

Law Enforcement Industry

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Adjusted NICS Checks Continued Decline in March

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Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined in March versus a year ago. Total checks declined 35% versus March of 2021, and checks excluding new permits and permit renewals, a proxy for firearm purchases, declined 18% in March compared to the same month a year ago. This is a continuation of the deceleration in growth since March of 2021.

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.

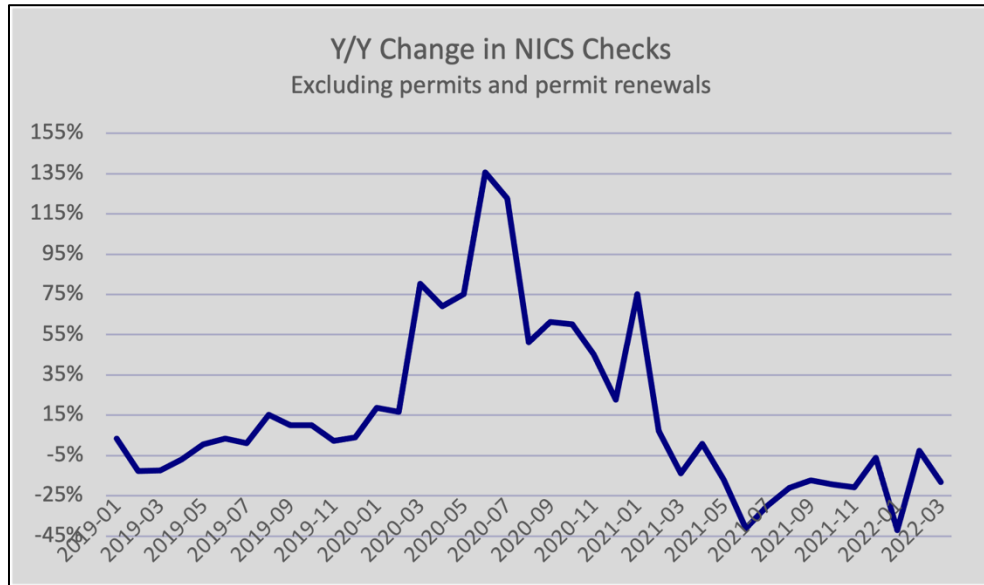
Adjusted NICS checks averaged 13.9 million per year from 2017 through early 2020 and began growing rapidly beginning March of 2020. The year-over-year growth rate peaked in June of 2020 at 136% and trailing twelve month adjusted NICS checks peaked at 22.1 million in February 2021. Since June of 2020, the rate of change has declined, and turned negative in March 2021. The year-over-year change in adjusted NICS checks was negative in all but one of the subsequent months. As of March 2022, trailing twelve month adjusted NICS checks were 17.2 million, down 22% from the peak but still 24% above the average from 2017 through early 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.

For the rest of this year, if the month-to-month change in NICS adjusted checks is similar to the monthly average of the past 23 years (since 1999), the total adjusted NICS checks would be 18.0 million, down 3% from the 18.5 million checks in 2021. This would still be 24% higher than the average from the beginning of 2017 to early 2020 when firearm purchases began to accelerate. To the extent adjusted NICS checks are a proxy for firearm purchases, this is an indication firearm and ammunition sales will face a challenging 2022.

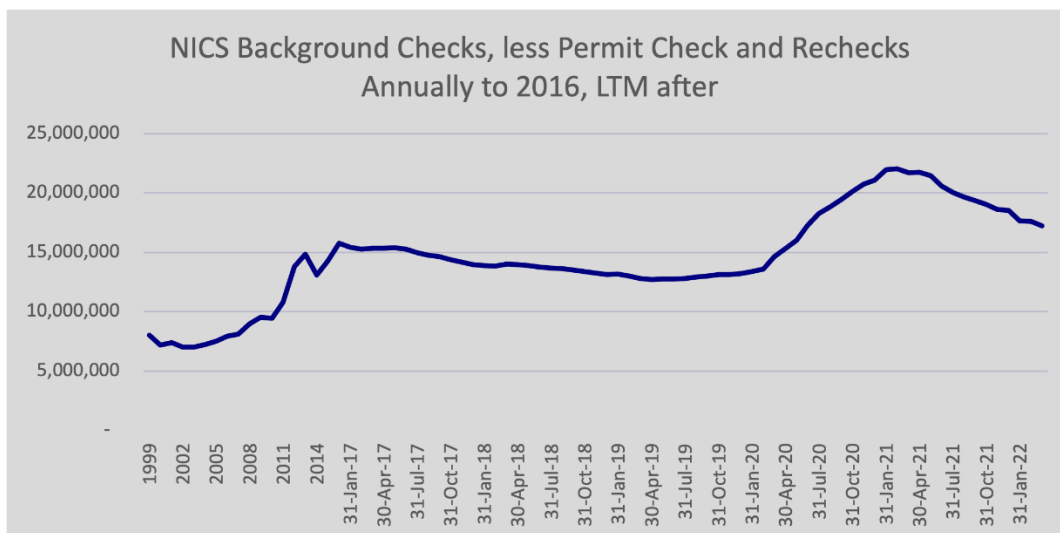
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories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

Adjusted NICS checks accelerated beginning March of 2020 and the year-over-year growth rate peaked in June of 2020 at 136%. Since then, the rate of change has declined, and turned negative in March 2021. The year-over-year change in adjusted NICS checks were negative in all but one of the thirteen subsequent months.



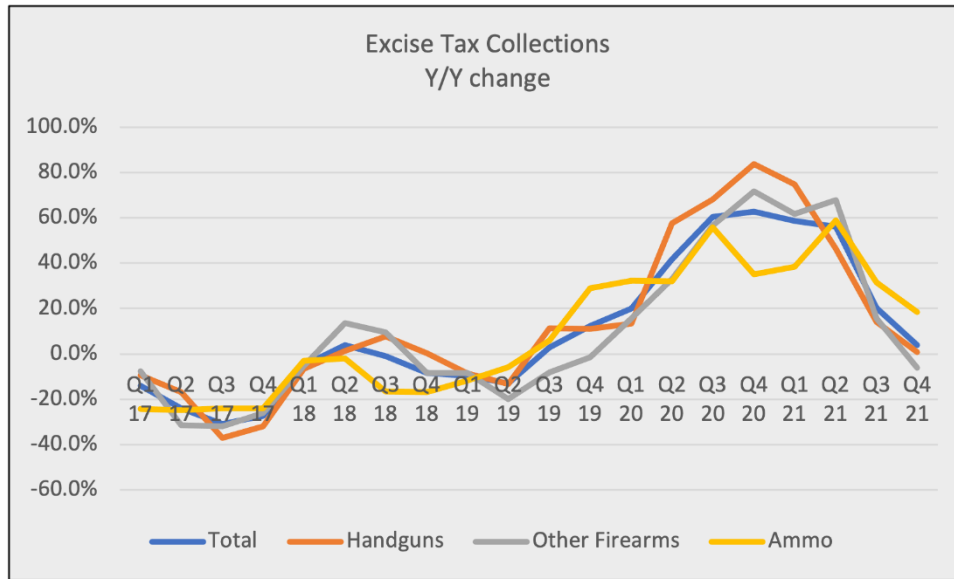
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

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 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

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. Growth in total excise taxes peaked in Q4 2020 at 63% and have fallen subsequently. Growth in firearm and ammunition excise taxes in Q4 2021 was 4%.



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 March 2022 were down in almost every state. Iowa was the only state with an increase in adjusted NICS background checks in March.

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

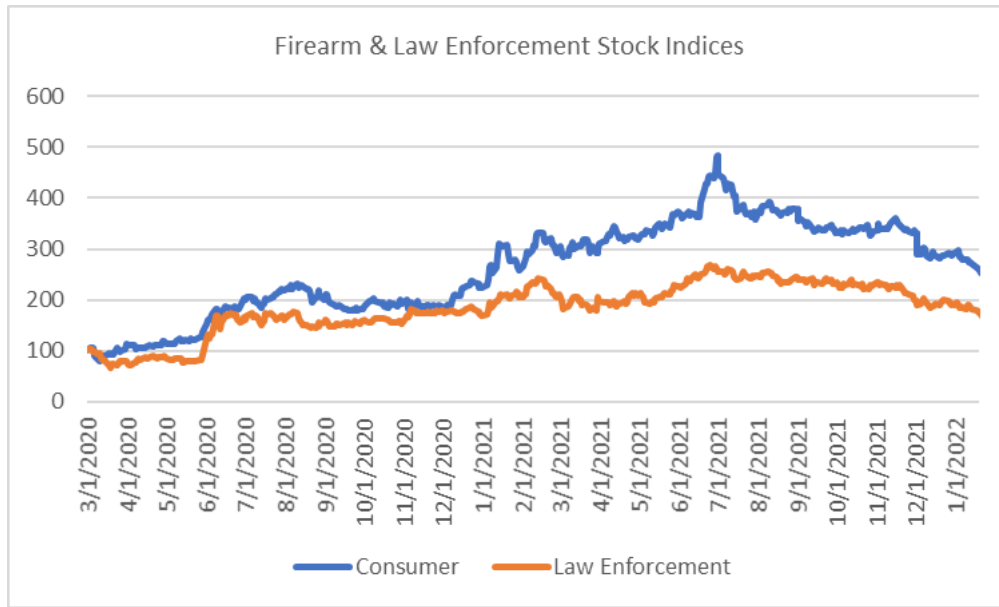
State/Territory	3 Mos. Ending Mar 2021	3 Mos. Ending Mar 2022	Change	Percent Change	State/Territory	3 Mos. Ending Mar 2021	3 Mos. Ending Mar 2022	Change	Percent Change
Iowa	12,074	19,862	7,788	65%	Oklahoma	116,067	87,639	(28,428)	-24%
Mariana Islands	72	103	31	43%	New York	115,255	87,003	(28,252)	-25%
District of Columbia	1,223	1,733	510	42%	Montana	40,855	30,753	(10,102)	-25%
Puerto Rico	14,191	19,929	5,738	40%	Kentucky	107,992	80,936	(27,056)	-25%
Connecticut	37,347	36,163	(1,184)	-3%	Virginia	191,849	143,572	(48,277)	-25%
Virgin Islands	176	158	(18)	-10%	Vermont	15,795	11,778	(4,017)	-25%
Guam	1,009	901	(108)	-11%	Colorado	150,865	112,363	(38,502)	-26%
Washington	152,532	135,914	(16,618)	-11%	Kansas	64,443	47,418	(17,025)	-26%
Texas	418,107	363,310	(54,797)	-13%	Maryland	61,102	44,853	(16,249)	-27%
Wisconsin	139,060	114,979	(24,081)	-17%	North Carolina	90,239	66,238	(24,001)	-27%
California	313,867	257,430	(56,437)	-18%	Pennsylvania	300,929	219,455	(81,474)	-27%
Hawaii	11	9	(2)	-18%	Maine	34,842	25,385	(9,457)	-27%
Mississippi	83,805	67,636	(16,169)	-19%	Minnesota	107,258	77,608	(29,650)	-28%
Louisiana	101,813	81,853	(19,960)	-20%	Utah	49,054	35,475	(13,579)	-28%
Oregon	103,997	82,136	(21,861)	-21%	Delaware	18,962	13,696	(5,266)	-28%
Illinois	146,621	115,056	(31,565)	-22%	Alaska	25,022	17,992	(7,030)	-28%
Arizona	140,261	109,641	(30,620)	-22%	South Carolina	98,442	70,519	(27,923)	-28%
New Mexico	55,230	42,907	(12,323)	-22%	Ohio	201,348	144,065	(57,283)	-28%
Nebraska	8,629	6,663	(1,966)	-23%	North Dakota	21,985	15,620	(6,365)	-29%
Totals	5,483,342	4,212,539	(1,270,803)	-23%	West Virginia	60,802	43,191	(17,611)	-29%
Tennessee	202,194	155,317	(46,877)	-23%	Idaho	58,210	41,321	(16,889)	-29%
Florida	407,091	311,344	(95,747)	-24%	Wyoming	22,889	16,118	(6,771)	-30%
Massachusetts	43,971	33,504	(10,467)	-24%	Georgia	148,893	104,696	(44,197)	-30%
Indiana	171,589	130,625	(40,964)	-24%	New Hampshire	44,043	30,942	(13,101)	-30%
Missouri	179,377	135,777	(43,600)	-24%	Michigan	200,166	136,649	(63,517)	-32%
Alabama	171,370	129,590	(41,780)	-24%	South Dakota	31,228	19,412	(11,816)	-38%
Nevada	42,294	31,968	(10,326)	-24%	New Jersey	73,035	42,926	(30,109)	-41%
Arkansas	69,716	52,676	(17,040)	-24%	Rhode Island	14,145	7,732	(6,413)	-45%

Source: "NICS Firearm Background Checks: Month and Year by State and Type," 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 50% since its peak versus a 40% decline for the law enforcement index from its peak.



Source: Factset

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