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Axon Enterprise, Inc. (AXON)
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OPENING REMARKS

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

Okay, welcome everyone to our Q4 2022 update. I hope you've all had a chance to read our shareholder letter at investor.axon.com. Our prepared remarks today are meant to build on the information and tables in that very robust 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 S E C filings. And before we turn the call over to Rick, we will play our quarterly earnings video. Go ahead and settle in. It's about a 10-minute video.

>>Quarterly Earnings Video @ <https://vimeo.com/803134555><<

MANAGEMENT DISCUSSION SEGMENT

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

All right, thank you, Andrea and Angel, great job. And to our investors, I hope you can feel the passion that comes through in that video. And I'm just so humbled to be a part of this team. The formula that is really working for us is when we focus on what are the most important problems we can solve that gets us solving the things that are also the most valuable problems for our customers, and that ultimately is what puts up the results that you see from last year. So TASER 10 is the most sophisticated, accurate, and effective TASER energy weapon we've ever created. It's a huge leap forward. Future generations may simply take for granted the existence of these truly capable, less lethal technologies as if they had always existed. And like all technological advancements that drive our society forward, that is our goal.

Now, the customer reception has been fantastic. We are incredibly humbled to be at the forefront of breakthrough technology and societal change. Our 2022 standout performance-- with revenue up 38% and strong profitability and cash flow-- follows multiple years of exceptional results even through difficult macro environments. Axon's history of superior execution can be traced to a few key things: our vision and mission, our long-term strategic thinking, which attracts just an amazing team of passionate and talented people, and our relentless focus on customers. We build upon a solid foundation of customer trust. And finally, our conviction to double down on investments to drive unprecedented change and cumulative growth.

A prime example of this is the foresight we had more than a decade ago to start building a software business. In 2022, our recurring, high margin Cloud revenue comprised more than 30% of the total company.

It's great to see our long-term strategies continuing to bear fruit.

To that end, I'll take a moment to talk about areas where we're currently investing to ensure that Axon continues to drive value creation well beyond the 2025 planning horizon we're sharing today.

The future of policing will include more robotic security-- full stop. We stood up our Axon Air program a few years ago, and we continue to invest in that. We view drone and robotics technology, first and foremost, as a way to extend visibility and communications for first responders. Robotic security is already playing an increasingly important role in search and rescue, natural disaster response, crime and accident scene reconstruction, and a new category of DFR or "drone as a first responder.

We see potential for robotic security to play a greater role in de-escalation numerous high-profile cases-- we've all seen these tragedies on the news-- have inspired police departments to do everything possible to reduce the frequency of use of force incidents. Substituting a robot for a human can help in many types of scenarios. One example is high risk entry, and with SWAT teams. We see the opportunity to reduce the need for people as police officers to enter a home with firearms drawn, for example.

Another area we see coming is the fusion of intelligence ecosystems that integrate with public safety-- allowing video from multiple types of cameras and sensors to port into one system, both to assist in real-time response and to support investigations.

We're also excited about these recent advances in Generative AI. Nearly six years ago, we published a vision video with the idea that artificial intelligence could one day extract key information from body camera videos, which together with a brief oral description from the officer, could be used to write the police report for that officer. Well, that vision no longer feels like science fiction. This vision was part of our thesis and our focus in building out our cloud infrastructure over the past decade. And we are excited to see, see what capabilities we'll be able to leverage over the next few years to delight our customers and to make our public tax dollars much more efficient by automating many mundane yet very time-consuming tasks.

And finally-- when we build for the future, we collaborate with our trusted constituencies. We work with governments, city councils, public safety, and our Ethics and Equity Advisory Council. This council provides invaluable feedback. They ask us the hard questions and help us to see around corners. We look to them for assistance in ensuring ethical design and that we continue to work with our Council leaders who are each dynamic, highly successful and impressive individuals in their own right. And with that, I'd now like to turn over to our COO, Josh Isner to talk in more detail about the business. Josh.

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

Thanks, Rick.

Last August, I talked about four major areas of focus for the back half of 2022 — and I'm pleased to report that as we delivered on all fronts.

First - we are driving discipline and prioritization across the business. We say “no” to many opportunities. And when we do say yes, we win. The results of our efforts include a phenomenal close to the year, with revenue up 44% in the back half and more than 50% in Q4 alone — and then a game-changing product launch of TASER 10 just a few weeks later.

The second area I talked about was investing to penetrate our total addressable market. In our shareholder letter today, we introduced a new TAM analysis — which outlines a \$50 billion opportunity and shows growth in our core markets.

That core TAM, which includes our SaaS categories, cameras, professional TASER, Axon Air and VR, and a customer base that includes US Federal, international and commercial enterprise, grew from \$34 billion to \$45 billion in our updated analysis.

Much of the TAM we pursue today is in areas where our investments have helped position us as a leader and pioneer. We see ourselves as the best positioned to deliver on the future of policing that Rick discussed a moment ago.

Thirdly, I'm very pleased to see us deliver on our promise to generate strong cash flow. For the full year, we delivered \$195 million in adjusted free cash flow — this was an 84% conversion on Adjusted EBITDA of \$232 million. This allowed us to maintain a net cash position roughly flat to last year, while investing CapEx to drive global scale, and deploying \$83 million in strategic ecosystem investments to ensure we stay at the forefront of industry innovation.

Finally, we are assembling a world class team from top to bottom — some of whom you see on the call today. This team brings financial discipline, a next-play mindset and the capability to drive outsized outcomes for the next five years and beyond. We are building a culture where we expect to deliver on our commitments...to employees, to customers, and to investors.

Looking forward to 2023: Working with Brittany, we have streamlined our company-wide bonus metrics to four core items. The entire organization is incentivized to measure, drive toward and exceed the following:

- Number one: Revenue — top line growth remains a priority

- Number two: Adjusted EBITDA Margin— which Brittany will take you through in a moment
- Number three: New market expansion in the US Federal Government and International governments
- And number four: New product adoption — ensuring that the products we are building continue to be adopted and used by our customers. We never stop helping our existing customer base to walk up the value chain and take advantage of new software features.

Finally, before Brittany lays out our three-year plan to achieve \$2 billion in revenue — I wanted to provide some color on what we think will help us build to that milestone.

Our path to \$2 billion in revenue and beyond will be driven by a combination of selling new products into our existing markets and by selling existing products into new markets. We continue to introduce new products that deliver value to our existing customer base of US state and local law enforcement — and we believe we will continue to grow our share of wallet in that market. Items such as TASER 10, Fleet 3, VR, Axon Records, Axon Dispatch, Axon Air, and the multitude of [Evidence.com](#) add-ons will continue to drive growth amongst our state and local US customer base. In parallel, we will continue to grow International, Federal, and Enterprise, leveraging our core product portfolio. Not only will the combination of these two simultaneous motions create top line growth opportunities for the future, well beyond 2025, but they also provide multiple paths to our annual revenue guidance year in and year out.

And with that, I'll turn it over to Brittany.

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

Thank you, Josh.

It's particularly gratifying to see broad-based strength across the business and our strong 2022 execution - both software and hardware are driving robust performance.

Notably, Axon Cloud now represents about a third of our business, carrying best-in-class metrics on growth and net revenue retention. In 2022, Cloud revenue grew 50% to \$368 million — with a 73% gross margin. Annual recurring revenue has grown to \$473 million, and the net revenue retention is 121%.

In addition, we are incredibly proud of the fantastic job Axon has done selling hardware and subscription bundles — 90% of total revenue in 2022 was tied to a subscription compared to just a few years ago when less than half of revenue was subscription based.

Following on Josh's commentary regarding the TAM opportunity, our updated analysis more closely aligns with our focus as an organization. Axon's core TAM of \$45bn across SaaS categories, cameras, professional TASER, Axon Air and VR reflects opportunities in a customer base that includes public safety, US Federal, international and commercial enterprise.

At the same time, the consumer personal protection market remains an opportunity — and I'm

currently recruiting for a new GM to lead the business. However, as we noted in our shareholder letter that we are reframing our analysis on this market from \$18 billion to \$5 billion in terms of total TAM. \$5 billion is still a large opportunity that we're interested in pursuing, but we are right-sizing our TAM and our focus to better reflect the enormous opportunity we see in our core.

You'll also note that in Q4 we recognized \$8.5 million of Axon Cloud revenue, that we had previously underreported. This revenue relates to work that was completed in prior periods, and was unrecognized due to our ERP implementation in 2021. While the impact is immaterial to our financials, it did result in a material weakness. Remediating this will be a focus in 2023 and we have laid out a detailed plan in our 10-K.

Against the backdrop of an exceptional 2022 and an improving demand environment, we are thrilled to be sharing another robust outlook for the year ahead. Additionally, now that I've had some time to dig into the business, we are introducing three-year financial goals.

Looking at 2023, my key financial priorities for the year are the following:

- First — Executing against our financial objective of delivering revenue growth of 20%.
- Second — Working toward long-term gross margin improvement. We feel confident in the levers we can pull on gross margin over time, which include investing in automation, improving manufacturing efficiency, further growing our software revenue mix and offsetting inflation with pricing. In 2023, we are balancing these opportunities against ramping TASER 10 in the first half of the year and continuing to catch up on our Fleet in-car camera installations. Our Fleet business carries a lower margin up-front and transitions to high-margin recurring software revenue over time.
- Third — Controlling operating expenses by enhancing our financial discipline. In 2023, we are still digesting large investments we made in 2022 and investing for growth. We are guiding to 20% Adjusted EBITDA margin, which implies 50 bps of improvement year over year.
- Fourth — Delivering on our ecosystem vision by leveraging strategic partnerships, investments and potentially M&A.
- And fifth — Setting us up to ensure we are on the path to hitting our 3-year goals.

Turning to those goals — our 2025 outlook for more than \$2 billion in revenue is underpinned by our confidence that we can deliver on the 20% CAGR that we've communicated previously and as Josh laid out the drivers.

Over the next three years, we also expect to drive gross margins and leverage our operating expenses to achieve approximately 25% Adjusted EBITDA margins. We are excited to demonstrate the increasing profitability of the business, and this represents significant expansion of more than 500 basis points.

We are also focusing on cash flow, and through prudent management of working capital and CapEx, we are targeting adjusted free cash flow conversion above 60% on Adjusted EBITDA. This allows us to both invest in our business and deliver attractive free cash flow generation.

Finally, we have heard you on share count dilution and while we will spend the next few years working through existing stock comp expenses, we are committing to bring our dilution down on a go forward basis.

Personally, I'm incredibly energized by the runway we see over the next three years. Axon enjoys a compelling business model — delivering subscriptions to a stable and growing end user market. We enjoy low global TAM penetration, strong customer relationships, and innovative R&D capabilities that are building solutions to meet a critical market need.

With that, I would like to open it up to questions.

QUESTION AND ANSWER SEGMENT

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

Okay, thank you, and do we have everyone in gallery view? Okay, awesome. Sami Badri from Credit Suisse, you're up.

Sami Badri *Analyst, Credit Suisse Group*

Yes, thank you very much. Just have a couple. The first one is for Rick. I think Brittany just mentioned that TASER 10 is going to be ramping up in 2023, but one thing I think that you laid out in the video is just the feature set and what TASER 10 actually proposes to a lot of your customers. Would there be customers that feel very strongly about maybe an early shipment or an early refresh of their actual TASER non-lethal weapon? Or would they have to stick to kind of the plan or subscription type timeline that they've already signed and are subscribed to?

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

Well, great question. I would say I have never seen demand this strong in a new TASER launch in my history in the business, which is great news. The subscription model does already have our customers on an upgrade pathway, but I'm working closely with Brittany and Josh on a customer basis, and we are getting a lot of inquiries for people that want to upgrade early. And so obviously the, revenue accounting on our contracts with the multiple deliveries is a bit complex, so we're taking those on a case-by-case basis, but we believe that overall we will be able to find ways to accommodate customers to be able to take early upgrades in ways that also work for our shareholders, that are profitable for us and help our customers get this capability sooner without the need for any big one-time expenditures, by just being able to bring forward and adjust. And obviously we hope they'll also upgrade to some of our other new capabilities that we're launching in some of our new VR and other things. So we think this really, the business model continues to set up a win-win for us and our customers. One great example is the ability for us to accelerate their upgrade cycles.

Sami Badri *Analyst, Credit Suisse Group*

Got it. Thank you. Next one is for Josh. Josh, you talked about how compensation will be measured by four key drivers. One of the drivers was actually selling other products or cross-selling. Will that include

ecosystem partners that are part of your Axon Cloud feature set also being pulled through in the sales motion? Or is that very isolated to just Axon products and services?

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

Yeah, great question Sami. I'd say there is a revenue impact when we sell through a partner's product. But to set expectations, I think that'll be a relatively small part of our overall revenue for next year. So it's part of it, and then when you look at the wrap level commission plans, we do have a new product sales team that is essentially compensated in large part in momentum of both new products and partner sales. So that's how we solve for that.

Sami Badri *Analyst, Credit Suisse Group*

Got it. And then one last one for Brittany. Brittany, for the 500 basis points of expansion by 2025, is this going to be back half loaded across these three years just because of the comment you made regarding some of the products, well, the comments you made in the actual press release regarding margin neutrality for some of these products, and then as they ramp up with software, does that

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

I think Sami froze, but I think we got the gist of his question, so we can answer it.

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

Yeah. I'm taking the gist of the question to be, when might we get to that 25% margin? We're really looking to make sure we get there by 2025, Sami, like there are a bunch of those puts and takes that we're looking at both for 2023, and certainly part of getting to the OPEX leverage that we've talked about is getting to that 2 billion in revenue. And so we need to pull those levers and it's nice that we have multiple different levers to get there, both from a gross margin and an OPEX standpoint.

Sami Badri *Analyst, Credit Suisse Group*

Got it. Thank you.

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

Okay, Jonathan Ho at William Blair, you are up.

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

Hi, good afternoon, and congratulations on the strong results. I guess I wanted to dig a little bit more into your comments about what's underpinning your confidence for the 2025 guidance. Is there something that's maybe changed with some of your market assumptions or one part of the business that's proving stronger than you anticipated to give you that extra degree of confidence to extend that 20% guide?

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

Yeah, thanks Jonathan. Actually, I think it's very much that we have a lot of confidence in all of our product categories and market categories that continue to grow significantly year over year, and as I'm sure you're aware, we've talked about in the past that we do measure five year normalized bookings as kind of a forward-looking indicator of what revenue will look like into the future, and not only on a

growth basis, but on a year over year basis. We continue to be optimistic about the results we're seeing and the five year bookings growth and that five year bookings growth rate. It's a combination of seeing a lot of really exciting indicators in our new markets, seeing our new product scale and seeing some of the reinforcements in terms of future revenues that look into bookings provide.

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

Excellent, excellent. And then just with regards to the TASER 10 pace of adoption, can you remind us what happened when TASER 7 was released? Do you worry at all about maybe customers delaying orders to purchase the 10? Just wondering if there's any sort of linearity that we need to worry about here, just given the step function improvements that you've made or above step function improvements? Thank you.

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

Yeah, absolutely. Without going into too much detail there, I think the T10 forecast is exceeding year one of the TASER 7 actuals from five years ago, so we're encouraged to see that, and it speaks to the value and utility of the product. I would say that it's something we're managing very closely in terms of both early upgrades and new customer shipments. It provides certainly one path to meet our guidance for the year or and exceed our guidance for the year. But there are several paths toward that goal as well. We don't want to get too far out over our skis here, we want to make sure that the product we ship is a very high quality one that scales very well in the field, and as we do that, we will certainly continue to ship all of the other high demand products that we offer to combine for a really nice year this year.

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

Great. Thank you.

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

Thank you. Next question, Erik Suppiger from JMP.

Erik Suppiger *Analyst, JMP Securities*

There we go. So, a couple questions here. First off, looks like your TASER revenue was down sequentially, I'm curious, was there any reason for that and conversely, the Axon Cloud, and the sensor revenues were up sharply, what was causing that? And, and I think you had some supply chain constraints that were a factor last quarter. What happened with those various dynamics?

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

Yeah, absolutely. I think it's just timing of shipments and orders. And I think toward the end of the year as we looked the year in the upcoming product launch, we wanted to be thoughtful about a product launch a couple years away, just maintaining flexibility for our customers as we knew some might be interested in the next one, so we tried to manage that as best we could, and we're very excited to see the supply chain opening up on Fleet. I think you'll notice that was a big item in terms of the volume of Fleet that shipped in Q4, and we expect that to continue throughout the years. You mentioned some of the supply chain challenges historically, we're cautiously optimistic that we're past most of the storm there and feeling good about having the opportunity to ship certainly record-breaking amounts of Fleet 3 this year. And of course, plenty of TASERS, body cameras and some of our other solutions as well.

Erik Suppiger *Analyst, JMP Securities*

Okay. And then, can you give us a general idea of how much of your installed base has been migrated to the TASER 7 at this point?

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

I don't have the exact number in front of me, but I'd say over the last year in terms of the amount of CW shipped, TASER 7 was above 80 to 85% of the total there. So I think that speaks to the fact that much of the market had moved over from our legacy smart weapons into TASER 7 and now we have the opportunity to, of course, upgrade all of our early TASER 7 customers. But as Rick mentioned, I think there will be some that are more recent, that will be interested as well. So we're very excited to get as many TASER 10s out there as we can.

Erik Suppiger *Analyst, JMP Securities*

Very good. Thank you.

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

Keith Housum at Northcoast. Go ahead.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Thanks guys, appreciate it. As we look at the TASER 10 coming out, first off, you guys announced a specific date that's going to be deployed, and then second, if we look at, you know, past rollouts of the taser weapons, there's obviously been some challenges in terms of the gross margin recognition in those first few quarters. So perhaps you guys can address steps you guys have taken over the past several years to identify and address those issues and what you guys are doing different with this rollout to protect your gross margins.

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

Yeah, I think it goes to everything from how we design the product to how we design our manufacturing capabilities. We've talked about how when we get to scale, which will happen in the second half of the year, so we are calling it out as a little bit of a potential headwind in the first half of the year, but as we get to the second half of the year, it'll be gross margin neutral, and I think the team learned a lot from the T7 launch and took those learnings into T10 and were thoughtful and careful on the gross margin front.

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

Yeah, I'll add a little bit there. The Fleet 3 was the first major product to launch under the new regime, with Hans Moritz running our R&D and John Groff and his team running engineering and Bill McGinn and others in NPI, and basically, what we saw with Fleet 3, we injected probably six to 12 months of additional pre-release testing to really validate the product. And that paid off in a big way where Fleet 3 is a very sophisticated product, but it's had among the lowest out-of-the-box return rates and customer bugs reported of any product we've ever shipped. And TASER 10 went through a very similar, it has been in testing highly automated production line for probably six to nine months leading into the launch year, so the level of testing compared to previously when we were a less mature company and still making that transition from the more entrepreneurial days, that there's just a lot more time, effort, and expense

that goes into the upfront testing, but that is paying dividends in the stability and reliability at which we're able to scale these without some of the challenges we had with T7 in particular come to mind.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great. And has that already started shipping?

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

TASER 10 will start shipping in March.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

In March. Okay. Brittany, perhaps you can put little context or color regarding the convertible note offering you guys did in terms of plans that you guys have to use that cash.

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

Yeah, of course. One I would say, as you can tell because it's been a little bit of time now, it was very much opportunistic from our side to strengthen the balance sheet and to give ourselves a bit more flexibility from a capital standpoint. And we think we found a time to get attractive terms in the market, so we're very pleased that we were able to proactively get ahead of that. And then I think you heard me talk about how we have been investing in our ecosystem partners, how we might potentially consider M&A as we look going forward. And so, we want to make sure that when we find something that is appealing from an M&A standpoint, that we're able to be on our front foot and move quickly and and smartly going forward on that. We spent a lot of time on that convertible offering talking about what we might look for from an M&A standpoint because that was top of everybody's mind. So a little color is, I think if you look at our M&A history historically, that's probably a pretty good indication where we're really looking for either technology or talent that will support our future product roadmap and or our moonshot goals and mission.

Keith Housum *Analyst, Northcoast Research Partners, LLC*

Great, thank you.

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

Thanks, Keith. Paul Chung at JP Morgan.

Paul Chung *Analyst, J.P. Morgan*

Great. Thanks for taking my questions. So just another follow-up on the pace of operating leverage, through 2025. The pace accelerates a bit in '24 and '25 to get to that 25%. How do we think about the OPEX space kind of relative to gross margin expansion and longer term? Can you still get to that 30% mark you've mentioned in the past?

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

Yeah, so I think we're really looking at the three-year guidance. That's not to say we might not get to 30% at some point, but I think this is really meant to sort of replace that in like, okay, we have a plan in a concrete way to get to 25% by 2025, and then we'll start looking out from beyond there in terms of where we will go. So I wouldn't say we're pulling that, but maybe we're phasing that out and focusing on what is actionable and in front of us and, and what we really see a path to right now, and that's that 25%

in 2025. I think you are correctly interpreting that we've got some puts and takes in 2023, and so we're not putting a stake in the ground specifically on any 2023 gross margin guidance, but we do expect to see both improvement on gross margin and OPEX leverage to get to that 25%. You know, perhaps over time with a little bit more under our belts, we'll be able to quantify the pieces a bit more. But for right now we're just really looking on driving both of those together to hit that 25%. And again, it's about 50 basis points of leverage in 2023, so, you are all correctly picking up on more of that improvement will come in '24 and '25.

Paul Chung *Analyst, J.P. Morgan*

Okay, great. And then just to follow up on cashflow, can you expand on the bigger upside relative to prior guide and you're above your target kind of conversion rate this year or in back in 2022 and then, and how do we think about free cash flow conversion in '23 and the puts and takes there and, is at least 60% conversion longer term, somewhat conservative given the tough back macro backdrop, you guys hit 80% plus mark, is that, can we be at that 80% mark pretty consistently? Thank you.

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

Yeah, those are all excellent questions. I might go in reverse order, which is, I don't want to say that we'll be at that 80% plus consistently. We're really looking to be at that 60% plus consistently and the reason that we're there rather than the 80% plus, even though we did a phenomenal job on free cash flow generation this year, is, if you look at '21, I will say we did a less phenomenal job on free cash flow generation. And so, if you look at sort of '21 and '22 together, you actually get back to that roughly 60%, 65-ish percent free cash flow generation on average between those two years. And some of the things that lead to that just investing in working capital and investing in inventory as we continue to grow our hardware business continuing to invest in CapEx, like automation. We have a number of those puts and takes that we've looked at and based on places that we are investing in our cash flow, we really think that that 60% target on an annual basis is what we're looking for. It might mean we do better some years, but I think as you look over a three-year period and as we've looked back, that's probably the right expectation level to set while we are growing at the kind of rates we're growing at. So, if we are growing at 20% plus anymore, would we revisit that free cash flow target? Yes, certainly. But at those types of top line growth rates, we think that's the right balance in terms of what we're flowing through.

Paul Chung *Analyst, J.P. Morgan*

Okay, great. Thank you.

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

Thank you. Will Power at Baird.

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

Okay, great. I've got a couple of questions. I guess I better start with TASER 10, probably for either Rick or Josh. We're I guess, a little over a month past TASERCON. I wonder if you have any additional feedback, comments you could share from agencies that have been using the device in the field, any comments around level of use, effectiveness, et cetera. And I guess the second part would just be with regard to supply chain components for both the devices and cartridges as you move through the year here.

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

I'll start off. We continue to get great feedback from the field. I think we've now had something approaching 40 or so different uses. I think we've had the one that I mentioned at TASERCON where it was fired in a running situation. It's something like 40 feet and the person stumbled forward and the wires broke, but the agency then closed and the other officer at TASER 7. So ultimately TASER won the day in that use. We categorized that as a partial effectiveness of the T10. Then we did have only one other case where it was not effective and that was one where it was in close-quarter use. An officer fired the first dart and it turned out the second officer had not been trained on the TASER 10 yet and actually ran in and got between the operator and the subject before he fired the second dart. So one of the things we took away from that is actually making sure we work with our partners, that they train all officers on how the new system functions. So the good news is we're continuing to see very high effectiveness. Since TASERCON, we presented to the major city chiefs and the major county sheriffs with just very significant interest across the board. I talked to one major county sheriff that has had a fair number of shootings already this year with firearms, and they basically ran through with me of the cases they've had this year. They think TASER 10 could have changed the outcome in every one of them, which was a pretty remarkable statement. And I was actually with another major city chief today that told me in her agency, she thinks TASER 10 could have alleviated about two thirds of their shootings, as she enumerated them. So we're continuing to get very positive feedback. I'm about to go on an international tour to the first one I'll do since the TASER 10 launch and start talking to some international customers where I think that might be the greatest growth potential internationally because internationally we don't see many agencies individually issuing TASERs the way they do in the United States, but TASER 10 could reach a level of capability where it could become the primary defensive weapon. I think that means in many countries where they don't have many guns in the public's hands, but the officers are carrying a firearm, we might see them move to TASER 10 as their primary weapon. And I'll be very clear, we don't see that happening in the U.S because of the gun culture and the ready availability of firearms in the general public, they'll continue to carry both, but this enhanced capability in different countries could really be a market expanding phenomenon. And then, what was the second part of your question? I think I was going let Josh take it.

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

Yeah, it was just about component availability, I think. Is that right, Will?

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

Yeah. Supply chain components both for devices and cartridges. What does that look like?

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

Yeah, absolutely. So our supply chain team, as always has just done a fantastic job staying ahead of the curve and in what are less challenging times than maybe a year or two ago, but anytime you launch a new product, there are a lot of revisions and moving parts leading up to that, and ultimately we feel really good about our capacity not only this year, but continuing to build out our automation capabilities to more exponentially expand our capacity into the future. And so certainly we have plenty of inventory to support our revenue guidance and beyond for this year and next year, we're aggressively planning for even higher demand.

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

Okay, great. If I could just add a question on software continued strong traction across Axon Cloud. What's driving the continued DEMS adoption? It feels like that continues to accelerate, I guess in some

respects, and I guess in tandem with that, maybe just any kind of update what you're seeing with respect to Records and other products out of kind of that core Evidence/ DEMS category.

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

Maybe I'll start with the DEMS question and then hand it over to Jeff for Records. But the reason I want to take this one, Will is to give Jeff a huge shoutout for the work he's done over the last few years. He has essentially built a team that not only has delivered on the core ecosystem but continues to build out the last mile types of features and products that make the product not only that much more valuable to our core market but also more attractive to our kind of up and coming markets in Federal and International, so his team has just done a great job continuing to identify opportunity and market needs and then executing well on the plan to deliver those capabilities. And just that flywheel continues to lend itself to more customer interest and more happy customers that will buy more over time. And so that's, that's been the backbone of our DEMS adoption and maybe Jeff, I'll kick it over to you on Records.

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

Sure. That's awesome to hear and couldn't agree more about the power of everything we've done to continue to make the overall suite more attractive, both in aggregate and in the piece parts. And I think, you know, just building on what Josh said, that also combines with the power of our OSP flywheel model because as we continue to both add new capabilities into the bundles and add where appropriate, new tiers of the bundle, that just makes it again, easier and easier for agencies to make one simple choice to get access to this very Amazon Prime or Microsoft CAL-like basket of both hardware and software benefits that they buy at a price that feels great to them, even for the subset of the components that they know they want to use upfront. And then as they go forward, all of those additional benefits in the basket feel free because they've already made what feels to them like a good deal price for the basket and that drives the flywheel. And on top of that, even those who aren't yet in those programs, ala carte are more and more and more seeing the value of those add-ons and incrementally growing ARPU as well as adding new logos. On the Record side, again, we continue to be both humble and really excited and optimistic about the continued growth and trajectory just sort of using the same numbers we've talked to you about over the last couple quarters. With growth now we have over 50 agencies that represent over almost 18,000 sworn officers live on at least one module of Axon Records and that includes now 16 agencies who are already using the product to fully replace their legacy RMS. That includes at this point, major cities such as Tucson and Baltimore, Virginia Beach and Fresno.

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

Great. Thank you.

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

Thanks so much. We have three analysts left in the queue.

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

Hey, AJ, just real quick, I think Will deserves a shoutout for the best t-shirt on the call today. That's the 10 shots and 45 feet from the TASER 10, so great, great fashion sense, Will!

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

100%. Thank you so much. Love it! So we have three analysts left in the queue and we're happy to go past the top of the hour so we can make sure we get to everyone. We love the engagement! Jeremy Hamlin at Craig-Hallum. Go ahead, Jeremy.

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

Thanks, and congrats on all the momentum in the business. So just wanted to start with a high-level question. In terms of thoughts around M&A strategic investments, you guys have a pretty robust balance sheet that has been building. I wanted to get a sense in terms of what you might be looking at on a go-forward basis in terms of scale size of potential opportunities, whether it's strategic investment or M&A. And then to get a sense, are there any guidelines that you are looking at in terms of whether or not a deal is accretive or dilutive? Obviously, you've kind of changed some of the viewpoints on stock-based comp and so-forth to reduce future dilution but wanted to get a sense for how you guys are looking at that.

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

Yeah, it's a great question. For us it really is about either finding technology or teams that fit in well with our mission and or our business model, so there are multiple parameters that we are looking to evaluate companies on. And so, it's always a multifaceted equation for us as we think through them. That's not to say we aren't looking at whether something is financially attractive to us, but it could be across different metrics. It could significantly increase our TAM, it could help us get conviction on supporting that 20% growth long, long, long term or it could be accretive to our gross margins or EBITDA margins. So there isn't one set of things we're looking at, but we're really looking at ways we can find companies that tuck into our ecosystem. We are looking to really integrate the technology and present a holistic Axon solution as we look forward. I'll note that dilution number is an organic dilution number, so I think we have a strong balance sheet. I think we can certainly use cash for that. If we were going to use equity, I would consider that separately from what we're doing from just an internal stock comp expense standpoint.

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

Great, that's helpful. Then a couple product questions. First, coming back to TASER 10, to get a sense, you offered some guidelines around bundled pricing, but I wanted to get an understanding for versus the TASER 7, what your kind of net ASP might look like on a go-forward basis. You know, vis-a-vis, kind of 10% higher ASP obviously, you know, there may be higher cartridge use given the product. So that's one on the TASER 10, and then secondly, you had a pretty massive quarter in Axon Fleet, I think by far almost double what you've ever done in a quarter, in fact almost as much as you've done in any years, so I wanted to just get an understanding of was that a couple of really big orders or is there something specific to that product that you've really gained traction and now maybe we're past certain life cycles on prior contracts where you guys are just gaining more share? Any color there would be super helpful.

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

Yeah, absolutely. Thanks a lot for the question. Nice to see you, Jeremy. On TASER 10 ASPs, we're not going get too prescriptive there, but I'd say you should expect an uplift over previous generations and that's part due to the handle price and also part due to the number of cartridges in the bundle relative to, to previous models. I think we published the list prices on the website, so you can kind of derive from that what type of uplift to expect, and it will be in our bundles, so there'll be a slight inherent discount associated with any product in a bundle. But at a high level, that's kind of the story with TASER 10 and

then with Fleet 3, yeah, no outsized orders, just a lot of volume and you should expect that to continue and maybe even higher levels this year. The product has great product market fit. It's a well-built, well-designed product. The ALPR functionality associated with it is in high demand. ALPR is one of our fastest growing software add-ons across the business. I think historically you might remember our Fleet 1 system, which was more or less a body cam attached to a windshield, and then Fleet 2 was the moment where we got to parody, but then Fleet 3 was the moment where we really surged ahead of the market and became the highest, largest selling in-car video system in public safety, so actually, I think that's a path you can expect from a lot of our products over time where we reach parody with one version, and then we really accelerate ahead, and so we are really excited about the progress with Fleet 3.

Blake Bullock, our product manager and the team on Fleet 3 have done a great job there and we are proud of the progress. Still a lot of work to do, but it is encouraging to see that product take shape as the highest demand in-car video system in public safety.

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

Yeah, I'll just add briefly again, Fleet 3 is like the perfect example of the power and the beauty of us being both an IoT, you know, hardware, devices, company, and a cloud software company under one roof because we can deliver an end-to-end experience that not only functionality wise, but then economically really feeds off itself as part of our flywheel. And so not only is Fleet 3 hands down the best straight up hardware and car camera system that has ever been released but in combination with the revolutionary improvements we made to democratized access to great ALPR, it makes it an extraordinarily attractive software add-on to buy that they can either buy upfront or they can easily add at any point later with just the flick of a switch. And the whole thing works end-to-end with the rest of our suite.

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

Great. Thanks. Best wishes.

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

Thank you. We have two folks left. Alyssa Shreves is on for Tim Long at Barclays. Go ahead, Alyssa. Alyssa, you're off mute, but we're not hearing anything come through. Okay, let's go to Josh Reilly from Needham. Josh, go ahead and ask your question.

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

All right. Thanks for taking my questions. It seems like there is more opportunity for you guys to have some competitive takeaways in body cams in the U.S. based on our discussions with customers. Is that what you're seeing today or would you characterize more of the growth in 2022 as greenfield with officers who did not have a body cam at all?

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

You know Josh, the nice part is it's a combination of both. We continue to sell high volumes of body cameras to new customers, but we also continue to see existing customers buy more and deploy more widely, and then of course buy more and more of our features that are on top of the body camera and so peripheral products like Fleet and virtual reality and drones and so forth. So it's a nice healthy mix

across the board and we're very excited about that. We want to diversify the number of ways we can achieve these types of results. I think we're doing that and we're very excited about that trend.

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

Got it. That's helpful. And then can you just remind us, is there any seasonality around any of your products or just the overall business that we should be aware of as we're modeling revenue for 2023? And how could the TASER ramp impact the first couple quarters of the year's TASER revenue, if at all?

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

We've got a number of ways to deliver in each quarter. If we start out with strong shipments of TASER 10 then that makes the path easier. But that's not our only path. And so we're excited about the fact that between all of our hardware products and just the growing base of software revenue that we have in the business, we've been thoughtful about our guidance here. We believe it's very achievable. We continue to expect to grow 20% year over year and quarter over quarter. And so, we'll continue to execute here and make sure that between TASER shipments and all of our other products that we're very thoughtful about how we guide.

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

Yeah, and specifically I would say, Josh, we're not calling out anything unique on the shape of the year, and so I would expect pretty typical seasonality for us, even with T10 coming in, like we still have really nice, strong T7 performance, so we've got a lot of puts and takes, to Josh's point, and I would say for your model, think about normal seasonality.

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

Great. Thanks guys. Nice performance.

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

Thanks, Josh. Hopefully it gets a little warmer where you are. It doesn't look too nice outside today.

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

Yeah, we had a blizzard last week, so actually, this is a lot better.

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

I love it. Alyssa, should we try one more time? Okay. We will get you next. Oh, go ahead. Okay. We'll make sure you've got good audio for next time and we'll get you on the next quarterly call. Let's have Rick Smith close us out.

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

All right, well again, it's always such a pleasure to be able to share results like this. Josh, Brittany, the whole team, some of the other names you heard, a lot of people working really passionately and hard to turn these results in and I couldn't be more excited to see how this year unfolds with TASER 10. You know, Fleet 3, our software products are really starting to scale themselves as you're seeing in the financial results. So a lot of exciting things to look forward to. We look forward to seeing some of you at Accelerate in April, at our shareholder meeting, which I believe is coming up in May, and then we will be

back to share Q1 results here in a few weeks as well. So thanks everybody! We appreciate the opportunity to work for you on such an amazing mission.

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