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Axon Enterprise, Inc. (AAXN)

Q3 2020 Earnings Call

CORPORATE PARTICIPANTS

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Richard Coleman II

Vice President & General Manager, Federal Sector, Axon Enterprise, Inc.

Luke Larson

President, Axon Enterprise, Inc.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

Jeff Kunins

Chief Product Officer & EVP-Software, Axon Enterprise, Inc.

OTHER PARTICIPANTS

Keith Housum

Analyst, Northcoast Research Partners LLC

William Verity Power

Analyst, Robert W. Baird & Co., Inc.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Joseph Osha

Analyst, JMP Securities LLC

Jonathan Ho

Analyst, William Blair & Co. LLC

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Joshua Reilly

Analyst, Needham & Co. LLC

Charlie Lowell Anderson

Analyst, Colliers Securities

MANAGEMENT DISCUSSION SECTION

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Okay. Thanks. Hello, everyone, and welcome to Axon's Third Quarter 2020 Earnings Conference Webinar. Thank you so much for joining us again over Zoom today. I'm Andrea James, Senior Vice President of Corporate Strategy and Investor Relations.

We do appreciate that it's a particularly crowded earnings day, particularly with the election being on Tuesday. So, thank you so much for joining us today. Today, we have available Axon's CEO, Rick Smith; President, Luke Larson; CFO, Jawad Ahsan; Chief Revenue Officer, Josh Isner; Chief Product Officer, Jeff Kunins; and we have a special guest today, our VP and GM of the Federal Business, Richard Coleman.

First, we're going to give prepared remarks, and then we'll bring our analysts up onto gallery view for questions. I hope you've all had a chance to read our shareholder letter. We posted it to investor.axon.com, and the remarks that we make today are meant to build upon the information in that robust letter.

If for some reason, we lose access to Zoom or Internet connectivity, we'll make every effort to post our prepared remarks to investor.axon.com, so you can read them. 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. They are not guarantees of future performance. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. These risks are discussed in our SEC filings.

Okay. Let's turn it over to Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Thanks, Andrea. Hey, I know everybody's really busy with earnings season and you may have a lot of calls to go to, so I thought about how can I best encapsulate the quarter. Over a thousand people busting their selves working so hard in the hardest environment I've ever seen. And man, that team they deserve that we spike the ball. I couldn't be more proud of what our teams turned in.

Now with that, I also know some of you are working from home. We've had the pleasure of meeting some of your kids. We want this to be the conference call that your kids want to come join. So at the end, have them join you when you ask questions and we'll send them some Axon swag for warming up our call. Speaking of which come here, Kylie. I've got my daughter Kylie who's learning about business. Say hi to everybody. So Kylie is going to be attending as well and giving me pointers from the side as we go over our results. So, thanks Kylie.

At the end, we're also going to have a little bit of background bingo. You guys enjoyed it last time, so, today, we're going to play a little game. But we know you're busy, so let's get started. Just hang out for the end and have your kids join us.

I could not be more proud of what has happened to this company, how we've transformed and scaled in recent years. An idea that really started from a tragedy 27 years ago has had us put together platform and solutions that are at the center of today's national conversation around justice, equality, and social reform. Our mission has been clear from day one. It's a privilege to be solving essential problems for our customers and for our communities. We see our customers out there working hard to keep communities safe, and we thank you, we thank them for their dedication.

Communities are increasingly demanding not just body cameras but also TASER devices as they see more and more often that police need options to reduce incidents escalating to lethal force. On the heels of the extensive civil unrest we've seen over the past several months, Axon established a fourth company mission, a pillar which I talked about last quarter, centering on racial equity, diversity, and inclusion.

Our teams are greatly inspired by this new mission and joined forces to develop a new companywide initiative, Sprint for Justice, led by Jeff Kunins, our CPO. Our entire engineering team came together in one enormously successful and productive two-week sprint. They created and shipped eight new capabilities in support of Axon's new goal. We have commonly highlighted these in a graphic within our Q3 shareholder letter, and you can link from the front page of our website.

Another big callout this quarter, significant traction in federal where bookings were up 400% compared to last year. We're establishing a strong foothold in the early innings here with big wins across new customers and programs. We've been making strategic investments into the US federal market, and we view this early success as a game changer.

And with that, I'd like to introduce you to the game-changing person who's behind this, and that is Richard Coleman, our Vice President and General Manager of Federal Programs. Richard came to us from General Dynamics where he started out as a solutions architect for Department of Defense's Geosynchronous Satellite programs. He progressed to capture management where he won multiple \$100 million and \$1 billion programs. And we certainly hope he'll be doing that with us here. And he finally finished his General Dynamics 18-year career as a Vice President in GM for Law Enforcement Systems. Richard?

Richard Coleman II

Vice President & General Manager, Federal Sector, Axon Enterprise, Inc.

Hi. Thanks, Rick. Really appreciate it. Now, I am thrilled to join you all for today's call. This quarter will mark my second year here at Axon and I've never been more bullish on the opportunity we have in front of us in the federal market. Q3 2020 marks a historic moment for Axon Federal, as we've achieved a record \$38 million in bookings, up 400% year-over-year. Our success includes a number of new programs and contracts, many of which were first for Axon. I'll walk through five of these quickly to provide some color, but these are also in the shareholder letter as well.

First, we established our first two programs of record with the federal government including a \$13 million US Customs and Border Protection order for body cameras and digital evidence management. This is significant because Customs and Border Protection is the largest law enforcement agency within the US. And if you're not familiar with the program of record, it's the key milestone that specifies an appropriations line in the US discretionary budget.

Second, we signed our first indefinite delivery, indefinite quantity, or IDIQ, contract with a federal agency directly. To be successful in the federal market, in federal space, it's essential to establish contacts and contracts to get

your solutions funded, and an IDIQ is a contract vehicle that does just that for us. Additionally, it gives the agency an established way to procure our solutions through an established vehicle.

Third, we signed our first Officer Safety Plan with a federal agency. A lot of you are familiar with our OSP plans. It's a bundle that includes TASER 7, Axon Body 3, and all the software that goes along with it. And we're excited to take this popular bundle and introduce it to the federal law enforcement market as well.

Fourth, we sold body cameras and cloud-based digital evidence management to the first Department of Defense customer. And we think there's much, much more opportunity to unlock in the DoD starting with the military police and security forces across the department.

And lastly, we signed our largest TASER contract in company history. It's valued at \$15.5 million with the Department of Homeland Security.

Now, with all that said, all these achievements, there's one thing that really excites me most about federal and is that Axon is already an established tech company known for its innovation. And we can leverage our innovation, our tech pedigree along with our top notch products to fill real federal requirements immediately, to fill them today in the federal market. And we can do this while still innovating like the tech company we are. And we can drive the industry as well as the federal market forward.

Again, I really want to thank you all for the time today on today's call. I'm both humbled and honored to have the opportunity to lead Axon Federal into the federal market and in doing so protecting life, capturing truth, and accelerating justice for the federal defense and civilian agencies and all the communities they serve.

So with that, back to Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Awesome. Thank you, Richard. It's been just a real pleasure having you on our team, and your impact has been remarkable as demonstrated this past quarter. I want to conclude my segment by thanking our employees. Look, we're all going a little stir crazy working from home in this wild turbulent 2020. And I just think about the mental toughness and commitment that people have summoned this year to work through it and deliver the kind of results this team is delivering.

It's not lost on me that we are in a fortunate position. Despite the fact that we're in the midst of a global pandemic, we've been blessed that we have a superior talent across the organization, we have mission-critical products, and we're finding new and increasing pathways to growth and a powerful financial model.

And with that, I want to turn over to our President, Luke Larson.

Luke Larson

President, Axon Enterprise, Inc.

Thanks, Rick. There are so many great things to talk about from Axon Accelerate, our user conference, to our massive early success in the US federal market that Richard talked about, to the strength that the demand for our software services and our Officer Safety Plan subscription, and the phenomenal adoption we're seeing. We detailed a lot of it in our shareholder letter. So, to avoid being too repetitive, I just want to highlight just two of the many successes from this quarter.

First, TASER, we're not just selling TASER devices anymore. The category is evolving from a book-and-ship hardware product to a subscription-based de-escalation platform that includes cloud software and training. And we see this in the percentage of TASER devices sold on a subscription which rose to a record 75% this quarter. This 75% reflects a surge in demand for TASER in the US. Internationally, we are still getting started. And so while subscription levels are lower than in the US, we are confident we can also drive subscriptions abroad.

Second, we launched Axon Respond, which is a giant leap in police communications technology. We are evolving real-time situational awareness beyond the radio. Going back two years, we've spent more than 1,000 hours studying what was wrong with 911 operations, so we could deliver a compelling solution to fix it. Rather than describe it, we're going to play the video that we showed at Axon Accelerate. Most of the technology you'll see in this video is in the market today with a few exceptions including Fleet 3 with license plate reading, which we are aiming to bring to market mid next year.

[ph] Doug (12:06), can you play the video?

[Video Presentation] (12:10-12:52)

Awesome. And one last shout-out for me to all of our employees that helped delivered these record results.

And with that, I'll turn the call over to our Chief Financial Officer, Jawad.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

Thanks, Luke. I'm also very proud of our employees for putting up another quarter of solid execution, which drove outperformance across most of our metrics. Earlier this year, we shared our plans to invest in our channel, product and support infrastructure, as we look to scale the business to \$1 billion in revenue and beyond. These investments yielded results ahead of our expectations as evidenced by our strengthened outlook for 2020. We intend to continue these types of investments in 2021.

Two areas, in particular, highlight how we think about calibrating our investments for growth in a dual-track, near and long strategy. With certain channel investments such as federal and international, we can start to unlock revenue relatively quickly in the near term. Meanwhile, with other investments particularly in our software product categories such as records and dispatch, we're bringing new products to market that will disrupt legacy incumbent providers over the long term. This combination of right-sized investments ensures growth over the near and long term, and with growing diversification, the particular product or channel that drives this growth will look different from quarter to quarter.

Now, let's turn to our outlook. For 2020, we believe we can deliver full-year revenue of \$630 million to \$640 million. The outperformance versus our original 2020 revenue midpoint expectation of \$620 million reflects strengths across the business as well as growing customer diversification, particularly in federal and international. As you see in our shareholder letter, we're also tracking above plan on the bottom line, and that's driven by revenue outperformance, expense leverage, and travel and event cost savings of about \$12 million. In 2021, we expect to continue to build on our strong momentum.

Given the rapid pace of growth we're seeing, we want to provide you with a framework around our view of the business. Since our August update, we've seen an uptick in our level of visibility. While there is some risk from the

ongoing impacts of COVID, most municipal budgets for January have been set, and after taking into account some small pockets of budget slowdown, we feel confident in our positioning and outlook heading into next year.

In addition, we're continuing to diversify in products and markets. Our initial view of the business for next year is for \$720 million to \$750 million in revenue with \$120 million to \$130 million in adjusted EBITDA. This reflects continued strength on the top line and consistent adjusted EBITDA margin performance excluding the aforementioned \$12 million of expense favorability in 2020 due to the pandemic.

Finally, I want to touch on ESG, which we're hearing about from a growing number of our investors. Axon is a mission-driven company whose overarching goal is to protect life, and that social mission is what drew many of us to the company. We see fully 100% of our revenues as supporting the United Nations' Sustainable Development Goals. In our shareholder letter, we talk about Sprint for Justice, which Rick mentioned earlier. This product development initiative created features such as automatically flagging body camera video if a racial slur is detected using VR training to help officers better respond to high stake situations, and promoting a growth mindset among officers by offering a caution feature. ESG is a growing area of focus for us, and you can expect to see more from us on this front over the coming year.

We're in the final stretch of a higher performance year. I want to reiterate how proud I am of our employees for their crisp execution in a challenging environment and for their unwavering support of our customers. As we plan for 2021, we feel highly confident about how we're positioned across the board.

And with that, Andrea, let's move to questions.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Thank you, Jawad, and team. Moderators, can you bring everybody up into gallery view? Let me know when that's happened, please.

Operator: We're all up in gallery view.

QUESTION AND ANSWER SECTION

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Great. Thank you. All right. We're going to take our first question from Keith Housum at Northcoast. Go ahead, Keith. You're up. And the phrase of 2020 is you are on mute, Keith.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

All right. Can you hear me now? Sorry about that, guys. Jawad, can you go a little more detail and remind us about the investments that are going to be made in the channel, the product and the infrastructure? I guess particularly I'm interested in some of the investments you're going to be making to grow the international business.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah, absolutely. So we made investments this year in new geographies that we had never been in before. And it was really on the heels of investments we made in previous years in new markets like India, in the Ukraine. We have seen very early, like, great results early on. I'm going to let Josh talk a little bit more about that. When we put boots on the ground, there's no substitute for that and what we found is that by having folks there, by establishing offices, having employees, Axon employees in these new markets, it leads to not only increased pipeline but in many cases a return within the same year. And so we're doubling down on that strategy. So the channel investments next year we're going to expand even more geographies.

From a product standpoint, we're continuing to invest very heavily in software. The Sprint for Justice initiative that Jeff laid with his team this year is a great example of just the type of leverage that we can expect to see from the investments we've already made in our product and just a little bit of extra effort goes a long way. And then from the support infrastructure standpoint, we are in the process of getting ready to be a \$1 billion-plus revenue company in everything that comes along with it from an ERP implementation, which we're well underway in HRIS and other back office support systems that we're putting in place to help the company scale.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Great. And if I can follow up on that, in terms of the international expansion, is the entire product portfolio going to be available internationally? So, I guess, what I'm getting at has the software been written or translatable into any language or are you going to be limited in terms of what you are going to offer where based on languages?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Ultimately, I think we view any international customer as an opportunity to not only sell TASERs and body cams, but also move them to the cloud and evidence.com. And for some markets, right off the bat, customers are adopting evidence.com. For other markets, they're adopting our on-premise solution named Commander first and then subsequently moving to evidence.com over time. I think for us, the most important thing for any international customer is to get one of our products in their hands. And it really doesn't necessarily matter to us which one they

start with because we can really feel confident betting on ourselves that we'll be able to deploy more and more of our products with those same customers over time.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Okay. So language will not be a barrier to a country you can go with your product portfolio.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

No.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Great. Thanks, guys. Great quarter.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Thank you.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Thanks, Keith. All right. So we're going to take our next question from Will Power at Baird. Go ahead, Will.

William Verity Power

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Yeah. No. Thanks for taking the questions. I guess I'll try to slip in two. Maybe the first for Richard or perhaps Rick, whoever wants to take it. Really encouraging to see the progress at Federal. I guess I just love to get a little more color on what the sales cycles look like generally as you target federal, particularly as look at that Homeland Security contract, the largest TASER deal in the company's history. And I guess I'd be curious how much more room there might be to go with somebody like Homeland Security. Is this just the starting point? Are there things you could build off of from here?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Why don't you take that one, Richard?

Richard Coleman II

Vice President & General Manager, Federal Sector, Axon Enterprise, Inc.

A

Absolutely. Yeah. Absolutely. The lead times for federal contracts can vary. Typically, there's a two-year budgeting cycle. But that said, every single year federal customers are evaluating what the gaps are, what their needs are in the requirements. And so every single year, a customer has the opportunity to leverage their funding for technology and our capabilities that are relevant. And so we're seeing lead times as low as within a year as well as extending out to the two years that the budgeting cycle typically enforce itself.

And then specifically for Customs and Border Protection, CBP, they are the largest law enforcement agency across the US, so 40,000 law enforcement officers within Customs and Border Protection. So we see this as a franchise program where we see nowhere but north an additional growth.

William Verity Power

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. And then maybe a question for Jawad. It was great to see some initial thoughts on 2021. Maybe just help us out the key insights from [ph] year-end to help inform your confidence (22:07) and laid out that revenue guidance, what are kind of the key inputs to provide that visibility at this point particularly given some of the ongoing questions with respect to municipal budgets and whatnot?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah, of course. Look, one of our core values as a company is transparency. We've got great relationships with our investors and our analysts, and we've always prided ourselves on the level of information and detail that we share in helping them model our business. One of the things that we heard pretty consistently throughout 2020 was that after we pulled our guidance early this year it was a little difficult to model our business. We've got a lot of moving parts in an increasing amount of complexity in the business.

And as you point out, there's still a lot of uncertainty in the world. But the reality is that our business has been diversifying along two vectors. Who we sell to is rapidly expanding beyond law enforcement, and where we sell is rapidly expanding beyond the US. So the fact is that our business is more resilient today than it's ever been. And so we wanted to share our view on how 2021 is lining up for us again in an effort to help folks model our business.

William Verity Power

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Thanks, Will. Next question from Erik Lapinski at Morgan Stanley. Go ahead, Erik.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Q

Sorry. I think I was on mute. Hey, guys. Congrats on the quarter. Thanks. Maybe just a quick one on kind of as you continue to ramp shipments of Body 3, can you give us any context into just the attach rate for maybe some of the more LTE-connected features and kind of the usage there? Is it going up pretty in line with what you would have expected? Is it maybe improving, better or worse?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. Absolutely. I think we're very, very excited about where we're at right now with interest in live streaming and other connected features of AB3. Without going too deep into the numbers, I would say, like we feel really good about the amount of adoption we've seen through 10 or 11 months here and, certainly, going into next year, have a very strong pipeline of connected services.

Whenever you launch a new product and really at any point in the year, customers need some time to build in that ask into their budget. And so, while this year, a lot of our new cameras that were first-time purchases included a lot of the connected services going into next year, I think a big point of focus for us in kind of year two of those budget cycles are now to be able to get all of those upgraded cameras on those same connected plans, and our customers have been working with us and, of course, with their city councils and so forth to identify funding to add those feature sets on. And so we're really excited about kind of the runway we have to get, hopefully, one day every single AB3 onto our Respond and Respond Plus platforms.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you.

Jeff Kunins

Chief Product Officer & EVP-Software, Axon Enterprise, Inc.

A

And just one quick addition to that. As we've talked about in the shareholder letter, both from a sales perspective but also just a usage engagement, while it's still early days, over 200 agencies have used Aware actively in the last 30 days, with more than two dozen consistently using it every single week now. And we've seen just tremendous growth in the adoption of live streaming as it begins to roll out which is going to grow over 6x over the past six months.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's awesome. Thanks. And then maybe just one other one on kind of the percentage of TASERs sold on a subscription going up, is that starting to become more – I guess being the highest rate you've seen, was that some of that a factor of maybe a large order or two being sold on subscription or is that pacing to even the rate that you would expect kind of moving forward?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Ultimately, the majority of TASER 7s are on subscription plans, the vast majority. And so essentially, the way I think about it is, over time, as the mix of T7s keeps going up relative to our other TASERs, the more that number will be driven up as well. So I certainly would expect, although nothing's guaranteed, that we would look for that number to keep growing unless there's like an outsized international order as a one-time purchase or an outsized order on X2 or X26P as a one-time purchase. We certainly would expect that number to keep trending up.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

And just to be clear to follow up there, it was also tied to the mix of domestic shipments in the quarter. So 75% is a great number, and we're proud of it, but it will fluctuate depending on domestic versus international.

Okay. Our next question is going to be from Joe Osha at JMP Securities. Go ahead, Joe.

Joseph Osha

Analyst, JMP Securities LLC

Q

Okay. Am I unmuted? That's the first and most important question. Going back to some of the comments about next year, I'm wondering if we could maybe get some insight into how that might break down in terms of TASER sales versus cloud. And then, also, I'm interested in whether computer-automated dispatch and records might be contributing meaningfully to that. Thanks.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. We definitely have goals across all products including dispatch and records. And certainly we've seen a lot of really promising indicators in terms of interests and commitments this year that will translate into deployments in dollars next year in dispatch and records. And then on the TASER business, I think as we look at next year, we kind of try to set a goal for ourselves of how much we want the TASER business to grow year-over-year and absolutely we anticipate TASER growth in that number. But likewise, we expect all segments to grow including software and sensors, cloud, and so forth.

Joseph Osha

Analyst, JMP Securities LLC

Q

Could I perhaps – Jawad, are you willing to put some numbers around that in terms of mix?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Not at this time, Joe. We gave directional guidance for how we're thinking about 2021 and we feel good about that guidance today. But that's the extent of the detail we're going to get into.

Joseph Osha

Analyst, JMP Securities LLC

Q

Okay. Thank you.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

You always got to try, right? You got to try. I'm just checking to see who's logged in recently because we've had some folks logged in. Let's take our next question from Jonathan Ho at William Blair. Go ahead, Jonathan.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon and congrats on the strong quarter. I just wanted to start off by circling back to the fed opportunities. Does the IDIQ contract potentially give you a hunting license to go and maybe chase other agencies or sub-agencies down? And just wanted to get your thoughts around the GSA schedule as well.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. Go ahead, Richard.

Richard Coleman II

Vice President & General Manager, Federal Sector, Axon Enterprise, Inc.

A

Absolutely. Yeah. So an IDIQ contract it is kind of a hunting license. You can think of it as a contract vehicle that allows the customer – the federal customer to buy off of a pre-agreed pricing catalog from Axon. And so, in particular, this IDIQ has multiple – is at the department level and there's multiple agencies within that department that can then follow on and purchase off of IDIQ.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Great. And then we're definitely seeing some interest here in terms of the de-escalation products. Can you maybe talk a little bit about whether that can potentially drive some additional bundling and just sort of the reception that you're seeing from de-escalation just given the current political environment? Thanks.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. Sure. So, in Q2, obviously, with the lockdowns and so forth, it was domestically probably the low point of the year in TASER sales. And Q3, we really roared back and I'm so proud of our entire global team especially, in this case, our state and local team. And I think there is certainly a record interest in TASERs. We see that quarter-over-quarter here and we expect that to continue to grow both in state and local where we see it more incrementally and then federal and international where our hope is we see it more exponentially.

And so, across the board, I think there is very strong demand for TASERs. I think you'll continue to see that throughout the year here and we're very excited at the opportunity to continue to be able to package our de-escalation devices with our software and sensors packages on the body cam cloud side and on the record side and so forth.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Okay. Thanks, guys. We'll take our next question from Jeremy Hamblin at Craig-Hallum. Go ahead, Jeremy. You're on mute.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Can you hear me now? Sorry about that. So I wanted to just – congratulations on the fantastic results. I wanted to get into the Records business a little bit and just get a sense of – there's a little bit more embedded competition in that particular side of your business. And I wanted to get a sense for – as you're getting in the initial ramp, the timeframes to win meaningful share in that portion of your business. You have fantastic relationships now that have been built over a couple of decades that may make the sell easier, but I wanted to get a sense of how you're thinking about that business and whether or not the ramp that we saw that was kind of a long slog in cameras, do you think that this – you can potentially gain share and adoption faster on Records simply because of the extensive relationships you have today?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Absolutely, Jeremy. I think we've seen over the last 10 years, certainly body cameras were a little slower out of the gate to be adopted. But now we put ourselves in a market leadership position there. And certainly, part of our

strategy, as we've talked about, is around OSP 7+ and packaging our Records solutions with our body camera solutions. I'd say this about the competition, like we have a lot of respect for all of the different companies in the market. They're all great companies and well-run and so forth. But, at the same time, like we've built our team, and our channel, and our product team and our company for moments like this where we can enter new markets and we can win in them. And so, this year, we've seen very promising results. And I certainly believe in our team and, I think, we're going to end up in a spot where we are the market leaders, not only in Records, but also in Dispatch. And every day, we're waking up getting one step closer to that.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC



And if I could, I wanted to ask one other question directed towards Jawad and thinking about 2021. In terms of – you've seen pretty exceptional growth and steady growth now in the weapons side of the business. And I wanted to get a sense, as we look forward into next year where you've continued to have mid-teens growth in that weapons segment, I think a lot of people would've expected that to temper. It seems as though you're as excited about that business today as you might have been a few years ago and maybe even more so. Is that something where you feel like that weapons portion of your business can continue to do double-digit growth?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.



Yeah. That's a great way to say it, Jeremy. I am more excited about our TASER business now than I ever have been in my time at Axon. Actually, I've never felt better about the company overall. And obviously, TASER is a big part of that. And we talked a little bit about – in my prepared remarks about this like near and long strategy where in the near term we can still see growth from TASER both domestically, there's still whitespace. We talked about all the reasons why over the last couple of years.

But now with federal and with international, that's going to be an important growth vector for TASER. And then with these investments we're making in product with Records and Dispatch, we think that that's going to be – those are SaaS businesses. Our ARR is now topped \$200 million. So we're not necessarily small anymore, but that's still ramping very quickly. And as that revenue comes online over the next few years, that's going to help two, three, four years out keeping our growth rate growing at an accelerated pace.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.



Yeah. I've got to jump in here and say as well, do not forget the TASER business. It is a really transformative and exciting business. Before this decade's out, we will have a weapon that is going to be neck and neck or even outperforming a 9-millimeter in stopping power, and I think we've got the opportunity to become the primary weapon of law enforcement officers around the world. And that message has been really positively received by law enforcement. When I released my book last year, we were nervous as to how that message would resonate. But I can tell you, especially in the environment we're in right now, no officer wants to use lethal force. And we just – we've got a really good less lethal weapon system today, but we still have room to improve. And I'm really excited about the things that are coming down the road.

And just the opportunity even with – TASER 7 just got approved in the UK. I mean we're getting approved in new markets where our existing upgrades are going to be really opening a lot of revenue opportunity. And I don't see that coming out of steam – running out of steam anytime soon.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

I actually – I wanted to...

A

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Great.

Q

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

...jump back in as well. One thing you haven't heard us talk a lot about, I'm just as excited as Rick is about, thinking about TASER. One area we haven't talked a lot about in the past, but I think you're going to start hearing more from us, Jeremy, is the consumer business. So I'm just so proud of our consumer team. We had a plan for the year, for the full-year on revenue, and they hit that plan in the first seven months of the year. They're having a banner year. We're expecting big things from that business. You've got a couple of product launches on the horizon in the next year or two. So, that's another area that we're expecting to see some growth.

A

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Fantastic. I love the goals. Thanks, guys. Good luck.

Q

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Thank you. Next question from Joshua Reilly at Needham. Go ahead, Joshua.

A

Joshua Reilly

Analyst, Needham & Co. LLC

Hey there. Thanks for taking my questions. So you just had your customer conference in August. What did you see in terms of demand and pipeline generation out of that event from being fully virtual versus historical in-person events? And then how does that compare to the increased customer interest generated from the social unrest over the summer?

Q

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

So let me start and then I'll pass over to Josh Isner. I would say, overall, being virtual, the level of attendance, I think, we had something like 10,000 people sign up which is something like 4x or 5x from last year. And now, not all of them showed up and the level of engagement probably wasn't as high because we didn't have their undivided attention. But the feedback we got was people really enjoyed it. We sent out VR headsets loaded with some of the content for at least a subset of the attendees. So, I think, given the challenges, people really responded well. Now we do see the value of in-person in the future. But this year, I think, actually in terms of quantity of touch, it was actually broader than it's been before, just maybe not as deep in terms of getting their time for three full days.

A

Josh, do you want to add on anything?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

And just to the questions about the social unrest, look, like I want to be really conscious of how we talk about this. It's not a victory when there's the type of social unrest that there is today. And so, certainly, like our team, I think, we think about our sales process the exact same way every day, like we are going to cover the market well. We're going to talk about the value that our products provide across the board and we really, really believe in that value.

And sometimes, it takes an external factor for a customer to maybe be more motivated to buy it or whatever the case may be, but we really believe like, hey, we're just going to keep focusing on the things we can control and we believe we're going to end up in a really positive place, not only as a business, but in terms of fulfilling our goals and missions in society. I think we're going to feel really good about that.

And I want to kick it over to Luke maybe just to talk a little more about Accelerate as well if he had something to say as well. Thanks.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. Accelerate was a huge success in terms of being able to connect with the customers digitally which, I think, a year ago, would've been very tough to get the key decision-makers from major cities to invest in time via a Zoom call or another format. And so, that's been one of the silver linings of the pandemic is us being able to rapidly push people to these virtual-type engagements. And so we walk away being very, very pleased to Rick's point of being able to hit a larger number of customers and showcasing all of the tools around de-escalation transparency.

And then, just finally, to Josh's point on the social rest – social unrest, we really are trying to solve and be part of the solution of these really difficult complex situations. And so our customers aren't looking to us as somebody that's coming to them out of the blue. We've invested in decades of relationships where they know the tools that we're creating are going to help them resolve these really difficult issues in the best possible outcome.

Joshua Reilly

Analyst, Needham & Co. LLC

Q

Okay. Great. And then just one follow-up question. Net revenue retention increased 1 point sequentially in the quarter. Does that imply that you're having ongoing excess in upselling the OSP bundles? I know that's probably the case but just maybe some color on that. And then how should we think about the relative penetration for OSP at this point within the body cam customer base?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. I'll take the first part of that question, on net retention. That's exactly right. Our strategy's been geared towards selling more higher value-added bundles like OSP 7, 7+, and as more customers adopt that, then we should expect – we will expect to see our net retention increase. And then for the second part of your question, I'm going to kick it over to Josh.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Okay. So, on the net revenue retention, I also just want to give a big shout-out to our customer's success org. This is an org we invested in substantially this year to build this out and make sure our customers continue to

have a great experience. And Lisa Krolikowski and her team have just done an awesome job ensuring that and I think that's reflected in net revenue retention. Do you mind just reminding me of the second part of that question on the whitespace of the OSP?

Joshua Reilly

Analyst, Needham & Co. LLC

Q

It was just about the – sorry. Did I just cut out there? The relative penetration for OSP plans within the body cam customer base.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. So I think for us like with OSP right now I think we're seeing a lot of midsize and larger agencies start to show a lot of interest in it, and I think that's where we're having the most success as we kind of took a holistic look at our pricing and packaging strategy going into next year. I think you'll start to see us test OSP-like offerings that are a little more tailored to specific segments. So, in corrections, I think we're very excited to offer an OSP package there that's more tailored to corrections. I think with inside sales that they handle our smaller customers we're going to be experimenting there as well with the same type of package. That's a little more tailored for smaller agencies.

So our goal is to have every customer buy a camera, a software license, a records license, and a TASER at the same time, and I think we're on our way to that. And, hopefully, with some of the adjustments and tailoring types of initiatives that we're undertaking right now I think we'll continue to see more and more positive signs there.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

One thing before we continue, Andrea, I'm going to go ahead and just take one moment and I'm going to share my screen. And I'm demonstrating with you guys a feedback tool I use with a lot of our customer reactions. It's called Slido. And it is a way that I can take feedback from groups of customers while I'm doing these calls. So I want to do the same thing with you. If you get out your smartphone and go to slido.com and enter the code Axon or just point your smartphone camera at the QR code, that'll open up Slido for you. And there, we're going to get some of your feedback, and you can ask some questions there that I can come to at the end.

And while we're doing that, Andrea, back to you to keep running questions.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Thanks, Rick. Thanks. All right. We're going to take our next question. Moderators, can you bring everyone on the gallery view again?

Operator: Yeah. Rick...

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

I guess...

Operator: ...can you stop sharing your screen there?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Did I break it? All right. I can – do I need to stop my screen share, [ph] Doug (44:00)?

Operator: Yeah. If you could.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Okay.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Thank you, Rick. Appreciate that. Okay. So, next question from Charlie Anderson at Colliers. Charlie, you're up.

Charlie Lowell Anderson

Analyst, Colliers Securities

Q

Yeah. Thanks for taking my questions. And congrats on a really strong quarter. I wanted to go back to the consumer TASER commentary. That was really interesting. Sort of curious what's happening there. Is that more push? Is that more pull, because it is fun to land the same product, right? And I'm sort of curious, too, if it's a sustainable trend, what that means to TASER gross margin and then also the cartridge business for TASER. And I've got a follow-up.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. Great question, Charlie. It's a little bit of both. Earlier in the year, we saw increased sales from the – as a side effect of folks staying home and wanting more self-defense options, as you know, like, gun sales were up and TASER sales were up for similar reasons as folks looked for self-defense options for home. We hired a new general manager for the consumer business. He started earlier this year. He's got a fantastic marketing background, and he's been completely up-leveling our game. As you pointed out, it's the same products, but we're really stepping up our game from a marketing standpoint. And we've been making a run in not only increasing sales with distributors, but especially with direct to consumer. And those results have yielded some pretty great returns early on.

Next year, as I mentioned, we're looking at a couple of product launches that I think are going to get even more of a push. And we're focusing not only on the TASER form factor, but there's some other form factors that we think are very appealing to folks that don't necessarily want to fire a weapon per se but more of a TASER that's got a different form factor like we've had in the past that we've discontinued. So those types of things we think are going to be opening up new markets for us. And then from a margin standpoint, they're actually going to be very helpful. The consumer business is at – we haven't actually disclosed this publicly, but it's a very attractive margin, it's accretive to our law enforcement margins, and that's true with the cartridges as well.

Charlie Lowell Anderson

Analyst, Colliers Securities

Q

Okay. Great. Then for my follow-up, we had a chance that some pretty significant police reform bills coming out of the federal government this year. Didn't happen. I'm just sort of curious where you see attitudes trending as far as that's concerned in terms of reform both at the federal and at the state level in terms of potential tailwinds to the

business. Then [ph] Neighbors (46:22) was obviously helpful on opening up opportunities in Record. Sort of curious if there's anything else like that out there in terms of regulatory that could prevent a tailwind for you guys over the next year or so. Thanks.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Let me take that one. A few weeks ago, I had gotten an e-mail from a Republican US Congressman who had informed me that part of their platform on police reform was to promote body cameras for every officer in America. And that's coming from the Republicans. I think you would also see on the Democratic side of the aisle that there's a lot of support for police reform particularly around body cameras. But I'll tell you, once we really get into the conversation, people also very quickly understand the value of TASER weapons. I mean we saw the tragedy in Philadelphia a few weeks ago, and the community there has risen up including the family of the deceased, really pushing the agency, why didn't every officer there have a TASER? And now, again, we obviously don't like to see those sort of tragedies happening or try to leverage them, but we do have solutions that really matter, and we think it's bipartisan.

And I would tell you, I just – on a personal note – I've been pretty worn out by all of the divisiveness in the country. But the last 48 hours, I was expecting a lot more of it, and I'm feeling a lot more – a lot less division right now. I think we may see a more productive coming together as we move into next year after the [ph] exhaustion (47:50) of 2020 and, I think, both sides of the aisle. We have a positive solution-oriented technology program that can be part of a police reform bill that police want, that communities want and, I think, legislators can see the value in. So I'm optimistic.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. I would just add, I would echo Rick's comments. I think this is really we're seeing now bipartisan support for a reform that would include technologies for products like body cameras as well as increased training. In June, Joe Biden called for \$300 million to reinvigorate community policing. And so regardless of the outcome, I think this is an area where kind of the pragmatic voice is going to win in terms of saying, we actually need more training to reform police more funds going in there than to actually cut funds from there.

Charlie Lowell Anderson

Analyst, Colliers Securities

Q

Thanks.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

A

Okay, guys. I think that's all of our questions, and I just want to give a quick second to make sure to see if we have any follow-ups. Does anybody have a follow-up? Do you want to raise your hand? No. You're feeling good. Okay. So...

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Andrea, a couple had come in through the chat real quick. I don't know if you want to just touch on those. About the sales of body cameras used by correctional guards and police officers. Maybe I'll...

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Sure, Rick. Go ahead, Rick. Go ahead.

A

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

I think we're seeing some major correctional agencies and sheriff's offices are now starting to deploy these. In fact, Josh, you can talk a bit, you stood up a team to go after these adjacent markets and I think we're seeing a real reception, right?

A

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

Yeah. Absolutely, Rick. I think this is a place where historically there hasn't necessarily been a lot of focus on it in terms of, like, individuals that that's really all they do day in and day out. And over the last two years, we've built that team and I think it's already presenting pretty incredible returns. And I think once these representatives go out and talk to customers, I think they're really parlaying the success to the similar use cases around the country within corrections and we expect that to continue. I think between corrections and some of our other adjacent markets and private security and eventually fire and EMS and so forth, we'll continue to see more and more momentum both on the TASER side and on the body cam side.

A

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

All right.

A

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Thanks.

A

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

And I think we already [indiscernible] (50:33) the other question that was in there.

A

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Yeah. There was another question in the chat about police budgets, but I feel like we really covered that both in our shareholder letter, in our prepared remarks and in the Q&A and the transcript will be posted online if you guys missed something. Okay. So, now, we're going to turn it over to Rick to close this out. And just wanted to say one of the things that's really been heartwarming is we've heard from some of you on the buy side that you're watching our earnings calls with your kids and they're learning about what you do, managing assets for a living. So, in that spirit of camaraderie, Rick prepared a little something for the families out there tuning into earnings calls.

A

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

All right. So you guys have already seen it. In fact, we've already had three people respond which I appreciate. I'm going to leave this up. The call is basically over. But if we get a chance going to Slido and check it out, it's been an invaluable tool. I get a lot of feedback from customers this way. We're having some fun where if you can guess the majority of our backgrounds whether they're real or not, what office it's from, we're going to send you some swag. So, give us your shirt size, your e-mail, and thanks.

And also give us your feedback. We want to know are you enjoying the format. Sometimes we get a little more informal. I figure you're probably going stir crazy like we are. So we're listening it up, trying to make it kind of fun, knowing you've got a lot of work. Many of you're going to be working late into the night. We hope you will look forward to earnings calls not just for the great results, but because we're going to have real fun together. So, thanks.

It's good to see the country, I feel, coming together. I have this optimism looking to the future. In general, it's been a rough year. And thanks for sticking with us. And again to every Axon employee, I couldn't be more proud to be part of this team. I just love working with you, all. And look forward to reporting our next results in the New Year. So thanks, everybody.

Andrea James

Senior Vice President - Corporate Strategy & Investor Relations, Axon Enterprise, Inc.

Thank you. Bye.

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