

Axon Reports 2017 First Quarter Results Revenues of \$79.2 million, up 43% Year-over-Year

SCOTTSDALE, Ariz., May 9, 2017 /PRNewswire/ -- Axon Enterprise, Inc. (Nasdaq: AAXN), today reported financial results for the first quarter ended March 31, 2017.

"We are off to a strong start on the year as we executed across all of our business lines," commented Rick Smith, CEO and Founder of Axon. "We recently rebranded the company as Axon to better reflect our ecosystem of connected solutions and robust pipeline of new offerings. We also launched our national free trial offering to accelerate adoption of our body camera program. The initial response has been encouraging, and we see tremendous opportunity to extend our market leadership."

First Quarter 2017 Financial Highlights:

- Net sales increased 43% to \$79.2 million in the first quarter of 2017 compared to \$55.5 million in the first quarter of 2016. International sales were \$14.5 million in the first quarter of 2017.
- TASER Weapons segment revenues increased 26% to \$57.7 million in the first quarter of 2017 compared to \$45.8 million in the first quarter of 2016.
- Software and Sensors segment revenues increased 122% to \$21.6 million in the first quarter of 2017 compared to \$9.7 million in the first quarter of 2016.
- Consolidated gross margin was 61% in the first quarter of 2017 compared to 66% in the first quarter of 2016.
- TASER Weapons segment gross margin remained consistent at 69% in the first quarter 2017 and 2016.
- Software and Sensors segment gross margin was 42% in the first quarter of 2017 compared to 53% in the first quarter of 2016. Service margin was 70% in the first quarter of 2017 including \$1.0 million of non-recurring data migration expense compared to 76% in the first quarter of 2016. Hardware product margin (excluding services) was 8% in the first quarter 2017 compared to 30% in the first quarter of 2016.
- Income from operations was \$5.4 million in the first quarter of 2017 compared to \$5.1 million in the first quarter of 2016.
- Net income for the first quarter of 2017 was \$4.6 million, or \$0.09 per diluted share, compared to \$3.5 million, or \$0.06 per diluted share, in the first quarter of 2016. Excluding a \$1.0 million discrete tax benefit related to stock-based compensation for restricted stock units that vested and stock options that were exercised during the quarter, net income for the first quarter of 2017 would have been \$3.6 million, or \$0.07 per diluted share.
- Adjusted EBITDA for the first quarter of 2017 was \$10.6 million compared to \$8.4 million in the first quarter of 2016.
- In the first quarter of 2017, the Company used \$6.6 million in cash from operating activities. Cash, cash equivalents and investments were \$71.6 million at March 31, 2017, compared to \$89.3 million at December 31, 2016.

Business Highlights:

- As of the end of the first quarter of 2017, 36 of the 68 major city law enforcement agencies have purchased Axon body-worn cameras and/or its digital evidence management solution: Albuquerque, Atlanta, Baltimore, Baltimore County, Charlotte-Mecklenburg, Chicago, Cincinnati, Cleveland, Dallas, Denver, Fort Worth, Fresno, Los Angeles, Las Vegas, Louisville, Memphis, Mesa, Miami, Milwaukee, Minneapolis, Montgomery County, New Orleans, Omaha, Philadelphia, Pittsburgh, Sacramento, Salt Lake City, San Antonio, San Diego, San Francisco, San Jose, Seattle, Tampa, Tucson, Washington, DC, and Wichita.
- Axon's Evidence.com platform user count continued to grow, extending the Company's market leadership. During the three months ended March 31, 2017, the Company booked approximately 16,400 seats on its digital evidence management platform, Evidence.com, net of renewals. Since inception, the Company has booked cumulative Evidence.com licenses of approximately 148,400.

Quarterly Conference Call:

The Company will host its first quarter 2017 earnings conference call on Tuesday, May 9, 2017 at 4:30 p.m. ET. To join the live audio presentation, please dial toll free 877-303-9126, or for international callers, please dial +1-253-237-1156.

The Company has posted supplemental materials including its key operating metrics on its website to provide additional information about our first quarter financial results.

The Company plans to update and post its investor relations presentation to <http://investor.axon.com> within the next two weeks with the first quarter results. Archived presentations from previous quarters can also be found on the website.

Statistical Definitions:

- Axon cameras and Evidence.com bookings represent a statistical measure defined as the sales price of orders placed in the relevant time period. Bookings are an indication of the activity the Company is seeing relative to Axon cameras and Evidence.com. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales) placed in the relevant fiscal period, net of cancellations, regardless of when the products or services ultimately will be provided. Some bookings might be invoiced in subsequent years.

Due to municipal government funding rules, certain of the future year amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although the Company has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be completed, if agencies invoke a cancellation clause or do not appropriate funds in future year budgets, revenue associated with these bookings will ultimately not be recognized, resulting in a future reduction to bookings. In the first quarter of 2017, the Company did not record any reversals related to prior period bookings due to non-appropriation or other cancellation reasons.

For more information relative to our revenue recognition policies, please reference our SEC filings.

Non-GAAP Measures:

To supplement the Company's financial results presented in accordance with GAAP, we present the non-GAAP financial measures of EBITDA, Adjusted EBITDA and Free Cash Flow. Our management uses these non-GAAP financial measures in evaluating the Company's performance in comparison to prior periods. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented at the end of the release.

EBITDA is defined as consolidated net income before interest expense, income taxes and depreciation and amortization. Adjusted EBITDA, as presented herein, is defined as EBITDA before certain other items, including: stock-based compensation; net gain/loss on write-down/disposal of property, equipment and intangible assets; and loss on impairment.

Free Cash Flow is defined as cash flows provided by operating activities minus purchases of property, plant and equipment and intangible assets.

Caution on Use of Non-GAAP Measures

Although these non-GAAP financial measures are not consistent with GAAP, management believes investors will benefit by referring to these non-GAAP financial measures when assessing the Company's operating results, as well as when forecasting and analyzing future periods. However, management recognizes that:

- these non-GAAP financial measures are limited in their usefulness and should be considered only as a supplement to the Company's GAAP financial measures;
- these non-GAAP financial measures should not be considered in isolation from, or as a substitute for, the Company's GAAP financial measures;
- these non-GAAP financial measures should not be considered to be superior to the Company's GAAP financial measures; and
- these non-GAAP financial measures were not prepared in accordance with GAAP and investors should not assume that the non-GAAP financial measures presented in this earnings release were prepared under a comprehensive set of rules or principles.

Further, these non-GAAP financial measures may be unique to the Company, as they may be different from similarly titled non-GAAP financial measures used by other companies. As such, this presentation of non-GAAP financial measures may not enhance the comparability of the Company's results to the results of other companies.

About Axon

The Axon network is a network of devices, apps, and people that helps law enforcement become smarter and safer. Our mission is to protect life. Our technologies give law enforcement the confidence, focus, and time they need to keep their communities safe. Our products impact every aspect of an officer's day-to-day experience:

- **In the field** - Our Smart Weapons offer a less-lethal intermediate use of force response and our body-worn and in-car cameras collect video evidence to capture the truth of an incident; and our mobile applications enable simple evidence collection.
- **At the station** - Our secure, cloud-based digital evidence management solution allows officers and command staff to manage, review, share and process digital evidence using forensic, redaction, transcription and other tools.
- **In the courtroom** - Our solutions for prosecutors make collaborating across jurisdictions and agencies easy so that cases can be resolved quickly.

We work hard for those who put themselves in harm's way for all of us. To date, there are more than 100,000 licensed users from around the world and more than 182,000 lives and countless dollars have been saved with the Axon network of devices, apps and people. Learn more at www.axon.com or by calling (800) 978-2737.

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Note to Investors

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding our expectations, beliefs, intentions or strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. The forward-looking information is based upon current information and expectations regarding Axon Enterprise, Inc. These 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. Axon Enterprise, Inc. assumes no obligation to update the information contained in this press release, except as required by law.

We caution that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by the forward looking statements herein. Such factors include, but are not limited to: market acceptance of our products; our dependence on sales of our TASER X26P and X2 CEWs; our ability to design, introduce and sell new products; delays in development schedules; rapid technological change and competition; product defects; breach of our security measures resulting in unauthorized access to customer data; outages and disruptions relating to our Evidence.com service; budgetary and political constraints of prospects and customers; the length of our sales cycle and our ability to realize benefits from our marketing and selling efforts; our exposure to cancellations of government contracts due to appropriation clauses; changes in civil forfeiture laws; the long-term revenue recognition cycle for our SaaS Evidence.com product; our reliance on third party cloud-based storage providers; litigation risks resulting from alleged product-related injuries and media publicity concerning allegations of deaths occurring after use of the TASER device and the negative impact this publicity could have on sales; the outcome of pending or future litigation; our ability to protect our intellectual property as well as intellectual property infringement claims and relating litigation costs; challenges in obtaining and enforcing our patent rights in foreign countries; risks of governmental regulations, including regulations of our products by the United States Consumer Product Safety Commission, regulation of our products as a "crime control" product by the Federal government, state and local government regulation and foreign regulation and the adverse effects that could result from our products being classified as firearms by the United States Bureau of Alcohol, Tobacco, Firearms and Explosives; regulatory and political challenges presented by international markets; the possibility that the United States may withdraw from or materially modify the North American Free Trade Agreement; the adverse effect of the United Kingdom's exit from the European Union; our compliance with

regulations governing the environment, including but not limited to, regulations within the European Union; regulations relating to voice, data and communications services; regulations relating to conflict minerals; our dependence on third party suppliers for key components of our products; component shortages; rising costs of raw materials and transportation relating to petroleum prices; that we may experience declines in gross margins due to a shift in product sales from CEWs to Axon devices; our ability to manage our growth and increase manufacturing production to meet demand; establishment and expansion of our direct and indirect distribution channels; our ability to pursue sales directly with customers; risks relating to acquisitions and joint ventures; goodwill impairment; catastrophic events; the adverse effects on our operations and financial results from foreign currency fluctuations; fluctuations in our effective tax rate; counter-party risks relating to cash balances held in excess of FDIC insurance limits; employee retention risks; volatility in our stock price; quarterly fluctuations in our operating results; and other factors identified in documents filed by us with the Securities and Exchange Commission, including those set forth in our Form 10-K for the year ended December 31, 2016.

Please visit <http://investor.axon.com>, www.twitter.com/axon_us, and www.facebook.com/axon_us where Axon discloses information from time to time about the company, its financial information, and its business.

For investor relations information please contact Arvind Bobra via email at IR@axon.com.

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2017	2016
Net sales	\$ 79,242	\$ 55,530
Cost of products sold and services delivered	30,572	18,628
Gross margin	48,670	36,902
Operating expenses:		
Sales, general and administrative	30,857	24,833
Research and development	12,463	6,927
Total operating expenses	43,320	31,760
Income from operations	5,350	5,142
Interest and other income, net	206	118
Income before provision for income taxes	5,556	5,260
Provision for income taxes	976	1,797
Net income	\$ 4,580	\$ 3,463
Net income per common and common equivalent shares:		
Basic	\$ 0.09	\$ 0.06
Diluted	\$ 0.09	\$ 0.06
Weighted average number of common and common equivalent shares outstanding:		
Basic	52,418	53,693
Diluted	53,677	54,789

AXON ENTERPRISE, INC.
SEGMENT REPORTING
(Unaudited)
(dollars in thousands)

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	TASER Weapons	Software and Sensors	Total	TASER Weapons	Software and Sensors	Total
Product sales	\$ 57,671	\$ 9,820	\$ 67,491	\$ 45,834	\$ 4,841	\$ 50,675
Service revenue	—	11,751	11,751	—	4,855	4,855
Net sales	57,671	21,571	79,242	45,834	9,696	55,530
Cost of products sold	18,026	9,046	27,072	14,077	3,378	17,455
Cost of services delivered	—	3,500	3,500	—	1,173	1,173
Gross margin	39,645	9,025	48,670	31,757	5,145	36,902
Sales, general and administrative	17,216	13,641	30,857	15,272	9,561	24,833
Research and development	2,212	10,251	12,463	1,120	5,807	6,927
Income (loss) from operations	\$ 20,217	\$ (14,867)	\$ 5,350	\$ 15,365	\$ (10,223)	\$ 5,142
Gross margin %	68.7 %	41.8 %	61.4 %	69.3 %	53.1 %	66.5 %

Operating margin %	35.1 %	(68.9)%	6.8 %	33.5 %	(105.4)%	9.3 %
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AXON ENTERPRISE, INC.
Software and Sensors Bookings by Quarter
(Unaudited)
(in thousands)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>	<u>June 30, 2016</u>	<u>March 31, 2016</u>
Bookings	\$ 60,080	\$ 72,509	\$ 57,491	\$ 72,034	\$ 52,059

Software and Sensors Future Contracted Revenue
(Unaudited)
(in thousands)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cumulative bookings, net of cancellations	\$ 524,659	\$ 464,579
Cumulative recognized revenue	(134,639)	(113,787)
Future contracted revenue	\$ 390,020	\$ 350,792

Future contracted revenue for the Software and Sensors segment represents a statistical measure defined as cumulative bookings minus cumulative recognized revenue related solely to that segment. Future contracted revenues are an indication of momentum of longer-term contracts being signed and the expectations of future revenues in the Software and Sensors segment. These financial metrics are exclusive of TASER Cam recorder revenues.

AXON ENTERPRISE, INC.
UNIT SALES STATISTICS
(Unaudited)
Units in whole number

	<u>Three Months Ended March 31,</u>			
	<u>2017</u>	<u>2016</u>	<u>Unit Change</u>	<u>Percent Change</u>
TASER X26P	15,361	18,567	(3,206)	(17.3) %
TASER X2	17,137	8,737	8,400	96.1
TASER X26	618	821	(203)	(24.7)
TASER Pulse and Bolt	3,572	1,566	2,006	128.1
Cartridges	595,986	465,157	130,829	28.1
Axon Flex	3,101	2,397	704	29.4
Axon Body	20,313	6,198	14,115	227.7
Axon Dock	4,875	1,402	3,473	247.7
TASER Cam	1,339	2,005	(666)	(33.2)

AXON ENTERPRISE, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(Unaudited)
Dollars in thousands

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net income	\$ 4,580	\$ 3,463
Depreciation and amortization	1,604	901
Interest expense, net	38	—
Provision (benefit) for income taxes	976	1,797
EBITDA	\$ 7,198	\$ 6,161
Adjustments:		
Stock-based compensation expense	\$ 3,447	\$ 2,220
Net gain on disposal of property, equipment and intangible assets,	—	(23)
Adjusted EBITDA	\$ 10,645	\$ 8,358
Adjusted EBITDA as a percentage of net sales	13.4 %	15.1 %

Composition of stock-based compensation:

	<u>Three Months Ended March 31,</u>	<u>2016</u>
	<u>2017</u>	

Cost of products sold and services delivered	\$ 79	\$ 100
Sales, general and administrative	2,028	1,390
Research and development	1,340	730
	<u>\$ 3,447</u>	<u>\$ 2,220</u>

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 41,974	\$ 40,651
Short-term investments	29,630	48,415
Accounts and notes receivable, net	44,328	39,466
Inventory, net	48,699	34,841
Prepaid expenses and other current assets	15,707	13,858
Total current assets	<u>180,338</u>	<u>177,231</u>
Property and equipment, net	26,399	24,004
Deferred income tax assets, net	20,055	19,515
Intangible assets, net	20,256	15,218
Goodwill	13,001	10,442
Long-term investments	—	234
Long-term accounts and notes receivable, net of current portion	24,688	17,602
Other assets	14,781	13,917
Total assets	<u>\$ 299,518</u>	<u>\$ 278,163</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 15,632	\$ 10,736
Accrued liabilities	20,330	18,248
Current portion of deferred revenue	49,909	45,137
Customer deposits	2,445	2,148
Current portion of business acquisition contingent consideration	1,705	1,690
Other current liabilities	467	80
Total current liabilities	<u>90,488</u>	<u>78,039</u>
Deferred revenue, net of current portion	41,644	40,054
Liability for unrecognized tax benefits	2,030	1,896
Long-term deferred compensation	3,407	3,362
Business acquisition contingent consideration, net of current portion	2,664	1,635
Other long-term liabilities	1,895	2,289
Total liabilities	<u>142,128</u>	<u>127,275</u>
Stockholders' Equity:		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	189,710	187,656
Treasury stock	(155,947)	(155,947)
Retained earnings	122,558	118,275
Accumulated other comprehensive income	1,068	903
Total stockholders' equity	<u>157,390</u>	<u>150,888</u>
Total liabilities and stockholders' equity	<u>\$ 299,518</u>	<u>\$ 278,163</u>

AXON ENTERPRISE, INC.
SELECTED CASH FLOW INFORMATION
(Unaudited)
(in thousands)

	<u>Three Months Ended March 31,</u>	<u>2017</u>	<u>2016</u>
Net income	\$	4,580	\$ 3,463
Depreciation and amortization		1,604	901
Stock-based compensation		3,447	2,220
Net cash provided by (used in) operating activities		(6,609)	7,093
Net cash provided by (used in) investing activities		9,884	(3,637)
Net cash used in financing activities		(1,877)	(9,722)
Cash and cash equivalents, end of period		41,974	53,365

	Three Months Ended March 31,	
	2017	2016
Net cash provided by (used in) operating activities	\$ (6,609)	\$ 7,093
Purchases of property and equipment	(2,343)	(1,280)
Purchases of intangible assets	(95)	(98)
Purchase of property and equipment and intangible assets in connection with business acquisition	(8,392)	—
Free cash flow (deficit), a non-GAAP measure	<u>\$ (17,439)</u>	<u>\$ 5,715</u>

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