



Axon Enterprise, Inc.

NASDAQ: AAXN

Industrials Sector

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Fall 2018



Agenda

Investment Thesis

Company Overview

Revenue Generation Model

Company Analysis

Industry Analysis

Comparable Companies Analysis

Discounted Cash Flow Analysis



Investment Thesis

Recommendation Summary

Company

Axon Enterprises, Inc.

Current Trading Price (12/04/18)

\$43.64

Target Price

\$52.62

Upside %

20.60%

Benefit Highlights

Product

- The opportunity to increase utilization among existing domestic customers and gain market share internationally
- Payment plan offerings are driving the segment's evolution toward "TASER-as-a-service," which will drive recurring revenues as opposed to straight hardware purchases
- Average selling prices continue along a strong upward trend for the main contributors of total segment revenue

Software

- As incremental seats booked are converted to paid seats, service revenues are comprising an increasing portion of the segment's net revenue, driving profit margins higher
- Operating leverage and increase in R&D of the segment's operating costs will drive the segment toward profitability as it continues grow at a rapid pace

Growth Opportunities

- Axon is effectively sidestepping the rigorous sales and procurement process via its free trial offering
- The inability of Axon's competitors to match the Company's offer (both in terms of the inferior quality and breadth of their offerings as well as their lack of financial resources necessary to fund such an initiative) gives it a competitive edge as it seeks to further consolidate the market on the Axon platform



Company Overview: Axon Enterprise

Company Highlights

- **History:** Changed its name from TASER International to Axon Enterprise. It is now offering a free trial program to improve adoption of body camera solution.

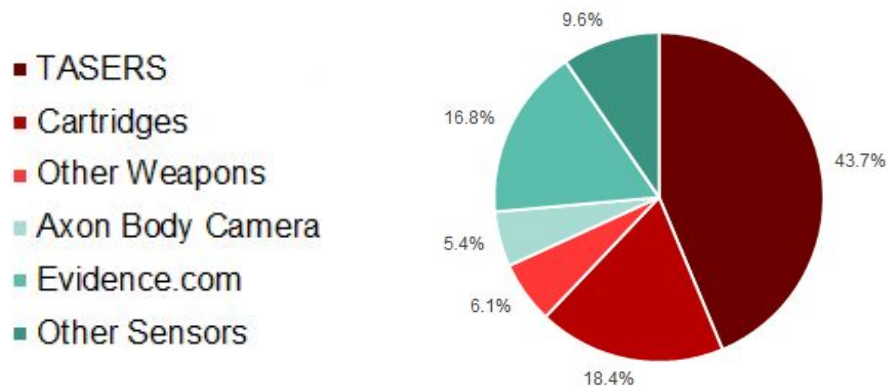
Growth Strategy

- **Devices:** Can incapacitate a person while limiting the risk for serious injury
- **People:** Build relationships with more +20,000 public safety agencies worldwide
- **Apps:** Help agencies securely store, manage and share all digital evidence

Product Mix:

- **TASERs:** CEWs (Conducted Electrical Weapons), cartridges, and related
- **Sensors:** connected wearable on-officer cameras and related services
- **Software:** Evidence.com, Axon's cloud-based end-to-end solution

Revenue Mix



Valuation & Share Performance

Key Valuation Statistics (\$m)

Market Cap.	3,412.9	LTM Revenue	399.9
Enterprise Value	3,101.2	LTM EBITDA	44.1
P / E*	84.4x	EBITDA Margin	11.0%
EV / EBITDA*	17.0x	Debt / EV	0%
Cash Flow	36.0	Total Debt	0

*P/E & EBITDA are based on 2018E for comparison

Share Price(12/04/18): 43.64 High / Low: 46.04 / 43.57

■ Russell 2,000 Index
 ■ AAXN



Revenue & EBITDA Forecast (\$m)	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Revenue	197.9	268.2	343.8	415.8	518.3	657.9	798.9	935.4
Revenue Growth Rate	20.3%	35.6%	28.2%	21.0%	24.6%	27.0%	21.4%	17.1%
EBITDA	35.3	31.9	11.7	18.2	46.7	107.4	160.5	205.2
EBITDA Margin	17.9%	11.9%	3.4%	4.4%	9.0%	16.3%	20.1%	21.9%



Strong product penetration leads to recurring revenue model

Target Customers

Law Enforcement Agencies

- 2/3 American police equip an Axon conductive electrical weapon (CEW)
- 1/3 American police equip an Axon body worn camera (BWC)
- 94% of agencies contract with Axon

Private Consumers

- Legal adult civilians can buy CEWs in all but 4 states, the District of Columbia, and some cities and municipalities
- Private consumers only make up 4% of total sales

Market Penetration

Products

Most Profitable TASER products (2017)*:

- TASER X2: 23.7%
- TASER X26P: 18.7%
- Single cartridges: 18.4%

New model in 2018:

- TASER 7

Sensors

Most Profitable Software and Sensors (2017)*:

- Evidence.com: 16.8%
- Axon Body: 4.4%
- Axon Flex: 2.9%

New model in 2018:

- Axon Body 3

1

TASER-as-a-Service

- Arrangements are long-term agreements for monthly re-supply of cartridges
- Purchases with arrangements increased from 9% to 24%

2

Evidence.com

- Cloud-based evidence management service
- Second largest but fastest growing revenue
- Built to reduce police paperwork by storing and managing BWC footage

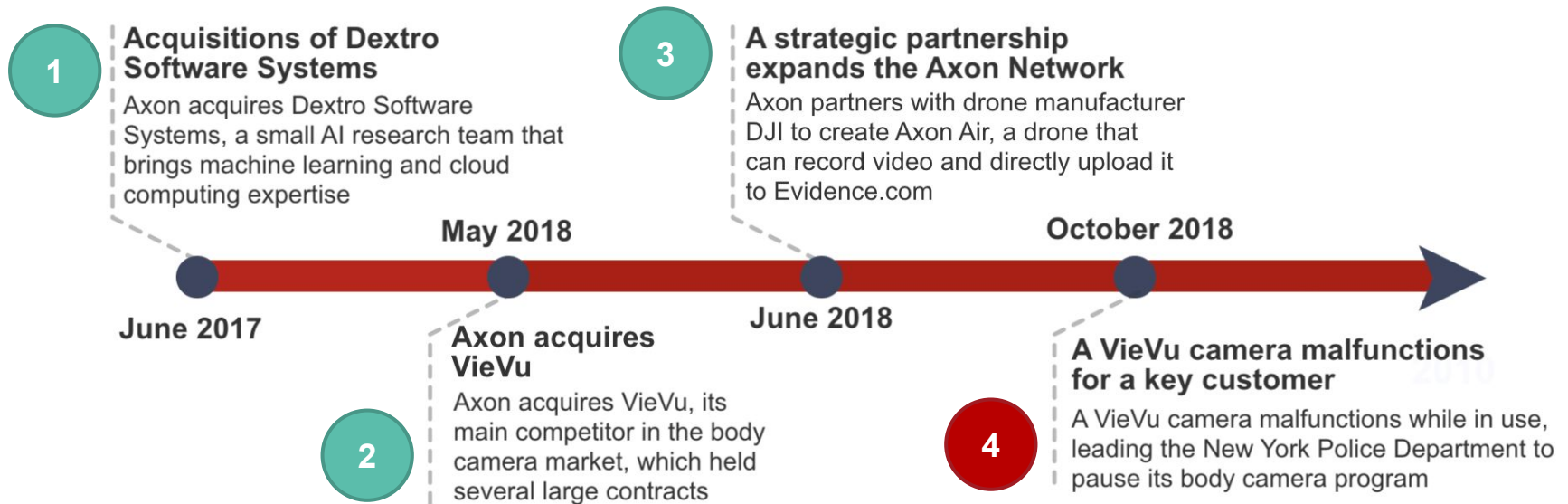
3

Training & Other Services

- CEW certifications are valid for 2 years before requiring ongoing online and physical training
- Interview software, mobile applications, public reporting systems, and more



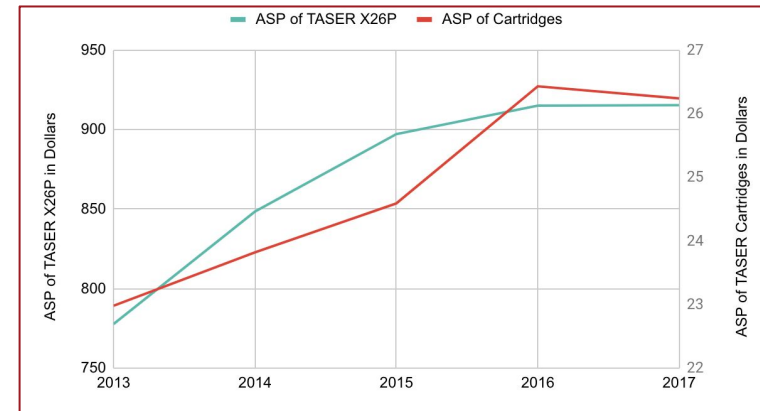
Recent acquisitions strengthen Axon's market share and pricing power



Company events vs. Axon's stock price



Average sales prices of X26P & cartridges





Investments in services segment prove to be efficient and scalable

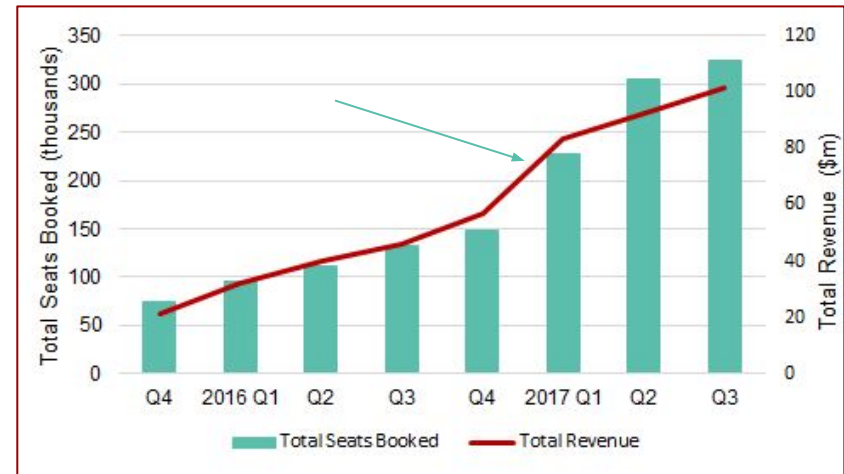
New seats booked is the leads software segment growth

- Net sales for the Software and Sensors segment were \$109.3 million and \$65.6 million for the years ended December 31, 2017 and 2016, respectively, an increase of **\$43.7 million, or 66.6%**
- The improvement in Software and Sensors segment gross margin was primarily attributable to **higher service margins due to increased users on the Evidence.com platform**
- Axon is beginning to see more agencies switch from the free one year trial program to the subscription service, with a **2.78x LTV/CAC in 2017**

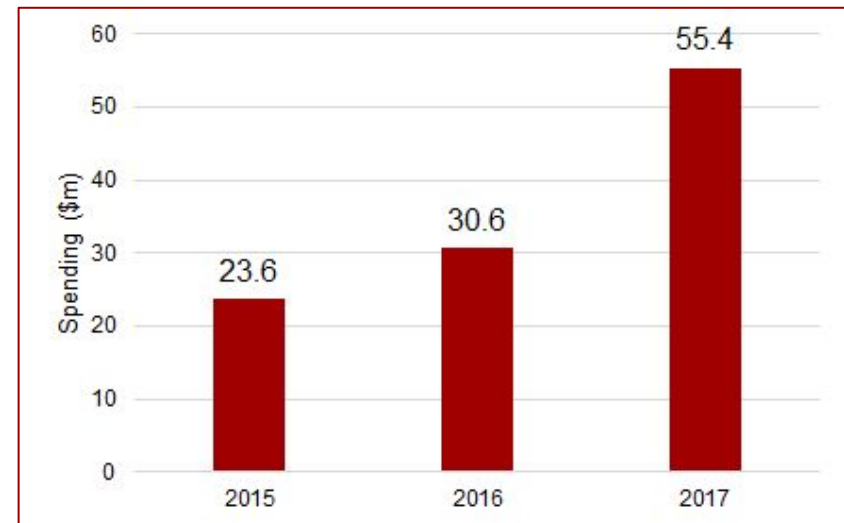
Increase spending on cloud-computing allows scalability

- New decision in 2018 moving data from Evidence.com to Microsoft Azure
- **The move will enable it to win larger deals with customers and handle more data**
- The company is moving to a system to automate revenue recognition, deploying a new HR system and migrating to cloud enterprise resource planning

Increase in customer retention from free trial program



Increase in spending on cloud platform



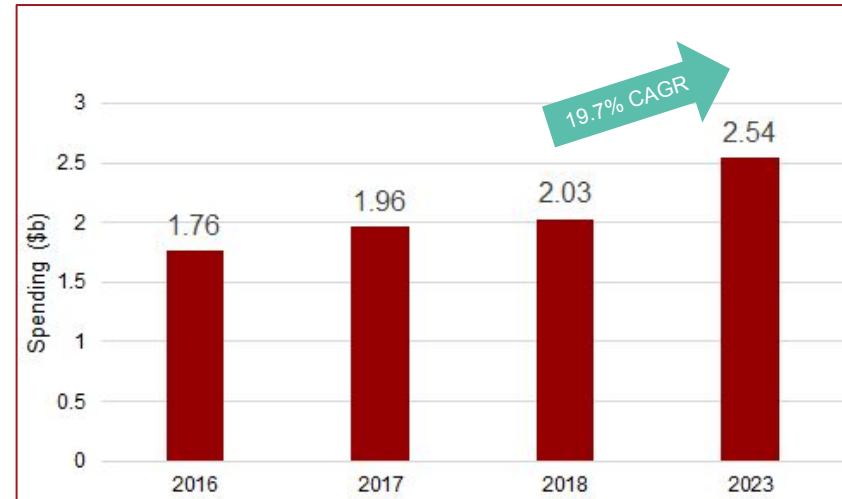


Trends signal increase in popularity for tasers and body cameras

Expansion in campus safety calls for non-lethal weapons

- The global **school and campus security market** is expected to reach approximately USD 2.54 billion by the **end of 2023 with 19.7% CAGR**
- **40% of sworn campus law enforcement** uses conducted energy devices
- Number of **campuses with law enforcement increased from 10% to 30%** from 1997 to 2014
- Number of **campus law enforcement equipped with tasers increased from 13% to 21%** from 2006 to 2016

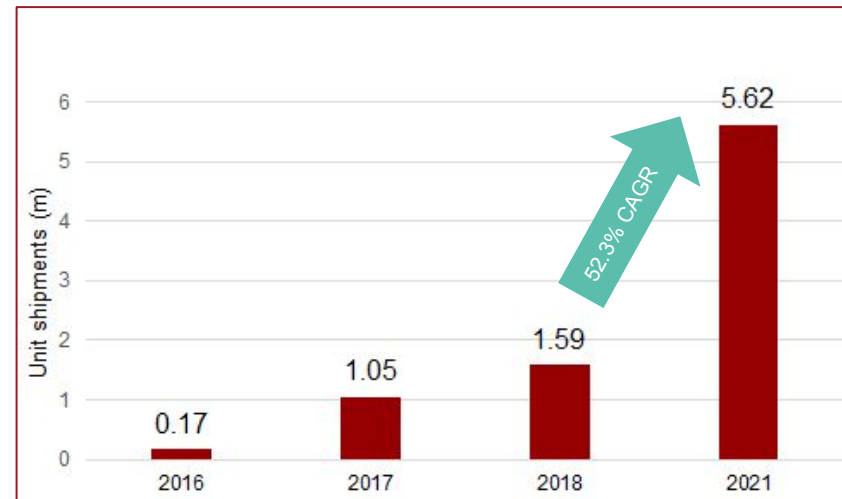
Increase in spending on campus safety by 2023



Adoption of body cameras supported by regulations

- “Safer Officers and Safer Citizens Act” to provide **incentives in adopting** the use of body cameras
- **U.S. Justice Department allocated more than \$20 million** to 106 local law enforcement agencies in 34 states and Puerto Rico
- From 2016 to 2017, the amount of **body camera shipments more than quadrupled** from 0.17 million units shipped to 1.05 million units shipped
- **Verizon & AT&T are creating a private network for first responders** which Axon Body Camera 3 can take advantage of with LTE connectivity

Growth in Unit Shipments of Body Cameras by 2021





Acceptance in international markets mean new growth opportunities

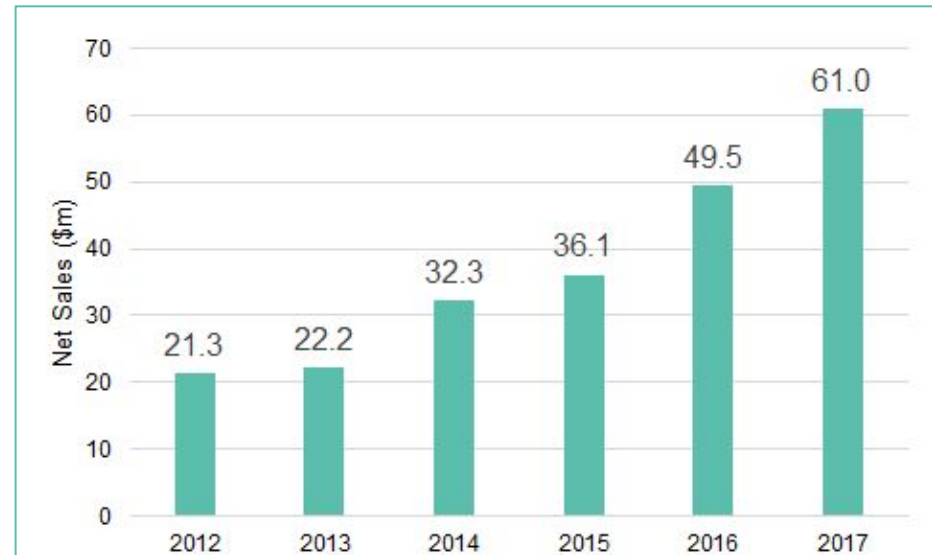
Seeing wide acceptance of products abroad

- Australia**
 - Tasmania Police force ordered 750 Axon Body 2 cameras backed by Evidence.com, joining Northern Territory, Queensland and Victoria
- Canada**
 - Calgary Police Service, first major city in Canada to roll out Axon Body 2 Cameras
 - Plans to expand to more Canadian agencies
- United Kingdom**
 - Use the subsidiary Axon Public Safety UK Limited to provide products around all major countries including Scotland and Wales
- Italy**
 - Used by 70 agents in 12 cities around Italy due to threat

Avoid complex and varying laws by using local and experienced distributors to navigate international regulations

Uses experienced wholesalers around the world that allows direct sales to markets and currently serves 107 countries

Growth in international sales



- International revenue grew 23% year-over-year
- Driven by strength in Australia, Canada, and in Europe
- Currently makes up 22% of total sales



Comparable Companies Analysis

Company (12/04/18)	Ticker	Current Share Price	52-week High	LTM P/E	Market Capitalization	Enterprise Value	Gross Margin %	EV/Sales	EV/EBITDA	TDebt/EBITDA
Curtiss-Wright	CW	107.7	143.4	21.1x	4,722.8	5,290.6	37.0%	2.3x	11.0x	1.7x
Woodward	WWD	78.6	89.3	29.9x	4,977.7	6,255.8	26.8%	2.7x	15.1x	3.1x
Sturm, Ruger & Co.	RGR	51.8	70.0	22.3x	972.8	834.9	27.0%	1.7x	8.8x	-
Aerojet Rocketdyne	AJRD	34.1	38.9	44.2x	2,642.6	2,658.5	14.5%	1.4x	9.9x	2.3x
AeroVironment	AVAV	71.1	121.3	47.1x	2,107.4	1,818.3	42.2%	6.6x	34.8x	-
Axon	AAXN	43.6	76.5	84.4x	2,738.9	2,414.0	64.1%	6.6x	62.6x	-
High		107.7	143.4	47.1x	4,977.7	6,255.8	42.2%	6.6x	34.8x	3.1x
Low		34.1	38.9	21.1x	972.8	834.9	14.5%	1.4x	8.8x	1.7x
Mean		68.6	92.6	32.9x	3,084.7	3,371.6	29.5%	2.9x	15.9x	2.4x
Median		71.1	89.3	29.9x	2,642.6	2,658.5	27.0%	2.3x	11.0x	2.3x

PE	
LTM EPS	0.14
Implied Price	4.55
Upside %	-90.89%

EV/EBITDA	
LTM EBITDA	11.7
Implied Price	4.40
Upside %	-91.20%

EV/Sales	
LTM Sales	343.8
Implied Price	18.4
Upside %	-63.14%

Curtiss-Wright

- Diversified product line of critical technologies serving commercial, defense, energy and industrial markets

Woodward

- End-to-end solutions for aircraft and other industrial machineries

Sturm, Ruger & Co.

- American commercial firearm manufacturing company

Aerojet Rocketdyne

- American rocket and missile propulsion manufacturer

AeroVironment

- Creates software for energy systems, electric vehicle systems, and unmanned aerial vehicles



Discounted Cash Flow Analysis

		Projected Period					CAGR
	2017	2018	2019	2020	2021	2022	(17' - 22')
Sales	343,798	415,838	518,258	657,997	798,890	935,361	22.2%
% growth	28.2%	21.0%	24.6%	27.0%	21.4%	17.1%	
COGS	136,710	156,196	186,619	226,282	269,095	309,578	17.8%
Gross Profit	207,088	259,642	331,639	431,715	529,794	625,783	
% margin	60.2%	62.4%	64.0%	65.6%	66.3%	66.9%	
SG&A (Excl. D&A)	138,692	180,300	216,360	248,813	286,135	329,056	
Other Operating Expenses	55,373	62,571	70,080	77,088	84,797	93,277	
EBITDA	13,023	18,230	46,717	107,392	160,503	205,158	73.6%
% margin	3.8%	4.4%	9.0%	16.3%	20.1%	21.9%	
D&A		1,459	1,517	1,578	1,641	1,707	
EBIT	13,023	16,771	45,199	105,814	158,862	203,451	73.3%
% margin	3.8%	4.0%	8.7%	16.1%	19.9%	21.8%	
Taxes	2,160	2,717	8,405	20,754	31,454	40,341	
EBAIT	10,863	14,054	36,794	85,060	127,408	163,110	71.9%
Plus: Depreciation & Amortization		1,459	1,517	1,578	1,641	1,707	
Plus: Decrease In NWC		14,949	23,906	40,769	67,891	109,690	
Less: Capital Expenditures		5,306	5,924	6,607	7,363	8,198	
UFCF		25,156	56,294	120,800	189,578	266,310	
WACC		7.69%					
Present Value of UFCF		493,383					

Key Assumptions

- Rapid adoption of TASER 7, Axon Body 2 & 3, and conversion of trial programs in FY2019
- Plans to acquire debt in FY2019
- Substantial reduction in Selling, General, & Administrative Expense spending after 2018
- Exclusion of the Exit Multiple Method due to virtually no threat of acquisition
- Exclusion of Comparable Company Analysis valuations due lack of reliable benchmarks

Key Statistics	
Trading Price	\$46.52
Market Capitalization	2,961.0
Net Debt	(75,105)
Beta	0.89
Shares Outstanding	58,400
Marginal Tax Rate	21.0%

Perpetuity Growth Method	
Growth Rate	2.50%
Undiscounted TEV	3,627,903
Discounted TEV	2,504,373
Enterprise Value	2,997,757
Equity Value	3,072,862
Share Price	52.6
Implied Exit Multiple	17.7x

Exit Multiple Method	
EBITDA Multiple	16.0x
Undiscounted TEV	3,282,523
Discounted TEV	2,265,954
DCF Value	2,759,338
Equity Value	2,834,443
Share Price	48.5
Implied Growth Rate	2.08%

Valuation Summary		
Method	Price	Weight
Discounted Cash Flow Analysis		
Perpetuity	52.6	100%
Exit Multiple	48.5	0%

Comparable Companies Analysis		
P/E	4.58	0%
EV/EBITDA	4.82	0%
EV/Sales	18.5	0%

Target Price	\$52.62
Upside	20.60%



Appendix

1. Industry Overview
2. Risk Analysis
3. Income Statement Projections
4. Balance Sheet Projections
5. WACC & Terminal Value
6. Regulations
7. SWOT Analysis
8. Porter's 5 Forces
9. Investment Thesis v.1



Industry Overview: Industrials Sector

Industry Definition:

- Performance highly dependent on economy
- Depend on demand of commercial & residential real estate
- Cyclical performance
- Can be divided to Capital Goods, Commercial & Professional Services, Transportation

Product Offerings:

- Includes defense contractors to waste management
- Produce goods used for construction and manufacturing
- Housing, cement, and metal fabrication

Major Players:



3M Company
NYSE: MMM
Market Cap: 116,284M



The Boeing Company
NYSE: BA
Market Cap: 206,886M



General Electric Company
NYSE: GE
Market Cap: 107,074M



United Technologies
NYSE: UTX
Market Cap: 103,716M



Honeywell International
NYSE: HON
Market Cap: 115,995M



General welfare, R&D, and government regulations cause potential risks

Possible decrease in demand

- Most end-user consumers have budgetary and political constraints
- US market consists of 82.3% of net sales in 2017

Costly and complex R&D

- Future success depends on the ability to develop new products and features and be widely accepted by the market timely and cost-effectively
- Development of both software and hardware products and features is complex, expensive, and time-consuming, thus release in new product or services may experience delay
- SaaS platform is still at developing phase

Legal restrictions

- Sales may be restricted to US and foreign laws and regulations
- No definite regulations on police usage of Tasers, except it can not be used against pregnant women, elderly persons, young children, and visibly frail persons
- Evidence.com is subject to government regulations of the internet in many areas, such as data protection, user privacy, etc.



Income Statement Projections

Axon Enterprise, Inc.

Income Statement

(\$ in thousands, except per share data, fiscal year ending December, 31)

	Historical Period			CAGR (14' - 16')	2017	Projected Period					CAGR (17' - 22')
	2014	2015	2016			2018	2019	2020	2021	2022	
Sales	164,525	197,892	268,245	27.7%	343,798	415,838	518,258	657,997	798,890	935,361	22.2%
% growth		20.3%	35.6%		28.2%	21.0%	24.6%	27.0%	21.4%	17.1%	
COGS	62,977	69,245	97,709		136,710	156,196	186,619	226,282	269,095	309,578	
% sales	38.3%	35.0%	36.4%		39.8%	37.6%	36.0%	34.4%	33.7%	33.1%	
Gross Profit	101,548	128,647	170,536	29.6%	207,088	259,642	331,639	431,715	529,794	625,783	24.8%
% growth		26.7%	32.6%		21.4%	25.4%	27.7%	30.2%	22.7%	18.1%	
% margin	61.7%	65.0%	63.6%		60.2%	62.4%	64.0%	65.6%	66.3%	66.9%	
SG&A	54,158	69,698	108,076		138,692	180,300	216,360	248,813	286,135	329,056	
% growth	32.9%	28.7%	55.1%		40.3%	30.0%	20.0%	15.0%	15.0%	15.0%	
R&D	14,885	23,614	30,609		55,373	62,571	70,080	77,088	84,797	93,277	
% sales	9.0%	11.9%	11.4%		16.1%	13.0%	12.0%	10.0%	10.0%	10.0%	
EBIT	32,505	35,335	31,851	-1.0%	13,023	16,771	45,199	105,814	158,862	203,451	73.3%
% margin	19.8%	17.9%	11.9%		3.8%	4.0%	8.7%	16.1%	19.9%	21.8%	
Interest	-194	26	-345		2,738	3,833	5,175	6,986	9,082	11,352	
% growth		-113.4%	-1426.9%		-893.6%	40.0%	35.0%	35.0%	30.0%	25.0%	
EBT	32,699	35,309	32,196		10,285	12,938	40,025	98,828	149,780	192,099	
% margin	19.9%	17.8%	12.0%		3.0%	25.8%	209.4%	146.9%	51.6%	28.3%	
Effective Tax Rate	-0.6%	0.1%	-1.1%		21.0%						
Tax @ 21%	6,867	7,415	6,761		2,160	2,717	8,405	20,754	31,454	40,341	
Net Income	25,832	27,894	25,435	-0.8%	8,125	10,221	31,619	78,074	118,326	151,758	39.4%
% margin	15.7%	14.1%	9.5%		2.4%	2.5%	6.1%	11.9%	14.8%	16.2%	
% growth		8.0%	-8.8%			25.8%	209.4%	146.9%	51.6%	28.3%	

Balance Sheet Projections



Axon Enterprise, Inc.

Balance Sheet

(\$ in thousands, except per share data, fiscal year ending December, 31)

	Historical Period				Projected Period					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Accounts Receivable	30735	27701	39,466	56,064	70,080	87,600	109,500	136,875	171,094	
Other Receivables	-	-	-	-	-	-	-	-	-	
Short Term Investments	32,774	50,254	48,415	6,862	2,745	1,098	439	176	70	
Inventory	18,323	15,763	34,841	45,465	56,831	71,039	88,799	110,999	138,748	
Prepaid Expenses & Other Current	4,443	8,165	13,858	21,696	27,120	33,900	42,375	52,969	66,211	
Total Operating Assets	86,275	101,883	136,580	130,087	156,776	193,637	241,113	301,018	376,123	
Cash & Cash Equivalents	48,367	59,526	40,651	75,105	93,881	117,352	146,689	183,362	229,202	
Total Current Assets	134,642	161,409	177,231	205,192	250,657	310,989	387,802	484,380	605,325	
PP&E	55,379	58,397	61,803	67,649	74,414	81,855	90,041	99,045	108,949	
Less: Accumulated Depreciation	37,856	36,549	37,799	36,477	37,936	39,454	41,032	42,673	44,380	
PP&E, Net	17,523	21,848	24,004	31,172	36,478	42,402	49,009	56,372	64,570	
Long Term Investments	9,296	8,525	234	0	0	0	0	0	0	
Other Long Term Investments	16,063	13,719	17,602	36,877	36,877	36,877	36,877	36,877	36,877	
Good Will	2,206	9,596	10,442	14,927	14,927	14,927	14,927	14,927	14,927	
Intangible Assets	3,115	7,588	15,218	18,823	18,823	18,823	18,823	18,823	18,823	
Less: Accumulated Amortization	0	0	0	0	0	0	0	0	0	
Other Long Term Assets	2,523	7,196	33,432	31,121	31,121	31,121	31,121	64,633	117,289	
Total Long Term Assets	33,203	46,624	76,928	101,748	101,748	101,748	101,748	135,260	187,916	
Total Assets	185,368	229,881	278,163	338,112	388,883	455,138	538,560	676,011	857,811	
Accounts Payable	7,682	7,333	10,736	8,592	7,303	6,208	5,277	4,485	3,812	
Accrued Liabilities	9,245	8,643	18,248	23,502	32,903	46,064	64,489	90,285	126,399	
Customer Deposits	988	1,226	2,148	3,673	5,510	8,264	12,396	18,595	27,892	
Business Acq. Consideration, Current	0	0	1,690	1,693	1,693	1,693	1,693	1,693	1,693	
Unearned Revenue, Current	14,020	20,851	45,137	70,401	102,081	148,018	214,626	311,208	451,252	
Other Current Liabilities	38	87	80	89	98	108	118	130	143	
Total Current Liabilities	31,973	38,140	78,039	107,950	149,588	210,355	298,600	426,396	611,192	
Long Term Debt	0	0	0	0	5,403	7,564	10,589	14,825	20,755	
Unearned Revenue, Non-Current	21,668	30,140	43,416	58,740	58,740	58,740	58,740	58,740	58,740	
Business Acq. Consideration, Non-Curr.	0	952	1,635	1,048	1,048	1,048	1,048	1,048	1,048	
Def. Tax Liability, Non-Curr.	1,471	1,315	1,896	1,706	1,706	1,706	1,706	1,706	1,706	
Other Non-Current Liabilities	1,150	2,330	2,289	1,224	1,224	1,224	1,224	1,224	1,224	
Total Long Term Liabilities	24,289	34,737	49,236	62,718	68,121	70,282	73,307	77,543	83,473	
Total Liabilities	56,262	72,877	127,275	170,668	217,708	280,636	371,907	503,939	694,664	
Common Stock	1	1	1	1	1	1	1	1	1	
Additional Paid In Capital	162,641	178,143	187,656	201,672	206,990	204,914	185,593	168,160	115,504	
Retained Earnings	81,045	100,978	118,275	123,185	123,185	123,185	123,185	123,185	123,185	
Treasury Stock	(114,645)	(122,201)	(155,947)	(155,947)	(155,947)	(155,947)	(155,947)	(155,947)	(155,947)	
Comprehensive Inc. and Other	64	83	903	(1,467)	(1,467)	(1,467)	(1,467)	(1,467)	(1,467)	
Total Common Equity	129,106	157,004	150,888	167,444	172,762	170,686	151,365	133,932	81,276	
Minority Interest	0	0	0	0	0	0	0	0	0	
Total Equity	129,106	157,004	150,888	167,444	172,762	170,686	151,365	133,932	81,276	
Total Liabilities and Equity	185,368	229,881	278,163	338,112	388,883	455,138	538,560	676,011	857,811	
	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	



WACC & Other Projections

Axon Enterprise, Inc.

Weighted Average Cost of Capital

(\$ in thousands, except per share data, fiscal year ending December, 31)

Target Capital Structure

Debt-to-Total Capitalization	32.0%
Equity-to-Total Capitalization	68.0%

Cost of Debt

2017 Tax Rate	21.0%
Average Yield on Debt	4.67%
After Tax Cost of Debt	3.7%

Cost of Equity

Risk-free Rate	3.08%
Market Risk Premium	5.65%
Levered Beta	0.89
Size Premium	1.47%
Cost of Equity	9.6%

WACC 7.69%

Axon Enterprise, Inc.

Other Projections

(\$ in thousands, except per share data, fiscal year ending December, 31)

Segment I: Taser

	Historical Period					Projected Period				
	2014	2015	2016	2017		2018	2019	2020	2021	2022
Sales	160,313	185,230	238,573	285,859		314,445	345,889	382,208	412,784	433,424
% growth		15.5%	28.8%	19.8%		10.0%	10.0%	10.5%	8.0%	5.0%
COGS	60,913	65,022	91,536	117,997		125,778	138,356	149,061	160,986	169,035
% margin		35.1%	38.4%	41.3%		40.0%	40.0%	39.0%	39.0%	39.0%
Gross Profit	99,400	120,208	147,037	167,862		188,667	207,534	233,147	251,798	264,388
% growth		20.9%	22.3%	14.2%		12.4%	10.0%	12.3%	8.0%	5.0%
% margin	62.0%	64.9%	61.6%	58.7%		60.0%	60.0%	61.0%	61.0%	61.0%

Segment II: Software

	Historical Period				Projected Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	4,212	12,662	29,672	57,939	101,393	172,369	275,790	386,105	501,937
% growth		200.6%	134.3%	95.3%	75.0%	70.0%	60.0%	40.0%	30.0%
COGS	2,064	4,223	6,173	18,713	30,418	48,263	77,221	108,110	140,542
% margin	49.0%	33.4%	20.8%	32.3%	30.0%	28.0%	28.0%	28.0%	28.0%
Gross Profit	2,148	8,439	23,499	39,226	70,975	124,105	198,569	277,996	361,395
% growth		292.9%	178.5%	66.9%	80.9%	74.9%	60.0%	40.0%	30.0%
% margin	51.0%	66.6%	79.2%	67.7%	70.0%	72.0%	72.0%	72.0%	72.0%

Total

	Historical Period				Projected Period				
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	164,525	197,892	268,245	343,798	415,838	518,258	657,997	798,890	935,361
% growth		20.3%	35.6%	28.2%	21.0%	24.6%	27.0%	21.4%	17.1%
COGS	62,977	69,245	97,709	136,710	156,196	186,619	226,282	269,095	309,578
% margin	38.3%	35.0%	36.4%	39.8%	37.6%	36.0%	34.4%	33.7%	33.1%
Gross Profit	101,548	128,647	170,536	207,088	259,642	331,639	431,715	529,794	625,783
% growth		26.7%	32.6%	21.4%	25.4%	27.7%	30.2%	22.7%	18.1%
% margin	61.7%	65.0%	63.6%	60.2%	62.4%	64.0%	65.6%	66.3%	66.9%

	Historical Period				Projected Period					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Accounts Receivable	48,367	59,526	39,466	56,064	70,080	87,600	109,500	136,875	171,094	
Other Receivables	-	-	-	-	-	-	-	-	-	
Short Term Investments	32,774	50,254	48,415	6,862	2,745	1,098	439	176	70	
Inventory	15,763	#REF!	34,841	45,465	56,831	71,039	88,799	110,999	138,748	
Prepaid Expenses	4,443	8,165	13,858	21,696	27,120	33,900	42,375	52,969	66,211	
Operating Assets	101,347	#REF!	136,580	130,087	156,776	193,637	241,113	301,018	376,123	
Accounts Payable	7,682	7,333	10,736	8,592	7,303	6,208	5,277	4,485	3,812	
Accrued Liabilities	9,245	8,643	18,248	23,502	32,903	46,064	64,489	90,285	126,399	
Customer Deposits	988	1,226	2,148	3,673	5,510	8,264	12,396	18,595	27,892	
Other Current Liabilities	14,058	20,938	46,907	72,183	103,872	149,819	216,438	313,031	453,088	
Operating Liabilities	31,973	38,140	78,039	107,950	149,588	210,355	298,600	426,396	611,192	
Networking Capital				22,137	7,188	(16,718)	(57,487)	(125,378)	(235,068)	
% sales				6.4%	1.7%	-3.2%	-8.7%	-15.7%	-25.1%	
Decrease in NWC					14,949	23,906	40,769	67,891	109,690	



National & International Regulations

National

- Not considered “firearms” by US Bureau of Alcohol, Tobacco, Firearms and Explosives
- Subjected to state regulations on sale of stun guns, handheld shock devices and electronic weapons
- Restrictions of the sale of tasers in the private citizen market is restricted in the following states (4): Hawaii, Massachusetts, New York, and Rhode Island; and District of Columbia
 - There are municipal restrictions as well
- Must follow environmental laws and regulations
- Export regulations through the Export Administration Regulations apply to the technology used in the CEWs and the licenses needed to export

International

- Often numerous and unclear, in many countries, Axon sells through a distributor well versed in the regulations of the region
- In the UK, private citizens are prohibited from owning CEWs, and CEW use by police is closely monitored



Tasers versus Pepper Spray & Firearms

Pepper Sprays

- They do NOT stop the target
 - Although inhibited, the target can still proceed
- The effects of pepper spray sting and burn 45-60 minutes afterwards
 - Tasers provide instant recovery

Baton

- Arc of Justice cause 84% of targets to surrender before usage
- Baton strikes carry a 78% chance at injuring a subject
- Baton requires shorter maximum range of usage (baton: arm's length vs taser: 15-35ft)

Firearms

- Lethal
- Subject to more regulations



SWOT Analysis

Strengths:

- Liquidity Position: current ratio higher than major competitors of 1.9
- Focused Research and Development Activities
- 95% market share in the taser industry
- 70% market share in the body camera industry
- Contracted with the Boston Police Department for Body 2 Camera and the digital evidence management solution, Evidence.com
- Very low dependence on debt for growth
- Subscription based model allows for revenue generation over multiple years as opposed to bulk sales

Weaknesses:

- Very high SG&A and R&D costs
- The profitability ratio of Axon Enterprise, Inc. is below industry average
- Abnormally high P/E ratio against comparables
- Has a high attrition rate so they spend more time training employees
- Return on Equity is lower than industry average, indicating inefficient use of shareholders' fund
- Three product lines

Opportunities:

- Cloud computing Market enable enterprises to scale their operations instantly, handle demand fluctuations, and access systems and services over a variety of devices at a lower cost
- Positive Outlook for Non-Lethal Weapons (NLW) Market growth trend is attributed to the rising focus on counterterrorism, homeland security, disaster planning and recovery, and organizational efficiency
- New contracts
- Solid annual growth in earnings indicating future increase in profitability
- International expansion

Threats:

- Threat of stricter regulations on taser use and ownership
- The company's operations are mainly regulated by the Federal Acquisition Regulation (FAR) and Truth in Negotiations Act
- Dashboard cameras are already widely used, and are an inherent competitor to wearable cameras
- Easy entrance into the body camera market
- Ongoing patent lawsuit by Digital Ally



Monopolization of industries means higher ASP

Threat of Entry - Low

- Large funding required to make compelling product
- Significant investment necessary to bring a new company to economies of scale
- Entry is restricted by reputation-based sales

Threat of Substitutes - High

- Dashboard cameras serve as a viable and used substitute for body cameras, and are already widely used
- Several non-lethal weapon substitutes for tasers

Industry Rivalry - Low

- Limited number of contracts or projects
- Small number of firms
- Axon is the clear market leader
- Axon has shown their willingness to buy out rivals

Buyer Power - Low

- Little differentiation between products
- Low cost of switching for buyers
- Lots of contracted work with police departments makes firms compete for contracts

Supplier Power - Medium

- Majority of product is contained in IP so not a heavy reliance on suppliers for technology
- Lithium batteries in taser products generates high reliance on metal prices



Investment Thesis

The TASER Weapons segment continues to be both highly profitable and extremely sustainable, as there is a significant barriers around this side of Axon's business

- The opportunity to increase utilization among existing domestic customers and gain market share internationally
- Payment plan offerings are driving the segment's evolution toward "TASER-as-a-service," which will drive recurring revenues as opposed to straight hardware purchases
- Average selling prices continue along a strong upward trend for the main contributors of total segment revenue

The Axon services segment continues to maintain a steep growth trajectory increasing gross margin and operational profitability

- As incremental seats booked are converted to paid seats, service revenues are comprising an increasing portion of the segment's net revenue, driving profit margins higher
- Operating leverage exists within the R&D portion of the segment's operating costs, which will drive the segment toward profitability as it continues grow at a rapid pace

Free one-year trial program on its Axon platform to every officer in the U.S. as a means to further accelerate the market's adoption of Axon's full body camera solution.

- Axon is effectively sidestepping the rigorous sales and procurement process via its free trial offering
- The inability of Axon's competitors to match the Company's offer (both in terms of the inferior quality and breadth of their offerings as well as their lack of financial resources necessary to fund such an initiative) gives it a competitive edge as it seeks to further consolidate the market on the Axon platform