

## Law Enforcement Industry

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### Adjusted NICS Checks Continued Decline in Q4, Full Year 2021

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*Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined in December versus a year ago. Total checks declined 21% versus December of 2020, and checks excluding new permits and permit renewals, a proxy for firearm purchases, declined 6% in December, a continuing deceleration in growth from the past twelve months. Comps will remain difficult over the coming months.*

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The National Instant Criminal Background Check System (NICS) was created to comply with The Brady Handgun Violence Prevention Act of 1993. 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.

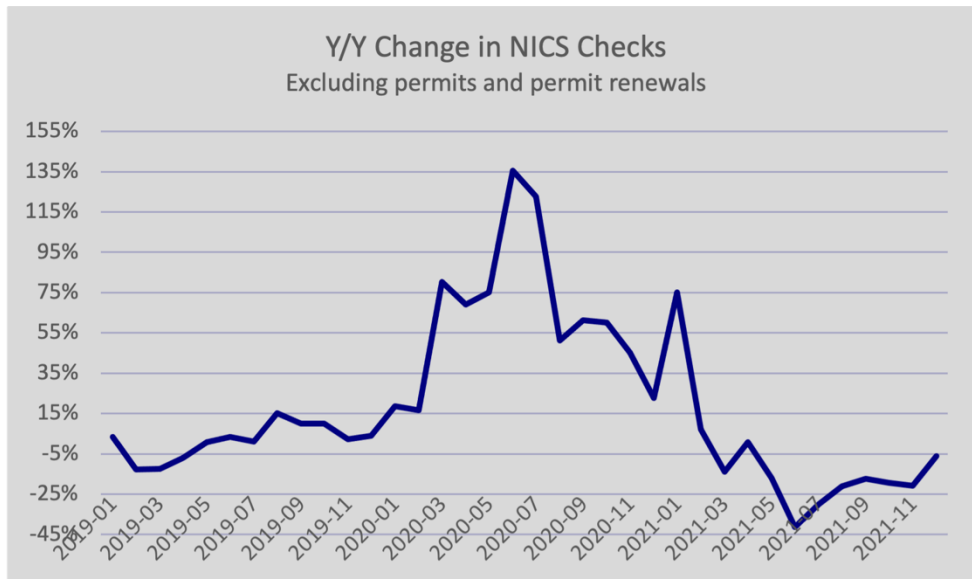
Adjusted NICS checks accelerated beginning March of 2020 and the year-over-year growth rate peaked in June of 2020 at 136%. The growth rate in July 2020 was 123%, and for the next four months, the growth in NICS checks averaged 54%. By December, the growth rate was less than half the rate of the previous four months, rebounded in January 2021 and decelerated again in February 2021. From March through year-end the average year-over-year decline was almost 20%. For the year, adjusted NICS checks were down 12% versus 2020.

In our opinion, there are five driving factors for the sharp increase in NICS checks in 2020: 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) 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. 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.

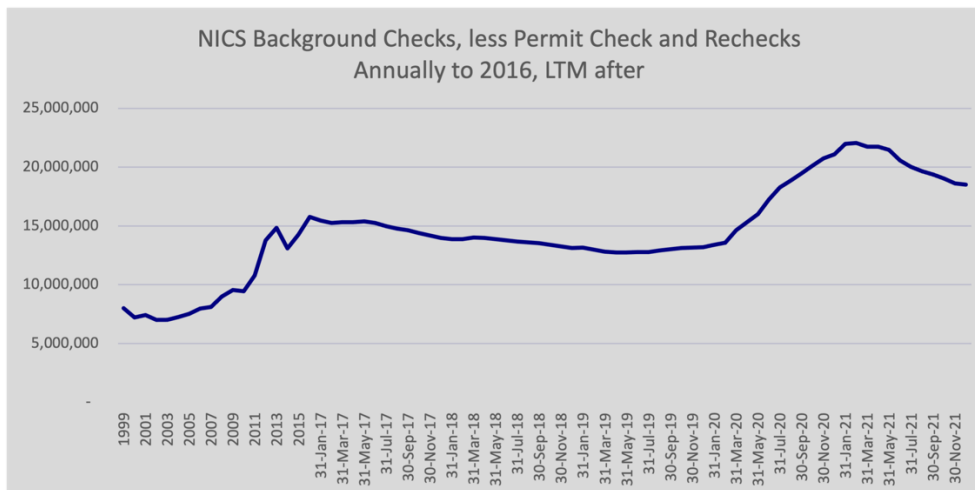
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories 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. 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.

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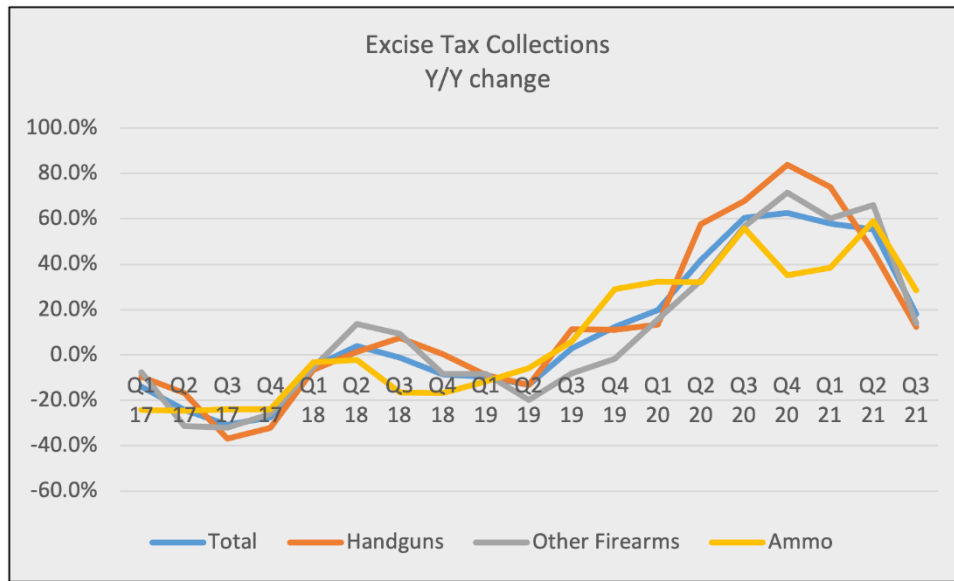
Source: "NICS Firearm Background Checks: Month and Year by State and Type," [www.fbi.gov/services/cjis/nics](http://www.fbi.gov/services/cjis/nics)

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 2021, adjusted checks were 18.5 million, down 12% versus the adjusted checks in 2020 and down from the peak level of a 22.0 million annualized rate achieved in January 2021.



Source: "NICS Firearm Background Checks: Month and Year by State and Type," [www.fbi.gov/services/cjis/nics](http://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 10% compound rate from 2016 through mid 2019. Sales have increased at a 34% compound rate since the trough in 2016, but the rate of growth has declined sharply, and comps will be difficult in the coming quarters.



Source U.S. Treasury, Alcohol and Tobacco Tax and Trade Bureau, <https://www.ttb.gov/foia/electronic-reading-room>.

Within the continental United States, adjusted checks for the three months ending December 2021 were down in almost every state. Iowa was the only state with an increase in adjusted NICS background checks in December.

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

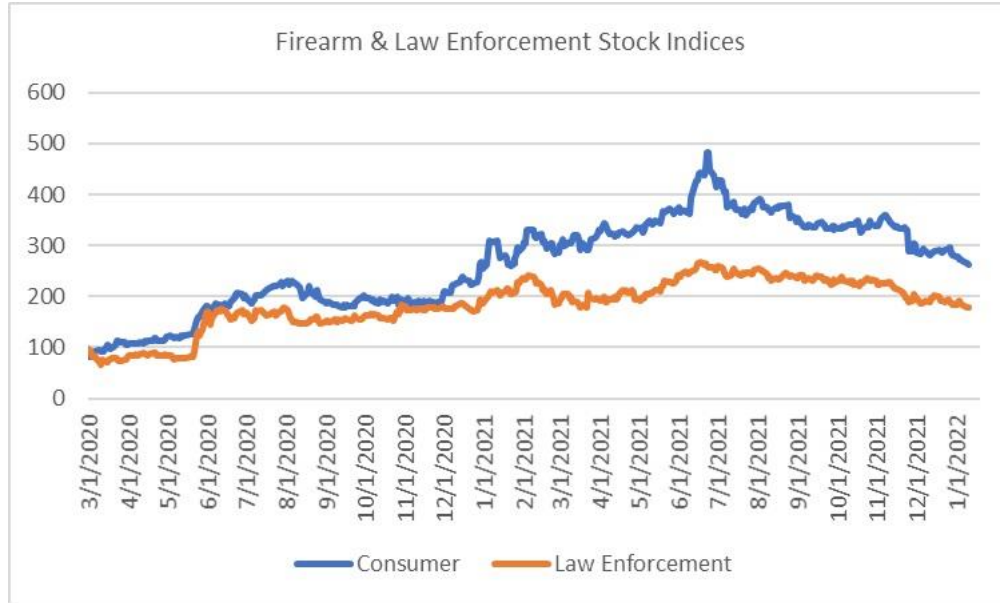
| State/Territory            | 3 Mos. Ending Dec 2020 | 3 Mos. Ending Dec 2021 | Change           | Percent Change | State/Territory | 3 Mos. Ending Dec 2020 | 3 Mos. Ending Dec 2021 | Change   | Percent Change |
|----------------------------|------------------------|------------------------|------------------|----------------|-----------------|------------------------|------------------------|----------|----------------|
| Puerto Rico                | 12,638                 | 21,001                 | 8,363            | 66%            | Florida         | 410,710                | 345,038                | (65,672) | -16%           |
| Mariana Islands            | 70                     | 110                    | 40               | 57%            | Washington      | 156,620                | 131,301                | (25,319) | -16%           |
| Iowa                       | 15,972                 | 23,690                 | 7,718            | 48%            | Wyoming         | 24,244                 | 20,265                 | (3,979)  | -16%           |
| District of Columbia       | 1,226                  | 1,593                  | 367              | 30%            | Kansas          | 63,937                 | 53,346                 | (10,591) | -17%           |
| Guam                       | 985                    | 1,169                  | 184              | 19%            | North Carolina  | 103,421                | 85,348                 | (18,073) | -17%           |
| Texas                      | 444,698                | 419,261                | (25,437)         | -6%            | North Dakota    | 22,299                 | 18,369                 | (3,930)  | -18%           |
| New Mexico                 | 47,644                 | 44,844                 | (2,800)          | -6%            | Vermont         | 15,281                 | 12,566                 | (2,715)  | -18%           |
| Montana                    | 41,385                 | 38,854                 | (2,531)          | -6%            | Virginia        | 201,676                | 165,563                | (36,113) | -18%           |
| Connecticut                | 34,842                 | 32,272                 | (2,570)          | -7%            | Utah            | 55,144                 | 44,762                 | (10,382) | -19%           |
| Alaska                     | 24,165                 | 22,279                 | (1,886)          | -8%            | New Hampshire   | 41,052                 | 33,233                 | (7,819)  | -19%           |
| Tennessee                  | 204,007                | 187,740                | (16,267)         | -8%            | Oregon          | 112,484                | 90,890                 | (21,594) | -19%           |
| Mississippi                | 91,509                 | 83,039                 | (8,470)          | -9%            | Ohio            | 205,830                | 165,610                | (40,220) | -20%           |
| Oklahoma                   | 117,028                | 105,232                | (11,796)         | -10%           | Minnesota       | 110,181                | 88,554                 | (21,627) | -20%           |
| Arkansas                   | 74,548                 | 66,575                 | (7,973)          | -11%           | South Carolina  | 100,884                | 81,073                 | (19,811) | -20%           |
| Maine                      | 37,095                 | 33,042                 | (4,053)          | -11%           | Nebraska        | 12,124                 | 9,734                  | (2,390)  | -20%           |
| West Virginia              | 62,496                 | 55,122                 | (7,374)          | -12%           | Pennsylvania    | 309,014                | 244,506                | (64,508) | -21%           |
| Illinois                   | 140,994                | 124,119                | (16,875)         | -12%           | Massachusetts   | 42,782                 | 33,687                 | (9,095)  | -21%           |
| Idaho                      | 58,568                 | 51,509                 | (7,059)          | -12%           | Georgia         | 152,060                | 117,423                | (34,637) | -23%           |
| Alabama                    | 175,896                | 154,095                | (21,801)         | -12%           | New York        | 128,362                | 98,222                 | (30,140) | -23%           |
| Missouri                   | 178,807                | 156,256                | (22,551)         | -13%           | Maryland        | 65,034                 | 49,618                 | (15,416) | -24%           |
| Louisiana                  | 114,017                | 99,585                 | (14,432)         | -13%           | Delaware        | 20,706                 | 15,750                 | (4,956)  | -24%           |
| Kentucky                   | 111,897                | 97,017                 | (14,880)         | -13%           | South Dakota    | 33,450                 | 25,135                 | (8,315)  | -25%           |
| Indiana                    | 166,016                | 142,857                | (23,159)         | -14%           | Michigan        | 209,611                | 156,094                | (53,517) | -26%           |
| Wisconsin                  | 140,445                | 120,657                | (19,788)         | -14%           | Nevada          | 44,065                 | 31,149                 | (12,916) | -29%           |
| Arizona                    | 132,962                | 113,119                | (19,843)         | -15%           | Virgin Islands  | 241                    | 167                    | (74)     | -31%           |
| Colorado                   | 150,470                | 127,770                | (22,700)         | -15%           | New Jersey      | 65,608                 | 41,959                 | (23,649) | -36%           |
| <b>USA and Territories</b> | <b>5,625,610</b>       | <b>4,763,439</b>       | <b>(862,171)</b> | <b>-15%</b>    | Hawaii          | 8                      | 5                      | (3)      | -38%           |
| California                 | 324,256                | 273,349                | (50,907)         | -16%           | Rhode Island    | 14,146                 | 7,916                  | (6,230)  | -44%           |

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

We have created two indices to capture the share performance of firearm/self-defense and accessory companies primarily serving 1) the consumer market: American Outdoor Brands, Ammo, Inc., Byrna, Smith & Wesson Brands, Sturm, Ruger &

Company, Inc. and 2) those primarily serving the law enforcement market: Axon, Digital Ally, ShotSpotter, VirTra and Wrap Technologies.

The indices are equal-weighted, chain-linked and begin in March of 2020, about the start of the pandemic. From March 2020 to their respective peaks in June 2021 the consumer index increased over 640%, much of the increase due to the increase in Byrna. Excluding Byrna from the group, the consumer index would have increased over 380%. The law enforcement index increased 167%. The index of the consumer group has declined 46% since its peak versus a 34% decline for the law enforcement index from its peak.



Source: Factset

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