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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

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

Hi, everyone. Welcome to our third quarter earnings call. Thank you so much for joining us. Our prepared remarks today are meant to build on the information in our shareholder letter which was published at investor.axon.com after the market closed so we hope you've all had a chance to read that 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.

Okay, every quarter we start you off with an earnings video. And we do this so you can get a closer look and feel for our business quarter by quarter and we're so excited this quarter, we're going to double click on our Federal business, which is a very exciting expansion opportunity for us. So last month, we had a great showing at the AUSA Conference, which is the Association of the United States Army annual conference. So we're going to play a video, we're going to take you there. It's about two minutes and then we'll turn it over to Rick.

>>Quarterly Earnings Video @ << <https://vimeo.com/879571624?share=copy>

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

All right, thank you AJ and great job to Richard and his team at AUSA. It's truly exciting to see the energy our team brings to these events. I was on the ground at AUSA and I am super excited about what Richard Coleman and our entire Federal team is doing.

Welcome everyone to our third quarter 2023 earnings call. It's great to be coming back to you with another fantastic quarter. We also celebrated the company's 30th anniversary in September. Let me take a big step back for a moment and reflect on our founding ethos, and how that translates to today. We have just driven seven consecutive quarters of 30%-plus revenue growth while growing profitability — and the formula has been very simple.

First, we start by identifying a challenge — or problem — that our customers face. Staying very close to our customers is part of our secret sauce. Every company says that, but we have institutionalized it through frequent technology summits at our headquarters where we bring in a couple dozen customers at a time to listen to them, and to share with them our prototypes and ideas that might not even be products until 2025 or later. We also have an annual user conference, our engineers go on ride-alongs and sit-alongs, and we foster many other touch points with customers.

I cannot overstate the importance of calibrating research and development decisions off of direct customer feedback. When we develop alongside our customers, it helps us get it right on the big picture — like moving toward robotic security, VR and fused intelligence, for example — and also helps us get it right on the millions of small details and user experience decisions that create a delightful product for customers. This should reassure you — our investors — that our R&D investment decisions are sound, are geared toward products that customers want and have told us they will buy, and designed to drive growth for years to come.

We also stay close to the forefront of the innovation curve, so we can identify how technology can make things better, or fix problems entirely. This is how we were the first to evangelize cloud software to public safety in the early 2010s, and why we believe we'll be first introducing generative AI tools in the 2020s.

Our engineers are some of the best and brightest in technology. Like me, they are energized to go out and fix problems and they work hard at it. As a result, we end up with undeniably best-in-class product market fit, strong relationships with our customers, and employees who are motivated to partner with customers to drive their success.

Our growth today is driven by decisions made five years ago, and while we enjoy an undeniable time advantage while competitors are playing catch up, we are now thinking five years ahead. We believe the R&D decisions we are making today will continue to drive growth for decades to come.

And then, of course, we must execute on all fronts. So that's the formula: Customer closeness plus long-term vision plus day-to-day execution equals value creation across the board — for the public, for Axon, for our employees and for our shareholders. It's a winning equation and we're excited about that decade ahead of us.

Before I turn it over to Josh, I'd be remiss if I did not acknowledge the wake of escalating global event, these conflicts — wars, violence, and unspeakable acts — that we are all seeing today. We commiserate in the pain and suffering many people are facing around the world, and because we are a globally connected company, the personal pain faced by our own employees and many of you listening to this call. Axon's mission, our mission, is to protect life and we're focused on continuing to execute and grow that mission.

You're up, Josh.

Joshua Isner *President, Axon Enterprise, Inc.*

Thanks a lot, Rick. Every quarter here at Axon leaves me more impressed with our team.

As Rick highlighted, we just reported our seventh consecutive quarter with over 30% top line growth. This kind of growth does not happen automatically — it is fueled by our ability to drive value to our customers and the momentum we have built over many years. While I am pleased with our results in the quarter, I'll share with you a few things that keep me confident in the long term.

First, I'd like to share my vision of where we will execute over the next five plus years. We mainly sell

into four key customer categories — state and local, US federal, international and enterprise. Each of those has a different path for how we tackle go-to market, yet the overarching way to think about Axon is we are building the operating system for public safety and security across the board.

A few years ago, we would say that we envisioned every officer carrying a TASER device, wearing an Axon body camera, and having a seat on our software network. As we built out this network, the vision, as you can see it, is expanding so that from when an officer first interacts with a civilian to when a case is adjudicated, we are powering that workflow from start to finish.

We have the team and the capability and we are going to continue to challenge ourselves to execute on that vision.

And we remain really excited about the opportunities that we are seeing in state and local. Agencies across the United States are facing growing challenges — they are under-staffed, navigating increasing training requirements, and have to do one of the most difficult jobs in the world, every day. This segment remains our core and we are investing in delivering solutions to help our customers — we've brought two new devices to market this year, invested in productivity enhancing software features, and re-launched a disruptive VR training portfolio. When I think about mission to protect life and look at the inefficiencies in the existing training landscape today, I think VR can be one of our most exciting long-term opportunities.

We are also spinning up more customers on our Records product, getting TASER 10 in the hands of early adopters, and ramping shipments of Axon Body 4. Something I find particularly encouraging is our new order book for TASER 10. I've talked about my excitement here over the past few quarters — and even my expectations been exceeded. Simply put, we have found product market fit very quickly and the credit goes to Rick and our TASER pillar team led by Pat Madden, for driving tremendous early results.

Orders for TASER 10, after three quarters, have already surpassed the first six quarters of TASER 7 orders. Even as I read that, it boggles my mind. That means three quarters in, our TASER 10 orders are pacing at over 4 times the order rate we saw for TASER 7. What is encouraging is that our top three TASER 10 orders each came from customers outside of our core state and local base — two being international customers and one in corrections.

Another customer area that has me confident in our long term strategy is our US Federal business, as you just saw in the video. Our products are meeting the needs of several different applications for federal customers, where safety goes beyond the traditional state and localities and expands into a global footprint of military bases where we can help protect those who have chosen to protect us. Five of our top ten deals booked in the quarter came from federal customers, growing from a base of essentially zero a few years ago.

Finally, I will talk about the traction we are seeing internationally, which grew 52% in Q3. We think international is one of the largest opportunities in front of us today, and we are evangelizing the cloud, hiring country heads in new markets and spending a lot of time growing our brand and presence overseas.

We've got line of sight into a strong close to our year and we are building pipeline to support long-term growth. It has been an incredible journey and it is easy to look back on what we've accomplished so far,

but we don't spend a lot of time on that stuff that Axon. We're on to the next play.

Now I'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. We are pleased to report another strong quarter of top line revenue growth and improving profitability in 2023. Q3 2022 was my first earnings call with Axon and we were still talking about hitting an adjusted EBITDA dollar target, so watching the team move seamlessly to margins, over-deliver, and drop significantly more to the bottom has been an exciting change that we're all proud of. I continue to be impressed each quarter by our team and the focus on operational excellence — we set hard expectations for ourselves, and we exceeded them again in Q3.

Our top line revenue grew 33% year over year and we saw Adjusted EBITDA margins expand to 22.2%, which is 35% year over year growth.

Software remained the largest driver of growth in our business, with our Cloud & Services revenue growing 55% year over year. Our software business model remains a powerful growth engine — our customers subscribe to a bundle of our products, and over time we improve these products and deliver more new features and technology enhancements. Our strong software growth is tied to multiple drivers — we see growth from new customers who sign new licenses and adopt feature add-ons. We also see many existing customers expanding their needs and growing with us over time. This is a result of our relentless focus on solving customer problems and driving innovation in the ecosystem, as Rick discussed. You see that impact in our excellent net revenue retention rate of 122% and ARR growth of 54%. Axon Cloud and Services revenue is now 36% of total revenue compared to 31% last year.

We are also seeing our new hardware product launches drive growth in our business — TASER 10 grew more than 50% sequentially, representing healthy demand and our ability to scale to meet that demand. Axon Body 4 made up the majority of our body camera shipments in the quarter and drove our growth in devices, along with continued strength in Fleet 3, supporting 45% annual growth in our sensors hardware business.

Our third quarter gross margin of 61.7% exceeded our expectations on a higher mix of software revenue. Relative to last year we saw our margins mix down slightly on increased TASER 10 revenue, as well as increased revenue from sensors and professional services. We expect this impact to continue in Q4, with margins slightly below Q2 and Q3 on mix.

Turning to operating expenses — we saw some leverage from both R&D and SG&A, supporting expansion in our Adjusted EBITDA margin. We continue to invest to ensure we are positioned for a multi-year growth opportunity, and to support the continued scaling of our business.

As I turn to our guidance, you will note our strengthening outlook on both Revenue and Adjusted EBITDA. We are pleased to increase our outlook again. We expect revenue for the fourth quarter to be in the range of \$417 million to \$420 million and fourth quarter Adjusted EBITDA margin to be approximately 20%. Our Q4 guidance implies an increase in our full year revenue outlook to approximately \$1.55 billion, or 30% growth year over year, which is up from our prior guidance of \$1.51 billion to \$1.53 billion or 27% to 29% growth. Our fourth quarter Adjusted EBITDA margin guidance implies a full-year adjusted EBITDA margin expectation of approximately 20.8%, or \$322 million. This

outlook is raised from our prior expectation of approximately 20% Adjusted EBITDA margin for the full year, or \$302 million to \$306 million.

Our increased revenue guidance factors in growing demand we are seeing across our product categories, including our premium bundle offerings, and the successfully executed launches of TASER 10 and Axon Body 4.

For 2024 and beyond we remain confident in our ability to scale globally, to unlock new customer segments, and to introduce even more new products that drive highly profitable revenue growth.

And with that, I would like to open it up to questions.

Q&A

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

Thank you. Can we go into gallery view, please? Let's take our first question from Keith Housum at Northcoast. Go ahead, Keith.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Good morning. Good afternoon, guys, appreciate it. In terms of your guidance for the fourth quarter, you know, level of precision that we've traditionally not seen from you guys, the \$417 to \$420 million, I guess perhaps comment on what gives you the level of, offer that level of precision today, and then what has to happen in order for you guys to perhaps be the top end or perhaps even exceed that guidance?

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

I think a lot of what you're seeing is we're just coming into our fourth quarter, and so there's only one quarter left in the year. As we look at that range in terms of what we're seeing on revenue, it just doesn't give a particularly wide range as you look back at the full year. So the look at the full year looks more precise and more tight based on what we're looking at for Q4. Then in terms of what we're baking in for Q4 or what we would need to see, it's really our estimate, looking at our pipeline of customer deals we think we have in the quarter. We have good momentum as you've seen across TASER 10, across Axon Body 4, and so we're factoring those in as we look at Q4 as well as we think we'll be able to do from a software standpoint. So, again, it's the best guess, we don't always nail it perfectly, but that's what we're looking at as we look at Q4 guidance.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great. I appreciate it. I'll turn it back over. Thanks.

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

Great, thanks. That's great. And if you're on this call, we've got you, so your don't have to put your hands up. and we will be calling on you in the order that the random number generator selected. Trevor Walsh at JMP, you are up next.

Trevor Walsh *Analyst, JMP*

Great, thanks team for taking my question. Rick, maybe if you, or even Josh, feel free to jump in. So I know, IACP is a pretty major event for you guys and large builder of pipeline. What were you hearing from customers there in terms of priorities for them both kind of finishing out the year, but then looking into '24 and where you see budgets sort of going around either a particular product or just a particular use case of what they're, you know, if there was anything that kind of stood out in terms of kind of what, what's top of mind for customers coming out of that event? Thanks.

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

Let me start first. The thing that I heard that was most interesting this year was customers really embracing the full ecosystem. So if I go back maybe three years ago, as we were really scaling, I think we had some customers that were saying, well, geez, you know, I don't know how much of my tech stack I want to put with one vendor. Like, you guys are getting to be a big part of our tech stack. And what I heard this year was pretty universally, customers not saying that, but saying, you know, we can't wait to deploy Dispatch, for example. And these are customers who've never seen what we're doing in Dispatch, and we're still in the early innings there, but the feedback was we've had such good luck when we deploying products and technology from Axon. It all just works so well and the customer service is so good. So that was a really intriguing thing to me to feel that shift in dynamic where customers were just saying, you know, we've done enough of this now and it just works so well when we go with you, I had several chiefs of pretty big cities say, I would love to just be able to run my whole department on Axon because I trust you guys will deliver it, and it will be both excellent and will give me new capabilities that maybe I haven't even thought of yet. So that was really a positive general sentiment.

Joshua Isner *President, Axon Enterprise, Inc.*

I'd just add, I think, it was an incredible combination of amazing reception around our newer products, specifically VR, TASER 10 and Axon Records, but then an equally awesome reception to kind of the early showcase products that have not hit the market yet, which gives us a lot of confidence going into the next couple years here that the things that we will be rolling out, have already the perception of really good product market fit and should have a lot of demand associated with them. Of course, we've got to do a lot on our end to execute well and to make sure we go all the way to the finish line on those products, but that's always a really exciting thing to see when what we're building resonates so clearly with our customers.

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

The last one I'd want to add in, just to go into a little microcosm in terms of detail. I think this was the year that VR flipped from sort of conceptually interesting to ready for primetime. We decided to wait for the all-in-one headsets. We didn't want to push it out a few years ago, when installing VR meant room-based sensors and more complexity. We felt waiting for the all-in-ones was going to mean you could deploy much greater scale. Now that meant we had to do a lot of hardware development too, to make our TASER weapons work in a virtual world, and some of the early things we tried were based around hand tracking and just using motion sensors. And to be honest, we were sort of getting feedback from our customers, it was pretty buggy. So we bit a bullet about 18 months ago to go all in on developing specialized hardware with the integrated infrared tracking lights. They're the same that are in the native HTC or Oculus controllers and that has just gotten phenomenal customer feedback where, oh my gosh, this just works. It's very accurate. It's no longer, you know, sort of buggy, it needs to be recalibrate. So I think that was pretty exciting in terms of the near term stuff that I think we've just had

another product sort of crossover from that early developmental product market fit phase to where now it's just dialing it in, getting more hardware launched and scaling content.

Trevor Walsh *Analyst, JMP*

Great. Thanks both for the color and congrats on a solid quarter. Appreciate the time.

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

Thank you. And as I'm going down my list here, if you have video off, as a courtesy, I'm not calling on you, so if you do want me to call on you, just come on video when you're ready to be called on. Joe Cardoso at J.P. Morgan, you're up next. Go ahead, Joe.

Joe Cardoso *Analyst, J.P. Morgan*

Thanks for the question, guys. So maybe a couple questions that rolled into one. You showed the video in the beginning and talked to the opportunity in federal space or the military space. Can you outline perhaps the drivers as to why this opportunity is materializing in a more material way nowadays? Maybe how large this opportunity could be for you guys, and which offerings are really resonating with the military folks? Thanks.

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

So I would start out by saying what's resonating is our existing product suite, which has been more focused on like military policing and protecting bases. This year, I saw the light bulb click on at AUSA. In previous years, it felt like we were maybe a little bit of an outsider company from over in law enforcement that was coming into federal this year, it felt like we were home. The promotional video showing how you could use live streaming cameras, counter drone, TASER 10 all in integrated way, our vehicle based, you know, Fleet solutions, our partnership with Fusus on integrating multiple cameras from both partner agencies as well as the existing agency really resonated to where it just, it felt like people saw what we could do in base security.

What I'm really excited about for the future is we want to get into combat operations. You may first say, well, geez, you know, if your mission is protect life, why would you want to do that? Well, because I believe successful military operations in the future will be those that kill the least, right? We racked up a big body count in Vietnam, and it didn't work. We killed a lot of people in Iraq and Afghanistan, and the more people we killed, the less successful our mission was. You look at what's happening in the Middle East right now with Israel, you know, imagine if they had more precise drones and robotics that could be going into those tunnels rather than dropping 2000-pound bombs with tons of collateral damage. You know, we will stay true to our mission to protect life. And I think, look, when I wrote my book, *The End of Killing*, I believed we are closer to the end of war than it turned out. I was tragically and catastrophically wrong, seeing what's happening in Ukraine. But I think, you know, I wrote, I believe in our shareholder newsletter last year or so, imagine if we'd invested in counter material drones that we could have provided to the Ukrainians, where those drones would go out with fully autonomous artificial intelligence, not to kill people, to avoid people, but to destroy equipment. If you could have brought 150,000 Russians to have to walk home because we destroyed the treads and the barrels and the engines on their equipment while minimizing human casualties, we have plenty of lethality. We're not giving a lot of it to the Ukrainians because we're actually trying to toe the line of not over escalating.

And I believe that sort of general thought process, how do we deescalate the level of violence and death to accomplish our nation's priorities and those of other sort of civilized nations is a huge opportunity. And this year, at AUSA, for the first time, I had some conversations with people in senior positions in the military or in military development programs, and I got a different emotional reaction. Now that's going to be years off. But I think the message is starting to resonate. No matter what the mission is, killing should always be a last resort, and we should put a lot more creativity into how we accomplish our mission while minimizing the loss of life.

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

Just to follow up with some stats, you'll see some of these in the shareholder letter, but we have pegged the TAM, our total addressable market for Federal at about \$10 billion. And the other exciting fact we shared this quarter is that five of the top 10 deals we booked were in our Federal business. And we've given a couple of examples of where we're getting really nice traction with Federal customers. So, the VA has gone live on Axon Records. The Department of Homeland Security has an IDIQ for our body-worn cameras and our software. The US Army is renewing its TASER modernization program, and our first TASER contract with a US federal government agency has been signed. So, we're really seeing the momentum from the customers in the deals we're doing and in the bookings. I think there's a pretty large opportunity out there, just from an addressable market size to everything Rick talked to.

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

Totally. And to speak to the timing a little bit, I think the key, as you heard Josh talk about before to our market expansion, and our flywheel overall is this simple two-phase approach to every new market, which is, first we earn the right to sell to a new class of customers by taking our existing products and tailoring them in the ways that are needed to make them resonate and have product market fit with that new customer segment while we build out that sales channel. And then once we've done that and have brought them into the fold as an existing customer segment, we're strong with, then we've earned the right to go even bigger by building bespoke new products that are really tailored, especially for that market segment. And that story is playing out resoundingly in Federal. So, over the last several years, we've made tons of investments in the background, laying pipe with things like FedRAMP compliance, FedRAMP, moderate, then FedRAMP high and IL4, and toward IL5, all of those sorts of things, as well as hundreds of small little adjustments to all of our core hardware and software products to make them viable and ready exactly for these Federal customers. And a great example of that is the VA going nationally live with Axon Records this quarter. And then what you'll start to see over time, that opens us up into more of that TAM as we'll in addition to selling more and more of our existing, you'll see us start to develop bespoke skus and product lines that are even more tailored just for Federal.

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

Yeah. I want to come back on one last thing. I don't want my comment to be misinterpreted. When we, for example, say we want to drive down police shootings, we're not passing judgment on whether police are justified or not. And similarly, with what's happening in Gaza right now, I'm not passing any judgment about the appropriateness of the use of force. The fact is, I think what the Israelis are facing right now is in order to get the military targets they're going after, those targets are embedded deeply in civilian, they're intentionally buried in civilian epicenters and so if you could imagine a world where a modern military could go in and put everybody to sleep and then sort out the good people from the bad people without a loss of life, that would be an amazingly important capability. Now, of course, I'm doing the imaginary end state of putting people gently to sleep, but there are steps we can begin to think about being much more precise in ways that are certainly causing less collateral damage and less lethality. And those are problems that get us really excited because I think we're seeing today's

technology puts people in unwinnable situations with catastrophic outcomes. And we think, you know, us and other technologists need to give war fighters and police and everybody better tools to be able to do the legitimate jobs that governments need to do to protect their people without such, you know, technology that just requires inflicting a lot of debt.

Joe Cardoso *Analyst, J.P. Morgan*

No, makes sense. Rick, appreciate all the color, guys. Thank you.

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

Okay, thank you. Next, Will Power at Baird. You are up, Will.

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

Alright, great. Thanks. Yeah, I wanted to shift gears, to International, another area where you saw nice growth in the quarter. It would be great just to, you know, help have you kind of unpack what's driving that. And I'd be interested to know is Body Camera 4 starting to help lead that, is TASER 10 starting to lead that? What are the adoption trends look like there across the new products? And what are you leading with in any particular geographic areas that are standing out for you?

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. Nice to see you, Will, and thanks for the question. I would say there's a couple kind of different threads to the story here. The first one is that in our tier one markets, which we talk about a lot, the UK, Canada, and Australia, those markets, we're just seeing wider adoption of the Axon network. So, it's not only about TASERs and body cams and DEMS, it's about our DEMS add-ons and it's about Axon Fleet and Axon Interview Room and moving toward Axon records. So, we're really excited about just the proliferation of our products into those markets that mirror the U.S. most similarly. And then we've got essentially, a number of other markets that are starting to adopt one Axon product for the first time. A lot of the momentum has been on the TASER side, but more recently we're actually starting to see some really encouraging signs in a few European markets adopting the cloud for the first time.

So, the growth of our international business will really be driven by continued execution in the tier one markets. But starting to see more historically rest of world markets start to look a lot more like those markets where they're adopting cloud, they're adopting TASER, they're using DEMS, they value body cameras and other wearables and camera technology. And just the combination of those things is really going to provide that foundation of growth for the International business. I still believe it's very possible over the next five to seven years that our International business could be rivaling our U.S. business in terms of bookings and once we get to that point and feel really good about the revenue catching up over time. So that's really our focus right now.

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

Hey Josh, one thing I'd like to add there is, it's sort of fun to watch the company develop where there's some really healthy internal competition. Like our software started out really as an enabler for body cameras. I remember it was maybe five or six years ago, there was a rallying cry, like, we need our software to stand on its own, it's best in class. And so the country, Scotland, basically their biggest move with us was not even with body cameras, it was digital evidence management for their entire ecosystem. And they're not really even using our body cameras at scale, so each area of the business, it

all works better together, but we're now seeing the level of maturity across each of the subsegments to where they're, they're winning best in class on their own. And that gives us multiple ways to try to enter any new market.

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

If I could maybe just follow quickly, International has been lumpier generally, I think, for you all over a period of years and yet it sounds like from your comments you're seeing broader traction across a broader set of products. How are you thinking about the broader pipeline internationally versus maybe where you were one or two years ago that might provide confidence that this could be a more sustainable area of growth above the corporate average?

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. Yeah. Our head of International sales, Chris Kirby, is doing a really good job managing the team toward our year pipeline. So the focus has really evolved from like, hey, what can we capture this quarter or this year to how can we do that and build a pipeline three to four times the size of the goal next year, to just make sure that there's a little more consistency there. So, you know, Will, there'll always be some lumpiness, especially in years where we feel like we've got a lot of TASER momentum because of just the nature of the revenue recognition on TASER versus the SaaS products. If large international police forces are buying TASERs, you'll see some of those kind of lumpy one-time revenue events, but over the long term I think that's, or we're already starting to see that kind of balance out and that's, you know, buoyed by a foundation of video bookings and more video adoption.

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

Mike Ng at Goldman Sachs. You're up next.

Mike Ng *Analyst, Goldman Sachs*

Hey, good afternoon. Thank you very much for the question. Mine is just on Axon Cloud and Services. So, it seems like we've seen two consecutive quarters of greater than \$15 million quarter on quarter revenue growth. I was just wondering if you could expand a little bit about the key drivers of the strength. I know in the letter you talked a little bit about moving more toward premium software bundles, the growing install base. Any additional color that you could provide there would be great. And then is that a good way to think about Axon Cloud and services growth going forward, kind of this teen sequential growth? Thank you.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. Yeah, Mike, I'm really glad you asked that question because that's one of the things we're most proud of here to see in the results is just this, you know, excitement around the Axon Cloud suite of products. And the story here has been just multiple years of investment into new features software add-ons, new enterprise software products, just finding product market fit and being rapidly adopted by our customer base. And ultimately more and more customers are buying our premium offerings, starting with the officer safety plan and then going up to the plus version of that, and then the premium version of that. And we've seen that the last couple years, but now it's really starting to flow through into the revenue and the results. And so, more adoption of DEMS, more adoption of software add-ons, more adoption of Records Management, more adoption of our Standards product. And it's really exciting to see all that come together. We've talked a lot about our flywheel of this idea that really, you know, OSP

is the driver of that flywheel into new products, and that's exactly what we're seeing right now. So really proud of our product team for doing a great job understanding where this platform of evidence.com can take us and listening to our customers in terms of where they see value, and then doing an incredible job building those products and our sales teams doing a great job selling them on the back end. So things are aligning really, really nicely in the cloud business, and we're really excited about it.

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

From a modeling standpoint, for all of you guys, the only thing I would add is, we have historically guided you to take an average of the last six to eight quarters and think about that as the size of the step up in that revenue. I think because of this impact that Josh talked about of more and more customers moving to our premium bundles, the size of that step will start to get bigger every quarter. It probably won't be as big as it was this quarter though, because you are seeing some of the benefit of the Fleet 3 installations start to turn on and come into that. So while there was nothing, one time this quarter, you are seeing Fleet 3 come in. But I think we're also comfortable saying that because of premium, we are going to see slightly larger steps up each quarter in software than we have historically averaged out.

Mike Ng *Analyst, Goldman Sachs*

Wonderful. And maybe if I could just have a quick follow-up, if we assume a kind of continued step up in that cloud revenue, is there something that's offsetting that as you think about the consolidated revenue guidance for the fourth quarter on the product side? Thanks, Brittany. Thanks, Josh.

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

I would say I think the step up in software is particularly large this quarter, so I don't think there's anything offsetting it. As you look at Q4, we're putting forth pretty healthy growth year over year, 24 to 25%, that's on top of a Q4 quarter last year that grew about 55%. So I think it's still a very healthy guide that is taking into effect, like taking into account the premium software piece, AB4, TASER 10, all the momentum we're seeing.

Mike Ng *Analyst, Goldman Sachs*

Wonderful. Thanks for the follow-up, Brittany.

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

Of course.

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

Jonathan Ho at William Blair. Go ahead.

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

Hi, congrats on the strong quarter. Can you help us understand what some of the main components were that drove the 122% net retention growth this quarter?

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. Hey, look, it always helps when you have new products that people want to buy. Like that's the underlying thing. This goes back to our product team really doing a fantastic job just building new value into evidence.com with the new software features that save legitimate time every police officer shift. And so when we can keep showing that type of ROI every conversation on a renewal or an upsell is not only driven by satisfaction with what the customer already has, but it's driven by interest in what we're doing next and how they can participate in that. And so, when you have that combination, we have a very, very talented customer success organization that really drives deep relationships with our customers. And as a side note, any account that is managed by a customer success manager at Axon, their NPS score is 81 right now. That's an off the charts high number when you think about the range of NPS going from negative hundred to a hundred. And so that just shows the type of trust these customers have built in our customer success team, our product team, our sales team, and so forth. All of those things being true, it actually is, it just comes down to execution in terms of sales and account management to get these deals across the finish line. And we see ARPUs going up as a result. And then NRR is also rising as a result of that.

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

Great. And then in terms of the, the DHS and US federal government contracts that you've signed, is there potentially a halo effect here? Meaning, does this help you sell to other federal law enforcement agencies or international agencies that maybe look up to these federal and defense contracts? Thank you.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. I'd say within the federal government, there's certainly a network effect there. No question. It started with being FedRAMP authorized, that was kind of a big breakthrough for us. And then IL4, et cetera, just all the, all the kind of table stakes clearances that our products needed to achieve. And then customs and border protection has been a really great customer of ours. We heavily value that relationship and having a lot of momentum there has just kind of permeated out into other branches of the federal civilian space. Rick talked about the opportunity in the military as well. I think there is something there to leveraging our success federally into other international governments. That's happening a little bit here and there. But there is potential that could accelerate. So, yeah, I'm really pleased to see the types of network effects we've seen in the federal space.

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

Meta Marshall at Morgan Stanley. Go ahead, Meta.

Meta Marshall *Analyst, Morgan Stanley*

Great, thanks, and congrats on the quarter. Maybe just as a first question, just in terms of the increased ways that you guys plan to use AI and automation, just where are customer conversations on ways in which they want to see you incorporate some of these features, ways in which they want to get their heads around some of that? And then just maybe as a second question for you, Brittany, gross margins obviously took a small step down quarter on quarter, but were better than expected, is some of that just from the scale or is some of that just the ramp of Fleet 10 having smaller headwinds than expected? Thanks.

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

Let me start with the AI question, and we're going to be a little cagey here. I will tell you at IACP, I was showcasing a prototype, a functioning prototype of an AI powered service, and it got, if not the strongest, one of the most positive, strongest reactions I've ever seen in a product. Obviously, we have a ton of data that we could be running AI on. The art of this is to figure out where can we create maximum customer value while mitigating the risks that are associated with what can go wrong in AI, and we think we found at least one very powerful use case, but I'm not going to give any more details for competitive reasons, but stay tuned, exciting times ahead.

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

Which leaves us with gross margins. So, I would say gross margins were better than expected really on the incredibly strong software performance in the quarter. Our software business is gross margin accretive for us, and so the more we build up there, the better overall impact for our gross margin. So I would drive most of the outperformance there. As I think about why was it down still a bit year over year or quarter over quarter, that's really just on mix of our sensors business and the fact that our sensors business also performed incredibly well. And the fact that our TASER 10 is also performing quite well. Our TASER margins overall have improved quarter over quarter, but the mix in there of TASER 10 was quite high.

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

Thank you. Meta. Josh Reilly at Needham. You are up.

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

Alright, thanks for taking my questions. In terms of the Department of Veterans Affairs' Records win, can you just discuss what some of the factors were in that win? That's obviously a very large deployment, curious if your openness to third party, your best of breed modules was a factor in that win?

Joshua Isner *President, Axon Enterprise, Inc.*

Josh, thanks for the question. And to answer directly, no, that that wasn't a big driver. Instead it was just this connected story around digital evidence and reporting and that we think is consistent across, pretty much every customer interested in Axon Records, which is they just see this link where, hey, if you have the video and you see what happened in the video, like what effect does that have on the ability to write a police report easily and in a scalable and simple way. And so, going back to Bryan Wheeler, we've talked about from time to time, in terms of his leadership of our Records product, and his team just continues to perform very well in that regard. And our customers are seeing the value. And then like we mentioned before, having a FedRAMP authorized cloud RMS product, just aids in the momentum there. It's really a combination of those things all coming together.

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

There are two other things I would add. One is just the customer relationship, namely as they deployed our evidence.com and our other products, they just had a great experience that they shared with us,

was just different than they'd had with previous technology. So that set us up for the win. Then the other piece I would say is we made a decision years ago when we were building Records that we were not going to go try to win in RFPs for record systems because we believe that's a recipe for building bad software. If you go build 800 check boxes that all look great on the paper report you submit for the RFP, you're going to build a lot of breadth and there's almost no reward for good user experience. And we structured a lot of our go-to market around how do we win in the hands of the user and set this up where we can build great software that does the most important things really, really, really well, and then integrate and other systems to handle sort of the fringes and the breadth of it.

And I think that was pretty important, here where what we were able to show them was a functional system that they could test out and go, wow, like this just works great in the hands of the user because we spent the time to build it that way. You know, bringing in people with consumer backgrounds that are used to building that's got to be super intuitive. Not built to a large government spec document, no offense to government, procurement specifications, but there's a reason government spec software is typically not great. And that's because, you're building it to very large specs. And in there there's typically not a real easy way to quantify the user experience. And we focus on user experience first and then identifying which of those specs are the really important ones to the people actually using it. And I think that philosophy, we did not expect to win a federal agency this early in Records lifecycle, so it was a really pleasant surprise.

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

Go it. And then just to follow up on the profitability piece, you've done a really nice job of managing profitability and higher margins over the last year. As we see the growth opportunity in terms of revenue appears sustainable, even in this kind of challenging macro, should we expect additional hiring over the coming quarters? Or can you manage the growth in business with kind of the current headcount, which would imply more operating leverage is coming? Thank you.

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

I think a bit of both. We're absolutely going to keep hiring. I think first of all, our, our stated goal in R&D is to invest basically top line growth back into R&D. You can hear all of the exciting things that even with what we're doing, we still feel like we can work on and we have in front of us. And so there's going to continue to be a very robust pace of hiring from an R&D standpoint. Again, we won't get ahead of our revenue growth, but we're really investing there. Then on the SG&A side, we will absolutely get leverage in SG&A, but we can't do what we need to do with flat headcount from where we are today. We do need to continue to invest. Some of that is in sales, but honestly, a lot of that is really on the G&A side. As we figure out how we can get this company to support the level of top line growth that we're delivering on, better IT systems get our material weakness remediated, do a lot of that housekeeping that hopefully we very much keep in the background and you don't see, but will require investment to deliver nicely on all of these opportunities in front of us. And we'll give you some leverage too because we still have our 25% adjusted EBITDA margin target out there. So hopefully this year shows that we can deliver and head toward that and you all believe us that we're going to hit that, but there is a balance to do between here and there.

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

And of course, world-class tech recruiting requires world-class tech recruiters. So that's also part of that fun picture.

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

Awesome. Thanks guys.

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

Awesome. I want to respect Jeremy Hamblin at Craig-Hallum. We haven't called on you, you've been off video. Do you want to ask a question? I know people are juggling multiple earnings calls and does anybody have any follow-ups? Oh, we've got Jeremy. Jeremy, go ahead. You're up.

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

Yeah. Hey, thanks and yes, juggling calls here. I wanted to, and apologies if you've gone through this a little bit already, but, I wanted to come back into, the Fleet product, just to understand where we are in terms of, you know, it looks like you've really continued to gain share in that product and in terms of where we go in the platform and in tying that in more holistically with some of the things you're trying to do on the AI side of the business, as we move a couple of, let's say years down the road, I wanted to just understand in terms of where you think about the TAM on that portion of the business and whether or not just the total value of what the Fleet business is changed from where it might've been a couple of years ago.

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

Well, let me start on this one. This is one where I was just wrong. I assumed that body cameras would obsolete in-car cameras. And I believed that once body cameras became ubiquitous, there would be less reason to have cameras in a car. And that's one where just I was, I was wrong. And what I learned was that, you know, customers who've had in-car cameras want to keep that perspective, especially state highway patrols where a lot happens in front of the vehicle and the availability of extra battery power and the ability to put more sensors to be able to do things like license plate reading, which would be not possible given the battery constraints in the body camera. So I'm happy to have been wrong, and had people who, together with our customers who educated me on that to where now we have a sizable and I think the market leading Fleet product, and we're finding other areas in some adjacent markets and ambulances and EMS, I think even in the military, starting with vehicles that are more like military policing vehicles, but over time the array of capability and our ability to move at sort of commercial speed to bring AI and sensor capabilities, I think there could be opportunities for us to move up the value chain, from just sort of policing vehicles into other types of vehicles where we can integrate our network, all of our workflow, together with our sensor development, and of course, in the future, AI running on all that data. So, I don't know that I could give an exact TAM comparison between the two, but I would say that the vehicle, Fleet business, is certainly here to stay. And it, it just, it has different needs and requirements, and you can do more when you've got access to power and a little more space, to be able to put more equipment and more powerful sensors.

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

Yeah, that's to the crux of the question. And then, just a follow up also on comment that, Brittany had made, in terms of the cloud portion of the business, in thinking about, these slightly larger jumps that we're going to see in that business, just want to understand in terms of thinking, a year or two years down the road on your gross margins, given what you're generating on that portion of the business and the bigger jumps, is that something that we should expect, the model to iterate as we drive toward 25%, EBITDA margins? Is that going to be a decent portion of what gets us there?

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

You know, we haven't given any commentary on how we get to that 25% between gross margins and OPEX leverage, other than to say we're obviously looking really closely at both of them. I think for as much as software is a benefit to our overall gross margins, you also see incredible success in our sensors business, and that's a drag on gross margins. I'd still take all the growth we get from there. And to your question on Fleet, right now that's part of our \$9 billion camera TAM, but I think we still feel like we've got nice penetration opportunities and good runway in front of us on Fleet still. We've talked a little bit about how we were playing catch up this year and next year we'll normalize a bit, but it's really some of those mixed dynamics that we're going to be working on as we balance between gross margin and OPEX leverage. I think the last thing we've been focused on is improving our overall TASER gross margins as we continue to leverage and scale TASER 10. So we've got a couple of benefits to gross margin over the next couple of years, and then we just have to balance that out with mix, if that makes sense.

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

Yeah, absolutely. Thanks for taking the questions.

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

We're going to take one more from Jonathan Ho at William Blair, and then we will close out.

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

Thank you. Just one final question from me, just given the TASER 10 strength that you referenced on the call, have you been able to ship to the demand, or is there potentially an accumulation of backlog here as well? Thank you.

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

I was going to say, it's a great question. We are working really hard to ramp our capacity, but I think you can see from some of the growth numbers and some of what we have been delivering that we're doing a nice job getting our capacity ramped up. As we continue to go into next year, what we're really working on is getting more of that capacity automated.

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

Okay. Okay. Pregnant, pause. All right, Rick, go ahead and close this out.

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

Alright, before we sign off, I want take a moment to acknowledge and thank you, Andrea James. This is going to be Andrea's last quarterly earnings call with us here on Zoom. So after a fast-paced and transformative six years with Axon leading investor relations, strategy and communication, AJ's going to take some time to reset and enjoy the fruits of the success that she's had and has driven here at Axon. AJ's been one of my closest personal advisors, and so as we got to the end of the last XSP, we had some conversations about life and the future, I remembered one of my favorite quotes from Ray Kurtzweil, "the most important decisions we make are how we spend our time." And back around 2013 when my

kids were in preschool, I had the wonderful opportunity to go spend a year in Europe and walk my kids to kindergarten every day. And when talking with AJ about her budding and growing family, I couldn't disagree with the assessment that how she spends her time, might be to take advantage of some of the success from Axon. And so we talked about her doing advisory and board work, given the amazing experience she's had at Tesla and here at Axon. So I'll be keeping you on speed dial, AJ, and you know, I'm just very personally and professionally grateful to have you as a colleague and a friend, and want to acknowledge your great service toward our mission. I know she's also formed relationships with so many of you. It's not fully goodbye though, she'll continue to support us behind the scenes in an advisory role through at least the middle of next year to ensure a smooth transition. And we are thrilled that Erik joined us earlier this year to help to lead our IR efforts. He's really hit the ground running and was really there to catch the baton from one of the greats. Erik was an analyst in our industry for several years before joining Axon. And with that, I want to thank all of you for joining. We're proud of our team's execution. We're confident in our profitable growth. We look forward to a strong finish to the year. I wish you all a happy and wonderful holiday season. I hope the world finds more peace, and we will see you all in February.

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