

## Law Enforcement Industry

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### Adjusted Y/Y NICS Checks Increase, First Time in 13 Months.

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*Adjusted National Instant Criminal Background Check System (NICS) firearm background checks increased in June versus a year ago, the first increase since April of 2021. NICS checks excluding new permits and permit renewals, a proxy for firearm purchases, increased 8% in June compared to the same month a year ago. This change could be the result of recent gun control legislation, a Supreme Court ruling and much easier comps.*

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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.

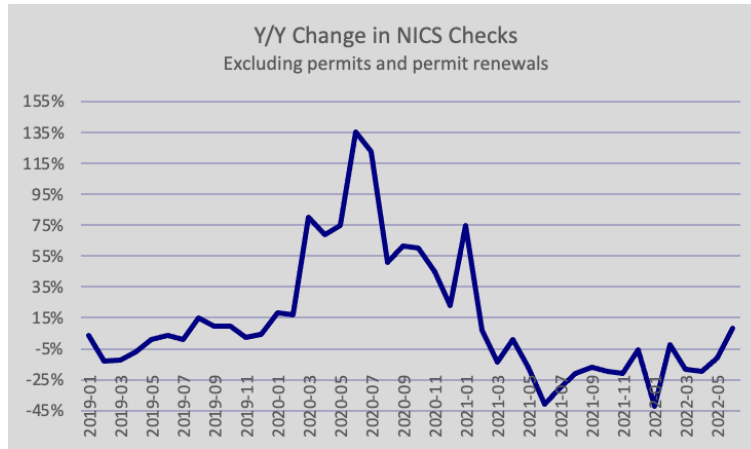
Adjusted NICS checks averaged 13.9 million per year from 2017 through early 2020 and began growing rapidly beginning March of 2020. The year-over-year growth rate peaked in June of 2020 at 136% and trailing twelve month adjusted NICS checks peaked at 22.1 million in February 2021. Since June of 2020, the rate of change has declined, and turned negative in March 2021. The year-over-year change in adjusted NICS checks has been negative in all but two of the subsequent months. As of June 2022, trailing twelve month adjusted NICS checks were 16.9 million, down 24% from the peak but still 22% above the average from 2017 through early 2020.

In our opinion, there were 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; 4) uncertainty over firearm regulations; and 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 19.8 million, up 7% from the 18.5 million checks in 2021. To the extent adjusted NICS checks are a proxy for firearm purchases, this is an indication firearm and ammunition sales will have a tailwind in 2022.

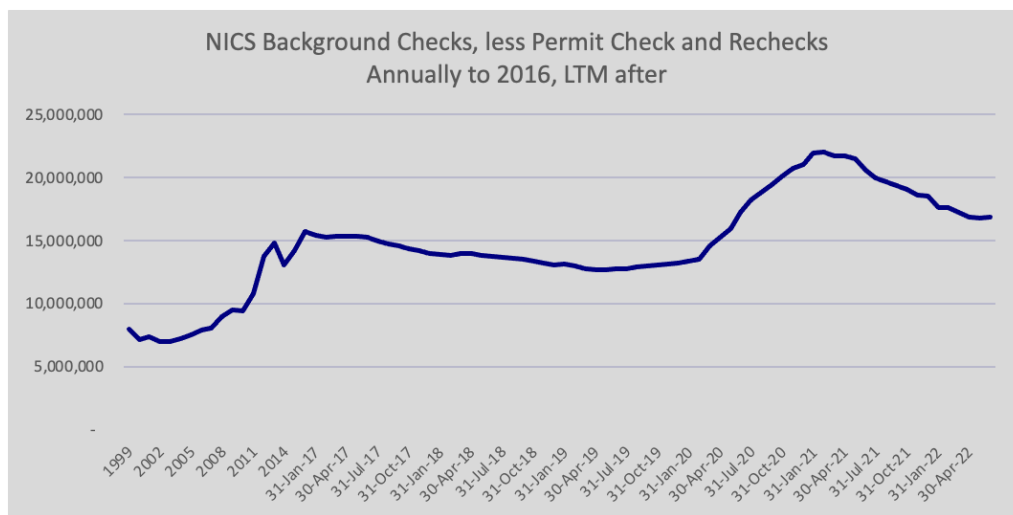
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories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



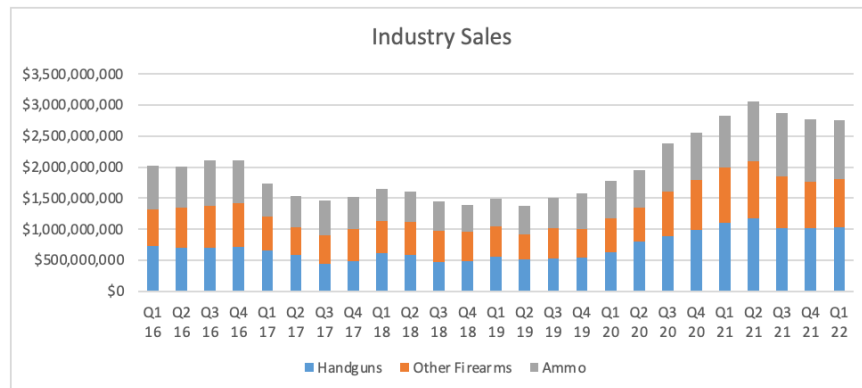
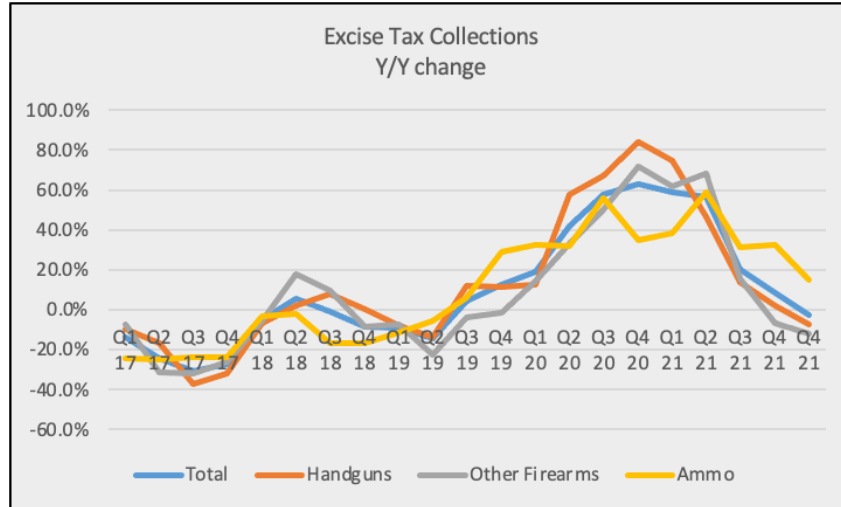
Source: "NICS Firearm Background Checks: Month and Year by State and Type," [www.fbi.gov/services/cjis/nics](http://www.fbi.gov/services/cjis/nics)

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. 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 19.8 million, up 7% from the 18.5 million checks in 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 and 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 Q1 2022 fell 2.4%. Handgun sales declined 7.3%, other firearms fell 12.3% and ammunition sales increased 14.6%.



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 June 2022 were down in almost every state. Iowa, Washington, New York and Montana were the only states with an increase in adjusted NICS background checks for the three months ending June. These results disguise the strong increases in the month of June, which could have been driven by the Supreme Court's ruling in *New York State Rifle & Pistol Association v. Bruen* as well as gun-control legislation introduced in the Senate and signed by the President in June.

In the month of June, adjusted NICS background checks were up 152% in Iowa, 108% in Delaware, 100% in Hawaii, 68% in Washington and 43% in New York. Forty of the fifty states had increases in adjusted NICS checks in the month of June.

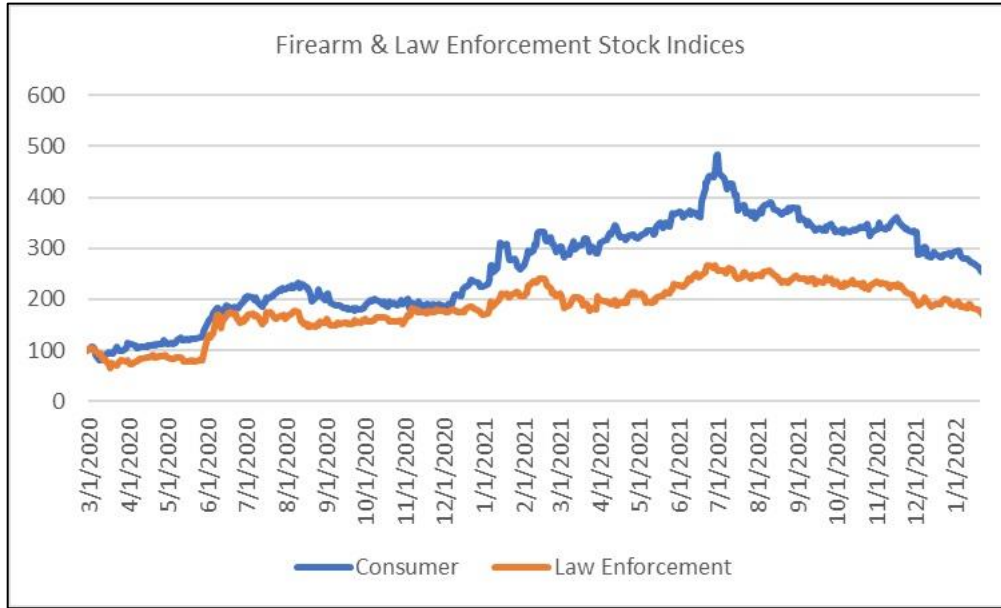
**NICS Background Checks (excluding new and renewal permits)  
by State and Territory**

| State/Territory      | 3 Mos. Ending May 2021 | 3 Mos. Ending May 2022 | Change           | Percent Change | State/Territory | 3 Mos. Ending May 2021 | 3 Mos. Ending May 2022 | Change   | Percent Change |
|----------------------|------------------------|------------------------|------------------|----------------|-----------------|------------------------|------------------------|----------|----------------|
| Iowa                 | 8,234                  | 16,866                 | 8,632            | 105%           | Pennsylvania    | 225,064                | 202,480                | (22,584) | -10%           |
| Mariana Islands      | 69                     | 109                    | 40               | 58%            | Texas           | 371,762                | 334,260                | (37,502) | -10%           |
| District of Columbia | 1,101                  | 1,419                  | 318              | 29%            | North Carolina  | 62,819                 | 56,181                 | (6,638)  | -11%           |
| Washington           | 127,208                | 158,287                | 31,079           | 24%            | Colorado        | 122,652                | 109,191                | (13,461) | -11%           |
| Delaware             | 16,318                 | 17,182                 | 864              | 5%             | New Mexico      | 44,526                 | 39,484                 | (5,042)  | -11%           |
| New York             | 90,913                 | 94,828                 | 3,915            | 4%             | Nebraska        | 5,680                  | 5,036                  | (644)    | -11%           |
| Montana              | 32,349                 | 33,165                 | 816              | 3%             | North Dakota    | 16,393                 | 14,499                 | (1,894)  | -12%           |
| Utah                 | 34,516                 | 35,326                 | 810              | 2%             | Georgia         | 115,269                | 101,870                | (13,399) | -12%           |
| Idaho                | 42,087                 | 41,416                 | (671)            | -2%            | Kansas          | 44,158                 | 39,007                 | (5,151)  | -12%           |
| Puerto Rico          | 20,865                 | 20,367                 | (498)            | -2%            | Kentucky        | 74,501                 | 65,505                 | (8,996)  | -12%           |
| Oregon               | 83,709                 | 80,926                 | (2,783)          | -3%            | Tennessee       | 155,330                | 136,410                | (18,920) | -12%           |
| Maine                | 26,078                 | 25,086                 | (992)            | -4%            | Vermont         | 11,882                 | 10,419                 | (1,463)  | -12%           |
| New Hampshire        | 31,373                 | 29,938                 | (1,435)          | -5%            | Massachusetts   | 34,207                 | 29,879                 | (4,328)  | -13%           |
| Ohio                 | 141,723                | 133,424                | (8,299)          | -6%            | Minnesota       | 85,405                 | 74,506                 | (10,899) | -13%           |
| Florida              | 329,348                | 308,817                | (20,531)         | -6%            | Arkansas        | 50,800                 | 44,232                 | (6,568)  | -13%           |
| Oklahoma             | 85,386                 | 80,013                 | (5,373)          | -6%            | Connecticut     | 33,731                 | 29,059                 | (4,672)  | -14%           |
| West Virginia        | 39,086                 | 36,571                 | (2,515)          | -6%            | Illinois        | 115,308                | 98,670                 | (16,638) | -14%           |
| Virgin Islands       | 159                    | 148                    | (11)             | -7%            | Alabama         | 130,550                | 111,611                | (18,939) | -15%           |
| California           | 278,970                | 259,314                | (19,656)         | -7%            | Rhode Island    | 8,708                  | 7,425                  | (1,283)  | -15%           |
| Alaska               | 21,827                 | 20,243                 | (1,584)          | -7%            | South Dakota    | 19,808                 | 16,801                 | (3,007)  | -15%           |
| Wyoming              | 17,393                 | 16,072                 | (1,321)          | -8%            | Nevada          | 36,273                 | 30,704                 | (5,569)  | -15%           |
| Arizona              | 112,007                | 103,332                | (8,675)          | -8%            | South Carolina  | 72,700                 | 61,379                 | (11,321) | -16%           |
| <b>Totals</b>        | <b>4,297,837</b>       | <b>3,916,986</b>       | <b>(380,851)</b> | <b>-9%</b>     | Michigan        | 147,034                | 123,419                | (23,615) | -16%           |
| Maryland             | 46,867                 | 42,592                 | (4,275)          | -9%            | Guam            | 1,133                  | 905                    | (228)    | -20%           |
| Wisconsin            | 108,280                | 98,115                 | (10,165)         | -9%            | Louisiana       | 85,245                 | 67,286                 | (17,959) | -21%           |
| Indiana              | 124,359                | 112,271                | (12,088)         | -10%           | Mississippi     | 66,161                 | 52,100                 | (14,061) | -21%           |
| Virginia             | 146,736                | 132,333                | (14,403)         | -10%           | Hawaii          | 11                     | 7                      | (4)      | -36%           |
| Missouri             | 131,210                | 118,218                | (12,992)         | -10%           | New Jersey      | 62,556                 | 38,283                 | (24,273) | -39%           |

*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 44% since its peak versus a 51% decline for the law enforcement index from its peak.



Source: Factset

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|----------------------------|------------------|------------|--------------------|-------------|
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| Total                      | 43               | 100%       | 4                  | 9%          |

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