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**Axon Enterprise, Inc. (AXON)**  
**Q1 2024 Earnings Call**  
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## OPENING REMARKS

### Safe-harbor

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Hello everyone. Thank you for joining Axons Executive Team today. 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](https://investor.axon.com). Our prepared remarks today are meant to build upon the information and financial tables in that letter. During this call, we will discuss our business outlook and make forward-looking statements. Any forward-looking statements made today are pursuant to and within the meeting of the Safe harbor provision of the Private Securities Litigation Reform Act of 1995. These comments are based on our predicted predictions and expectations as of today and are not guarantees of future performance. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. We discuss these risks in our SEC filings. We also discuss certain non-GAAP financial measures, a description of each non-GAAP measure and a reconciliation of each non-GAAP measure to the most directly comparable gap measure can be found in our shareholder letter as well as in the investor relations section of our website. Now turning to our quarterly update, we like to start off every quarter with a video because we think it's a great way to show you more about our business and there's no shortage of highlights. The share from our team, we've got a good one this quarter. It's about five minutes. Let's pull it up.

>> *Quarterly Earnings Video* << <https://vimeo.com/942468546/861a279e92>

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

All right, thank you, Erik, and thank you all for joining us today. I want to welcome you all to our first quarter 2024 earnings call. We have kicked off what is shaping up to be another incredible year at Axon. You saw me talk about my vision in the video we just showed you and I'm energized by the updates we are bringing you today.

First, one of the areas I'm obviously very excited about is drones, robotics and airspace security. I believe drone as a first responder, or DFR, is a massive opportunity ahead of us — we anticipate that it will drive faster response times and improved decision making — giving us extra seconds and more information before we act in critical situations.

As we push forward into this new era of aerial innovation, drones are not just helpful tools; they're becoming indispensable. At the same time, drone tracking and countermeasures become equally, if not even more important, and we believe a critical element to enable widespread drone as a first responder programs.

DFR programs are designed to deploy drones to an emergency in advance of first responders, enhancing situational awareness to improve response strategies, optimizing the allocation of already limited resources and reducing the risk of harm to first responders and communities. But, limitations exist that, to date, have hindered the use of DFR at scale — namely, current FAA requirements mandate the presence of human virtual observers, standing on a rooftop to ensure each drone remains a direct line

of sight. That means operators must be positioned in relatively close proximity to the scene, usually on rooftops, and primarily operating in clear daytime conditions.

And that's one of the reasons why I am thrilled about our planned and announced acquisition of Dedrone. We believe Dedrone's technology solves for these limitations, allowing law enforcement to operate in low visibility conditions and at times of day without the need to maintain a human observer with a line of sight. The planned combination of Dedrone with Axon is a natural extension of our strategy, with several tangential applications already deployed in the field, including stadium and airspace security, along with robust military, critical infrastructure and other civilian protection applications.

Another area I am very passionate about is the realm of artificial intelligence. I believe we will one day look back on these times as the beginning of the AI Era. AI has applications across every element of what we do and offers the potential to unlock our human capital resources to accomplish more than we have ever been able to in the past.

In the video we showed, you briefly saw us introduce our most recent innovation here — borne from our visionary initiative 7 years ago, Draft One, leverages AI to produce police reports from body-worn camera audio.

Our studies have found officers in the U.S. spend about 40% of their time — or 15 hours per week — on what is essentially data entry: writing reports. This is valuable time that they could be spending in their communities, with their families, in training, and on their own wellbeing. With Draft One, we are giving them a new lifeline that we expect will save them critical hours each and every day.

And while these two developments are massive in their potential, they are just two examples of where we are focusing our innovation, and we are not slowing down in several other areas that we believe will be critical elements of achieving our moonshot goal. We have introduced real-time operations solutions that bring situational awareness to the modern age, expanding our ecosystem to ingest networks of cameras and sensors with Fusus, and raising the bar for communications beyond monolithic audio to include live-streaming and two-way voice communications through video and audio feeds.

We introduced our new mobile application, which allows our customers to seamlessly work together on evidence management and report writing, on the go. And we are giving agencies new capabilities and next level training to improve human performance under pressure in high stakes events with our continuously improving and expanding VR portfolio.

As I reflect on what we have delivered to the market and where we are investing, I think we are still in the early chapters of an epic story. And before I pass it over, I want to take a minute to acknowledge that our mission is more important than ever. We've seen a number of truly unfortunate and devastating tragedies between the police and the public over just the last few months. Our thoughts are with the families and departments who are experiencing these difficult times that we are out to end. We're innovating for a better future and remain dedicated to our mission to protect life.

And with that, I'll turn over to Josh.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Thanks, Rick and good afternoon everybody. I'm humbled to share more about another excellent quarter at Axon. While we continue to build out the operating system of public safety, the team has not lost focus on the importance of execution. There's no doubt in my mind we have the best and most well equipped team in our industry, and our first quarter results are proof of that.

I feel really good about our momentum to start 2024. We started the year running at full speed as the team closed out 2023 with our strongest bookings quarter in company history. In Q1, we worked hard to set the stage for the remainder of our year. Since it is the only quarter in which very few budgets close, we focus on pipeline development and key customer-facing hiring initiatives. I am happy to report that our pipeline is the strongest and healthiest it has ever been across all customer segments. This is a testament to our awesome R&D teams that continue to zero-in on a strong product market fit across our entire portfolio, driving this type of demand.

Whether it's TASER 10 now being more directly linked to VR training within our TASER platform, or our on body-cameras changing the game for real-time operations, or Draft One revolutionizing the RMS category, there's so much for us to bring to the market and we are just at the beginning of what I think will be a deep increase in the ways we leverage technology in public safety for the better over the next decade.

Looking ahead, I see many opportunities for our continued growth. We believe our domestic state and local law enforcement customers are eager to adopt the new products that we have brought to market, and we are seeing our emerging markets become more meaningful contributors to our results. One of the many things that gets me excited about Dedrone is their strong international presence, which could accelerate our international channel expansion.

On that note, I'd like to share our excitement in welcoming Cameron Brooks as our new Chief Revenue Officer. Cameron came to us from Amazon Web Services, where he most recently led the Europe, Middle East, and Africa business for the public sector. As we look to drive more cloud adoption across the world, Cameron's wealth of experience in spurring international cloud adoption will be a powerful asset to our team. Cameron joining Axon is a perfect example of how our mission and our unique approach to the market helps us attract the best talent from some of the most successful companies in tech.

Before I pass it over to Brittany, I want to briefly highlight how grateful I am for my teammates at Axon. We have spent the last two years fortifying our leadership team and we are ready to move faster than ever. We are focused on the right areas to continue delivering in the quarters and years to come...both on our financial commitments and on our mission. We just recorded our ninth consecutive quarter of greater than 25% revenue growth and our business has approximately quadrupled over the last 5 years. We're also delivering our strongest adjusted EBITDA margins in more than three years, as promised. This kind of compounding does not happen without the best people and the best products, and without a lot of things going right behind the scenes. While it's always encouraging to deliver such strong results, we continue to embrace our "next play" mindset and put our collective organizational energy behind the most important metric of all, at that is lives saved.

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

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

Thank you, Josh. We're very proud of the results again this quarter for both revenue and Adjusted EBITDA. We had 34% top-line growth, on top of 34% growth in Q1 last year, supported by our Cloud and Services revenue which grew 51.5% YoY. This came from growth in both users, and premium product add-ons driving up-sell. Demand for Taser 10 also remained robust and drove 33% growth YoY in our Taser segment, supported by increasing supply availability. Sensors and Other revenue grew 14% YoY with the adoption of Axon Body 4 driving camera revenue, somewhat offset by lapping the big catch up in Fleet revenue from Q1 last year, as we're now at more normalized deployment levels.

In addition to healthy growth across all our categories, we see strength across our end-markets. In Q1 over 25% of our revenue came from outside domestic law enforcement, including international, federal, other adjacent markets like corrections and justice, and enterprise. Our ARR for the quarter is \$825mm, up almost 50% YoY, and now includes Fusus and our Taser warranty revenue. We continue to maintain a net revenue retention of 122%.

In Q1, we introduced adjusted gross margin to normalize for increased stock-based compensation resulting from the grants we made to employees whose compensation was under a specified threshold, many of whom are in manufacturing. As a reminder, we've committed to keeping our stock-based compensation at or below an average annual dilution of 3% for 2025 and beyond and this is in keeping with that commitment.

Adjusted Gross Margin for the quarter was 63.2%, up from 61.5% in Q4. This improvement was from product mix benefits as well as the fact we didn't have any one-time reserves hit this quarter. We expect some pressure on gross margin for the rest of the year as we continue to balance mix shift and ramping T10 capacity.

Q1 adjusted EBITDA margin increased YoY from 19% to 23.6%, representing a 460 basis point improvement. In addition to the benefit of strong gross margins, we saw operating leverage contribute approximately 110 basis points YoY. As Josh mentioned, this is our strongest adjusted EBITDA margin quarter in 3 years since COVID.

We continue to balance driving strong top-line growth with investing in the business. We're pleased to be able to do this both organically and inorganically and are thrilled about our plans to welcome the Dedrone team to Axon. Rick did a great job talking through the strategic rationale. From a financial standpoint, we expect to close the deal sometime over the summer and to have approximately one full quarter of financials included in our 2024 results. This timing is subject to customary closing conditions. We expect that the potential acquisition of Dedrone would increase our TAM by ~\$14bn, bringing our overall addressable market to \$77 billion. Dedrone is still investing for growth and we expect incremental costs from their business and from integration that would have a slight impact to our core adjusted EBITDA margin. We've tried to factor this into our updated guidance and should be able to further refine these assumptions next quarter. Today, Dedrone is small relative to our overall business and once closed you will see them incorporated into our software and sensors segment.

Dedrone highlights another step in our M&A strategy of acquiring talent and technology that

complements our roadmap and expands our addressable market. In total, our acquisitions of Sky-Hero and Fusus and our planned acquisition of Dedrone has expanded our TAM by more than 50% over the last year from \$50 billion to \$77 billion. The acquisitions also increase our capabilities in robotic security and real-time operations, both areas we view as critical to the future of policing and our other markets, and we are excited to continue delivering on our product vision.

Finally, I'll turn to our guidance. We are increasing our full year 2024 expected revenue guidance to \$1.94 to \$1.99 billion, which represents approximately 26% annual growth at the midpoint, above the prior high end of our guidance range of 20-24%. This increase incorporates both our outperformance in Q1 and our increased expectations for the year. While future contracted revenue was down slightly QoQ at \$7.0 bn in Q1, we have a strong pipeline for the year to underpin our forecast. We have also included an immaterial amount of revenue we expect to come from Dedrone this year, reflecting everything we currently know.

We expect Adjusted EBITDA of \$430 to \$445 million, which implies an Adjusted EBITDA margin of approximately 22%, up year over year and approximately in-line with our prior guidance on margin. This includes our best estimate of integration costs and impact from M&A on the year.

Finally we've also increased our expected investment in capex to \$80-\$95 million for the year as we are continuing to ramp our capacity investments to meet the strong demand for Taser 10.

We're very pleased with these results and think the quarter demonstrates continued execution on our business across both the top and bottom line, as well as strong investments for the future so we can continue to deliver outsized performance.

And with that, I would like to open it up to questions.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Brittany. I think we're all up in gallery view. We'll take our first question from Meta Marshall at Morgan Stanley.

**Meta Marshall** *Analyst, Morgan Stanley*

Great, thanks. And, congrats on the quarter, guys. I wanted to dig into Draft One and just get a sense of how long you foresee kind of departments needing for approval processes and you know, whether you kind of see that once a couple of major departments sign off that the approval processes can go much quicker. And then maybe just a second question for Brittany that I'll include just upfront, just the contribution of Fusus, to the year or just what you were kind of accounting for between Fusus and Dedrone for kind of that inorganic contribution to the year. Thanks.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, thank you very much for the question. Rick, did you want to lead us off? I saw you speaking there.

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

Yeah, I have myself on mute there. Yeah, I would start by telling you we've introduced a lot of exciting products over the years. This is probably the most enthusiasm I've seen for any product we've ever introduced. I mean, police officers did not get in this career to be writing reports. And we've done a lot of background work with our ethics and equity advisory council, as well as district attorneys and others, looking at what the risks are and testing against those. We do make sure that we're putting speed bumps in there, so officers are reviewing the final report. It's really important that it's theirs, but what we're seeing is pretty rapidly, they're realizing the agencies and their partners, again and district attorneys and others are telling us the reports they're getting when officers are using Draft One are better than the reports that they're writing on their own. While it's pretty early for us to make any exact predictions, the overall friction to adoption is low. This doesn't require a lot of professional services and integration. It's pretty easy for us to turn it on. It's very simple for officers to figure out how to use it. And we're finding, again, as soon as they get experience with it, their feedback is pretty fantastic.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, just add to that, ultimately there will be a sales cycle associated with it, just like anything in selling to government but I think we're already seeing some early orders come in and the pipeline is building. We think in the second half of this year, and especially going into next year, we'll see this start to really contribute to in quarter revenue and ultimately at a high margin as well. We're very excited about what this will entail for our results but most excited about the fact that in a climate where it's very hard to add police officers to police forces, that we have the propensity to put police officers back on the street instead behind a computer here, without having to make any incremental hires from the outside. So, very excited about what this product entails.

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

I'll take your second question, a great question. I would say both Fusus and DEDRONE are small. They are growing fast, but they're immaterial to our top line and really immaterial to our overall growth rate. So we've incorporated that all into the guidance we're giving for the year. Where you see a little bit more of an impact is us being cautious on EBITDA given absorbing those businesses and having integration costs to really make sure we pull them in and do a good job. And so, as you see us not pulling the Q1 EBITDA margin through to the rest of the year, you really see us accounting for some of those impacts and where we need to invest.

**Meta Marshall** *Analyst, Morgan Stanley*

Great. Thanks. I'll hand it off.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks Meta. We'll take our next question from Alyssa Shreves at Barclays. Alyssa, are you on? Might be muted on your phone. Okay. We'll skip for now. We'll go to Will Power at Baird.



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

Alright, great. Thanks, congratulations on the strong, Q1 results. I guess the first question really, probably for whoever wants to take it, obviously strong mid-thirties percent revenue growth in Q1, if you look at the full year guide while raised, it does imply some deceleration. So just love to get perspective on any level of pull forward into Q1 versus conservatism for the remainder of the year. Any, any broader thoughts on that front, that would be great.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, thanks a lot, Will, nice to see you. I'd say as usual, we like to see more of the year materializing before we get out over our skis on total revenue for the year. And so we're off to a nice start. We see the pipeline very strong. We're excited about what Q2 and beyond will hold. It's also worth noting the year over year comp for Q1 is always the easiest comp of the year in terms of Q1 tends to be the slowest revenue quarter. And so yeah, we don't have any kind of pessimism out there or any reason not to think we're going to have another great year. We'd just like to see that materialize throughout the year in the sales cycle. And, and we'll certainly update that quarterly as we always do.

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

Yeah, I would just add, nothing sort of embedded in there other than the fact that we're lapping a very, very strong year last year.

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

Yeah, no, that, that all makes sense. If I could just ask a quick second question on Taser, maybe any update on how the automation process is going where you are with respect to having enough supply to meet demand and maybe any other color on the gross margin commentary there, because as you automate and over time, that should help gross margins, but it sounds like it's probably the initial investment maybe that's impacting it. I'd just love to get some color on that front.

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

Yeah, I think you, I think you sort of summarized that really well, which is we're in this balance between focusing on ramping capacity and really working on cost down initiatives. And we continue to see better demand than we've even expected for Taser 10. And so we continue to be in that area where we're really ramping capacity. You saw that come through in 33% growth in Q1, I mean that was because we had more supply available. So I think the team's doing a really nice job getting that capacity online and supporting that customer demand. It might take us a little bit longer to hit some of those costs down initiatives as, as we hit that balance. but ultimately that's just a matter of timing one quarter to the next as we figure out how to slot that in. I would say overall it's going nicely and is on track. And then as you look at our gross margins for the rest of the year, you also have a general mix shift balance that we do our best to look into our crystal ball and try and figure out software versus our devices versus our taser

business. and I would say devices were a little bit lighter and software was pretty strong in this Q1. And so as we go through the year, I'd expect some health and devices to balance that down a bit. So that's all that's embedded in us trying to say that that gross margin guidance is probably not going to get better for the year than it was in Q1.

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

Gotcha. Thank you.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks. We'll go to Keith Housum at Northcoast.

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Good morning, guys. And, and thanks. Hey, each question for you, Josh here, in terms of maybe a seasonality to the type of business. You know, you guys have grown so much over the years, and we look at last year, the fourth quarter was a tremendous bookings quarter for you. Obviously not so much this quarter, for probably the first time I remember a sequential decline. Maybe you can talk about how you're thinking about the seasonality of your bookings as we look for the next this year and the next several years.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah. Yeah, Keith, great question. I appreciate it. I think, ultimately very similar story as Q1 last year where bookings were kind of the low point of the year in Q1. It's a hard quarter to really rack up bookings for a couple reasons. Number one, like you said, we're coming off a really strong one where we kind of cash the chips in Q4 where we can, but then we go through a cycle where we add salespeople. That means regions change. And that means just getting up to speed on the book of business. There's not a lot of urgency on the customer side because like I said in my remarks, Q1 is the only quarter of the year where no major fiscal budgets end, really only the UK ends in Q1 and so Q1 about kind of building the foundation, rebuilding the pipeline. But I can tell you I see no red flags in bookings for the remainder of the year. I think the team's going to respond really strongly. I think it's always nice we've got a really, really good sales team and, and when we can kind of light a fire under 'em, after kind of a so-so quarter, that usually tends to lead to some good out quarter results. And, and that's certainly what I expect here in quarters two, three, and four. So, yeah, I'd say for the future consider Q1 kind of the seasonal low point to be expected for bookings, but really, not an indicator of what's to come here in the future.

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Okay. And a follow up question, in terms of federal, Federal last year had another great year or great year for bookings. are we seeing loans start to deploy here or are those going to be kind of a little bit longer, I guess, deployment schedule? How do we think about that kind contributing to your overall revenue growth?

**Joshua Isner** *President, Axon Enterprise, Inc.*

A lot of these large Federal bookings are phased into multiple years. And so we tend to recognize revenue when the product's deployed or when it's shipped on the Taser side. And so of those phase deployments that are previous bookings there's just some noisiness and when the shipments are sent and when the deployments are done. But Federal is in that bucket of when I said we had a really, really healthy pipeline for the rest of the year, we're feeling great about where the Federal business is headed. We've got some large opportunities here in the next few quarters and certainly expect federal to register another awesome year.

**Keith Housum** *Analyst, Northcoast Research Partners, LLC*

Great. Thank you. Appreciate it.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Keith. Up next, we have Josh Reilly at Needham.

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

Thanks for taking my questions here. Following this body cam issue with the NY New York Department of Corrections from a competitor solution, the NYPD as we know is a customer for you guys, in other areas of their police force with body cameras. Can you just speak to how quickly you could move in if asked with a replacement product there? And maybe just from a higher level, like what have you done from an engineering perspective to ensure that your cameras don't catch on fire from battery malfunctions?

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, Josh, thanks a lot. And the first thing I want to say about this is there was a Captain that was injured as part of this. And so our thoughts are with him, it is really a bad scenario when this type of stuff happens. And you indicated there might be a business opportunity here. We'll see what happens with that. We certainly feel good about our ability to deploy products. We've invested a lot in them. We've invested a lot in the deployment, and if we have the opportunity, of course, we'll be ready to, ready to go, but in the meantime, we're focused on what's in front of us and that's continuing to build great products like you alluded to. We've invested a lot into our hardware and into our devices pillar, and we have great people and thinking through all of these kind of fringe and edge case scenarios that could pop up with the hardware. And so well, we're not going to kind of disclose any trade secrets here or any, any in-depth, engineering I will say we've thought through a lot of these potential edge cases and we feel good about how our products will perform in them. And so in the meantime, we'll keep just keep doing what is in front of us and what we're in control of. And if an opportunity presents itself, we'll be ready.

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

Got it. Thank you. And then just a quick follow up on the Taser revenue strength in the quarter here. Is there anything to call out in terms of Taser 10 domestic strength versus International being stronger? I know you had some big opportunities there for the seven in Australia. And then just balancing that versus the automation coming on. Was the automation a benefit in Q1? Because I was thinking that was a little bit more tilted, for the automation equipment taking hold in the second half. Thank you.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, maybe I'll cover the demand and then we, talk about the automation after. I mean Taser 10 is a monster, Josh, like, it's, it's the most popular Taser device we have ever brought to market. It's out cycling the Taser 7 demand by double. We continue to see strong indicators from all over the world that this product is the one that is a meaningful step in outperforming a firearm and it puts us on that moonshot journey that we've talked a lot about. And it's a credit to Rick and our entire Taser pillar, for, for all the great work they're doing to ramp this product and do so with high quality. And so I think with demand there is a need to ramp faster. We want to get this device out to our customers as fast as we can because we really believe it'll save lives. And so we're working through that. Of course, we have to invest more in automation to maximize our build capacity every quarter. And we're in the process of doing so. But future is very, very bright on the Taser 10 side.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Josh. We'll go to Jeremy Hamlin at Craig-Hallum. Jeremy, I think, make sure you come off mute.

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

Thanks for taking the question. I wanted to talk a little bit more in depth about the acquisition, as well as just the new product opportunities. You've had a pretty substantial increase in your TAM and you've had that on a couple of occasions here over the last six or seven years, but this is among the most significant. And just getting a sense, I gather there's quite a bit of sensitivity out there in how this is going to be used potential for pushback in the community. Give us a sense for how you expect that to be deployed through your customer segments as they stand today. Is this the type of product where while it's immaterial now, do you see it potentially as a material contributor, let's say in two to three years?

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

Yeah, let me take that one to get started. A few years ago, when we were standing up Axon Air, our business leader there had an important insight that as important as drones are probably even more important, is going to be how public safety can deal with the new threats that drones pose. And that was before what we've seen recently in world events wherein modern warfare, turns out these small consumer level drones are a real game changer, but they're also presenting new threats to everyone from stadiums to critical infrastructure, to major events. Actually, with DEDrone we don't see a lot of pushback, because DEDrone is really about monitoring drones in the airspace. And again, especially given the new threat vector that represents, we're seeing pretty widespread support that people expect

their local government, their public safety to be able to protect them, and aerial threats are just an entirely new vector. Now, drone as a first responder, which can be enabled by DEDRONE, so DEDRONE both helps control aerial threats and then if you want to deploy your own drones, having really great visibility of the airspace is a key part of that. Now, DFR does present some concerns people may have about the government flying drones, but we find gets most people comfortable is if those drones are really being used to respond to 9-1-1 calls, and people can understand that gets police eyes on the scene much more quickly and can help them make better resourcing decisions, that these are not being flown just hovering over the population, they're really being used to respond to calls for help, that combined with good transparency about drone missions that are being flown, and how they're being used in public, publicizing their policy helps most agencies, I think, really gain a lot of public support. So to finish out, we see this as being very material to the future. We think drones are already proving to be transformative and will only become more so.

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

I would just say from a timing standpoint, I echo Rick fully, I think there's a question of is it from a financial standpoint, is it two to three years from now? Is it longer? I mean, it will certainly be a really big pillar of our business and you can see us investing heavily behind robotic security. I think we are really seeding a long-term growth trajectory, though a business that's going to be material, in for many years in the future, more than targeting a year or two years from now.

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

Got it. Helpful color. And then just following up here on Draft One, which the demand for this sounds incredible, in terms of thinking about the competitive set, there are lots of other solutions out there, although maybe not quite rolled out in the way that law enforcement is looking for just yet, wanted to get a sense of how challenging you see that market in terms of entering it, or is it that your ecosystem, is such where you know there's a natural fit and you know it's giving you a competitive advantage, simply because of the other product lines that you already have out there?

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

Well, this is the entire reason that we invested in a records management system six, seven years ago was entirely because we saw this coming, that the ability to not only have your video evidence and your written records in one system, but to be able to extract one from the other would be critical. I think we're really seeing that come to bear. So we always want to stay a little paranoid about competition, it's a very competitive market, but we think between the combination of the ecosystem just really providing a great user experience and what we invest in earning customer trust and support, and the rigor with which we've evaluated the risks and really dealt with all the critical players whether it's from community concerns to district attorneys and legal concerns, across the board, I think we've done this in a way that our customers can know that this is a, a pretty well vetted approach. And obviously AI can be a bit controversial and we intentionally chose an area that is very high payback for our customers with very minimal risk compared to some other areas where using AI today may introduce more risk here, we think given especially because it's derived from the body camera video, it's derived directly from the

evidentiary record, which we think leads to actually even better, more detailed, more accurate police reports.

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

Building on what Rick said, as always, we obsess about our customers while being healthfully self-aware about the competitive landscape. And that's one of the reasons we talk about the ecosystem so much as you were talking about we've had transcription of the audio from body camera video at scale with a very large number of customers building up and up for several years now. We've got the footprint of both our body cameras themselves and DEMS, and the growing momentum and Records and all that together is sort of the perfect tee-up then makes Draft One possible. The second thing, as Rick was saying, a lot of people talk about the concepts of responsible AI and using these techniques in ways that combine effective results for customers with doing it in a principled and appropriate way and Draft One really is that actually put into action and it's why we're so proud of it and why we believe customers are showing the early excitement for it.

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

Great. Congratulations and thanks for all the color.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Jeremy. Up next, we have Trevor Walsh at JMP.

**Trevor Walsh** *Analyst, JMP*

Great. Thanks for taking my questions. Rick, maybe one for you, it was great to hear all the commentary around kind of opportunities around AI coming out of Axon Week. I wonder if you could just ponder or kind of pontificate a little bit for us around the kind of nature of data in AI versus the sensors that sort of drive that. Is there any worries for a product for such Fusus, for example, where it's relying on not just Axon proprietary data, but things coming from other places where vendors don't necessarily start to play as nice in the sandbox when we kind of realize, or we already have, I think, realized that AI is kind of the new, or the data for AI is kind of the new gold. So that become an issue in terms of people kind of sharing that data, kind of more on a more longer-term basis?

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

Well, we certainly haven't seen it yet. And most of the partners that are sharing in through Fusus, those are really members of the community, businesses, other enterprises, churches, schools, partner government agencies that are sharing that data primarily because they want to be safer, and they want to be able to have that data put to use to be able to help police do their jobs better and identify whether it's criminal activity or solve crimes. So, we haven't seen people sort of pushing back against using that data responsibly to protect them better. Jeff, I don't know if you have any color you might want to add on that.

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

Sure. No, it's, and thanks so much for the question again. I mean, you're right on, on both fronts, right? One is, it is the case that having aggregated access to large amounts of data are a really powerful differentiator. And one of the things, one of the reasons why we've put so much into everything we've built over the last years, and it's one of the things that we think enables us to keep building and building in differentiated ways. At the same time, one of the key incentives that helps us not worry as much about the particular concern you noted is that for the most part, all of this data is in fact our customer's data ultimately and they're the ones where they choose to work with multiple vendors and partners, and sensors and providers of other kinds as well as businesses in their community. They themselves get to vote with their feet about how they want the various tools they choose to work with, including us to work together. And so they're a really powerful voice there that incentivizes all of us, to play nicely in the sandbox while working to keep making our individual products as differentiated as possible.

**Trevor Walsh** *Analyst, JMP*

That's terrific. Really appreciate the color there. Well, maybe one quick follow up, maybe piggybacking a little bit off some of the DEDrone, comments. How much do you intend to kind of lean into the more counter, UAS counter drone type use cases, whether that's for GD or some of the non-kind of public safety customers that that might be there?

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

Yeah, I would say we intend to lean in pretty hard. Our goal is to protect life and to the degree that drones are being used to threaten lives, we see that as a hundred percent in our mission set to try to create new ways to protect from those risks. This could end up being a real opportunity where DEDrone is not only is useful to our existing customers, but DEDrone is interesting to a new set of customers, for example, major sporting stadiums, critical infrastructure, and indeed militaries both U.S. and internationally, they have a customer set that is new for us and can bring our ecosystem into those customers as well.

**Trevor Walsh** *Analyst, JMP*

Great. Appreciate the questions. Congrats on the quarter.

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

Yeah, thank you.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Trevor. Up next, we have Joe Cardoso at J.P. Morgan.

**Joe Cardoso** *Analyst, J.P. Morgan*

Hey everyone. And good afternoon. Thanks for the question. First one here, just wanted to follow up on the Dedrone questions. Obviously, we know you've been working with them for a while and this isn't the first time you pulled the trigger on acquiring a partner of yours that you guys think there's value in owning. Just curious why right now is the right time for you guys to acquire them? Has there been any change in terms of like, I know you talked the timeline, but maybe is there some type of change that maybe we don't appreciate? And then maybe just can you just talk about has there been any change relative to your thoughts around participating, or sorry, which parts of the technology stack you want to participate as it relates to the drone opportunity and whether that differs than what you're doing currently around like Taser and body cams? And then I have a follow up. Thank you.

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

So Jeff, you want to take a first crack at that one?

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

Maybe I'll do timing of why, why now? And then Jeff can talk about the technology pieces. I think there's a couple things. One, we knew we were going to get a bit more active from an M&A standpoint. It's why we opportunistically strengthened our balance sheet and did our capital raise back in the Fall of 2022. And so that was really so that we could go out and be methodical and pick up some of these pieces of the puzzle where we really wanted to strengthen the roadmap and the pillars. Rick has consistently been talking about the importance of robotic security. And so both SkyHero and Dedrone fit squarely into his vision for what robotic security looks like for us in the future. Everything from the indoor tactical drones of SkyHero to having Dedrone help support DFR and help support counter drone in all of those markets. That just goes back to timing of like, when does it feel right for them, given everything else they have on their plate and what they're thinking about as an independent company versus when it makes sense to come together with us. And so I think nothing big out there that we're not talking about other than the fact that it felt right timing wise for them and for us. They were a partner of ours, we had invested in them before, we very much knew when we made that investment that we might make an acquisition, and this is the timing that sort of worked out for both sides from an acquisition standpoint.

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

Yeah. And then just building from there, again, great question about the ecosystem. You know, I've personally spent my sort of three decades across lots of the businesses I've worked in on these kinds of ecosystems that are always this delicate balance between thinking about where do you build by partner et cetera, and those things evolve over time. And you're always trying to decide at each layer of the stack where they're the best opportunities to really, really partner well with other fantastic teams and other fantastic providers. And where, over time can you get the most leverage by self-building or by growing organically. And as you see with us, that's a, an evolving target, but what it combines all of those decisions over time is looking to see based on where we are now, where we see ourselves going, what's the best combination of where we can join forces with others while self-building ourselves at



both across the hardware and software side of things. And so you can see, for example, with drones, we made a very surgical and key decision with SkyHero in bringing in this very focused tactical drone hardware provider. You see the work we've done with Fusus and then all of the organic build you see us do everywhere, and we'll continue to evaluate that stuff carefully and be as smart as we can as we go.

**Joe Cardoso** *Analyst, J.P. Morgan*

I appreciate the color there. And then maybe for my second question, just on the capex raise today, maybe you can just talk us through what's driving the confidence to accelerate your investment plans this early into the year. Like obviously you talk about it as being like a slower bookings quarter, but you know, the pipeline is growing, so maybe you can just dive into that. Why pull the investments to today versus 90 days in the future, right? And then just maybe a second part of that is just as we think about these investments coming online, should we think about it as being more gradual over time, adding more automation and then capacity coming on slowly? Or is this more of a we should expect some kind of inflection and bigger magnitude in a later quarter? Any color around the timing associated with the capacity acceleration or capacity investment acceleration would be appreciated. Thanks.

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

Yeah, sure. I would focus you on the part of Josh's commentary when he said it's the best pipeline we've ever had coming out of Q1 and really drive you there. I think what you're hearing from us is like, yes, we had slightly softer future contracted revenue in Q1, but that is not at all indicative of how we see the year going, which I think you can see from our guidance and our commentary. As we look out at pipeline, as we look at the demand for Taser 10, as we look at the 33% growth in Q1, we basically said that in order to keep meeting that demand, and we don't want our customers to have to wait too long for our products, that we needed to invest in more capacity. And then the way we invest in capacity is we're buying pretty specialized equipment to run our lines and do our manufacturing. And so there's lead times associated with that. So right now, we have to start making investments to support capacity increases in 2025, basically at this point. So there's no inflection point. You just see us nicely and slowly ramping our capacity increases, maybe not slowly but steadily ramping our capacity increases to meet that demand, and trying to get out in front of it so that we don't get caught in 2025 saying we don't have the ability to meet demand and we're going to have to backlog our customers for a significant amount of time. So that's really just what we're seeing is making sure we're getting ahead and being prepared for 2025. You know, if we waited 90 days, that would just mean we were bringing it on 90 days later in 2025 when we got ramped up. And I think we have enough confidence, I'm telling you, we have enough confidence in the pipeline and the demand that it, it's prudent for us to bring that online.

**Joe Cardoso** *Analyst, J.P. Morgan*

No, understood. Brittany, thanks for all that color. Appreciate it. Congrats on the results, guys.

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

Thank you.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks, Joe. We'll take our last question from Mike Ng at Goldman Sachs.

**Mike Ng** *Analyst, Goldman Sachs*

Great. Good afternoon. Thanks for the question. I have two as well. First, just on Axon and Cloud services, it was up \$12 million quarter on quarter. Could you talk a little bit about how we should think about the sequential growth in this line? Is this low double digit dollar growth sequentially still a good way to think about it? Qualitatively, is this more user base driven with the growth in the install base across Body and Fleet? Or are we beginning to see more software and I'll call it ARPU uplift from Records and Standards and Dispatch? Thanks. And then I have a quick follow up.

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

Yeah, so our step up quarter over quarter was almost 13 million. I would say part of that was in Q4 last year. We had a really big step up. Part of that was from revenue recognition. We've talked particularly about how with Records coming online, some of that revenue recognition is going to be a little bit lumpy. We had a particularly large quarter in Q4, and then that leads to a slightly smaller step Q4 to Q1. I also think 13 million continues to be a pretty healthy step and sort of in line with what we've indicated is like if you averaged out our quarters, that feels like a pretty normal step up each quarter.

**Mike Ng** *Analyst, Goldman Sachs*

Great, thanks. and then I was wondering if you could comment on some of the Axon wins that have been reported in the media. How is RCMP field testing going? Are there any themes across the wins in Cornelius, North Carolina or Puerto Rico? I know some of them were from a large competitor, so any themes in terms of product or costs that, are driving those wins? Thank you.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Yeah, thanks Mike. Great question. I'm going to give you a little bit more of a general answer. I think we've said this a lot about our international business that we aren't going to be and we're not aspiring to be the kind of low-cost vendor in the space. We believe what we've built is really, really valuable and we believe that we can perform, and our products can perform in the field just as we say they will in the written solicitations. And that's not always the case for other vendors in this space. And so at times a customer upfront might focus on cost and say, hey, this is the lowest price point. And then when they start to use the products and test them out and what they do well and where the shortcomings are, they might feel like, hey, the ROI is such that we should look at a product that's priced differently, even if it's higher. Oftentimes that's where we've come in internationally. And while it takes a little bit of discipline on the front end, we think it's the right long-term winning strategy because we do really have a lot of conviction that what we've built a police officer is lesser served with something else in their hands or on

their chest or on their belt. And so we've got a lot of conviction that's the right strategy and we're starting to see that play out in international markets.

**Mike Ng** *Analyst, Goldman Sachs*

Excellent. Thank you for the thoughts.

**Joshua Isner** *President, Axon Enterprise, Inc.*

Thank you.

**Erik Lapinski** *Senior Director, Investor Relations, Axon Enterprise, Inc.*

Thanks Mike. I think that's it for questions today. We will turn it over to Rick to close us out.

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

Awesome. Right. Well, thanks Erik, and thanks again to all of you for joining. I'm really proud of our entire team. I mean, incredible execution and continue to show. We'll be really excited to come to you with more updates later this year, and we look forward to seeing you all again in August.

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