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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS, Safe-harbor

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Hello everyone. Thank you for joining Axon's executive team today. 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.axon.com. Our prepared remarks today are meant to build upon the information and the financial tables in 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 meeting 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. We'll also discuss certain non-GAAP financial measures as a description of each of non-GAAP measure and a reconciliation of each non-GAAP measure to the most directly comparable GAAP measure can be found in our shareholder letter as well as in the investor relations section on our website.

Alright, every quarter we play a video to kick off our call. We love how this helps you get a closer view and feel for our business. To start us off today, we're going to play a video we put together that hits on a bit of what we talk about when we tell you about our moonshot. It's a little under three minutes. Let's pull up the video.

>>Quarterly Earnings Video @ << <https://vimeo.com/915343082/38dfe57d62?share=copy>

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

Thank you, Erik and thank all of you for joining us today. Welcome everyone to our fourth quarter 2023 earnings. It's great to come back to you with another incredible year in the books for Axon. We kick off these calls with those videos to help you understand what we do. Sometimes seeing these kinds of scenes brings out different emotions, but that's what our customers face every day and making those complex situations safer for everyone involved is what energizes us in our work.

I've talked about my abhorrence for violence many times in the past — that percolates through our company and everyone who chooses to come work here. We envision a world where violence is just simply less acceptable — even less interesting. It's a far out thought, but we are constantly trying to find new forms of technology to make this a reality. We're really proud of the progress we've made over the last year.

First, with the seemingly small things — like adding a warning sound to TASER 10 to help communicate to someone on the other end that something unpleasant is impending, with the hope that person will rethink their next decision and alleviate the need for a use of force action at all. And adding a "WatchMe" button to our body cameras so that an officer can proactively request a second set of eyes on them during a high-risk situation.

Next, we thought a bit more outside the box — introducing individually targeted probes enabling far more effective range on TASER 10, making our innovative TASER technology more effective in more situations. And we reimagined real time operations — introducing more modern communications capabilities, with two-way voice communications through our body cameras, to help navigate complex decision trees in real time.

As we look ahead, we are solving for higher level challenges, like enabling better decision making in potentially life-threatening encounters, or effectively expanding a police force by reducing the extensive time burdens of routine paperwork, and we envision accelerating the speed of the entire justice system. We are innovating in diverse areas from robotic security to generative AI and virtual reality. There's really still so much left for us to do.

When I think back to the video we just showed you, I think about what would happen in those situations if an officer didn't have one of our TASER devices, or was not wearing one of our body cameras so we could all understand what unfolded and why. It excites me that we've made huge strides, and that our technology is driving better outcomes. I think a lot of what we are working on now has the opportunity to become so pervasive in the future, it will be hard for us to remember life without it. Highly disruptive technology — that's the beauty of it — when you get it right, it quickly becomes difficult to imagine what things were like beforehand.

But we're not always going to get it right by ourselves. We rely heavily on feedback from our customers — their challenges in the long-term, rather than what is simply in demand today. While present needs matter too, I spend most of my time with our customers on the vision beyond tomorrow, which is what I believe will drive our growth for not just the next 1 to 5 years but for the next few decades. What energizes me in my time with customers is they provide us with the best and most actionable feedback on our roadmap, the snags we can run into, and help us think through the best avenues to deliver them what they need.

Most critical for us is making sure we have the right people to help us deliver for our customers. When I look at our team, I know we have attracted some of the best and brightest to come work here. If it's not me meeting with a customer about a new product we have in development, it's someone from our team. Our team works together, relays feedback and understands the common goal. We don't accomplish what we are doing in silos, we join forces across the company and together with our customers.

This goes beyond our current team and extends into our partners, like Fusus, who we are thrilled is now part of Axon. Our partnership with Fusus began a few years ago and we've been really impressed with their people and the product they've built. I'm travelling with their founder, as we speak today. Together, we're taking our real-time operations to the next level and opening our ecosystem to an even larger network of sensors and devices, which will unlock entirely new solutions for our customers over time.

Before I hand it over, I'd like to say that I am grateful that I've been trusted to lead this company for the last 30 years, and that we've been able to maintain the same drive and energy that we had when we started. I might be a little atypical CEO as my day-to-day responsibilities align more with my background as a founder than as a senior manager. I am focusing on what's next. What's always important in driving any enterprise, from a startup is to a \$20 billion public company is that we need to encourage people to be the best versions of themselves, but also to challenge each other, just as our customers challenge us, and share in a common mission, with a culture that encourages us to do our best work.

I'd like to provide one last comment on something near and dear to me. We've talked about our intent to invest in our headquarters in the past few years and we mentioned last quarter we were revisiting those plans after we paused work in the summer of 2022. Part of revisiting that has been working to bring our vision of a corporate campus to life. We would like Axon to remain headquartered in Scottsdale where we own a piece of land, and where we have built this business. I love Scottsdale. However, it is not clear that Scottsdale wants Axon, as we are seeing the political environment becoming more challenging and frankly, anti-development. It's unclear whether we will get the approvals we need to execute our project, so we are exploring several geographies and other options and as a result it may take some time before we have a definitive decision on our next steps. We will update you in the coming quarters as we resolve our plans and make progress.

Now, I know we are not a startup anymore, and that also means we need people focused on execution and making sure that what we do is viable and executed to world-class standards. I'm beyond fortunate that I have Josh and Brittany and their teams to help me in that execution. I'll turn it over to them now.

You're up first, Josh.

Joshua Isner *President, Axon Enterprise, Inc.*

Thanks, Rick and good afternoon to everybody. I continue to believe there is no better place to be than at Axon. We are building the most talented, outcomes-oriented team in tech knowing that that is what it will take to deliver on our mission of protecting life and our moonshot goal of reducing the number of deaths in police civilian encounters by 50% over a ten-year period. 2023 marked another promising step in that direction.

We just recorded our fifth consecutive year of greater than 25% revenue growth — and we beat that bar by a good amount, coming in at 31% year over year. Looking ahead to 2024 and beyond, the opportunity is right in front of us. We are steeply ramping TASER 10 and Axon Body 4, we are building transformational new products, and we have added Fusus and Sky-Hero, which together grow our estimated TAM by just over \$13 billion to \$63 billion in total. And I'd just like to say, welcome to the Fusus team. This is your first earnings call as part of Axon, and we're thrilled to have everybody on board.

In the past I've shared my vision on Axon's priorities over the next three to five years. We are focused on delivering the technology ecosystem of public safety, globally. This approach supports our growth in two powerful ways — 1) through new product introductions, which expand our ecosystem and deliver new value to our existing customers and 2) through expansion into new customer verticals, where our existing products empower new users to deliver safer outcomes and drive a clear ROI.

This framework has led us to invest in opportunities with Federal and international governments, justice, corrections and the enterprise space. We finished the year with record Federal bookings as we continue to see rapid adoption of both hardware and software within the Federal Civilian Market. Likewise, the new ABW, which stands for Axon Body Workforce, has driven strong pipeline in several segments within enterprise, such as retail and health care. One shining use case within the healthcare space is Fairview Health, where they are trialing ABW with nurses as part of their commitment to patient and staff safety.

A key to our success is that we continue to lead the market in innovation. It's no surprise when you

listen to Rick that we believe our ability to innovate is a competitive advantage. Jeff's leadership in our product org combined with Rick's visionary thinking and foresight is an unmatched combination that gives us the luxury of doing two things in parallel: building the next wave of world class products for public safety and identifying the most synergistic partners in the market, such as Fusus and Sky-Hero. Our standards are high... and yet year in and year out, Axon's product team sets a new bar.

Before I turn it over to Brittany to go over our operations and financials in more detail, I'd like to congratulate several of our teams on their recent substantial achievements. First, the TASER 10 team led by Pat Madden: We are now four quarters in, and our order rate is pacing at more than 4 times what we saw with TASER 7. Next, with Axon Body 4, a product line led by Jason Hartford and David Mesri, we shipped more than 100,000 units in the second half, only two months after announcing the product. While these products started in R&D, they end in the hands of our brave customers, and a lot of collaboration amongst functions, or as we call it, #joinforces, happens in between. Our teams deliver outsized societal outcomes *together*.

As you can see, we are not slowing down. We are incredibly humbled by the trust our customers and shareholders continue to place in us and we remain committed to holding up our end of that bargain. 2023 was a record year and we are so proud of the team. But we are equally proud that that same team moved on from 2023 58 days ago. As we like to say, we're onto the next play.

Over to you, Brittany.

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

Thank you, Josh. As Josh mentioned, 2023 was another great year for us, with revenue growth of 31% year over year and Q4 revenue growth of 29%. We continue to be incredibly pleased with all segments of our business and continue to see enormous opportunities in front of us.

In addition to continued strong top line growth we expanded our profitability with a 21% adjusted EBITDA margin for the fourth quarter and full year. This represents 160 basis points of improvement vs. 2022, largely driven by leverage in our SG&A function.

As we've talked about before, we continue to focus on expanding gross margins and expect improvement over the course of 2024 as we see the benefit from enhanced efficiencies with TASER 10 from manufacturing automation and cost initiatives, as well as continued benefits from Software growth. We're also going to continue investing in our R&D to support the opportunities we see in front of us, and to make sure we can keep delivering strong growth for years to come. You've heard today, and read in the shareholder letter, the significant growth opportunities we see in Federal, International, and Enterprise, as well as for Axon Air, Real Time Operations and new software capabilities, to name just a few. We think we're hitting a nice balance of investing for the future while also increasing profitability and driving toward operational excellence.

While we have leveraged SG&A, we have also continued to invest in expanding our sales and marketing teams to address new markets, improving our internal technology capabilities, and bolstering our financial strength including the fact we remediated our material weakness this quarter. This positions the business well to continue growing and scaling.

Now as I turn to our guidance, we expect 20-24% total revenue growth, or \$1.88 - \$1.94 billion for 2024. This is quite strong guidance for us and is the result of increased visibility for 2024. The strong visibility is

driven by TASER 10 demand, as well as the continued strength in our future contracted bookings, which has reached \$7.1 billion as of the end of Q4, growing 54% year over year. Our software, which provides us with strong visibility, recurring revenue and attractive gross margins, also contributes to the strength of our guide. In Q4 our ARR was \$697million, which grew 47% YoY. We continue to have a 122% net retention rate and strong customer satisfaction.

We expect Adjusted EBITDA of \$410 to \$430 million, which implies an Adjusted EBITDA margin of approximately 22%, up another 100 basis points from this year on moderate gross margin improvement as well as continued SG&A leverage. This guidance includes the impact of Sky-Hero and Fusus, though we aren't going to comment specifically on either of their financials.

Finally, last year we put out a 2025 target model of \$2 billion in revenue and 25% Adjusted EBITDA margin. As you can see from our 2024 guidance, we're pacing to well exceed our revenue target in 2025 and tracking nicely to our Adjusted EBITDA margin target. As we look to 2025 and beyond, we expect to continue targeting a 20% annual revenue CAGR and a 25% Adjusted EBITDA margin. We think this is achievable and represents a very healthy, sustainable, and attractive long-term model. We're comfortable in maintaining this long-term growth rate based on the opportunities we've discussed and think this is the right balance of investing back into the business and generating attractive profitability. Also, while we have fantastic organic growth opportunities, we're very excited to be able to strategically make acquisitions in markets that will continue to support and grow our TAM, like we have just done with Fusus. Finally, we are also continuing to target 60% free cash flow conversion on Adjusted EBITDA and approximately 3% average annual dilution from stock compensation expense for 2025 and beyond.

As you can tell, we're all incredibly excited about what we can deliver in 2024 to both our customers and our shareholders. We're looking forward to another great year. And with that, I would like to open it up to questions.

Q&A

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Moderators, can you bring everyone into gallery view? Thank you. We're going to take our first question from Trevor Walsh at JMP.

Trevor Walsh *Analyst, JMP*

Great. Thank you, Erik. and thanks everyone for the question. Maybe for either Josh or Rick, I appreciated the TAM outline in the shareholder letter as far as how that's expanding and kind of where Sky-Hero and Fusus are coming in. But there wasn't, unless I missed it, I didn't see any details around the Axon Body for Workforce, kind of component or contributor to that. Can you maybe just give us generally kind of how you see that opportunity unfolding, and especially curious to see, kind of an adoption rate there given it's a kind of a new, vertical or user experience, and how does it look like the body camera kind of adoption rate within law enforcement or does it kind of feel different from what you're seeing? Thanks.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, Trevor, thanks a lot for the question. I appreciate it. The first thing just to clarify is within the Enterprise section of our TAM, that's where the Axon Body Workforce would roll up and we could

certainly talk through that more offline. In terms of interest in the camera, we had a launch event where we had some customers and trial partners in town for it. I think this year is truly about, “hey, how do we make our early customers really successful on this product” and then build from there. It's not much different than the playbook we ran in public safety and so much of it comes down to just having these early maven type customers that will help us, not only build our brand in that space, but also help us build the next iterations of the products. And so that's really what we're focused on. We really do believe the future is bright in enterprise. We're seeing that early on in the bookings results. We're not quite ready to share anything more on those at this point, but over the coming years, we do believe Enterprise will become a bigger and bigger part of our business.

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

Yeah, and, and, and just to jump on a little bit, so we gave enterprise a \$15 billion TAM in our update. So that's where we see that playing in. And a lot of the Body Workforce camera really came because we were getting feedback from our customers as we were trialing it largely in retail and in healthcare, about sort of the size and the weight and how they wanted to wear it and how they wanted to use it. And so, we really took that feedback, and we reflected it in the updated product. And that's what you see. We announced Fairview Health as an early customer there, but we're really looking to be able to provide this solution into the retail and the nursing part of the market where they're facing a lot of challenges today around, you know, associates and nurses feeling safe in their work environment.

Trevor Walsh *Analyst, JMP*

Great. Thanks for the color. I appreciate it. And congrats on, solid finished of the year.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thank you. Thanks, Trevor. We'll take our next question from Joe Cardoso at J.P. Morgan.

Joe Cardoso *Analyst, J.P. Morgan*

Hey, good afternoon, everyone. And I'll also echo my congratulations on the results and thanks for the question. So it's great to hear that Taser 10 momentum is tracking where you left off last quarter, but curious if you could just touch on how you're thinking about the margins tracking for the product. If I take a look at TASER gross margins, look like you had some stability over the past two quarters, just curious if we should interpret this as the floor for the segment and then you, how should we think about the trajectory for the remainder or as we rather progress through '24, particularly in the backdrop of you guys, you know, you've been talking about it for a couple quarters now, bringing on automation, the cost efficiency, so just curious how you're thinking about the margin trajectory there. Thank you.

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

Yeah, great question. Thank you. We had a one-time event in TASER in Q4 where we had a bit of a manufacturing issue largely related to a batch in March of last year. And so that is impacting our gross

margins in this quarter in TASER by about 420 basis points. So absent that one time impact, they would still be down slightly on mix, but they would look much more stable sort of quarter to quarter. And so, as we go into next year, that one time impact comes out and that's where you start to get the commentary about how the TASER gross margins overall we expect them to improve and they really are improving around our efforts for TASER 10. You know, as TASER 10 mixes in, that's an impact, but then we're offsetting that by the fact that we're getting benefits from automating the line and doing cost down initiatives as we go through the year.

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

Yeah, and just to jump in and reiterate there, the issue is on TASER 7, not TASER 10, that led to this warranty reserve. And one thing I would point out is TASER 7 was developed prior to the current regime under Hans Moritz, that's leading our whole hardware engineering group, and we've seen substantially more rigorous pre-market validation. And as a result with AB4 and Fleet 3, and so far with TASER 10, we've actually seen more robust field reliability, and lower return rates. So just want to make sure we didn't conflate that warranty issue was T7 previous design, not the current T10?

Joe Cardoso *Analyst, J.P. Morgan*

Got it. Totally makes sense. And then maybe just quick clarification on that front, just in terms of the TASER 10 improvement. Not to harp on it, but maybe just in terms of the improvement you're expecting through the year, is the expectation that it happens more linearly or is it more backend loaded? Just curious, just in terms of like, as you bring on this automation equipment, is that more subject to being in the back half or is it more first half? Just curious how we should think about linearity through the year?

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

Yeah, I think there's a number of initiatives going on, including the automation and then cost down initiatives. And so I would expect you see that starting to roll in as we go through the year, so it won't be all back half weighted, but obviously you'll see the cumulative impact of that more in the back half as we get all of those executed.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Joe. We're going to go to Jonathan Ho at William Blair next.

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

Hi, good afternoon. Congrats on the strong quarter. Starting out with the high-level question, how should we think about the impacts from the Fusus and Sky-Hero acquisitions? I know you're not giving financials, but you know, in terms of your ability to either sort of approach your longer-term vision or to cross sell the products, just wanted to get a sense of the synergies that you see here with these acquisitions.

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

Yeah, I can start and I'm sure that the team will want to jump in. I would say that these are acquisitions that we're really doing for the product and the team and the opportunity far more than we're doing specifically for synergies. So I really want to focus everybody on sort of the long-term market opportunity and customer opportunity that they bring in. All that said, I think there's some real benefits as we bring in these products and these teams to having access to our customers and our channels and all of the experience that we've had scaling up these types of businesses, as well as giving them access to some of our infrastructure and support on the G&A side. And so, in a lot of ways we're hoping that really allows them to run faster and accelerate what they're doing.

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

Yeah, and I started to respond there but I had muted myself. The other thing I would say is on each of them, they're highly strategic, so Fusus, what they really bring is, I described them at a high level, like the Switzerland of cameras. They've integrated with every imaginable sensor and CCTV camera. And we met them, we were introduced by customers who really loved what they were doing and said, "hey, we want you to integrate Axon Cameras onto the Fusus map because we don't want to have to open a different map and a different interface for every different vendor of cameras that we're using" and that's a lot of work to build something and Fusus has stayed away from building first party cameras, and we really do want to keep that solution very open, so that it can be broadly compatible with virtually any type of sensor, any type of camera in the market. And we think that's critical to expanding the utility of our ecosystem to our customers.

And then on the Sky-Hero side, long term, this is probably not going to be big revenue in the short term, but they are one of the, if not the leading tactical drone maker in the world used by special forces, by SWAT teams, and we think if we want to eradicate violence from society, we've got to get out of this mindset that the way you stop a person with a gun is sending more people with more guns and have a gun fight. We think drones and robotics have a huge role to play there. I'd say that's probably a little longer term. It's not going to be a 2024 or maybe even 2025 revenue impact, but 10 years out, we think it could have an enormous, both societal and revenue impact, especially in the space around private security where there's millions of people worldwide whose job is to observe, report and secure facilities. That's a highly monotonous job and one where drones and robotics we think could do a much better job than those monotonous jobs. And when those jobs become dangerous, they could do a much better job than putting a human in danger when a threat does emerge.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Jonathan. We'll take our next question from Will Power at Baird.

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

Okay, great. Thanks for taking the question. I'm in a vehicle, so I'm going to stay off video for a moment. Maybe if I could, come back to software, I know you expect that to be one of the key drivers in '24 along

with T10 and other products. Any way to kind of help unpack what the expectations for growth there are across the different components, Evidence versus Records, Dispatch, et cetera, just to get a sense for the breadth of that growth.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure thing. I think the answer, Will, really depends on the market segment. I think for state and local, that's where we're really, really focused on selling officer safety plan and this bundled set of Enterprise software from Digital Evidence Management to reporting software to all of the key software add-ons, all in one place. And so that's one of the true measures of success in the channel, domestically. Internationally, it's really about, "hey, how do we get folks on the cloud for the first time?" And then for some of these governments, it's literally the first time they're on the cloud in their professional lives and so we're starting from a place of just arriving at that moment and then building from there over the next several years. And of course in Enterprise and Federal, it's somewhere in between where we might not exactly sell some version of the OSP that we sell to domestic, but it might be some more tailor-made software offerings that are the right fit for those customers. For us, I think we always end in the same place, which is highly valuable, highly useful, high ROI software being deployed to customers that remain happy with it. It's just a question of the path that it takes to get there. And in each segment, it might be slightly different. And so that's a bit of a summary for you.

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

And Will, just on the commentary, I would say I was highlighting, T10 and software particularly as drivers for improving gross margins, they obviously both will be great contributors to our revenue next year, but really all of our segments are performing incredibly well, and they will all contribute really nicely next year.

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

Got it. Thank you.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thank you, Will. We're going to take our next question from Alyssa Shreves at Barclays. I think she's dialed in.

Alyssa Shreves *Analyst, Barclays*

Good afternoon, guys. Just a quick question on the T10 demand. Are you seeing existing customers looking to upgrade? Is it penetration into new markets? And how much is this VR training moving the needle in terms of, T10 adoption space?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, it's a fantastic question. Thank you very much. The first answer is kind of yes to both. I think our existing customer base is very predictably upgrading not only at the end of their useful life of their previous generation weapon, but for the first time we're seeing customers expressed an interest in an early upgrade, to TASER 10, so we're really encouraged by that. Additionally, we do believe this will open new customer markets for us, internationally and in some private security and federal use cases as well. And so, across the board, very bullish on T10 adoption and the rate at which that adoption is occurring. So, that's a little bit about the market response to T10. Can you just remind me what the second portion of that question was?

Alyssa Shreves *Analyst, Barclays*

How much of the VR training is driving customer interest? Is it more, nice to have or are customers viewing this now as a need to have once they trial it?

Joshua Isner *President, Axon Enterprise, Inc.*

I'd say, we're probably squarely in the middle of those two at the moment, and this is a big year for our VR program because now that the sensors work very well and very reliably, it's about how much content we can build to deliver to these end users to simulate different training scenarios. It's a move from hey, how are you performing with T10 at a range setting or some basic interactions and we will build on that to these more complicated decision-making type of scenarios. We think this is going to go hand in hand, not only of course the training experience, if it's very strong, we'll help adoption of the product, but it'll also drive far safer outcomes in the field. If we're able to simulate the type of stress that you can feel in VR relative to shooting at people in costume or with Velcro suits on or at stationary targets at a range, these are the things that can really make the difference in the field. And so, very excited about that. We're rolling it out to international as well. We're rolling it out to federal. We're tailoring scenarios for those markets. So, we think these two products, VR and Taser 10, are kind of linked moving forward. And it's represented by the way we go to market as well, where you pay one rate for both of those offerings, and you get both throughout the term of the contract.

Alyssa Shreves *Analyst, Barclays*

Great. Thank you so much.

Joshua Isner *President, Axon Enterprise, Inc.*

You got it.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thank you, Alyssa. We'll take our next question from Mike Ng at Goldman Sachs.

Mike Ng *Analyst, Goldman Sachs*

Great. Good afternoon. Thank you very much for the question. I just have two. First, there was a big step up in future contracted revenue, I think that 1.3 billion sequential increase is the biggest on record.

Is there anything to call out as it relates to outside deals or customer wins that contribute to that? Or would you guys consider that normal momentum? And then I have a quick follow up.

Joshua Isner *President, Axon Enterprise, Inc.*

For sure. I don't think there was anything, you know, abnormal about Q4 other than it was a record quarter for us. And there is some seasonality in our business. It was our first quarter of a billion plus dollars booked across the business in five-year bookings. So we're really excited about that. We don't necessarily share much more than that on our total bookings, but that was a pretty big milestone for our team. So of course, that will represent itself and future contracted revenue and we're excited about that trend and certainly aiming to outperform that record this year.

Mike Ng *Analyst, Goldman Sachs*

Great. And then just to follow up for Brittany, on that future contracted revenue, I know you guys have talked about 15 to 25% of that being recognized in the next 12 months, but has the duration of that future contracted revenue extended at all? Have there been longer-term deals? Naturally the reason why I ask is it seems like 25% of \$7.1 billion, you have full visibility into, you know, the 2024 revenue guidance. I'm not sure if that's the right way to think about it. Thank you.

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

Yeah, of course. It's a great question. It hasn't changed such that that 15 to 25% guidance of what converts for the next year has been pretty consistent over at least the last few quarters. I think in general, we have seen a trend toward some longer contracts. So again, Josh will correct me, but I think historically there were more five-year contracts, and now we're seeing more 10-year contracts and some that are even longer than 10 years. So that's certainly a factor in there. But nothing has massively changed in terms of how that future contracted revenue converts in for the next year. I do think it helps in terms of us having visibility and giving a strong guide for next year. And so, I think that's where you see some of that come through.

Mike Ng *Analyst, Goldman Sachs*

Excellent. Thank you, Josh. Thank you, Brittany.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks Mike. We're going to go to Josh Reilley at Needham next.

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

Alright, thanks for taking my questions. I got one. And a quick follow up here. If you look at the Fusus acquisition, is this a product that is going to require a little bit of incremental investment on your part to kind of drive broad customer adoption across the customer base? Or is this ready to go day one for your entire customer base?

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

Yeah, I'll take that. The good news is it's a combination of the two. So right now, out of the gate, one of the reasons why we were so excited about Fusus as a partner and then moving to the acquisition is that their product turnkey out of the box today is ready to go, very broadly across state and local in the U.S. and then beginning internationally as well. It's absolutely a groundbreaking change for the ability for agencies with their real-time crime centers and command staff, and even right in the dispatch center to get unparalleled situational awareness by partnering with CCVT cameras from private enterprise and the like, so right out of the box, it is just selling and growing like gangbusters. And it's a fundamental part as we go forward of our overall real time operations vision you've heard us talk about for a long time, where our real strategy is to provide the best full stack and open ecosystem we can to help agencies with the entire lifecycle of an incident. And it's ultimately about our play to earn the right to win more sockets, meaning win more sensors and win that pane of glass where they review the information from those sensors and to win more and more communications moments as both first responders and the businesses where things happen, work together to resolve as quickly as possible things when they occur.

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

Got it. That's helpful. And then just a quick follow up on the TASER 10 automation, is that going to also benefit unit growth in addition to benefiting margins?

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

I would say it does, yes. The more automation we have, the more it helps our capacity. I would say that's pretty much factored in as we think about next year though, so I wouldn't necessarily expect any surprises coming from that.

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

Got it. Thanks guys.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks Josh. Keith Housum at Northcoast. You're up.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Yep. Thanks guys. Appreciate it. Hey guys, just unpack international a little bit more. Perhaps I missed this in the release, but perhaps talk about, if you don't mind, some trends that you're seeing international, obviously, I know there's a very strong bookings query for you last quarter, but, how did it look this quarter both in bookings and are we starting to see some of that revenue that you booked last year come to fruition?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, thanks a lot, Keith, and great question. So we're super excited about the quarter we had in terms of bookings last quarter. I believe it was a new record in terms of bookings. So the team is executing in terms of writing orders and driving a lot of the momentum in market. But there's just some noise around when the revenue recognition will occur. I would expect that to fluctuate a little bit more than it does in the U.S. because you've got things like country-by-country approval of TASER 10. So even if a customer wants it, in some cases purchased it, they need to wait till all the testing completes until they can take delivery of it. In the video business, there's a longer lead times on implementations because you're deploying to a country, a national government, not a city in a lot of cases. So the amount of sites and the amount of work and clearances you'll need to do that work is considerable. And so all to say the revenue will continue to be lumpy quarter to quarter based on shipment times and based on implementations. But from where we sit, as long as the bookings number continues to drive, that revenue will fall, it will start to add up and fall to the bottom line in terms of EBITDA dollars as well. So, we're certainly excited about it. The team has got the wind at their back after a couple years of really trying to build more of an apparatus in continental Europe and we're starting to see the fruits of that labor pay off. So, future is bright for international. Nothing has really changed in terms of our outlook or perspective on that but there will be some peaks and valleys in terms of the rev rec over the course of a year.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Okay. And Josh, this one's for you as well, but in terms of like the corrections market, obviously you guys spend a lot of time on that, again in the release today, but are we seeing new products and what's the strategy in terms of growing corrections and how are you guys achieving the success you're having?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, yeah, certainly Keith, we think the foundation of it, not different from any of our other segments, TASERs and body cams, but things like Fusus, things like drones, both indoor and outdoor, VR training and corrections, those are investments we're currently making and we really believe are a great fit, for corrections. Up until now we've really talked about corrections as a domestic and state and local function. There's large corrections opportunity in federal, there's a large corrections opportunity in international, and I think all of those potential products fitting in is not unique to domestic. So, certainly we're excited about that, and we believe, especially after the feedback we've been getting on some of

our early meetings on some of these new products with corrections that there is a lot of interest and those will fuel some growth in that segment.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Keith. We're going to take our next question from Meta Marshall at Morgan Stanley. You're up.

Meta Marshall *Analyst, Morgan Stanley*

Great, thanks. You talked initially just about the drone business, maybe not contributing necessarily this year. I just wanted to get an update on, you had quotes in terms of feedback that you had gotten from certain customers, but just what are some of the hurdles to kind of greater drone adoption and just kind of an update on what was going on with the integration of Sky-Hero or just kind of early traction there. And then maybe just a second question just to kind of give them all at once, it sounds like there's a little bit going on with headquarters decisions. Is there a kind of drop-dead deadline when you're hoping to make a decision on what city to do the expansion in? Thanks.

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

All right, let me take that, and I'll start with the drones. I think drones is an area where again, we see tremendous long-term opportunity. Near term, there's a couple of different issues that have slowed that are sort of, I think we're pre-inflection point, shall we say. So on the outdoor drones, there's a growing interest in drone as a first responder. Namely today, the way they deploy drones is the police drive up in their patrol car, then they open the trunk, they take out the drone, and they fly the drone around. That doesn't give nearly as much benefit, right? Because you've already arrived on scene to use the drone. And then frankly, from an officer safety perspective, it's not necessarily great to be standing around staring at a drone controller. I think where the market wants to go is this idea of drone as a first responder where the drone is deployed from a fixed facility, flies to the scene and gets there before officers can. That started in Chula Vista, California. Shout out to Chief Roxanna Kennedy there, who really started this. We are seeing that it is in the early stages of an exponential doubling pattern. Every year we're seeing about double the agencies doing drone. As a first responder, it went from single digits to now in the tens of agencies doing it. In order for that to really take off, we need a little more clarity from the FAA on agencies being able to fly beyond visual line of sight, to be able to fly the drone safely. Today, if you want to fly a drone as a first responder, most of the time you have to have a police officer standing on the roof under an umbrella watching the drone fly into the distance. We have through one of our other partnerships with DEDrone, that is the world leader in drone tracking and counter drone, we've invested in them, we've partnered with them, DEDrone gives you the ability, the NFL stadiums use it to track all the drones around NFL stadiums, and Ukraine is buying a ton of these to track drones for obvious reasons. We have some pilots we're doing where DEDrone is coupled with drone as a first responder. So instead of a human being watching into the distance, you know, they can't see a drone beyond a couple hundred meters, we can actually track those drones in the airspace with this integrated solution. And we think that is going to be foundational to really letting drones really grow. Actually, let me pause for a second. Jeff may have had a technical correction for me on the growth rate. <laugh>, I guess we're going to be conservative. It was more than a doubling this year, but it was off a small base.

Uh, so again, we're seeing really early exponential growth in DFR. Now when we think about indoor drones, Sky-Hero when we acquire them, so one of the downsides of being a big company is we have lots of lawyers to make sure that we're very compliant, and that's obviously a good thing most of the time, but for example, we discovered that Sky-Hero had some challenges, in that the bands of energy they were using for RF transmission to get through the walls, to be able to fly indoor effectively were outside of the acceptable bands under the FCC here in the United States. So we've had to actually pause selling on a temporary basis while we are working to get approval from the FCC in an exemption, on being able to sell those to state and local in the U.S. but again, we didn't buy Sky-Hero for the near-term revenue. It's really about the relationships they have with the world's leading SWAT teams and tactical users. And we believe that's the foundation on which we can build transformative new capabilities. So part of it is just kind of getting with Sky-Hero now they're part of a bigger organization. The good news is we've got full teams focused on international and legal compliance, so we're kind of upping their game from a compliance and legality and standpoint. Meanwhile, they're bringing their, I would say, young scrappy innovation. I mean, these guys built a profitable drone business with a very small team. Not many people have done that and I'd say the magic is happening. They're working with our design team, and I'd say over the next couple of years, I'd say maybe a two-to-five-year horizon, you'll start to see some pretty mind-blowing stuff coming out of our indoor tactical drones as well as our outdoor DFR. We think the, I think those are the two biggest segments, being able to fly outdoor drones without humans on site, and then being able to go into buildings and use drones in the most dangerous situations.

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

That's right. And there's also a really exciting hybrid, between the sort of drone in a trunk thing Rick talked about, and full DFR as the whole industry tries to sort of find their way forward as fast as they can. And this is a thing that Adam Bry, the CEO of one of our other partners, Skydio, and he and I talked together about it at their keynote of their launch a few months ago, of their newest drone, where you combine the physical drone being with a patrol officer who can go to scene, but then the instant that they need it, you have that remote pilot who's able to manage it on scene in a DFR style. And so what you're seeing is innovation and experimentation to try to move as fast as possible while navigating around these various short term constraints. And so it's just to keep watching this space.

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

I do want to add one more thing to all this complexity, the shifting sands between the United States and China is also creating another change in the marketplace. So DJI was by far the dominant hardware provider, and we have chosen to partner with many different hardware providers. Initially we were partnered with DJI, that's no longer very viable because the U.S. government federally will not buy any DJI hardware and states are now passing similar laws. So we see up and coming folks like Skydio that have really just recently gotten to what I would say is a competitive hardware platform to DJI for the outdoor drone use case. We partner with a company out of Switzerland called Fotokite that does tethered drones. So each of these things have created some short term shifts in the marketplace, but we think the foundation is going to be firming up over the next couple years to see this go from really awesome concepts to significant businesses.

Meta Marshall *Analyst, Morgan Stanley*

Great. Thanks so much.

Joshua Isner *President, Axon Enterprise, Inc.*

And then Rick, did you want to answer the second question as well on the new headquarters timing?

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

Uh, yeah, we hope to, we hope to have a decision by sometime this summer, to make the call. So this is kind of drug on for a while, so we're, yeah, we'd, we'd like to get moving on it.

Meta Marshall *Analyst, Morgan Stanley*

Perfect. Thanks.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Meta. We'll take our next question from Mike Latimore at Northland.

Mike Latimore *Analyst, Northland*

Alright, thank you. Within the cloud category. You have digital management, real time operations, productivity software. Would their relative contributions to growth in '24 be noticeably different than what you saw in '23?

Joshua Isner *President, Axon Enterprise, Inc.*

The question, just so I'm clear on it, Mike, is what type of growth are we looking at for 2024 relative to '23 in our software offerings?

Mike Latimore *Analyst, Northland*

Yeah, among those three, does one get more pronounced in '24?

Joshua Isner *President, Axon Enterprise, Inc.*

Jeff, feel free to follow on with your thoughts, but my instinct is DEMS is essentially built out and we're on the right track there, and we'll continue to build out that ecosystem into new markets and so forth. But Productivity is really the one that stands out to me as the huge opportunity for the year. I think we have bared all the pain of coming to market with enterprise software, especially historically custom enterprise software over the last couple years. And now we really believe we've found market, product market fit. When we deploy this product to customers, we're getting fewer calls in the weeks following

that are hey, this didn't quite work the way we thought it would, or new feature requests or whatever the case may be.

Customers are very, very happy with their early experiences with the product. And now we feel like we can start to dump a little more gasoline on the fire and deploy faster across more customers in a year. And then the one a to that I'd say is our Respond product, which is our live streaming product, and that's part of our real time operations pillar. And there, that's all the live streaming from the body camera. That's where Fusus slots in as well. There are interesting things we can do between Fusus and our real time products, so we are very excited about each of those. But in the short term, I think the biggest growth relative to 2023 year over year will come from Productivity.

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

Yeah, that's right, thanks Josh. All of those are incredibly exciting. And I think the reason why we call it Productivity is it is not only, while it also includes our straight up product for classic RMS replacement, it's really the vision there is all of the things that relate to helping, as Rick talked about in his intro, saving time and giving hours and minutes and moments back for officers to be out in the field, helping communities be better as opposed to, doing paperwork or other things. And so there's an exciting story on multiple fronts there. First, you've heard us talk for a long time about transcription, and transcription has been steadily and steadily and steadily been being adopted, even for the straight up use of looking at a single body camera video at a time and being able to, you know, scrub through the video and see and search through the transcript of that, just that one video. As that gets adopted more and more, we can build incredible new functionality on top of that using AI and other things. And so stay tuned for future announcements in that regard. But that keeps mixing up in customer delight and customer adoption on pure records. As Josh said, now we've got more than a hundred agencies who are live with at least one module of Axon Records, including a rapidly still growing of those who have done their full RMS replacement, as well as a bunch that are using that Axon Standards product, which is the use of force module, which is the easiest thing for them to get started with alongside even before they've made the full replacement of their RMS So we're just incredibly excited about the trajectory and the momentum and the acceleration there.

Mike Latimore *Analyst, Northland*

Great, great. Thanks. And then just on the future contracted revenue, 15 to 25%, in next 12 months. Can you just talk a little bit about the variables that would move, you know that to 15% versus 25%?

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

It's really about, sort of average contract length inside of that future contracted revenue. That's sort of the variable between the 15 versus the 25%.

Joshua Isner *President, Axon Enterprise, Inc.*

And Brittany, would you also say it's the number of TAP upgrades, of hardware that would ship in a current year? So our upgrade cycle is two and a half a year. So if we have a outsized number of contracts that year where these customers hit two and a half, you'll see more revenue because we're shipping all

that upgraded hardware. And if it's a year where it's more software and the upgrade is next year, then that will be closer to 15 versus the 25.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Alright, thanks Mike. We've got one minute left. We'll go to Jeremy Lin for our last question at Craig-Hallum. I believe he's dialed in on the phone. Jeremy, can you hear us?

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

Yes. Thanks. Hopefully you can hear me. Congrats on the strong results. In terms of TASER automation impact, in thinking about what that can do that the gross margin on that product line, both in the second half of '24, but also then as we get beyond into 25, can you just provide me with a little bit of color, on that?

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

Yeah, of course. I think the TASER automation as well as initiatives that we're doing around cost improvements are a lot of what gives us comfort talking about how we think we'll have moderate gross margin improvement for 2024 and then we don't have any long-term margin guidance out beyond that, our long-term guidance beyond 2024 is really focused on the 20% revenue CAGR and the 25% adjusted EBITDA margins.

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

But just following up as specific to that product line, and not necessarily thinking about it in terms of total company, if you undertake the project like that, what is the goal of the range of outcomes in doing that?

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

I think the goal in the range is to really improve the TASER 10 margins so that you see sort of stable TASER gross margins over time, rather than some of the fluctuations that you've seen. But again, we don't have a long-term target out there specifically for TASER gross margins.

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

Got it. And then last one quick here, in terms of your TAM penetration and opportunities and as we think about, I think with slide 15, as you look at adoption rates, in rest of Europe versus your Commonwealth, you know, don't know exactly the timing, but in terms of, of thinking about, the success that you've had in Commonwealth versus what you're seeing in rest of Europe, can you give us a sense for how that timeline is playing out, versus when kind of had some breakthrough, contracts that you

won maybe at this seven, eight, nine years ago? Yeah, just trying to get a sense for how that might play out.

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, thank you Jeremy. And it's nice to hear from you. I would say it's really a tale of two product lines there. On the TASER side, we're actually seeing continental Europe already start to outpace the Commonwealth countries in pockets. And so we're really excited about that. We had some large orders last quarter on the TASER side and we see the path here where the nice thing is in these commonwealth countries, they're set up much more like the United States where they either have states or territories or whatever the case may be, some of these larger markets in Europe, they buy from the federal level so the order volumes are just much higher and can really build with one customer with a much bigger white space in front of you. We do believe you'll start to see continental Europe really rival or outperform the commonwealth markets as soon as this year or in the coming years. On the cloud side, that's where the Commonwealth were very early adopters, really across the board, UK, Australia and Canada, and in Europe. I don't think it's a secret, it's been slow and maybe slower than we would've expected upfront, I'd say. That's fair to say. But at the same time, we've really zeroed in on three markets in continental Europe where we really are starting to break through on the cloud. We've got trials going on or paid pilots even. I think our thesis is there's plenty of work to do and plenty upside just amongst those few markets, but having a few really breakthrough in the next year or two will be the kind of tailwind we need to start to steepen that adoption curve in other markets, as well. So, still some work to do on the cloud side, although we're seeing some really encouraging signs there. And on the TASER side, I think things are happening as we speak, which is encouraging.

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

Right. Great. Thanks for taking the questions. Good luck this year, guys.

Erik Lapinski *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Jeremy. All right, we're going to kick it over to Rick to close this out.

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

All right. Thank you to our investors for joining. Thank you to our incredible employees that I'm so fortunate to work with. Thank you to our new team members from Fusus and Sky-Hero. And actually, today we had one of our, one of our employees who had joined through an acquisition of Input Ace a few years ago. And I was just delighted to hear one of the things that is really important to me is that those new team members and employees find a new and exciting home where they want to stay. We don't buy companies because we're going to go in and slash and burn to cut costs and make money through the traditional synergies. We buy these companies because they are critical to our mission. Their people are doing great work, they're innovating in ways that we're excited. We'll continue to inject that sort of late-stage startup energy back into our own bloodstream and keep us going. So,

couldn't be more excited and grateful for the team of investors, employees we've got. I was out with Chris today showing Fusus to some customers and maybe some things Jeff was hinting at. I might need our redaction tool to cut out all the positive expletives I got today on some of our new capabilities. So, there's never been a brighter time to be at Axon and I can't wait for the rest of the year to unfold. Can't wait to be at Accelerate here in about a month. And I look forward to talking to you all again in May. So thanks and have a great night.

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