of expansion into new markets and products. Our software penetration remains low and we are finding ways to sell more software content into our installed base, executing against a twenty-two billion dollar software TAM.

Our TASER business grew 14% year over year. TASER 7 remains the greatest contributor for now, and we were pleased to see incremental growth driven by early shipments of TASER 10. We are just getting started with that weapon. It's a game changer and we think it will drive TASER growth over the next several years.

Profitability is our second operational focus and is critical to ensuring we have a sustainable business model to drive the next decade of our growth strategy. I am pleased with our team's focus and execution in Q2 as we stabilize gross margin through two of our largest product launches in company history, while growing our team at the same time.

Third, our new market bookings grew ahead of revenue in Q2. We are seeing continued success in the Federal market, with first half bookings up nearly triple digits year over year; and in Justice, with triple digit bookings growth year to date. Four of our ten largest deals in the quarter came from new and emerging markets, a sign of continued diversification.

Finally, new product adoption is critical to our success. We are gaining traction — we've seen emerging product bookings grow nearly 50% year over over. ALPR, auto-tagging, Axon Community Request, Axon Records, and Axon Respond are a few key callouts here.

We closed an incredible first half to the year and the outlook for our second half looks very solid. We are on to the next play.

And with that, we'll turn it over to Brittany to go through the operations and financials in more detail, Brittany?

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

Thank you, Josh. And thank you Rick for the kinds words, I'm very excited to take on more of the business and to continue driving the next stage of operational excellence at this fantastic company. Turning to the results,

We reported another strong quarter reflecting broad strength across our businesses. Our top line grew 31% year over year and we saw EBITDA margins of 22.0%.

Second quarter gross margin of 62% improved sequentially, primarily reflecting business mix from software. As you saw in our shareholder letter, we had some noise in our segment margins this quarter as we worked to more closely align our overhead costs with our specific product lines and had some one-time adjustments. On an aggregated basis, however, most of that is allocations between segments and our overall gross margins reflect a mix benefit from software. Axon Cloud and Services revenue made up 35% of total revenue this quarter, compared with 29% a year ago.

As we noted last quarter, we would expect full year gross margin to remain approximately flat or improve only modestly from Q1 2023 levels, due to continued professional services related to Fleet 3, and the continuing ramp of Axon Body 4 and TASER 10.

We continue to believe there are opportunities next year and over the longer-term to improve our margin profile as we invest in automation and recognize scale efficiencies from recent product launches. We also expect to continue to see mix benefits from our software growth. We believe we will exit this year at a more normalized run rate demand for our Fleet product, having largely caught up on our backlog.

Turning to our operating expenses — we saw leverage out of both R&D and SG&A. We continue to

invest absolute dollars to drive our product roadmap, and to scale our business rapidly. We're pleased with the adjusted EBITDA margin of 22.0% in the quarter, but given the second half gross margin profile and timing of some opex investments, continue to keep our guidance at 20% for the year. With our increase in revenue, this does result in us dropping more to the bottom line for the year, and we're continuing to focus on how we can better leverage our opex, especially SG&A, over the longer-term.

Turning to our guidance:

- We are increasing our full year revenue outlook to a range of \$1.51 to \$1.53 billion, representing about 27% to 29% growth.
- We continue to target full year adjusted EBITDA margin of 20%, which implies an increased range of \$302 to \$306 million.

In terms of the healthy guidance increase, we always want to make sure we can deliver on what we say we are going to do, and that continues to be our focus while at the same time making sure we're doing our best to accurately reflect what we're seeing in the business. We had two major hardware product launches this year, and the successful roll-out of these products as well as the robust customer response to these launches has given us the confidence to increase our forecast after a strong first half of the year. We expect most of the increase relative to our prior forecast to occur in the fourth quarter, due to typical seasonality. With that, I would like to open it up to questions.

Q&A

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

Okay, thank you. We'll take our first question from Will Power at Baird.

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

Okay, great. Well, I guess first congratulations on the strong results and congratulations, Josh and Brittany, on your promotions. That's great to see. I guess two questions, first, I'd love to kind of dig into the cloud success. I mean, really strong growth there, over 60%. I think in the shareholder letter you said about 50% of the growth was driven by body cameras, and so I'd love to just get perspective how you think about the continued opportunity just within that piece of it. Then the other second part of that question is what are the other key drivers within cloud right now? Because it's clear you're having a lot of growth outside of just that body camera piece.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, thanks a lot, Will, and it's good to see you and thanks again for having us at your conference in June. I would say in terms of just growing cloud adoption for us, there's really two elements of it. Number one is making sure that we continue to proliferate hardware in as many different forms as we can that plug into our cloud ecosystem. So the more body cameras we sell into our existing core market, but also into International, Federal and Enterprise, that'll drive more usage of Evidence.com. and likewise the more Enterprise software licenses we sell for things like Records Management, computer aided dispatch our Justice product, Axon Air licenses, the more software only licenses that we continue to roll up here, that'll continue to provide favorable results as well in our cloud business. So it's really about doing those, both of those things really well at the same time and the team has done a really nice job of that so far this year.

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

Okay. And if I can just fit in, just a second question, you raised guidance pretty significantly for the year. Anything else you can add with respect to the visibility in the second half and particularly the fourth quarter, given the seasonality that I think Brittany just alluded to too, just to provide investors' confidence and that increase?

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

It's a great question. Thank you, Will. I think part of it comes down to what we see in our business. And I think we were very careful as we came into the year not to get ahead of ourselves in terms of what we were expecting for AB4 and TASER 10, given that those were two big launches for us. But we have seen, as Rick and Josh both commented, just wonderful customer reception to those products. And so, we have good visibility both in terms of what we can ramp up from a manufacturing standpoint that gives us confidence in the volume of those products that we'll have available. And then I would say what we have available from an operational standpoint with what we see from the customers, and we think we have pretty good visibility in terms of delivering the second half of the year. I think, as I said, we're partway through Q3 right now, and so we, we can call out that we think some of that will be in Q4, especially as we ramp into AB4 and see the timing of some of the contracts that we have coming in and some of the deals we have in the pipeline with customers. And then I think the other thing is just our cloud and services revenue. As you can see, it's done very nicely this year and that is just a very reliable recurring software business that we can bank on every quarter, and we look at that as we go through the second half of the year combined with the TASER 10 and AB4 products. And that's what gives us confidence in that guidance.

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

Okay, thank you. Next question from Tim Long at Barclays. Go ahead, Tim.

Tim Long *Analyst, Barclays*

Thank you. Two, if I could, first on the gross margin side, Brittany, could you talk, you talked about a lot of the moving parts here, but maybe if you could just touch on, two aspects, the , , where we are in and how we're feeling about the ramp of the two new products and impact on gross margin as we go through the year. And I noticed, I think Axon Cloud might've been one of those areas where there was some adjustments. It looks like the margin went down there a little bit. Can you just talk about as that business scales what we should expect for gross margins? And then, I had a follow up back to that.

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

Yeah, of course. So there's a lot of moving pieces in our gross margin as you can tell from going through our shareholder letter. I think the biggest thing is we have had some headwinds on gross margin this year, really from three main pieces. One, getting TASER 10 ready to go, ready to ramp, ready to be

scaled in production and we continue to ramp and scale that business as we go through the year, but that's really a next year event when we think that's fully scaled and ramped up, so factored into our gross margins this year, but should be a gross margin benefit for next year. I think it's similar, on the launch of AB4. There's just a period of time while we go through a transition of bringing a new product up and getting it ready to get launched that, again weighing a bit on this year should be nice for us next year. And then probably the last piece that we talked about last quarter, it's continuing to impact the cloud and services gross margin, which you noted for this quarter is just the professional services on our Fleet installations. Our Fleet has been a phenomenal product for us this year. Some of that was because we were inventory constrained and had some backlog coming into this year, and we've really been working through that. But with Fleet, we sell the hardware, we have professional services to install the hardware. That is a bit of a hit to gross margin for us in a one-time way. And then we turn on software associated with the Fleet product. And so once we're through the professional services install, we have nice recurring software revenue attached to the Fleet camera, but our volumes of Fleet are so high this year, you can view that as a bit of an investment in gross margin to unlock nice long-term software revenue sort of next year and beyond.

Tim Long *Analyst, Barclays*

Okay. And then just a quick one for Josh. You mentioned some of the larger deals were in newer areas like Federal and International. Could you just give us a little flavor of what examples of what type of deals those are and how sustainable you think the moves into these new geographies in regions would be? Thanks.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, great question and thank you. First of all, one that we're really excited about is a deal in our Justice segment. So here we're talking about prosecutors buying kind of Enterprise licenses for Evidence.com and tightly integrating with the police departments. And so, that was one of the four, couple were Federal and certainly we continue to see those become more common and at larger dollar amounts as well, which are both very encouraging signs and speaks to all the great work Richard Coleman and his team are doing in our Federal business. And then lastly, in International tier one markets, the UK, Canada, and Australia, we still see very meaningful orders coming out of those markets both across TASER and body cams and Evidence.com and then we continue to start to make more headway in some of these large markets outside of those three. Generally, at this point, those have been more TASER-oriented orders as we continue to evangelize the cloud and work with our early kind of opportunities on getting some of these major customers onto the cloud. So that's a little bit of background about where some of those are coming from.

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

Hey, Josh. Okay, if I could add in a little bit as well, just very rough, if we look at the long term right now, International is about one fifth of our business. At scale, the U.S. should be about a fifth of our business. The rest of the world is at least five times larger than the U.S. market is. And so as we're very focused on opening these markets, but police face similar challenges around the world. Now there's one unique thing about the United States, and that is the gun culture of the public that is quite different from the challenges other countries face. And in some ways that makes TASER 10 even more transformative in

every other country around the world because I think what we've generally seen is U.S. police will carry a gun and a TASER. We've seen that less likely to be something that our international customers would do.

But if you are a police officer in a country where the public doesn't really have firearms, a TASER 10 could actually become the primary defensive weapon in those markets because frankly, if you are, for example, a French police officer and you need a firearm, chances are it's not petty criminals with a gun, you might be dealing with some sort of terrorist event where a pistol is probably not the right tool anyway, and so I believe T10 actually is the biggest game changer in those international markets to give us beachheads where we could really begin to expand the growth. Because again, long term we need to succeed as a truly global company, and when we do that, these international markets should frankly dwarf our U.S. market.

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

Okay. Josh Reilly at Needham. Go ahead, Josh.

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

Alright, thanks for taking my questions. Great job on the quarter here, team. What are you seeing in terms of customers who are interested in getting new TASERs and body cams and they were going to buy the AB3 maybe and the TASER 7, but now that you've switched to the new models and these are released, can you give us a sense of the magnitude of customers in this category? And did it have any impact on the Q2 revenue results? Would it have been even higher with some customers switching around? And is that impacting the Q4 commentary around revenue as well?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, Josh, thank you for the great question. A couple ways to think about this, so coming out of the first half of the year as everyone remembers, we're a little more conservative on what our guidance would look like for that reason, because there's this period when you launch new products where you don't know if customers are going to want to just continue with what they have or trial the new product before buying it or just switch right over to the new product. And so I think we've kind of cleared out a lot of those uncertainties at this point, and I think it's fair to say that a lot of the interest has converted from TASER 7 to TASER 10 and so customers that were on order for TASER 7 kind of pumped the brakes, wanted to trial TASER 10, and now we're moving in that direction. AB4 is a separate, a little bit of a separate motion because the early volumes of those cameras are driven by hardware upgrades and our TASER assurance plan, not as much book and ship like right out of the gate. And so two kind of slightly different stories there, but yeah, as those things become better in focus, it allows us to get a little more aggressive with our guidance and as the year comes together and that combined with a really solid back half pipeline gives us a lot of confidence moving into the last two quarters of the year here.

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

Just to add, I'm going to throw in a little bit of extra color for you on that. Our TASER 7 was pretty stable in this quarter, so there's certainly a dynamic of customers getting very excited about TASER 10 but we're still seeing very nice support and volume from TASER 7. I would think about a lot of the growth in the TASER segment this quarter coming from TASER 10, starting to ramp up and get into customers. And then I would say similarly on our cameras, we didn't see significant growth in our camera business in Q2 and that really was because as we go do those refreshes, we're going to let customers who want to refresh on AB4 refresh on AB4. We just started shipping AB4 and so again, you'll see some of that stronger in in the second half of the year.

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

Got it. And then just to follow up on Fleet 3, you mentioned you're going to catch up on demand by year end. How much of the catch up is around manufacturing the hardware versus actually getting the product installed at the end- vehicle? Where's the greater bottleneck been in the last couple quarters here? Thank you.

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

Yeah, I would say it's shifting. I would say the greater bottleneck coming out of 2022 was probably on the hardware, on the actual inventory side, and now we've done a nice job catching up on that and really the bottleneck now, and it's not a bottleneck because we're ramping up to get it to customers, but the gating item is really more around the installations.

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

Thank you. Mike Ng at Goldman Sachs. Go ahead, Mike.

Mike Ng *Analyst, Goldman Sachs*

Hey, good afternoon. Thank you very much for the question. I just have two, so Axon cloud and services revenue was up substantially, outpacing the sensors and other segment revenue growth. I was just wondering if you could just answer a couple questions to help reconcile the differences in revenue there. First you said you're selling more software content into the installed base, so is that customers just upgrading their plans, but using existing equipment, does that give you higher confidence about an equipment upgrade? And then, are there other pieces of software that you would call out that are doing particularly well? I know Josh, you flagged a few thanks.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, ultimately for us, and we've talked a little about this in the past, but the big kind of focus for our sales team is selling our office for safety plans, which have a number of different software features in across DEMS and Records and Standards Pro product, which is kind of a use of force tracking product. There's a lot in those plans. And ultimately the more of those bundles we sell, our ARPU will be in software. And then when we combine that with picking up momentum, both on the records management side and in the Justice segment, and then in some of our new markets, those things combine to offer a nice uplift over just kind of our base Evidence.com licensing. And so, it's really a combination of those two things.

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

I would just add, one hundred percent agree, everything Josh said is spot on, I mean we are seeing very healthy demand for our premium bundles and that's driving our strong net revenue retention. It's driving growth in the software business. The domestic Evidence.com licenses drove the largest sequential increase. I think the other thing I would note for this quarter is we were able to start recognizing revenue for our standards product now that we have it in general availability. And so that helped make the step up slightly larger this quarter than it has been in some other quarters and so we spend a lot of time talking about how big is the size of the step. It was definitely larger this quarter and we continue to look at it more as an average of quarters over time. It was slightly smaller in Q1, and it was big in Q4, it's big this quarter, so it's been lumpy as we've had some of these revenue recognition pieces come together. But overall, the domestic Evidence.com business is driving the bulk of that and is why you're seeing such nice healthy growth in that segment.

Mike Ng *Analyst, Goldman Sachs*

Great. Thanks Brittany. And I did want to follow up on that along with the comment that Josh made earlier about good momentum in Justice. So, is it right to interpret that there are customers that are buying the software or the e.com licenses that may not necessarily be part of the body camera or the TASER installed base? And, if that's the case, I was just wondering if you could expand on that a little bit more and talk about the opportunity there. Thanks.

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

Oh, let, let me jump in over Josh. I'm excited about this one. Like for example, the country of Scotland selected us for their digital evidence management system across police, prosecutors, courts, the whole country, and they are not using our body cameras. We've had some similar, I'll be, I'm not sure which ones we've specifically disclosed or not, but we've had other international agencies move software first and that's something that we're really proud of. And obviously our software teams take great pride in that as well, that ten years ago our software was basically an enabler of our hardware, and now they're both strong on their own and, and our software products, especially things like Records, can stand on their own. Although some of the generative AI stuff I alluded to in my comments are a true game changer when an agency's using our body cameras and our cloud software, our ability to unlock all the valuable data that's hidden in those audio video records for our customers is pretty awesome. And so,

we think we are very well-positioned and we look forward to coming back with more details. I don't want to get out over my skis, but we have been doing some, we're always inventing and prototyping with our customers and we're just hearing really positive feedback on things that we've not even announced yet. So, that growth engine of doing the hardware and the software enables us to do things that you can't if you can't do both those things together.

Joshua Isner *President, Axon Enterprise, Inc.*

And I totally agree with Rick. And the only thing I'd add on that is there are extra licenses every agency buys for non-sworn personnel, and that number will only go up with Axon Records. And so that's a big piece of the puzzle as you think about the police officers on the streets using our body cameras and TASERS, but then all of the people in the back office that need access to Records and Evidence, that's a substantial uplift as well. In addition to some of the new market and kind of DEMS only features that Rick talked about, there's an element of just our domestic customers adding on more and more as our product portfolio grows.

Jeff Kunins *Chief Product Officer & Chief Technology Officer, Axon Enterprise, Inc.*

And I think you've heard us say so many times before, the power of that entire ecosystem distributed through this hardware plus software OSP bundle philosophy is, it is our Amazon Prime, it is our flavor of this opportunity that just inherently drives increased adoption. And as customers get value out of one basket, it inherently motivates them to keep going up to higher and higher tiers and then to use more and more of what feels free to them because it is already in the basket that they have paid for and have access to. And to come back to connect that to one of the questions about Federal and Justice before, that's also the leverage of our R&D philosophy and approach at work where if you take something like DEMS that's had a decade of R&D investment in us to bring it to where it is to be fit for purpose broadly for domestic and international law enforcement, it's a relatively light lift, but to tailor that with a surgical part of our team to make it fit for purpose for the next adjacent market segments like prosecutors and Justice, like things in the federal government, and that instantly or relatively quickly unlocks whole new segments building on the back of R&D we've done before. And then once we've done that and we have momentum with Federal customers and Justice, it earns us the right to then start building bespoke products directly for those market segments. And that kind of laddering up from each angle is fundamental to our flywheel.

Mike Ng *Analyst, Goldman Sachs*

Great. Thanks Rick, Josh, Brittany, and Jeff. Really appreciate that. Very interesting.

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

Okay, thanks Mike. And, and before we move on, we've used the term DEMS a couple times. That means Digital Evidence Management System. So that's that acronym for everybody. Keith Housum at Northcoast.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Thank you. I appreciate it. Rick, with the promotions for Josh and Brittany, how is your role evolving at the organization?

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

So it's actually not changing a ton. Over the past five to six years, I've been wanting to put more and more focus on customers and technology, really creating, understanding the pain of our customers, conveying the story that is our existing ecosystem, and writing the story for the next ten years, and focusing on that requires just frankly, a very different mental outlook than running a business day to day. If I went back five or ten years ago, to be honest, I was getting quite burned out. It's just very difficult to run a large organization and then go, "oh, in between this endless email inbox and all the to-dos of managing the business, let me now pause and shift to creatively looking at understanding what does the next phase look like." I think these promotions just sort of clarify those roles and this is giving Brittany more control over the operational excellence of our margins and everything in the manufacturing supply chain to really make sure we're delivering. Josh is actually taking a little bit more of some, for example, my interactions with the board that are more operational. Josh actually tends to lead most of the board meetings in terms of the agendas, et cetera. And what that allows me to do is focus less on the what we're doing and much more engaging. During board meetings, for example, I'm very focused on driving discussions at a highly strategic level and I think we play to each other's strengths. So, my wife will tell you, I'm working harder than ever and I'm traveling more than ever out with customers and largely that's because I don't have a list of to-dos I've got to do around internally in the office. And I know we've got a team and I've got a very long relationship with Josh, and with Brittany only having been here a little over a year, we've rapidly developed that same connective tissue where we kind of understand each other's strengths and that allows me to focus on the thing that I'm uniquely able to do as a founder and CEO. And that is, as I mentioned in my script, but I just want to really call attention to it, the reason I think founder-led companies outperform, and the academic data kind of shows that, is when we focus on what, like what is the next big leg that is not obvious and that a traditional large business most of our competitors are focusing on basically running a kind of a profit driven machine and each product manager is sort of asking the customers what they want. My job is to predict what the customers aren't asking for yet and to max that up to various technologies. And there's a fair amount of risk that comes with that, but the rewards are significant. We saw that when we created the TASER market, the body camera market, the cloud market, no customers were proactively asking for those. I think we're ahead of the ball on AI when we think about overall how we communicate. When I was a child in the early seventies, I communicated with a rotary dial phone at my house and police had push-to-talk walkie talkies. Today I don't have a rotary phone. Like we're doing Zoom with people around the world and our customer's primary mechanism of communicating is still push-to-talk walkie talkies. Hmm. Like I think in the next ten years that will no longer be their primary method of communication. Police will be using audio, video, sensors and AI to manage the massive amount of data flow so that we're collecting what is happening in the field, distributing that information to the right people, and then cycling back to that officer in the field in a very focused way the information they need to know through the media that is most efficient for them to do it, that's least distracting while they're doing this difficult job. So, it's solving those sorts of problems. And frankly, Jeff has done such an amazing job of building an amazing team. So, when I talk about solving that problem, we've got people like Ran Mokady who built Alexa Drop In Calling, that revolutionized personal

communications for a hundred million people, including me, right? She's probably far more than that now. So I could talk to my mom when she had mental dementia, couldn't answer a phone, and my kids could drop in on her from our kitchen. That sort of disruptive communication experience is part of what we're looking at now in the next ten years. So that's where I spend my time and that's why I'm not answering many questions about margin and budget, because I've got a strong team that I know is all over that so I can focus on the future.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great. Appreciate it. Thank you. Now to get back into more details, I'll go into Brittany and, and Josh. As you look at the T10 in terms of the adoption rate of that compared to the T7 as like the leading device that people use for TASER, do you guys expect acceleration of movement toward T10 versus like the T7? And then what does that do in terms of the mix and the margins?

Joshua Isner *President, Axon Enterprise, Inc.*

Maybe I'll talk about the little bit of the demand, and I'll hand it over to Brittany to talk about the mix and margins. In terms of demand, yeah, we absolutely see customers, and I've said this maybe in the last call and to others as well, this is the first product where our customers have a genuine interest in upgrading early to it. Usually because there's a training uplift and there's challenges around deploying it across thousands and thousands of users, you kind of kick the can down the road to the end of your useful life before you upgrade to the next one because it's a lot to bite off to deploy a new TASER. In this case, agencies are willing to accelerate that process in favor of getting this weapon on the streets faster. The early feedback continues to be very strong, customers that, there were even some customers who didn't move to T7 from X2 who are now jumping straight to T10, with the 10 shots and increased distance. So very bullish on T10 adoption over the next couple years here. Now keep in mind internationally and in some domestic markets as well, there's still a trial period that takes place where agencies want to field it and get enough data and so it doesn't happen all at once, but I think over the next couple years our TASER business will continue to grow on the back of more TASER 10 handles in the field.

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

I would just add, Keith, that I think because the demand has been so strong from an operational perspective, we can build in what we know we can manufacture. We really are still ramping that up and so for the rest of this year we've got a pretty good sense of how many handles we can actually make, and given the demands out there, that's what we can factor into our model. It is taking us some time to get it fully ramped up and scaled from a manufacturing standpoint. Next year I think not only will we have more scaled manufacturing, but we will have been able to invest in some of the automation for both the handle and the cartridges to help get the initial cost down and improve that gross margin.

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

Okay, we have three analysts that we will get to. Next, Samik Chatterjee, J.P. Morgan.

Samik Chatterjee *Analyst, J.P. Morgan*

Hi, thanks for taking my questions and hopefully two quick ones here. The Fleet systems revenue sequential ramp that you had this quarter at least looks more modest than what you had going into one queue and given some of the guidance around gross margin that you had, I'm just wondering should we be taking that as an implication that you expect Fleet systems revenue expiration here on a sequential basis to sort of increase, and I think on the last earnings call you had mentioned something about supply sort of constraints now getting sort of easier to ship those products. How should we think about underlying demand, if you were sort of looking at a more normalized demand environment without any supply constraints? And I have a quick follow up.

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

I think we're largely getting through our inventory supply constraints and now we're really looking at what it will take to get Fleet installed. And so, as you go through this year, you'll see basically what is normalized healthy run rate for Fleet from a demand standpoint. Remember as I said earlier on this call, we have three pieces of Fleet revenue. You have the hardware, which is showing up in the Fleet line item of our reporting. So, you've got the hardware, you have the professional services, which goes into our services line item, and then you have the software revenue that gets turned on once we have it installed. So, as we come out of this year, you'll see a really nice level of run rate demand and I would expect as we get through this year we're at a good level of run rate demand for professional services installations as well on that Fleet product.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, I just wanted say I wouldn't get too caught up in the sequential trends because they can vary a little depending on when we ship, especially large orders. We're really focused on that, as we said, we've grown 30% for six straight quarters. That's really what we try to look at as our yearly CAGR and focus on that. And there might be a little noise quarter to quarter on how that looks but over the course of the year, it seems to kind of normalize.

Samik Chatterjee *Analyst, J.P. Morgan*

On the Evidence and cloud services growth, obviously very robust growth that you're experiencing there, can you talk to what the underlying customer count sort of trends are because I'm trying to sort of parse out how much of this is land and expand with customers that are already using and sort of upselling to them versus actually going into new customers and them trying out the product? Like can you talk about sort of underlying customer count a bit more?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, I don't know that we're prepared to give any specifics on that today, but I would say kind of with a broader brush we try to do two things really well at the same time. We try to sell new products to our

existing customers and we try to sell existing products to new customers. And if we do both of those, meaning like in our core U.S. market, it's really about selling all those new products like VR, some of the software packages and features I mentioned, computer-aided dispatch, et cetera. And then internationally in Corrections, in Justice, in our Federal business, it's more about selling our kind of core products, TASERs, body cams, DEMS into those to create kind of that opportunity to land and expand. And so ultimately, we look at both of those metrics, new product sales and new market sales every quarter, and really happy to say that we're trending very nicely on each of those in each of those categories right now.

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

Thing only thing we do give, and we give it in our shareholder letter, is that the penetration rate of our officer's safety plan is less than 20% relative to our potential state and local law enforcement install base. I think we have both great ability to land as well as expand to Josh's point.

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

Jonathan Ho at William Blair.

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

Hi, good afternoon and congrats on the strong results. I did want to maybe get a little bit of additional color on AB4 and what your customers are most excited about in terms of new use cases around the AB4 capabilities.

Joshua Isner *President, Axon Enterprise, Inc.*

Maybe I'll start and then I'll hand it over to Jeff and Rick. I think ultimately there's some incremental improvements in there around battery and optics and so forth, but really launching the two-way voice as part of AB4, we're most excited that it actually fits in need in the market right now and that customers have a variety of use cases where the value relative to the radio of being able to see something playing out for the dispatcher or for a mental health expert or for a translator watching the screen and being able to communicate through the body camera with a community member, that is something that our customers are very excited about. And we're seeing, more and more, adoption of that feature set early on. I think that's one of the key differentiators. It's also nice to bring back our POV functionality. We haven't really launched anything new there since Flex 2. And now just a simple attachment to the body camera instead of a whole new product in SKU makes that a lot more easily adopted and tailored to certain use cases and just flexible overall for our customers.

Jeff Kunins *Chief Product Officer & Chief Technology Officer, Axon Enterprise, Inc.*

That's right. I mean, I think just echoing on all of what Josh said. This is a category where the meat and potatoes matters a lot and there's tons of exciting innovation. Everyone always wants more battery life and we deliver there. Turning the POV from a separate product to a no compromise, simple accessory, that's an add-on, we think is a game changer for a lot of agencies. And then full circle back to Respond and really moving live streaming in this future of modern multimodal communications from a thing that feels like an add-on to a thing that feels central and native to the product itself. And two very specific aspects that we think resonate and the customers are telling us loud and clear they love, one, is frankly the notion of it being hands-free. The fact that not only do you have two-way voice, but I'm there in the middle of a scene having hard things go on and I can, in a hands-free way, both talk back to who's talking to me while I'm listening. And so that enables just a new kind of freedom and interaction that compliments and adds to the other communication options they have available to them today. And number two, this idea of the watch me button, you've heard us say it, but from a psychology standpoint, one of the things that has been an opportunity for agencies to think about how they'll adopt live streaming is simply who is starting it. And psychologically for an officer, there's something incredibly compelling about the notion that I am the one who gets to say I'm asking for help. I want someone to watch my back as opposed to I don't know when someone might choose to drop in on me. They're both critically important, but the psychology of empowering officers to say I want someone to watch my back right now, we are hearing loud and clear that they're super excited about.

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

The one last thing I'll jump in on, when we designed AB3 a number of years ago, we had to face a decision, do we put an LTE chip in every camera or do we bifurcate the SKUs and have a lower cost wi-fi only camera and have a premium? We made the bet that a connected camera will be so much more useful that we're going to put that chip in every camera so that we can turn that capability on for customers. Now by comparison, some of our competitors for years when asked about LTE they were saying our customers aren't asking for it. That is precisely the difference of how we think about these products. We don't think about profit optimization on the current generation. We think about what is the right thing to do that's going to enable us to create massive value over the long term. And sometimes, look, this is where Brittany holds me accountable. She's gotta make sure the numbers work, but we have a very productive interplay about this, about how do we make the right level of investment bets, and they are bets, and the answers are not necessarily knowable but I think we're now seeing that coming true where it's like, wow, these real time capabilities are very useful. And the agencies that have gone to live streaming every call for incident, they survey their officers and they're telling me unanimously officers and dispatchers are saying they refuse to go back to a world without it. And those are the types of things we hear early in a product cycle that make us dig in hard because we know we've got a game-changing capability now. It's just going to take some time for us to spread the word and get agencies to try it. And things like the watch me feature help agencies or unions that have concerns about privacy matters have a way they can deploy that's responsive to those concerns. But I'm a hundred percent convinced, relying as a push-to-talk walkie talkie for the next twenty years is your only real means of communication is not how the world is going to evolve. Now, most are very clear, we are not yet a mission critical piece of communications. The current stuff will exist for quite some time alongside what we're doing. We're augmenting with new capabilities and these agencies that are using our live stream with two-way voice, what they're telling me is that's offloading tons of traffic off the radio than not everybody else on the radio needs to hear. They're having more in-depth conversations,

more rich conversations because it's not taking up radio airtime. And that's actually making their radio use more productive and more focused.

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

Thank you. Jeremy Hamblin at Craig-Hallum, you're up.

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

Thanks. And, congrats on the strong results. I wanted to come back to the point that Brittany was making about the OSP bundles. You've just had tremendous acceleration and the velocity of growth in your cloud business is quite impressive over the last few quarters in particular. So if less than 20% of your potential base state and local domestic is on OSP bundled today, what would you have said that that percentage was a year ago? Would it have been less than 10? And then just coming back to the cloud revenue growth, obviously I think you talked about its license growth, but wanted to just get a sense for just the expansion of the premium bundles as well and how much of that is because just the value of that business has gone up tremendously in just the last three or four quarters.

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

Yeah, I'll jump in. It's, it's been great to see and great to watch. We last gave that penetration stat in Q3 of last year and it was less than 15% so we have seen a nice increase in that over the last nine months. I think you're seeing that get reflected in some of the increase in our software revenue. I would say that there's also things where we're adding new products, right? This call out I made on Standards. This is a product we've been investing in, we've been testing with customers we've had out there and we got it to the point where we could start recognizing revenue on it and so those are exciting things that start to feed into our software business and our software recognition. I think if you're modeling it for modeling purposes, we would still say a good six quarter average, and maybe Q4 and Q2 of this year were particularly high because of one-time revenue in Q4 and the Standards piece in Q2, so I'm not sure it's fair to fully average those in but I think your macro point of we're having great momentum in our software business and our customers are loving it and they're adding more and we're upgrading people to premium bundles. I mean that is the heart of the story around the software cloud business and we're really excited to get to tell that story and to give those products to our customers.

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

Thanks. And then just a follow up question is on the international side, as you think about OSP bundles in terms of adoption rates on that segment of your business, how is that comparing to the adoption curve that you saw domestically? Obviously, some different factors in terms of where TASER penetration was a decade ago and so forth. I imagine the curve could look a little bit different but just wanted to get an understanding of what you're seeing.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, thanks for the question, Jeremy, and hope you're doing well. It's good to see you. I would say that the international market is kind of bifurcated between our tier one customers and the rest of world right now and tier one, I think we are getting closer to OSP-like offerings and that's because generally you're not talking about one federal government buying everything. You're talking about cities like London and Manchester and Calgary and Edmonton and states in some cases and provinces in some cases. And same in Australia. And so where there's heavy adoption of both, and it's not all federal purchasing, I think we will see OSP adopted in those markets over time. In the rest of the world, the focus is really just landing in a large way with one product and then starting that journey, which is go from one product to multiple products and then when both of those products are more well-adopted, that's when we talk about this kind of bundling concept. But the fact that you've got these large federal governments doing the buying in a lot of cases, it's both a good thing and a bad thing. It's great that the volumes can be way more exciting upfront, but it's also harder to pair two products like that together because it's just very different processes relating to the procurement of each. And so, we're working through it and hopefully over the next year or two we'll start to see OSP kind of take a foothold in some of those tier one markets.

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

Got it. Thanks for the color and best wishes on the continued success.

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

Thanks for all the great questions. We're going to have Rick, close us out.

Joshua Isner *President, Axon Enterprise, Inc.*

Hey, before Rick closes us out, just one more thing. As we do the callbacks tomorrow, I hope all of our analysts will wish Brittany a happy birthday. Happy birthday to you, Brittany.

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

Aw, thanks Josh. Sneaking that in... <laugh>.

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

I think we should all sing [happy birthday] with our investors.

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

I think you're just going to close us out. Thanks Rick.

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

<laugh>. Okay. Hey, I tried. Alright. Hey, it's delightful to be able to share these results. Obviously, a ton of hard work went into this. I pitch myself every day that I get this fantastic job. These things don't happen by themselves. My view of this is, this is what happens when you have an amazing mission. You attract just unbelievably talented people and give them the freedom to operate and bring their own diverse backgrounds and talents into the team and let them run. And we're running hard and we're going to keep running hard for you, our investors and for our customers. And knock on wood, we'll be back to keep telling you about some of the great work our team is doing. You only get to see a handful of us, but behind the scenes there's a cast of thousands of really talented people working really hard. For those of you on our team that are listening in, thank you for letting us bask in the light of results like these from the work you do. I look forward to seeing you all next quarter.

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