



To our shareholders:

This is supposed to be a letter about 2019, but that already feels like a long time ago. We had a great year — and I'll get to that.

But first, I want to address the unprecedented time we are living in. I am writing this to you from my home in Arizona — and the current state of the world is coronavirus quarantines, travel bans, and stresses to the global healthcare system. The stock market is volatile, and an oil price war is adding uncertainty.

At Axon, we have been clear eyed about the challenges and we aspire to lead from the front. Adversity brings opportunities for people and organizations that are the most adaptable. Ice ages created breakout opportunities for adaptable species to explosively grow in their aftermath. We certainly do not celebrate difficult times, but we do see them as challenges that can bring out the greatness in people.

Axon is “mission critical” under Department of Homeland Security guidelines and in the feedback from our customers, and we are doing everything we can to keep our manufacturing lines open and our employees and customers safe.

As always, our public safety customers are on the front lines of protecting the public, and sadly, many of them have already lost their lives to COVID-19. If current trends continue, the pandemic will take more lives this year than firearms or vehicle accidents, which are normally the two greatest risks to officers. We mourn for fallen officers and their families, and we have pivoted to utilize our supply chain to source critical safety equipment such as masks, gloves and hand sanitizer to help reduce the numbers infected. Only days into this effort, more than 6,000 agencies have reached out to Axon for help.

We have also stepped up to provide global access to the full feature set of Axon Citizen, at no cost this year, to every agency that is not currently using it. Axon Citizen is one of our many cloud software offerings and is highly useful for social distancing — it enables virtual evidence collection, eliminates the need for officers to have to collect digital files in person and reduces the need for community members to visit a station. Citizen is one of the investments we have made to grow our business, but I am confident that you, our shareholders, will agree that now isn't the time to sell this solution. Now is the time to make it immediately available to every customer who needs it, and we can return to a more traditional business arrangement once we all get through this together.

This isn't the first time Axon has faced adversity.

In 2008, as the financial crisis gripped the world, we decided to transform our entire business from being a simple TASER devices manufacturing firm into an integrated technology company making wearables and cloud software. The transition was anything but easy — we had many difficult learning curves to overcome. As competitors in the public safety space retreated, we advanced into new opportunities and established ourselves as the clear market leader in cloud-hosted digital evidence management and camera sensors.

As a result, today Axon is stronger than ever. We ended 2019 with \$396 million in cash equivalents and investments, zero debt and an underlying business that generates strong cash flow and high margin recurring revenues. Revenue grew 26% to \$531 million last year, driven by demand for our latest generation camera, Axon Body 3, the cloud-connected TASER 7, and our cloud software. And our bottom line performance reflected our ability to scale manufacturing of TASER 7, continued growth of higher margin Axon Cloud software revenue (up 41% for the full year), and cost discipline. While net income was affected by catch-up stock compensation expense from our highly innovative eXponential Stock Performance and CEO plans, we delivered a record \$88 million in adjusted EBITDA for the full year, up 43%, and Q4 2019 adjusted EBITDA more than tripled to \$38 million, reflecting a 22% margin.

Objectively, we ended 2019 with a business among the strongest. In 2020, we will prove again that we are among the most adaptable.

When others retreat, we will advance. I am confident we will look back at 2020 as a pivotal year where we not only rose to the challenge, but we accelerated progress and created new opportunities. More importantly, we extended a hand to help our customers and their communities when it mattered.

Right now, we are supporting our customers through a period of upheaval, doing our best to be a stable and reliable partner in this storm. Beyond that, our strategic priorities in 2020 are to continue to execute in our core market, while accelerating our path-to-market in new product categories such as productivity (Records) and communications (Dispatch), and expanding to new customer categories, such as corrections, U.S. federal agencies and new international markets.

Beyond 2020, the future is very bright.

Axon remains fully committed to its mission to protect life. In my 2019 book, "The End of Killing," I laid out our moonshot: before this decade is out, we will deliver a non-lethal weapon that will outperform a traditional handgun in terms of reliable stopping power. I've seen early prototypes, and I'm pretty excited.

There will come a day when front line officers in threatening situations reach for their TASER devices first, before their firearms, not out of the goodness of their hearts, but because they know it will actually work better and keep them safer — and this will lead to better outcomes for everyone.

We are also delivering upon a future where body and in-car cameras perform as smart devices — alerting command about critical incidents, transcribing human speech, reading driver's licenses and license plates, and so much more. We are proud to be developing products that address some of society's most entrenched problems and we believe we have the obligation to do so in a responsible way — one that promotes transparency, with built-in mechanisms for accountability. Our AI and Policing Technology Ethics Board provides expert guidance on these issues, and is being seen as a model for other industries to follow.

In June 2019, Axon said we would not put facial recognition on our body cameras, at this time, because the technology is not reliable enough for widespread use and there are important legal questions that must first be vetted. And in October 2019, we announced that Axon would launch the industry's first AI-powered Automated License Plate Recognition (ALPR) system built from the ground up using an ethical design and privacy-centric framework.

Axon has not, and will not ever sell public safety data. We believe the data is owned by public safety agencies and the communities they serve, and should not be resold to private entities whose interests may not be aligned with the public good. It's important to me personally that we build a society that we all want to live in. We believe privacy-centric and ethics-minded design is not a hindrance to growth. Rather, it is a competitive advantage that our customers and their communities value deeply.

I will end this letter with a story. I was recently presenting at a university and was greeted by protesters. At the end of the presentation they took questions from the audience. One of the students stepped up and read from a sheet of paper,

"Mr. Smith, your company makes hundreds of millions of dollars selling for a profit to government agencies, how on Earth can we trust you?"

And I answered: "I appreciate the sentiment behind your question. When I was your age, I had two friends who were shot and killed. I was enraged that such a terrible thing could happen, and I wanted to do something about it. I could have gone out and started a non-profit to try to go after this problem. However, on a practical basis, that would mean I would have to spend a large portion of my time out asking people for money, for donations. Instead, I focused on seeing if I could develop a business model that could create technologies to address the problem. Here I am, 25 years later. Our company has sales around a half a billion dollars per year. We are set to spend over \$100 million dollars per year on research and development. There are well over a thousand people working at my company to address this problem. And we have introduced significant breakthroughs in new systems to ensure accountability and transparency in how these products are used. Thousands of agencies around the world use TASER devices and body cameras today, and more than 200,000 people have been saved from potential death or serious injury with our systems. It is inconceivable that any other approach I could have taken would have near this scale or impact. Conscious capitalism is the most powerful force for good in solving the world's most pressing problems. While no one is perfect, and there is always room for healthy skepticism, I believe the scale of our enterprise is exactly why idealistic young people like you should seriously consider entrepreneurship as the single greatest pathway to have impact at large scale on the problems you care about."

We are a for-profit company, and I am proud of that fact. We are investing to solve big problems, and to deliver outstanding returns to all our stakeholders: shareholders, customers, communities and employees. And we have learned that business models that withstand the test of time are those that focus on building value in a sustainable way. Put simply: when we build products and services in a manner we can be proud of, they have a more positive impact on the world around us and create lasting sources of value.

I sincerely hope you, our shareholders, share our sense of pride and responsibility. We are building fantastic products and solutions, built with care to ensure we maximize their utility and minimize the risks of abuse. We are building a business that has grown from a garage to the industry-leading enterprise we have become today. And today is just a milestone on a longer journey where we will solve even bigger problems, creating even more value for all of our stakeholders.

Thank you for being a part of our mission,

-Rick

A handwritten signature in black ink, appearing to read "R.W. Smith", with a long, sweeping horizontal line extending to the right.