

Law Enforcement Industry

September 19, 2022

Adjusted Y/Y NICS Checks Down 14% YTD.

Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined 3% in August versus a year ago and are down 14% YTD. NICS checks excluding new permits and permit renewals, a proxy for firearm purchases are on track to decline 6% this year.

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 August 2022, trailing twelve-month adjusted NICS checks were 16.8 million, down 24% from the peak but still 21% above the average from 2017 through early 2020.

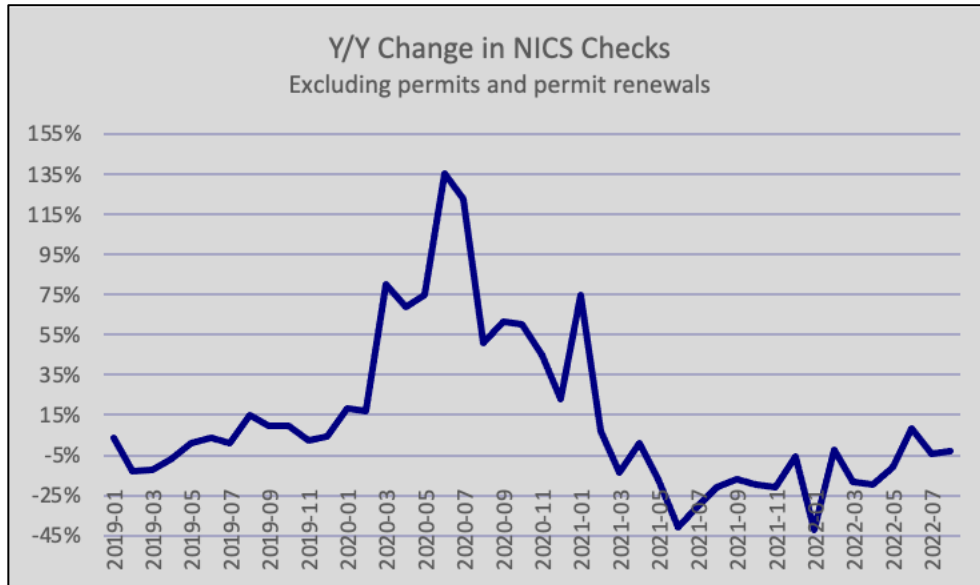
In our opinion, there were five driving factors for the sharp increase in NICS checks in 2020: 1) checks were down 16% from the end of 2016 through the end of 2019 and the subsequent increase is a reversion to the mean. Catalysts for that reversion include: 2) the uncertainty created by the pandemic; 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 17.4 million, down 6% 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 face a headwind for the rest of the year.

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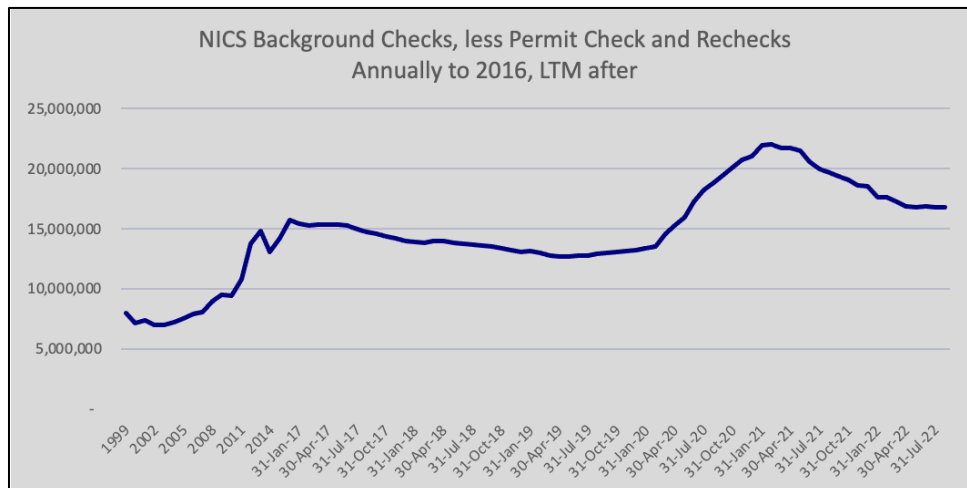
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories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



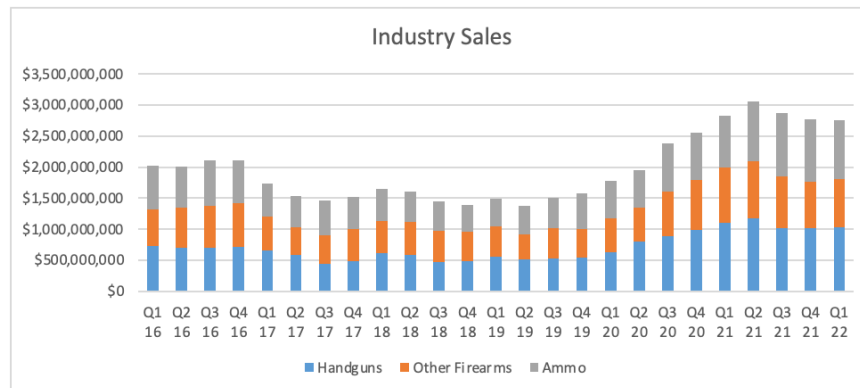
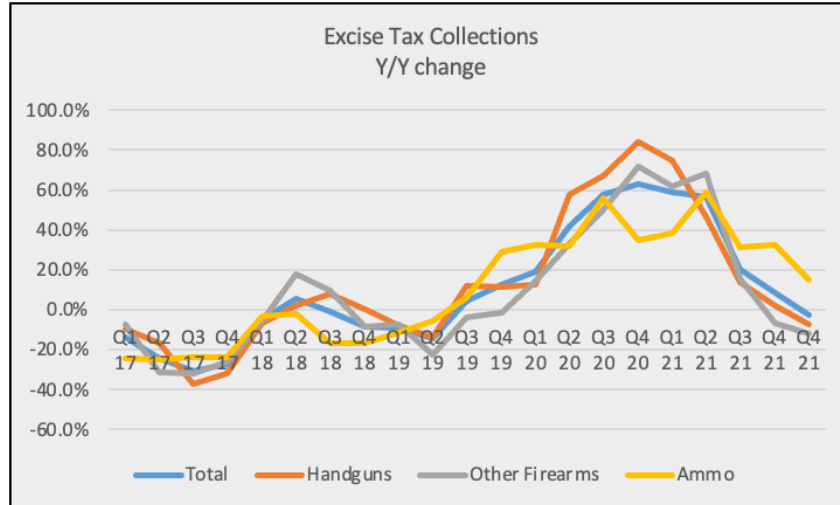
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

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. 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 17.4 million, down 6% 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

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>.

The tables below present adjusted NICS checks by state and territory for the three months ending in August. There was a strong increase 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, followed by declines in July and August.

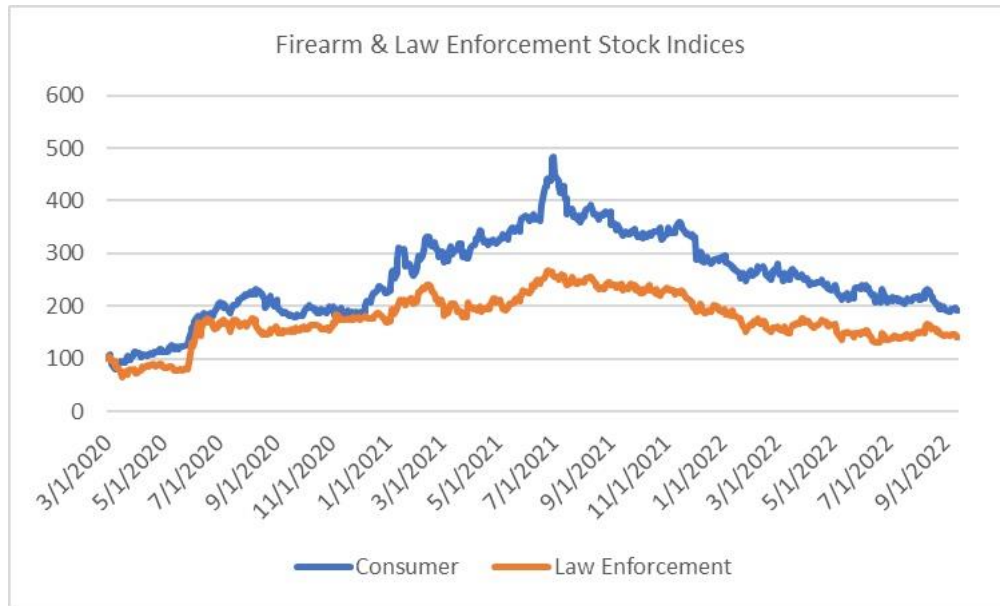
NICS Background Checks (excluding new and renewal permits)
by State and Territory

State/Territory	3 Mos. Ending August 2021	3 Mos. Ending August 2022	Change	Percent Change	State/Territory	3 Mos. Ending August 2021	3 Mos. Ending August 2022	Change	Percent Change
Hawaii	6	14	8	133%	Connecticut	27,442	27,467	25	0%
District of Columbia	1,049	1,391	342	33%	Grand Total	3,899,116	3,902,218	3,102	0%
New York	84,189	110,250	26,061	31%	North Carolina	58,796	58,741	(55)	0%
Washington	112,066	136,623	24,557	22%	West Virginia	35,486	35,363	(123)	0%
Delaware	13,193	15,632	2,439	18%	Texas	343,235	336,433	(6,802)	-2%
Utah	29,885	34,390	4,505	15%	Kentucky	65,286	63,859	(1,427)	-2%
Iowa	14,402	16,412	2,010	14%	Virginia	135,420	132,311	(3,109)	-2%
Maryland	42,963	48,532	5,569	13%	Nevada	30,399	29,619	(780)	-3%
Ohio	120,740	132,438	11,698	10%	Virgin Islands	185	180	(5)	-3%
Montana	28,714	31,231	2,517	9%	Rhode Island	7,161	6,966	(195)	-3%
New Hampshire	27,829	29,910	2,081	7%	Vermont	10,613	10,304	(309)	-3%
Indiana	110,896	118,664	7,768	7%	Tennessee	144,574	139,637	(4,937)	-3%
Oklahoma	75,539	79,931	4,392	6%	Alabama	117,222	113,183	(4,039)	-3%
Maine	24,358	25,742	1,384	6%	California	271,794	262,296	(9,498)	-3%
Arizona	98,912	104,381	5,469	6%	South Dakota	17,366	16,701	(665)	-4%
Alaska	19,248	20,142	894	5%	Mississippi	58,710	56,309	(2,401)	-4%
Wyoming	14,885	15,524	639	4%	Pennsylvania	205,547	196,908	(8,639)	-4%
Idaho	37,659	39,077	1,418	4%	South Carolina	63,740	60,841	(2,899)	-5%
Georgia	95,874	99,328	3,454	4%	Wisconsin	96,531	91,901	(4,630)	-5%
North Dakota	13,883	14,341	458	3%	Nebraska	5,415	5,131	(284)	-5%
Florida	302,858	311,063	8,205	3%	Louisiana	74,915	70,625	(4,290)	-6%
Colorado	107,036	109,917	2,881	3%	Michigan	128,120	114,780	(13,340)	-10%
Kansas	38,536	39,535	999	3%	Minnesota	76,035	67,582	(8,453)	-11%
Oregon	76,161	78,039	1,878	2%	Massachusetts	33,559	29,660	(3,899)	-12%
New Mexico	39,164	39,925	761	2%	New Jersey	49,209	42,885	(6,324)	-13%
Missouri	115,208	116,584	1,376	1%	Mariana Islands	87	71	(16)	-18%
Arkansas	44,550	44,755	205	0%	Guam	1,206	928	(278)	-23%
Puerto Rico	19,262	19,281	19	0%	Illinois	131,998	98,485	(33,513)	-25%

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 60% since its peak versus a 47% decline for the law enforcement index from its peak. Year-to-date, the consumer index is down 28% and the law enforcement index is down 14%.



Source: Factset

Stock Price Performance of Components of Firearm and Law Enforcement Stock Indices

	YTD Stock Change
ShotSpotter, Inc. (SSTI)	3.6%
VirTra, Inc. (VTSI)	0.2%
Axon Enterprise Inc (AXON)	-14.1%
Sturm, Ruger & Company, Inc. (RGR)	-22.3%
AMMO Inc (POWW)	-22.4%
Wrap Technologies, Inc. (WRAP)	-30.6%
Smith & Wesson Brands, Inc.(SWBI)	-31.0%
Byrna Technologies Inc. (BYRN)	-42.3%
American Outdoor Brands, Inc. (AOUT)	-42.8%
Digital Ally, Inc. (DGLY)	-46.8%

Source: Factset

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Market Perform (Neutral)	3	10%	1	33%
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