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Axon Enterprise, Inc. (AXON)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Andrea James

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

Thanks. All right. Hello, everyone. Welcome to Axon's Fourth Quarter 2020 Earnings Conference Webinar. I'm Andrea James, Senior Vice President, Corporate Strategy and Investor Relations. This is actually our fourth quarterly earnings over Zoom. So it's great to see faces again. Today, we have Axon's CEO, Rick Smith; President, Luke Larson; CFO, Jawad Ahsan; Chief Revenue Officer, Josh Isner; and Chief Product Officer, Jeff Kunins.

First, we're going to give prepared remarks, and then we'll bring all of our analysts up into gallery view for Q&A. I hope you've all had a chance to read our shareholder letter which was released after the market closed. You can find it at investor.axon.com. Our remarks today are meant to build upon the information in that robust letter.

If for some reason, we lose Internet or Zoom connectivity, we'll make every effort to post a copy of our prepared remarks to investor.axon.com. 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 our actual results to differ materially. These risks are discussed further in our SEC filings.

Finally, we really encourage you all to look at our updated ESG and Corporate Social Responsibility report which we published today in conjunction with our earnings. We are increasingly conscious of our social and corporate responsibility as our company and our shareholder base grows, and we're pleased to share this comprehensive report with you. Angel Ambrosio, whom you're familiar with, on this call, is our Senior Manager of Investor Relations and ESG, and we welcome you to reach out to us on this topic if it's interesting to you.

Okay, go ahead Rick.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Thanks, Andrea. Hi everybody. I want to start by talking about 2020. The conventional narrative is that 2020 was a terrible year. I'd like to offer a different perspective. Challenging times bring out the best in humanity. These are the times that inspire us to rise up, to overcome, to stretch ourselves. The hardest times become our finest hours. If we choose to focus on the negative, there was plenty to see in 2020. But if we look harder, we can see so many signs of hope and progress. Supercharged by a global plague, nations sprung into the kind of arms race we should want to see; competing ferociously to cure a pandemic. And we all know the result.

Multiple vaccines developed 10 times faster than ever before. We adapted to a world where travel was simply off the table. So we virtualized ourselves and we learned to Zoom around the world for business. And we got to see our kids for dinner every night. My customer engagement has jumped more than ten-fold as customers are now open to video conferencing. And we've enjoyed seeing you, our analysts and our investor community face to face in our new quarterly conference Zoom calls. I don't mean to minimize the pain we all experienced in 2020. I understand, and I shared it.

My mother passed away days before Christmas after contracting COVID. But even in that sorrow came progress as we came together and we healed some fractured relationships within our own family. I would not have chosen for 2020 to turn out as it did. But, as we've said before, we don't get to choose what the world throws at us, but we can choose how we respond.

The urgency resulting from the intense social strife in 2020 is accelerating the world's readiness to move beyond bullets; to a world where killing each other is no longer something we simply accept as some immutable facet of human society. It has supercharged our energy as we redouble our efforts to deliver TASER energy weapons that will outperform a traditional sidearm before this decade is out. And our customers are embracing this goal. They have told us that the bar will be very high, but I'm confident our team will deliver.

2020 was also a year where Axon delivered incredible value to our customers and the communities they serve. As you can see, you can see it in our results. We knew that adversity would present opportunities for those individuals and those organizations that are nimble and adaptable, just as ice ages create breakout opportunities for adaptable species to explosively grow in their aftermath. In the weeks following the arrival of COVID in North America, we transformed our offices into adjunct manufacturing spaces, allowing us to spread out, create social distance, and continue to deliver exceptional results that far exceeded our most optimistic expectations. We didn't just deliver on our operational goals, we significantly outperformed them. I'm personally humbled by our team's ability to deliver exceptional results in a year filled with so much turmoil and adversity. We exceeded our goals and exited 2020 better positioned than we've ever been before from an operational, strategic, and financial perspective.

Here's a few highlights. We inked our first two programs of record with the federal government including a \$13 million US Customs and Border Protection order for body cameras and digital evidence management. In the fourth quarter, we signed our largest TASER contract in company history, a \$20 million order for TASER 7 from an international customer, eclipsing our record \$15.5 million TASER order from the Department of Homeland Security in the prior quarter. In 2020, we passed \$1 billion in total bookings with the majority of that coming from our core market of state and local public safety.

In 2020, we also delivered the largest single contract deal in company history, a \$46 million Officer Safety Plan with one of our major city customers. On the product side, we launched Auto-Transcribe, deployed customers on both Respond and Records, debuted unique new capabilities like Priority-Ranked Video Audit and shipped countless cloud software and device firmware improvements.

At Axon, we are continuing to look forward. We had a recent executive planning session where we asked ourselves; where do we want to be at the end of this decade? And our answer was simple; our vision is to be globally synonymous with our mission of protecting life by building the world's largest and most trusted network of safety devices and services. What an amazing opportunity to be part of such a talented team with such an aspirational mission.

I'd like to conclude by telling you what I'm hearing from our customers today. They see us as a key partner to transforming public safety. We hear stories daily about customers using our products to save lives and to protect communities. Our Net Promoter Scores are hitting new highs and our customers are actively and enthusiastically supporting our mission to make the bullet obsolete so that officers will no longer have to make the most terrible of choices. We know that we're welcoming a lot of new shareholders onto our growth journey.

So thank you for joining us, for taking an interest. And with that, I'd like to turn over the call to our President, Luke Larson.

Luke Larson

President, Axon Enterprise, Inc.

Thanks, Rick. As 2020 showed us, a lot that happens in this world is outside of our control. Against that backdrop, Axon employees really showed up and gave their best in the areas that mattered most. I want to give an emphatic thanks to all of our employees. Thank you.

At Axon, we built an amazing team and that talent is a huge asset and competitive advantage that doesn't show up on the balance sheet. Our team is laser focused on a clear mission inspired by our purpose and leaning in with an owner's mindset with a maniacal focus on delivering value for our customers. In 2020 we focused on our commitment to the mission, to our customers, and to caring for the health and safety of our employees. In 2020, Axon was able to outperform in a difficult year because we built a phenomenal team.

Looking to the future, our company has the talent, infrastructure, and capabilities to manage challenging environments and thrive. The company earned this position over three decades by taking risks, making bold decisions, investing hundreds of millions of dollars in research and development, countless hours of engineering, tens of thousands of hours of customer meetings, and most importantly maintaining an unfaltering commitment to our mission.

As we look to 2021, we have four key objectives: one, grow the core; two, scale new products; three, unlock new markets; and four, drive efficiency to fuel growth. We're also taking care of the amazing team that we've built. Our employees' health and growth remains a top priority. We recently added Ginger, a mental health app providing 24/7 support to our employees as well as rolled out LinkedIn Learning to the entire company. In 2021, we will continue to look for ways to support our working parents and caregivers. In 2021, we'll continue to invest in our people, products and sales channel, helping individuals level up, aim higher, and push harder to make our mission a reality.

I'll close out by talking about one of the areas of added investment, which allows us to go after a \$2 billion total addressable market, and that is our investment in virtual reality training. As a former military officer, I saw how the DOD's near unlimited budget can create amazing training, like mock towns filled with thousands of Arabic-speaking actors, huge multi-group trainings, as well as unmatched simulator training that pilots use for flight training.

In law enforcement though, they don't have the luxury of these enormous budgets or the benefit of having the majority of their time available to train. With virtual reality, we can leverage the best-in-class instructors and training to create scenarios that can be used across hundreds of thousands of officers, bringing the cost down to a very economical price that can democratize training. And Axon is poised to be a leader in creating this new category, just like we've done with the TASER devices, our Axon body cameras, digital – our Digital Evidence Management System, Evidence.com, and we're going to do it again with virtual reality training.

In 2021, we intend to transform how agencies train our officers by addressing the inefficiencies around the classroom, role-playing, and simulator training. And by leveraging VR, we can address their two biggest issues: budget and time. We'll accomplish this through three avenues. First, we have an exciting product launch that we can't say more on, but it is coming soon. Second, we intend to regularly release new training modules. And third, we are doubling down on our Community Engagement Training curriculum. We're seeing encouraging signs on demand for this product and we're excited about where it can go.

Earlier, I talked about the amazing team and culture we built at Axon. Before I hand it over to our CFO, Jawad Ahsan, if you want to learn more about that culture, I recommend you check out his book, *What They Didn't Tell Me*. You can get it on Amazon.

So with that let me turn it over to our CFO, Jawad Ahsan.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

Thanks, Luke. I want to start by talking about the number 28. I'm not referring to the number of days in this month, but rather three important milestones we hit as a company this quarter. We delivered 28% growth on revenue over 2019; 28% compound annual growth in revenue over the last five years; and we finished the year with 28% in adjusted EBITDA margins.

Now before I dive deeper into these, I want to talk about something else, the perception of our two business segments. We've discussed with you at great length the investments we've been making in our pivot to a tech-enabled solutions company. The perception of our Software and Sensors segment is best described by letting the numbers speak for themselves. Year over year, total revenues in this segment grew 26% and our ARR grew 37%. When I joined Axon in 2017 and our stock price was at \$22, many investors told me that they view our stock as appropriately valuing our TASER device business with the free option, of a high-growth software business. I think it's safe to say that we're now seeing some value in our stock price for our software business.

But what about that TASER devices segment, the one that's been around since 1993? Was there maybe a perception that its best days are behind it? If so, we shattered that perception with our 2020 results. Our TASER weapon segment grew revenues 30% year-over-year, outpacing even our fast-growing Software and Sensors segment. We're very proud of the TASER energy devices that we've built and believe that there's still a large base of untapped customers who have yet to adopt. So the 28% revenue growth over 2019 was really fueled by strength across the board in body-worn cameras, in software, and especially in TASER devices.

We feel that this validates our strategy to invest aggressively in both R&D and channel expansion; R&D, to stay ahead of the innovation curve in all of our product segments, and channel investments that will unlock new markets in new geographies. We're going to run this play again in 2021. When we look back over the past five years, and the 28% CAGR on revenue, that's also the result of investments we've been making along similar lines.

As we look ahead to the next five years, we're very excited by the next wave of new products and technologies that are going to become an important part of our growth story in their own right. Technologies like VR, which Luke just talked about earlier and we feel can have a transformative impact on the critical area of training for law enforcement. Technologies like Axon Respond and our livestreaming platform. What's particularly exciting with this one is the interest we're seeing outside of our core law enforcement market. For example, coronavirus and the vaccine rollout is top of mind for communities all over the world. A municipal security unit in Chile has been trialing Axon Respond livestreaming to ensure the quality and security of the supply chain and transportation process for COVID-19 vaccine distribution in their community.

Another technology we're excited about is our new ERP and CRM. Many people across Axon are working incredibly hard on upgrading these critical support systems and their associated processes, and they're already driving huge efficiencies as the early modules come online. Luke also talked about the importance of driving efficiencies to fuel growth, and we're laying the foundations today for a company that will be able to scale to \$1

billion in revenue and well beyond. Now you might be wondering why am I choosing to highlight our new ERP along with sexier technologies like VR and livestreaming? And I'm doing it to highlight something I can sum up in one word: discipline. We have our sights set on some lofty goals by 2030 as Rick mentioned, but our feet are firmly planted in the here and now. I'm so proud of the discipline we exhibit as a company on a day-to-day basis; in our capital allocation decisions, our budgeting, our execution. This is a team that is absolutely dialed in and ready to build on our momentum and take our company to even greater heights.

And with that, we're going to turn over to questions.

QUESTION AND ANSWER SECTION

Andrea James

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

A

Thank you, Jawad and team. Let's take our first question from Jonathan Ho at William Blair. Go ahead, Jonathan.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Hi there. Just wanted to start out with sort of the tremendous quarter and year that International had. Can you maybe talk about what is driving sort of that increased demand, and is there sort of a broader mindset shift that you're seeing with, you know either how agencies or national police forces are starting to look at the TASER?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Thanks, Jonathan for the question. Ultimately, I think it's just a lot of hard work and execution that our team is putting in. You know a few years ago, we said we're going to continue to focus on Tier 1 markets until we felt really good about earning the right to go into Tier 2 and Tier 3 markets. And now we're starting to see that kind of mechanism pay off. And this was a foundational year in 2020 in some of our Tier 2 markets. We're seeing new markets buy TASERs at high volumes and we're extremely excited for that trend to continue this year. And so, we're really focused on growing the TASER business and then earning the right to expand into other product lines in these markets and we're going to continue to execute day-to-day toward that end.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Got it. And just as a follow-up, you know has state and local government pressures created any sort of headwinds in terms of your pipeline of opportunities, or is it actually the reverse, where maybe this is opening up some opportunities, just given your strong value proposition? Thank you.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

You know, I don't – I can't really offer an opinion on that. To be honest, I think it's more just – we're focused on covering the market as best we can, not only in state and local but in federal and international as well; and by doing that, certainly we feel like we have the best products in law enforcement and public safety and we're going to continue to tell that story and make customers very happy and turn them into evangelists for our company. And regardless of what pressures may or may not exist in any given year, we think that's a long-term winning formula.

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

Q

Thank you.

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

A

Thank you, Jonathan. And analysts, we do – we have you on the queue. We added you one by one as you joined the call this afternoon. So, we've got you. No need to do the hands raise. We appreciate the questions. Okay, Will Power from Baird is our next question. Go ahead, Will.

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

Q

All right. Great. Yeah. This is a bit of a follow-up I guess to the previous question on international comments. But just looking at TASER, obviously just a huge quarter. Any other color you can provide on the key underpinnings there as you look at the upside in the quarter. Where was the upside surprise, if there was? Obviously the one big customer, but what is broad-based more than that? Is it tied to certain geographies, certain types of local agencies versus federal? Anything else you'd call out with respect to that TASER strength.

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

A

Yeah, sure. So, I think we had some, some visibility into some large deals in Q4, but – not to get too specific, but some of the challenges in this environment are making sure we can deliver and get accepted in some short periods of time. And we did get the order in time in Q4 and were able to deliver it. We viewed that as kind of a 50/50 proposition in early November. The team did a fantastic job executing. But behind that one large order, there were a series of kind of midsize orders in International across all three geographies; the America, EMEA and APAC. And I think it just speaks to the work the team is doing to really focus in on markets that are now ready to move to more less lethal solutions, and again we believe we can parlay that into body camera adoption and records management adoption and virtual reality adoption and so forth over the long term.

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

Q

If I could stick a question in for Luke – I know, as you talked about the key 2021 objectives, you had four key ones; one was scaling new products. Wonder if maybe you could just update us with respect to Records and Respond? What are you putting in place to accelerate growth there and what does that cadence of opportunities look like as you kind of move through 2021 here?

Luke Larson*President, Axon Enterprise, Inc.*

A

Yeah, I mean – well, we're seeing a lot of interest from our customers specifically around the entire kind of Axon portfolio. Where we see the biggest adoption of these capabilities is in our Officer Safety plans that we offer. Let me turn it to Jeff Kunins to add a little more color on the specific product details.

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

A

Sure. Hey, thanks so much for the question. So, on Records, we're – we continue to be incredibly pleased with our momentum in Records. A latest good data point is that 40 agencies have now signed, are in deployment or

are live on one or more modules of Records, including more than a dozen who have committed to full replacement of their legacy RMS. And in addition to that, within that, early momentum with major cities specifically continues. Two recent examples are that Atlanta actually went live on the Standards use-of-force module of Records in Q4. And Baltimore, which has been publicly announced before, is an upcoming full Records customer, is on track for their deployment this year. So, we are incredibly excited about the continued accelerated momentum there. Also, as we – you saw in the shareholder letter, on Respond for devices, we had 7x growth in livestreaming and other aspects of engagement on the product over the last six months and continued to really see really strong adoption of all aspects of Respond for devices across the footprint.

And as Rick talked about in the beginning, some of the key further additions we're making to the product line that compound the value of all those pieces together that we're most excited about include Auto-Transcribe. So now that our Auto-Transcribe unlimited package is out, it powers a whole variety of scenarios, including not just accelerating evidence management, but also new capabilities like Priority-Ranked Video Audit, which really helps agencies use the data that's underneath their body camera video to help them with making sure that they are compliant with policy and helping make them – make their body-worn camera programs more effective than ever.

William Verity Power

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

Q

Thank you.

Andrea James

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

A

Thanks. Will, really appreciate it. Next question from Jeremy Hamblin at Craig-Hallum. Go ahead, Jeremy.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Thanks, Andrea. Congratulations on an incredible year to the team. I wanted to come back to the International for a second, where you clearly have a ton of momentum. And I think this is probably directed towards Josh. Just in understanding the International cycle – sales cycle, which has typically been longer over the years, it does seem like with the momentum that potentially there's greater urgency being seen with the customers that you're talking to. But I wanted to get a sense on whether or not that International sales cycle is starting to compress and if you're realizing these contracts sooner or this is just reaping fruit of a number of years of laying foundation. But it does feel like that sales cycle is compressing a little bit.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah, certainly. Thanks, Jeremy. I think it is compressing a little bit. And I think the other element we have is, we've added to our International team pretty substantially over the last three or four years. I think it's probably – started around 10 people in 2016 that were direct sellers. And we've multiplied that by two or three at least. And the result of that is we just have more activity in the pipeline quarter-to-quarter. So, that pipeline is starting to come into fruition. And there's certainly an element of, the sales cycle seems to be speeding up a little bit. But we just have way more opportunities now every quarter and certainly it relieves a little bit of pressure off of fewer opportunities and we have more ways to get there now, which feels great. And we're going to continue to focus on building that out. And we're making some investments again this year in certain markets to create even more momentum. And hopefully, we'll continue to see that trend in the years to come.

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

Q

Great. And I wanted to ask – I know you can't provide a ton of details around the new product launch, but historically when you've had major product launches, you'd take a little bit of a step back on the margin front, investment being made both on the sales side of the equation but obviously also in – some in R&D. I just wanted to get a sense in terms of, you know the revenue base as a whole is significantly larger than it's been in the past. And just to get a sense for, you know if there is going to be some margin drag this year, can you quantify – can you give us a sense of the magnitude as you look at, both, what sounds like an entirely new product launch but also some of the other, you know whether its Records developments or Dispatch, whatnot; the potential drag that you might see on margins?

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

A

Yeah, I'll take this one, Jeremy, it's a good question. We are not expecting any margin drag from the new products that we're launching. We're actually expecting some margin expansion. In 2020, we were looking at some of the headwinds that we had on TASER. We also had some customer mix as far as international shipments. And that's behind us. And so in this year, even with the new products we're launching, for – for some of the newer ones specifically like VR, there's a little bit of a drag from a hardware perspective, but it's so small as – so as to be negligible overall. We're not expecting any drag.

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

Q

Great. Last one for me real quick. Supply chain; so, as you've gotten more federal contracts and so forth and – obviously we know how – you're producing TASERs and the cameras; has there been any pressure to alter your supply chain? Is that something that you're considering down the road where you are sourcing cameras and how the cameras are coming?

Luke Larson*President, Axon Enterprise, Inc.*

A

We've got decades of experience producing our TASER devices. We're ITARs-restricted, which means we have to manufacture in the US. And so we feel really, really good about that process. On the camera side, it's something that we definitely keep an eye on. As it sits today, we still feel really, really good with the way that we manufacture and then kind of load the final firmware on the product. And so I don't see anything from kind of the supply chain side. I would defer to Josh if he's hearing anything from the customers.

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

A

Yeah. I think we're in a fantastic position inventory and supply chain wise. Our customers have been delighted that we've really at times accelerated the speed at which we're able to deliver large deals, and that's a huge credit to Josh Goldman and our entire operations team. They're just doing a fantastic job supporting our customers. And this is actually, over the years, the best I've ever felt about our ability on the supply chain and logistics side to please customers. So, I'm really bullish going into this year in that regard.

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

Q

Great. Congrats and best wishes this year. Thanks.

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

Thank you, Jeremy. Next question from Erik Lapinski at Morgan Stanley. Go ahead, Erik.

Erik Lapinski*Analyst, Morgan Stanley & Co. LLC*

Hi. Thanks and congrats on the quarter. Last month, you announced a deal with a private security company. And I guess I'm just wondering, like what kind of opportunity do you think that market can represent? Are you seeing interest from other private customers, or is that maybe a one-off type deal that wouldn't be something we could see again? And are there investments you could make to attack that?

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

Yeah. Absolutely. It's a great call-out. Last year our private security business doubled. And the only thing that really changed was a little more focus on it. We have a team led by Mike Shore that is divided between private security and Enterprise use cases. And this year, that team is really focused on at least doubling, hopefully tripling that private security number again and building out our first group of customers in non-law enforcement use cases. So, we're really excited about both of those opportunities to expand the TAM and really find ways to generate returns on an investment in body cameras for businesses outside of public safety.

Erik Lapinski*Analyst, Morgan Stanley & Co. LLC*

Got it. That's helpful. And then maybe if I could just kind of squeeze one on the Dispatch side. I know you had mentioned kind of over the last few quarters that you're building in incremental capabilities and maybe that would be a hold off for certain customers that started adopting that. I guess just wondering, like where you are with that. Do you feel that the product is there? Is there enough of a roadmap for even a larger police department to kind of see it and potentially hold off on a replacement to migrate to you, or I guess just – I know it's early, but I mean is there anything you can update us on there?

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

Sure. Thanks, Erik. It's a great question. I think first, like we said before, Dispatch, or really more broadly this idea of Respond of a real-time operations platform is a multi-year journey. And so, we're very confident that over the next three to five years we're going to wind up being number one in what's traditionally called the legacy computer-aided Dispatch market, but our sights are even broader and more ambitious than that. But as Jawad said earlier, our feet are also very firmly planted in the present. And so, like right now today, as you know we have one city live on our Dispatch platform and we have multiple more that are signed and sold and in the queue for deployment over the course of this year and going forward. So, we feel very good about that pipeline, just like we talked about Records – and really, in any software category where you have an insurgent trying to unseat legacy competitors – which in this case we're the insurgent, there's this journey of building up in the right way the capabilities needed to be the right fit for each successive chunk of the market while adding on top of that your unique differentiation that makes you a compelling reason to switch. And that's just – that has nothing to do with Axon or CAD or Records; that's just the physics of any disruptive insurgent category like this. And we feel really good about where we're positioned and where we're going, even though it's early.

And in the case of Dispatch, the sort of sequence or ladder there is first being great for law enforcement only PSAPs as opposed to ones that also do fire and medical for sort of the mid-sized cities. And then actually after that, gearing up to also cover fire and medical which we're actively working on this year. And then ultimately to be not only the largest cities, but the multi-jurisdiction PSAPs. So we feel fantastic about our trajectory, but it is early in that journey. But we needed to keep you apprised as we win and deploy customers along that way.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Let me jump in as well. I want to – I want to share a story. I talked to a police chief of the first agency I believe in the world, certainly in the United States that is livestreaming every call into Dispatch, video livestream, and it was just so rewarding to have that phone call to hear the things that we had been imagining come to pass, and – what that chief shared with me was, it's just a total game changer. Midtown dispatchers are actually helping the officers in real-time. He told me a story where the dispatcher heard a thud that the officer didn't, right. Because the officers in the scene there, they've got total vision. Sometimes they're focused on their own safety. The dispatcher is sort of a dispassionate aid. Well, it turned out the thud in that case was, a gun had been dropped to – the person in the car dropped it and tried to kick it under the seat. The officer – the dispatcher told the officer, hey, you know I heard something, you should check. And they discovered there was a gun. And obviously that's a pretty important piece of information the way that it's unfolding.

The other thing that they shared with me was that by having the dispatchers watch the call, they just have far greater understanding than when they're just listening to a few cryptic transmissions over the radio. And they're getting real-time oversight of every incident. So you think about everything that happened last year and now there's discussion about, well, how did the agencies pick the right videos to have a subsequent supervisor review? In this agency, they're reviewing every video – not by a supervisor, but by a dispassionate dispatcher. And you can imagine if someone was saying something like, "I can't breathe," that could be reacted to right now where the dispatcher could say, "hey, I need a supervisor to check this out" and see what's going on in real-time, not find out weeks later that that was happening. So it's that sort of core, transformative new capability that we are uniquely able to position.

And you'll probably guess there's a little bit of a dynamic tension between me and Jeff who keeps me honest words like hey, we need to do the things he was talking about there, or we've got to deliver on the core functions of what they need to be a functioning system today and blend in the right amount of these new capabilities because you can't – really, you've got to kind of have both. And it's just been so wonderful having Jeff on the team. I think he's really shepherding us through that process of how we blend the right mix of legacy features with the right mix of new features to be transformative and effective at displacing existing incumbents.

Erik Lapinski

Analyst, Morgan Stanley & Co. LLC

Q

All right. Yeah, that's...

Jeff Kunins

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

A

I'll squeeze in one last tiny bit just to put all that together. It's exactly that combination of why we declare Respond and this idea of a real-time operations platform? That's the real category. Historical CAD is cute. Real-time operations platform is skating to where the puck is going. And from a business in this insurgent standpoint, the key is, just like how at Records, an agency can adopt Standards or use-of-force module that rests side by side

with their legacy RMS even before they might be ready to make a full migration. Respond for devices, what we used to call Aware, what Rick was just referring to, our livestreaming, any PSAP in conjunction with their law enforcement agency can easily deploy Respond for devices right in their PSAP alongside their legacy CAD even if they aren't ready to switch over their full CAD. But that not only gets them into these scenarios earlier, but it also gets them acculturated to our experience. And we think that's ultimately an accelerator to when they're ready to consider a full migration.

Erik Lapinski*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, that's awesome. Thanks for sharing that example. I mean, that's the point, the vision coming to life. So, congrats.

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

A

Thanks, Erik.

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

A

Thank you, Erik. Next question from Derek Soderberg at Colliers. Go ahead, Derek.

Derek Soderberg*Analyst, Colliers Securities LLC*

Q

Thanks, Andrea. So I wanted to start with Consumer TASER. It looks like that was pretty strong again this quarter. I was wondering if you can sort of elaborate on what drove that strength again. I know there have been some tailwinds due to the pandemic and some other things that happened in 2020. Just curious as to your thoughts on that business as we sort of move past that a little bit, how sustainable is consumer TASER strength and I guess maybe longer term if you can update us on the strategy there to penetrate this, you know the non-lethal weapons market?

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

A

Yeah, thanks for the question. Our Consumer business doubled in revenues year-over-year, 2020 over 2019. And some of that early in the year was the pandemic and some of the, just overall lift in firearm sales and we were certainly a beneficiary of that. We did put a new general manager of the Consumer business in place around second quarter last year, and he's really upleveled our game. He has a marketing background – Matt Angorn, he's got a very strong background in marketing and he's tried to to move things for us, actually had a very immediate effect. And we've seen that momentum continue into 2021, which is how we know it's not a fluke. We've got some pretty lofty goals for the consumer business. We've got two new products that we're bringing to market by the end of this year, and longer-term, our ambition as a company is still to make the bullet obsolete. And that doesn't just happen with building a better TASER device for law enforcement. We're planning on building a consumer device that also does the same thing. And then I want to turn it over to Rick and let him talk a little bit about his vision as well.

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

A

Yeah. So we started this business back in 1993. The original TASER was already being sold to police. Our original business model was to go after Consumer for two reasons; one, it is where we can actually do even more moral good by saving lives. Police officers are involved in hundreds of lethal force incidents every year, but private citizens shoot and kill 35,000 to 40,000 of each other every year. So, we can save the most lives if we can have impact there. And from a market scale perspective, it's frankly just a much larger market.

So even the Glock handgun that is ubiquitous in law enforcement has a far larger, both dollar and unit volume they sell in the consumer market. So, we're committed both for the business reasons and for the mission and North Star reasons to see Consumer continue to grow. And I think part of that – I personally think we will hit a tipping point when we can actually prove that we can outperform a standard 9-millimeter that that is going to be transformative not only in our core US law enforcement, I think every other police agency around the world. Like – and I don't want to start naming off countries here, but pretty much any country is not going to have the same relationship with guns that Americans do. So, let's just take Iceland as an example. If we could outperform their Glock handguns, all of a sudden I think we could become the standard weapon. And I just picked that as a total totally random country. But you go around the world, and I think the minute that we can actually say, this could replace your firearm, every police force that carries a firearm is now our customer and they are now going to be under tremendous political and moral pressure to use the better, safer thing that saves lives. I think that also opens up the Consumer market. So, I think we're in the early innings.

We entered law enforcement in 1999 to prove the technology worked, so we could re-enter the consumer market. And that play has still not played out yet. And I'd also like to say, we moved Consumer under Jawad a couple years ago and he gets a lot of credit for breathing new energy and bringing Matt Angorn in. And this is kind of Jawad's – one of his passion projects, is helping us in the consumer space.

Derek Soderberg*Analyst, Colliers Securities LLC*

Q

Great. Thank you for all the detail on that. And as my follow up, Rick, you know last quarter you had sort of mentioned a conversation you had had with a US Congress person. You know I guess now with the new administration, new representatives, I guess I'm curious as to how those conversations have evolved over the last quarter. You know are you sort of feeling that same sense of optimism around maybe sort of a sweeping police reform bill that includes body cams or – you know how has your, sort of sense of optimism changed?

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

A

Well, my sense of optimism is pretty dauntless. If anything, sometimes I need some people to make sure I keep my feet grounded. I would say this though, I think that the trends towards body cameras and less lethal weapons and all the things we're doing is really more ground-up. There's certainly been some talk about whether there's going to be a legislative action at the federal level. I don't want to guess on that. I mean that would obviously – could be very helpful if it happens. But we're not – that's nowhere in our plans. We think we are just continuing to win the hearts and minds of agencies and communities and the end user by delivering stuff that saves their career, saves their lives, saves them all the trauma of having to deploy lethal force or having their integrity questioned when something controversial happens and knowing they can defend themselves with a body camera. So, I think – I wouldn't say anything has changed positive or negative at the political level. I think we're just continuing to see that groundswell from the state and local. That's where these decisions really get made.

Derek Soderberg*Analyst, Colliers Securities LLC*

Q

Great. Thanks so much.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Awesome, great questions.

Andrea James

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

A

Okay. Thank you, Derek. Our next question is from Keith Housum at Northcoast. Go ahead Keith. Keith, you're up next and you're muted. There you go.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Sorry about that. I just want to echo, guys, congratulations again on the quarter and the great year. If I can pry or dig down a little bit deeper on the TASERS for the year – obviously tremendous growth. How much of that growth is coming from the non-traditional state and local agencies? I know you guys were talking about a number of different initiatives in terms of federal and jails and corrections and the security, but if you could kind of provide a little bit color or break it out between I guess the old sources of revenue as well as the new?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah, absolutely. I appreciate the question, Keith. International certainly was a big driver of CW weapons growth. I think we've talked about that to a large extent already. Federal also is a place where we had a good year last year in terms of some new agencies coming on board with some of our newer CWs. This year, we certainly expect to see more of that in our federal business. We're really excited about a couple of the CW opportunities that are out there. And then state and local, with – really, hitting our stride with TASER 7. State and local bookings, it's a market we hear every year questions about, hey is the growth slowing down, is it flattening out? And last year's state and local bookings were up almost 30%. And so, that was I would say a pretty equal weighting between body cameras and TASERS. And so, I think across all segments of the market, the team is doing just an exceptional job of making sure that we continue to grow the TASER line. We certainly believe, like every single – every single law enforcement officer is better-served carrying a TASER than not. And until that happens, we got a lot of work to do to bring that into fruition. So that's really what we're focused on, not only in federal or International, but also in state and local where there's still plenty of room to go there.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Okay. Appreciate it. And I would be remiss if I didn't ask a question about the guidance. Looks like the guidance for the full year next year is about 12% growth year-over-year. You obviously got some great tailwinds at your back, but you're also going against some huge numbers you're comping. If I look at cartridges, I look at the consumer devices, obviously some good tailwinds for you. So – and you guys have never grown – only 12% I think at least in the recent history] ever What's – what gives you indication that revenue growth can actually slow down so much year-over-year?

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. We're certainly not done. We – in the last couple years, you've seen growth in the mid to high 20s. You've also seen that those years tend to be back end loaded. Q3 and Q4 combined are usually significantly higher than Q1 and Q2 combined. And so, as we think about it, right, it's early February; we're certainly trying to sell far more than 760 and that's our goal every year, is to exceed our growth rate of the previous year. But having said that, we haven't seen the pipeline materialize for the back half to the point where we can be a little more aggressive on our guidance. And in quarter one, we have to be responsible and disciplined about how we guide. And so this is something we're going to revisit every quarter. And as that back half pipeline materializes, you'll certainly hear more about that as it's happening. But on day one here, we're starting with 760 and like I said though, we got – and like you said, we have a lot of tailwinds and we're really focused on another great year in revenue.

Keith Housum

Analyst, Northcoast Research Partners LLC

Q

Okay. Appreciate it. Thank you.

Andrea James

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

A

Okay, anybody have anything to add? Okay. So we're not seeing any slowdown; just want to make that clear. Thank you.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

Andrea, I actually might piggyback on that from an EBITDA...

Andrea James

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

A

Sure.

Jawad A. Ahsan

Chief Financial Officer, Axon Enterprise, Inc.

A

...standpoint for guidance just to –how you should think about that, just provide some more context. So ever since I joined Axon, it's been really important to me that we're demonstrating both growth on our top line as well as driving leverage on our bottom line. And we've not only done exactly that over the last few years, but it's also been a central tenet of our long-term guidance as you know.

So, it's super-important to us that we're continuing to invest to stay ahead of the innovation curve. That's another sort of thing that we're trying to solve for. So every year we put together an operating plan or a budget that's trying to solve for those three things; top-line growth, driving leverage, and investing for growth. And it's actually super-hard to do. But we've got a very talented management team, and that's what we've been doing. However, one of the dynamics, as Josh had pointed out, of our business is that our revenue profile throughout the year is back half weighted. And even then, it's really more concentrated in Q4 than in Q3. So what happens is, if we hit our revenue targets, our EBITDA comes in on plan – on our internal plan, and we drive that little bit of incremental margin expansion while still having invested in things like R&D or the channel. But if we beat our revenue targets, especially in the fourth quarter, it's too late in the year to reinvest that upside. So we return it to shareholders, which is exactly what you saw this past quarter. So that's how you should be thinking about it from an EBITDA standpoint, Keith. Our base plan is solving for top line growth, incremental leverage, and investing for growth. And to the extent that we exceed on the top line, that will allow us to drive even more leverage.

Keith Housum*Analyst, Northcoast Research Partners LLC*

Got it. Thank you.

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

Thanks, Jawad. Okay, last question I believe unless anybody has follow-ups is from Scott Berg at Needham. Go ahead Scott.

Scott Berg*Analyst, Needham & Co. LLC*

Great. Thanks. Congrats on the awesome quarter. I guess I've got a couple of questions. Jawad, just a point of clarification first of all on the large TASER sales in the quarter. Were those – was that \$20 million order all for TASER 7s, given its International, and their propensity historically to buy something other than that. Just wanted to clarify that.

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

Yeah, Josh, I want you to weigh in. That was all TASER 7.

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

Yeah. It was TASER 7 and accessories associated with cartridges, batteries, holsters and so forth.

Scott Berg*Analyst, Needham & Co. LLC*

No. Got it. And then just as a part of that is, were they all purchased on a subscription plan or were they kind of an upfront product purchase? And I saw the mix in the quarter certainly downshifted for the mix of TASERs on subscription?

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

Yeah. It's a great question, Scott. So for us, in Tier 1 markets as well as in the United States, we do sell TASER 7 on subscription. But in Tier 2 markets and Tier 3 markets, we actually sell TASER 7 in a similar bundle, but it's available for an upfront purchase. The reason we do that is twofold. Number one, oftentimes there's distributors in the middle of the deal and that complicates how the subscription would work. In this case, there were – there was no distributor. But part two is we don't have a very strong, well-documented payment history with some of these first-time buyers for large TASER orders. And thus, to protect the company and shareholders, we do ask to be paid upfront so that we're not recognizing revenue ahead of getting paid more or less.

Scott Berg*Analyst, Needham & Co. LLC*

Awesome. That's great. And my final question – I don't know if this is for yourself, Josh, or maybe for Rick is, your Livestream usage up 7x from April to December. That's a – it's a big number. I know it's coming off a small base because you're just starting to get those devices in people's hands, at the end of last year. But is that helping in

the sales cycle yet? Are you seeing the ability to take that evidence or to take those customer experiences and actually parlay that into new customers that are on the fence, whether or not to buy the AB3?

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

A

Josh, I'll let you take that one.

Joshua Isner

Chief Revenue Officer, Axon Enterprise, Inc.

A

Yeah. We're really excited about where livestreaming is going. Certainly, I think over this last year, we've seen a ton of very interesting use cases for the product and we continue to see more and more. This is something that as new AB – new body camera customers that are purchasing AB3, we are seeing a reasonable number of them buy livestreaming on day 1. And then customers who have been upgraded to AB3 are trying livestreaming early and often building it into their budget in the out-quarters. And so, under both kind of use cases, we are seeing an uptick in livestreaming and we think this is going to be central to the value proposition across all of our products long-term. So, certainly it's an encouraging sign.

Jeff Kunins

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

A

I think the one thing to add to that is that when people buy access to Respond for devices, even in addition to, or instead of – if not ready to use livestreaming per se, simply activating their use of that LTE chip in the camera unlocks a bunch of other scenarios as part of our software, including simply having accurate location for a 100% of their evidence, which makes it easier to tag and find things later, for like Radio Law compliance as well as the transcription scenario I was talking about earlier where they can now configure sort of all of their audio from their video, automatically goes up to Evidence.com immediately upon finishing the recording so they can move even faster on some of the evidence management pieces. So, Respond for devices, we love the livestreaming scenario, but there's so much more that they unlock by buying that add-on.

Scott Berg

Analyst, Needham & Co. LLC

Q

Great. Congrats again on the wonderful quarter. Thanks, everyone.

Andrea James

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

A

Thanks, Scott. I wanted to build upon Josh's answer on the TASER subscription question just real quick. So those Tier 2 markets are the markets that we're a little bit newer to where we don't have always the established payment histories that we would have in Tier 1. Tier 1 tends to be you know the United States, the UK, Australia, Canada, those English-speaking markets and Tier 2 are ones where we're new. And so, we feel confident that over time we are going to be able to drive TASER subscriptions in those markets, just like we did in the US and in the UK. But it's still early. And we also don't have the payment histories to extend the credit to do that today.

Andrea James

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

Okay. Are there any other questions? Did anyone put their hand up? No? Okay. I think, Rick, we'll have you close us out.

Patrick W. Smith

Chief Executive Officer & Founder, Axon Enterprise, Inc.

Awesome. Thanks, Andrea. Thanks everybody for joining us today. Obviously we're delighted to be able to turn in results like this. And I couldn't be more proud of the team. I was just sitting back noticing – been listening to my team field the questions. It's just been amazing to see us come together, and it's been a challenging environment, but what a year to have turned in. I couldn't be more proud of everybody who helped make that happen. And to any of our employees and team members that are tuned in listening, thank you for this phenomenal in a crazy year. So, enough celebration on the great results of 2020. It's time to get to work on 2021 and we look forward to talking to you all on our next quarterly update. Thanks and stay safe.

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