
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

February 27, 2020
Date of Report (Date of earliest event reported)

Axon Enterprise, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

001-16391
(Commission File Number)

86-0741227
(IRS Employer Identification No.)

**17800 N. 85th St.
Scottsdale, Arizona 85255**
(Address of principal executive offices, including zip code)

(480) 991-0797
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 Par Value	AAXN	The Nasdaq Global Select Market

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On February 27, 2020, Axon Enterprise, Inc. (the "Company" or "Axon"), issued a shareholder letter regarding the Company's financial results for its fourth quarter of 2019. The full text of the letter, together with the unaudited condensed consolidated statements of operations, segment reporting, balance sheets, cash flow information, statistical measures and reconciliations of GAAP to non-GAAP financial measures are attached hereto as Exhibit 99.1.

The information pursuant to Item 2.02 in this report on Form 8-K is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Exhibit Description
99.1	Shareholder letter dated February 27, 2020
99.2	Shareholder Letter dated February 27, 2020 with ESG Addendum
101	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.
104	The cover page from this Current Report on Form 8-K, formatted as Inline XBRL.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 27, 2020

Axon Enterprise, Inc.
By: /s/ JAWAD A. AHSAN
Jawad A. Ahsan
Chief Financial Officer

CONTACT:
Investor Relations
Axon Enterprise, Inc.
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Axon 2019 Revenue Grows 26% to \$531 Million; SaaS ARR up 49%, Setting Foundation for Continued Growth & Momentum

Scottsdale, Ariz., February 27, 2020 — Axon (Nasdaq: AAXN), the global leader in connected public safety technologies, today released the following quarterly update letter to shareholders.

Dear Shareholders,

We are pleased to report a strong finish to 2019.

Revenue grew 26% to \$531 million for the year, driven by demand for our latest generation camera, Axon Body 3, the cloud-connected TASER 7, and our cloud software.

Bottom line performance reflects our ability to scale manufacturing of TASER 7, continued growth of higher margin Axon Cloud revenue (up 41% for the full year), and cost control discipline. While net income was affected by catch-up stock compensation expense, we delivered a record \$88 million in adjusted EBITDA for the full year, up 43%, and Q4 2019 adjusted EBITDA more than tripled to \$38 million, reflecting a 22% margin.

The successful launch of Axon Body 3 drove record Q4 2019 sales of \$172 million, up 50%, and holds tremendous strategic value. Customers are enthusiastic about better core performance and situational awareness features such as live-video streaming and real-time alerts. With LTE connectivity, GPS and a more powerful CPU for edge-AI processing, Axon Body 3 is designed to improve officer performance and drive adoption of SaaS features. Importantly, this is expected to fuel continued growth in annual recurring SaaS revenue. Axon Body 3's communications capabilities also pave the way for adoption of the emergency dispatch solution we are bringing to market this year.

Our strategic focus on driving recurring cash flow and building a self-reinforcing SaaS-centric business is working. For example, in 2019:

- We achieved \$161 million in annual recurring SaaS revenue, up 49% over 2018;
- 71% of our full-year revenue was in recurring contracts, up from 55% in 2018 and 46% in 2017;
- More than 100 agencies adopted Officer Safety Plan 7, which carries per-officer-per-month pricing of \$149 to \$229 and created a pipeline of customers that have gained access to Axon Records;
- More than 70% of Officer Safety Plan 7 users are on the top-tier 7+ plan; and
- More than 550 agencies adopted the cloud-connected TASER 7, with 80% of those selecting our highest value plans.

We continue to see customer enthusiasm for Axon Records, which underscores the effectiveness of our go-to-market strategy. We've made it attractive for agencies to start using Records by including it as a built-in benefit to our highest tier Officer Safety Plan — and some agencies will be able to fund the majority of their upgrade to that tier with savings from transitioning their legacy records management system to Axon Records.

Our strategic priorities in 2020 include continuing to execute in our core market, while accelerating our path-to-market in new product categories such as de-escalation and communications, and expanding to new customer categories. This will position us to achieve a higher level of annual recurring SaaS revenue over the long term. Specifically:

1. We are accelerating our R&D investments in developing real-time command-and-control software for public safety, which represents a \$2 billion rapidly growing market. Axon's cloud-based software will be designed to empower everyone involved in incident response: dispatchers, call takers, command staff, patrol officers, firefighters and medical personnel. We intend to fundamentally improve the workflow that the industry refers to as Computer Aided Dispatch, or CAD — enabling entire agencies to respond as one team to get the right people with the right information to the right place at the right time. We expect to be live by mid-year with our first paying customer.
2. We see a major opportunity in the corrections and federal law enforcement channels. In Q4 2019, Axon won a Department of Justice contract to equip Bureau of Alcohol, Tobacco, Firearms and Explosives officers with body cameras. This contract vehicle will also allow other federal law enforcement agencies to join the Axon network. We are now proud to support both the US Forest Service's adoption of body cameras and TASER devices, and the DOJ's new body camera pilot effort, both representing significant milestones in Axon's federal expansion efforts. We estimate these two markets add \$1.5 billion to our core municipal public safety market.

Unlocking new opportunities means Axon's strategic growth areas have evolved and expanded into:

- **De-escalation:** Developing tools that support public safety officers in avoiding or minimizing use of force is a key component of Axon's mission to protect life. These tools include the cloud-connected TASER conducted energy device as well as a suite of Augmented Reality and Virtual Reality (AR/VR) training services for law enforcement, delivered through our Axon Academy training platform. To obsolete the bullet, we intend to not only develop more effective TASER devices over time but also drive training and adoption of the best practices in modern policing.
- **Sensors:** Our digital evidence management software, Axon Evidence, supports our network of cloud-connected cameras and sensors. Axon Evidence is the world's largest cloud-hosted data repository of law enforcement video data and other types of electronic evidence. In September 2019, we began shipping Axon Body 3, a camera with an LTE antenna and GPS chip, which supports real-time awareness.
- **Productivity:** Our productivity suite of tools reduce time spent on paperwork. Axon Records takes a disruptive modern approach to displace legacy on-premises Records Management Systems (RMS) by putting body camera video at the heart of incident records. Axon Records includes Axon Standards, a radically simpler approach to use-of-force reporting. Another software solution in this suite, Axon Performance, helps agencies ensure that officers are adhering to agency policies, and provides analytics on the effectiveness of body-worn camera programs. And Redaction Assistant enables agencies to redact videos in a fraction of the time through the use of artificial intelligence (AI).
- **Communications:** We are developing communication tools that support real-time situational awareness through the sharing of information across various channels, including voice, messaging, location mapping, and intelligence and evidence sharing. Products include Axon Aware, which allows agencies to know the GPS location of their officers and what those officers are experiencing through live video streaming and more; and Axon Dispatch, the emergency dispatch solution we are bringing to market this year.

By 2030, we believe:

- TASER devices will be the primary means to stop a threat
 - AI-enabled body cameras will eliminate the majority of manual report writing
 - Cloud-enabled devices will be the primary means to dispatch officers in the field
-

- Axon will be a household name by virtue of the transformative value we'll create for society and all of our stakeholders

Summary of Q4 2019 results:

- Record quarterly revenue of \$172 million, up 50% year over year, included \$26 million of Axon Body 3 hardware shipments, and reflected a successful product launch.
- Total company gross margin of 53.9% reflected a higher-than-usual mix of body camera hardware and TASER 7 cartridges, as expected. For more details, please see gross margin commentary by segment, below.
- Operating expenses of \$107 million included \$47.5 million in stock-based compensation expenses, including \$33 million of incremental "catch up" expense. Operating expenses excluding stock-based compensation declined sequentially, reflecting rigorous cost controls.
 - SG&A of \$78 million included \$40.2 million in stock-based compensation expenses, including \$29.9 million in "catch up" expenses.
 - R&D of \$29 million included \$7.3 million in stock-based compensation expenses, including \$2.9 million in "catch up" expenses.
 - These "catch up" expenses are tied to Axon's CEO Performance Award and eXponential Stock Performance Plan ("XSPP"), for which six additional performance goals became probable of attainment during Q4 2019 due to our strengthened outlook, bringing the total number of performance goals that are statistically probable to nine.
- GAAP EPS was (\$0.21); Non-GAAP EPS of \$0.41 excludes non-cash stock-based compensation expense.
 - GAAP EPS includes the "catch-up" stock-based compensation expense referred to above.
 - For more details about Axon's innovative stock-based compensation plans, which were approved by shareholders and align the interests of management and employees with shareholders, please see our online FAQ.
- Quarterly Adjusted EBITDA was a record \$38 million, representing 22% margin on revenue, and 48% incremental contribution margin. For the full year, adjusted EBITDA grew 43% to \$88 million.
- Cash and investments grew \$43 million sequentially to approximately \$396 million. Axon's strong balance sheet, with zero debt, provides us with the latitude to continue growing our subscription contracts as a percentage of revenue.

Financial commentary by segment:

TASER:

	THREE MONTHS ENDED			CHANGE		
	31 DEC 2019	30 SEP 2019 (in thousands)	31 DEC 2018	QoQ	YoY	
Net sales	\$ 83,955	\$ 71,743	\$ 65,301	17.0%	28.6%	
Gross margin	60.5%	63.1%	65.0%	-260bp	-450bp	

- TASER revenue of \$84 million grew 29% year over year, reflecting strong momentum in TASER 7, which began shipping in Q4 2018, and strong cartridge shipments in the quarter, reflecting our ability to meet a substantial demand backlog.
- TASER gross margin declined, as expected, due to the mix of TASER 7 cartridges shipped in the quarter. We anticipate that segment gross margin will improve in 2020, building throughout the year, driven by product mix, continued TASER 7 program cost optimization and a reduction in discounts.

Software & Sensors:

	THREE MONTHS ENDED						CHANGE	
	31 DEC 2019	30 SEP 2019 (in thousands)	31 DEC 2018	QoQ	YoY			
Axon Cloud net sales	\$ 36,805	\$ 34,021	\$ 25,774	8.2%	42.8%			
Axon Cloud gross margin	76.1%	75.8%	74.5%	30bp	160bp			
Sensors and Other net sales	\$ 51,091	\$ 25,073	\$ 23,716	103.8%	115.4%			
Sensors and Other gross margin	27.0%	36.4%	15.7%	-940bp	1,130bp			

- Axon Cloud revenue grew 43% and achieved gross margins of 76.1% in Q4 2019. This margin includes some low-to-no-margin professional services that support new installations for SaaS customers. The software-only revenue in this segment, which includes cloud storage and compute costs, has consistently carried a gross margin above 80%.
- Strong revenue in the Sensors and Other category was driven by record body camera shipments of about 83,000 units, topping the previous record of nearly 29,000 units shipped in Q3 2017. (These unit figures exclude the Axon Flex line-of-sight camera, which affixes to an officer's sunglasses or hat brim.) Approximately 75% of Q4 2019 body camera unit shipments were Axon Body 3. We expect a significantly lower run-rate of body camera unit sales going forward.
- Sensors and Other gross margin of 27% was in line with our expectations. As a reminder, we manage toward a 25% gross margin for camera and sensors hardware, and the gross margin will fluctuate quarter to quarter depending on the customer mix.

Forward-Looking Performance Indicators:

	31 DEC 2019	30 SEP 2019	30 JUN 2019	31 MAR 2019	31 DEC 2018
	(\$ in thousands)				
Annual recurring revenue ⁽¹⁾	\$ 161,277	\$ 141,540	\$ 129,452	\$ 122,276	\$ 108,496
Total company future contracted revenue	\$ 1,230,000	\$ 1,130,000	\$ 1,050,000	\$ 930,000	\$ 900,000
Percentage of TASER devices sold on a recurring payment plan	58%	55%	60%	42%	35%

⁽¹⁾ Monthly recurring license, integration, warranty, and storage revenue annualized.

- Annual recurring revenue grew 49% year over year to \$161 million, driven by strong adoption of our integrated software-heavy bundles and features.
- Total company future contracted revenue grew to \$1.23 billion. This amount is limited to revenue from arrangements that meet the definition of a contract under Topic 606 as of December 31, 2019. We expect to recognize between 20% to 25% of this balance over the next 12 months and generally expect the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.
- We have substantially moved the needle on driving TASER subscriptions in the past year. Approximately 58% of all devices sold in Q4 were on a recurring payment plan, compared with 35% a year ago. In the United States, recurring payment plans accounted for 65% of new TASER contracts, with TASER 7 contracts driving subscriptions. This represents significant progress toward transitioning the TASER business to a subscription model.

- Record quarterly software and sensors bookings of \$171 million were up 55% year over year. Going forward, we will not be disclosing this metric. It was introduced in the early days of our Software & Sensors business, and is no longer strategically relevant to evaluating the health of the segment. We believe that total company future contracted revenue is a more relevant and comprehensive forward-looking performance indicator, as it encompasses all company contracts, including TASER.
- We ended the year with 465,200 users on the Axon network. Going forward, we are retiring this metric, which is declining in relevance as our business continues to evolve. We believe that annual recurring revenue provides a more useful measure of the health of the SaaS business we are building.

Outlook:

For the full year 2020, we expect to achieve:

- Revenue in the range of \$615 million to \$625 million;
 - At the midpoint, this represents 17% year-over-year growth, and more than 20% year-over-year growth excluding the surge of Axon Body 3 hardware shipments in Q4 2019;
 - We anticipate that Q1 2020 revenue will increase approximately 13% year-over-year;
 - We anticipate that 2020 revenue will accelerate in the second half of the year, with a back-half weighting similar to 2019;
- Adjusted EBITDA in the range of \$100 million to \$105 million;
 - Adjusted EBITDA guidance reflects modest gross margin improvement over 2019, which will be partially offset by camera hardware shipments to major city customers;
 - Adjusted EBITDA guidance reflects accelerated investments to take advantage of total addressable market expansion opportunities in new product categories, such as communications, and new customer categories, such as federal and corrections, as described above, and in building out systems for scale;
 - Adjusted EBITDA guidance excludes expected legal costs of up to \$15 million associated with litigation involving the FTC, which we intend to treat as an add-back to Adjusted EBITDA;
 - We expect Adjusted EBITDA margin of approximately 10% to 12% in Q1 2020;
- We expect a normalized tax rate of 20% to 25%, which can fluctuate depending on geography of income and the effects of discrete items, including changes in our stock price;
- We expect stock-based compensation expenses to be approximately \$85 million for the full year, which is subject to change depending on our assessment of the probability of attaining operational metrics for the CEO Performance Award and XSPP awards, and the expected timing of such attainment; and
- We are closely monitoring our supply chain and operations in the context of the coronavirus crisis. Though the situation is dynamic, at this time, we believe the potential impact to Axon is reflected in our full-year guidance.

This is an exciting time for Axon and its customers -- the products we are bringing to market are fundamentally improving public safety, creating massive societal value, and saving lives. Thank you for joining us on this journey.

Signed,
 Rick Smith, CEO
 Luke Larson, President
 Jawad Ahsan, CFO

Quarterly conference call and Webcast

We will host our Q4 2019 earnings conference call on February 27 at 2 p.m. PT / 5 p.m. ET.

The call will be available via live audio webcast and archived replay on Axon's investor relations website at <https://investor.axon.com>.

Statistical Definitions

Software and Sensors bookings are an indication of the activity the Company is seeing relative to Software and Sensors hardware, software and Axon Evidence. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales), including contractual optional periods we expect to be exercised, net of cancellations, inclusive of renewals, placed in the relevant fiscal period, regardless of when the products or services ultimately will be provided. Most bookings will be invoiced in subsequent periods.

Due to municipal government funding rules, in some cases certain of the future period amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although Axon has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be fulfilled, if agencies do not exercise contractual options, do not appropriate money in future year budgets or do not enact a cancellation clause, revenue associated with these bookings may not ultimately be recognized, resulting in a future reduction to bookings.

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, Non-GAAP Net Income, Non-GAAP Diluted Earnings Per Share and Free Cash Flow. The Company's 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 its performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented herein.

- EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation and amortization.
 - Adjusted EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation, amortization, non-cash stock-based compensation expense and pre-tax certain other items (described below).
 - Non-GAAP Net Income (Most comparable GAAP Measure: Net income) - Net income excluding the costs of non-cash stock-based compensation and excluding pre-tax certain other items, including, but not limited to, net gain/loss/write-down/disposal/abandonment of property, equipment and intangible assets; loss on impairment; and costs related to business acquisitions. The Company tax-effects non-GAAP adjustments using the blended statutory federal and state tax rates for each period presented.
 - Non-GAAP Diluted Earnings Per Share (Most comparable GAAP Measure: Earnings Per share) - Measure of Company's Non-GAAP Net Income divided by the weighted average number of diluted common shares outstanding during the period presented.
-

- Free Cash Flow (Most comparable GAAP Measure: Cash flow from operating activities) - cash flows provided by operating activities minus purchases of property and equipment, intangible assets and cash flows related to business acquisitions.

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 or 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

Axon is a network of devices, apps and people that helps public safety personnel become smarter and safer. With a mission of protecting life, our technologies give customers the confidence, focus and time they need to keep their communities safe. Our products impact every aspect of a public safety officer's day-to-day experience.

We work hard for those who put themselves in harm's way for all of us. More than 225,000 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. Facebook is a trademark of Facebook, Inc.;LTE is a trademark of the European Telecommunications Standards Institute; Oculus is a trademark of Facebook Technologies, LLC;Twitter is a trademark of Twitter, Inc. and Zoom is a trademark of Zoom Video Communications, Inc.

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Forward-looking statements

These forward-looking statements include, without limitation, statements regarding: proposed products and services and related development efforts and activities; expectations about the market for our current and

future products and services; expectations about customer behavior; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management's strategies, goals and objectives and other similar expressions; as well as the ultimate resolution of financial statement items requiring critical accounting estimates, including those set forth in our Form 10-K for the year ended December 31, 2019. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as "may," "will," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. The following important factors could cause actual results to differ materially from those in the forward-looking statements: our ability to design, introduce and sell new products or features; our ability to defend against litigation and protect our intellectual property, and the resulting costs of this activity; our ability to manage our supply chain and avoid production delays, shortages, and impacts to expected gross margins; the impact of stock compensation expense, impairment expense, and income tax expense on our financial results; customer purchase behavior, including adoption of our software as a service delivery model; our exposure to cancellations of government contracts due to appropriation clauses, exercise of a cancellation clause, or non-exercise of contractually optional periods; negative media publicity regarding our products; the impact of product mix on projected gross margins; defects in our products; changes in the costs of product components and labor; loss of customer data, a breach of security, or an extended outage, including our reliance on third party cloud-based storage providers; exposure to international operational risks; delayed cash collections and possible credit losses due to our subscription model; changes in government regulations in the U.S. and in foreign markets, especially related to the classification of our product by the United States Bureau of Alcohol, Tobacco, Firearms and Explosives and to evolving regulations surrounding privacy and data protection; our ability to integrate acquired businesses; our ability to attract and retain key personnel; and counter-party risks relating to cash balances held in excess of FDIC insurance limits. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. Our Annual Report on Form 10-K lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading "Risk Factors" in the Annual Report on Form 10-K and in the Quarterly Report on Form 10-Q, and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the SEC.

Please visit <https://investor.axon.com>, <https://www.axon.com/press>, www.twitter.com/axon_us and <https://www.facebook.com/Axon.ProtectLife/> where Axon discloses information about the company, its financial information, and its business.

For investor relations information please contact Andrea James via email at IR@axon.com.

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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Net sales from products	\$ 134,497	\$ 96,497	\$ 89,017	\$ 399,474	\$ 327,635
Net sales from services	37,354	34,340	25,774	131,386	92,433
Net sales	171,851	130,837	114,791	530,860	420,068
Cost of product sales	70,418	42,445	42,863	190,683	139,337
Cost of service sales	8,793	8,223	6,582	32,891	22,148
Cost of sales	79,211	50,668	49,445	223,574	161,485
Gross margin	92,640	80,169	65,346	307,286	258,583
Operating expenses:					
Sales, general and administrative	78,281	48,424	42,099	212,959	156,886
Research and development	28,745	25,129	21,254	100,721	76,856
Total operating expenses	107,026	73,553	63,353	313,680	233,742
Income (loss) from operations	(14,386)	6,616	1,993	(6,394)	24,841
Interest and other income, net	2,486	1,820	1,021	8,464	3,263
Income (loss) before provision for income taxes	(11,900)	8,436	3,014	2,070	28,104
Provision for (benefit from) income taxes	479	2,332	931	1,188	(1,101)
Net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205
Net income (loss) per common and common equivalent shares:					
Basic	\$ (0.21)	\$ 0.10	\$ 0.04	\$ 0.01	\$ 0.52
Diluted	\$ (0.21)	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.50
Weighted average number of common and common equivalent shares outstanding:					
Basic	59,374	59,278	58,502	59,190	56,392
Diluted	60,257	60,059	59,665	60,018	57,922

AXON ENTERPRISE, INC.

SEGMENT REPORTING

(Unaudited)

(\$dollars in thousands)

	THREE MONTHS ENDED 31 DEC 2019			THREE MONTHS ENDED 30 SEP 2019			THREE MONTHS ENDED 31 DEC 2018		
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Net sales from products ⁽¹⁾	\$ 83,406	\$ 51,091	\$ 134,497	\$ 71,424	\$ 25,073	\$ 96,497	\$ 65,301	\$ 23,716	\$ 89,017
Net sales from services ⁽²⁾	549	36,805	37,354	319	34,021	34,340	—	25,774	25,774
Net sales	83,955	87,896	171,851	71,743	59,094	130,837	65,301	49,490	114,791
Cost of product sales	33,144	37,274	70,418	26,504	15,941	42,445	22,874	19,989	42,863
Cost of service sales	—	8,793	8,793	—	8,223	8,223	—	6,582	6,582
Cost of sales	33,144	46,067	79,211	26,504	24,164	50,668	22,874	26,571	49,445
Gross margin	50,811	41,829	92,640	45,239	34,930	80,169	42,427	22,919	65,346
Gross margin %	60.5%	47.6%	53.9%	63.1%	59.1%	61.3%	65.0%	46.3%	56.9%
Research and development	4,185	24,560	28,745	3,485	21,644	25,129	5,196	16,058	21,254
TWELVE MONTHS ENDED 31 DEC 2019						TWELVE MONTHS ENDED 31 DEC 2018			
	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total	TASER	Software and Sensors	Total
Net sales from products ⁽¹⁾	\$ 280,554	\$ 118,920	\$ 399,474	\$ 253,115	\$ 74,520	\$ 327,635			
Net sales from services ⁽²⁾	1,107	130,279	131,386	—	92,433	92,433			
Net sales	281,661	249,199	530,860	253,115	166,953	420,068			
Cost of product sales	107,188	83,495	190,683	80,354	58,983	139,337			
Cost of service sales	—	32,891	32,891	—	22,148	22,148			
Cost of sales	107,188	116,386	223,574	80,354	81,131	161,485			
Gross margin	174,473	132,813	307,286	172,761	85,822	258,583			
Gross margin %	61.9%	53.3%	57.9%	68.3%	51.4%	61.5%			
Research and development	14,469	86,252	100,721	17,012	59,844	76,856			

⁽¹⁾ Software and Sensors “products” revenue consists of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue.

⁽²⁾ Software and Sensors “services” revenue comprises sales related to the Axon Cloud, which includes Axon Evidence, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services, and is sometimes referred to as Axon Cloud revenue.

AXON ENTERPRISE, INC.

UNIT SALES STATISTICS

(Unaudited)

Units in whole numbers

	THREE MONTHS ENDED				TWELVE MONTHS ENDED 31 DEC			
	31 DEC 2019	31 DEC 2018	Unit Change	Percent Change	31 DEC 2019	31 DEC 2018	Unit Change	Percent Change
TASER 7	14,577	5,759	8,818	153.1 %	49,221	5,759	43,462	754.7 %
TASER X26P	13,554	18,597	(5,043)	(27.1)	48,798	71,823	(23,025)	(32.1)
TASER X2	11,534	13,088	(1,554)	(11.9)	40,973	65,855	(24,882)	(37.8)
TASER Pulse and Bolt	2,978	7,490	(4,512)	(60.2)	11,785	18,398	(6,613)	(35.9)
Cartridges	962,519	600,690	361,829	60.2	2,751,603	2,342,897	408,706	17.4
Axon Body	83,268	26,167	57,101	218.2	151,499	85,965	65,534	76.2
Axon Flex	3,078	5,080	(2,002)	(39.4)	15,586	15,541	45	0.3
Axon Fleet	3,324	3,908	(584)	(14.9)	10,467	9,445	1,022	10.8
Axon Dock	10,149	3,859	6,290	163.0	22,275	17,762	4,513	25.4
TASER Cam	1,177	1,952	(775)	(39.7)	5,533	8,310	(2,777)	(33.4)

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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	31 DEC 2018
EBITDA and Adjusted EBITDA:						
Net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205	
Depreciation and amortization	3,165	2,709	2,389	11,361	10,615	
Interest expense	19	4	33	46	86	
Investment interest income	(1,760)	(1,647)	(1,076)	(7,040)	(3,002)	
Provision for (benefit from) income taxes	479	2,332	931	1,188	(1,101)	
EBITDA	<u>\$ (10,476)</u>	<u>\$ 9,502</u>	<u>\$ 4,360</u>	<u>\$ 6,437</u>	<u>\$ 35,803</u>	
Adjustments:						
Stock-based compensation expense	\$ 48,300	\$ 13,663	\$ 6,577	\$ 78,495	\$ 21,879	
Transaction costs and adjustments related to business acquisition	—	—	—	—	1,382	
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117	
Loss on disposal and impairment of property and equipment, net	134	845	13	2,542	303	
Costs related to FTC litigation	240	—	—	240	—	
Adjusted EBITDA	<u>\$ 38,214</u>	<u>\$ 24,043</u>	<u>\$ 10,964</u>	<u>\$ 87,781</u>	<u>\$ 61,484</u>	
<i>Net income (loss) as a percentage of net sales</i>	<i>(7.2)%</i>	<i>4.7%</i>	<i>1.8%</i>	<i>0.2%</i>	<i>7.0%</i>	
<i>Adjusted EBITDA as a percentage of net sales</i>	<i>22.2 %</i>	<i>18.4%</i>	<i>9.6%</i>	<i>16.5%</i>	<i>14.6%</i>	
Stock-based compensation expense:						
Cost of product and service sales	\$ 790	\$ 312	\$ 152	\$ 1,565	\$ 511	
Sales, general and administrative	40,212	9,508	3,927	59,342	12,710	
Research and development	7,298	3,843	2,498	17,588	8,658	
Total	<u>\$ 48,300</u>	<u>\$ 13,663</u>	<u>\$ 6,577</u>	<u>\$ 78,495</u>	<u>\$ 21,879</u>	

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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2019	31 DEC 2018
Non-GAAP net income:						
GAAP net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205	
Non-GAAP adjustments:						
Stock-based compensation expense	48,300	13,663	6,577	78,495	21,879	
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117	
Loss on disposal and impairment of property and equipment, net	134	845	13	2,542	303	
Transaction costs and adjustments related to business acquisition	—	—	—	—	1,382	
Costs related to FTC litigation	240	—	—	240	—	
Income tax effects	(11,863)	(3,654)	(1,737)	(20,068)	(6,366)	
Income tax benefit of CEO stock option exercise	—	—	(2,321)	—	(5,683)	
Non-GAAP net income	<u>\$ 24,448</u>	<u>\$ 16,991</u>	<u>\$ 4,629</u>	<u>\$ 62,158</u>	<u>\$ 42,837</u>	
	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2019	31 DEC 2018
Non-GAAP diluted earnings per share:						
GAAP diluted earnings per share	\$ (0.21)	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.50	
Non-GAAP adjustments:						
Stock-based compensation expense	0.80	0.23	0.11	1.31	0.38	
Loss on disposal and abandonment of intangible assets	0.00	0.00	0.00	0.00	0.04	
Loss on disposal and impairment of property and equipment, net	0.00	0.01	0.00	0.04	0.01	
Transaction costs and adjustments related to business acquisition	—	—	—	—	0.02	
Costs related to FTC litigation	0.00	—	—	0.00	—	
Income tax effects	(0.20)	(0.06)	(0.03)	(0.33)	(0.11)	
Income tax benefit of CEO stock option exercise	—	—	(0.04)	—	(0.10)	
Non-GAAP diluted earnings per share ⁽¹⁾	<u>\$ 0.41</u>	<u>\$ 0.28</u>	<u>\$ 0.08</u>	<u>\$ 1.04</u>	<u>\$ 0.74</u>	
Weighted average number of diluted common and common equivalent shares outstanding (in thousands)	60,257	60,059	59,665	60,018	57,922	

⁽¹⁾ The per share calculations for GAAP net income, Non-GAAP adjustments and Non-GAAP diluted earnings per share are each computed independently. Per share amounts may not sum due to rounding.

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

	31 DEC 2019	31 DEC 2018
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 172,250	\$ 349,462
Short-term investments	178,534	—
Accounts and notes receivable, net	146,878	130,579
Contract assets, net	47,718	13,960
Inventory, net	38,845	33,763
Prepaid expenses and other current assets	34,866	30,391
Total current assets	619,091	558,155
Property and equipment, net	43,770	37,893
Deferred tax assets, net	27,688	19,347
Intangible assets, net	12,771	15,935
Goodwill	25,013	24,981
Long-term investments	45,499	—
Long-term notes receivable, net of current portion	31,598	40,230
Other assets	40,209	22,999
Total assets	\$ 845,639	\$ 719,540
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	25,874	15,164
Accrued liabilities	45,001	41,092
Current portion of deferred revenue	117,864	107,016
Customer deposits	2,974	2,702
Other current liabilities	3,853	37
Total current liabilities	195,566	166,011
Deferred revenue, net of current portion	87,936	74,417
Liability for unrecognized tax benefits	3,832	2,849
Long-term deferred compensation	3,936	3,235
Deferred tax liability	354	—
Other long-term liabilities	10,520	5,704
Total liabilities	302,144	252,216
Stockholders' Equity:		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	528,272	453,400
Treasury stock	(155,947)	(155,947)
Retained earnings	172,265	171,383
Accumulated other comprehensive loss	(1,096)	(1,513)
Total stockholders' equity	543,495	467,324
Total liabilities and stockholders' equity	\$ 845,639	\$ 719,540

AXON ENTERPRISE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	
Cash flows from operating activities:						
Net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	3,165	2,709	2,389	11,361	10,615	
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117	
Loss (gain) on disposal and impairment of property and equipment, net	134	845	13	2,542	303	
Stock-based compensation	48,300	13,663	6,577	78,495	21,879	
Deferred income taxes	(4,041)	(2,635)	(1,266)	(7,987)	(3,592)	
Unrecognized tax benefits	389	(19)	1,045	983	1,144	
Other noncash, net	1,005	1,101	—	3,928	34	
Change in assets and liabilities:						
Accounts and notes receivable and contract assets	(8,333)	(19,491)	(16,471)	(38,830)	(67,643)	
Inventory	1,399	1,213	5,771	(4,903)	14,804	
Prepaid expenses and other assets	2,122	(6,206)	(658)	(9,845)	(12,739)	
Accounts payable, accrued liabilities and other liabilities	18,495	3,224	9,200	4,967	13,506	
Deferred revenue	(4,463)	21,899	22,542	24,013	54,242	
Net cash provided by operating activities	45,809	22,440	31,239	65,673	63,875	
Cash flows from investing activities:						
Purchases of investments	(111,784)	(100,701)	—	(354,477)	(4,331)	
Proceeds from call / maturity of investments	37,876	66,888	500	130,083	11,158	
Purchases of property and equipment	(3,828)	(4,250)	(4,259)	(15,939)	(11,139)	
Purchases of intangible assets	(76)	16	(98)	(404)	(558)	
Business acquisitions, net of cash acquired	—	—	—	—	(4,990)	
Net cash used in investing activities	(77,812)	(38,047)	(3,857)	(240,737)	(9,860)	
Cash flows from financing activities:						
Net proceeds from equity offering	—	—	—	—	233,993	
Proceeds from options exercised	8	2	1,044	114	1,757	
Income and payroll tax payments for net-settled stock awards	(783)	(1,136)	(2,154)	(4,051)	(14,127)	
Payment of contingent consideration for business acquisitions	—	—	(1,700)	—	(2,275)	
Net cash provided by (used in) financing activities	(775)	(1,134)	(2,810)	(3,937)	219,348	
Effect of exchange rate changes on cash and cash equivalents						
1,007	(426)	(393)	329	329	(774)	
Net increase (decrease) in cash and cash equivalents and restricted cash	(31,771)	(17,167)	24,179	(178,672)	272,589	
Cash and cash equivalents, beginning of period	204,126	221,293	326,848	351,027	78,438	
Cash and cash equivalents, end of period	\$ 172,355	\$ 204,126	\$ 351,027	\$ 172,355	\$ 351,027	

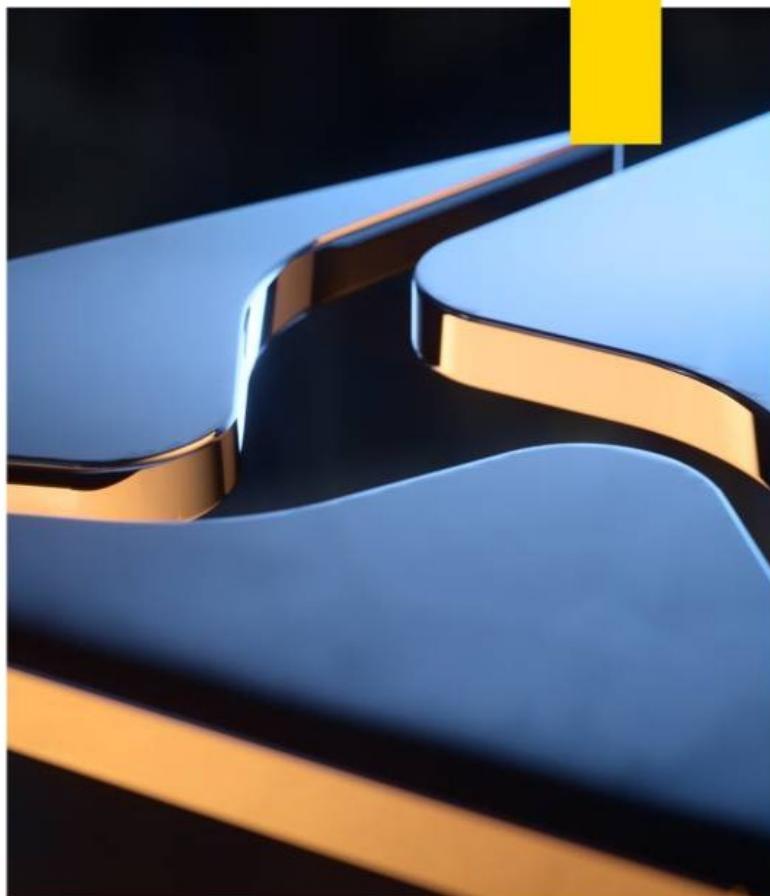
AXON ENTERPRISE, INC.
SELECTED CASH FLOW INFORMATION
(Uaudited)
(in thousands)

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	
Net cash provided by operating activities	\$ 45,809	\$ 22,440	\$ 31,239	\$ 65,673	\$ 63,875	
Purchases of property and equipment	(3,828)	(4,250)	(4,259)	(15,939)	(11,139)	
Purchases of intangible assets	(76)	16	(98)	(404)	(558)	
Cash flows related to business acquisitions	—	—	—	—	(4,990)	
Free cash flow, a non-GAAP measure	<u>\$ 41,905</u>	<u>\$ 18,206</u>	<u>\$ 26,882</u>	<u>\$ 49,330</u>	<u>\$ 47,188</u>	

AXON ENTERPRISE, INC.
SUPPLEMENTAL TABLES
(in thousands)

	31 DEC 2019 (Unaudited)	31 DEC 2018
Cash and cash equivalents	\$ 172,250	\$ 349,462
Short-term investments	178,534	—
Long-term investments	45,499	—
Total cash and cash equivalents and investments	\$ 396,283	\$ 349,462

2020



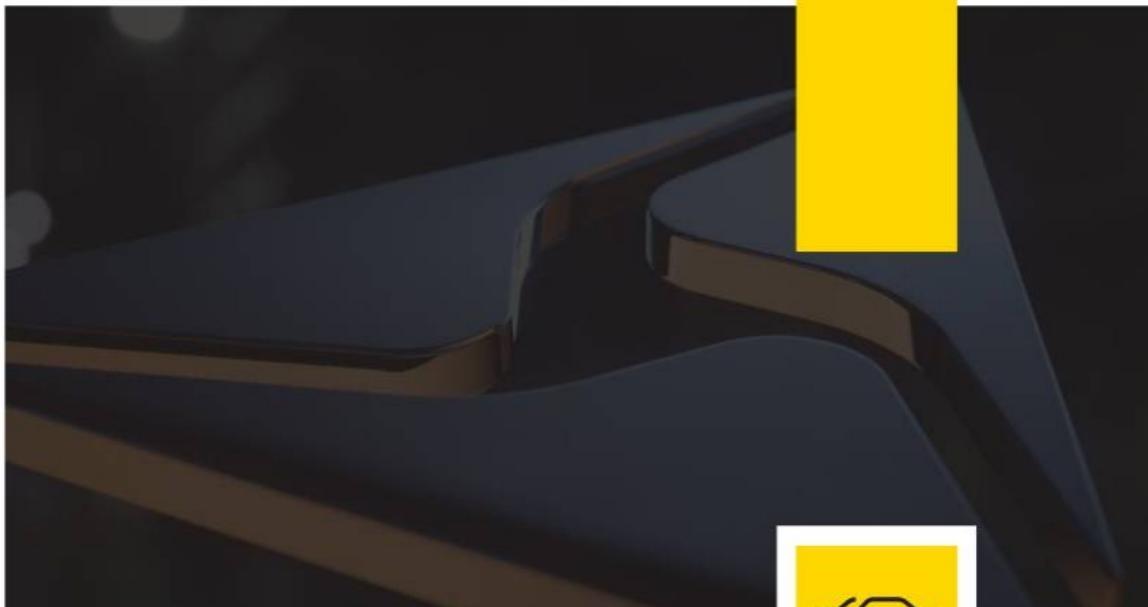
/ TO OUR
SHAREHOLDERS]

CONTACT

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**Axon 2019 Revenue Grows 26% to \$531 Million,
SaaS ARR up 49%,
Foundation Set for Continued Growth, Momentum**





DEAR SHAREHOLDERS

We are pleased to report a strong finish to 2019. Revenue grew 26% to \$531 million for the year, driven by demand for our latest generation camera, Axon Body 3, the cloud-connected TASER 7, and our cloud software.

Bottom line performance reflects our ability to scale manufacturing of TASER 7, continued growth of higher margin Axon Cloud revenue (up 41% for the full year), and cost control discipline. While net income was affected by catch-up stock compensation expense, we delivered a record \$88 million in adjusted EBITDA for the full year, up 43%, and Q4 2019 adjusted EBITDA more than tripled to \$38 million, reflecting a 22% margin.

The successful launch of Axon Body 3 drove record Q4 2019 sales of \$172 million, up 50%, and holds tremendous strategic value. Customers are enthusiastic about better core performance and situational awareness features such as live-video streaming and real-time alerts. With LTE connectivity, GPS and a more powerful CPU for edge-AI processing, Axon Body 3 is designed to improve officer performance and drive adoption of SaaS features. Importantly, this is expected to fuel continued growth in annual recurring SaaS revenue. Axon Body 3's communications capabilities also pave the way for adoption of the emergency dispatch solution we are bringing to market this year.

Our strategic focus on driving recurring cash flow and building a self-reinforcing SaaS-centric business is working.

For example, in 2019:

- + WE ACHIEVED \$161 MILLION IN ANNUAL RECURRING SAAS REVENUE, UP 49% OVER 2018**
- + 71% OF OUR FULL-YEAR REVENUE WAS IN RECURRING CONTRACTS, UP FROM 55% IN 2018 AND 46% IN 2017**
- + MORE THAN 100 AGENCIES ADOPTED OFFICER SAFETY PLAN 7, WHICH CARRIES PER-OFFICER-PER-MONTH PRICING OF \$149 TO \$229 AND CREATED A PIPELINE OF CUSTOMERS THAT HAVE GAINED ACCESS TO AXON RECORDS;**
- + MORE THAN 70% OF OFFICER SAFETY PLAN 7 USERS ARE ON THE TOP-TIER 7+ PLAN; AND**
- + MORE THAN 550 AGENCIES ADOPTED THE CLOUD-CONNECTED TASER 7, WITH 80% OF THOSE SELECTING OUR HIGHEST VALUE PLANS**

We continue to see customer enthusiasm for Axon Records, which underscores the effectiveness of our go-to-market strategy.

We've made it attractive for agencies to start using Records by including it as a built-in benefit to our highest tier Officer Safety Plan — and some agencies will be able to fund the majority of their upgrade to that tier with savings from transitioning their legacy records management system to Axon Records.

Our strategic priorities in 2020 include continuing to execute in our core market, while accelerating our path-to-market in new product categories such as de-escalation and communications, and expanding to new customer categories. This will position us to achieve a higher level of annual recurring SaaS revenue over the long term.

Specifically:

01

We are accelerating our R&D investments in developing real-time command-and-control software for public safety, which represents a \$2 billion rapidly growing market. Axon's cloud-based software will be designed to empower everyone involved in incident response: dispatchers, call takers, command staff, patrol officers, firefighters and medical personnel. We intend to fundamentally improve the workflow that the industry refers to as Computer Aided Dispatch, or CAD — enabling entire agencies to respond as one team to get the right people with the right information to the right place at the right time. We expect to be live by mid-year with our first paying customer.

02

We see a major opportunity in the corrections and federal law enforcement channels. In Q4 2019, Axon won a Department of Justice contract to equip Bureau of Alcohol, Tobacco, Firearms and Explosives officers with body cameras. This contract vehicle will also allow other federal law enforcement agencies to join the Axon network. We are now proud to support both the US Forest Service's adoption of body cameras and TASER devices, and the DOJ's new body camera pilot effort, both representing significant milestones in Axon's federal expansion efforts. We estimate these two markets add \$1.5 billion to our core municipal public safety market.

UNLOCKING NEW OPPORTUNITIES

Axon's strategic growth areas have evolved and expanded into:

1 DE-ESCALATION

Developing tools that support public safety officers in avoiding or minimizing use of force is a key component of Axon's mission to protect life. These tools include the cloud-connected TASER conducted energy device as well as a suite of Augmented Reality and Virtual Reality (AR/VR) training services for law enforcement, delivered through our Axon Academy training platform. To obsolete the bullet, we intend to not only develop more effective TASER devices over time but also drive training and adoption of the best practices in modern policing.

2 SENSORS

Our digital evidence management software, Axon Evidence, supports our network of cloud-connected cameras and sensors. Axon Evidence is the world's largest cloud-hosted data repository of law enforcement video data and other types of electronic evidence. In September 2019, we began shipping Axon Body 3, a camera with an LTE antenna and GPS chip, which supports real-time awareness.

3 PRODUCTIVITY

Our productivity suite of tools reduce time spent on paperwork. Axon Records takes a disruptive modern approach to displace legacy on-premises Records Management Systems (RMS) by putting body camera video at the heart of incident records. Axon Records includes Axon Standards, a radically simpler approach to use-of-force reporting. Another software solution in this suite, Axon Performance, helps agencies ensure that officers are adhering to agency policies, and provides analytics on the effectiveness of body-worn camera programs. And Redaction Assistant enables agencies to redact videos in a fraction of the time through the use of artificial intelligence (AI).

4 COMMUNICATIONS

We are developing communication tools that support real-time situational awareness through the sharing of information across various channels, including voice, messaging, location mapping, and intelligence and evidence sharing. Products include Axon Aware, which allows agencies to know the GPS location of their officers and what those officers are experiencing through live video streaming and more; and Axon Dispatch, the emergency dispatch solution we are bringing to market this year.

BY 2030, WE BELIEVE

TASER devices will be the primary means to stop a threat

AI-enabled body cameras will eliminate the majority of manual report writing

Cloud-enabled devices will be the primary means to dispatch officers in the field

Axon will be a household name by virtue of the transformative value we'll create for society and all of our stakeholders

RESULTS SUMMARY **Q4 2019**

\$172M

QUARTERLY REVENUE

Record quarterly revenue of \$172 million, up 50% year over year, included \$26 million of Axon Body 3 hardware shipments, and reflected a successful product launch.

OPERATING EXPENSES

Operating expenses of \$107 million included \$47.5 million in stock-based compensation expenses, including \$33 million of incremental "catch up" expense. Operating expenses excluding stock-based compensation declined sequentially, reflecting rigorous cost controls.

SG&A of \$78 million included \$40.2 million in stock-based compensation expenses, including \$29.9 million in "catch up" expenses. R&D of \$29 million included \$7.3 million in stock-based compensation expenses, including \$2.9 million in "catch up" expenses.

These "catch up" expenses are tied to Axon's CEO Performance Award and eXponential Stock Performance Plan ("XSPP"), for which six additional performance goals became probable of attainment during Q4 2019 due to our strengthened outlook, bringing the total number of performance goals that are statistically probable to nine.

GROSS MARGIN

Total company gross margin of 53.9% reflected a higher-than-usual mix of body camera hardware and TASER 7 cartridges, as expected. For more details, please see gross margin commentary by segment, below.

(\$0.21) \$0.41

GAAP EPS

NON-GAAP EPS

GAAP EPS was (\$0.21); Non-GAAP EPS of \$0.41 excludes non-cash stock-based compensation expense.

- / GAAP EPS includes the "catch-up" stock-based compensation expense referred to above.
- / For more details about Axon's innovative stock-based compensation plans, which were approved by shareholders and align the interests of management and employees with shareholders, please see our online FAQ .

\$38M

ADJ. EBITDA

Quarterly Adjusted EBITDA was a record \$38 million, representing 22% margin on revenue, and 48% incremental contribution margin. For the full year, adjusted EBITDA grew 43% to \$88 million.

\$396M

CASH & INVESTMENTS

Cash and investments grew \$43 million sequentially to approximately \$396 million. Axon's strong balance sheet, with zero debt, provides us with the latitude to continue growing our subscription contracts as a percentage of revenue.

FINANCIAL COMMENTARY

by segment

TASER

TASER revenue of \$84M grew 29% year over year, reflecting strong momentum in TASER 7, which began shipping in Q4 2018, and strong cartridge shipments in the quarter, reflecting our ability to meet a substantial demand backlog.

TASER gross margin declined, as expected, due to the mix of TASER 7 cartridges shipped in the quarter. We anticipate that segment gross margin will improve in 2020, building throughout the year, driven by product mix, continued TASER 7 program cost optimization and a reduction in discounts.

	THREE MONTHS ENDED			CHANGE	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	QoQ	YoY
NET SALES	\$ 84.0 M	\$ 71.7 M	\$ 65.3 M	17.0%	28.6%
GROSS MARGIN	60.5%	63.1%	65.0%	-260bp	-450bp

SOFTWARE & SENSORS

Axon Cloud revenue grew 43% and achieved gross margins of 76.1% in Q4 2019. This margin includes some low-to-no-margin professional services that support new installations for SaaS customers. The software-only revenue in this segment, which includes cloud storage and compute costs, has consistently carried a gross margin above 80%.

Strong revenue in the Sensors and Other category was driven by record body camera shipments of about 83,000 units, topping the previous record of nearly 29,000 units shipped in Q3 2017. (These unit figures exclude the Axon Flex line-of-sight camera, which attaches to an officer's sunglasses or hat brim.) Approximately 75% of Q4 2019 body camera unit shipments were Axon Body 3. We expect a significantly lower run-rate of body camera unit sales going forward.

Sensors and Other gross margin of 27% was in line with our expectations. As a reminder, we manage toward a 25% gross margin for camera and sensors hardware, and the gross margin will fluctuate quarter to quarter depending on the customer mix.

	THREE MONTHS ENDED			CHANGE	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	QoQ	YoY
NET SALES	\$ 36.8 M	\$ 34.0 M	\$ 25.8 M	8.2%	42.8%
GROSS MARGIN	76.1%	75.8%	74.5%	30bp	160bp
NET SALES	\$ 51.1 M	\$ 25.1 M	\$ 23.7 M	103.8%	115.4%
GROSS MARGIN	27.0%	36.4%	15.7%	-940bp	1,130bp

FORWARD-LOOKING

PERFORMANCE INDICATORS

	31 DEC 2019	30 SEP 2019	30 JUN 2019	31 MAR 2019	31 DEC 2018
Annual Recurring Revenue ¹	\$ 161 M	\$ 142 M	\$ 129 M	\$ 122 M	\$ 108 M
Total Company Future Contracted Revenue	\$ 1.23 B	\$ 1.13 B	\$ 1.05 B	\$ 0.93 B	\$ 0.9 B
% of TASER Devices Sold—Recurring Payment Plan	58%	55%	60%	42%	35%

¹Monthly recurring license, integration, warranty, and storage revenue annualized.

Annual recurring revenue grew 49% year over year to \$161 million, driven by strong adoption of our integrated software-heavy bundles and features.

We have substantially moved the needle on driving TASER subscriptions in the past year. Approximately 58% of all devices sold in Q4 were on a recurring payment plan, compared with 35% a year ago. In the United States, recurring payment plans accounted for 65% of new TASER contracts, with TASER 7 contracts driving subscriptions. This represents significant progress toward transitioning the TASER business to a subscription model.

Total company future contracted revenue grew to \$1.23 billion. This amount is limited to revenue from arrangements that meet the definition of a contract under Topic 606 as of December 31, 2019. We expect to recognize between 20% to 25% of this balance over the next 12 months and generally expect the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

Record quarterly software and sensors bookings of \$171 million were up 55% year over year. Going forward, we will not be disclosing this metric. It was introduced in the early days of our Software & Sensors business, and is no longer strategically relevant to evaluating the health of the segment. We believe that total company future contracted revenue is a more relevant and comprehensive forward-looking performance indicator, as it encompasses all company contracts, including TASER.

We ended the year with 465,200 users on the Axon network. Going forward, we are retiring this metric, which is declining in relevance as our business continues to evolve. We believe that annual recurring revenue provides a more useful measure of the health of the SaaS business we are building.

OUTLOOK

FOR THE FULL YEAR 2020, WE EXPECT TO ACHIEVE:

This is an exciting time for Axon and its customers—the products we are bringing to market are fundamentally improving public safety, creating massive societal value, and saving lives.

Thank you for joining us on this journey.



RICK SMITH
// CEO



LUKE LARSON
// PRESIDENT



JAWAD AHSAN
// CFO



- + Revenue in the range of \$615 million to \$625 million;
- / At the midpoint, this represents 17% year-over-year growth, and more than 20% year-over-year growth excluding the surge of Axon Body 3 hardware shipments in Q4 2019;
- / We anticipate that Q1 2020 revenue will increase approximately 13% year-over-year;
- / We anticipate that 2020 revenue will accelerate in the second half of the year, with a back-half weighting similar to 2019;
- + Adjusted EBITDA in the range of \$100 million to \$105 million;
- / Adjusted EBITDA guidance reflects modest gross margin improvement over 2019, which will be partially offset by camera hardware shipments to major city customers;
- / Adjusted EBITDA guidance reflects accelerated investments to take advantage of total addressable market expansion opportunities in new product categories, such as communications, and new customer categories, such as federal and corrections, as described above, and in building out systems for scale;
- / Adjusted EBITDA guidance excludes expected legal costs of up to \$15 million associated with litigation (<https://www.axon.com/ftc>) involving the FTC, which we intend to treat as an add-back to Adjusted EBITDA;
- / We expect Adjusted EBITDA margin of approximately 10% to 12% in Q1 2020;
- + We expect a normalized tax rate of 20% to 25%, which can fluctuate depending on geography of income and the effects of discrete items, including changes in our stock price;
- + We expect stock-based compensation expenses to be approximately \$85 million for the full year, which is subject to change depending on our assessment of the probability of attaining operational metrics for the CEO Performance Award and XSPP awards, and the expected timing of such attainment; and
- + We are closely monitoring our supply chain and operations in the context of the coronavirus crisis. Though the situation is dynamic, at this time, we believe the potential impact to Axon is reflected in our full-year guidance.

ESG¹ / CSR²

ADDENDUM

THE BIG PICTURE

Building a society
we want to live in.

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.

Everyone deserves to get home safely.
We are in the business of de-escalation—helping officers to respond effectively, and safely, in service of protecting life. Axon is the inventor of and the exclusive maker of TASER® devices, which are the safest and most effective less-lethal force option used in law enforcement today. In 2019, Axon launched virtual-reality based empathy training for law enforcement to better equip officers with the tools to de-escalate situations involving people suffering from mental health issues, crises or psychotic episodes.

Thanks to TASER devices, **225,085 lives have been saved from potential death or serious bodily injury.** These represent instances when lethal force might have been justified, and the less-lethal TASER device was deployed instead.

Axon is also a leading provider of body cameras for US law enforcement, providing more **transparency** and **accountability** to communities than ever before. We also invest heavily in AI, especially in areas such as redaction, which preserves the **right to freedom of information** for the community, while also protecting the **right to privacy** of individuals in body camera videos.

WHEN BODY CAMERAS ARE DEPLOYED



¹ Environmental, Social & Governance ² Corporate Social Responsibility ³ Mesa On-Officer Body Camera Field Study (2014)
⁴ Queensland Police Domestic Violence Case Study (2017)

Axon is proud to be developing products that address some of society's most entrenched problems. As a leading technology company for law enforcement, we believe we have the obligation to do so in a responsible way – one that **promotes transparency**, with **built in mechanisms for accountability**. Thus, we have assembled an **Axon AI and Policing Technology Ethics Board** that provides expert guidance to Axon on the development of its AI products and services, paying particular attention to its impact on communities. This **diverse board** includes leaders in the industry as well as some of the nation's most well-known thought leaders and legal scholars regarding policing, police reform, technology, racial equity and civil liberties. Read about them, here: www.axon.com/axon-ai-and-policing-technology-ethics

// —————



In June 2019, Axon made national news when we said we would not put facial recognition on our body cameras at this time because the technology is not reliable enough for widespread use.

And in October 2019, Axon again made headlines when we announced we would launch the industry's first AI-powered Automated License Plate Recognition (ALPR) system built from the ground up using an **ethical design and privacy-centric framework**.

"We have not, and will not ever sell public safety data. We believe the data is owned by public safety agencies and the communities they serve, and should not be resold to private entities whose interests may not be aligned with the public good." – Axon CEO and founder Rick Smith

Also in 2019, Smith published **The End of Killing**, a book meant to provide thought leadership on how to build a safer society. Smith's critical and creative thinking about solving challenges represents Axon's mission and **raison d'être**.

Continued Robust
Shareholder

ENGAGEMENT

Maintaining strong relationships with shareholders, as well as exhibiting good corporate governance, is a priority for Axon's management and Board of Directors. Axon strives to be as helpful as possible to its shareholders—regularly discussing our financial and operating performance, helping investors to understand the products we are developing and our customer segment, discussing the competitive landscape, and seeking feedback on executive compensation matters. We value shareholder feedback tremendously and strive to align employee interests with that of shareholders, and all stakeholders.



In 2019, Axon published four in-depth shareholder letters to outline management's strategy and augment our quarterly filings with the SEC, and hosted four investor earnings conference calls and made the transcripts available on investor.axon.com, so all shareholders can access the content without paying a fee, no matter how large or small their assets under management.



Axon actively maintains investor.axon.com with a calendar of events and easy access to all relevant documentation, and maintains special FAQ pages for topics about which investors might have questions.



In 2019, Axon hosted several investor events including the Axon Accelerate user conference in April, the Annual Meeting of Shareholders in May, and the International Association of Chiefs of Police Conference in October. Axon also participated in several investor conferences and, over the course of the year, hosted more than 300 one-on-one meetings or phone calls with shareholders.



In designing its 2019 executive and employee stock-based compensation plan, Axon engaged in dialogue with the analysts, portfolio managers, and corporate governance stewards at its largest shareholders, who each provided feedback that informed the ultimate design of the plan. For the employee version of the plan, the Board's compensation committee gathered feedback from Axon's largest shareholders and also applied careful consideration and judgment around issues shareholders cared about, ultimately adopting several shareholder friendly provisions in the plan, including an anti-dilution provision.

DIVERSITY & INCLUSION

Efforts
Continued
& Expanded

In 2019, Axon welcomed **Caitlin Kalinowski**, the head of hardware at Oculus VR, to the Axon Board of Directors, bringing total board leadership to two women and six men.

Axon management also values open communication and transparency with employees—and holds four formal company-wide updates per year, as well as engages in a series of meetings known as Axon Connects, and AMAs (ask me anythings), which highlight a specific leader or area of the business and allow all employees to ask open-ended questions.



Axon recently expanded its adoption of inclusive building design principles, employing a firm to construct coverings on the open stair risers at the building headquarters. Axon's Seattle leadership also opened an additional private mother's room at the company's global software hub.

2019 AWARDS & ACHIEVEMENTS

/ **Most Admired Companies**
Arizona Business Magazine

/ **Best Workplaces in Washington**
Puget Sound Business Journal

/ **Best Company Outlook**
Comparably.com

Axon recognizes mental health and well-being as a diversity issue, and promotes these concepts through a series of events, programs and classes throughout the year that are attended by Axon employees together.

/ Axon employees have created at least four affinity groups allowing employees to connect with other individuals sharing similar identities and interests, including Axon LGBT & Allies, Women at Axon, Veterans at Axon, and an Accessibility Group for differently-abled design considerations.

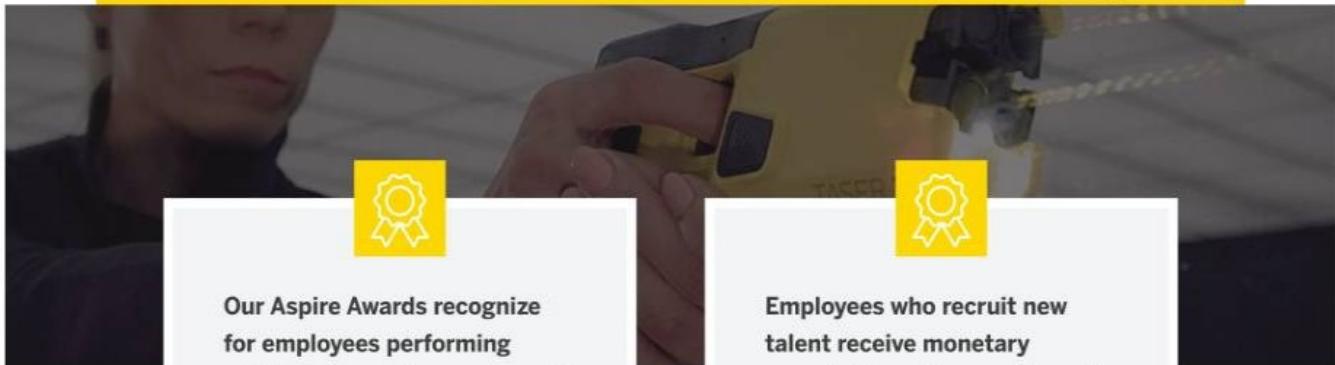
/ Axon is tracking to its goal of hosting two D&I employee training sessions, leveraging an external D&I specialist, plus kicked off bi-monthly teaching events leveraging D&I training materials.

/ Axon strives to be a fun place to work, and hosts a series of engaging events throughout the year designed to value the whole self of individual employees, foster a sense of well-being at work, and enhance employee leadership development. Many cross-functional Axon employees participate in an immersive team-building and leadership development program hiking the Grand Canyon. Axon once again hosted Axon Kids Day in 2019, allowing parents to bring their children to work and engage in activities including cookies with a cop, playing in Axon Fleet cars, and other fun events. The Seattle office was treated to a formal "snow day," which was a company-sponsored ski, snowboard and snow-shoeing trip.

Axon's family-friendly leave policies are industry-leading – including up to 20 weeks of maternity leave, and 10 weeks of paternity leave. Axon also offers unlimited paid time off, allowing employees to better manage their lives as well as their jobs. For more info, visit global.axon.com/parental-leave-policy

ENHANCED REWARDS

Programs
Continued
& Expanded



Our Aspire Awards recognize
for employees performing
outstanding work company wide



Employees who recruit new
talent receive monetary
awards through our enhanced
referral program



The President's Club provides
recognition for Axon's sales
force for hitting & exceeding
sales goals



Axon developed and is providing
robust manager training
company-wide

SUSTAINABILITY

Programs
Continued
& Expanded

- ⊕ We have introduced a wire/spool recycling program for our TASER devices
- ⊕ Axon has set a goal to reduce employee air travel and has deployed Zoom video conferencing company-wide
- ⊕ In 2019, Axon provided re-usable water bottles to Scottsdale employees to reduce plastic use, following the Seattle office's efforts to reduce plastic

QUARTERLY CONFERENCE CALL

We will host our Q4 2019 earnings conference call on February 27 at 2 p.m. PT / 5 p.m. ET.

The call will be available via live audio webcast and archived replay on Axon's investor relations website at investor.axon.com

STATISTICAL DEFINITIONS

Software and Sensors bookings are an indication of the activity the Company is seeing relative to Software and Sensors hardware, software and Axon Evidence. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales), including contractual optional periods we expect to be exercised, net of cancellations, inclusive of renewals, placed in the relevant fiscal period, regardless of when the products or services ultimately will be provided. Most bookings will be invoiced in subsequent periods.

Due to municipal government funding rules, in some cases certain of the future period amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although Axon has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be fulfilled, if agencies do not exercise contractual options, do not appropriate money in future year budgets or do enact a cancellation clause, revenue associated with these bookings may not ultimately be recognized, resulting in a future reduction to bookings.

NON-GAAP MEASURES

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

To supplement the Company's financial results presented in accordance with GAAP, we present the non-GAAP financial measures of EBITDA, Adjusted EBITDA, Non-GAAP Net Income, Non-GAAP Diluted Earnings Per Share and Free Cash Flow. The Company's 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 its performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented herein.

- / EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation and amortization.
- / Adjusted EBITDA (Most comparable GAAP Measure: Net income) - Earnings before interest expense, investment interest income, income taxes, depreciation, amortization, non-cash stock-based compensation expense and pre-tax certain other items (described below).
- / Non-GAAP Net Income (Most comparable GAAP Measure: Net income) - Net income excluding the costs of non-cash stock-based compensation and excluding pre-tax certain other items, including, but not limited to, net gain/loss/write-down/disposal/abandonment of property, equipment and intangible assets; loss on impairment; and costs related to business acquisitions. The Company tax-effects non-GAAP adjustments using the blended statutory federal and state tax rates for each period presented.
- / Non-GAAP Diluted Earnings Per Share (Most comparable GAAP Measure: Earnings Per share) - Measure of Company's Non-GAAP Net Income divided by the weighted average number of diluted common shares outstanding during the period presented.
- / Free Cash Flow (Most comparable GAAP Measure: Cash flow from operating activities) - cash flows provided by operating activities minus purchases of property and equipment, intangible assets and cash flows related to business acquisitions.

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 or 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

Axon is a network of devices, apps and people that helps public safety personnel become smarter and safer. With a mission of protecting life, our technologies give customers the confidence, focus and time they need to keep their communities safe. Our products impact every aspect of a public safety officer's day-to-day experience.

We work hard for those who put themselves in harm's way for all of us. More than 225,000 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.**

Facebook is a trademark of Facebook, Inc.; Oculus Pro and Oculus Rift are trademarks of Facebook Technologies, LLC; LTE is a trademark of the European Telecommunications Standards Institute; and Twitter is a trademark of Twitter, Inc.

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FORWARD LOOKING

STATEMENTS

These forward-looking statements include, without limitation, statements regarding: proposed products and services and related development efforts and activities; expectations about the market for our current and future products and services; expectations about customer behavior; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management's strategies, goals and objectives and other similar expressions; as well as the ultimate resolution of financial statement items requiring critical accounting estimates, including those set forth in our Form 10-K for the year ended December 31, 2019. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as "may," "will," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. The following important factors could cause actual results to differ materially from those in the forward-looking statements: customer purchase behavior, including adoption of our software as a service delivery model; the impact of product mix on projected gross margins; our ability to manage our supply chain and avoid production delays, shortages, and impacts to expected gross margins; changes in the costs of product components and labor; defects in our products; delayed cash collections and possible credit losses due to our subscription model; exposure to international operational risks; our ability to design, introduce and sell new products or features; our ability to defend against litigation and protect our intellectual property, and the resulting costs of this activity; our exposure to cancellations of government contracts due to appropriation clauses, exercise of a cancellation clause, or non-exercise of contractually optional periods; loss of customer data, a breach of security or an extended outage, including our reliance on third party cloud-based storage providers; negative media publicity regarding our products; changes in government regulations in the U.S. and in foreign markets, especially related to the classification of our product by the United States Bureau of Alcohol, Tobacco, Firearms and Explosives and to evolving regulations surrounding privacy and data protection; our ability to integrate acquired businesses; our ability to attract and retain key personnel; and counter-party risks relating to cash balances held in excess of FDIC insurance limits. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. Our Annual Report on Form 10-K lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading "Risk Factors" in the Annual Report on Form 10-K and in the Quarterly Report on Form 10-Q, and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the SEC.

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investor.axon.com // axon.com/press // [f /Axon.ProtectLife](https://www.facebook.com/Axon.ProtectLife) // [@ /axon_us](https://twitter.com/axon_us)

where Axon discloses information about the company, its financial information, and its business.

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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Net sales from products	\$ 134,497	\$ 96,497	\$ 89,017	\$ 399,474	\$ 327,635
Net sales from services	37,354	34,340	25,774	131,386	92,433
Net sales	171,851	130,837	114,791	530,860	420,068
Cost of product sales	70,418	42,445	42,863	190,683	139,337
Cost of service sales	8,793	8,223	6,582	32,891	22,148
Cost of sales	79,211	50,668	49,445	223,574	161,485
Gross margin	92,640	80,169	65,346	307,286	258,583
Operating expenses:					
Sales, general and administrative	78,281	48,424	42,099	212,959	156,886
Research and development	28,745	25,129	21,254	100,721	76,856
Total operating expenses	107,026	73,553	63,353	313,680	233,742
Income (loss) from operations	(14,386)	6,616	1,993	(6,394)	24,841
Interest and other income, net	2,486	1,820	1,021	8,464	3,263
Income (loss) before provision for income taxes	(11,900)	8,436	3,014	2,070	28,104
Provision for (benefit from) income taxes	479	2,332	931	1,188	(1,101)
Net income (loss)	<u>\$ (12,379)</u>	<u>\$ 6,104</u>	<u>\$ 2,083</u>	<u>\$ 882</u>	<u>\$ 29,205</u>
Net income (loss) per common and common equivalent shares:					
Basic	\$ (0.21)	\$ 0.10	\$ 0.04	\$ 0.01	\$ 0.52
Diluted	\$ (0.21)	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.50
Weighted average number of common and common equivalent shares outstanding:					
Basic	59,374	59,278	58,502	59,190	56,392
Diluted	60,257	60,059	59,665	60,018	57,922



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

	THREE MONTHS ENDED 31 DEC 2019			THREE MONTHS ENDED 30 SEP 2019			THREE MONTHS ENDED 31 DEC 2018		
	Software and Sensors		Total	Software and Sensors		Total	Software and Sensors		Total
	TASER			TASER			TASER		
Net sales from products ⁽¹⁾	\$ 83,406	\$ 51,091	\$134,497	\$ 71,424	\$ 25,073	\$ 96,497	\$65,301	\$ 23,716	\$ 89,017
Net sales from services ⁽²⁾	549	36,805	37,354	319	34,021	34,340	—	25,774	25,774
Net sales	83,955	87,896	171,851	71,743	59,094	130,837	65,301	49,490	114,791
Cost of product sales	33,144	37,274	70,418	26,504	15,941	42,445	22,874	19,989	42,863
Cost of service sales	—	8,793	8,793	—	8,223	8,223	—	6,582	6,582
Cost of sales	33,144	46,067	79,211	26,504	24,164	50,668	22,874	26,571	49,445
Gross margin	50,811	41,829	92,640	45,239	34,930	80,169	42,427	22,919	65,346
Gross margin %	60.5%	47.6%	53.9%	63.1%	59.1%	61.3%	65.0%	46.3%	56.9%
Research and development	4,185	24,560	28,745	3,485	21,644	25,129	5,196	16,058	21,254

	TWELVE MONTHS ENDED 31 DEC 2019			TWELVE MONTHS ENDED 31 DEC 2018		
	Software and Sensors		Total	Software and Sensors		Total
	TASER			TASER		
Net sales from products ⁽¹⁾	\$ 280,554	\$ 118,920	\$ 399,474	\$ 253,115	\$ 74,520	\$ 327,635
Net sales from services ⁽²⁾	1,107	130,279	131,386	—	92,433	92,433
Net sales	281,661	249,199	530,860	253,115	166,953	420,068
Cost of product sales	107,188	83,495	190,683	80,354	58,983	139,337
Cost of service sales	—	32,891	32,891	—	22,148	22,148
Cost of sales	107,188	116,386	223,574	80,354	81,131	161,485
Gross margin	174,473	132,813	307,286	172,761	85,822	258,583
Gross margin %	61.9%	53.3%	57.9 %	68.3%	51.4%	61.5%
Research and development	14,469	86,252	100,721	17,012	59,844	76,856

⁽¹⁾ Software and Sensors “products” revenue consists of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue.

⁽²⁾ Software and Sensors “services” revenue comprises sales related to the Axon Cloud, which includes Axon Evidence, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services, and is sometimes referred to as Axon Cloud revenue.



AXON ENTERPRISE, INC.
UNIT SALES STATISTICS
(Uaudited)
Units in whole numbers

	THREE MONTHS ENDED				TWELVE MONTHS ENDED 31 DEC			
	31 DEC 2019	31 DEC 2018	Unit Change	Percent Change	31 DEC 2019	31 DEC 2018	Unit Change	Percent Change
TASER 7	14,577	5,759	8,818	153.1%	49,221	5,759	43,462	754.7%
TASER X26P	13,554	18,597	(5,043)	(27.1)	48,798	71,823	(23,025)	(32.1)
TASER X2	11,534	13,088	(1,554)	(11.9)	40,973	65,855	(24,882)	(37.8)
TASER Pulse and Bolt	2,978	7,490	(4,512)	(60.2)	11,785	18,398	(6,613)	(35.9)
Cartridges	962,519	600,690	361,829	60.2	2,751,603	2,342,897	408,706	17.4
Axon Body	83,268	26,167	57,101	218.2	151,499	85,965	65,534	76.2
Axon Flex	3,078	5,080	(2,002)	(39.4)	15,586	15,541	45	0.3
Axon Fleet	3,324	3,908	(584)	(14.9)	10,467	9,445	1,022	10.8
Axon Dock	10,149	3,859	6,290	163.0	22,275	17,762	4,513	25.4
TASER Cam	1,177	1,952	(775)	(39.7)	5,533	8,310	(2,777)	(33.4)



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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	
EBITDA and Adjusted EBITDA:						
Net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205	
Depreciation and amortization	3,165	2,709	2,389	11,361	10,615	
Interest expense	19	4	33	46	86	
Investment interest income	(1,760)	(1,647)	(1,076)	(7,040)	(3,002)	
Provision for (benefit from) income taxes	479	2,332	931	1,188	(1,101)	
EBITDA	\$ (10,476)	\$ 9,502	\$ 4,360	\$ 6,437	\$ 35,803	
Adjustments:						
Stock-based compensation expense	\$ 48,300	\$ 13,663	\$ 6,577	\$ 78,495	\$ 21,879	
Transaction costs and adjustments related to business acquisition	—	—	—	—	1,382	
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117	
Loss on disposal and impairment of property and equipment, net	134	845	13	2,542	303	
Costs related to FTC litigation	240	—	—	240	—	
Adjusted EBITDA	\$ 38,214	\$ 24,043	\$ 10,964	\$ 87,781	\$ 61,484	
Net income (loss) as a percentage of net sales	(7.2)%	4.7%	1.8%	0.2%	7.0%	
Adjusted EBITDA as a percentage of net sales	22.2 %	18.4%	9.6%	16.5%	14.6%	
Stock-based compensation expense:						
Cost of product and service sales	\$ 790	\$ 312	\$ 152	\$ 1,565	\$ 511	
Sales, general and administrative	40,212	9,508	3,927	59,342	12,710	
Research and development	7,298	3,843	2,498	17,588	8,658	
Total	\$ 48,300	\$ 13,663	\$ 6,577	\$ 78,495	\$ 21,879	



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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	
Non-GAAP net income:						
GAAP net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205	
Non-GAAP adjustments:						
Stock-based compensation expense	48,300	13,663	6,577	78,495	21,879	
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117	
Loss on disposal and impairment of property and equipment, net	134	845	13	2,542	303	
Transaction costs and adjustments related to business acquisition	—	—	—	—	1,382	
Costs related to FTC litigation	240	—	—	240	—	
Income tax effects	(11,863)	(3,654)	(1,737)	(20,068)	(6,366)	
Income tax benefit of CEO stock option exercise	—	—	(2,321)	—	(5,683)	
Non-GAAP net income	<u>\$ 24,448</u>	<u>\$ 16,991</u>	<u>\$ 4,629</u>	<u>\$ 62,158</u>	<u>\$ 42,837</u>	
	THREE MONTHS ENDED			TWELVE MONTHS ENDED		
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	
Non-GAAP diluted earnings per share:						
GAAP diluted earnings per share	\$ (0.21)	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.50	
Non-GAAP adjustments:						
Stock-based compensation expense	0.80	0.23	0.11	1.31	0.38	
Loss on disposal and abandonment of intangible assets	0.00	0.00	0.00	0.00	0.04	
Loss on disposal and impairment of property and equipment, net	0.00	0.01	0.00	0.04	0.01	
Transaction costs and adjustments related to business acquisition	—	—	—	—	0.02	
Costs related to FTC litigation	0.00	—	—	0.00	—	
Income tax effects	(0.20)	(0.06)	(0.03)	(0.33)	(0.11)	
Income tax benefit of CEO stock option exercise	—	—	(0.04)	—	(0.10)	
Non-GAAP diluted earnings per share ⁽¹⁾	<u>\$ 0.41</u>	<u>\$ 0.28</u>	<u>\$ 0.08</u>	<u>\$ 1.04</u>	<u>\$ 0.74</u>	
Weighted average number of diluted common and common equivalent shares outstanding (in thousands)	60,257	60,059	59,665	60,018	57,922	

⁽¹⁾ The per share calculations for GAAP net income, Non-GAAP adjustments and Non-GAAP diluted earnings per share are each computed independently. Per share amounts may not sum due to rounding.



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

	31 DEC 2019 (Unaudited)	31 DEC 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 172,250	\$ 349,462
Short-term investments	178,534	—
Accounts and notes receivable, net	146,878	130,579
Contract assets, net	47,718	13,960
Inventory, net	38,845	33,763
Prepaid expenses and other current assets	34,866	30,391
Total current assets	619,091	558,155
Property and equipment, net	43,770	37,893
Deferred tax assets, net	27,688	19,347
Intangible assets, net	12,771	15,935
Goodwill	25,013	24,981
Long-term investments	45,499	—
Long-term notes receivable, net of current portion	31,598	40,230
Other assets	40,209	22,999
Total assets	\$ 845,639	\$ 719,540
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	25,874	15,164
Accrued liabilities	45,001	41,092
Current portion of deferred revenue	117,864	107,016
Customer deposits	2,974	2,702
Other current liabilities	3,853	37
Total current liabilities	195,566	166,011
Deferred revenue, net of current portion	87,936	74,417
Liability for unrecognized tax benefits	3,832	2,849
Long-term deferred compensation	3,936	3,235
Deferred tax liability	354	—
Other long-term liabilities	10,520	5,704
Total liabilities	302,144	252,216
Stockholders' Equity:		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	528,272	453,400
Treasury stock	(155,947)	(155,947)
Retained earnings	172,265	171,383
Accumulated other comprehensive loss	(1,096)	(1,513)
Total stockholders' equity	543,495	467,324
Total liabilities and stockholders' equity	\$ 845,639	\$ 719,540



AXON ENTERPRISE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Cash flows from operating activities:					
Net income (loss)	\$ (12,379)	\$ 6,104	\$ 2,083	\$ 882	\$ 29,205
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	3,165	2,709	2,389	11,361	10,615
Loss on disposal and abandonment of intangible assets	16	33	14	67	2,117
Loss (gain) on disposal and impairment of property and equipment, net	134	845	13	2,542	303
Stock-based compensation	48,300	13,663	6,577	78,495	21,879
Deferred income taxes	(4,041)	(2,635)	(1,266)	(7,987)	(3,592)
Unrecognized tax benefits	389	(19)	1,045	983	1,144
Other noncash, net	1,005	1,101	—	3,928	34
Change in assets and liabilities:					
Accounts and notes receivable and contract assets	(8,333)	(19,491)	(16,471)	(38,830)	(67,643)
Inventory	1,399	1,213	5,771	(4,903)	14,804
Prepaid expenses and other assets	2,122	(6,206)	(658)	(9,845)	(12,739)
Accounts payable, accrued liabilities and other liabilities	18,495	3,224	9,200	4,967	13,506
Deferred revenue	(4,463)	21,899	22,542	24,013	54,242
Net cash provided by operating activities	45,809	22,440	31,239	65,673	63,875
Cash flows from investing activities:					
Purchases of investments	(111,784)	(100,701)	—	(354,477)	(4,331)
Proceeds from call / maturity of investments	37,876	66,888	500	130,083	11,158
Purchases of property and equipment	(3,828)	(4,250)	(4,259)	(15,939)	(11,139)
Purchases of intangible assets	(76)	16	(98)	(404)	(558)
Business acquisitions, net of cash acquired	—	—	—	—	(4,990)
Net cash used in investing activities	(77,812)	(38,047)	(3,857)	(240,737)	(9,860)
Cash flows from financing activities:					
Net proceeds from equity offering	—	—	—	—	233,993
Proceeds from options exercised	8	2	1,044	114	1,757
Income and payroll tax payments for net-settled stock awards	(783)	(1,136)	(2,154)	(4,051)	(14,127)
Payment of contingent consideration for business acquisitions	—	—	(1,700)	—	(2,275)
Net cash provided by (used in) financing activities	(775)	(1,134)	(2,810)	(3,937)	219,348
Effect of exchange rate changes on cash and cash equivalents					
Net increase (decrease) in cash and cash equivalents and restricted cash	1,007	(426)	(393)	329	(774)
Cash and cash equivalents, beginning of period	204,126	221,293	326,848	351,027	78,438
Cash and cash equivalents, end of period	<u>\$ 172,355</u>	<u>\$ 204,126</u>	<u>\$ 351,027</u>	<u>\$ 172,355</u>	<u>\$ 351,027</u>



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

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	31 DEC 2019	30 SEP 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Net cash provided by operating activities	\$ 45,809	\$ 22,440	\$ 31,239	\$ 65,673	\$ 63,875
Purchases of property and equipment	(3,828)	(4,250)	(4,259)	(15,939)	(11,139)
Purchases of intangible assets	(76)	16	(98)	(404)	(558)
Cash flows related to business acquisitions	—	—	—	—	(4,990)
Free cash flow, a non-GAAP measure	<u>\$ 41,905</u>	<u>\$ 18,206</u>	<u>\$ 26,882</u>	<u>\$ 49,330</u>	<u>\$ 47,188</u>



AXON ENTERPRISE, INC.
SUPPLEMENTAL TABLES
(in thousands)

	31 DEC 2019 (Unaudited)	31 DEC 2018
Cash and cash equivalents	\$ 172,250	\$ 349,462
Short-term investments	178,534	—
Long-term investments	45,499	—
Total cash and cash equivalents and investments	<u>\$ 396,283</u>	<u>\$ 349,462</u>



