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Axon Enterprise, Inc. (AAXN)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Cheryl and I will be your conference operator today. At this time, I would like to welcome everyone to the Axon Reports Q4 and Full Year 2018 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. [Operator Instructions]

Thank you. Luke Larson, President, you may begin your conference.

Luke Larson

President, Axon Enterprise, Inc.

Thanks, Cheryl. Good afternoon to everyone. I'm Luke Larson, the President of Axon. Welcome to Axon's fourth quarter 2018 earnings conference call. Joining us today are CEO and Founder, Rick Smith; and our CFO, Jawad Ahsan. Before we get started, I want to give my mom a birthday shout out.

And now, I'll turn it over to Andrea James, our VP of Investor Relations, to read the Safe Harbor statement.

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

Thanks, Luke. Good afternoon. This call is being broadcast online and is available on the Investor Relations section of the Axon Enterprise website. You can find our reported results and our quarterly shareholder letter, which is available at investor.axon.com and on the SEC website.

Today's call will include forward-looking statements, including statements regarding our future expectations, beliefs, intentions or strategies and projections for revenue growth and profitability. We intend that all forward-looking statements be subject to the Safe Harbor provided by the Private Securities Litigation Reform Act of 1995. Axon's forward-looking information is based on current information and expectations. Our estimates and statements speak only as of the date on which they are made, are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. All forward-looking statements that are made on today's call are subject to risks and uncertainties that could cause our actual results to differ materially.

These risks are discussed in greater detail in our Annual Report on the Form 10-K and our Quarterly Report on the Form 10-Q under the caption, Risk Factors. You may find these filings, as well as our other SEC filings at investor.axon.com or at sec.gov by searching for filings under the AAXN ticker.

Okay. Turning the call over to Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Thanks, Andrea. And welcome everybody. 2018 was a record breaking year. We drove top-line growth of 22% and the bottom line grew more than twice as fast with adjusted EBITDA up 53%. We raised \$234 million in a follow-on offering, turning our balance sheet into a fortress. We acquired VIEVU, and as a result accelerated the largest police department in the United States on the Axon network.

We released a completely redesigned Fleet in-car video system that's vying for market dominance. We released several groundbreaking software features including Axon Citizen, and we booked \$389 million in business in the Software & Sensors segment which is up 34% year-over-year.

We also finished the year with a stellar Q4 for every product line. We had a record quarter for TASER, record quarter for Software & Sensors, record quarter for international revenues, and a record quarter for total company in bookings, including a record quarter for Fleet.

And of course, in the last month of the year, we began shipping the all new TASER device, TASER 7 that connects to our software network. We're excited about the momentum and initial customer response from the features and offerings in the Officer Safety Plan 7 or OSP 7 which bundles our next-generation body camera, Axon Body 3, with TASER 7, and with free Axon Records for five years. We announced that at the IACP Conference, which is the International Association of Chiefs of Police last October to time it for the 2019 procurement cycle and we expect healthy attach rates in the back half, especially once AB 3 starts shipping.

We're seeing great customer response to the TASER 7 premium certification plan. Our major city agency customers in particular view it as a significant upgrade over the X2. Demonstrating this for the first time in the history of TASER, customers are demonstrating a willingness to upgrade earlier than five years, which is a statement to the utility and quality of the product, and its value proposition. In order to facilitate customers who wish to upgrade with weapons less than five years old, we offered a prorated trading program, credits for trading of weapons less than five years old accounted for some of the margin compression in the quarter. But in my

opinion, it's a very strong indicator that customers really do want to take advantage of the new features in TASER 7 and they don't want to wait their old weapon to hit end-of-life.

I personally want to thank the 76% of voting shareholders who approved our exponential stock performance plan earlier this month. It has brought new energy to the work force and of course, we are excited to drive total alignment between shareholders, the executive team and every U.S. employee. We still have some work to do to roll it out internationally. We have lawyers and accountants that are working on that now.

Our first operational milestone is either \$710 million in revenue or \$125 million in adjusted EBITDA, and I can tell you we are laser focused on hitting those first goals and beyond. It's encouraging to CEO to have our employees thinking and making decisions just like long-term shareholders.

That's all from me. Luke?

Luke Larson

President, Axon Enterprise, Inc.

Thanks, Rick. The year is off to a strong start with several key wins. We look forward to welcoming the Swedish police authority on to the Axon network. That's the first European nationalized police force to deploy Axon body cameras and go on the Axon network. We also received notice a few weeks ago that the Phoenix City Council approved a \$5.7 million contract with Axon Enterprise to provide 2,000 body cameras for the department and Evidence.com. We have a few more wins up our sleeve for both TASER 7 and body cameras that we look forward to announcing in the coming days and weeks.

Some of you who have been with us for a while know that in late 2017 really led by our new CFO, Jawad, we've pivoted our company culture to focus more on driving profitability, but it was important for us to demonstrate leverage on the body camera business after years of heavy investment. So, one year ago, I stood up in front of the company and I declared that I'd shave my head if we hit our 2018 EBITDA goals. So, it's with mixed feelings that I share with the team or share with everyone that the team rallied and we did indeed hit those goals. In fact, we exceeded them, even accounting for about a \$10 million related loss with association of acquiring VIEVU in May.

And so, several employees took turn shaving my head on stage during our annual company kickoff, which we privately broadcast to Axon offices all over the world. It was a pretty great moment for almost everyone except my wife. I also got a heck of a sunburn at the Phoenix Open and I'm sharing this with all of our shareholders to let you know just how committed I was to driving this metric and the tone echoed throughout the organization and as evidenced by weekly reviews of our expense structure.

And of course, I recognize that even as we demonstrate successful annual leverage, Axon remains in a period of under-earning while we invest in major growth opportunities. We feel great about our 2018 performance where the cost controls we began implementing in late 2017 cleared the way for us to acquire VIEVU and make the right decisions for our customers and for the long term, still meeting our full year profitability targets.

Turning to 2019, I'm laser focused on three primary execution items. The first is ensuring that TASER 7 is the most successful TASER rollout ever, and it's been very well-received in the market. The second is launching our next-generation body camera, Axon Body 3 mid-year, which is our first LTE-connected camera. This is great timing. The launch of Axon Body 3 coincides with the rollout of the first dedicated first responder cellular networks by AT&T FirstNet and Verizon, both of which are Axon partners. And third, we're extremely focused on delivering the Axon Records software product to our launch partners.

Double clicking on this third one, let's talk about what a successful Axon Records rollout looks like. We need to nail the product and we have the right team in place to do that. We also need to really succeed in our early deployments. 2019, the key goal is to gain a foothold and delight our early launch customers. We also want to sell Axon Records through our Officer Safety Plan 7 bundle, with the TASER 7 and Axon Body 3, so customers are set up for the full Axon experience. We're feeling really great about 2019.

And now, I'll turn over the call to our CFO, Jawad.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

Thanks, Luke. I've never felt better about how the company is positioned for growth. We've proven we can execute. In 2018, we did what we said we're going to do despite a pretty substantial headwind from VIEVU in one of their large domestic customers. We have terrific momentum on our top line, driven by investments in our products and teams with international picking up in the Fleet business buying for market leadership. I also feel great about having more than \$800 million in total company backlog and the fact that annual recurring revenue for software has crossed \$100 million in 2018.

Axon Records and Dispatch are right around the corner and we feel good about Records coming online and contributing to bookings in 2019. On the bottom line, this is the first year in our company's recent history that we hit our profitability goals and we expect that to continue going forward. I'm very proud of the team from bracing a new level of financial discipline.

Turning to the balance sheet, our strong cash position gives us an incredible amount of resilience. In 2018, we generated \$64 million in operating cash, up from \$18 million a year ago. That combined with the following offering gives us about \$350 million in cash, which puts us in a strong position to flip the switch on selling TASER subscriptions. Equally important, we have the financial muscles to continue investing in our four strategic growth areas to drive ongoing innovation and market leadership. The guidance we're providing today reflects strength on both the top and bottom line.

As we look at 2019, we expect momentum to build throughout the year. Q1 sales reflecting a more modest growth rate relative to the back half. We will continue investing for growth with increases in R&D as a percentage of sales throughout the year. We plan to partially offset that by reducing SG&A as a percentage of sales. SG&A as a percentage of sales dropped from 40% in 2017 to 37% in 2018 and we expect to further reduce that in 2019. Our teams are incredibly excited about our success in 2018 and they're highly motivated to keep the top line growing and maintain the operating discipline needed to drive bottom-line results.

And with that, operator, let's turn to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of Mark Strouse of JPMorgan. Please go ahead. Your line is open.

Mark W. Strouse

Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks, everybody. Thanks for taking my questions. So, Jawad, I think you've done a pretty good job of laying out the one-time items that are weighing on margins in 4Q. But just a question for the guidance, how should we think about the, I guess, call it one-time items associated with VIEVU and their large contract that they have. Are there anymore expenses that we should expect here in the first half of 2019?

And then, kind of a quick follow-up to that is, your guidance kind of points to EBITDA margin expansion a bit below your kind of long-term targets that you've talked about over the last year or so. And I guess how should we think about that longer term? Are you kind of stepping away from those targets, or can you reiterate those?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. Great question, Mark. I'll start with the VIEVU one. So, look, VIEVU was dilutive, we knew that when we acquired the business, and we had the issue with that one large customer domestically, ended up being more of a headwind than we [ph] encountered on (00:12:50). And we're still working very hard to get that business integrated and to rationalize some of the duplicative costs and to make sure that it's no longer a headwind going into 2019. And we're certainly not going to see the level of dilutive cost that we saw last year in 2018. We are expecting still in Q1, I would say, see some costs as we continue to just rationalize some of the cost base there, but it's going to be an order of magnitude less than it was in 2018.

And then, on your second question, that's – it's also a good question what we're looking to do very much is still to drive leverage, and we're not stepping away from our guidance, but we are just again facing this headwind from VIEVU. And also, part of what you saw in our Q4 results was that the TASER 7 ramp costs ended up being higher than we're expecting and we're expecting to see a little bit of that in Q1.

Mark W. Strouse

Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. Thank you. And then, you're mentioning, I guess, [ph] you're kind of (00:13:58) adjacent markets more this in the press release. Can you talk about the incremental expense associated with that, that's kind of baked into your 2019 OpEx? And then, if there's anything high level, you can share to kind of help investors frame the addressable markets for those, that'd be helpful. Thank you.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah, Mark. I'll handle the first part of that question. In terms of growing OpEx to support additional markets, we actually have several key members of our team that are working on new market expansion. And one of the great motivations for them, we actually had quite a few senior individuals on our customer-facing teams opt into the [ph] Axon Fleet 2 Plan (00:14:49). And so, they're working overtime to figure out how to open up these new markets. So we don't see any great OpEx adds there.

I think this is, we're going to continue to drive leverage in SG&A and still be able to open up some of these new markets. In terms of the focus of those markets, we really see an opportunity in what we would call very adjacent markets like EMS and fire and we have teams talking in those. They're not quite as big as the law enforcement market. We also have had some interest from additional markets as well. I'm actually going to kind of keep that pretty tight lipped for now, because we don't want to release any competitive intel.

Mark W. Strouse

Analyst, JPMorgan Securities LLC

Q

Okay. Understood. Thank you very much.

Operator: Your next question comes from the line of Will Power of Baird. Please go ahead. Your line is open.

William V. Power

Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Great. Yeah. Thanks for taking the question. Maybe first just coming back to the 2019 revenue guidance and the expected bill through the year off of Q1. I guess I'd just be interested in the visibility into the second half kind of the key drivers, I guess Body Camera 3 as a part of that, but any reason why TASER 7 wouldn't continue to build off of Q4 levels through the first half, and then I guess continue to build in the second half. So, just trying to understand the visibility of that second half improvement in revenue?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. We're expecting TASER 7 production to be fully ramped by about the midpoint of the year. And so, what we'll see is a pickup in revenue in the second half. And then, what's going to happen is, there'll be sort of a force multiplier effect with AB 3, a lot of those upgrades are also coming up in the back half of the year. So, T7 being fully ramped as well as AB3 upgrades in the back half of the year are going to be – revenue to be the profile will be heavier in the back half of the year.

William V. Power

Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Okay. And then, among the four key kind of strategic growth drivers, I think you talked about in your presentation or the release, you talked about Records already, and pushing for bookings and key customers later this year. I guess, I didn't hear much more on Dispatch. I guess, I'm a little curious what you're thinking there, and timing from here.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. Why don't we have Rick take that question?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Thanks, Luke. Just as we are not releasing a lot for competitive reasons on that point, it's an area we're pretty excited about. Stay tuned for some calls later in the year, and we'll provide some more details on it. But for now, our [ph] we're keeping down fairly close with us (00:17:33).

William V. Power

Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Thank you.

Operator: Your next question comes from the line of Jonathan Ho of William Blair. Please go ahead. Your line is open.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon. Can hear me, okay?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah.

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

A

Yeah.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Perfect. So, I just wanted to start out in terms of your bookings expectations around RMS, I know you talked about the second half being the opportunity timeframe, but what magnitude of bookings should we be thinking about? And can you give us some color in terms of the types of customers you'd be targeting initially?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah, I can take that one. This is Rick. So, most of the early bookings actually we expect to be as a part of the OSP bundles, the Officer Safety Plan bundles, so we've included Records in that, because we think the real target market for us are people that are agencies that are already using the majority of our ecosystem with TASER weapon, body cameras, and cloud software. So, the real player we see is the opportunity there. Now, there is some revenue allocation that is allocated towards Records. I'm actually in a different area of the country from Jawad and Luke. Jawad, I assume we're not giving any more details in terms of how that revenue allocation is being handled at this time.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

No, not this time.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Okay. So, we really view this as part of the overall enterprise sale. And the reason to include Records as a free add-on in that sale is, we see the real value long-haul is in the data, not in the software itself. So fundamentally, Records software is form filling software, it's the forms and reports officers go out. And we think that no matter how good your form filling software is, it will largely be a commodity. And as such, when we see things that are

commodity, our general strategy is to have a more aggressive go-to-market plan. And in this case, we decided to make it free in that bundle. And the rationale really is that the real value-add will be in the automation if it's possible, by connecting the audio-video stream from the camera to the record management software, so that we can begin pre-populating. And ultimately, over a five to seven-year time horizon, we believe we can dramatically cut the amount of time that officers spend filling out forms. And fundamentally, a law enforcement interaction is what my AI team sort of points to is a really great target for machine transcription, because they're very structured conversations. Hello, sir. What's your name, where do you live, what's the date of birth? And with that sort of structured conversation, to be able to extract that information from the audio-video record and pre-populate it into the printed record is something that'll be hugely valuable.

Let me just to give you an idea; I talked to one major customer in the U.S. and they had spent recently something like \$40 million contract on a record management system over a multiyear time period. But that same agency spends about \$1.6 billion a year on payroll and their officers are spending about half their time doing administrative tasks. So, the value creation opportunity is for us to automate that \$800 million payroll cost that's going in the non-value added bureaucratic cash. And so, that's where you'll begin to see.

So, you will see revenue associated with Records. It'll largely be a function of allocation against the bundle in the early years and then where we really kicked in is when we have the high-value analytics and AI automation that connects the body cameras to Records over the next three to five years.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Excellent. Thank you for the color. And just as a follow-up, when we look at sort of the strengths around TASER 7 and the excitement that you're seeing in the customer base, can you talk about how maybe that impacts OSP? I mean, are you seeing other customers that have historically been sort of hardware only, you now want to refresh TASER 7 and look at the broader bundle or like how does that potentially maybe change that mix?

Luke Larson

President, Axon Enterprise, Inc.

A

Absolutely

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Go ahead.

Luke Larson

President, Axon Enterprise, Inc.

A

Go ahead, Rick. Yeah. We see a great opportunity every time we get in front of our customers to talk about the total Axon solution. And so, the strength of our portfolio is when all those products are used together, the agencies see additional benefits. And so, every time we're in talking with a customer about any one of our products, we're kind of highlighting the benefit of the total solution. Over to you, Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. I would say the – so the TASER 7 definitely, it has a much stronger data integration element to it. Actually, just yesterday, I was going over with some of our design team, what they did on things like device assignment which doesn't sound particularly sexy or even the returns process, but when you're an agency who's deploying

thousands of TASER weapons, how are you – having to write down serial numbers and take them into spreadsheet later versus now we direct with a mobile app where you tap it on the device and assign it to the officer. We're doing thousands of these, it just dramatically improves the experience and that's all part of that integrated software ecosystem. And with AB 3, that will pair with your TASER 7, and starts to allow things like real-time alerting, so that if an officer harms or fires their TASER 7 in the field, that alert can be routed to other officers within the agency or administrators and a service we're calling aware which really is to help the agency be better aware of what's actually happening out in the field.

And I'll wrap by saying, to me, the most exciting thing coming this year will be Axon Body 3, because I think fundamentally, we're poised for an iPhone moment; meaning when the iPod went to the iPhone, the initial perception is, well, my music player now has a phone in it. And now, as you look back at it, pretty rarely people even use the thing as a phone anymore, it became such a transformatively connected device. We see similar opportunities in – effectively today, we make sort of a nuanced GoPro type of camera. We make a great camera that the officer is aware and they download the information and use it later.

Once LTE kicks in, we'll be able to offer all kinds of real-time services that will sit on top of that hardware platform, so the camera becomes something more like an Alexa on your chest as opposed to just a camera you wear to record and we think that will open up a whole host of really interesting services, some of which we're already planning for and some of which we think we'll discover once that kind of activity comes online and we're out in the field.

And by the way, the significant majority of our customers in the U.S. are on a hardware upgrade program. And so, they will get Axon Body 3 sort of like clockwork as a part of their subscription, which is really big part of both the customer benefit that they – we carry them into the future with both hardware and software upgrade features and it's great for us, because we can plan our roadmap. We don't have to sort of plan to indefinitely support the last three generations of cameras, we can move our installed base along with us and that gives us flexibility to move and innovate faster than any of competitors in this space.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Great. Thank you for the color.

Operator: Your next question comes from the line of Jeremy Hamblin of Dougherty & Company. Please go ahead. Your line is open.

Jeremy Hamblin

Analyst, Dougherty & Co. LLC

Q

Thanks for taking the questions. I wanted to ask about that – you mentioned the time to rebuild the TASER gross margin. Can you give us a better sense maybe a more specific timeframe in which you think you'll get that business back into that 69%, 70% range on the gross margin?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

At this point, Jeremy, that's something we're going to see throughout 2019, it'll successfully build. There is a lot of factors there. Obviously, we have the ramp costs that we're dealing with in Q4 and we're going to see that in the first half of the year until we're fully ramped. And then, we're also still very much – we're at the point where we've got treating credits that are in the mix and they're discounting. Although we have changed the incentive structure

with the sales team to minimize discounting, there's still some early [ph] leader (00:26:08) pricing going on, there's some trading credits. And so, what we're going to expect to see is throughout the year, those margins will build and hopefully exiting 2019, they'll be more on a normalized basis.

Jeremy Hamblin

Analyst, Dougherty & Co. LLC

Q

Got you. That's very helpful. And then, just in terms of, you've talked about investment and as we think about our R&D outlook this year, you had a little bit lower number here in Q4. As we think about 2019 and your R&D investments, how is that kind of reflect, I guess, the new product launches, Axon Records coming along, how should we be thinking about that particular line item?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. Yeah. Good question, Jeremy. So, you've seen – we've continued to increase our investment in R&D. We're very excited about the opportunities that are ahead of us. Certainly, the markets that we're addressing today, but there are some new opportunities in adjacent markets and we're very excited about Records and Dispatch as well. And what we don't want to do is, under-invest and miss out on those opportunities. And so, for 2019, you can expect that our R&D as a percentage of revenue will be slightly above 20% and that's up from about 18% in 2018, that's up from 16% in 2017.

And what we're doing to help offset that, if you look at our SG&A as a percentage of revenue, that's coming down to as 40% at the end of 2017, about 37% at the end of 2017 and we can expect to drive that down even further in 2019 closer to about 35%. And so, what we're very consciously doing is driving leverage in our support function costs and reinvesting those dollars into R&D.

Jeremy Hamblin

Analyst, Dougherty & Co. LLC

Q

Okay. Great. And then, there is just a follow-up related to that question, which is, in thinking about Records specifically, in terms of the timeframe in which that's going to be a revenue-generating product; can you give us a sense in 2020, is that something in early 2020 in terms of revenue generation or more of the second half of the year?

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. So, as Rick was saying earlier, we're actually selling Axon Records today bundled in with our TASER 7 OSP offering, but we would see that being a contributor in the first part of 2020.

Jeremy Hamblin

Analyst, Dougherty & Co. LLC

Q

Okay. Thanks, guys. Good luck.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. I can just add a little color there. We don't expect that we're going to be selling many standalone deals of Axon Records, because we're – our solution, we're particularly strong is an integrating piece of the Axon ecosystem, which it just so happens, that majority [ph] major even TASER (00:29:01) already on. So, you'll see

it's showing in these bundled sales and we'll start recognizing revenue as soon as the product is in general availability with features that meet the rev rec guidelines and our customers can start gaining utility from those features. So, we expect that to happen late this year.

Jeremy Hamblin

Analyst, Dougherty & Co. LLC

Q

Right. That was really the question of when that product is going to be recognized as revenue. But, I think we got the answer. Thank you.

Operator: Your next question comes from the line of Mike Latimore of Northland Capital Markets. Please go ahead. Your line is open.

Q

Yeah. Hi, guys. Thanks for taking my question. This is [ph] Pawan (00:29:45) on for Mike Latimore. I have two questions. My first one is like what percentage of your TASER sales were sold on a recurring plan and as upgrades?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

We're just going to track that, we got that in our shareholder letter.

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

A

35% of all weapons sold in Q4 were on a recurring payment plan. And in the U.S. specifically, it was 48% of new TASER contracts. And I believe it was almost all T7 was on a recurring.

Q

Yeah. And my second question is, like, could you give us a sense of your backlog of Evidence.com seats not yet activated?

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

A

Yeah. We do have that. It's generally about 20%.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. It's about 15% to 20% of our booked seats.

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

A

Yeah.

Q

Yeah. Thanks. Thanks for answering my questions and bye.

Operator: Your next question comes from the line of Saliq Khan of Imperial Capital. Please go ahead. Your line is open.

Saliq Jamil Khan
Analyst, Imperial Capital LLC

Q

Great. Thank you. Hey guys, how are you?

Jawad A. Ahsan
Chief Financial Officer, Axon Enterprise, Inc.

A

Doing great.

Luke Larson
President, Axon Enterprise, Inc.

A

Great.

Saliq Jamil Khan
Analyst, Imperial Capital LLC

Q

Perfect, guys. I have a quick questions for you on my end. First one is, could you give me a bit more granularity on the Axon Fleet 2 either regarding your expected revenue or the margin contribution? And even more importantly is, are you seeing any competitive pressures from the likes of WatchGuard?

Luke Larson
President, Axon Enterprise, Inc.

A

Yeah. So, why don't I start with the back half of your question. We have really seen demand for Fleet 2 and are just really proud of the kind of markets response and the demand for Fleet. We sell the majority of our Fleet products just like we do our cameras where we sell them on a booking or they will buy on five-year contract and then we recognize that over a five-year period.

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

A

Hey, Luke, if I could contribute as well, I would say, a couple of years ago, WatchGuard was the clear market leader in in-car video, and by the way, they're a company we hold in high regard, but I'd say we've been quite competitive. Our competitive intel tells us there have been quarters where we've been the market leader on a dollar booking basis and we continue to feel that the momentum is heading our direction. So, we feel really good about within a year or two of launch, we've been able to be a contender for the number one spot and we think we only get stronger with time.

Saliq Jamil Khan
Analyst, Imperial Capital LLC

Q

Perfect. [indiscernible] (00:32:29) Go ahead please.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

I just wanted to provide some extra color. We shipped about 4,000 units in the quarter and we're expecting in 2019, the quarterly run rate to be at or above that level

Saliq Jamil Khan

Analyst, Imperial Capital LLC

Q

That's very helpful. Thank you for that. Guys, two more questions on my end as well. You may have touched upon the first one, but the Axon Flex, your net sales, I noticed that they have declined roughly 3% year-over-year. Is that because you're seeing some of the sales be cannibalized by your other offerings or is there something else going on that I may be missing?

Luke Larson

President, Axon Enterprise, Inc.

A

So, at IACP, we announced our Axon Body 3 camera. And so, we've been working with a lot of our customers on how we would transition them over to the new technology that's going to be shipping this year.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. This is Rick. I would add in that in general, I think we've seen the market shifting in favor of the integrated one piece body camera versus the two piece. The original concept of Flex was that it would be a head-mounted camera that would track the perspective of the officer. And what we found is just, in practice, officers really do not enjoy wearing the camera on their heads, so they tend to wear it on their shoulders, et cetera and that ends up really giving you a sub-optimal experience, because then you have the narrow field view and it's not ultimately tracking the officers head. So, I'm continuing to see a trend where officers and agencies are just moving towards the more simplified body camera design that both AB 2 and now AB 3.

Saliq Jamil Khan

Analyst, Imperial Capital LLC

Q

I would envision that as well. I think the form factor and this ease of use altogether for the AB 3, that seems a lot better than what I saw with the Axon Flex. So, nonetheless, it's a great product.

Last question on my end, guys, it's, I know Rick, you have done a ton of work with this in the past. I believe you'll continue to do a lot more of this. If you take a look at the international business, that tends to be a bit different [ph] due to the (00:34:43) four agencies that are out there, what have you done over the past year or two to be able to improve the predictability of your international business?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

So, the main thing we've done is, is really hiring dedicated salespeople in market and I think we've got a pretty good model of what it takes to open a market. I don't want to get into detail here, because we have competitors on the [ph] call that (00:35:08) how we resource markets, but I think we've got it down to where we're able to replicate that as we go into new markets in a pretty efficient way. We did just come off of record period in international sales and we do expect the year ahead, we could really start to see international continue to blossom really across the world that I think mainland Europe or areas we've got our eye on. [ph] I was there in (00:35:36) 2015-2016, it's been the two, three years. And so, we're now starting to see some of those national

police forces like we saw in Sweden who have got some others that are there in field trials of both TASER weapons and cameras.

Saliq Jamil Khan

Analyst, Imperial Capital LLC

All right. Thank you, guys.

Q

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Yep, thank you.

A

Operator: Your next question comes from the line of Scott Berg of Needham. Please go ahead. Your line is open.

Scott Berg

Analyst, Needham & Co. LLC

Hi, everyone. Thanks for taking my questions. I have one and a follow-up. I guess first of all, I don't know if Rick or Luke want to answer the question, but can you give us a sense of what you saw from customers in the quarter that were evaluating in the new TASER 7 in terms of their willingness to purchase subscription? I heard Andrea give the metrics that the vast majority of the sales in the quarter on the TASER 7 were subscription, but how about maybe a broader comment on the conversations you had?

Q

Luke Larson

President, Axon Enterprise, Inc.

Rick. Why don't you take that?

A

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Luke, [indiscernible] (00:36:33).

A

Luke Larson

President, Axon Enterprise, Inc.

Oh, well, yeah, sure. So, when we – historically, when we were approaching customers, a lot of the early TASER purchases for M26 and X26 were out of – they were out of their discretionary funds, usually kind of chunks of cash that they could spend on whatever they wanted. Now, we've effectively positioned the TASER as mission-critical gear. So, the majority of the agencies, especially in the states, have actually come to us with a poll to put that into their operating budget which really aligns with our subscription plans. So, I would see over the next three to five years, we would expect the vast majority of our U.S. customers to buy on a recurring service plan.

A

Now, we do want to keep in mind that they still have some of these discretionary funds and that's the way they like to purchase. We're never going to turn away PO, but I would see the majority of the customers looking to buy on the subscription plan.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

I would add that as well. TASER 7 is literally interesting. In that, virtually every sale has a subscription element. Even if they buy the weapon, there is a subscription element for the docks, rechargeable batteries and software services. That – they would really need to effectively run the program, even if they bought the weapons outright. So, it's a [indiscernible] (00:38:09) every significant order in the quarter had some subscription element. And in fact, I can't think of one off hand, where the customer came in and effectively said, no, no, no, we're going to buy the weapons and only do the subscription for the smaller parts. There may have been some of that, but the tone of the market is quite different, whereas three, four years ago, when we started offering payment plans for weapons, I would say, the majority of the customers would come back and say no, no, I want to buy this the way I've always brought it, and pay you one time and own it, whereas now, the majority – at least of the larger customers where I'm having personal exposure, they're almost – well, they're all that I'm aware of, that I was involved with, [indiscernible] (00:38:52) one of these officer safety or certification type plans were at the subscription model.

Scott Berg

Analyst, Needham & Co. LLC

Q

Got it. Helpful. And then, my follow-up would be on – in your press release, you mentioned some incremental investments outside of law enforcement, like fire departments, emergency medical, emergency services, et cetera. Can you maybe quantify what those additional investments or those incremental investments look like here in 2019?

And then, how about any other success stories in your endeavors outside of law enforcement, outside of the – I think it was the Charlotte Fire Department that was a big win during the year? Thank you.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

So I'll start with the level of investment. You can expect that we'll make those investments within the guidance that we've given for R&D. So we've guided to north of 20% for R&D as a percentage of revenue and that's inclusive of the investments we're making for adjacent markets and at this point, as part of the overall bucket, it's still relatively minimal.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah, I would just add there that what we're mostly focused on is, how do we take the same products and feature set we've created for law enforcement and find other enterprise users that would want similar capabilities, and in fact this is one where having law enforcement as reference customers is pretty powerful, because [indiscernible] (00:40:15) by enterprises is a fairly elite, very data-secure oriented market, where we're the clear leader, and now we're looking at how we can parlay that leadership into revenue in other markets where we're doing a pretty scrappy way.

So just going with what Jawad said, it's not something you will see broken out, it's not – these are nowhere near the level of investments that we're making in the major initiatives like records, dispatch, this is really taking the major investments we've made in building these connected body cameras and now taking those into new markets. So, from a SG&A perspective, I think these – our expectation is that new markets should pay for themselves relatively quickly. There's not going to be some huge upfront marketing and launch expense. We're moving to these markets in a pretty cost-effective way.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. I actually – I want to add to that – I want to give Rick and Luke a lot of kudos here. Previously when we thought about getting into new markets, new products, we made pretty heavy investments, and what we've done recently is really shift to this smaller scrappier mindset, and Rick and Luke had pioneered these delta teams that you've heard us talk about, where we'll take very small teams of one to three people, and basically have them bootstrap their way into growth.

And we've done that with our drones business, there are some other new product categories we're getting into where we're doing this, and it's proving to be – we are very, very excited about the early returns we're seeing from these – from these new products. So there's certainly markets for existing products like body cameras and TASERs that we're looking for markets outside of law enforcement, but then they are also new product categories that we're approaching in a small scrappy mindset.

Scott Berg

Analyst, Needham & Co. LLC

Q

Okay, great. Congrats on the quarter. Thanks for taking my questions.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Thank you.

Operator: Your next question comes from the line of Steve Dyer of Craig-Hallum. Please go ahead. Your line is open.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks. A question on – on the TASER business and I have a question on Software & Sensors. On the TASER business, you've touched on a little bit of the gross margin degradation, operating margin of 18.5% to what would you add back, in other words, some one-time add-backs, but when you add those back, what do you feel like a good sort of normalized operating margin in the quarter was?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

So for TASER, we were looking at – hang on a second, we've got it here. On a pro forma basis, so – yeah, I mean this is – part of the issue we have Steve is that, we're really – we're no longer breaking out SG&A by segment because a lot of our SG&A costs were – actually most of our SG&A costs were allocated to TASER and it wasn't very meaningful to look at that by segment. And so what we're – we look at our gross margins by segment, we look at our R&D by segment, but SG&A we really look at it on a consolidated basis.

So, I would really point you to focus to the TASER gross margins and that's something where like we had said in the short-term, 61% to 63% and we expect that to normalize by the end of the year.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

Got it I guess, where my question is going is not that long ago, a couple of years ago, as recently as that, the TASER business was a mid- to high-30s operating margin business and that's sort of been gradually declining over the last couple of years. And again, I calculated 18.5% this quarter on an operating basis, but I realize there was a couple of one-time things playing on that. And so I guess I'm just trying to figure out, is the TASER business structurally different in any way than it was a couple of years ago, or is the pricing different, I mean I would think if anything, more people on a subscription plan would actually be more profitable, but anything going out of there that I can make [indiscernible] (00:44:12)?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah, so Steve that's very perceptive and what you're seeing is that the company overall is much different than it was a couple of years ago and a lot of the infrastructure that we've added from an SG&A standpoint is servicing the entire company. But all those costs have been burdened in TASERs. So when you look at the TASER operating margins over that period, for sure it's going to have degraded, but that's not really reflective of what's going on in the TASER business because again, we haven't been allocating those costs to Software & Sensors, which is why we're really looking at gross margins by segment.

In SG&A we look at it on a consolidated basis, but again, I've already given you the guidance for the gross margins on TASER. So it's taking a bit of a step back as we're ramping up TASER 7, but we expect that's going to normalize throughout 2019, and we also feel really good about the body camera business if you take out the costs for VIEVU, those one-time headwinds. We actually – we're very close to breakeven.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

Got it. That's helpful, thanks. I guess one more question on Weapons while I have you; [indiscernible] (00:45:16) is your expectation that the buyers of that product will typically be people who already have a TASER? The [indiscernible] (00:45:26) that you anticipate sort of any new sort of conquest sales from people on that I guess going forward, where do you expect to get that growth from?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

I'd like to start with this before I turn it over. So one of the things that – I'm very excited about with TASER 7; so a key part of our strategy has been to shift towards a recurring pricing model with the TASER weapons. First, we've also – we've always talked about the five-year useful life, and how that should be a driver of new sales. And then we talked about shifting from CapEx to OpEx and really being a line item in the budget. And for the first time what we're seeing is demand for the new TASER weapon on the merits of the weapon being very good.

So, historically for TASER X2, for TASER X26P, it's been the five-year useful life, it's been the shift to OpEx, but now what we're seeing is people actually want the TASER 7 because it's so good.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. We are – we think every frontline officer should carry a TASER. It wasn't that long ago that Chicago PD had a high-profile incident where they called for a TASER seven times and they didn't have one, and then in the wake of that incident, they really made a push to get them on all frontline officers. So, we're working on filling out every major city, every whitespace, we believe frontline officers should have TASERs. And then internationally, we're

also seeing a big opportunity where historically we've seen smaller percentage of forces, just a percentage deploy, and we're now making strides in positioning, hey, this should be carried by every officer.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

Last one for me, just as it relates to the body cams, they've been out there now for a few years, [ph] unfair (00:47:21) to a point that you are starting to see some opportunities for renewal. What do you see and as people come up for the first renewals, some of the early adopters on body cams, certainly [indiscernible] (00:47:31) to speak of or any color there would be great. Thanks.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. One of our margin, or one of our metrics for last year was actually on churn and retention. So we're laser-focused on every deal ensuring that when they come up for renewal they stay on the Axon network. We've not rested on our laurels. We're investing in making these products even better and offer more capabilities like the AB 3. So, both Rick and I are taking an active role in meeting with major cities. This week we're both going to be out at different major cities along with our chief revenue officer, not only talking about the body cameras, but talking about the entire OSP 7 offering with TASER 7 and Records. But we feel very, very confident that we've got a sticky solution with the entire Axon offering.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

So with OSP 7, are there any steps that you're able to share just surrounding [indiscernible] (00:48:35) renewal percentages et cetera?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

I'm sorry, could you repeat that? Your line is really static-y, I couldn't make that out.

Steven L. Dyer

Analyst, Craig-Hallum Capital Group LLC

Q

Yeah. I guess what I'm looking for is that some of the early adopters come up for renewal on the body cam. It's just any anecdotal or quantitative numbers that you've seen back around [ph] attrition or (00:49:00) renewal or anything like that to suggest that it's a long-term sticky product?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Yeah. So for the first time last – so last year we changed our bonus metrics. They were previously all commercially focused and for the first time last year we introduced some profitability metrics. We also introduced some usage and some – we had churn as one of the metrics, and it was less than, I want to say, one-third of a percent. It was practically zero and we had, I want to say, about 20 different accounts up for renewal and so it's been a very sticky product. Actually a lot of what we're seeing is that the customers don't even go the full five years. They end up renewing early and adding scope – adding users in the scope of work to their contracts.

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah. I would also offer, when they go on the – when they adopt Axon body cameras, we're not only offering them cameras, we're going into their operating workflow where the officer learn – gets to learn the product. They also, a day in their life, they're docking that in a dock, that's infrastructure that we actually install on-site, and then all of that evidence uploads to Evidence.com, which is now – we have over 40 petabytes of data on Evidence.com.

So to – we want to continually provide new value to the agencies, but we also have really cemented ourselves in that workflow with the infrastructure that we've put in place, as well as, you know, just the amount of data that they're uploading to the SAP system.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah, this is Rick. Just to put a finer point on it, of all the agencies large enough to be on my radar screen last year, there was only one that did not renew, and that was not a customer that – it was a customer that had a small [indiscernible] (00:50:53) meaning a small test number of units that they were not actively using. So that's the sort of customer we expect wouldn't renew if they got a small number, and for whatever reason didn't deploy them. But every significant customer, with any decent number of cameras on the network renewed last year.

So [ph] I should not have gone (00:51:12) with what I said, but we're very happy to – customers are finding utility and they are far – we saw a lot of customers last year upgrade early because they wanted to add whether it's a TASER 7, whether it's adding a Fleet or any of the other new features. We're seeing that that is a very common phenomenon that – and once agencies do go through adding something under their contract, it's pretty universal. I'm looking at – my team here make sure I'm accurate on it, the most of the time, if they're going to go through procurement, they want to co-terminate and extend to another five years, so they don't have to keep going through another procurement process, unless they want to because we've created another value product for them to come in and increase it.

So, the punch line is, it's working I'd say better than I could have anticipated when we got into this business.

Operator: Your next question comes from the line of George Godfrey of CLK. Please go ahead. Your line is open.

George J. Godfrey

Analyst, C.L. King & Associates, Inc.

Q

Thank you. Thank you for taking my question. Question one for you Jawad, adjusted EBITDA \$82.5 million at the midpoint and I'm just thinking that in 2018 adjusted EBITDA came in at \$61 million, free cash flow was \$47 million, so a 77% conversion rate. Do you expect a similar conversion rate on your adjusted EBITDA in 2019?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Directionally, yes. I think it'll probably – so what – we were generally expecting to see a bit of a air pocket or a bit of an impact on cash with TASER 7 because most of those sales are obviously on subscription versus the upfront like book-and-ship model for the previous weapons, but we haven't seen as much of an impact because we also now have had customers on these recurring deals for some period of time and like there is – with these – they're making their – with that base building, it's less of an impact, so I'd say directionally it's going to be about the same. It may be slightly lower, maybe slightly lower, but about the same.

George J. Godfrey

Analyst, C.L. King & Associates, Inc.

Q

Got it. And then second question, more a high level, I've read through the announcements again just now for the Swedish Police Authority in taking the Axon body cam, I'm just curious, what – your sales pitch is probably very similar across countries, but I'm just curious what did Sweden latch on to or what pushed them over the goal line versus other countries that you're still having to work through to get them to sign a contract?

Luke Larson

President, Axon Enterprise, Inc.

A

Yeah, so in International – we have a slightly different sale dynamic. In the States, we've got these municipal agencies, so they are a much faster sales cycle, there's also a lot of – now earned comfort with going all-in on the cloud. In Europe, in Continental Europe, in particular, we're still working with some countries on issues around data sovereignty; in some kind of mid-tier markets, they actually have infrastructure gaps like, they might not have access to constant connectivity for like cloud-based solutions. And so in Sweden, we have a great kind of reference customer, they are close to Greater London Metropolitan Police and other big agencies in the UK, and so I think, all of those factors made it very compelling for them to go on to the Axon network.

George J. Godfrey

Analyst, C.L. King & Associates, Inc.

Q

So, Sweden is more comfortable with their infrastructure data connectivity versus say in Italy or Germany?

Luke Larson

President, Axon Enterprise, Inc.

A

In Germany, in particular, there – it's a lot of sensitivity around working with German providers for technology and infrastructure. We've hired a on-the-ground German customer-facing rep. We're still in the process of developing the right technology and implementation partners in Germany and that is that those are – kind of slow down the adoption cycle.

George J. Godfrey

Analyst, C.L. King & Associates, Inc.

Q

Got it. Thank you for taking my questions.

Andrea James

Vice President-Investor Relations, Axon Enterprise, Inc.

A

Operator, before we go to the next question and we can go a little bit – few minutes over, I just wanted to – a quick point of clarification of something that's been said in the last couple of minutes. And it's pretty clear in the shareholder letter that the gross margin guidance for Q1 [indiscernible] (00:56:09) 61% to 63% for the whole company, not the TASER segment, so just wanted to make sure that was clear.

Okay. Next question please.

Operator: Your next question comes from the line of Keith Housum of Northcoast Research. Please go ahead. Your line is open.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Good afternoon. Thanks for the question. Guys, as we're looking at the TASER 7 acceptance, I noticed about 11% acceptance rate in the quarter and I know as you guys are saying, it's going to ramp up throughout the year; can you provide a little bit of color on I guess how fast you expect it to ramp up, and do you expect to perhaps exit FY 2019 with 100% TASER 7 sales from going forward?

Luke Larson

President, Axon Enterprise, Inc.

A

We wouldn't expect a 100% TASER 7 sale. 20% – roughly 20% of our business is going to come from International and that's going to be a slower market to adopt TASER 7 as we clear all of their regulatory things that we need to have in place. In the U.S., we would see – we think the majority of the [ph] deals (00:57:18) will end the year with TASER 7 being our number-one seller. We will have some agencies that may be laggards or have price sensitivity in which case, we've got a great offering in the TASER X26P still.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Got it and then, Jawad, if I look at the profitability of the TASER 7 under a subscription plan, I noticed in the release you guys talked about 45% of the revenue being recognized at the time of sale. What would be the profitability at that point in time? It would be the same percentage as the sale or no?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

So there were actually – there are two models that we sell the TASER under. One is a \$40-a-month plan, and one is the \$60-a-month plan. The 45% is for the \$60-a-month plan. The \$40 plan actually has more revenue upfront. It has about 75% revenue upfront and that's because in the \$60-plan, more of the revenue gets allocated to the software components and so the profitability will depend on the mix of the two plans. But overall, what we expect the entire company that the margin – will see is that the margins will then start to tick up on the software side.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

So maybe, if I asked the question a little bit differently, so if – let's say the 60-month plan – \$60-a-month, 45% of the revenue is recognized at that point in time. Does that mean that 45% of the cost is also recognized at that point in time?

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

No. Well, the – no. The cost for the weapon will be recognized upfront and it will see less revenue than it would see under the \$40 a month plan. So, the margins would actually be less if we have a higher mix of the \$60 a month plan.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

All right. I'll take that offline as well. Thanks. Appreciate it.

Operator: Your next question comes from the line of Glenn Mattson of Ladenburg. Please go ahead. Your line is open.

Glenn G. Mattson

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Hi. I know it's really a recent event, but I'm just curious to see if you guys are hearing anything in the field out there. But the recent Supreme Court ruling that prohibits excessive confiscation in terms of asset forfeitures and what that would mean for police budgets going forward, and especially in light of the fact that that's kind of a major price increase for your next – the current Officer Safety Plan.

So, if you're going to continue to see success with that program, then I guess you'll be taking share from a shrinking budget potentially. So, just generally your thoughts on – if you're hearing anything yet or what you think you might hear down the road from the kind of a ruling?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Yeah. So, this is Rick. We've seen no real impact from it to date. I would say this is one of damage of getting into the annual budgets. The things get hardest hit by those asset forfeiture would be the one-time purchases where agencies, they have an event, that leads to some confiscated assets, that leads to some money that they can buy things with. That's overall relatively small portion of their overall budget. And that's more, again, just the things that they buy one-off.

As our business has become ever more integrated into the line – budget line items, we've become less susceptible to those sort of whims of faith based on what they may or may not have had in terms of confiscations recently. So, we haven't seen much of new facts and I don't anticipate there going to be much of an impact, especially given the shift, heavier to subscription.

Glenn G. Mattson

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Okay. That's it for me. Thanks for the color, Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Great. Thanks.

Operator: There are no further questions at this time. I would like to turn the call over to Rick Smith for closing remarks.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Great. Hey, everybody, thanks for coming on the call today. Come out and see us at Accelerate, our annual user conference, coming up at the end of April and the 1st of May. We will have segments targeted for investors, so you can come out and see hundreds to thousands of our customers and some of the new stuff that we'll be showcasing as move into the back half of the year. So, thanks everybody and have a great day.

Operator: This concludes today's conference call. You may now disconnect.

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