



Axon Enterprise, Inc.

AXON

EQUITY RESEARCH REPORT

June 30, 2026

AXON — Axon Enterprise, Inc.

Report Date: 2026-06-30

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	\$542.78 USD / €474.93 EUR
Fair Value (Base Case)	€280–320 EUR (wide uncertainty)
Margin of Safety	Negative (–33% to –41%)
Target Entry (if HOLD)	N/A — does not meet preservation standards

Return Profile	Value
Dividend Yield	0.0%
Expected Dividend Growth	N/A
Expected Price Appreciation	See scenario analysis
Total Expected Return (Base)	~3–5% CAGR
Bear Case Total Return	–12% to –18% CAGR
Bull Case Total Return	~11% CAGR
Probability-Weighted Return	~1–3% CAGR

Risk Assessment	Value
Wealth Preservation Score	**38 / 100**
Downside Protection Score	30 / 100
Quality Score	48 / 100
Risk Level	**ELEVATED**
Probability of >50% Loss	~25–30%
Recession Profile	SENSITIVE

One-Line Thesis:

Axon is a genuinely excellent business with a wide moat, but at ~180x earnings and ~360x EV/EBITDA with negative GAAP operating margins and a revenue-recognition material weakness, the price embeds outcomes

that leave no margin of safety and an unacceptable downside profile for a capital preservation mandate.

INVESTMENT THESIS

You are looking at one of the strongest business franchises in the public-safety technology market, and that is exactly why this report requires discipline. Axon owns the workflow for U.S. law enforcement: TASER devices, body and in-car cameras, and the Evidence.com cloud that stores, manages, and processes digital evidence. Once an agency standardizes on this stack, switching means retraining officers, replacing weapons and sensors, and migrating years of legal evidence. That produces switching costs as durable as anything in the software universe. Recurring revenue has climbed from roughly 15% of sales in 2016 to near 49% today, with software gross margins above 70%. The franchise quality is not in question.

The price is the problem. At \$542.78 the stock trades around 180x trailing earnings, somewhere between 40x and 360x EV/EBITDA depending on how you treat adjustments, and roughly 10x book. GAAP operating margin in 2025 was negative 2.2%, net margin 4.5%, and free cash flow of \$75–155 million against a market capitalization near \$46 billion. The five-year average operating margin sits at 1.7% and five-year average ROIC is negative. You are paying a price that requires a 23%+ revenue CAGR and a structural jump to 20% net margins to merely justify today's value, let alone generate the inflation-plus-4% return this mandate demands. When the bear case for a position involves losing a third to a half of your capital, the analysis stops regardless of how good the business is.

Two specific governance items disqualify this name independent of valuation. First, management concluded that disclosure controls were not effective as of December 31, 2024, citing a material weakness in revenue recognition for customer contracts, with immaterial errors spanning 2022 through 2024. For a company whose entire bull narrative rests on backlog, ARR, and multi-year contract recognition, a control weakness in exactly that area is a flashing signal. Second, the gap between GAAP EPS of \$1.51 and "normalized" EPS of \$6.85 means the valuation case depends on adjustments investors are being asked to trust. Combine an unproven cash-flow engine, government-budget dependence, AI-surveillance regulatory exposure that the CFO herself flagged as the one risk the model cannot absorb, and a price near all-time multiple highs, and the asymmetry runs against you. This fails the preservation mandate before we reach the upside discussion.

1. BUSINESS QUALITY ASSESSMENT

Axon operates a blended hardware-plus-subscription model across two segments: Connected Devices (TASERs, cartridges, cameras) and Software & Services (Evidence.com, Records, Dispatch, Respond, AI tools). The flywheel works: device sales pull through multi-year cloud subscriptions, shifting the mix toward recurring revenue. Revenue reached \$2.78 billion in 2025, up roughly 33%, with software subscriptions carrying gross margins above 70%.

Business quality is high. Sector is understandable, secular growth (not decline), and structurally defensive in demand terms — agencies rarely cut mission-critical evidence systems. This passes Stage 1.

Stage 1 Verdict: CONTINUE — understandable, growing, defensive demand, no secular headwind. Note: highly U.S.-concentrated and government-budget dependent.

2. FINANCIAL FORTRESS ANALYSIS

2.1 Solvency Check

Metric	Value (from data)	Threshold	Status
Net Debt / EBITDA	1.4x	<2.0x acceptable	OK
Debt structure	2027 convertibles fully redeemed	No cliff	Improved
Free Cash Flow	\$75–155M (2025), Q1 cash burn of \$54.6M	Positive	Weak/Volatile
Operating margin (5Y avg)	1.7%	Positive & stable	Marginal
ROIC (5Y avg)	Negative (–0.4%)	>6%	**Fail**

The convertible note removal genuinely simplifies the capital structure and reduces refinancing risk. That is a positive. But the cash-generation engine is unproven: \$54.6 million of cash burn in Q1 despite positive EBITDA, and free cash flow that swings widely year to year. A business that burns cash in a single quarter despite reported profitability has not demonstrated the durable internal funding a preservation investor requires.

Solvency Assessment: ADEQUATE (balance sheet survives; cash conversion does not inspire confidence)

2.2 Earnings Quality

This is where the name breaks. Management disclosed disclosure controls were not effective as of December 31, 2024, with a material weakness in revenue recognition affecting 2022–2024. The GAAP-to-normalized EPS gap (\$1.51 vs \$6.85) is enormous. Operating cash flow versus net income is acceptable in some periods but inconsistent.

Earnings Quality: QUESTIONABLE — material weakness in the exact metric (revenue recognition) underpinning the bull thesis.

2.3 Dilution Check

Heavy share-based compensation is standard for high-growth tech and contributes to the GAAP/normalized gap. Insider selling noted (CEO 20,000 shares ~\$500; President 13,000 shares) consistent with comp programs but worth monitoring. Precise multi-year share count not in provided data; SBC-driven dilution is a known drag.

Dilution Assessment: CONCERNING (SBC material; precise rate not quantifiable from data)

2.4 Dividend Sustainability

Axon pays no dividend. For a wealth-preservation mandate, this removes the income cushion entirely — 100% of return must come from price appreciation against a multiple already at extreme highs.

Dividend Sustainability: N/A (NO DIVIDEND)

2.5 Capital Efficiency

- ROIC (5Y avg): **negative (–0.4%)** vs WACC ~9–10%
- Trend: improving recently but historically value-neutral to value-destructive on a returns basis

Verdict: Marginal-to-Value-Destroying on the historical record; the franchise may inflect, but it has not yet earned its cost of capital consistently.

2.6 Valuation Screening

Metric	Current	5Y Avg	Assessment
P/E (LTM)	~180–190x	~83x	>2x history — Expensive
EV/EBITDA	40x–360x (dataset dependent)	~277x (Finbox)	Extreme
P/FCF	~1,800x+	Variable	Extreme
P/B	~10.2x	~11.3x	Slightly below own avg, ~2x industry
Forward P/E	~57x	—	Still rich

P/B is the only metric near its own history, and even that sits at roughly twice the industry average of 4.7x. On earnings and cash flow, the stock trades at more than double its own five-year average.

Valuation: EXPENSIVE | Margin of Safety: Negative

3. DIVIDEND ANALYSIS

Not applicable. No dividend. This eliminates the income floor that anchors most preservation candidates and shifts the entire return burden onto capital appreciation from an extreme valuation base.

4. VALUATION ANALYSIS

The current price (\$542.78) requires near-flawless execution. To justify it on a forward basis, you must believe the company sustains 23%+ revenue CAGR and structurally lifts net margins toward 20% — a profile it has never delivered (5Y avg operating margin 1.7%). Applying a generous but defensible normalized framework — assume \$6.85 normalized EPS, apply a still-premium 40–47x multiple — yields roughly €280–320 fair value, well below the current €474.93. Every reasonable normalization leaves the stock overvalued.

Margin of Safety: –33% to –41% (you are paying above fair value)

5. SCENARIO ANALYSIS

BEAR CASE (30% weight):

Growth normalizes, AI/surveillance regulation slows deployments, a budget cycle softens, or the revenue-recognition issue resurfaces. Multiple compresses from ~180x toward its 5Y average of ~83x even with continued growth.

- 10-Year Total Return CAGR: **–12% to –18%**
- Permanent impairment realistic if multiple re-rates hard.

BASE CASE (50% weight):

Strong execution continues; revenue compounds ~15–20%; multiple drifts down toward 50–60x as growth matures. Earnings growth partially offsets multiple contraction.

- 10-Year Total Return CAGR: **~3–5%** (below the 7% hurdle)

BULL CASE (20% weight):

AI products, counter-drone, international, and enterprise all scale; margins inflect to 20%+; multiple holds at premium.

- 10-Year Total Return CAGR: **~11%**

Scenario	Total CAGR	Weight	Contribution
Bear	–15%	30%	–4.5%
Base	+4%	50%	+2.0%
Bull	+11%	20%	+2.2%
Expected			**~ –0.3% to +1%**

The bear case is sharply negative, the base case fails the hurdle, and the probability-weighted return barely clears zero. This is a disqualifying profile.

6. RISK ASSESSMENT

- **Valuation risk:** Primary risk. ~180x earnings leaves no cushion for any disappointment.
- **Accounting/control risk:** Material weakness in revenue recognition (2022–2024); GAAP vs normalized gap.
- **Regulatory/AI risk:** CFO flagged data-privacy as the one risk the model cannot absorb. Expanding AI surveillance and commercial body cameras widen exposure.
- **Government-budget concentration:** U.S. law-enforcement dependent; non-appropriation clauses; tax-revenue sensitivity in recession.
- **Cash conversion:** Q1 cash burn despite positive EBITDA.
- **ESG/reputational:** Policing and surveillance controversies can affect adoption and multiple.

Probability of >50% permanent loss: ~25–30% — exceeds the 10–15% ceiling.

7. MANAGEMENT & GOVERNANCE

Management has executed one of the better hardware-to-software transitions in the industrials space, growing recurring revenue and ARR dramatically. Strategy is sound and mission-driven. However, the 2024 disclosure-controls failure tied to revenue recognition, the wide GAAP/normalized earnings gap, and historical short-seller forensic scrutiny (Spruce Point) temper confidence. Founder-influenced governance concentrates key-person risk.

Management Quality: GOOD (operationally) / **Capital Allocation: ACCEPTABLE** but growth-first, no shareholder returns

8. PEER COMPARISON

Primary competitor is Motorola Solutions (MSI). MSI trades at a fraction of Axon's multiples, pays a dividend, and generates consistent positive free cash flow and ROIC above cost of capital. For a preservation mandate, MSI screens materially better on every balance-sheet, income-reliability, and valuation dimension despite a slower growth profile. Axon wins on growth and moat depth; MSI wins decisively on preservation criteria.

9. KEY METRICS SUMMARY

Metric	Value
Revenue 2025	\$2.78B (+33%)
Gross Margin	59.7%
Operating Margin	-2.2%
Net Margin	4.5%
FCF 2025	\$75-155M
ROIC (5Y)	Negative
P/E	~180x
Dividend	None
Net Debt/EBITDA	1.4x
Backlog	\$14.4B

10. MONITORING CHECKLIST

(For watchlist purposes — not a position)

- Multiple compression toward 50-60x forward P/E
- Remediation of revenue-recognition material weakness (clean confirmation)
- Sustained positive free cash flow across full year, no quarterly burn
- AI/privacy regulatory developments
- Bookings guidance reinstatement and trend

11. MARKET EXPECTATIONS & CONSENSUS

Current price implies sustained 23%+ revenue CAGR and a structural margin step-up to ~20% net — outcomes the company has not historically produced. Backlog of \$14.4 billion supports the bull narrative; the revenue-recognition control weakness undercuts confidence in how that backlog converts.

Consensus Bull Case: AI products (+700% YoY) and counter-drone (+300% YoY) scale into large recurring streams; international and enterprise expand TAM toward \$77B.

Consensus Bear Case: Growth normalizes, multiple compresses from extreme levels, margins disappoint, regulatory friction on AI surveillance.

What would validate consensus: Reinstated bookings guidance with continued 30%+ growth, clean control remediation, sustained positive FCF.

What would disappoint: Bookings normalization, margin compression from tariffs/memory costs (Connected Devices below 49.3% adjusted), any restatement.

Metric	Value	Assessment
Fwd P/E	~57x	Rich
EV/EBITDA	40x–360x (dataset dependent)	Extreme
P/B	~10.2x	~2x industry
Beta	Elevated (growth/cyclical)	Risk-on exposure

12. KEY BUSINESS DRIVERS

Driver 1: Recurring revenue / ARR growth

Why it matters: Determines whether the SaaS thesis and margin inflection materialize.

Current: ~49% of revenue recurring; Software & Services +35% YoY.

Bull threshold: Recurring mix >55% with 30%+ growth.

Bear threshold: Growth decelerates below 20%.

Next data point: Next quarterly release.

Driver 2: Free cash flow conversion

Why it matters: Validates whether reported profit becomes real cash.

Current: \$75–155M FY2025; Q1 burn –\$54.6M.

Bull threshold: Sustained positive FCF every quarter.

Bear threshold: Continued quarterly burn.

Next data point: Next 10-Q.

Driver 3: Revenue-recognition remediation

Why it matters: Earnings integrity for the entire thesis.

Current: Material weakness, remediation in progress.

Bull threshold: Clean auditor confirmation.

Bear threshold: Persistence or restatement.

Next data point: Next 10-K.

Driver 4: Connected Devices gross margin

Why it matters: Tariff/memory cost exposure.

Current: 49.3% adjusted (Q4 2025).

Bear threshold: Sustained sub-49%.

Next data point: Next quarterly margin disclosure.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker	Relationship	Signal
Motorola Solutions	MSI	Direct competitor / sector demand	Weakness signals public-safety budget s
State & local tax receipts	Macro	Funds customer budgets	Declining receipts = bearish
iShares Expanded Tech-Software	IGV	High-multiple software sentiment	Breakdown pressures AXON multiple
Semiconductor memory prices	Macro	Connected Devices COGS	Rising = margin headwind

Monitoring rule: If IGV breaks below its 200-day moving average while AXON holds extreme multiples, expect outsized downside risk and avoid any entry.

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

This fails multiple absolute requirements of the Wealth Preservation framework:

- Bear case total return is sharply negative (requirement: $\geq 0\%$) — **FAIL**
- Base case total return ~3–5% (requirement: $\geq 7\%$) — **FAIL**
- Probability of >50% permanent loss ~25–30% (ceiling: <10–15%) — **FAIL**
- Earnings quality QUESTIONABLE (revenue-recognition material weakness)
- WP Score 38 (<50)

Axon is an outstanding business at an unacceptable price for capital preservation. Excellence in the franchise does not offset a negative bear case, a base case below the hurdle, and a material weakness in the exact accounting area the valuation depends on. Capital sits better in a 4% HYSA than in this risk profile.

Reason: Extreme valuation with no margin of safety, negative bear-case return, sub-hurdle base case, and accounting control weakness.

What would change assessment: Multiple compression toward 50–60x forward earnings, full remediation of the revenue-recognition weakness with clean audit confirmation, and demonstrated sustained free cash flow. At

a price near €280–320 with those conditions met, this would warrant a fresh review.

ANALYST NOTES

Key Assumptions:

- Normalized EPS ~\$6.85; fair multiple 40–47x for fair-value estimate
- 5Y avg operating margin 1.7%, negative 5Y ROIC per provided risk data
- Bear case assumes multiple reversion toward 5Y average P/E (~83x) with continued growth

Limitations:

- Provided financial series incomplete for 2021–2024 (revenue, EPS, FCF gaps)
- EV/EBITDA figures diverge widely across data providers (40x–360x)
- No dividend data needed; precise multi-year share count unavailable
- Fair value range is wide given valuation methodology sensitivity

Confidence Level: MEDIUM-HIGH — The AVOID conclusion is robust because it rests on valuation extremes and a documented control weakness that hold across any reasonable data interpretation. The precise fair value is uncertain, but no scenario produces a margin of safety at \$542.78.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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