

AXON ENTERPRISE INC. (AXON)

October 21, 2024

Industrial Manufacturing

Stock Rating

HOLD

Investment Thesis

Axon provides law enforcement with an integrated ecosystem of hardware and software solutions. Hardware includes TASERs, body cameras, fleet cameras, drones, and sensors. Software consists of three platforms: Evidence, Records, and Respond. Our investment thesis centers on software services growth. Software licenses generate higher margins than hardware. We expect improved top and bottom-line performance as software becomes the dominant revenue driver. Despite our positive sentiments, the market fairly values Axon's stock, providing investors with limited upside. For this reason, we recommend no action at current market prices.

Drivers of Thesis

- **Software services are expected to drive future growth**, increasing from 38 percent of sales in FY23 to 60 percent in FY33. As a higher-margin segment, services will enhance revenue and profitability, with gross margins projected to rise from 61 to 67 percent over this period.
- **Public mandates for police accountability and transparency** serve as enduring tailwinds, fueling demand for Axon's products, such as body cameras, which are currently used by 82 percent of U.S. law enforcement agencies. This, in turn, reinforces Axon's integrated hardware-software ecosystem.
- **Axon's existing body camera fleet provides a valuable source of training data** for AI and machine learning algorithms. Leveraging this data will enhance Axon's AI capabilities, making its software services more compelling. We expect AI to be a cornerstone of Axon's future.

Risks to Thesis

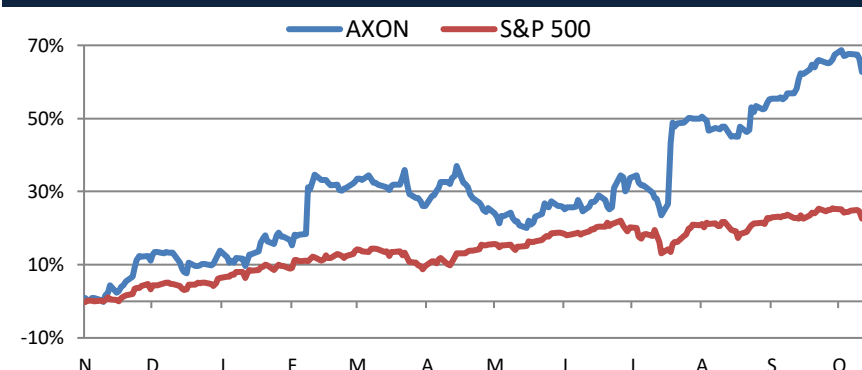
- **Slower-than-expected growth in software services poses a significant risk.** The investment thesis heavily depends on services becoming the primary revenue driver, projected to reach 60 percent of total sales by 2033. Any delays in software adoption, pricing pressure, or competition could result in lower-than-expected margins, hurting overall profitability and potentially leading to a downward revision of our growth assumptions.

Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	\$(0.93)	\$2.07	\$2.34	\$3.95	\$4.84	\$7.04
Consensus				\$4.82	\$5.93	\$7.25
Growth		322.6%	13.0%	62.7%	27.1%	45.4%

12 Month Performance

Company Description



Target Price

\$410 - 430

Henry Fund DCF	\$433
Henry Fund DDM	\$135
Relative Multiple	\$143

Price Data

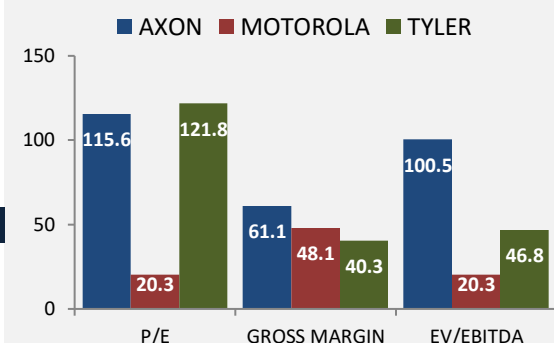
Current Price	\$438
52wk Range	\$199 – 441
Consensus 1yr Target	\$390

Key Statistics

Market Cap (B)	\$33.1
Shares Outstanding (M)	75.6
Institutional Ownership	83.8%
Beta	1.32
Dividend Yield	0.0%
Est. 5yr Growth	15.9%
Price/Earnings (TTM)	115.6
Price/Earnings (FY1)	90.5
Price/Sales (TTM)	18.5
Price/Book (mrq)	17.2

Profitability

Operating Margin	9.9%
Profit Margin	11.1%
Return on Assets (TTM)	5.5%
Return on Equity (TTM)	12.1%



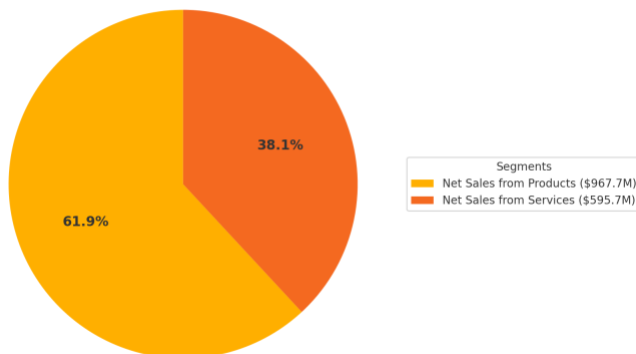
Axon Enterprise, Inc. provides public safety technology, focusing on developing integrated hardware and software solutions for law enforcement, federal agencies, and enterprise security. Axon's products range from TASER conducted energy devices to body cameras and digital evidence management systems. Software services are becoming a larger share of sales and improving profitability.

COMPANY DESCRIPTION

Axon sells law enforcement and public safety agencies an integrated ecosystem of non-lethal hardware, cameras, and software services. The Company's hardware portfolio includes TASER conducted energy devices (CEDs), body-worn cameras (BWCs), in-car video systems, drones, and other sensors to enhance situational awareness and improve police accountability. Axon's software services include a cloud-based digital evidence management platform and a real-time operations platform. Axon's hardware-software synergies generate a profitable, sticky ecosystem with high switching costs. Using an Axon body camera or TASER device becomes more valuable with a subscription to Axon's software services. This creates a strong incentive for customers to buy Axon products when evaluating future hardware options. Axon has \$7.4 billion in future contracted revenue (as of the end of Q2 FY24) and expects to recognize between 15 to 25 percent over the next 12 months.⁶

Revenue Segments

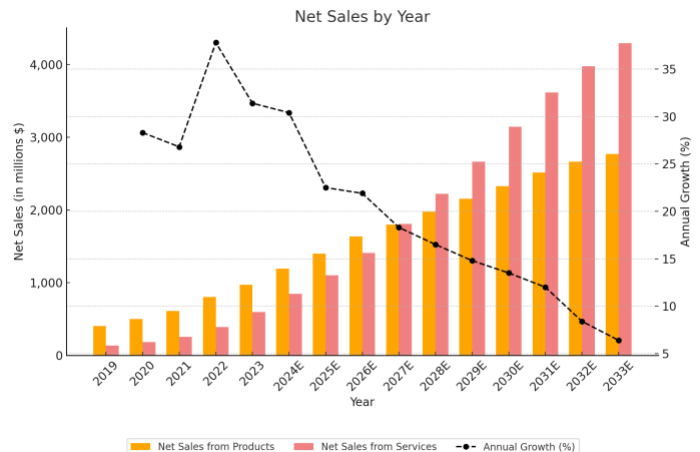
Sales by Segment 2023



Source: [Axon 10-K \(2023\)](#)

Axon reports two segments: products and services. The products segment accounted for 62 percent of sales in 2023, contributing a gross margin of 60.5 percent. We expect steady growth over the forecasted period. The services segment represents a minority of sales at 38 percent in 2023 but is growing rapidly. We forecast faster and sustained growth for this segment, with services increasing as a percentage of total sales. Services maintain a relatively higher gross margin at 72.6 percent and provide Axon with recurring revenue. By 2033, we forecast a 40/60 split between products and services revenue,

respectively. The shifting mix towards higher margin services contributes to strong operating leverage, increasing overall profitability. The graphic below illustrates historical and forecasted sales through 2033. Our model forecasts positive yet decelerating growth through 2033. We expect services to overtake product sales in 2028.



Source: [Axon 10-K \(2023\)](#)

Products

The products segment includes TASER devices, cartridges, body cameras (and related accessories), fleet video cameras, and a catch-all "other" category comprising smaller revenue ventures like aerial drones and VR.

Our model incorporates the following five-year growth assumptions for the products segment:

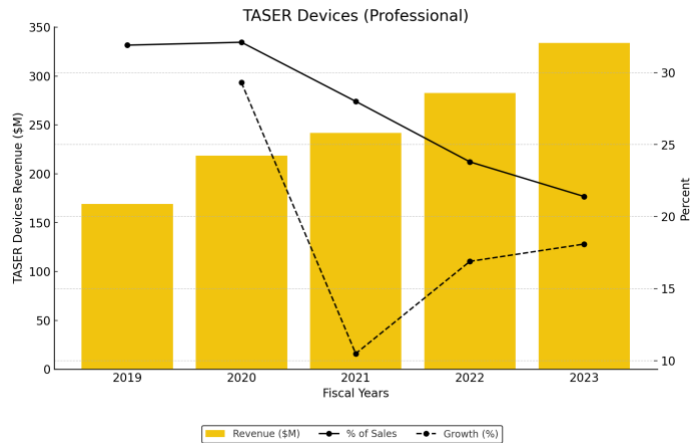
	2024	2025	2026	2027	2028
HF	23%	18%	16%	10%	10%
Consensus	23%	17%	16%	-	-

Source: [FactSet](#)

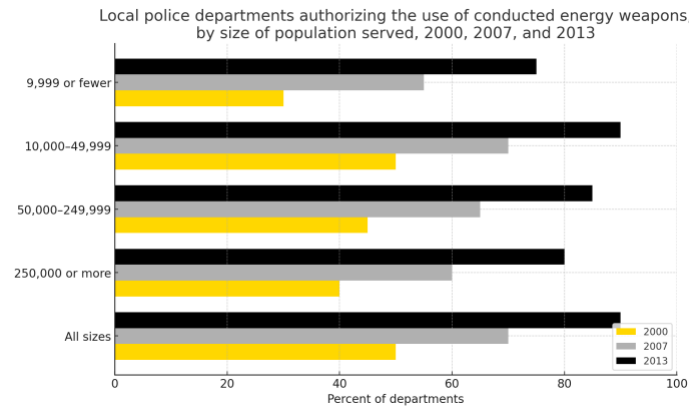
TASER Devices (Professional): TASER is Axon's brand of conducted energy devices (CEDs), a non-lethal alternative to firearms. CEDs fire electrical charges via disposable cartridges that temporarily incapacitate individuals. Over 15,000 law enforcement and military agencies use CEDs.¹⁷

Between 2000 and 2013, the share of local police departments permitting officers to use TASERs and other CEDs rose from 7 to 81 percent.¹⁴ The graphic below shows the authorized use of CEDs by population size. The data shows a clear trend towards greater CED adoption across all population sizes. Safety benefits are a chief reason for this trend. In the field, studies show overall officer injury

rates declined after the introduction of CEDs and also reduced the rate of suspect injury by 70 percent compared to physical force methods.^{15, 16}



Source: [Axon 10-K \(2023\)](#)



Source: [Bureau of Justice Statistics](#)

Axon's TASER 10 (see below) features a new propulsion system, enabling multiple shots at extended ranges compared to older models. TASER 10 has a maximum range of 45 feet and can discharge 10 individually targeted probes before reloading.³ Axon's TASER lineup includes other CEDs that differ in range, cartridge size, and other features.

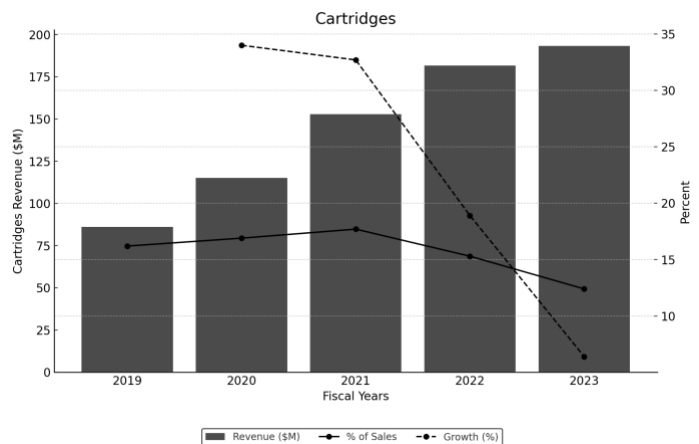


Source: [AUSA](#)

TASER devices contributed \$334 million or 21.4 percent of total sales in 2023.¹ The TASER devices segment grew 18.1 percent YoY, trailing overall sales growth of 31.1 percent. Through the first half of FY24, TASER devices sales totaled \$203.3 million or 21.1 percent of sales (down 30 bps from FY23). We could not find specific data for Axon's share of the CED market, but according to The Verge, Axon is a "taser monopoly" with an "overwhelming majority of United States police departments carry[ing] Axon's tasers."¹⁴ Sustained public demand for non-lethal deterrence in light of controversial uses of force in recent years serves as a long-term demand driver.

Cartridges: Axon's TASER devices rely on single-use cartridges that contain the electrical probes needed to operate. Customers must purchase cartridges separately, either in bulk or through unlimited purchase agreements with Axon. This arrangement provides recurring revenue, with customers needing to restock cartridges to keep their devices operational.

Axon generated \$193.3 million in cartridge sales in 2023, representing 12.4 percent of total sales. The cartridge segment grew 6.4 percent last year, a sharp deceleration from 2022's 18.9 percent growth rate. Bulk cartridge purchases can result in irregular growth rates for this product segment. In the first half of FY24, Axon sold \$121.6 million in cartridges, equivalent to 12.6 percent of sales.⁶ Over the long term, we expect cartridge sales to remain steady and grow at a rate consistent with TASER devices.



Source: [Axon 10-K \(2023\)](#)

Axon Body Cameras and Accessories: Axon sells body-worn cameras (BWCs) designed to increase accountability. The top-line model, Axon Body 4, has a high-definition

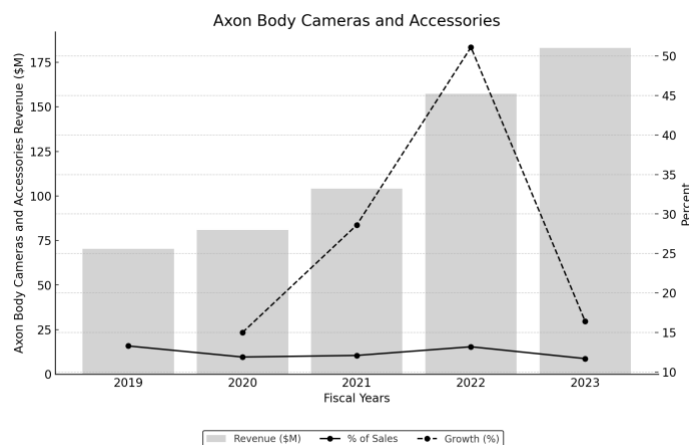
camera, expanded field of view, battery life to sustain a full shift, livestreaming support, and real-time location data. Axon sells older models with reduced functionality.¹

Axon's primary customers for body cameras are law enforcement agencies, U.S. federal agencies, corrections, fire and emergency personnel, attorneys (litigation, evidentiary discovery), and the U.S. military.¹ Potential customers include private security, healthcare, public transportation, and insurance companies.

The public's demand for transparency and improved accountability are drivers of BWC adoption across all law enforcement agencies in the U.S. A recent survey found that 82 percent of agencies in the U.S. use BWCs.¹⁸

The video data collected on Axon's BWCs is extremely valuable for training AI. Scaling laws forecast improved model performance the more training data used. Axon can leverage its vast number of BWCs to capture data at scale, thereby improving the performance of its AI. Customers must provide consent to use the data.

Body cameras and accessories accounted for \$183 million of sales in 2023, up 15.2 percent YoY. The release of Axon Body 4 occurred in Q2 FY23. The segment contributed 11.7 percent of sales in 2023. In the first half of FY24, body cameras and accessories totaled \$110.2 million, or 11.4 percent of sales. We forecast strong growth in this segment.

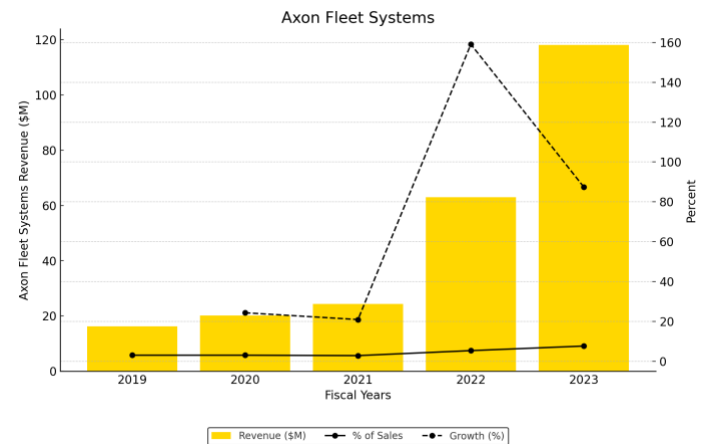


Source: [Axon 10-K \(2023\)](#)

Axon Fleet Systems: Axon's Fleet systems include in-car video systems that integrate with its digital evidence management platform. Fleet systems capture video from outside and within vehicles, capture license plate information, and provide real-time positioning data. Axon

fleet systems integrate with Axon Evidence (discussed below) to automatically upload footage and other evidence.

In 2023, the fleet systems segment generated \$118.1 million in sales, up 87.5 percent year over year. The increase is primarily due to higher unit sales.¹ The segment as a whole is fast-growing, with a five-year CAGR of 64.3 percent. In the first half of FY24, the Fleet segment generated \$55 million in sales, representing 5.7 percent of sales (down from 7.6 percent in 2023).



Source: [Axon 10-K \(2023\)](#)

Other: This segment includes the following products: TASER Consumer, VR Hardware, Signal Sidearm, and Axon Air. Combined, other products and services contributed \$39.8 million or 2.5 percent of total sales in 2023.¹ In the first half of FY24, the segment generated \$25.9 million, or 2.7 percent of total sales.⁶

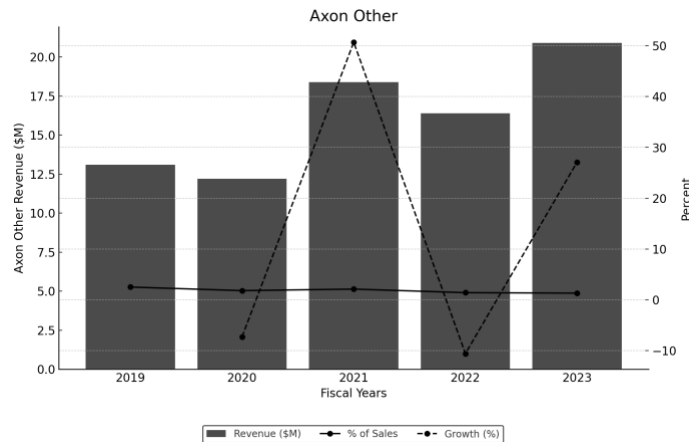
TASER Consumer adapts Axon's professional CED technology for the consumer market. This line includes self-defense devices like the TASER Pulse, which temporarily incapacitate attackers.¹ TASER Consumer devices compete with other modes of self-defense, such as pepper spray.

Axon's virtual reality (VR) business provides immersive experiences designed to train law enforcement and other public safety officers.¹ Axon's VR systems simulate real-world scenarios, allowing officers to practice de-escalation tactics in a controlled environment. The video captured from BWCs provides useful data to improve the effectiveness of VR experiences.

Signal Sidearm is a smart sensor that attaches to firearm holsters, activating body cameras when a weapon is

drawn. The sensor captures critical moments before and after a firearm is used.¹

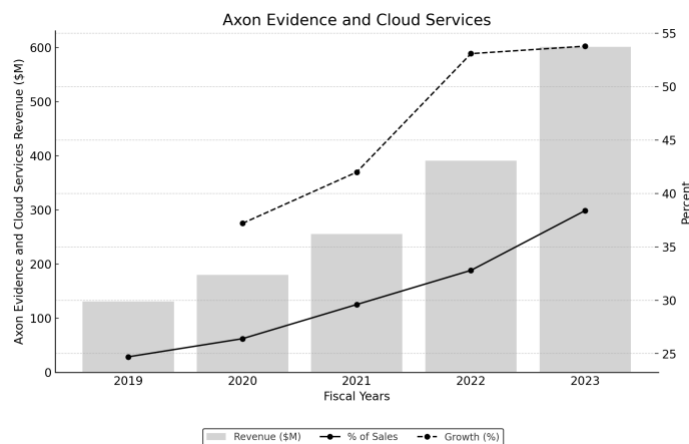
Axon Air uses drone technology to give police departments real-time aerial situational awareness. Axon Air devices live stream footage and integrate with Axon's software ecosystem to provide location data and upload digital evidence. Drone operators may manually fly the drone or use autonomous mapping features to designate a pre-designed route. The recent acquisition of Dedrone suggests Axon views this as an emerging market.



Source: [Axon 10-K \(2023\)](#)

Services

Axon offers three service platforms: Axon Evidence, Axon Records, and Axon Respond.¹ Customers sign multi-year contracts for a license to access these platforms. The average contract is five years. Various tiers are available, ranging in features and price.



Source: [Axon 10-K \(2023\)](#)

Services sales are growing quickly. In FY23, service sales totaled \$595.7 million, a 53.3 percent increase compared

to \$388.5 million in FY22.¹ Services gross margin declined 70 bps to 72.6 percent, mainly due to a higher proportion of lower-margin professional services.¹

Axon Evidence: Axon Evidence is a digital evidence management platform for securely storing, managing, and sharing digital evidence.⁵ Customers can access their data remotely using the online portal Evidence.com.

Three tiers are available: Basic, Pro, and Pro+. Basic is a free version for those who only need to upload evidence. Most officers require a paid tier. Pro+ includes access to advanced AI features. Pro and Basic users can also purchase AI features as add-ons for a premium. Storage and unlimited storage plans are available for an additional monthly fee.²²

Axon Evidence is tightly integrated with Axon's broader hardware ecosystem, including body and fleet cameras, TASER devices, and other sensors. Axon's devices automatically upload data to Axon Evidence via the cloud, saving officers time and ensuring important evidence is safely retained. This integration also enables timely access, making it faster for agencies to review, tag, and categorize evidence.⁴

Key AI features include automatic redaction (faces, license plates, audio, screens, etc.), audio transcription, multi-camera synchronization, data cataloging, and more.⁵

Axon Records: Axon Records is designed to streamline the report writing process. It employs a mobile app that allows officers to quickly write incident reports from anywhere in the field.⁷ The platform integrates with Axon Evidence, allowing officers to attach relevant evidence. Officers can also review evidence captured using the mobile app.

Axon leverages its AI to automate writing incident reports using Draft One. Using data from various Axon devices, including body and vehicle footage, GPS location data, and audio recordings, the software summarizes events into a cohesive final report.²²

Axon Respond: Axon Respond is a real-time operations platform that provides situational awareness and coordination for public safety agencies. It integrates live video streaming, GPS location tracking, and automatic signal alerts, providing insights on ongoing incidents. Axon Respond helps police departments and public safety agencies manage personnel and other resources during emergencies, improving response times and coordination.

Two tiers are available: Respond and Respond+. Respond users can display their coordinates on a digital map and send alerts to the platform. Respond+ adds live streaming capabilities in addition to the regular Respond features.²³

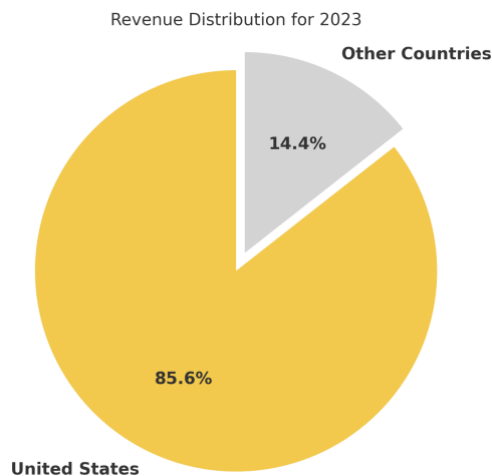
Our model incorporates the following five-year growth assumptions for the services segment:

	2024	2025	2026	2027	2028
HF	42%	33%	30%	28%	23%
Consensus	42%	31%	32%	-	-

Source: [FactSet](#)

Geographic Segments

Axon's CED devices require an export license to be sold abroad (except for Canada).¹ Importing countries may also impose their own regulations on CEDs, which may limit Axon's addressable market. In 2023, the U.S. accounted for 86 percent of sales, up from 83 percent in 2022.¹ Despite decreasing as a percentage of revenue, international sales grew YoY due to strong demand from other countries in the Americas region.¹



Source: [Axon 10-K \(2023\)](#)

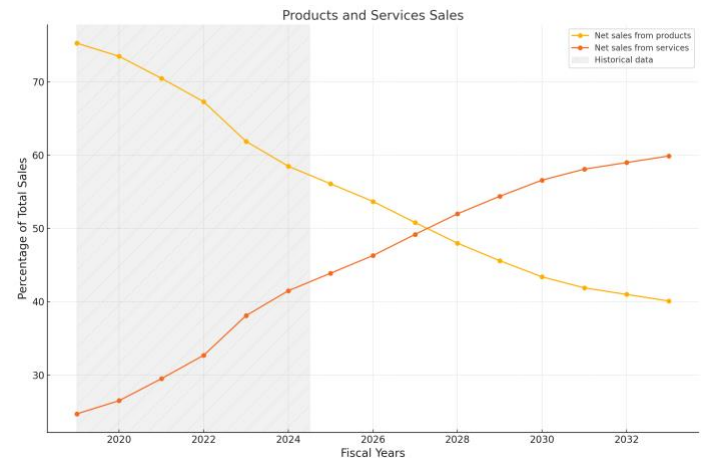
Cost Structure Analysis

	Gross Margin		
	2023	2022	2021
Products	53.4%	54.7%	57.3%
Services	73.6%	74.7%	75.5%
Total GM	61.1%	61.2%	62.7%

Source: [Axon 10-K \(2023\)](#)

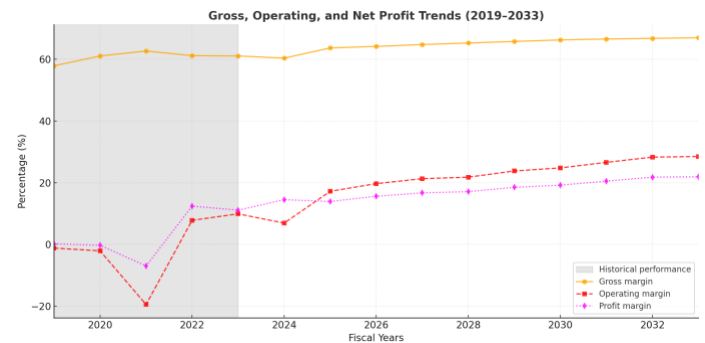
Axon's gross margins deteriorated slightly YoY (see table above). Product gross margin declined due to inventory

and warranty charges related to the TASER 7, higher costs from the TASER 10 launch, and increased manufacturing expenses. The fall in services gross margin stems from a greater mix of weaker margin services.¹



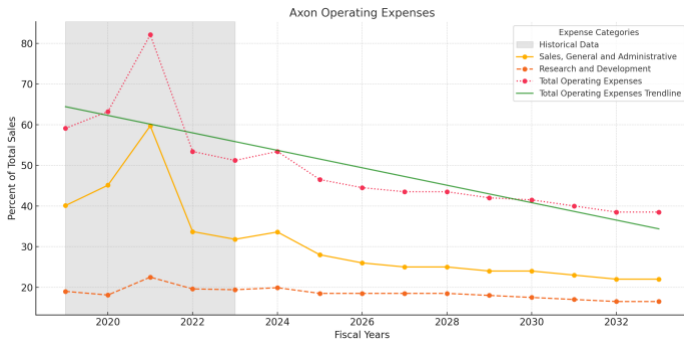
Source: [Axon 10-K \(2023\)](#)

We forecast services contributing a larger share of sales, reaching 59.9 percent by 2033, up from 38.1 percent in FY23. Services will overtake products as a percentage of total sales in 2028. The growth of the higher-margin services segment is poised to improve top and bottom-line financial performance (see profit trends graph below).



Source: [Axon 10-K \(2023\)](#)

Historical trends show operating expenses declining as a percentage of total sales. A larger mix of higher-margin services explains this operating leverage. We forecast SG&A to fall to 22 percent by 2033 as software services become a larger share of our total revenue estimate.



Source: [Axon 10-K \(2023\)](#)

Debt Maturity Analysis

Axon has a debt structure that includes \$678.7 million in 0.50% senior convertible notes due December 15, 2027.⁶ Axon entered into a convertible note hedge transaction to reduce the potential impact of dilution upon conversion.¹ The effective interest rate on the convertible notes is 0.99% when considering issuance costs.¹ The Company has access to a \$200 million revolving credit facility, with the option to increase the limit to \$300 million.¹ The facility is currently undrawn.¹

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$M)
2024	-	0
2025	-	0
2026	-	0
2027	0.50%	678.7
2028	-	0
Thereafter	-	0
Total		\$678.7

Source: [Axon 10-K \(2023\)](#)

ESG Analysis

Axon earned a high-risk rating with an ESG score of 30.5, according to Morningstar's Sustainalytics.⁸ Relative to the Aerospace & Defense industry group, Axon ranks 31 out of 105. For comparison, Motorola, its closest competitor, earned a low-risk rating with an ESG score of 12.4 (Motorola falls into the Technology Hardware industry, not Aerospace & Defense like Axon, which may explain the superior ESG score).⁹

Axon's Board is comprised of ten directors, evenly split between men and women. The management team consists of 12 executives, 75 percent of whom are men. Insiders own 5.1 percent of the Company's stock.

To further Axon's commitment to improving public safety and policing, the Company formed an Ethics & Equity Advisory Council (EEAC). The EEAC acts as an independent advocate for marginalized communities and provides feedback on Axon's products and services. While an important voice, the EEAC does not set the Company's ethical guidelines or make final decisions on product development.

Moving forward, integrating AI into Axon's products and services will be a top ESG concern. To avoid exacerbating racial biases, the Company will need to ensure the integration of AI technology is ethical and safe. Axon recognizes the importance of this issue and engages with its EEAC to receive feedback.¹⁰

RECENT DEVELOPMENTS

Q2 FY24 Earnings

Axon reported Q2 earnings on August 6, 2024. Actual EPS performance beat estimates by 17.7 percent (\$1.20 vs \$1.02), causing the stock to jump significantly following the earnings release (see chart below).



Source: [FactSet](#)

During the quarter, Axon generated \$504.1 million in sales, a 34.5 percent increase compared to Q2 FY23. Strong product and service sales drove sales growth. Product sales rose to \$295.2 million, a 26.4 percent increase largely due to higher demand for TASER devices and cartridges. Services sales grew 48 percent YoY to \$208.9 million, driven by the expansion of Axon Evidence and cloud services subscriptions.⁶

Operating expenses in the quarter totaled \$270.9 million, a 41.2 percent increase from Q2 FY23. The YoY increase is due to higher investments in R&D and SG&A expenditures;

both increased as a percentage of sales relative to Q2 FY23 (see table below).⁶

% of sales	R&D	SG&A
Q2 FY23	32.0%	19.2%
Q2 FY24	33.6%	20.1%
Net change	+ 1.6%	+ 0.9%

Source: [Axon 10-Q \(Q2 FY24\)](#)

R&D spending grew 41 percent to \$101.4 million due to personnel-related expenses, including a jump in stock-based compensation and increased headcount.⁶ SG&A expenses increased 41.3 percent to \$169.4 million, driven primarily by Axon's 2024 CEO Performance Award, increased personnel costs, and efforts to support further global expansion.⁶

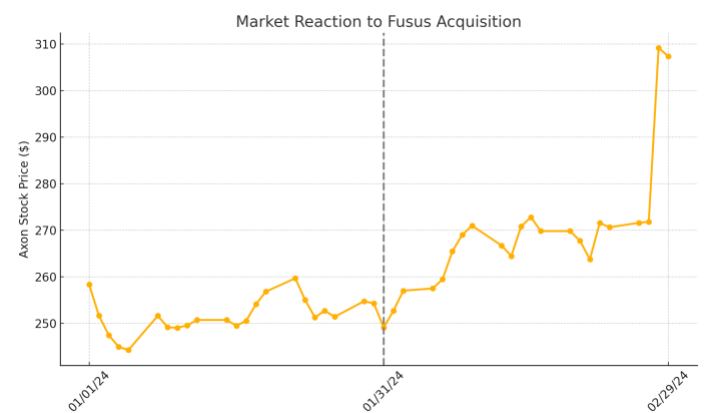
Axon generated net income of \$40.8 million, a 228.7 percent increase from \$12.4 million earned in Q2 FY23. A key contributor was a \$7.9 million gain from strategic investments in Q2 FY24, which partially offset the rise in operating expenses. The strategic investment was a non-cash unrealized gain for marketable securities on the balance sheet.⁶ Additionally, Axon reported a \$62 million expense under its "other" category in Q2 FY23.

Fusus Acquisition

On January 31, 2024, Axon acquired the remaining 79.7 percent interest in Fusus, LLC. Axon paid approximately \$241.3 million. Terms of the deal remain undisclosed. Fusus is a real-time crime center platform. The platform is open-source and integrates with many data sources to improve operations.¹¹ Axon believes the acquisition will improve its ability to aggregate live video, data, and sensor feeds to improve situational awareness. Transaction costs for the deal totaled \$0.9 million in Q2 FY24 and were recorded as an SG&A expense.⁶ Axon recorded \$250 million in goodwill.⁶

The market initially responded poorly, dropping 2 percent following the announcement. However, it recovered in the subsequent week, posting gains for seven consecutive days. We agree with the market's positive reception, believing the merger will offer cost-saving synergies when

combined with the Company's existing operations platform: Axon Respond.



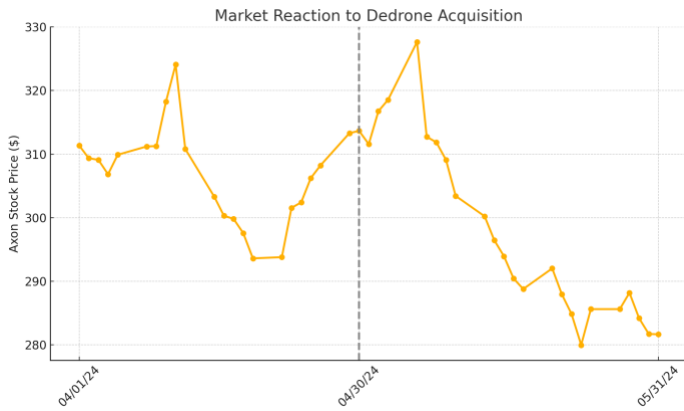
Source: [FactSet](#)

Dedrone Acquisition

On April 30, 2023, Axon entered into a definitive agreement to acquire the remaining stock of Dedrone Holdings, Inc. for \$400 million. Axon already had a 20 percent interest in Dedrone.⁶ Dedrone is a leader in air space security and helps its customers respond to aerial threats by detecting, tracking, identifying, and defeating drones.¹² Dedrone employs various sensors, cameras, and radars in conjunction with its software and AI algorithms.¹²

The acquisition signals Axon's commitment to making drone technology a major revenue driver. Dedrone's website advertises the following industries as potential customers: the federal government and military, public safety, correctional facilities, critical infrastructure, airports, enterprises, and private property.¹²

The market initially had a neutral reaction, rising 0.11 percent before falling over the weeks thereafter. We disagree with the market's sentiment towards the deal. As noted in the industry trends section below, aerial drones are a growing segment and represent a genuine threat to public, private, and enterprise safety. Axon is wise to position itself towards the aerial defense business.



Source: [FactSet](#)

INDUSTRY TRENDS

Artificial Intelligence

AI has become an important tool for police officers and other public safety personnel. Its most helpful application today is automating routine clerical tasks. These tasks include writing incident reports, redacting sensitive information from evidence, and cataloging evidence. Clerical work consumes a significant portion of an officer's day. Using camera and sensor data, AI models automate the entire process. Police departments demand these services because they allow officers to spend less time on paperwork and more time engaging with the community. AI is also used to make better, more informed operational decisions, helping allocate resources such as police and emergency services during crises. Lastly, AI improves VR training experiences to improve decision-making in tense situations.

Axon is well-positioned to capture value from AI. The Company's extensive network of cameras and sensors generates massive amounts of data, which can be used to train AI models. Axon's software expertise and family of devices is a strong advantage and contributes to its competitive moat. The recent Fusus acquisition also gives Axon access to AI that intelligently alerts law enforcement to emerging threats.²⁴

Aerial Drones

The commercialization of affordable drone technology creates a valuable tool and a growing threat to public safety. As a helpful tool, drones provide police departments with an aerial view of a situation, giving better context and situational awareness. Police

departments can also deploy drones to observe situations from safe distances.

Not all drone use cases serve the public good. The Russia-Ukraine war highlights the effectiveness and lethality of small, inexpensive consumer drones. The industry is developing defense measures, including radar sensors and frequency jammers, to mitigate the risk of malicious drone use over sensitive areas.

Aerial drones represent an ongoing threat to public safety, given their low cost and widespread commercial availability. The threat to safety will likely extend beyond the public domain, including enterprises. Disrupted operations due to an act of drone sabotage could prove costly. Axon is smart to invest in drone oversight and defensive technologies. The Dedrone acquisition positions Axon to capture market share in this emerging industry.

Accountability and Transparency

The graph below shows 30 years of public response data to the question, "How much confidence do you, yourself, have in the police -- a great deal, quite a lot, some or very little?" Despite a recent uptick in confidence, the overall trend line is clear: public confidence in the police is falling. To earn back this trust, police departments and local legislatures are focusing on ways to improve accountability and transparency.



Source: [Gallup](#)

One major trend is the adoption of body-worn cameras (BWCs). BWCs provide an unbiased perspective of events, telling the story as it happened. A Pew Research Center study indicates that Americans and law enforcement officers generally back using BWCs.²⁵ Research also shows that body cameras can reduce complaints against officers and instances of force, leading to more cautious behavior and greater citizen satisfaction.¹⁹ Additionally, the shift

toward less-lethal options, like Axon's TASER devices, reflects efforts to reduce gun-related incidents while ensuring public safety. We do not foresee a reversal in public opinion relative to these trends, which bodes well for Axon's business.

MARKETS AND COMPETITION

Motorola Solutions, Inc. is Axon's closest competitor in providing hardware and related software services. Motorola does not sell CEDs. Tyler Technologies, Inc. develops software solutions tailored for government agencies, helping cities, states, and the federal government manage public safety, justice, health, finance, and education services.

Peer Comparisons

As of 10/19/24	Axon	Motorola	Tyler
Market cap	\$33.1B	\$79.3	\$25.1B
EV	\$32.8B	\$84.8	\$25.5B
Trailing P/E	115.6	55.6	121.8
Forward P/E	69.9	31.9	55.6
P/S	18.6	7.8	12.5

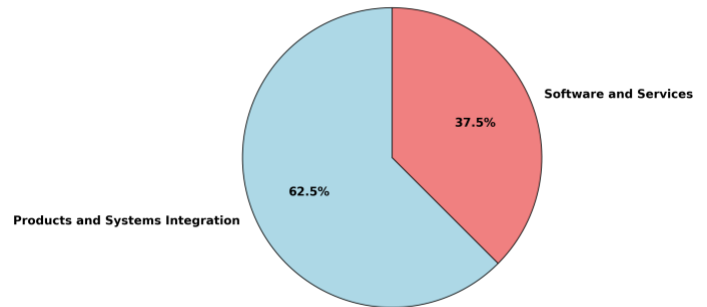
Source: Yahoo! Finance

Motorola Solutions (MSI): In 2023, Motorola's total sales rose 9.5 percent to \$10 billion. The Products and Systems Integration segment, comprising two-way radios, broadband devices, video security systems (including body and fleet cameras), and command center solutions, contributed 63 percent of sales.

Software and Services segment, which includes software solutions, cloud-based and managed services, generated 37 percent of sales. Like Axon Evidence, this segment includes a "video-as-a-service" option, bundling hardware with evidence management software. Operating earnings increased 38 percent to \$2.3 billion.

Motorola's gross margin increased from 46.4 to 49.8 percent, driven by higher sales and lower direct material costs. Due to increased employee incentives and acquisition costs, SG&A expenses rose 8 percent (\$1.45B to \$1.56B). R&D spending grew 10 percent (\$779M to \$858M), representing 8.6 percent of sales.

Motorola Sales by Segment in 2023 (in billions)



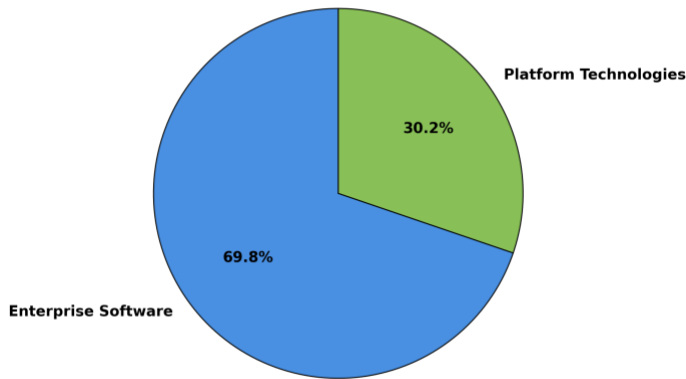
Source: [Motorola 10-K \(2023\)](#)

Tyler Technologies (TYL): Tyler Technologies generates revenue from two segments: Enterprise Software and Platform Technologies.²⁷ Enterprise Software includes public administration, courts, public safety, and education solutions.²⁷ It earns revenue through SaaS subscriptions, maintenance contracts, software licenses, and professional services like implementation and training.²⁷ In 2023, this segment generated \$1.4 billion, with an operating margin of 32.3 percent.²⁷

The Platform Technologies segment includes transaction-based services like payment processing and data management.²⁷ Revenue is generated through transaction fees, cloud services, and add-on software.²⁷ In 2023, platform technologies reported \$594.8 million in sales, with an operating margin of 20.9 percent.²⁷

Overall, Tyler's sales grew 5.5 percent to \$2.0 billion. Recurring revenues from SaaS and maintenance contracts were major drivers. Gross profit increased 9.8 percent to \$861.1 million, and gross margin improved from 42.4 to 44.1 percent. Operating income was \$218.5 million, 2 percent higher YoY. The Enterprise Software segment's revenue rose 7.4 percent, while Platform Technologies grew 1.3 percent.

Tyler Technologies Revenue Distribution by Segment (2023)



Source: [Tyler Technologies 10-K \(2023\)](#)

Performance Comparisons

FY23 performance	Axon	Motorola	Tyler
Revenue	\$1.6B	\$10.0B	\$2.0B
Gross Margin	61.1%	48.1%	40.3%
Operating Margin	9.9%	23.9%	11.2%
Profit Margin	11.1%	21.5%	8.5%
ROA	5.5%	13.1%	3.4%
ROE	12.1%	406.9%	6.0%
ROIC	8.1%	27.6%	4.6%

Source: FactSet

The FY23 performance comparison reveals that Motorola outperforms Axon and Tyler across most metrics. Motorola's large scale, diverse product offerings, and operational efficiency drive higher revenue, margins, and returns (ROA, ROE, ROIC). Comparatively, Motorola is a more mature business than Axon.

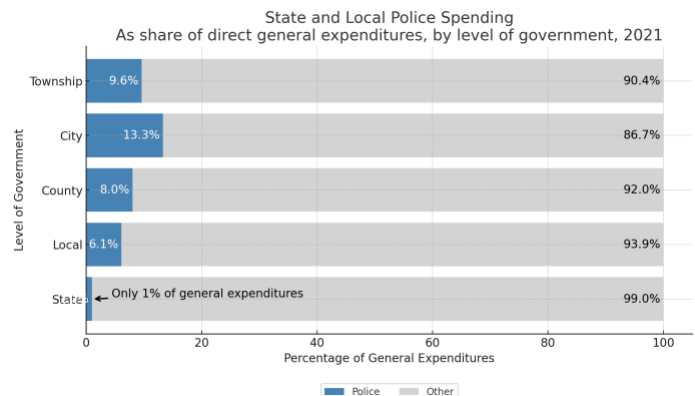
Although Axon has the highest gross margin (61.1%), it is a fast-growing company with investments in R&D leading to more modest performance. Tyler, specializing in public sector software, shows lower margins and returns, reflecting longer development cycles and higher costs.

ECONOMIC OUTLOOK

Axon's financial performance is heavily dependent on the fiscal health of state and local governments, which provided 87 percent of police funding in the U.S. in 2021.²⁸ Local governments include cities, counties, and townships. The graph below shows that 6.1 percent of local

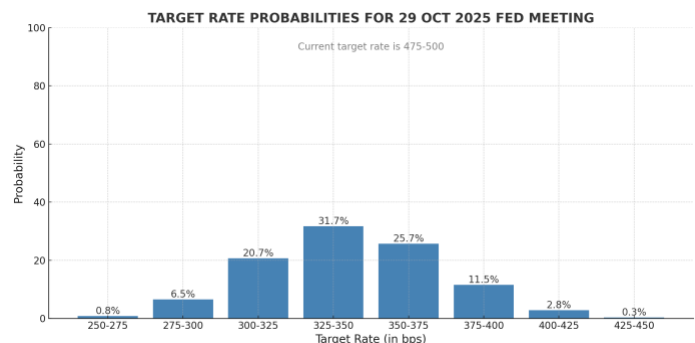
government spending goes toward police departments. Across local governments, cities allocate the largest percentage of their general expenditures towards police budgets (13.2%), followed by townships (9.6%) and counties (8%).

Local government spending, and by extension, police budgets, rely heavily on tax revenue.²⁹ The primary tax sources include income, sales, and property taxes. Local governments rely most heavily on property taxes, providing 70 to 75 percent of local government revenues.²⁹ Property taxes are assessed based on the property's value and local tax rates. Inflation and interest rates are important factors that influence the property market.



Source: [The Urban Institute](#)

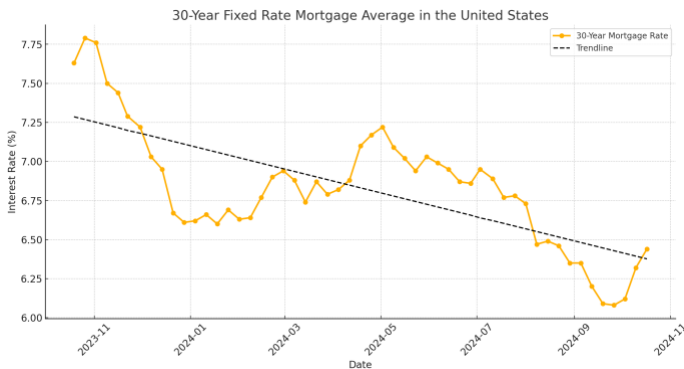
On September 18, 2024, the Federal Reserve cut interest rates by 50 basis points, lowering the federal funds target range to 4.75 – 5.00 percent.³⁰ This rate cut signals a shift in the Fed's strategy to manage inflation, reaching a high of 9.1 percent in 2022. Market forecasts suggest further rate reductions over the next 12 months, with a plurality expecting the target range to fall to 3.25 – 3.50 percent. The chart below illustrates the probability distribution for the federal funds rate in one year.



Source: [CME Group](#)

If interest rates continue declining as predicted, this could significantly affect property values and taxes. Lower interest rates generally reduce the cost of borrowing, ultimately boosting the demand for real estate, leading to higher prices. Rising property values generate more property taxes and tax revenue to fund local budgets, including the police.

Investors should monitor the 30-year average fixed-rate mortgage rate to gauge the direction of property value movement. The trendline over the past year is favorable for Axon since falling mortgage rates induce greater demand for real property, thereby driving up valuations and tax revenues.



Source: [St. Louis Federal Reserve](https://www.federalreserve.gov/releases/h30.htm)

VALUATION

We anticipate a gradual deceleration in growth for Axon's Products and Services divisions as the company enters a more mature phase of its growth cycle. Product growth is projected to decline from 25% in 2024 to 4% by 2033, reflecting market saturation and slowing hardware adoption as devices reach widespread deployment. Services growth, initially strong at 42% in 2024, is expected to taper to 8% by 2033 as high adoption rates transition to a stable, recurring revenue model. These trends align with Axon's strategy to leverage product-led growth as a foundation for building a sustainable services revenue stream.

Operating Expenditures

Cost of Sales: The cost of sales (as a percentage of sales) equals the five-year average for products (45.4%) and services (24.7%). We hold this constant over the forecasted period. Gross margin improves as services increase as a share of total sales. The shifting mix results in

a gross profit margin of 67 percent by 2033, up from 61.1 percent in 2023.

SG&A: SG&A is forecasted as a percentage of sales. It is expected to decline steadily from 2025 to 2033, driven by operating leverage as fixed costs are spread over growing sales. This trend reflects Axon's ability to manage overhead expenses while scaling its operations, buoyed by services sales.

R&D: We project Axon's R&D spending as a percentage of sales to gradually decline over the forecast period, reflecting a strategic focus on operating efficiency while sustaining innovation. From 2024 to 2028, R&D expenses are expected to hold steady at 18.5% of sales, demonstrating continued investment in product development and technological advancements during this growth phase. Starting in 2029, we anticipate a gradual decrease, with R&D spending tapering to 16.5% of sales by 2032 and stabilizing at that level through 2033. This trend underscores Axon's ability to scale R&D more efficiently as its platforms mature and incremental development demands fewer resources. These projections align with Axon's strategy to balance innovation with long-term margin expansion.

Capital Expenditures

Axon's management does not provide capital expenditure guidance. We incorporate consensus estimates through FY26, projecting a gradual decline in capex as a percentage of sales through the terminal year. This reflects the asset-light nature of Axon's scaling software business, which relies primarily on third-party hosting for its services. As a result, we anticipate minimal asset requirements relative to Axon's future revenue generation.

Cost of Capital

The weighted average cost of capital (WACC) is 10.4 percent. Our WACC estimate incorporates the following assumptions:

- **Risk-Free Rate:** 3.97% – YTM 10Y US Treasury
- **Beta:** 1.21 – Average 1Y, 2Y, 3Y Weekly Beta
- **Equity Risk Premium:** 5.0% – HF estimate
- **Cost of Equity:** 10.6% – CAPM
- **Equity Weight:** 97.9%
- **Pre-Tax Cost of Debt:** 5.0% – Bloomberg estimate
- **Marginal Tax Rate:** 24.0%

- **After-Tax Cost of Debt:** 3.8%
- **Debt Weight:** 2.1%

DCF/EP Model

Our DCF and EP models yielded a share price of \$433. The following assumptions were used:

- **CV Growth of NOPLAT:** 5.0%
- **CV Year ROIC:** 218.7% using 2033E ROIC

The DCF/EP model is our preferred estimate of Axon's intrinsic value. It best captures the value of increasing service sales and overall margin improvement. Our DCF/EP is sensitive to the discount rate since a large proportion of the share price derives from Axon's continuing value. Changes to the WACC, Beta, ERP, or CV Growth can result in material price differences. At a current market price of \$438, Axon is trading at a 1.1% premium compared to our DCF/EP price. For this reason, we recommend no action.

Fundamental P/E Model (DDM)

The DDM estimates Axon's intrinsic value based on future dividend payments. Using the DDM, Axon stock is worth \$135 per share. Shares currently trade at \$438. Axon's lack of a dividend skews the price. We do not forecast dividends and find the DDM materially undervalues Axon.

The assumptions include a 5.0 percent terminal EPS growth rate, ROE of 18.7 percent (2033 CV), and cost of equity of 10.6 percent.

Relative Valuation (P/E) Model

The comparable companies used to value Axon on a relative basis include Motorola Solutions (MSI), Tyler Technologies (TYL), Cadre Holdings (CDRE), IBM, and Oracle (ORCL). Cadre closely aligns with Axon's focus on public safety, as both serve law enforcement with safety and technology products. Meanwhile, IBM and Oracle, with their broader scopes, provide insights into Axon's cloud-based and AI-driven solutions, underscoring its position within the technology sector. Together, these comparisons enable a comprehensive evaluation of Axon across its core public safety market and its technological innovation. Among these peers, Tyler Technologies possesses the highest P/E multiples for both 2024 and 2025 at 64.5x and 57.0x, respectively. In contrast, IBM has

the lowest P/E multiples at 20.2x for 2024 and 19.2x for 2025. The average P/E of the peer group is 37.7x for 2024 and 32.9x for 2025.

Axon trades at a premium P/E compared to its peers. Its P/E ratios are 115.1 for 2024 and 90.5 for 2025. Using ESP estimates for FY24 and FY25, this results in a low price of \$143 and \$159. These prices do not accurately reflect the value of Axon's stock.

At a spot price of \$428, Axon is expensive on a P/E basis. Failure to meet the market's high growth expectations could result in a downward price correction.

KEYS TO MONITOR

Services Sales Growth: The investment thesis hinges on services becoming the dominant revenue stream, projected to become 60 percent of total sales by 2033 (up from 38 percent in FY23). Axon Evidence, Axon Records, and Axon Respond are expected to be the primary drivers of this growth. If services sales growth slows or margins deteriorate, the underlying thesis may need to be adjusted. Investors should monitor quarterly service sales to ensure the forecasted double-digit growth materializes soon.

Operating Leverage: Our model projects a decline in SG&A and R&D expenses as a percentage of sales over the next decade. SG&A is expected to decrease from 28 percent in 2025 to 22 percent by 2033, while R&D is projected to drop from 18.5 percent in 2024 to 12 percent by 2032. This improved operating leverage is key to increasing Axon's overall profitability.

Investors should closely monitor trends in SG&A and R&D expenses. If these expenses remain flat or increase as a percentage of sales, Axon's business may not scale as efficiently as forecasted. Major spending announcements could boost these expenses, such as new product launches or significant headcount growth.

Local Government Budgets: Axon's customers primarily include law enforcement and public safety agencies. These institutions have budgets that political actors dictate. Accordingly, factors outside their control may impact demand for Axon's products and services. Investors should monitor factors that impact local government revenues, most prominently property taxes. Rising or falling interest rates may materially impact real property valuations on which taxes are assessed.

AI Integration: AI is at the core of Axon's software aspirations. Investors should monitor press releases for new and improving features to ensure management is leveraging its data advantage from its extensive array of devices. Customer feedback should also be considered, including Axon's AI tools' functionality, accuracy, and overall reliability. Gaining customer trust is paramount to ensure long-term adoption. Lastly, given the risk of bias in AI, investors should monitor Axon's board and management team to ensure proper measures are in place to develop and deploy AI technology.

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Axon Enterprise Inc.
Revenue Decomposition

Fiscal Years Ending Dec. 31	2019	2020	2021	2022	2023	Q1 2024	Q2 2024
TASER segment:							
TASER devices (Professional)	169.2	218.7	241.7	282.7	333.9	98.7	104.6
% of sales	31.9%	32.1%	28.0%	23.8%	21.4%	21.4%	20.8%
Growth (%)		29.3%	10.5%	16.9%	18.1%		
Average					18.7%		
Cartridges	86.0	115.2	152.8	181.7	193.3	56.2	65.4
% of sales	16.2%	16.9%	17.7%	15.3%	12.4%		
Growth (%)		34.0%	32.7%	18.9%	6.4%		
Average					23.0%		
Axon Evidence and Cloud Services	0.7	2.9	9.2	18.8	34.8	12.2	14.2
% of sales	0.1%	0.4%	1.1%	1.6%	2.2%		
Growth (%)		316.9%	212.1%	104.7%	85.4%		
Average					179.8%		
Extended Warranties	18.1	20.8	24.1	29.0	31.7	8.5	8.9
% of sales	3.4%	3.0%	2.8%	2.4%	2.0%		
Growth (%)		14.8%	16.2%	20.2%	9.2%		
Average					15.1%		
Other	7.7	8.9	9.1	19.4	18.9	3.1	3.8
% of sales	1.5%	1.3%	1.0%	1.6%	1.2%		
Growth (%)		15.8%	1.4%	114.5%	-2.5%		
Average					32.3%		
TASER segment	281.7	366.6	436.9	531.6	612.6	178.7	197.0
% of sales	53.1%	53.8%	50.6%	44.7%	39.2%		
Growth (%)		30.1%	19.2%	21.7%	15.2%		
Average					21.6%		
Software and Sensors segment:							
Axon Body Cameras and Accessories	70.4	81.0	104.1	157.3	183.0	51.2	59.0
% of sales	13.3%	11.9%	12.1%	13.2%	11.7%		
Growth (%)		15.0%	28.6%	51.1%	16.4%		
Average					27.8%		
Axon Fleet Systems	16.2	20.1	24.3	63.0	118.1	28.4	26.6
% of sales	3.0%	3.0%	2.8%	5.3%	7.6%		
Growth (%)		24.3%	20.9%	159.1%	87.5%		
Average					72.9%		
Axon Evidence and Cloud Services	130.3	176.8	246.0	371.9	566.2	175.5	192.7
% of sales	25%	26%	28%	31%	36%		
Growth (%)		35.7%	39.1%	51.2%	52.2%		
Average					44.6%		
Extended Warranties	19.2	24.4	33.7	49.8	62.6	18.5	18.3
% of sales	3.6%	3.6%	3.9%	4.2%	4.0%		
Growth (%)		27.2%	38.0%	47.7%	25.7%		
Average					34.7%		
Other	13.1	12.2	18.4	16.4	20.9	8.5	10.5
% of sales	2.5%	1.8%	2.1%	1.4%	1.3%		
Growth (%)		-7.3%	50.7%	-10.6%	27.1%		
Average					15.0%		
Software and Sensors segment	249.2	314.5	426.5	658.4	950.8	282.0	307.1
% of sales	46.9%	46.2%	49.4%	55.3%	60.8%		
Growth (%)		26.2%	35.6%	54.4%	44.4%		
Average					40.2%		
Total net sales	530.9	681.0	863.4	1,189.9	1,563.4	460.7	504.1
% of sales	100.0%	100.0%	100.0%	100.0%	100.0%		
Growth (%)		28.3%	26.8%	37.8%	31.4%		
Average					31.1%		

Income Statement

\$ in millions

Fiscal Years

Actual Years Ending Dec. 31	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607</
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Axon Enterprise Inc.
Balance Sheet

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
ASSETS													
Current assets:													
Cash and cash equivalents	356.3	353.7	598.5	731.3	1,043.5	1,475.1	2,062.7	2,080.7	2,902.9	3,883.2	5,073.7	6,464.0	7,966.8
Marketable securities	72.2	39.2	77.9	79.9	81.9	83.9	86.0	88.2	90.4	92.6	95.0	97.3	99.8
Short-term investments	14.5	581.8	644.1	660.2	676.7	693.6	710.9	728.7	746.9	765.6	784.7	804.3	824.4
Accounts and notes receivable, net of allowance	320.8	358.2	417.7	584.2	709.3	864.4	1,041.5	1,212.2	1,390.7	1,577.6	1,766.3	1,913.3	2,035.0
Contract assets, net	180.4	196.9	275.8	294.7	357.8	436.0	525.3	611.5	701.5	795.8	890.9	965.1	1,026.5
Inventory, net	108.7	202.5	269.9	277.2	336.5	410.1	494.1	575.1	659.8	748.5	838.0	907.7	965.5
Prepaid expenses and other current assets	56.5	73.0	112.8	131.1	159.2	194.0	233.8	272.1	312.1	354.1	396.4	429.5	456.8
Total current assets	1,109.5	1,805.3	2,396.6	2,758.6	3,364.8	4,157.2	5,154.4	5,568.5	6,804.3	8,217.3	9,845.0	11,581.2	13,374.7
Property and equipment, net	138.5	169.8	200.5	261.9	291.8	322.3	328.7	344.7	362.3	379.0	392.6	405.6	415.5
Deferred tax assets, net	127.2	156.9	229.5	183.6	137.7	91.8	45.9	-	-	-	-	-	-
Intangible assets, net	15.5	12.2	19.5	15.5	10.7	8.6	6.6	5.0	3.4	2.0	1.5	1.0	-
Goodwill	43.6	45.0	57.9	307.9	307.9	307.9	307.9	307.9	307.9	307.9	307.9	307.9	307.9
Long-term investments	31.2	156.2	-	-	-	-	-	-	-	-	-	-	-
Long-term notes receivable, net	11.3	5.2	2.6	-	-	-	-	-	-	-	-	-	-
Long-term contract assets, net	29.8	45.2	77.7	69.8	84.8	103.3	124.5	144.9	166.2	188.6	211.1	228.7	243.3
Strategic investments	83.5	296.6	231.7	237.5	243.5	249.5	255.8	262.2	268.7	275.5	282.3	289.4	296.6
Other assets excluding strategic investments	98.2	159.6	220.6	283.0	343.6	418.8	504.6	587.3	673.7	764.3	855.7	926.9	985.9
Operating lease assets	23.3	38.7	36.2	53.5	59.6	65.8	67.1	70.4	74.0	77.4	80.2	82.8	84.8
Total assets	1,688.2	2,851.9	3,436.8	4,117.9	4,784.8	5,659.4	6,728.4	7,220.6	8,586.6	10,134.6	11,896.2	13,740.8	15,624.0
LIABILITIES AND STOCKHOLDERS' EQUITY													
Current liabilities:													
Accounts payable	32.2	59.9	88.3	109.9	133.4	162.6	195.9	228.0	261.5	296.7	332.2	359.8	382.7
Accrued liabilities	103.7	155.9	188.2	258.5	313.9	382.5	460.9	536.5	615.4	698.1	781.6	846.7	900.6
Current portion of deferred revenue	265.6	360.0	491.7	634.5	770.3	938.8	1,131.1	1,316.5	1,510.3	1,713.3	1,918.2	2,077.9	2,210.1
Customer deposits	10.5	20.4	21.9	32.1	38.9	47.4	57.1	66.5	76.3	86.6	96.9	105.0	111.6
Other current liabilities	6.5	6.4	9.8	11.9	14.5	17.7	21.3	24.8	28.4	32.2	36.1	39.1	41.6
Total current liabilities	418.5	602.6	800.0	1,046.9	1,270.9	1,548.9	1,866.2	2,172.2	2,492.0	2,826.9	3,165.0	3,428.5	3,646.5
Deferred revenue, net of current portion	185.7	248.0	281.9	399.7	485.2	591.3	712.5	829.3	951.4	1,079.2	1,208.3	1,308.9	1,392.1
Liability for unrecognized tax benefits	3.8	10.7	18.0	18.5	19.0	19.4	19.9	20.4	20.9	21.5	22.0	22.5	23.1
Long-term deferred compensation	5.7	6.3	11.3	15.8	16.0	18.1	20.9	24.4	26.8	30.4	32.6	33.8	36.0
Deferred tax liability, net	0.8	0.0	-	-	-	-	-	-	-	-	-	-	-
Long-term lease liabilities	20.4	37.1	33.5	43.0	52.2	63.7	76.7	89.3	102.4	116.2	130.1	140.9	149.9
Convertible notes, net	-	674.0	677.1	677.1	677.1	677.1	677.1	-	-	-	-	-	-
Other long-term liabilities	5.4	4.6	2.9	5.9	7.2	8.8	10.5	12.3	14.1	16.0	17.9	19.4	20.6
Total liabilities	640.4	1,583.4	1,824.8	2,206.9	2,527.6	2,927.3	3,383.9	3,147.9	3,607.6	4,090.2	4,575.9	4,954.0	5,268.3
Stockholder's equity:													
Common stock plus additional paid-in capital	1,095.2	1,174.6	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4	1,347.4
Treasury stock at cost	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)	(155.9)
Retained earnings	109.9	257.0	431.2	730.2	1,076.4	1,551.3	2,163.7	2,891.9	3,798.2	4,863.6	6,139.5	7,606.0	9,174.9
Accumulated other comprehensive income (loss)	(1.3)	(7.2)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)
Total stockholder's equity	1,047.8	1,268.5	1,612.0	1,911.0	2,257.2	2,732.1	3,344.5	4,072.7	4,979.0	6,044.4	7,320.3	8,786.8	10,355.7
Total liabilities plus stockholders' equity	1,688.2	2,851.9	3,436.8	4,117.9	4,784.8	5,659.4	6,728.4	7,220.6	8,586.6	10,134.6	11,896.2	13,740.8	15,623.9

Axon Enterprise Inc.*Historical Cash Flow Statement*

\$ in millions

Fiscal Years Ending Dec. 31	2019	2020	2021	2022	2023
Cash flows from operating activities:					
Net income / loss	0.9	(1.7)	(60.0)	147.1	174.2
Adjustments to reconcile net income					
Stock-based compensation	78.5	133.6	303.3	106.2	131.4
Deferred income taxes	(8.0)	(16.5)	(81.3)	22.1	(73.0)
Net loss / gain on strategic investments and marketable securities	-	-	(23.0)	(98.9)	41.8
Depreciation and amortization	11.4	12.5	18.7	24.4	32.6
Bond amortization	0.4	3.3	5.2	(1.5)	(16.4)
Noncash lease expense	3.6	4.1	5.6	6.7	6.8
Unrecognized tax benefits	1.0	0.7	(0.7)	3.5	4.8
Amortization of debt issuance cost	-	-	-	0.2	3.1
Other noncash, net	-	-	0.0	6.5	2.3
Change in assets and liabilities:					
Accounts and notes receivable	(38.8)	(107.8)	(205.8)	(73.2)	(172.5)
Inventory	(4.9)	(52.2)	(18.3)	(96.0)	(71.9)
Prepaid expenses and other assets	(9.8)	(14.9)	(40.2)	(52.2)	(102.4)
Accounts payable, accrued and other liabilities	5.0	8.9	45.3	80.8	64.4
Deferred revenue	24.0	65.1	175.6	159.7	164.0
Net cash provided by operating activities	63.1	35.1	124.5	235.4	189.3
Cash flows from investing activities:					
Purchases of investments	(354.5)	(656.5)	(362.5)	(764.4)	(546.0)
Proceeds from call / maturity of investments	130.1	379.8	718.6	72.1	657.4
Proceeds from sale of strategic investments	-	-	14.5	-	-
Purchases of property and equipment	(15.9)	(72.6)	(49.9)	(55.8)	(59.6)
Proceeds from disposal of property and equipment	-	0.1	0.0	0.3	0.1
Purchases of intangible assets	(0.4)	(0.2)	(0.4)	(0.3)	(0.6)
Strategic investments	-	(7.1)	(45.5)	(80.8)	(17.7)
Business acquisitions, net of cash acquired	-	-	(22.4)	(2.1)	(21.1)
Net cash provided by (used in) investing activities	(240.7)	(356.5)	252.6	(831.0)	12.5
Cash flows from financing activities:					
Net proceeds from equity offering	-	306.8	105.5	(0.1)	94.7
Proceeds from options exercised	0.1	0.3	51.6	-	54.5
Payroll tax payments for net-settled stock awards	(4.1)	(7.8)	(331.3)	(4.9)	(107.9)
Net proceeds from issuance of convertible senior notes	-	-	-	673.8	-
Proceeds from issuance of warrants	-	-	-	124.3	-
Purchase of convertible note hedge	-	-	-	(195.0)	-
Net cash provided by (used in) financing activities	(3.9)	299.3	(174.2)	598.1	41.3
Effect of exchange rate changes on cash and cash equivalents	0.3	2.0	(2.0)	(3.4)	2.1
Net increase (decrease) in cash and cash equivalents	(181.3)	(20.1)	200.9	(0.9)	245.1
Cash and cash equivalents and restricted cash, beginning of period	351.0	172.4	155.6	356.4	355.6
Cash and cash equivalents, end of period	172.4	155.6	356.4	355.6	600.7

Axon Enterprise Inc.
Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Cash & cash equivalents at beginning of period	598.5	731.3	1,043.5	1,475.1	2,062.7	2,080.7	2,902.9	3,883.2	5,073.7	6,464.0
CASH FLOWS FROM OPERATING ACTIVITIES										
Net income	299.0	346.2	474.9	612.4	728.2	906.3	1,065.4	1,275.9	1,466.5	1,568.9
Adjustments to reconcile net income to cash from operating activities:										
Depreciation and amortization	25.4	46.2	51.4	88.9	90.6	95.1	99.9	104.5	108.3	111.8
Adjustments from Operating Activities:										
Accounts and notes receivable, net of allowance	(166.5)	(125.0)	(155.1)	(177.1)	(170.8)	(178.4)	(186.9)	(188.7)	(147.0)	(121.7)
Contract assets, net	(18.9)	(63.1)	(78.3)	(89.3)	(86.1)	(90.0)	(94.3)	(95.2)	(74.2)	(61.4)
Inventory, net	(7.3)	(59.3)	(73.6)	(84.0)	(81.0)	(84.7)	(88.7)	(89.5)	(69.8)	(57.7)
Prepaid expenses and other current assets	(18.3)	(28.1)	(34.8)	(39.7)	(38.3)	(40.1)	(41.9)	(42.4)	(33.0)	(27.3)
Deferred tax assets, net	45.9	45.9	45.9	45.9	45.9	-	-	-	-	-
Long-term contract assets, net	7.9	(14.9)	(18.5)	(21.2)	(20.4)	(21.3)	(22.3)	(22.6)	(17.6)	(14.5)
Other assets excluding strategic investments	(62.4)	(60.6)	(75.2)	(85.8)	(82.7)	(86.4)	(90.5)	(91.4)	(71.2)	(59.0)
Accounts payable	21.5	23.5	29.2	33.3	32.1	33.6	35.1	35.5	27.7	22.9
Accrued liabilities	70.3	55.3	68.7	78.4	75.6	79.0	82.7	83.5	65.1	53.9
Current portion of deferred revenue	142.8	135.8	168.5	192.3	185.5	193.8	203.0	204.9	159.7	132.2
Customer deposits	10.1	6.9	8.5	9.7	9.4	9.8	10.3	10.4	8.1	6.7
Other current liabilities	2.1	2.6	3.2	3.6	3.5	3.6	3.8	3.9	3.0	2.5
Deferred revenue, net of current portion	117.8	85.5	106.1	121.1	116.8	122.1	127.9	129.1	100.6	83.3
Liability for unrecognized tax benefits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Long-term deferred compensation	4.4	0.2	2.1	2.9	3.4	2.5	3.6	2.2	1.2	2.2
Deferred tax liability, net	-	-	-	-	-	-	-	-	-	-
Long-term lease liabilities	9.5	9.2	11.4	13.0	12.6	13.1	13.8	13.9	10.8	9.0
Other long-term liabilities	3.0	1.3	1.6	1.8	1.7	1.8	1.9	1.9	1.5	1.2
Net cash from operating activities	486.7	408.0	536.4	706.7	826.4	960.2	1,123.2	1,336.5	1,540.1	1,653.3
CASH FLOWS FROM INVESTING ACTIVITIES										
Adjustments from Investment Activities:										
Marketable securities	(1.9)	(2.0)	(2.0)	(2.1)	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)	(2.4)
Short-term investments	(16.1)	(16.5)	(16.9)	(17.3)	(17.8)	(18.2)	(18.7)	(19.1)	(19.6)	(20.1)
Property and equipment, net	(86.7)	(76.1)	(81.9)	(95.3)	(106.7)	(112.6)	(116.6)	(118.1)	(121.2)	(121.8)
Intangible assets, net	4.0	4.8	2.1	2.0	1.6	1.6	1.4	0.5	0.5	1.0
Goodwill	(250.0)	-	-	-	-	-	-	-	-	-
Long-term investments	-	-	-	-	-	-	-	-	-	-
Strategic investments	(5.8)	(5.9)	(6.1)	(6.2)	(6.4)	(6.6)	(6.7)	(6.9)	(7.1)	(7.2)
Long-term notes receivable, net	2.6	-	-	-	-	-	-	-	-	-
Net cash from investing activities	(353.9)	(95.7)	(104.8)	(119.0)	(131.3)	(137.9)	(142.9)	(146.0)	(149.8)	(150.5)
CASH FLOWS FROM FINANCING ACTIVITIES										
Adjustments from Financing Activities:										
Convertible notes, net	-	-	-	-	(677.1)	-	-	-	-	-
Common stock plus additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Treasury stock at cost	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-
Net cash from financing activities	-	-	-	-	(677.1)	-	-	-	-	-
Cash and cash equivalents at the end of period	731.3	1,043.5	1,475.1	2,062.7	2,080.7	2,902.9	3,883.2	5,073.7	6,464.0	7,966.8

Axon Enterprise Inc.
Common Size Income Statement

Fiscal Years Ending Dec. 31	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Net sales from products	59.0%	58.6%	60.2%	57.6%	56.8%	56.2%	55.7%	55.5%	54.8%	54.1%	53.4%	52.7%	50.8%	48.0%	45.6%	43.4%	41.9%	41.0%	40.1%
Net sales from services	41.0%	41.4%	39.7%	42.4%	43.2%	43.7%	44.2%	44.5%	45.2%	45.9%	46.6%	47.3%	49.2%	52.0%	54.4%	56.6%	58.1%	59.0%	59.9%
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of product sales	32.9%	28.8%	28.7%	26.2%	25.8%	25.6%	25.3%	25.2%	24.9%	24.6%	24.3%	23.9%	23.1%	21.8%	20.7%	19.7%	19.0%	18.6%	18.2%
Cost of service sales	10.6%	11.0%	10.5%	10.5%	10.7%	10.8%	10.9%	11.0%	11.2%	11.3%	11.5%	11.7%	12.2%	12.9%	13.4%	14.0%	14.4%	14.6%	14.8%
Cost of sales	43.6%	39.7%	39.2%	36.6%	36.5%	36.4%	36.3%	36.2%	36.1%	35.9%	35.8%	35.6%	35.2%	34.7%	34.2%	33.7%	33.4%	33.2%	33.0%
Gross margin	56.4%	60.3%	60.8%	63.4%	63.5%	63.6%	63.7%	63.8%	63.9%	64.1%	64.2%	64.4%	64.8%	65.3%	65.8%	66.3%	66.6%	66.8%	67.0%
Sales, general and administrative	33.1%	33.6%	35.3%	32.2%	28.0%	28.0%	28.0%	28.0%	26.0%	26.0%	26.0%	26.0%	25.0%	25.0%	24.0%	24.0%	23.0%	22.0%	22.0%
Research and development	19.8%	20.1%	21.0%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.0%	17.5%	17.0%	16.5%	16.5%
Total operating expenses	52.9%	53.7%	56.3%	50.7%	46.5%	46.5%	46.5%	46.5%	44.5%	44.5%	44.5%	44.5%	43.5%	43.5%	42.0%	41.5%	40.0%	38.5%	38.5%
Income (loss) from operations	3.5%	6.5%	4.4%	12.7%	17.0%	17.1%	17.2%	17.3%	19.4%	19.8%	19.7%	19.9%	21.3%	21.8%	23.8%	24.8%	26.6%	28.3%	28.5%
Interest income	2.3%	1.9%	2.0%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.5%
Other income (expense), net	30.2%	1.6%	8.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (loss) before provision (benefit) for income taxes	36.0%	10.0%	14.6%	14.0%	18.3%	18.3%	18.4%	18.4%	20.5%	20.6%	20.7%	20.8%	22.1%	22.6%	24.5%	25.4%	27.2%	28.8%	29.0%
Provision (benefit) for income taxes	-7.1%	-1.9%	-2.3%	-3.4%	-4.5%	-4.5%	-4.5%	-4.5%	-5.0%	-5.0%	-5.1%	-5.1%	-5.4%	-5.5%	-6.0%	-6.2%	-6.6%	-7.0%	-7.1%
Net income (loss)	28.9%	8.1%	12.3%	10.6%	13.8%	13.9%	13.9%	13.9%	15.5%	15.6%	15.6%	15.7%	16.7%	17.1%	18.5%	19.2%	20.5%	21.8%	21.9%

Axon Enterprise Inc.
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
ASSETS													
Current assets:													
Cash and cash equivalents	41.3%	29.7%	38.3%	35.6%	41.8%	48.5%	56.3%	48.8%	59.3%	69.9%	81.6%	96.0%	111.2%
Marketable securities	8.4%	3.3%	5.0%	3.9%	3.3%	2.8%	2.3%	2.1%	1.8%	1.7%	1.5%	1.4%	1.4%
Short-term investments	1.7%	48.9%	41.2%	32.1%	27.1%	22.8%	19.4%	17.1%	15.3%	13.8%	12.6%	11.9%	11.5%
Accounts and notes receivable, net of allowance	37.2%	30.1%	26.7%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%
Contract assets, net	20.9%	16.5%	17.6%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%
Inventory, net	12.6%	17.0%	17.3%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Prepaid expenses and other current assets	6.5%	6.1%	7.2%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Total current assets	128.5%	151.7%	153.3%	134.1%	134.8%	136.6%	140.6%	130.5%	139.0%	148.0%	158.4%	172.0%	186.7%
Property and equipment, net	16.0%	14.3%	12.8%	12.7%	11.7%	10.6%	9.0%	8.1%	7.4%	6.8%	6.3%	6.0%	5.8%
Deferred tax assets, net	14.7%	13.2%	14.7%	8.9%	5.5%	3.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Intangible assets, net	1.8%	1.0%	1.2%	0.8%	0.4%	0.3%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Goodwill	5.0%	3.8%	3.7%	15.0%	12.3%	10.1%	8.4%	7.2%	6.3%	5.5%	5.0%	4.6%	4.3%
Long-term investments	3.6%	13.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term notes receivable, net	1.3%	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term contract assets, net	3.4%	3.8%	5.0%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Strategic investments	9.7%	24.9%	14.8%	11.5%	9.8%	8.2%	7.0%	6.1%	5.5%	5.0%	4.5%	4.3%	4.1%
Other assets excluding strategic investments	11.4%	13.4%	14.1%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
Operating lease assets	2.7%	3.3%	2.3%	2.6%	2.4%	2.2%	1.8%	1.6%	1.5%	1.4%	1.3%	1.2%	1.2%
Total assets	195.5%	239.7%	219.8%	200.2%	191.7%	186.0%	183.5%	169.2%	175.4%	182.5%	191.3%	204.0%	218.1%
LIABILITIES AND STOCKHOLDERS' EQUITY													
Current liabilities:													
Accounts payable	3.7%	5.0%	5.6%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Accrued liabilities	12.0%	13.1%	12.0%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
Current portion of deferred revenue	30.8%	30.3%	31.5%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
Customer deposits	1.2%	1.7%	1.4%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Other current liabilities	0.8%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Total current liabilities	48.5%	50.6%	51.2%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%
Deferred revenue, net of current portion	21.5%	20.8%	18.0%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%
Liability for unrecognized tax benefits	0.4%	0.9%	1.2%	0.9%	0.8%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%
Long-term deferred compensation	0.7%	0.5%	0.7%	0.8%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%
Deferred tax liability, net	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term lease liabilities	2.4%	3.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Convertible notes, net	0.0%	56.6%	43.3%	32.9%	27.1%	22.3%	18.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other long-term liabilities	0.6%	0.4%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Total liabilities	74.2%	133.1%	116.7%	107.3%	101.2%	96.2%	92.3%	73.8%	73.7%	73.7%	73.6%	73.6%	73.5%
Stockholder's equity:													
Common stock plus additional paid-in capital	126.9%	98.7%	86.2%	65.5%	54.0%	44.3%	36.8%	31.6%	27.5%	24.3%	21.7%	20.0%	18.8%
Treasury stock at cost	-18.1%	-13.1%	-10.0%	-7.6%	-6.2%	-5.1%	-4.3%	-3.7%	-3.2%	-2.8%	-2.5%	-2.3%	-2.2%
Retained earnings	12.7%	21.6%	27.6%	35.5%	43.1%	51.0%	59.0%	67.8%	77.6%	87.6%	98.8%	112.9%	128.1%
Accumulated other comprehensive income / loss	-0.2%	-0.6%	-0.7%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%
Total stockholder's equity	121.4%	106.6%	103.1%	92.9%	90.4%	89.8%	91.2%	95.4%	101.7%	108.8%	117.7%	130.5%	144.6%

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
NOPLAT:													
EBITA:													
Net sales	863.4	1,189.9	1,563.4	2,056.5	2,496.6	3,042.7	3,666.0	4,267.1	4,895.2	5,553.0	6,217.2	6,734.7	7,163.1
(-) Cost of sales	(322.5)	(461.3)	(608.0)	(815.2)	(907.0)	(1,090.5)	(1,291.9)	(1,479.1)	(1,672.5)	(1,872.1)	(2,076.2)	(2,236.5)	(2,365.3)
(-) Research and development	(194.0)	(233.8)	(303.7)	(408.3)	(461.9)	(562.9)	(678.2)	(789.4)	(881.1)	(971.8)	(1,056.9)	(1,111.2)	(1,181.9)
(-) Sales, general and administrative	(515.0)	(401.6)	(496.9)	(690.4)	(699.0)	(791.1)	(916.5)	(1,066.8)	(1,174.8)	(1,332.7)	(1,430.0)	(1,481.6)	(1,575.9)
(+) Implied interest on operating leases	1.2	1.9	1.8	2.7	3.0	3.3	3.4	3.5	3.7	3.9	4.0	4.2	4.3
EBITA	(167.0)	95.2	156.6	145.4	431.7	601.5	782.7	935.4	1,170.4	1,380.3	1,658.1	1,909.5	2,044.3
Marginal tax rate	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%
Total adjusted taxes:													
Income tax expense	81.4	(49.4)	19.2	(73.5)	(111.9)	(153.4)	(197.8)	(235.3)	(292.8)	(344.2)	(412.2)	(473.8)	(506.9)
(-) Interest income (expense), net	-	1.0	7.7	9.4	7.2	7.4	7.5	7.7	7.9	8.1	8.3	8.5	8.7
(-) Other income (expense), net	-	2.0	(11.2)	46.8	-	-	-	-	-	-	-	-	-
(+) Tax on implied interest on operating assets	0.3	0.5	0.4	0.7	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0
Total adjusted taxes	81.6	(45.9)	16.2	(16.7)	(103.9)	(145.3)	(189.5)	(226.7)	(284.0)	(335.1)	(402.9)	(464.2)	(497.1)
Change in deferred taxes	(0.7)	3.5	4.8	-	-	-	-	-	-	-	-	-	-
NOPLAT	(249.3)	144.6	145.2	162.1	535.6	746.8	972.2	1,162.0	1,454.4	1,715.4	2,061.0	2,373.7	2,541.4
Invested Capital (IC):													
Operating working capital:													
Normal cash	197.1	271.6	356.8	469.4	569.8	694.5	836.8	974.0	1,117.3	1,267.5	1,419.1	1,537.2	1,635.0
(+) Accounts receivable	320.8	358.2	417.7	584.2	709.3	864.4	1,041.5	1,212.2	1,390.7	1,577.6	1,766.3	1,913.3	2,035.0
(+) Inventories	108.7	202.5	269.9	277.2	336.5	410.1	494.1	575.1	659.8	748.5	838.0	907.7	965.5
(+) Prepaid expenses and other current assets	56.5	73.0	112.8	131.1	159.2	194.0	233.8	272.1	312.1	354.1	396.4	429.5	456.8
(+) Contract assets, net	180.4	196.9	275.8	294.7	357.8	436.0	525.3	611.5	701.5	795.8	890.9	965.1	1,026.5
Operating current assets	863.5	1,102.2	1,433.0	1,756.7	2,132.6	2,599.1	3,131.5	3,644.9	4,181.4	4,743.4	5,310.7	5,752.8	6,118.7
Accounts payable	32.2	59.9	88.3	109.9	133.4	162.6	195.9	228.0	261.5	296.7	332.2	359.8	382.7
(+) Accrued liabilities	103.7	155.9	188.2	258.5	313.9	382.5	460.9	536.5	615.4	698.1	781.6	846.7	900.6
(+) Current portion of deferred revenue	265.6	360.0	491.7	634.5	770.3	938.8	1,131.1	1,316.5	1,510.3	1,713.3	1,918.2	2,077.9	2,210.1
(+) Other current liabilities	6.5	6.4	9.8	11.9	14.5	17.7	21.3	24.8	28.4	32.2	36.1	39.1	41.6
(+) Customer deposits, net	10.5	20.4	21.9	32.1	38.9	47.4	57.1	66.5	76.3	86.6	96.9	105.0	111.6
Non-interest bearing operating current liabilities	418.5	602.6	800.0	1,046.9	1,270.9	1,548.9	1,866.2	2,172.2	2,492.0	2,826.9	3,165.0	3,428.5	3,646.5
Net Operating Working Capital	445.0	499.5	633.0	709.8	861.6	1,050.1	1,265.2	1,472.7	1,689.5	1,916.5	2,145.7	2,324.3	2,472.2
Property, plant and equipment, net	138.5	169.8	200.5	261.9	291.8	322.3	328.7	344.7	362.3	379.0	392.6	405.6	415.5
Other Long-Term Operating Liabilities:													
Deferred revenue, net of current portion	185.7	248.0	281.9	399.7	485.2	591.3	712.5	829.3	951.4	1,079.2	1,208.3	1,308.9	1,392.1
(+) Liability for unrecognized tax benefits	3.8	10.7	18.0	18.5	19.0	19.4	19.9	20.4	20.9	21.5	22.0	22.5	23.1
(+) Long-term deferred compensation	5.7	6.3	11.3	15.8	16.0	18.1	20.9	24.4	26.8	30.4	32.6	33.8	36.0
(+) Other long-term liabilities	5.4	4.6	2.9	5.9	7.2	8.8	10.5	12.3	14.1	16.0	17.9	19.4	20.6
(+) Intangible assets	15.5	12.2	19.5	15.5	10.7	8.6	6.6	5.0	3.4	2.0	1.5	1.0	-
(+) Long-term contract assets	29.8	45.2	77.7	69.8	84.8	103.3	124.5	144.9	166.2	188.6	211.1	228.7	243.3
Other Long-Term Operating Liabilities	200.6	269.6	314.2	439.9	527.3	637.6	763.9	886.4	1,013.2	1,147.1	1,280.8	1,384.6	1,471.8
Invested Capital	382.9	399.7	519.3	531.8	626.1	734.8	830.1	931.1	1,038.5	1,148.4	1,257.5	1,345.3	1,415.9
Free Cash Flow (FCF):													
NOPLAT	(249.3)	144.6	145.2	162.1	535.6	746.8	972.2	1,162.0	1,454.4	1,715.4	2,061.0	2,373.7	2,541.4
(-) Change in Invested Capital	78.8	16.9	119.6	12.4	94.4	108.6	95.3	101.0	107.4	109.9	109.1	87.8	70.6
FCF	(328.1)	127.7	25.6	149.7	441.3	638.1	876.9	1,061.0	1,346.9	1,605.5	1,951.9	2,285.9	2,470.8
Return on Invested Capital (ROIC):													
NOPLAT	(249.3)	144.6	145.2	162.1	535.6	746.8	972.2	1,162.0	1,454.4	1,715.4	2,061.0	2,373.7	2,541.4
(/) Beginning Invested Capital	304.1	382.9	399.7	519.3	531.8	626.1	734.8	830.1	931.1	1,038.5	1,148.4	1,257.5	1,345.3
ROIC	-82.0%	37.8%	36.3%	31.2%	100.7%	119.3%	132.3%	140.0%	156.2%	165.2%	179.5%	188.8%	188.9%
Economic Profit (EP):													
Beginning Invested Capital	304.1	382.9	399.7	519.3	531.8	626.1	734.8	830.1	931.1	1,038.5	1,148.4	1,257.5	1,345.3
x (ROIC - WACC)	-91.9%	27.9%	26.4%	21.3%	90.8%	109.4%	122.4%	130.1%	146.3%	155.3%	169.6%	178.9%	179.0%
EP	(279.4)	106.7	105.6	110.8	483.1	684.9	899.6	1,080.0	1,362.3	1,612.8	1,947.5	2,249.4	2,408.4

Axon Enterprise Inc.*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	3.97%
Beta	1.21
Equity Risk Premium	5.00%
Cost of Equity	10.02%

ASSUMPTIONS:*U.S. 10Y Treasury**Henry Fund consensus***Cost of Debt:**

Risk-Free Rate	3.97%
Implied Default Premium	1.05%
Pre-Tax Cost of Debt	5.02%
Marginal Tax Rate	24%
After-Tax Cost of Debt	3.79%

U.S. 10Y Treasury

<< Consensus estimate per FactSet

Market Value of Common Equity:

Total Shares Outstanding	75.6
Current Stock Price	438.1
MV of Equity	33,105.3

MV Weights

97.87%

Market Value of Debt:

Convertible notes, net	677.1
PV of Operating Leases	41.7
MV of Total Debt	718.8

2.13%

Market Value of the Firm**33,824.16**

100.00%

Estimated WACC**9.89%**

Axon Enterprise Inc.*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	5.0%
CV Year ROIC	188.9%
WACC	9.9%
Cost of Equity	10.0%
CV NOPLAT	2,541.4

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
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DCF Model:

Free Cash Flow (FCF)	149.7	441.3	638.1	876.9	1,061.0	1,346.9	1,605.5	1,951.9	2,285.9	2,470.8
Continuing Value (CV)										50,629.3
PV of FCF	136.2	365.4	480.9	601.4	662.2	765.0	829.9	918.1	978.5	21,671.8

Value of Operating Assets:	27,409.5
Non-Operating Adjustments	
(+) Excess cash	241.7
(+) Marketable securities	77.9
(+) Short-term investments	644.1
(+) Long-term investments	156.2
(+) Strategic investments	231.7
(-) Convertible notes, net	677.1
(-) ESOP	(101.4)
Value of Equity	29,336.9
Shares Outstanding	75.6
Intrinsic Value of Last FYE	\$ 388.19
Implied Price as of Today	\$ 419.02

EP Model:

Economic Profit (EP)	110.8	483.1	684.9	899.6	1,080.0	1,362.3	1,612.8	1,947.5	2,249.4	2,408.4
Continuing Value (CV)										49,284.0
PV of EP	100.8	400.0	516.2	617.0	674.0	773.8	833.6	916.0	962.9	21,096.0

Total PV of EP	26,890.2
Invested Capital (last FYE)	519.3
Value of Operating Assets:	27,409.5
Non-Operating Adjustments	
(+) Excess cash	241.7
(+) Marketable securities	77.9
(+) Short-term investments	644.1
(+) Long-term investments	156.2
(+) Strategic investments	231.7
(-) Convertible notes, net	677.1
(-) ESOP	(101.4)
Value of Equity	29,336.9
Shares Outstanding	75.6
Intrinsic Value of Last FYE	\$ 388.19
Implied Price as of Today	\$ 419.02

Axon Enterprise Inc.*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

<i>Fiscal Years Ending</i>	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
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EPS	\$ 3.95	\$ 4.56	\$ 6.25	\$ 8.05	\$ 9.38	\$ 11.68	\$ 13.73	\$ 16.44	\$ 18.89	\$ 20.21
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Key Assumptions

CV growth of EPS	5.00%
CV Year ROE	17.86%
Cost of Equity	10.02%

Future Cash Flows

P/E Multiple (CV Year)										14.34
EPS (CV Year)										\$ 20.21
Future Stock Price										\$ 289.95
Dividends Per Share	-	-	-	-	-	-	-	-	-	
Discounted Cash Flows	-	-	-	-	-	-	-	-	-	122.78

Intrinsic Value as of Last FYE	\$ 122.78
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Implied Price as of Today	\$ 132.53
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Relative Valuation Models

Implied Relative Value:

P/E (EPS25)	\$ 150.30
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Axon Enterprise Inc.
Key Management Ratios

[illegible]

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Current Average Strike Price:	\$ 28.58
Cost of Equity:	10.02%
Current Stock Price:	\$438.05

<i>Fiscal Years Ending Dec. 31</i>	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Increase in Shares Outstanding:	0.14	0.14	0.14	0.09	-	-	-	-	-	-
Average Strike Price:	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58	\$ 28.58
Increase in Common Stock Account:	3.86	3.86	3.86	2.70	-	-	-	-	-	-
Share Repurchases (\$)	0	0	0	0	0	0	0	0	0	0
Expected Price of Repurchased Shares:	\$ 438.05	\$ 481.94	\$ 530.22	\$ 583.35	\$ 641.79	\$ 706.09	\$ 776.84	\$ 854.67	\$ 940.30	\$ 1,034.51
Number of Shares Repurchased:	-	-	-	-	-	-	-	-	-	-
Shares Outstanding (beginning of the year)	75.6	75.7	75.8	76.0	76.1	77.6	77.6	77.6	77.6	77.6
Plus: Shares Issued Through ESOP	0	0	0	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	-	-	-	-	-	-	-	-	-	-
Shares Outstanding (end of the year)	75.7	75.8	76.0	76.1	77.6	77.6	77.6	77.6	77.6	77.6

Axon Enterprise Inc.*Valuation of Options Granted under ESOP*

Current Stock Price	\$438.05
Risk Free Rate	3.97%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	20.38% << Per Bloomberg HVT

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	0.394	\$ 201.61	2.73	\$ 257.27	\$ 101
Total	0.394	\$ 201.61	2.73	\$ 257.27	\$ 101