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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

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

Hello everyone. Thank you for joining Axons 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 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 predicted 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 also discuss certain non-GAAP financial measures, a description of each non-GAAP measure and a reconciliation of each non-GAAP measure to the most directly comparable gap measure can be found in our shareholder letter as well as in the investor relations section of our website. Now turning to our quarterly update, we like to start off every quarter with a video because we think it's a great way to show you more about our business and there's no shortage of highlights. The share from our team, we've got a good one this quarter. It's about five minutes. Let's pull it up.

>> *Quarterly Earnings Video* << <https://vimeo.com/994245979/249cd5f1aa>

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

All right, thanks Erik, and thanks to all of you, our shareholders and analysts for joining us today. Welcome to Axon's second quarter 2024 earnings call. I am again proud to report another great quarter and to show you that video to highlight some of the incredible outcomes our team is delivering to our customers. With Draft One, our story is to build a world where we help our customers achieve better outcomes every day, and it still feels like we're just at the beginning. There are two things that I believe are critical to our success and ability to differentiate in the market. We move fast and we take risks. It's our speed and willingness to tackle the toughest problems that drives our innovation and allows us to recruit the best people. I think we're at the forefront in several technological areas that will define the next decade for our company.

You've probably heard me talk about them before. First and possibly the most significant is artificial intelligence. We are positioning ourselves as the indisputable leader in delivering the power of AI in practical, usable applications to our customers. We've been at this for many years and our progress is accelerating as the underlying technology and the interest to adopt reaches critical mass here in the U.S. and around the world. One year ago, I shared with you our vision for generative AI applications as we saw commercially available LLMs, large language models coming to the market, I told you we would be ready to catch the ball. Well, in April, we launched Draft One, a powerful new AI service that writes the first draft of a police report extracted directly from Axon Body Camera recordings. Our customers' response to Draft One is better than anything I've seen, better than we could have imagined.

They want to put more data into the cloud with Axon, they want to better access that data and they trust us to protect their data and they can see that we can help them do their jobs better, put their data to use. Our unique position to define this category comes down to three key advantages that I believe we hold. One, the sensor network. We run the largest sensor ecosystem by far, including TASERs, body cameras in-car cameras, drones, robotics, and third-party cameras and sensors through Fusus. This vast network generates the data needed to drive the future of AI. Second is the data. Our expansive ecosystem of software and sensors has generated the industry's largest and most valuable dataset. Now, it's not our data. Our customers own their data and we protect it rigorously and we provide them the tools they need to manage and leverage their data.

We help them make their data accessible and usable, securely managing hundreds of petabytes of audio, video and imagery in the cloud. And third is trust. We work tirelessly for decades. We have to earn our customer's trust. We've led three major tech revolutions, TASER, energy, weapons, wearable cameras and cloud software, and we have several more in progress. Like virtual reality training. Drone as a first responder and real-time sensor fusion. Our customers trust us as their thought partner, guiding them into the AI driven future. This trust is our most enduring advantage built over decades, and we are dedicated maniacally to maintaining that trust by being reliable and trustworthy partners. AI is a hot topic right now and there's concern about the commoditization of the underlying models. Some major tech companies are investing billions of dollars and then open sourcing their models, making some of the LLMs, these foundational models free and potentially demonetizing the foundation model layer of the AI ecosystem.

We believe we are uniquely positioned to leverage our position as the application and network layer to create significant value through time and cost savings that we deliver from the underlying technology through a world class UI to our customers. By combining top-tier AI models with our sensor and software ecosystem, we can deliver exceptional workflows all within a secure government cloud environment. Our AI products not only offer tremendous growth opportunities for us, but also immense value to our customers. Solutions like Draft One, automated license plate reading (ALPR), transcription, video redaction. These services quickly pay for themselves. I'm particularly excited about upcoming announcements that we have planned for the Annual Police Chiefs conference, the IACP in October, so stay tuned. Our next focus is real-time operations, which we see as a major opportunity. From what we have learned in our work in legacy dispatch systems, combined with our acquisition of Fusus, we believe we are positioned to redefine real-time communications and real-time operations for our customers.

Our strength lies in innovation, not iteration, therefore we are shifting, we're pivoting from command-line dispatch console software to instead focus on sensor fusion and AI. This approach will integrate multiple data feeds both human and technological into a unified single pane of glass. Strategically, we're refocusing to align our unique innovation capability with the emerging technologies. Acquiring Fusus has given us a platform to accelerate our progress and we're doubling down on this investment. We plan to leverage the fully integrated Fusus map experience to provide critical real-time information, enhancing decision making and improving communications. We're excited to embrace this new vision and deliver exceptional results for our customers. Lastly, we remain highly enthusiastic about drones and robotic security. Last year we acquired Sky Hero in the tactical robotic space. Recently we announced an expanded drone-as-first-responder or DFR partnership with Skydio, Dedrone and Dronesense, each the leaders in their niche of the ecosystem.

This collaboration offers the most advanced and comprehensive solution for drone-as-first-responder programs. We look forward to completing our acquisition of Dedrone later this year, further expanding our footprint in this dynamic space. I'm excited about what's ahead and see these updates as validation

of our strategy. I believe we are uniquely positioned to achieve remarkable outcomes, driving immense value for our stakeholders across the board while solving real world problems that matter. And with that, we turn it over to the guy who leads the phenomenal execution, you see quarter over quarter. Josh Isner, over to you.

Joshua Isner *President, Axon Enterprise, Inc.*

Thanks a lot Rick, and good afternoon everybody. I'd like to start today's remarks on a personal note. In June, I celebrated my 15th year work anniversary at Axon. In 2009, Axon then named TASER was much smaller, carrying a market cap of \$245 million. It is a testament to Rick's vision and leadership that Axon is in a much different place today, both in terms of size and impact. I feel very lucky to have been part of this awesome team for so long and I'm thrilled to witness the tremendous results driven by such a talented and mission-oriented group of individuals. I'm pleased to report that our team delivered again in Q2 and we feel great about the momentum we are seeing in the second half and beyond. While Rick continues to focus on our vision and make sure that we're headed in the right direction, I continue to focus my time on our execution and ensuring we have the right team to help us achieve that vision over the long term.

I have a few updates from the quarter that I'm particularly excited to share. First, we achieved record second quarter revenue and bookings. It was our first quarter with over \$500 million in revenue, a number that represented our full year revenue just a full a few years ago. We booked over \$1 billion in new business, closed our largest ever contract with a U.S. state and local customer. Closed our largest ever Corrections deal and we are seeing an uptick in our international momentum. Our international bookings are up a hundred percent year to date versus last year and just a couple weeks ago, we signed our largest Records contract ever with that segment. Next, I'll briefly share some detail on where we are seeing accelerating demand for our products. Our new introductions over the past year have ignited. TASER 10 is the fastest selling TASER device in our history.

Not only is demand pacing at over two x the rate of TASER 7 on the order side, but we've been able to scale shipments each quarter since launch. We've eclipsed more than a hundred thousand units shipped and we have a long runway ahead. Something I find particularly encouraging here is that our top four TASER 10 deals have come from customers outside of our U.S. state and local customer base. We have a massive TASER user base within state and local, but we also see strong demand from our customers, in other segments like Federal, International, and from Corrections customers as well. The order book for TASER 10 is strong across the board.

In Q2, we shipped the most body cameras we've ever shipped in a single quarter. Along with TASER 10, Axon Body 4 and our expanding set of premium software, adoption of our Officer Safety Plan is growing, as seven of our top 10 domestic deals in the quarter included premium Officer Safety Plan options.

Finally, we are seeing the early indicators of success supporting our investments in newer areas within our software business, revenue from productivity, AI products, real-time operations and drones and robotics drove almost half of the growth in our software revenue in Q2. Early traction within Draft One is a great example. In the three months since launch Draft One has generated over a hundred million dollars of pipeline the fastest of any Axon software product to do so. We believe demand for products like Draft One will only grow from here. Halfway through the year, we are pleased to be well positioned to deliver another year of growth and sustained impact. However, we're onto the next play and nobody is letting up. We have a fantastic opportunity to deliver a similar bookings number over the next six

months than we achieved in the entire 2023 campaign. The team is relentlessly focused on executing and we're excited to show what we can do in the second half. Over to you Brittany.

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

Thank you, Josh. As both Rick and Josh highlighted, we had a great quarter. We grew revenue 35% year over year on top of 31% growth in the same quarter last year, and we delivered strong adjusted EBITDA. I am particularly impressed that the growth comes from all our business segments driven by our powerful ecosystem. Our customer-centric approach solves real problems, which drives us to innovate and you can see those results in the business. Cloud and services remains the fastest growing segment at 47% year over year. Our software growth stands out and has continued to drive mix shift with 39% of revenue coming from software and services in Q2 up from 35% last year and 29% the year before. TASER 10 and Axon Body 4 also contributed an impressive 28% year over year growth in both our TASER and sensors product categories. These products are performing incredibly well and we're still in the early innings.

Overall, our future contracted revenue sits at approximately \$7.4 billion, which is up 41% year over year. An ARR of \$850 million is up 44% year over year while maintaining 122% net revenue retention. Along with continuing strength in Axon Evidence, the new products we talk about are helping drive our consistently high NRR.

Adjusted gross margin of 62.5%, increased by 10 basis points year over year. This was supported by mix and our software business as well as the benefits of automation in our TASER business. We cleaned up some of our older inventory on the sensor side, given the better than expected demand for AB4, which was a partial offset to our strong gross margin in the quarter. At this point though, we expect to see stable gross margins for these segments going forward and expect overall gross margin around this level for the remainder of the year.

Below the gross margin line we continue to focus on scaling the business, both to drive profitability and to successfully deliver on our top line growth. This has included adding a new manufacturing facility to increase production capacity for TASER devices and cartridges, as well as integrating our acquisitions and investing in R&D. We've been able to invest in and grow the business while driving operating efficiency. Increased revenue, gross margin, and operating efficiency drove adjusted EBITDA to \$123 million, which was 24.5% margin in the quarter, up 270 basis points year over year and surpassing our highest level in over three years. We also had free cash flow conversion above 60% in the quarter leading to \$75 million of adjusted free cash flow. Turning to our outlook, we are pleased to raise guidance again on both revenue and adjusted EBITDA. Our full year 2024 expected revenue guidance is increasing to \$2.00 to 2.05 billion, which represents 29.5% annual growth at the midpoint.

This is up from our prior guidance of \$1.94 to 1.99 billion, which represented approximately 26% annual growth at the midpoint, and it's a result of the strong performance we saw in Q2 and the strong pipeline in the second half of the year.

We expect full year 2024 adjusted EBITDA of \$460 to 475 million, implying an adjusted EBITDA margin of 23.1% at the midpoint. This is up from our prior adjusted guidance of \$430 to 445 million and it expands our expected margin by 80 basis points. The increase in our adjusted EBITDA guidance includes better than expected performance in Q2 and our increased expectations for the remainder of the year. Consistent with last quarter, our guidance incorporates an immaterial amount of revenue and adjusted

EBITDA margin impact from our planned acquisition of Dedrone, which we still expect to close in the current year.

Overall, we saw strength across the board on the P&L, shipped a record number of TASERs and body cameras, generated strong cash flow, made additional investments into our drone partnerships and remain on track to close Dedrone and strengthened our bookings pipeline for the back half of the year to record numbers. I'd say we're quite proud of this quarter and I want to give a huge thank you to the incredible team we have for making it all happen. And with that I would like to open it up to questions.

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

Thanks everyone. Alright, we're going to start off with Jonathan Ho at William Blair.

Jonathan Ho *Analyst, William Blair*

Hi there, good afternoon and congratulations on another quarter of strong results. Can you give us a little bit more color on the adoption of your software applications and maybe what are some of the biggest contributors now? What are sort of the incremental add-ons, you know, where you see the biggest inflection point, definitely appreciate the AI commentary, but just wanted to get a sense of maybe what's driving the performance this quarter and what you're most excited about going forward.

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

I can start and then maybe turn it over to Rick, who I know is incredibly excited about this. But, you know, we made the call out this quarter that we're both seeing terrific continued growth from our Evidence.com product, but we're also seeing increasing contributions to the growth from our other suite of software products and that's really across the board in those other categories. So, you know, calling out productivity and AI and all of those pieces, we did call out that Draft One, while we're incredibly excited about the pipeline with over a hundred million in pipeline, it's not actually yet contributing to the revenue in the quarter. So, continues to be a big area of excitement going forward, but the tremendous increase you're seeing this quarter is really coming from the existing products that we've talked about.

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

Yep. let me speak briefly and then Jeff, I might have you speak a little more in detail as well as the sort of the breakout of our current software. I tend to focus on the sort of the, the leading edge and then as things, you know, kind of stabilize, by the time they're bigger, I'm spending less of my time personally on them. And Jeff's really, you know, leading the, the large teams. obviously AI is a really interesting space right now. The what is be what was impossible 18 months ago is now frankly easy in some cases. Things like Draft One, is is nearly magical in the user experience. The first time I turned it on was in I think February I got access to it in beta. I was at the Texas Department of Public Safety doing a demo.

Uh, actually I probably shouldn't have, given the exact name anyways, I was at a large agency in Texas doing a demo and they were saying, oh, there's no way this will work with an East Texas accent. And

they started teasing each other and I said, well, I don't know, let's try it. And we had this officer come up and literally this guy could have been on Saturday Night Live, he did the best, like kinda hillbilly voice skit was completely nonlinear in answering questions, was all over the place. I was sure it was going to be a disaster, and I was just shocked at how well the AI turned all of the nonsense into a professional looking report in like literally 15 seconds, and we are seeing that reaction from customers across the board. We had some customers say that the time savings alone from Draft One justifies paying for the entire Officer Safety Plan (OSP).

Because of the nature of these things, we write contracts up front, it takes time for the revenue to kick in. I think Draft One is a real accelerator. It brings transcription. You need to have Respond, you have to have the wireless connectivity for us to be able to push this up to the cloud to have it ready in time so it pulls other products with it. and then there's a whole suite of other stuff that we are now working on across the board. I would just tell you, Jeff and I sat down and we said, we kind of pulled the emergency break and said, across the entire business, every team is now researching what are the AI possibilities that justify changing our priorities so that we're nimble and that we're moving things that our customers couldn't even imagine are now moving to the top, you know, a year ago or now at the top of our product development priorities. So with that, Jeff, I don't know if you have anything else you want to add.

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

I think both you and Brittany said it well, but thanks Jonathan as always for the question. I mean, I think, I think the beauty of the strength is that it's universal across the diversity of all of our product lines and segments. You know, whether it is continued growth of core DEMS and more and more access to higher and higher tier plans of like unlimited third-party storage and all of those things, whether it's the core add-ons on the back of DEMS, redaction, all of those things, the strength in productivity like the pipeline for Draft One, but Records and Standards and core transcription and of course in RTO, the existing strength and Respond, the addition Fusus, and then, VR accelerating and everything across the board. So I think that the thing that is the most interesting is how universal the growth is across the diversity of our product line.

Jonathan Ho *Analyst, William Blair*

Excellent. I'll keep it to one question. Thank you.

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

Thanks Jonathan. We'll go to Trevor Walsh at JMP next.

Trevor Walsh *Analyst, JMP*

Great. Thanks team. appreciate you taking my question. Josh, maybe for you, but feel free anyone else to jump in. Good to see the International bookings up a hundred percent in the quarter. It's a theme you've obviously been talking about for quite a while now. Can you maybe just give us, or reiterate kind

of the, the why now you think this international opportunity is sort of, seems to be gaining some speed and, and then depending on how you answer, are there things that might kind of even accelerate that further geopolitical wise or just everything kind of going on, kind of globally that might, you know, help to either make those dynamics increase or maybe even create a headwind if things kind of turn more towards a negative? Thanks.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure thing. Thanks. Thanks for the question, Trevor. Well, I'd say it's really the convergence of a couple things we've been working on for a couple years now. Number one is getting the team right. I think, this is the strongest International team we've had. We've made some new additions to the team in 2024, not only with Cameron Brooks, our CRO, but with some new leadership in Europe, some new country managers. And I think that's already showing a different level of rigor and intensity than we've had across the board historically. So very excited about that. I think number two, TASER 10 is really allowing us to start and restart conversations around TASER adoption and it's driving a lot of interest in a lot of the core markets.

I think the market is moving more in the direction of cloud now, especially certain markets internationally. And I think we've been opportunistic there and continue to grow the pipeline. And so, I think those are really the three, the three big things. The last one that is kind of a continual effort is making sure we're focused on the right places. I think at times historically, we've gotten a little off kilter with the volume of opportunities and that's affected our execution. And I think at this point in time, we are really locked in on the places we have strong conviction, we can be successful and we're investing in those areas and the team is doing a great job in executing in those geographies. And so, I think all those factors are really contributing to the great results we're seeing internationally. I would say like we're still on very much in our own territory here, looking down the whole field, we've got a ton of opportunity here and this is going to be essentially the low point of our international results this year. And a ton of opportunity to build on, into the future here, especially with the right team in place now. So very excited about what the future holds for international.

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

Hey Josh, if I could jump in as well, something that's really different in the past three months is AI. I met with a senior, a very senior government leader in continental Europe, in a country where everything I had heard up until now was, you know, cloud never, just showing Draft One and look, we we're able to film it and do it in French, no problem because the underlying large language models from OpenAI, like they handle a hundred languages without breaking a sweat. And I had this presidential advisor look at me and said, I've never understood the value of the cloud historically, it's been somewhat compelling, but like this is a game changer. And when you think about the complexity of deploying AI at scale and the massive GPU clusters you're going to need and the connectivity into the cloud just eases all that.

So, we've been almost religious about our cloud fervor in the U.S. Our customers told us early on the cloud was illegal and we couldn't do it. Of course, we pressed through that and now it's become ubiquitous. Europe's been harder. They've been very resistant to the cloud and we've stuck to our guns, but it's taken a lot longer than we thought. I think this is still theory, we haven't seen a para, but the early reactions are AI services like Draft One and some of the new stuff you'll see in a few months could

be enough to tip it over and start to make the cloud sweep through the rest of the world. That's been very resistant to it. That'll be a real game changer if that pans out.

Trevor Walsh *Analyst, JMP*

Great, thanks both. I'll get back in the queue.

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

Thanks Trevor. we're going to go up to Josh Reilly at Needham next.

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

Alright, thanks for taking my questions and I'll echo the congrats on the very strong quarter here. I just noticed the sequential growth in ARR was down from last year's \$39 million that you added in Q2. Is it simply a matter of timing as you did add a record \$93 million in ARR sequentially last quarter from Q1 to, Q4 to Q1, and I would assume with the commentary that, demand for premium bundles, remains pretty robust here.

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

Yeah, you got it. It's just timing, you know, it depends on when the new revenue starts turning on in the quarter and bookings in Q1 were relatively light as we go through the year. And so, you just see that rolling into ARR in this quarter. So I wouldn't read any more into it than that. We're still really happy with the 40 plus percent year-over-year growth in that ARR number and that's what we're looking at.

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

Got it. That's helpful. And then the TASER gross margin had a nice bounce back here in Q2. How should we think be thinking about the trajectory for the TASER gross margin for the balance of the year? Because I know there's been some swing factors there that maybe we should be considering.

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

Yeah, I was happy to say, our margins generally are starting to stabilize around the levels you're seeing them at now, and so that's both inside of our segments and for our overall gross margin. So hopefully some of the noise that we've been seeing in in past quarters is stabilizing a bit. And I would say some of that benefit you're seeing in the TASER gross margin this quarter is, you know, we've talked about automation coming online and you're starting to see the benefits of that. I think you'll see that benefit going forward. And then just as we go through the year, mix does always tend to move things up or down a little bit, both inside the segments and for the overall gross margins.

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

Got it. Thank you. Very helpful.

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

Thanks Josh. We've got Joe Cardoso at J.P. Morgan up next.

Joe Cardoso *Analyst, J.P. Morgan*

Hey, thanks for the question and congrats on the results as well. I guess just one for me and just wanted to follow up. I think Josh, last quarter you talked about the best opportunity pipeline you had seen exiting one Q and it seems like two Q top that particularly given your bookings or backlog comment heading into the back half. I guess can you just flesh that out a bit more specifically, like what's driving your conviction here? Are there any particular parts of the pipeline where you've seen a big pickup as it relates to the portfolio or customer vertical perspective? And that's driving basically this view going into the back half. Thank you.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure thing and thanks for the question. Ultimately the pipeline is very strong. Of course, that's something we track, as a company and as a sales team. It all comes down to just the conviction that we have and how accurate it is and look, like we've got the best sales team in this industry. The sales team is one of our strongest teams in the company and I would bet on them all day. And so I think we are going to have a massive back half in terms of bookings. We see the pipeline everywhere across the business, but more importantly, the names next to the pipeline are names that I have a ton of conviction and belief in and I think everyone's going to be really pleased to see what the team puts up in Q3 and Q4 here.

Joe Cardoso *Analyst, J.P. Morgan*

Yep. Got it. Thanks. Appreciate the response.

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

Thanks Joe. Up next, we have someone new to us. Welcome, Jordan. We're going to take Jordan Lyonnais at Bank of America.

Jordan Lyonnais *Analyst, Bank of America*

Hey, thank you guys for taking the question. On the drone market, in particular the NDAA amendment was added potentially, that could lead to a DJI drone ban. If that were to go through, how does it change, your opportunity, with partnerships with Skydio?

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

Yeah, so I'll take that one and then see if Jeff needs to clean anything up. Our strategy around drones has been to be very dynamic and flexible. DJI up until now has been the market leader, and through our partnership with Dronesense, basically Dronesense created piloting and data management software that would be able to use Chinese hardware with U.S. software and data flows, so that it could be more secure. And that's been very successful. I'd say Dronesense is currently the market leader in terms of the number of drones flying on their software. The hardware bans have been instituted in some states already, like Florida, and Skydio is the clear U.S. market leader. They're also the clear leader globally in autonomy in terms of the drones being able to fly themselves without operator intervention.

Jeff really spearheaded the efforts around negotiating these new partnerships, combining the best of DroneSense, Skydio and Dedrone, so we think we're well positioned either way this pans out. There was a movement toward a federal ban. It looks like that has at least, for now, been paused on DJI. So we are prepared for either outcome and we think we've got the best strategy we can that's optimized and not betting on political outcomes because <laugh>, I think you can't bet on those. Jeff, anything you'd want to add?

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

Sure. I think hands down, like we've talked about for multiple quarters, the role of drones and robotics broadly in public safety is another one of these rapidly accelerating rocket ships. And we intend to continue to play a bigger and bigger role in supporting agencies across all of the workloads for drones and robotics that they're doing. And one of the most important aspects of that is this whole category of DFR or drones-as-first-responder. And within that you need the right combination of many elements of the stack. You need the right drone hardware, you need the right piloting and all that stuff. You need the right mission management, you need the right docking infrastructure and you need the right airspace protection. And so, as Rick just said, we were thrilled to announce this big comprehensive additional partnership together with Skydio who's unquestionably the leading U.S. hardware manufacturer, and together with them and us and Dedrone and others, we are confident that we are by far the best end-to-end solution for agencies in the U.S. and steadily over the round of the world there.

Plus, we continue to support together with Skydio and our other partners, all of the other workloads that aren't VFR yet in drones and it's going to keep on growing.

Jordan Lyonnais *Analyst, Bank of America*

Got it. Thank you.

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

Thanks everyone. Up next, Meta Marshall at Morgan Stanley.

Meta Marshall *Analyst, Morgan Stanley*

Great, thanks. Rick, maybe, further detail, you guys were talking about that there would be a lot of pull through of additional kind of products with Draft One. Can you give a sense of how you would monetize either other sensors you were bringing in or other amounts of data you would bringing in? Or do you mean that in that you would monetize it through product announcements that we'll kind of hear about over, you know, the next six months or a year? That's the main question.

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

So the monetization as of right now does not rely on any new products. In order for Draft One to work, you've got to have our body cameras and then with those body cameras you need Respond Plus, which is the connectivity layer, you got to turn the service on so that we can wirelessly stream over secure LTE to get the audio up into the cloud so that by the time you sit down in your patrol car where a lot of officers write their reports, the data's ready. Then you need our transcription service so that we've transcribed that to feed it into the AI model that's going to write Draft One. And then what we have seen is the, so Draft One is opening, basically causing agencies to open their contracts to add Draft One. And anytime that happens, now you're in a contract rewrite, and of course that creates an opportunity. This is an interesting industry in that the effort expended just going through a procurement is almost more important than the amount of budgetary dollars. So once they're in a procurement, I think there's a general customer sentiment of, okay, like what else should we be looking at now? Because if we're going to go through this, let's go through, let's do our evaluation. And we find that opens their minds to doing more with us. Then I think also they're aware of the speed at which this is happening, just the level of tech shift that's happening across society. And so I think we're seeing these OSP packages are a way to sort of de-risk these acquisitions for our customers where they don't necessarily even know how much of the stack they're going to use. Kind of like if you sign up for Amazon Prime, like you may or may not use the free videos or you may or may not use the different things in there, but across, we try to make it easy for them. It's like, hey, you don't have to figure it all out. There's a lot to understand here. If you go on the OSP plan, we'll figure it out together. What's valuable for you. I think Draft One is just kind of further accelerating that. Josh, is there anything you'd want to add to that?

Joshua Isner *President, Axon Enterprise, Inc.*

No, I think the, the beauty like Rick just described is the fact that adopting one product often opens up increased value for the next product to come in and solve an additional problem. So the bridge from Respond to Transcription to Draft One, and I think we will see that in other parts of the business. Rick mentioned real-time operations and participating in that market to a larger extent. I think there's similar opportunities there between Respond and other AI offerings to drive additional value and solve additional problems. So I think it really nicely fits together when one solution leads to the next.

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

The one thing I'd add to that is you asked about new product announcements, I would just say you can imagine given the enthusiasm that Rick and Jeff and the teams are actively working on new products also, and so yes, stay tuned for new areas that we develop as we go into this in the future.

Meta Marshall *Analyst, Morgan Stanley*

Great, thanks. And Brittany as a follow up for you, you guys mentioned International as a particular area of strength, but just any trends between U.S. Federal and Enterprise and just kind of relative strength during the quarter and then I'll hand it off.

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

Yeah, I think that our domestic law enforcement business continues to just put up really incredible numbers and just deliver. And you see that from all of the things that the team has been talking about in terms of the ability to upgrade to move on to OSP to continue making those migrations. But we are seeing great traction outside, right? Josh mentioned we had some big Corrections wins. We're seeing big International wins, especially with TASER 10. Some of our biggest deals have been outside that domestic LE business, and so we really are seeing nice traction in some of the other parts of the markets we've been investing in.

Joshua Isner *President, Axon Enterprise, Inc.*

I might just add there as well, state and local is a little different than federal, international and enterprise, whereas we've talked about this historically where for in state and local, what we really, really need to be good at is building new products and then upselling them into that market. And I think Draft One's a great example of that and the teams doing a very nice job of that. In other markets, it's about taking products that we've already built and selling them in as kind of the first product into those new markets. And I think we're at varying levels of that across International, Federal, and Enterprise, but it's still the same motion. And from there the adoption of one product leads to the next and the next and the next. So I think it's two very different motions between state and local and the rest of our business, but the team's doing a really nice job of executing on those in parallel.

Meta Marshall *Analyst, Morgan Stanley*

Great. Thanks.

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

Thanks Meta. Up next we have Keith Housum at Northcoast.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Good afternoon, everybody, and thanks for the opportunity here and congratulations on the quarter. Guys, a lot of commentary on Draft One. Much appreciated. Perhaps you can provide some similar color to Fusus. Fusus has now been under your belt here for several months. I understand that's successful for you guys, but hoping to provide some equal color to Fusus that you guys did for Draft One.

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

Yeah, let me maybe take that first. You heard some of the commentary there about that we're pivoting our dispatch strategy. And so basically what we've learned, we brought two agencies live on dispatch and what we learned is the core dispatch experience. Dispatch systems have numerous elements in them. Two, the big ones to think about are they've got a command line console where basically a 9-1-1 caller comes in, somebody picks up the phone and then the call taker types it into a dispatch system. Another person is reading those messages that person's called a dispatcher and then they relate it to a police officer in the field. Also, in that CAD software is mapping software where the map, tries to bring together different information. So what we've learned is at agencies, they're frequently opening 3, 5, 6 different maps. Because you've got one for your vehicle locator.

You, you might have had Axon Respond for where your body cameras are. There's RapidSOS, which is the guys who locate where the cell phone is because most people are now calling on a cell phone. So what we learned in the console software, very difficult to drive change. Dispatchers take six months to a year to train them how to do their job, learning the different dispatch codes. And so what we learned is that that is not an area we could drive much innovation. In fact, each of the first two agencies we launched at said basically we don't want anything new there. You've got to rebuild your software to fit our existing training. Which, you know, it's sometimes it's a hard decision, but Jeff and I sat and we talked about, he said, this is not going to scale if we have to rebuild.

And it's a fragmented business. There's many different CAD providers, everybody does it a little different. But what we've learned from Fusus, the demand signal there has been extremely strong and Fusus has been able to take over the map element, the geospatial display. So that's an area where in the time it, we brought two agencies live on the dispatch console software. We've brought, I don't know, dozens or a hundred live in Fusus. So we've been actually pivoting our cad, our whole CAD strategy is now pivoted to be very Fusus-centric. We're like, okay, we think we know based on experience with customers, the existing maps interfaces are not very good. Fusus is the best in the world at this, and they can bring in the dispatch information into Fusus. They can bring in third-party cameras from the community, they can bring in our cameras. They're really the interstitial connections that bring everything together into one map interface. And so we're really excited and basically our whole real-time communications has shifted to be very Fusus-centric. We've in fact already begun earlier this year shifting away from our own Respond map. We're bringing it to deprecate that in parts of our ecosystem and just replace it with the Fusus experience. So Jeff, is there anything else you'd want add about Fusus that I might have missed?

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

I think that's spot on. I mean, I think we're just hugely, we are, customers are as bullish on Fusus as we are, and I think they're just voting with their feet and across the board. It is the fulcrum for the journey you've heard me talk about for a long time. Like ultimately the real-time operations journey is two things. Win more sockets and win more moments, more sockets meaning more sensors, more cameras on our panes of glass and more moments meaning more conversations, more collaboration, more minutes of that intense real-time incident management stuff happening. One way or another between our cameras, our sensors, and our pane of glass now with Fusus, and they are the fulcrum of us being able to accelerate that journey.

Joshua Isner *President, Axon Enterprise, Inc.*

And one thing I might add there is just also that while we're super excited about the adoption and momentum within public safety, Fusus just represents this awesome opportunity in Enterprise as well. And I think that, you know, in terms of having a product that right now is so relevant for a lot of our Enterprise customers and could be the first product they buy for Axon, and then like that motion we were talking about before of, you know, that opening the door to DEMS and body cams and you know, additional solutions down the road, Fusus very much is proving to be that. And, and we're super excited about the kind of path that it's creating for us in the Enterprise space as well.

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

Yeah. Hey, let me actually double down on that one. Sorry to keep going Keith, but you wanted more detail. So Fusus, I initially thought of it as, oh, this helps a police department connect to third-party cameras like a school or a business. Yes, it does that. But we've been really interested to learn is there's many large enterprises, some are private businesses, some are big federal government agencies that have hundreds or thousands of their own facilities. And over the last decades they've installed a bunch of different systems at all those different facilities, and they can't even manage their own cameras. But with Fusus, they don't have to come in and reinstall it all. They can basically use this same sort of network appliance. They can plug it in. And so you could have a large agency, whether it's public or private, suddenly they don't have to go replace all their cameras with Fusus. They can aggregate those feeds themselves and be able to share it to public safety partners. So that's where I think the magic is coming in. We're having enterprises that are looking at Fusus for their own internal use in addition to being able to partner with agencies. And then I think Brittany, I don't know if you wanted add anything in terms of the numbers on this.

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

I was going to throw some numbers in, but I think the enthusiasm covers it well. Keith, Fusus is in our real-time operations group as you heard the team talk about. And you know, we did share that grew over a hundred percent in the quarter. So it's continuing to perform really well and be one of the segments that continues contributing to the growth in software outside of that, that Evidence.com piece.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Alright, I've got tons more follow up. I'm going to actually pass it off because I know we're long.

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

<laugh> I don't know, we could spend the whole rest of the call on this, as you can tell.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

That's why I'll pass it off. But thanks guys, appreciate it.

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

I appreciate it so that I can try to manage our time. We've got Jeremy Hamblin with Craig- Hallum up next.

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

Thanks. Apologies if we've already covered some of this, but I actually wanted to get into another piece of winning moments and get into the DFR space and in Skydio and Dedrone. In terms of the ramp, opportunity and the timing as you progress through this acquisition, and moving forward with this particular space, I wanted to get a sense for the inbound interest that you're seeing in this, the timing of when you feel like this could potentially add in at least somewhat of a material fashion to your business, and whether or not any of the events are creating more opportunities or more inbound interest in this particular category.

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

Yeah, let me start strategically then, then maybe let some other folks get a little more detail. So when you think about Dedrone for our core business of law enforcement, their interest has been, I would say, sort of mediocre on the pure drone detection. It's like, yeah, that's interesting. It's not part of our day-to-day jobs today, but the DFR component being able to fly drone as a first responder, there's a ton of interest there. They see that as the natural extension of a drone program. And DFR last we ran the numbers, it was growing literally like a 10 x rate that in a 12-month period we'd seen 10 times more agencies come on DFR. Now we also think that counter drone defense is going to become a bigger deal. I mean, there's stories emerging now about the role of a drone in the assassination attempt on Trump.

We think we're going to see, unfortunately, drones, the consumer level drones can be weaponized pretty easily, especially based on the rapid innovation we're seeing in the Middle East and Ukraine. So we also think there's going to be a big opportunity in law enforcement for counter-drone, but it's not, no pun intended on their radar so much yet. So DFR was the big play there. But then where Dedrone is also interesting for military customers, they've got a large number of systems deployed in Ukraine right now, and I think every country and every military is now getting very interested in how you deal with the threat of small FPV and consumer grade drones. So Dedrone gives us a new way to enter into the military markets critical infrastructure from protecting all the NFL stadiums to nuclear power plants, et cetera. So Dedrone gives us existing product lines to go into new markets and then hopefully pull the rest of our ecosystem along with it. Jeff, anything you'd add?

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

No, I think that's all well said, but maybe if Josh you wanted to talk to, the materiality question, sort of like you think about the pipeline over time.

Joshua Isner *President, Axon Enterprise, Inc.*

Sure. As Rick said, hey, this, this is going to take some time, even though the numbers are kind of exponentially growing in terms of adoption, this is going to take some time to be adopted in such a way that it has a material impact on our revenue. and so I think for now, just like early days of the body camera business in Fleet business and so forth, it's about establishing relationships with the agencies. It's about getting the first kind of one or two drones in there and then landing and expanding over time. So I would position this as strategically very important to win some market share early on, but more of a long-term effort before it really starts to have a major impact on the P&L.

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

And where do you guys assess the, the TAM in four or five years?

Joshua Isner *President, Axon Enterprise, Inc.*

I think Rick said this before and I certainly agree with it, I don't know if it's in the next five years, but in the next 10. We believe there'll be a one-to-one relationship between drones and police cars.

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

Thanks guys.

Joshua Isner *President, Axon Enterprise, Inc.*

Thanks a lot Jeremy. Appreciate it.

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

We've got two left. We're going to go to Mike Ng at Goldman Sachs.

Mike Ng *Analyst, Goldman Sachs*

Hey, good afternoon. Thanks for the question. I just have two. First, Axon Cloud services, up really strong in the quarter \$19 million sequentially, which I think is the highest on record. Is that a good way to think about sequential growth from here? And when you think about cloud services and cloud revenue, like, do you think about it as a function of number of seats and revenue per seat or do you have a different framework in terms of, teasing out the longer-term opportunity there?

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

Yeah, I mean, great question. I'll start. It was a big step. You can probably see as you go back our steps jump around a bit for any number of reasons. This happened to be a really nice quarter from a step standpoint. Again, we talked a lot about Fusus, but you've got Fusus starting to come into those numbers and some good additions. So, I don't have particular go-forward guidance, and given this was the largest step, maybe take that into account as you think going forward, but, really, really healthy growth and we were happy to see it. I'll let Jeff jump in on this one too, probably as the owner of this segment. But yeah, we do, we think about revenue per seat, number of seats, and then how many features and functions are each of these customers buying in terms of our add-on offerings.

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

That's right. I think that's, I think that's spot on. And so, and it's another place where OSP factors in because it's a great, as we've used that Amazon Prime analogy for a long time, it's a way for agencies when they have that procurement moment to buy a package that feels to them like a great deal, even if they only have in mind a subset of the things in the package. And so they're making a purchase decision that feels like a great deal, even for a subset. And then from that point forward, all the things that they aren't using yet feel free because they're already rolled into what they're already paying. And so those procurement moments to get people on higher and higher tiers of OSP continues to be a pivotal part of our flywheel.

Mike Ng *Analyst, Goldman Sachs*

That's fantastic. And it's good segue to the follow up, which was just really trying to think about how much that revenue per seat could actually grow. I don't know if there's a good way to think about when you think about some of your highest value customers, like what's the revenue per seat for them versus some of the newer customers? You know, how much more penetration in some of these newer software products like real-time operations and AI and productivity can there be into the existing install base? I was struck by about half the growth coming from these newer software products. Thank you.

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

Yeah, no, it's, it's a great question. I think probably the best we can give is we give periodic updates on how we're doing on our OSP penetration to give a sense for how much more room do we have to go. And we actually luckily shared an update this quarter that our OSP penetration went above the 20% mark. And so basically that's of all OSP, not just premium, but it means that just over 20% of our potential customers are on our OSP plans. You can imagine with that, there's lots of room to go. That talks more to getting any customer at all onto our OSP plan. But then as you think about revenue per customer, that can be the most basic plan and we move them up to our OSP premium plans over time. So, my punchline is lot, lots of room to go on that one.

Mike Ng *Analyst, Goldman Sachs*

Great, thank you, Brittany. Thank you, Jeff.

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

Thanks Mike. And, last but not least is Will Power at Baird.

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

Alright, great. Thank you. I guess I'll echo the congratulations. Broad base. Great to see. I have two questions. Maybe the first one, for Josh. So I was intrigued on TASER 10, your four largest deals outside of local law enforcement, if I heard it right, it'd be great to kind of understand what's happening there, what's kind of driving that. And I guess within that, I'm also interested in understanding how much does TASER 10 open up new TASER customers altogether? Are you starting to see people that just didn't have TASER 7 earlier versions, you know, go to TASER 10 because of the new capabilities?

Joshua Isner *President, Axon Enterprise, Inc.*

Yeah, absolutely. Thanks, will. Good to see you. It is exciting to see so much adoption and growth outside of state and local. I'd say there's the biggest dynamic in play there is in Corrections even, but then in more so in Federal and in International, you just end up with these customers that are 2, 3, 4 times the size of NYPD. And so when the pension for large volume orders is so much larger outside of the state and local customer base, and that's what we're starting to see. We saw a large correction, correctional facility purchase. We've also seen a lot of international governments, for the first time really, ordering our devices in larger volumes. And same for the federal government in the federal civilian space.

So I think it's a function of just the work we've put in over the last five years to expand beyond state and local law enforcement. And now a lot of that effort is starting to pay off and I think it'll pay off for years to come because there's still going to be plenty of upside and selling more and more TASER devices in. But like we said before, that's going to open up the opportunity to sell body cameras in, to sell Fleet in, to sell drones, vr, et cetera. And so, I think this is promising in a lot of different ways to see TASER 10 so well adopted outside of the state and local customer base.

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

Okay. No, that's helpful. And I wanted to ask Rick one. As you know, there are fresh concerns on the macro economy. You know, we are typically going to go into some sort of recession. You all have a great slide in the investor deck that I think in some respects addresses this, right? It looks at this consistency and public safety's been over a long period of time, but you've obviously been through a lot of cycles of the company. It'd just be great to kind of hear your perspective as to what type of impacts maybe you've seen in the past. And as you look forward, what we might expect in part because the portfolios also changed quite a bit, even if the customer base is somewhat similar.

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

Are you calling me old, Will?

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

You've just got great perspective.

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

I'm teasing of course, having a little fun with you. Always good to see you, thanks to the question. I think the same dynamic we've seen in the past, we're in this kind of a bubble in some ways. And I mean, not like a frothy bubble. I mean just, it's different. It's, we haven't seen the economic swings really impact us one way or the other. When things are really great, it doesn't really lift us because of that. And when things are rough, we don't get hit downward with that. And I think it's because in our customer base, whatever they're spending on tech, it's still a fraction of their overall spend. Almost all their money goes into personnel, vehicles and gas. And then tech is relatively small. So when times are really good, the agencies are typically hiring more people and expanding if the tax revenues are allowing it. In the tough time,.

I think in 2008 we had a quarter or two where they were really trying to like tighten their belts, but when it became clear, oh yeah, we're going to have to like actually make personnel cuts, we then found them investing more in productivity. And now back then we were still primarily the TASER company and body cameras were super new. I think what's different this time, most of our revenues on these long-term contracts we're an essential service. So we don't see agencies, better knock on wood when I see this. I can't fathom them like cutting back contracts. And in fact, things like Draft One, many agencies are still struggling to fill their approved budgeted seats. The post George Floyd sort of impact the difficulties around recruiting and kind of the negative energy around policing is improving. The pendulum is swinging, but many of them are still 15 to 20% below their targeted force numbers.

And so that's where we're hearing this sort of magical feedback where they're like, man, with Draft One, if it's freeing up 20-25% of my officers' day from writing reports, that's almost like a 20% bump in my, in my force power overnight. So, I certainly hope we're not in the beginning of a big economic swoon. and I'm not going to tell you we're immune. I don't think anybody's immune, but historically it just seems to be that we just we're in this different universe over here where those economics just don't seem to matter as much for good or for bad.

Joshua Isner *President, Axon Enterprise, Inc.*

And I'll just add to that Rick, that one of the really nice things that makes us feel really good at Axon is our products save lives and they also save money. And so for customers to move away from our products, it very literally is costing them money to do so and will make their economic situation worse, not better. And I think our customers understand and appreciate that and certainly, you know, we work really hard to make sure that our products deliver that type of value, for our customers.

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

Thanks. We'll toss it to Rick to close this out.

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

Alright. You know, you got to knock on wood when you have results like this and, you know, Josh, Jeff and Brittany and the team, just so many people work so hard and have delivered so consistently quarter in, quarter out. You know, I was waiting for Erik to throw up the screen with the forward-looking statements when Josh was expressing his effusive enthusiasm for the back half of the year, but it's been just a phenomenal run with the team. But it really does feel like with Draft One and some of the other things we're doing, we're in the early innings in a lot of really exciting new stuff and new markets that are now really taking off as well. As Josh likes to tell me, there are so many different pathways to be able to make our numbers work. And just it's a really exciting time to being the business. So we're delighted to have been able to deliver these results. A little inside baseball, Brittany has sort of joked that we didn't prove out to be very good at forecasting again this quarter because the sales team overperformed where we thought we were going to be again. I tend to like those problems. Brittany would like to see us be a little more accurate.

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

But if we're not, this is the way to go. <laugh>

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

<laugh>. So of course I challenged Josh, hey, let's keep over delivering. Of course we want to do that. So anyway, sorry for all the enthusiasm. We were having a good time. You've got to enjoy the good quarters and obviously we're feeling good about certainly the near term. And I'm super excited about the long term with all this stuff that's frankly unproven yet. That to me is the exciting stuff. We got a lot of, a lot of good stuff. That's Draft Ones off to a phenomenal start. And with that, I'm going to stop talking. Hey Erik, are we doing a thing at IACP with analysts this year? I should have asked that before I bring it up in front of everybody.

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

We'll have something.

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

<laugh>. Okay. So for those you can, stay tuned, IACP is going to be great in Boston this year. Check in with Erik on that. And, you know, we're just grateful to have you all supporting us as our shareholders. So thanks and we'll see you all in a couple months for the next quarterly results.

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