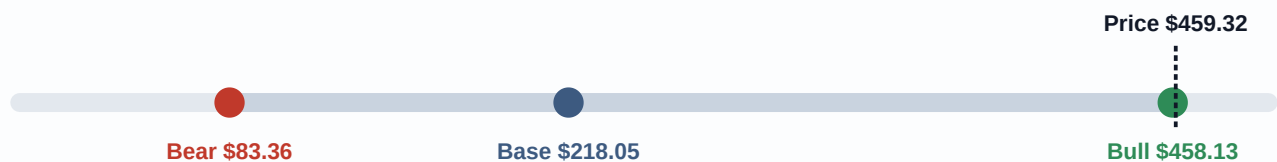


Initiated 2026-09-23 · Price \$459.32 (as of 2026-09-22, stockanalysis.com) · Mkt cap \$37.3bn · Industrials / Aerospace & Defense (public-safety technology) · Model: verified

Rating: Sell — Conviction: Medium

The business is doing everything right: revenue up 35%, guidance raised, \$15.1bn of contracted backlog growing 41%. The call is about price, not quality. Even after a 41% twelve-month de-rating, the model's bull case — five years of 21–34% growth, margins reaching 31.5%, exiting at 28x EBITDA — lands at *exactly* today's price. A business can be excellent and still be a poor holding when the optimistic case is what you are paying for — and this is the highest-beta name in the rotation while its two worst stress rows (S3, S8) are the two the playbook has live.

MODEL VALUE RANGE VS PRICE



Business overview

Axon sells the equipment and software US law enforcement runs on: TASER weapons and body cameras (Connected Devices, \$507mm in Q2 2026 at 51.9% gross margin) and the Evidence.com cloud, records, real-time operations and AI products on top (Software & Services, \$398mm at 71.3%). Newer legs outgrow the core — Platform Solutions +123% to \$150mm in Q2, Dredone counter-drone past \$100mm in the quarter, international and enterprise bookings each roughly tripled. Three things drive earnings: seat growth and premium-bundle attach inside existing agencies; software share of mix, which sets margin; and share-based compensation, which is large enough to determine reported profit outright.

Bull case

- \$15.1bn of contracted backlog, up 41%** — this is signed revenue, not pipeline, with 20–25% due over the next twelve months and the rest over roughly a decade. Plays out if agencies fund renewals on schedule. *Model: rev_growth, terminal_growth*
- Margin expansion is real once the SBC noise is stripped out** — on a consistent definition the EBITDA margin ran 17.8% → 18.8% → 20.5% → 23.5% → 23.6% across FY2021–FY2025. Plays out if software keeps outgrowing devices. *Model: ebitda_margin, rev_growth*
- The new legs are compounding, not experimental** — counter-drone above \$100mm a quarter, enterprise trials in retail and healthcare, international tripling. Plays out if any one of them becomes a second core market. *Model: rev_growth, terminal_growth*
- The de-rating has already happened** — \$459 against a \$792 high, and EV/Sales of 11.95x against a 9.65–21.56x five-year range. Plays out if 12x sales proves to be the floor rather than the way station. *Model: exit_ev_ebitda*

Bear case

1. **Even after the fall, the multiple is extreme** — 11.95x sales, 51x forward earnings, roughly 59x FY2025 EBITDA on this report's definition, against Motorola Solutions at 6.9x sales and 25x forward. *Model: exit_ev_ebitda, ebitda_margin, capex_pct_rev*
2. **Stock-based compensation is the profit** — SBC was \$634mm in FY2025 against GAAP operating income of *minus* \$62mm, and FY2026 is guided to \$590–620mm. Reported GAAP earnings have never been the economics here, in either direction. *Model: ebitda_margin*
3. **Growth has to decelerate hard, and almost all the value is terminal** — from 33% this year to the low teens by FY2030 in the base case. At an 11.5% discount rate, small changes to that glide path move the answer enormously. *Model: rev_growth, terminal_growth, nwc_pct_rev, exit_ev_ebitda*
4. **The funding model leans on the convertible window** — two convert issues, the latest \$1.15bn at a zero coupon struck 42% above the market, with the 0.50% 2027 notes still outstanding. That window is open now; it is not always open. *Model: FY0 net debt (credit_debt) enters value directly; the coupon (cost_of_debt) moves EPS only*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/Sales (EV \$38.47bn / TTM revenue \$3.22bn)	11.95x	11.79x, 9.65x, 12.10x, 21.56x, 16.11x at FY2021–FY2025 year-ends	MSI 6.90x	stockanalysis.com, 2026-09-23
Forward P/E	51.1x	trailing P/E 80x → 362x FY2022–FY2025 (GAAP, SBC-distorted)	MSI 25.2x	stockanalysis.com, 2026-09-23
EV/EBITDA (this report's definition: GAAP op income + D&A + SBC; FY2025 \$655.3mm)	58.7x	not comparable — the published series (98.7x → 836.7x) uses GAAP EBITDA	MSI 22.5x (published basis)	computed from stats + EDGAR, 2026-09-23
Rule of 40 (TTM revenue growth 34.6% + H1 2026 adjusted EBITDA margin 25.9%)	60.5	n/a (unverified)	—	stockanalysis.com + Q2 2026 release

An EBITDA definition that decides the whole model. GAAP profit here tracks when XSP compensation tranches become probable, not operations: GAAP operating income was –\$168mm in FY2021, +\$157mm in FY2023 and –\$62mm in FY2025 while revenue tripled. This model defines EBITDA as GAAP operating income + D&A + SBC, identically across five years, and charges the excluded SBC through an elevated share-count driver (2.5% base, against 5.6% realised over five years and 1.6% implied by the FY2026 SBC guide) and through low exit multiples. It also sits 150–190bp *below* the company's own adjusted EBITDA.

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$83.36 · Base \$218.05 · Bull \$458.13 per share, i.e. implied returns of –82% / –53% / **–0.3%** vs \$459.32. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The market price is the bull case, to the dollar.

Which leg to believe. The methods diverge more here than anywhere else in this rotation: base \$132.77 on the Gordon DCF against \$303.32 on the exit multiple. The Gordon leg capitalises year five at 12.5x free cash flow for a business still growing 14% that year — a structural understatement for a long-duration grower — so I weight the exit-multiple leg more heavily. **On that more generous reading the range is –76% / –34% / +38%, and the base case is still a third below the price.** That is what carries the Sell; the equal-weighted midpoint overstates it.

The strongest counter-argument: at 11.95x sales Axon is cheaper than at any year-end since FY2022 and 45% below its FY2024 multiple. Anyone who thinks the multiple mean-reverts within its own history rather than toward comparables gets a very different answer — that is the disagreement to have at the quarterly review.

Balance sheet: net debt \$1,076mm at 2026-06-30 (model net leverage 1.64x on FY0 EBITDA of \$655.3mm, turning to net cash by FY2028); coverage 6.9x at FY0 and 18.3x in Y1; liquidity \$674mm of cash and short-term investments plus ~\$1.035bn of net September convertible proceeds; nearest maturity the 0.50% converts due 2027 (residual, estimated \$250mm); ratings n/a (unverified).

Model note: Built and verified — LibreOffice matched Python across all 3,188 formula cells. Two unverified inputs, both in the debt stack: the \$1,500.0mm March 2025 senior notes are carried as one 2030 tranche at an estimated 6.25% coupon (the 2030/2033 split and pricing were not retrieved), and the \$250.0mm of residual 2027 converts is the plug to the sourced \$1,750.0mm total principal — so the maturity ladder should not be relied on here. Balance-sheet facts are as of 2026-06-30 and exclude the 2026-09-18 zero-coupon convertible, which

is roughly net-leverage-neutral ($\approx \$1.15\text{bn}$ debt against $\approx \$1.035\text{bn}$ cash). No assumptions lack a basis; no consistency CHECKs. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

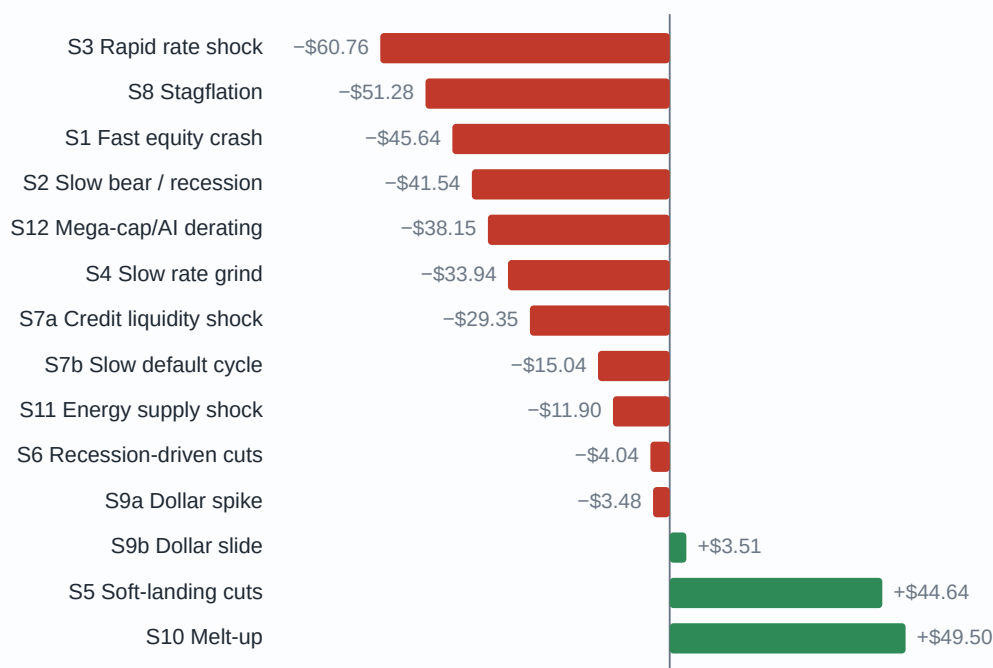
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	−	1.40 beta, 4.45% short interest, a multiple in the top decile of the market: sold first, no cash flow moves	High	−\$45.64
S2 Slow bear / recession	−	Insulated ~a year by contracted backlog and annual agency budgets, then state and municipal revenue follows the tax base down — the shock is applied to years 2–3, not year 1	High	−\$41.54
S3 Rapid rate shock	−	Worst row: effectively all the value sits beyond year five, so discount rate and exit multiple are hit together, and zero-coupon convertible funding is what a rate shock repossesses	High	−\$60.76
S4 Slow rate grind	−	Same duration channel spread across five years	Med	−\$33.94
S5 Soft-landing cuts	+	Best case for a long-duration grower: rate and multiple both improve while public-safety budgets are untouched	High	+\$44.64
S6 Recession-driven cuts	±	Rate relief against eventual municipal payroll and equipment pressure; the two roughly cancel	Low	−\$4.04
S7a Credit liquidity shock	−	Live, not theoretical: Axon has funded itself twice in the convertible market, and a shut window is what makes the 2027 maturity expensive	Med	−\$29.35
S7b Slow default cycle	−	Weak — government customers do not default — though municipal credit stress slows procurement at the margin	Low	−\$15.04
S8 Stagflation	−	Multi-year contracts fix price while hardware bills of material inflate (management already flagged memory costs), and the rate/multiple damage matches S3	High	−\$51.28
S9a Dollar spike	−	International is small but tripling; translation plus dearer US-priced hardware abroad	Low	−\$3.48
S9b Dollar slide	+	The same effect in reverse	Low	+\$3.51
S10 Melt-up	+	One of the most natural melt-up beneficiaries here: high-beta, AI-branded, 42% below its high, with a raised guide	High	+\$49.50
S11 Energy supply shock	−	Thin: freight and component costs, and municipal fuel budgets squeezed at the margin; nothing in revenue is energy-linked	Low	−\$11.90
S12 Mega-cap/AI derating	−	Direct, not incidental — Axon markets itself on AI (Draft One, AI Era Plan), so an AI-premium unwind takes the AI component of this multiple with it	Med	−\$38.15

Currently active/on watch per the playbook: S3 partially active (price-level leg no longer met at 4.96% on 2026-09-21); S8, S10 and S11 on watch. S3 and S8 are this name's two worst rows; S10 is its best.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: EV/Sales falls toward 9x, near its FY2022 trough, which alone takes the exit-multiple base case close to flat; or growth holds above 25% into FY2028 with adjusted EBITDA margin above 28%. **Downgrades if:** FY2027 revenue guidance comes in below 25%; backlog growth decelerates below 20%; or FY2026 SBC exceeds the guided \$620mm.

Watch items

- **W1:** Q3 2026 revenue growth against the 32–34% full-year guide, and backlog growth against 41% — Q3 2026 earnings release — 2026-11-03 — *Model: rev_growth*
- **W2:** FY2026 adjusted EBITDA margin against the 25.5% guide, given the flagged memory-cost headwind — Q3 and Q4 2026 releases — November 2026 / February 2027 — *Model: ebitda_margin*
- **W3:** FY2026 SBC against the \$590–620mm guide and whether weighted-average diluted shares stay near 82.5mm — Q3/Q4 releases and FY2026 10-K — *Model: share_change*
- **W4:** The multiple — EV/Sales below 9x or back above 16x — continuous — *Model: exit_ev_ebitda, peer_pe*

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.