

Law Enforcement Industry

April 19, 2021

Adjusted NICS Checks Decline in March

James McIlree, CFA

866-928-0928

jmcilree@dawsonjames.com

Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined in March. Total checks increased 25% versus March of 2020, but checks excluding new permits and permit renewals, a proxy for firearm purchases, were down 14% in March, a sharp deceleration in growth from the past twelve months. Comps will remain difficult over the coming months.

The National Instant Criminal Background Check System (NICS) was created to comply with The Brady Handgun Violence Prevention Act of 1993. The Act requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of persons prohibited from buying firearms. Total NICS checks include requests for permits and permit renewals, and excluding these two categories, or adjusted NICS checks, provides a proxy for gun purchases in the U.S.

Adjusted NICS checks accelerated beginning March of 2020 and the year-over-year growth rate peaked in June of 2020 at 136%. The growth rate in July 2020 was 123%, and for the next four months, the growth in NICS checks averaged 54%. The growth rate in December 2020 was less than half the rate of the previous four months, rebounded in January 2021 and decelerated again in February 2021. In March of 2021, adjusted checks declined 14% versus March of 2020, the first monthly year-over-year decline in almost two years.

The past four months have been contra to the normal seasonal pattern. To adjust for this abnormal seasonal pattern, we compare trailing 3-month adjusted requests. For the three months ending March 2021, adjusted NICS requests were up 13% over the same period a year ago. While growth is still substantial, the rate is down sharply. In 2020, Q1 growth was 42%, Q2 was 93%, Q3 was 75%, and Q4 was 41%. Comps will be very difficult through the end of this year.

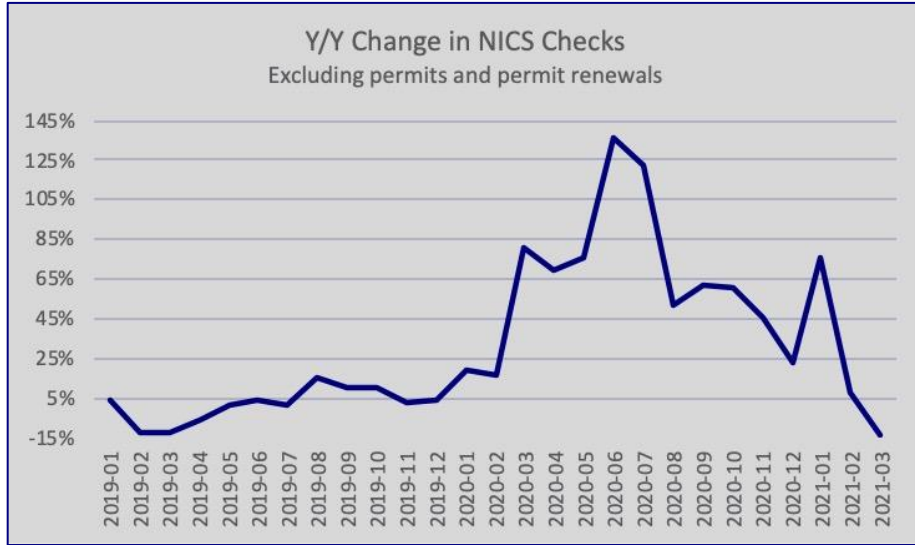
In our opinion, there are five driving factors for the sharp increase in NICS checks: 1) checks were down 16% from the end of 2016 through the end of 2019 and the subsequent increase is a reversion to the mean. Catalysts for that reversion include: 2) the uncertainty created by the pandemic; 3) the wave of riots and violence and increased crime in many U.S. cities in 2020; and 4) the recent election and uncertainty over firearm regulations. 5) Pressure on police budgets.

As the pandemic continues to wane, so, too, could demand for firearms. However, hostility to police budgets, ambivalent attitudes towards organized public disturbances, and increased proposals for restrictions on firearms will likely mitigate some of this diminution in growth.

Increased background checks are a proxy for firearm and ammunition sales and demand for privately provided safety, generally. In our opinion, the public desires a certain level of safety and will satisfy that desire with some combination of publicly and privately provided goods and services. That is, if publicly provided safety declines relative to the amount desired, privately provided safety will increase. And vice versa.

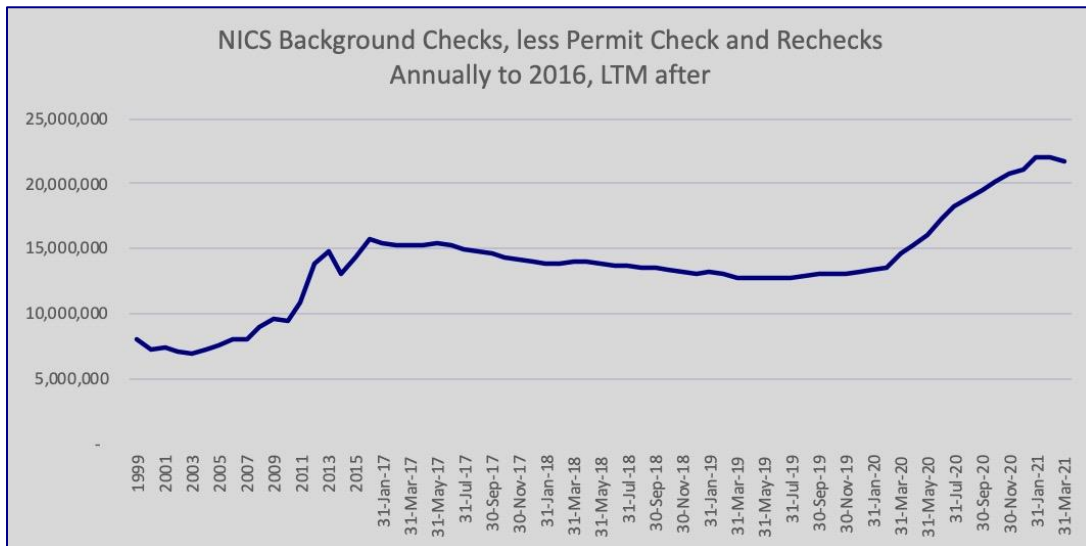
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories in the Interstate Identification Index (III); 2) wanted persons, subjects of protection orders, and other persons who may pose a threat to officer and public safety in the National Crime Information Center (NCIC) database; 3) persons prohibited from possessing or receiving a firearm in the NICS Indices; and 4) non-U.S. citizens attempting to receive firearms.

Adjusted NICS checks accelerated beginning March of 2020 and the growth rate peaked in June of 2020 at 136%. The growth rate in July 2020 was 123%, and for the next four months, the growth in NICS checks averaged 54%. The growth rate in December 2020 was less than half the rate of the previous four months, rebounded in January 2021 and decelerated again in February 2021. In March of 2021, adjusted checks declined 14% versus March of 2020, the first monthly year-over-year decline in almost two years.



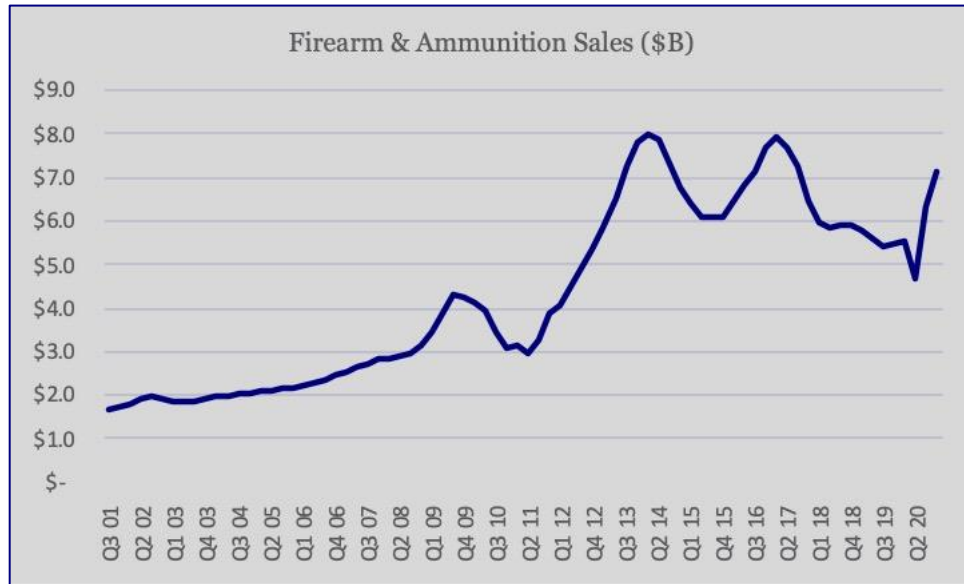
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

From 1999 through 2008, background checks (less permits and renewals) increased at a 1.3% compound annual rate. From 2008 through 2016, checks grew at a 7.3% compound annual rate. From the end of 2016 through 2019, the number of checks fell at a 5.8% annual rate. For 2020, background checks (excluding permits and renewals) were 21.1 million, 60% higher than the 13.2 million checks processed in 2019. In March of 2021, LTM adjusted checks were 1.5% lower than the LTM adjusted checks in February 2021, the first month/month decline of LTM adjusted checks since April of 2019.



Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

The increase in adjusted NICS checks as a proxy for firearm and ammunition sales is verified by excise tax data. Using U.S. Treasury Alcohol and Tobacco Tax and Trade Bureau excise tax collection data, wholesale firearm and ammunition sales grew at a 7.2% compound annual rate from 2000 through 2008, 12% from 2008 to 2016, fell at a 15% compound rate from 2016 through June of 2020 and rose over 50% in the second half of 2020.



Source U.S. Treasury, Alcohol and Tobacco Tax and Trade Bureau, Statistical Release, www.ttb.gov/tax-audit/tax-collections and Dawson James Securities estimates.

The increase in adjusted background checks is broad-based across the country.

NICS Background Checks (excluding new and renewal permits)
by State and Territory

State/Territory	3 Mos. Ending Mar. 2020	3 Mos. Ending Mar. 2021	Change	Percent Change
Hawaii	3	11	8	267%
Puerto Rico	4,592	14,191	9,599	209%
New Jersey	27,783	73,035	45,252	163%
District of Columbia	521	1,223	702	135%
Virgin Islands	95	176	81	85%
Mariana Islands	46	72	26	57%
Michigan	131,880	200,166	68,286	52%
Maryland	44,226	61,102	16,876	38%
Guam	745	1,009	264	35%
Idaho	43,346	58,210	14,864	34%
Minnesota	80,932	107,258	26,326	33%
Montana	31,070	40,855	9,785	31%
Wyoming	17,839	22,889	5,050	28%
Pennsylvania	235,364	300,929	65,565	28%
Alaska	19,585	25,022	5,437	28%
Massachusetts	34,547	43,971	9,424	27%
South Dakota	24,626	31,228	6,602	27%
Rhode Island	11,467	14,145	2,678	23%
North Dakota	18,100	21,985	3,885	21%
Maine	28,837	34,842	6,005	21%
Louisiana	84,285	101,813	17,528	21%
Delaware	15,827	18,962	3,135	20%
California	262,006	313,867	51,861	20%
Utah	40,962	49,054	8,092	20%
Washington	129,098	152,532	23,434	18%
Tennessee	172,749	202,194	29,445	17%
Georgia	127,511	148,893	21,382	17%
Alabama	147,622	171,370	23,748	16%
Mississippi	72,225	83,805	11,580	16%
Wisconsin	120,277	139,060	18,783	16%
South Carolina	85,243	98,442	13,199	15%
Vermont	13,717	15,795	2,078	15%
Missouri	157,082	179,377	22,295	14%
Florida	359,059	407,091	48,032	13%
Arkansas	61,516	69,716	8,200	13%
USA & Territories	4,840,705	5,483,342	642,637	13%
Illinois	130,159	146,621	16,462	13%
New Hampshire	39,444	44,043	4,599	12%
Kansas	58,768	64,443	5,675	10%
Indiana	157,754	171,589	13,835	9%
New Mexico	50,977	55,230	4,253	8%
Colorado	140,195	150,865	10,670	8%
New York	107,247	115,255	8,008	7%
Oklahoma	108,023	116,067	8,044	7%
Nevada	39,579	42,294	2,715	7%
North Carolina	85,256	90,239	4,983	6%
West Virginia	57,586	60,802	3,216	6%
Nebraska	8,184	8,629	445	5%
Arizona	133,038	140,261	7,223	5%
Iowa	11,524	12,074	550	5%
Kentucky	104,611	107,992	3,381	3%
Ohio	195,095	201,348	6,253	3%
Connecticut	37,405	37,347	(58)	0%
Oregon	104,873	103,997	(876)	-1%
Texas	449,576	418,107	(31,469)	-7%
Virginia	216,628	191,849	(24,779)	-11%

Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

Important Disclosures:

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has not engaged in investment banking relationships with the subject company in the prior twelve months, as a manager or co-manager of a public offering and has not received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has not received any other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of March 31, 2021, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings Definitions:

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	20	69%	6	30%
Market Perform (Neutral)	9	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	29	100%	6	21%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.