

Axon Enterprise (NASDAQ: AXON) | TEV: \$45B | Price: \$568 (NTM TEV/S: 13.3x)

Axon dominates non-lethal public safety with a platform integrating hardware (TASER, body cams, in-vehicle ALPR) and cloud-native digital evidence management (DEMS) plus AI upsells. Devices are 57% of revenue (~50% GM); software and services are 43% (~75% GM). Bundled 5-year contracts drive recurring revenue (96% ARR, ~75% software). The stock is down ~35% from 2025 highs on beta and Q3 2025 US bookings timing. The market is still pricing Axon as lumpy hardware despite +41% accelerating software ARR and mix shifting toward recurring, high-margin software, now 53% of total gross profits (Q3 2025).

Investment hypothesis

1. Axon has structural power in law enforcement, an anticyclical market, with a patented TASER monopoly and installed base driving land-and-expand (124% NRR). The ecosystem creates switching costs and pricing power with low-friction cross-sell. AI tools like Draft One increase attach, support renewal wins, and expand contract value. Axon's cloud-native stack, LTE-connected body cams, and relationships with 18K+ US agencies (IM+ end users, <1% of budgets) position it to continue out-executing Motorola and other legacy vendors, while extending its platform advantages into adjacent workflows (e.g., call centers).
2. Axon has low marginal cost, high-upside optionality with a clear economic path, leveraging amortized R&D and customer relationships: (1) international expansion (16% of sales, +69% TT) with similar procurement dynamics; (2) OSP plans adding AI and services with up to 5x ARPU uplift across tiers; (3) enterprise adoption of Axon Body Workforce mini (ABW) + DEMS in retail, healthcare, corrections, security, federal. Additional options include citywide ALPR networks, Fusus/DFR, Axon 911, and a potential civilian TASER launch in 2026.

What is the market missing? Why is it good value, and what are the catalysts?

- The market is underestimating the duration of >30% growth (also indicated by President Josh Isner in Q3 2025) and margin expansion due to software and AI mix increases.
- Base/bull: with 30% sales CAR for 5 years, Axon reaches -\$10B in sales. At 30% FCF margin potential (net SBC), that is ~\$3B in earning power. At 40-80x, TEV is ~\$120-240B (22%-40% CAGR), with upside if optionality inflects, e.g., Walmart alone could add ~\$0.2-1.0B net new ARR (7%-33% of store employees at \$154/user/month) vs Axon's \$2.5B TTM sales.
- Catalysts: Q4 2025 US bookings, large enterprise wins (Walmart could close by Q2 2026), international acceleration, accelerating KPIs (ARR, bookings), AI revenue disclosure.

What invalidates my thesis, downside scenario, key risks

- Weak execution and adoption: major contract losses to competition and/or weak uptake driving KPI deceleration (ARR, Future Contracted Bookings, NRR) would invalidate the thesis.
- 12-month downside: a de-rate to 15-20x trough EV/gross profit implies ~\$25-35B TEV (20%-45% downside), requiring a growth scare, execution miss, or risk-off market scenario.
- Key risks: budget delays, execution complexity, regulatory shocks affecting procurement; AI disclosure/regulation could slow adoption.