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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

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

Okay, we're all here. Hello everyone. Welcome to our first quarter 2023 earnings call. We hope you have had a chance to read our shareholder letter, which you can find at investor.axon.com. Our prepared remarks today are meant to build upon the already robust information you find 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 meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These comments are based on our predictions and expectations as of today and are not guarantees of future performance. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially, and we discuss these risks in our SEC filings. And before we turn the call over to Rick, we will play our quarterly update video. It's about a five-minute video today.

>>Quarterly Earnings Video @ <https://vimeo.com/825196950> <<

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

All right, thank you and great job, Andrea and Angel. Hello and welcome to our shareholders. We feel great that 2023 is off to a fantastic start. After announcing our moonshot goal last year to reduce gun-related deaths between police and the public by 50% over the next 10 years, we've brought to market two major product releases that can serve as the workhorses to help get us there.

When we talked about our moonshot goal to cut gun deaths -- TASER 10 is our Saturn V rocket and Axon Body 4 is mission control.

Customer reception to TASER 10 has been great -- we began shipping in March and many customers have called the product a true "game-changer."

For those of you who are new to our business-- new TASER devices take a few quarters to ramp in terms of sales as our customers need to trial and get trained before they can go to full deployment.

Next, as you saw in the video -- at Axon Accelerate last month, we announced Axon Body 4.

Four years ago on our earnings call, I told you about our vision for the future of body cameras and public safety, but once our cameras can talk over wireless networks, they've become something more like an Alexa on your chest as opposed to just a camera you wear to record, and that would open up a whole host of really interesting services.

Well, now for the first time ever, officers in remote support teams can communicate with one another in real time with a 2-way device. We think this is going to provide an entirely new level of awareness and situational support, especially when officers are dealing with mental health crises or battling language barriers.

Our customers are already thinking of new ways to apply this technology, and we can't wait to see what they'll do with it.

Our vision for the future of public safety technology is coming together. When our new TASER and body cameras are paired with Axon Respond, the full power of our real-time operational capabilities is unlocked. We can solve so many of the decision-making challenges public safety professionals face today.

I'm fortunate to be leading a company that has attracted the best talent across the globe to achieve what we set out to do. We believe people are inspired to do their best work when they are truly inspired to solve the problems that they care about. So we hire people who are passionate about our mission and we solve big problems, we create value -- and everything else falls into place.

Finally, I'd also like to take the opportunity to acknowledge Axon's inclusion in the S&P 500 as of May 4th, a testament to Axon's stable business model, our growth mission, and our global impact. Thank you to our customers, partners, and employees for making this possible. We founded Axon 30 years ago in my parent's Tucson garage, and it has been a remarkable journey and our best days are yet to come. And so with that, I'd like to turn it over to our Chief Operating Officer, Josh Isner.

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

Thanks a lot, Rick.

Enthusiasm from our customers has been infectious. What really moves me is when our customers see our passion and they become a part of it. Our annual Accelerate conference this year was the biggest and best we have ever hosted. When customers tell me that we are motivating them and changing the way they approach their jobs for the better, I know we are doing our job.

We see a strong and growing demand pipeline for 2023 and beyond, and we remain focused on doing our best work.

In February, I spoke about four areas of focus for 2023, and I'm pleased to report we are executing well on each of these objectives.

Our number one operational focus is revenue -- top line growth remains a priority. We grow our business so that we can invest and deliver more value to the market. Our investments are paying off. We grew the top line 34% year over year in Q1, achieving a record quarterly revenue for the company.

Our cloud business grew 51% year over year -- and it's remarkable to reflect that just a few years ago, cloud applications were nearly unheard of in public safety. We've been proud to evangelize public safety cloud adoption in the US and we will continue to do so globally.

Our TASER weapons business grew 17% year over year, and most of that was tied to continuing strong demand for our TASER 7 platform. We are only in the early stages of shipping our newest product, TASER 10, and we are seeing the strongest initial demand of any TASER weapon in the history of the company. I have seen several TASER product launches at Axon and customer enthusiasm for TASER 10 trumps any previous model.

Our second operational focus is profitability, which we measured by adjusted EBITDA margin. Brittany will take you through the details in a minute, but at a high level, I'm pleased with our performance in Q1.

Number three: new market expansion. In the first quarter, our international bookings grew double-digits, driven by nearly 100% year-over-year bookings growth in Europe, and we also saw triple triple-digit bookings growth in our Justice segment, an emerging market for us. We've invested heavily in our sales force and continue to support new capabilities in these new markets, and we're seeing leverage from these investments.

Finally, number four, new product adoption. We are tirelessly investing to ensure that the products we build continue to be adopted by our customers. We saw double digit bookings growth in a number of our emerging product categories, including ALPR, Air and virtual reality.

The foundation underpinning all of these priorities is our ability to attract and then retain world-class talent. We cannot accomplish any of this without the help of a team who brings financial discipline, a next-play mindset and the skillsets to launch us through the stratosphere of our moonshot journey. We enjoy high employee retention rates, which outperform tech averages -- and this is a testament to our mission and our ability to focus on solving real problems.

In sum, we executed strongly in Q1 have launched into two new products. Our pipeline is solid and we have line of sight to a very strong back half.

I'm proud of our team for driving such a strong start to the year, but I'm even more proud that they have quickly turned the page and are focused on sustaining the momentum in Q2 and beyond.

And with that, I'll turn it over to Brittany to take us through our financials in more detail. Thanks a lot.

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

Thank you, Josh. We are pleased to report another strong quarter reflecting broad-based strength across our business. Our top line growth of almost 34% year over year, supported by 51% growth in our cloud business continues to demonstrate the value of our offering. Given Q1 performance, we are confident in our outlook and raising our revenue growth rate from 20% to 22% for the year.

On gross margin, we had some sequential headwinds in Q1 coming from revenue mix as we grew Axon Fleet sales and the professional services associated with those and didn't repeat the gross margin benefit of catchup software revenue that we saw in Q4 of 22. Gross margin also reflects an impact of one-time items related to inventory and other cost adjustment. Over the remaining quarters of 2023, we expect Fleet demand to remain strong, and as a result, we would expect gross margins to remain approximately flat or improve only modestly from Q1 levels.

To double click on the impact of Fleet: Demand for Fleet 3 has consistently exceeded our expectations since we began shipping in 2021. Our Fleet business carries a lower margin upfront and transitions to high margin recurring software revenue over time. In the first quarter, for example, Fleet revenue grew 139% year over year. Fulfilling this demand solidifies our market leadership and sets us up for long-term success. When our customers buy more of our hardware, they are also investing in our broader, broader ecosystem of high margin software offerings.

We also continue to invest in automation and improving our manufacturing efficiency, and we're pleased to see the supply chain stabilizing in 2023, as expected. Over time, these efforts along with ongoing growth in our high margin software business, should continue to benefit gross margin.

Regarding operating expenses, R&D investment remains a priority to support our long-term revenue growth. We continue to digest SG&A investments we made over the past year and balance OPEX discipline with the investments needed to scale our business to \$2 billion in revenue and beyond. As we had anticipated, travel expenses have also increased as everyone returns to in-person meetings and events.

I am pleased to upwardly revise our outlook.

- We are increasing our full year revenue range of 1.44 billion to 1.46 billion, representing 22% year over year revenue growth at the midpoint.
- We continue to target full year adjusted EBITDA margins of 20%, complying a range of \$288 to \$292 million.

We remain focused on delivering on both our near-term and long-term financial commitments. In addition to the above, these include free cash flow, moving toward long-term sustainable equity dilution, responsible management of our balance sheet, and continuing to support our partner ecosystem. All of these are in great shape exiting Q1.

Longer-term, we continue to focus on delivering on our top line growth while expanding our gross margins, leveraging our opex and increasing our adjusted EBITDA as we work toward our 2025 target of 25% Adjusted EBITDA margins. Great new products including TASER 10, Axon Body 4, Fleet, and our software will all continue to support this outlook.

I look forward to updating you further on our continued progress next quarter.

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

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

Great, thank you. Let's put everyone into gallery view. Okay, awesome. No need to raise your hand if you're on this call, we assume you have a question. Thank you so much, analysts. We'll take our first question from Tim Long at Barclays. Tim, you're up.

Tim Long *Analyst, Barclays*

Thank you. I was hoping I could sneak two in here. First, on the full year outlook, if you could just talk a little bit, obviously growth in Q1 was pretty strong, so implying a little bit of a decel in the second half of the year. I guess towards the end the compares get tougher, but you just talk a little bit about that the rest of the outlook and what is built into a little bit more conservative growth than we saw in Q1. And then second, if you could just touch on kind of the new products coming out. Obviously sounds like a lot of demand. How does that fit into those that have subscriptions? If someone's not on a subscription, they want to upgrade or accelerate an upgrade, can you just talk about how you could see a benefit from these new products even if people are tied into a medium or longer term subscription deal? Thank you.

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

Maybe I'll take guidance and then turn customers over to Josh. Okay. So as we look at our guidance for the full year, obviously we're really pleased with our strong Q1 performance. Part of what goes along with introducing new products like TASER 10 and near term for Axon Body 4 is there is a transition period as our customers transition to those new products and are buying less of our existing older products. So as we look at our guidance, we're baking that transition into our guidance. We're also baking in the fact that we had a really strong back half of last year, and so the comps get more difficult as we look at the second half.

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

Yeah, absolutely. And just to add to that, we never want to get out over our skis on guidance. I think certainly there are paths to outperforming guidance and like we're working toward those, but until we see that actually materialized in the pipeline in a way we can feel a lot of

confidence in, it's important to be measured as to how we look at the data we have today. And so certainly the focus is delivering as good of a year revenue wise as we can and we feel confident that we have the team to do that. And on top of that, in terms of how we build in new products into our bundles and offerings, I think those are actually the opportune times to rewrite a lot of contracts. And so whenever there's a new product that comes out, either a flagship product like a TASER, a new TASER CW or a new body camera or something like a new software offering that gives us the opportunity to go back to those customers and demo those products, and as customers kind of value them, they start asking questions about, hey, how do we build this into our contract? And that leads to conversations about upgrading the bundle or adding on to the bundle. So those are great opportunities for our sales team to rewrite these contracts for the longer term. So that's how we look at new product introduction into the sales process.

Tim Long *Analyst, Barclays*

Okay, thank you. Very helpful. Thanks.

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

Okay, we'll go next to Keith Housum at Northcoast. Keith is in a public space doing our earnings call, so maybe we'll come back to Keith. Okay. We'll go to Sami Badri from Credit Suisse. Go ahead Sami.

Sami Badri *Analyst, Credit Suisse Group*

All right, thank you. I had first a tricky question and then maybe some less tricky questions. So first one, maybe to Rick, one thing that has been really clear is as a company, you've released many products at various price points, many software capabilities, and you're introducing virtual reality training and, and software. The big question is how are police departments making space for all these budget line items, that they are now having to pay for? And maybe the justification could be very straightforward, but perhaps you could explain to us maybe how your customers are building this into their budgets. Is it taking away from other categories? Is it replacing some things? What have been the conversations in the field and the way that they're actually justifying this and then have a follow up?

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

Yeah, great. So, all these new services, as we look at developing them upfront, we first ask ourselves, is this solving a valuable problem that our customers will see great value in? And then we also look at, okay, where will the funding for these come from? So you mentioned VR, so that's a great example. Especially with our international customers, we've been looking at

this very closely where the training costs associated with a TASER rollout can actually be several times greater than the cost of all the hardware, in terms of logistics of bringing officers in, backfilling when they're off the street, all the time and effort that goes into it, and with VR we're going to be able to dramatically streamline the training of officers by creating virtual training spaces where a lot of it can happen without direct human oversight from an instructor as they're learning the basic skills, we can get a lot of repetition in. For example, right now agencies may fire somewhere between six and a maximum of maybe 18 cartridges per year. We compare that to the thousands of bullets that they fire. Well with our VR, they can fire unlimited numbers of rounds. Our anticipation is by next year, every officer going through TASER certification training will fire over a hundred cartridges in VR, really building all the muscle memory and skill, and we'll be able to do it in a much more time efficient way, and we can distribute that training. So, for example, a lot of this training, including better recurrent training can happen out at the precinct level or the station level, rather than having to bring officers into centralized training locations. If I look at some of the things we're doing around, for example, some of our AI services, around transcription, for example, many of our customers, for example, in Canada, have to provide transcripts of every piece of evidence that is submitted, particularly in murder cases, and I believe in other, high-level felony type cases, so our ability to provide a machine transcript that's linked in with the video greatly reduces the amount of time. And we think over time, we'll be able to get to a point where there'll be no need for human intervention. So, everything that we're doing is designed to create value that will find a place somewhere where we're displacing inefficiency in the current budget, or in some cases competing products, like what we did with our ALPR service that historically agencies might pay \$18 to \$20,000 per vehicle to put a bespoke ALPR dedicated hardware camera system. We've turned that into a virtualized service offering that just sits as a layer on top of our existing in-car camera. Our in-car camera is cost competitive all on its own and provides really great value, and now they can choose to turn on ALPR just as a software service layer running on top. I hope that's helpful just in general as we're looking at all of these, we both make sure we're solving problems that are valuable to solve and that there's a path for the budget to either come from increased efficiency, reduced cost, or displacing some existing competitor.

Sami Badri *Analyst, Credit Suisse Group*

Got it. Thank you for that. And then for a follow up, it's for Josh. You talked about international bookings really ramping up and I was hoping you'd kind of give us a bit more color and context in terms of what your international customers are buying. Are they buying Fleet, TASER, body cameras, and how are they consuming everything? Are they consuming it within a bundle or are they consuming it all kind of ala carte one by one, product by product?

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

Yeah, thanks for the question, Sami. I think our strategy is really unchanged. It's one of landing and expanding. So there are some customers that start on the body cam side and they say, hey this is the number one problem we're looking to solve right now. Then over time, our job is to make them really successful in their first deployment and then evangelize our other products and sell those in tandem with the body camera. And in a lot of cases, probably more commonly in international, we start on the TASER side and build a lot of trust and drive great results, and then have kind of earned the right to sell other products in our product portfolio. So I think it's a healthy mix of those things. It usually starts with one of those two core products. I think what you're seeing is some early signs that customers are getting a little more open to cloud internationally, which is exciting, but that'll be a long-term process to move kind of major federal governments of these international customers over to cloud. And we're seeing more openness to deploy our next generation TASER devices as well. So the team is doing a great job executing, certainly playing the long game internationally. And there'll be some really exciting quarters where we have double digit or triple digit bookings growth, and then there'll be others that are kind of more par for the course along the way. But when we add them all up at the end of the year, we're really excited about the year over year growth that we'll see internationally.

Sami Badri *Analyst, Credit Suisse Group*

Got it. Thank you.

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

Next up Mike Ng from Goldman Sachs.

Mike Ng *Analyst, Goldman Sachs*

Hey, good afternoon. Thank you very much for the question. It was encouraging to see the strong Fleet sales in the quarter, and I have two questions there. First, is there a better way to understand that the sharp inflection in those Fleet sales, despite the fact that Fleet 3 was launched two years ago, it'd be helpful to understand not only for Fleet, but also to potentially just better understand how purchase dynamics may impact how to think about Body Cam 4 and TASER10. Thanks, and I have a follow up.

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

Yeah, absolutely, Mike, thank you very much for the question. We're excited about Fleet and we talk about this from time to time, but five or six years ago when we launched Fleet 1, might have even been a little longer back than that, it was really a body camera attached to a windshield and we learned a lot, we built Fleet 2, which got us to kind of parody in the market, and then Fleet 3 was the product that kind of accelerated us into a market leadership position.

And so there's a couple different dynamics there on the ramp of Fleet 3, one of which is just growing demand for next generation in-car video accompanied by ALPR. We continue to see that and feel great about that. Part of it is where customers were in existing upgrade cycles with Fleet 2 that led to a slower ramp and then a steeper climb or steeper adoption later. Then, another one is just the supply chain environment we've been in the last, been in in the last few years, Fleet 3 relying on third party hardware, and the supply chain team at Axon has just done a fantastic job navigating the Covid supply chain challenges, but now we're seeing the supply chains opening up and we're able to deploy more at a faster clip to customers. I think it's a healthy mix of those. Maybe a distant fourth would be when customers have to upgrade systems across hundreds of police cars that they use every day, just their requirements for how they do that over certain timeframes can be one that's a little backend loaded as well for each of those deployments. We manage all of those things, but we certainly think Fleet will continue to scale throughout the next couple years and, and we're really proud of the team for delivering such an awesome product to our customers.

Mike Ng *Analyst, Goldman Sachs*

Great. Thank you for the very comprehensive answer. And then the, the follow up would be, could you just talk about how to think about the translation between, Fleet sales into Axon cloud growth? Are there any lagged effects to the benefit to cloud or ways to think about how much of the Fleet 3 sales are upgrades versus growth in the install base? Does that even matter as we try to think about how that translates into Axon cloud?

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

Thank you. Yeah, it's a great question. It's really just our hardware strategy paying off, right? Like we really believe that what we're building at Axon is a network of connected hardware devices, whether they're on the officer's body, in the police car, on the officer's belt, in the skies, in the case of Axon Air, and so forth. Whenever we launch a very competitive hardware platform, the biggest value proposition of any one of those products is it connects to the rest of your evidence and ecosystem that you use day-to-day as a police officer or a police administrator. And so that's really the magic of Fleet 3 is it just, it's one more thing that plugs into this network that you already use day-to-day and it leads to a fantastic customer experience. I think this was very much an existing market that we entered and had to compete against a lot of established incumbents, and that took some time. But as I mentioned, we're really thrilled to be the market leader in this category and now it's about distancing ourselves even more.

Mike Ng *Analyst, Goldman Sachs*

Thank you for the thoughts.

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

Mike, the only thing I'd add, Josh's answer was very comprehensive, but I think tactically a little bit what you're seeing this year is that we now have the supply of Fleet that we need, and so we're able to start fulfilling some of that demand. The only thing that's really limiting us at this point is how fast we can actually get those cameras installed, which is why we called out the professional services component. So just how fast can we get them out and installed at our customer, and then that's really what will trigger being able to turn on the higher margin cloud revenue is getting the cameras installed and up running at the customer.

Mike Ng *Analyst, Goldman Sachs*

Thanks, Brittany. Thanks, Josh.

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

One last tiny thing to add there and ties back to what Rick was saying before, in addition to the price inversion that ALPR made from making this broadly available versus the traditional super expensive on a handful of cars thing, what this does when a department adopts Fleet 3 with ALPR and Respond, that turns every car all day, every day into a cloud software use case where all day, every day, every car across their entire fleet and across their entire city, those vehicles and those cameras are being used as active sensors connected to cloud software to help power the results they're getting. So that further reinforces their connection to the value they're getting out of our overall ecosystem.

Mike Ng *Analyst, Goldman Sachs*

Thank you, Jeff.

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

Thanks guys. Josh Reilly at Needham. Go ahead.

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

Hey there, thanks for taking my questions. How should we think about the backlog for TASER 10 post Accelerate? I was able to speak with some customers there at the event who were thinking about buying the 7, but they were then evaluating whether to switch to the 10. Is that

something that you are seeing coming out of the conference, and is there any implication for the model here, for the balance of the year from that?

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

Yeah, Josh, as Rick said in his remarks, it does take a little time once we announce a TASER for trials and evaluations to take place. And so you see a little bit of a lag between the interest and the demand and the purchasing. But the good news for us is this is the seventh or eighth time we've been through this. We've worked through this. We understand what the puts and takes are. We understand how to communicate with customers on this project plan and how they evaluate and what the timing is. But I think in the back half of the year, you'll see a really striking kind sales growth in TASER 10 and that will continue for the next several years. We feel fantastic about the product market fit. We feel fantastic about the customer reaction to the product, and now it's on us to just manage the upgrade cycle from TASER 7 to TASER 10, and we have a lot of confidence that we'll be able to do that very effectively.

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

Awesome. Great to hear. And then could we get an update on the Axon Records pipeline and maybe highlight what are some of the key product development priorities for Records near term? And then is there any profile in terms of customer size or any other characteristic that's adopting the platform fully from their legacy system and moving on?

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

Sure. Maybe I'll start with a pipeline and then I'll pass it over to Jeff to talk about the feature set and some of the differentiators and investments. Just in the pipeline, we've got a two-to-three-year view of customers that are looking to deploy Axon Records, and part of that is our motion of selling it as part of the Officer Safety Plan bundle. I want to give Bryan Wheeler and the entire Axon Records team a huge shout out for responding to adversity and building really mentally tough teams. I don't know that there's a better example of this at Axon than the Records team, hearing a lot of early feedback at times, complaints early on in the product's lifecycle, and now we see this as the thing that allows us to become the operating system of public safety for the long term, and so we're very confident in the demand, in our ability to deploy customers over the next several years to get closer to a market leadership position there.

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

Totally. So just on the numbers, right now actually deployed, we've got nearly 60 agencies that represent nearly 20,000 sworn officers who are live on at least one module of Axon Records.

That includes 17 agencies out of today that are already fully transitioned to replace their legacy RMS. And that already includes some great major cities such as Tucson, Baltimore, Virginia Beach, and Fresno with more coming soon, so we feel fantastic about the case of adoption that we've got, as Josh said, both in the pipeline as well as what's already deployed. And this overall strategy of getting agencies to get going with at least one module of Records, which then very frequently transitions into them wanting to adopt the full product to replace their entire legacy RMS. And you heard me talk when I first joined the company nearly four years ago that this was going to be a long journey but we were confident that over time, exactly as Josh said, we'd be positioned to become the clear leader in this space and both on the strength of the product itself, but again, on its connections and inherent coherence with the rest of the Axon ecosystem, and that's one of the things that our customers value the most as we sell in.

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

Awesome. Thanks guys. Fun to see the success on that product line there.

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

Will Power at Baird.

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

Okay, great. Yeah, I'll try to slip in a couple of questions. I guess first it'd be great to get any kind of early feedback you're receiving on AB4. What are some of the features officers are most excited about and what's the feedback you're getting on the bi-directional voice capability? I mean, is that something they're really going to utilize, they think they'll utilize, they won't utilize? I'd just be curious, what you're hearing so far.

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

Yeah, absolutely. Thanks for the question. So as you saw in the video and a bit in the shareholder letter, it's of course early days, but we're incredibly excited about the initial response, both from perspective customers hearing about it at Accelerate, as well as the customers that are actively trialing it so far. There is both the meat and potatoes things of our best ever battery life and sensor and all of those things. There's the return of the POV accessory and having it unified with the core camera in a way that we had never had before. There's a ton of excitement for both of those things and then on the comms side, you've heard us talking about Respond for multiple years now, and the growing really, really healthy, both sales and adoption of that in the field, even when there's only been the one way they have consuming streams up until now. And as agencies are trialing and talking about the bi-directional, we're getting a lot of enthusiasm for what that makes possible. And in particular, a lot of excitement

for this idea of the dedicated “watch me” button on the camera. And the reason why we think we're getting a lot of excitement for that is, as you heard in the video and from Rick, it inverts the control or the perceived control and puts it right in the hands of the individual officer. It makes the conversation for an officer being, hey, if I need help, if I want someone to watch my back, I can request that, and that creates a proactive signal to command staff, support staff, whoever it is encouraging them and asking them to jump in on that right now as opposed to today's live streaming, which requires someone to be deciding to be passively watching and deciding to go in or with signal alerts that might come in from time to time. So there's a lot of excitement about all of that. And overall, we expect it to keep ramping just as Respond has over the past couple of years.

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

Yeah, I would jump in with one of my favorite quotes from science fiction author, William Gibson, who says, “the future is here. It's just not evenly distributed.” Live streaming, when we introduced it a few years ago, was a totally new concept. And much like when we first launched body cameras, this is an industry where new concepts take a little while to really take hold, but there's one agency in Texas called the Texas Medical Center. We had the Chief up during my keynote, he's now live streaming every call for service into dispatch. His results have been just phenomenal. Imagine just for a moment that you are a police dispatcher in today's world. You're probably supporting five different calls happening with 10 to 15 different officers. You've got to keep track of what's happening largely through these cryptic radio messages on a shared channel with the officers you are managing, as well as who other people are managing. And you have very little idea about what's actually happening at these calls. And then flip to a different world whereas you're doing this, you can have a screen where you can see visually what's happening for all those officers. It turns out that our visual system is highly tuned to notice things that are abnormal or out of the ordinary. For example, you're sitting next to somebody on an airplane, right? None of us want to be the creepy person reading the phone of the person next to us, and you don't notice it when there's texts going on, but if they get some photo or something, it'll just grab your attention, and even though it's far in your periphery, you immediately think, I didn't even mean to invade this person's privacy, but our visual system is really good at that. Well, now, if you're a dispatcher, what we're hearing from TMC is that these officers or the dispatchers are rapidly able to notice something doesn't look right with what's happening here, and they'll then tune in and focus. They may call for a supervisor to tune in live, they'll dispatch additional resources. In some cases, they're helping officers. One of them noticed somebody who'd been in a different call who then gave that officer a fake ID or a false name. So, I have high confidence that in another five to ten years, the idea of trying to run a police department with only radio voice traffic is going seem just crazy once you can do this with audio and video and more sophisticated integration of sensors. And we believe we're really on the cutting edge. Because we made the decision with AB3 to put LTE into every camera, and then allow that to start iterating together with our customers to learn about these new use cases. The two-way voice, once you can see a video, the next thing frequently you

want to do is communicate with that person and not have to do it over a radio that air traffic is very tightly controlled. It's not one-on-one, you can't have a rich conversation, you have to use cryptic codes because you're also transmitting that to 15 or 20 other people that aren't involved in that conversation. We're still early in AB4 rolling out, but we think the feature set hits both the transformative new capability and then some simple things, like some people love the head mounted camera, some like it mounted on their shoulder. Many officers prefer the body camera. Those have always been two separate SKUs where you couldn't reconfigure them. We now have one SKU where we can reconfigure, so if you go from SWAT to patrol or whatever, you can now have many mounting options. And the ability to recharge while you are in the car with a magnetic disconnect mount gives us effectively infinite battery life, so we think this has been a great combination, both transformative and just continuing to deliver on the basics.

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

Yeah, that's a great overview. Thanks, Rick. If I can get a question in for Brittany on free cash flow, has some impacts in the quarter, I think more so than we've seen in in past years. So any other color there? Just maybe any thoughts just on the free cash flow outlook for the year.

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

No more than, than what we shared. I wouldn't say it changes any of my view in terms of our ability to generate free cash flow over the course of the year. We just had some, some strong seasonality in Q1 in terms of uses of cash, including bonus, commissions, some timing around remitting stock taxes for stock options, a little bit of inventory, but mostly some of those more one-time items.

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

Okay. So cadence of the years, we'll see that probably snap back beginning in Q2, I suppose.

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

Yeah, I think you'll still see good healthy free cash flow for the year.

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

Okay. Thank you.

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

Of course. Thanks.

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

On behalf of **Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Great, thanks. I'm going to read Keith Housum's question aloud. He's in a public place with bad background noise. So Keith Housum at Northcoast asking, "can we provide an update on VR in terms of modules growth, geographic availability, number of users over the past year, and our goals for 2023?"

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

Sure. I can start there and maybe Rick can fill in any blanks. I don't think we're ready quite yet to talk about user growth in VR or any kind of detailed financials on the product line. Instead, we're really focused on building a platform here for training police officers at a much higher quality, well into the future. And so for us it's really about, hey, how do we have the foundation built with the skills needed in terms of training between the TASER, a firearm, and verbal communication in our community engagement modules. And over time, what you'll see is you'll see more specific scenario-based modules being released to the market. To start it'll be in the U.S., but we are more rapidly integrating scenarios from some of our growing markets such as International and Federal and Corrections and otherwise. But again, the foundation of the product has to be very solid between the sensors the officers use and the software that accompanies the experience for the trainers themselves. And so just like with our other products whether TASER, body camera, or Fleet, it's about getting the basics right first and then moving quickly once we have that platform very solidly built. We continue to be excited about the bookings we're seeing in VR. It's one of our fastest growing products ever and we expect that trend to continue for the long term, but we want to make sure we don't get ahead of ourselves and really do things right from the ground up.

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

Okay. And we have four more analysts in the queue, and we're going try to get to everybody today. Jonathan Ho at William Blair. Go ahead, Jonathan.

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

I'll just stick to one question just to keep things moving. Can you help us understand some of the gross margin dynamics around some of your newer products and maybe how you expect that to trend over the course of the year? Thank you.

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

Yeah, no, appreciate that. So we've really called out gross margins as probably being very similar to Q1. And if they improve, it'll be only slightly. So we're really expecting that to be the dynamic for the rest of the year. A couple of things that really go into that are this continued revenue mix that we're seeing from Fleet. And the growth we're seeing in Fleet. Fleet inherently has a lower margin upfront, plus we have professional services to get it installed. So that's an impact to us, which will be a benefit over time. This continued growth in our software revenue over time will be a tailwind, but this year it is a mix impact for us. And then I would say we would expect as we continue to ramp in T10, to see that improve toward the back half of the year, like we were talking about, but that'll be offset with some of these Fleet dynamics.

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

Okay. Jeremy Hamlin from Craig-Hallum.

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

Thanks. And my congratulations to Rick and the team on this milestone of being at the S&P 500. It's a pretty amazing journey over the last, where you guys were 15 years ago. I wanted to ask just about your ARR, which is up nearly 50%, I think probably like the fastest growth on a year over year basis maybe in the company's history, but certainly in the last five years. And you provided a little bit of color in the release on that, but just wanted to see if you could add a little bit more in terms of the dynamics between booked seats versus ARPU. You talked about premium packages that you're getting clients to sign up for but wanted to see if you could share a little bit more color around that and how we should be thinking about with their product launches around TASER 10 and AB4. I imagine you'll be getting some higher bundled packages on a go forward basis, but any color you can share on that?

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

Yeah, I'll jump in and, and then maybe Josh, we'll see if Josh wants to add to it. I would say it really is the sort of flywheel taking effect, and so you're starting to see the benefits of that. Certainly, moving some of our customers into our more premium offerings is continuing to benefit us in terms of ARR growth and then I think you're seeing many, many years of work to get people added into this software and the ramp we're seeing from some of our hardware products and the move up the curve start to come to fruition.

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

Yeah, the only thing I'd add there, and Jeremy, I appreciate all the kind words, thank you very much, and it's been fun to have you guys on a lot of these calls for a long time now. In terms of the ARR growth, it's really doing two things very well, and I give Jeff a lot of credit for kind of simplifying this upon his entry to Axon a few years ago. We have to sell new products to our existing customers, and we have to sell our existing products to new customers. And when we do those things in parallel very well, you see the types of results that we're seeing now. And so, as Brittany said, in our existing markets, getting the flywheel going across OSP, but then supplementing that with great results in Federal and Enterprise and Corrections and International, it's doing those two things in parallel that's leading to great, and exciting growth.

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

Got it. And just one other follow-up here, with the launch of AB4 and TASER 10, any color you can share in terms of the adoption kind of cycle times versus what you've seen in the prior ramps, whether you want to compare it to TASER 7 or AB3? Faster, slower? More depth on that would be great.

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

Sure. I'd say in the TASER business in general it's generally a five-year upgrade cycle. So whenever we launch a new TASER device, you see the customers that bought five-ish years ago as your customers that have the most early interest. And we're seeing that with T10. But the thing we're most excited about that's very different from previous generations of the TASER is that customers that are early on or midway through their cycle with TASER 7 are expressing a lot of interest in upgrading early to TASER 10. I think that speaks to the huge improvements, in terms of effectiveness, range, and so forth that our customers really see and value, and that's driving them to maybe not only upgrade early but line up the resources on their end in terms of training to also allow that upgrade to happen on a faster cycle. We're very excited and encouraged. Of course we've got to execute, and we've got to drive that into fruition, but we've got a lot of confidence that our team is capable of doing that.

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

One anecdote I'll share, forgive my enthusiasm, but we had one customer at TASERCON, a mid-size, as in several hundred officer agency that was sitting in the keynote that called back to their chief, and they actually changed an order that was in process. They got the order through, I believe, including the chief's signature and the approval of the city's purchasing department by the end of that day. We've not seen something like that again. I don't want to get too excited from a projection standpoint, but that reaction, to me, was just extremely meaningful, that they saw this as something that was worth, really disrupting the whole process to stop an

existing order and pivot on a dime to get the new thing approved. And then the other thing I would tell you is where I think TASER 10 could make a really huge difference is in the international markets. TASER 10. For the first time, I think we have a weapon that could become the officer's primary defensive tool, probably not in the U.S. because we live in a country that's awash in guns and officers need to have their lethal weapons, but pick your average European country where police are all wearing pistols in nations that really don't have a gun crime problem and previous versions of the TASER weapon probably didn't have enough capability, range, enough shots that you would rely on it as the primary tool to defend yourself, but I think we're now crossing that rubicon and I think that could really open up the international markets where we have the opportunity to become the primary defensive tool.

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

Erik Suppiger at JMP.

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

Hey, Erik, it looks like you're on mute.

Erik Suppiger *Analyst, JMP Securities*

There we go. Can you hear me? It is kind of a follow-on from what Rick was just saying. You've talked about the international opportunity for TASER as being multiples of the domestic opportunity. As you've said you've seen some strength in Europe. Can you talk a little bit about the dynamics of how they're adopting your products? Is it more of a shift towards the TASER? Is that something that can be a bigger opportunity than the body camera, or what are some of the dynamics in terms of adoption in Europe?

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

Yeah, to start, Erik, I'd say it's really some of the actions we took three or four years ago are really just starting to pay off and TASER programs regardless of geography or market, it generally starts with a lower number of units that are aimed at a particular use case, whether it's SWAT or a certain number of users in a police force. But then once they start seeing early success, that's really when we see the willingness to adopt in much higher quantities. And really that's happening in a number of European markets at this point. Then that's driving some of the exciting growth there. And as we start to reap the benefits of that, we also are planting seeds in other markets where they're for the first time adopting either dozens or low hundreds number of TASER devices and then in a couple years, we'll see more proliferation there as well. In terms of the relative opportunity, generally, I'd still say body cameras are the longer term, the higher TAM only because you've got a higher ARPUs associated with our video business versus the

TASER at scale. They're both very compelling opportunities in international and my guess is TASERs will move a little faster as we still, especially in Europe, as we still start to evangelize the cloud more and more there. But over the long term, certainly the body camera and cloud business is very attractive and one that we're really excited to continue to grow in some of our international markets.

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

Okay. Awesome. Paul Chung at J.P. Morgan. Go ahead Paul.

Paul Chung *Analyst, J.P. Morgan*

Hi, can you hear me? Okay, great. Thanks for squeezing me in. Most of the questions have been asked, but just on TASER 10, thanks for all the details on the upgrade cycle. So the use case for the upgrade is pretty clear, given the effectiveness. We got to try to Accelerate. It is quite easy to use. Can you expand on more of the cartridge volume dynamics? And you mentioned kind of a boost on overall margin profile there, talk about the magnitude would be helpful as well, and is this more of a gradual ramp in the second half? Thank you.

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

I could probably start with what just the bundle looks like, and then I might hand it over to Brittany to talk more about the cartridge gross margins and the ramp. The bundle on this product, it's really important since you have 10 shots in the device to be able to train and thus that drives training cartridge demand up and because each shot is an individual shot, I think over time we'll see duty volumes go up as well, so we've priced all that into the bundle and you can go on the website to look at the relative pricing verse T7, but that contemplates some of the growing cartridge demand. And of course, as we get up to speed with selling high volumes of these, that has implications for us on automation and how fast we're able to ramp our manufacturing. Maybe Brittany has something to add there on the margin side.

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

I think you pretty much nailed it, which is because it's starting to get bundled in, we're not really thinking about cartridges versus handles separately from a gross margin standpoint, we're really thinking about the whole TASER package together. And so as we talk about TASER margins improving as we go through the year and get to the back half of the year, because that's bundled together, I would view it as bundled together in our margin outlook as well.

Paul Chung *Analyst, J.P. Morgan*

Gotcha. That's helpful. And that's the same dynamic for the Axon, the body cam, the new one as well? That's it for me. Thanks.

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

Yeah, Paul, I, I think on the body cam, the only thing I'd add there is, because Respond is the thing that drives some of the features in terms of the streaming and communication features in AB4, there is a real opportunity to sell more outside of the core body camera hardware and service. While we're excited about the growth in Respond, we see some opportunity there for the volume of Respond licenses sold to grow over time as a result of some of the new capabilities of the AB4 hardware.

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

Okay. Great. I think that's everyone. Do we have any follow ups? I'll give it a second. Looks like no, thank you for joining us. Let's have Rick close us out.

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

Awesome. Hey, obviously excited to be off to a good start to major new product launches. I think VR, which you guys asked some questions about here is really going to start hitting its stride the back half of this year. We've integrated new sensors so that TASER 10 will be first where we'll have a really fine-tuned, very smooth integrated product experience. TASER 7 will follow and then we'll start rolling out various firearms and other platforms. So we think we're really setting the right stage with these two new products to make progress toward our moonshot, to continue to sell value added premium services and to really go wide with VR by next year. We think that'll be common for pretty much every officer and instructor who's getting trained on a TASER that we believe VR can become the standard and that's going to create an opportunity for us to then launch a whole lot more content and services through our VR platform. So, Jeff has just been doing a great job with the team hiring and bringing in great talent to build all of this and then putting together our strategy for how we layer all the hardware and the software pieces. So we're just really excited to have you shareholders and analysts who've been part of our journey and we're just getting started. We've got an exciting 10 -year march ahead of us to cut gun-related deaths in half and I'm confident we're going to do it. So with that, we'll see you all I think next at our shareholder meeting and then at our next quarterly results, after we wrap up Q2. So thanks everybody and have a great night.

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