

LETTER FROM THE CEO

APRIL 2023

THIS IS OUR MOONSHOT

Axon is a mission-driven company whose overarching goal is to protect life. Our vision is a world where bullets are obsolete, where social conflict is dramatically reduced, and where everyone has access to a fair and effective justice system.





Fellow shareholders,

Humanity hungers for an epic story. Violence often satiates that hunger as the exemplar of struggle, perseverance and triumph.

Culturally, whether in art, books, film or movies, we celebrate violence as if medieval trial by combat were the ultimate expression of human achievement. We may no longer gather in stadiums to watch gladiators fight to the death, but violence easily fulfills movie plot lines seeking conflict and meaning — from sword fights to gun fights to starfighters.

In the real world, it is tempting to let violence draw us in. Even as we detest it, we are captivated. We celebrate when the good guys win. But we do not ask if there could be a better way. Instead, like a movie, we focus on the plotline and the victory — why did the bad guy act badly, how did the good guys overcome? In the real world, life is more complex than a storyline. Was the bad guy really evil? Many times we learn he was a veteran with severe mental health issues, or a teen with addiction and a drug problem. Every person is someone's child, relative or friend, and the storylines are so much more complex than they are in the arts. This is not to excuse violent behaviors or accept them. But violence leads to sadness and loss. This is our real world.

At Axon, we constantly ask if there's a better way. We question why when someone shows up to kill, the heroes who run in to stop the attack have to risk their own lives to save others. Today, the only way to stop a gunman is with a gunfight. We don't dispute that is the state of the world as it exists today. But we can equally imagine a world where we have advanced technologies that don't require sending our sons and daughters in uniform into harm's way to stop a deadly threat. It's not inconsistent to celebrate their sacrifice and heroism today, and look to give them better capabilities that keep everyone safer tomorrow.

How can we remove the struggle, stop the sacrifice? How can we ease the journey? Can we tip the scales and defeat violence in such a dominant fashion that violence becomes, dare I say, no longer interesting?

We are seeing some of this occur already. A few years back I talked to a sheriff who told me that in previous years, inmates were assaulting corrections officers multiple times per month in his jail. He explained that many inmates came from violent backgrounds. Within that jail community, it was seen as a badge of honor to get into a fight with officers, and if you injured them, it was a mark of achievement. You were one of the strongest warriors who stood up against the system and inflicted pain and suffering on your captors. However, the introduction of TASER devices into the jail changed the dynamic. It was one thing to get into fisticuffs with correctional officers where you may land some blows and "score some points," but a TASER exposure led to an inglorious surrender.

The user deploys the probes from a safe distance, which causes the subject's muscles to lock up involuntarily, despite how much they want to resist or fight. Assaults on officers fell from multiple per month to only a few per year. Everyone is now much safer and the environment less violent. We made violence less interesting.

If we are to truly change the nature of violent encounters, we need to remove the risk of sending human beings directly into harm's way. One key area we are pursuing with significant promise is robotic security. If we can send a robotic system into high-risk areas, we create more distance and time, two critical factors that can drastically change outcomes for the better. We can create innovative new capabilities that are far safer for everyone than sending in a team of heavily armed people, subject to their own fears and impaired by their own fight-or-flight biological reactions.

We understand the initial reservation around utilizing robotics in a public safety landscape, given the potential for misuse. However, as we have proven with our TASER devices and body camera products, misuse of good technology can often be mitigated with better technology and policy controls. We intend to lead the world not only in robotic security, but in the development of ethical frameworks and technology controls in this important space.

Now, let's turn our attention to our type of epic story. Stories that lift humanity and drive us forward. Stories that celebrate the best of humanity — our love, care, innovation and adventure into new possibilities. The stories of space programs going to the moon, of curing diseases, of people seeking to contribute positively during their time on this Earth.

We are writing one such positive epic story. We envision a future where attempted violence elicits no more than a yawn — not because we're numb to this plague, but because every single time it happens, the outcome is predictably and dominantly neutralized. Rather than going down in their own ill-conceived blaze of glory, violent actors are unceremoniously and ingloriously incapacitated and arrested — without struggle — taken to jail, put on trial and judged by peers.

I'd like to make it so violence in the modern world is no longer something that's worthy of a movie plot. Violence is not the ultimate expression of human struggle. It's simply bad and foolish; we should do everything we can to squeeze it out of our society.

I am not naive about removing deadly violence from human nature — this tale is as old as time. The deeper conflict is not with other people, or changing their instinct — but with technology that has not progressed far enough to displace violence as the best solution to stop violence. We may not be able to stop a passionate dispute, but we can endeavor to remove violence from the human transaction between our governments and the governed.

We are joining forces with law enforcement and community leaders in a moonshot goal to cut gun-related deaths between police and the public in half over the next 10 years. Axon's part in accomplishing this moonshot goal will primarily be to approach killing as a technology problem. Gene Roddenberry, creator of Star Trek, envisioned a future where technology elevated humanity, resolving interpersonal violence by "setting Phasers to stun," where realtime video communication is ubiquitous, and where computers, software and robots assist people to resolve dangerous and uncertain situations. That is the future we are creating — with life imitating the better side of the arts.

We know technology alone is not going to solve problems that involve complex social dynamics. It is going to require technology, training, policy, public acceptance and oversight. In this area, we are fortunate — because stakeholders from diverse parts of society share our mission, and seek to solve it, together.



WHY AXON?

We often get asked why we are the right people to be writing this story, why a cause so universally supported is being spearheaded by a for-profit business. While we are proud to have built a profitable, growing business, profit is not our mission — our profit is an outcome we must achieve to support our mission. Revenue growth, profitability, and cash flow are all hallmarks of running a strong enterprise — and a healthy business model is the most powerful means to the ultimate end of protecting life.

When you see a problem and you can wrap a business model around it, that forces you to think about focusing on developing products that are so valuable people will buy them. When I decided I wanted to focus my life on reducing violence, I could have started a non-profit. But, in practicality, that would mean I would spend the majority of my time calling people asking for donations. By focusing on technologies that address the problems I care about and wrapping a successful business model around our solutions, our mission became self-funding and could move with speed and impact unthinkable in any other organizational model. Today, we have 3,000 employees working on our mission. We have generated over \$15 billion in wealth for our shareholders. And our products have successfully saved hundreds of thousands of people in high-risk situations that could have otherwise escalated to deadly outcomes.

I believe with every fiber of my being that mission-driven capitalism works. Capitalism writ large has done more to lift humanity out of poverty over the past two centuries than any other approach. And we now have the ability to focus more of our time and energy solving higher level problems. Our mission mindset is what took us from a literal startup in a garage to where we are today, and we have even bigger problems (yielding even greater value) in our sights going forward.

You might recall that in 2020, we made the strategic decision to accelerate our investment in further advancing TASER technology to better serve public safety and communities. Over the course of 2021 and 2022, we invested nearly \$100 million in TASER segment research and development. We are incredibly proud of the results: on January 24, 2023, Axon unveiled TASER 10 — a game-changing, life-saving weapon that is a feat of human ingenuity and engineering.

TASER 10 represents a giant leap in innovation, with several step-function improvements compared to previous versions, including double the range and much greater capacity. TASER 10 is the most sophisticated, accurate and effective TASER energy weapon to date. Future generations may simply take for granted the existence of this lesslethal technology — as if it had always existed — and like with all technological advancements that drive society forward, that is our aim. We are proud to be innovative category creators.

Your investment in our company and mission is an important element of the broader story. We're proud that our mission and focus works for shareholders too. We are a "both-and" company — we don't believe one party must win at the expense of another. We believe true value creation helps everyone. By investing in and striving to accomplish our mission, we are building the value of our company, our products, and our people. We leave all of our stakeholders — our employees, our shareholders, and both our customers and the communities they serve — better off when they join our ecosystem.

To wit, in 2022, Axon delivered record revenue growth of 38% to \$1.19 billion and net income of \$147 million (12.4% net income margin), supporting Adjusted EBITDA of \$232 million, or 19.5% Adjusted EBITDA margin. Our Axon Cloud software business grew 50% in 2022 on top of 38% growth the year before, and made up an increasing share of our business. Axon Cloud revenue of \$368 million represented 31% of total revenue, and drove 45% Annual Recurring Revenue growth to \$473 million.



In 2018, shareholders approved a CEO compensation plan that granted performance-based stock options, the vesting of which was tied to growing the company 10x over a 10-year performance period. At the time, the goals were viewed as extremely challenging. In full candor, my wife was against me taking on the challenge as she saw it as just too risky. As I sit here writing this letter, we have grown the market capitalization almost 12x from \$1.35 billion to over \$16 billion today. And, at current course and speed, we are on track to complete the final operational milestones in the next few months. Net, we will have completed an audacious 10-year plan in a little over 5 years, having grown our stock price at a CAGR over 50% per year over that time period. These results were far from easy. But they are the result of our mission-driven focus, our care for our customers, the innovation and care we put into our employee recruiting and compensation, and the value of our products that solve real problems.

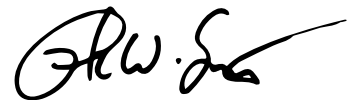
WHAT'S NEXT?

Looking forward, our efforts are focused on continuing to deliver strong financial results while we drive towards our moonshot. Our initial outlook for 2023 contemplates another strong year, with 20% revenue growth and EBITDA margin expansion. We introduced longer term targets that chart a path to \$2.0 billion in revenue in 2025. We plan continued investment in our existing products, our salesforce, and expansion into newer product areas that can further improve the life experience for the stakeholders we serve.

We aim to pioneer, create, and invent. We believe we are the best positioned to drive the next wave of technology adoption within public safety and beyond. As we embark further on our journey, we thank you for your unrelenting support and empowerment. The writing of our epic story will bear fruits and new breakthroughs over the next decade, and we are proud that you have chosen to be a part of it. We will not let you down. In fact, we will elevate together.

Here's to the next exciting chapters in our story,

– Rick





AXON.COM

