

Law Enforcement Industry

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Adjusted Y/Y NICS Checks Down 13.5% YTD.

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Adjusted National Instant Criminal Background Check System (NICS) firearm background checks declined 8% in September versus a year ago and are down 13.5% YTD. NICS checks excluding new permits and permit renewals, a proxy for firearm purchases, are on track to decline 9% 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.

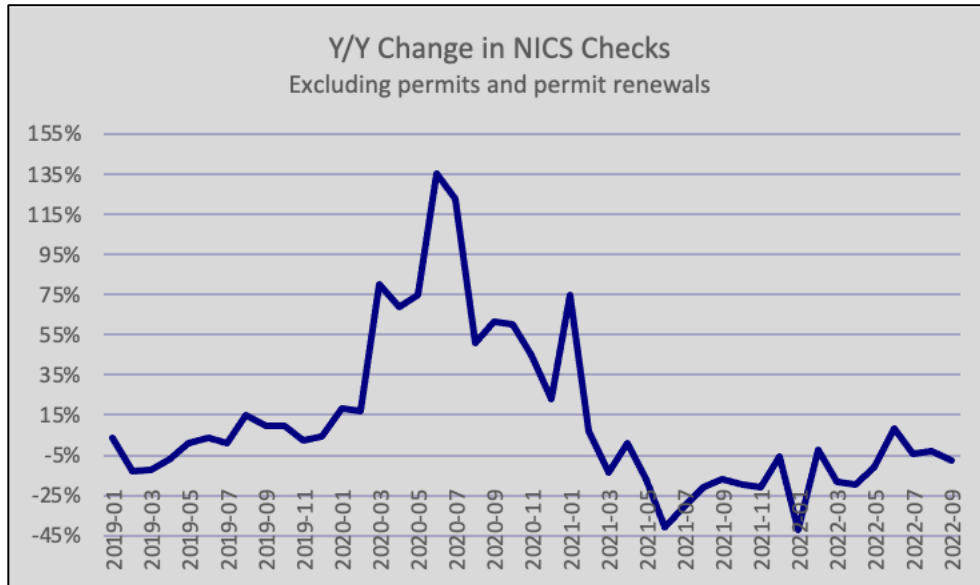
Adjusted NICS checks averaged 13.9 million per year from 2017 through early 2020 and began growing rapidly beginning March of 2020. The year-over-year growth rate peaked in June of 2020 at 136% and trailing twelve-month adjusted NICS checks peaked at 22.1 million in February 2021. Since June of 2020, 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 September 2022, trailing twelve-month adjusted NICS checks were 16.7 million, down 24% from the peak but still 21% above the average from 2017 through early 2020.

In our view, fear of additional regulations is a key driver of firearm demand. At the federal level, the high likelihood of Republican control of the House of Representatives after the election and the current makeup of the Supreme Court suggests little movement on additional firearm regulations. At the state level, crime has become a major issue in many states (for instance in both Oregon and New York, the Republican candidate could win in a state that typically elects Democrats) and we believe this will also inhibit additional firearm regulation. The election could result in a better environment for companies serving the public law enforcement markets (Axon, Digital Ally, ShotSpotter, VirTra and Wrap Technologies) and a less positive environment for the companies serving the consumer market (American Outdoor Brands, Ammo, Inc., Byrna, Smith & Wesson Brands, Sturm, Ruger & Company, Inc.).

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 16.8 million, down 9% 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.

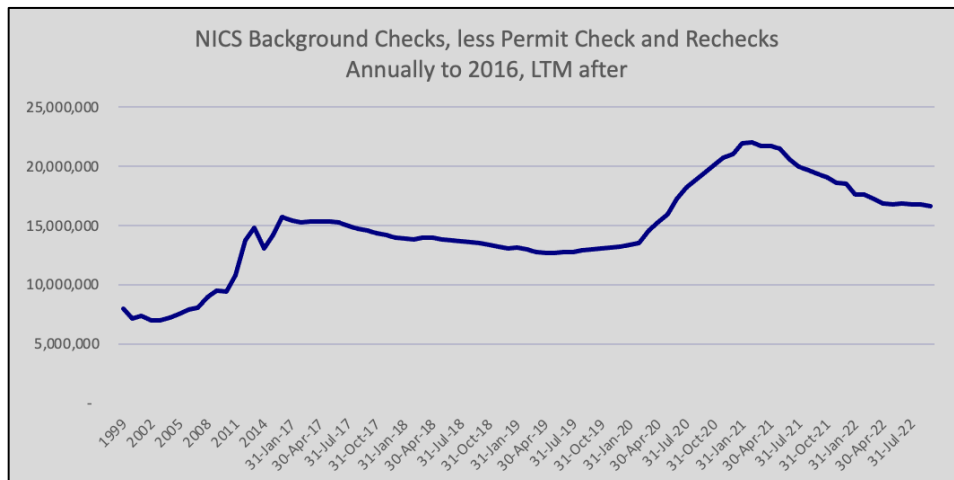
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories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



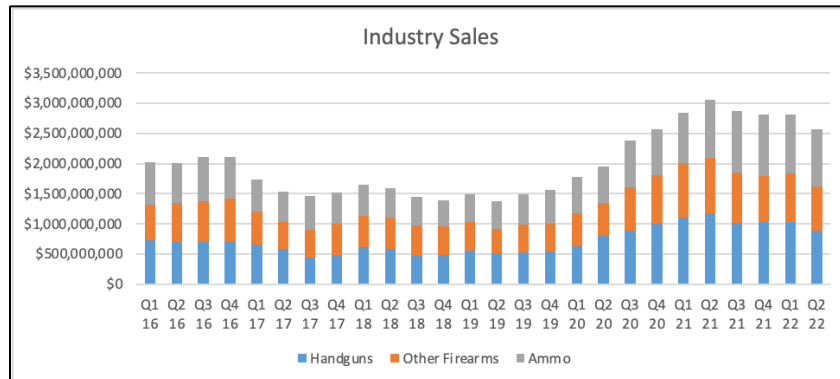
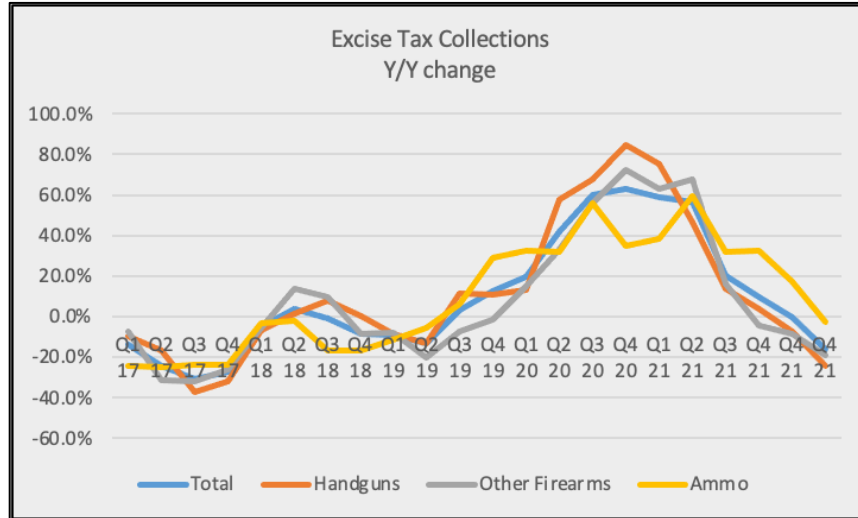
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

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 16.8 million, down 9% 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. Firearm and ammunition excise taxes in Q2 2022 fell 16.0% from the year-ago quarter. Handgun sales declined 24.7%, other firearms fell 19.2% and ammunition sales dropped 2.5%.



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 September. 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, August and September.

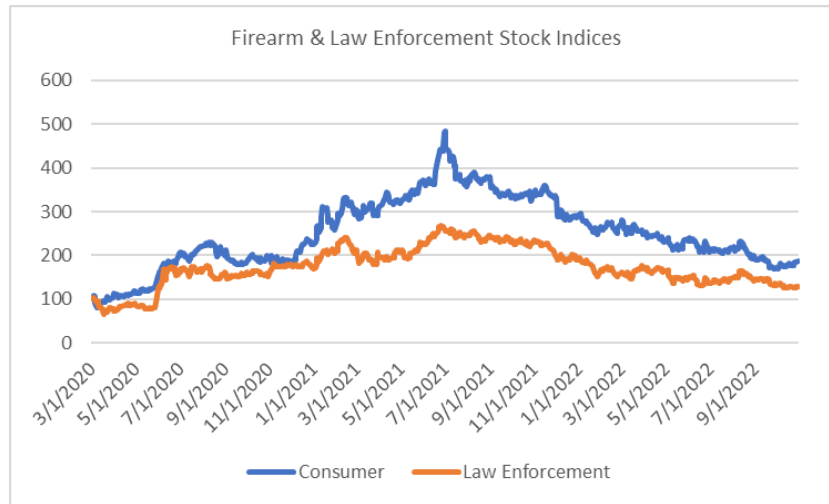
NICS Background Checks (excluding new and renewal permits)
by State and Territory

State/Territory	3 Mos. Ending Sept. 2021	3 Mos. Ending Sept. 2022	Change	Percent Change	State/Territory	3 Mos. Ending Sept. 2021	3 Mos. Ending Sept. 2022	Change	Percent Change
Hawaii	4	11	7	175%	Virginia	134,670	128,033	(6,637)	-5%
District of Columbia	1,090	1,725	635	58%	Florida	299,354	284,067	(15,287)	-5%
Maryland	43,332	51,036	7,704	18%	Totals	3,970,570	3,763,618	(206,952)	-5%
Alaska	19,485	22,294	2,809	14%	Maine	27,801	26,312	(1,489)	-5%
New York	89,510	101,342	11,832	13%	Idaho	39,922	37,697	(2,225)	-6%
Georgia	92,617	97,350	4,733	5%	West Virginia	37,831	35,558	(2,273)	-6%
Indiana	115,145	119,130	3,985	3%	North Carolina	61,909	58,153	(3,756)	-6%
Ohio	122,315	125,881	3,566	3%	Vermont	11,305	10,566	(739)	-7%
Utah	31,751	32,331	580	2%	California	262,991	245,291	(17,700)	-7%
North Dakota	15,231	15,373	142	1%	Kentucky	68,674	63,862	(4,812)	-7%
Montana	31,208	31,201	(7)	0%	Iowa	17,911	16,534	(1,377)	-8%
Oklahoma	77,365	76,707	(658)	-1%	South Carolina	63,356	58,480	(4,876)	-8%
Arizona	99,671	97,877	(1,794)	-2%	South Dakota	19,163	17,604	(1,559)	-8%
Colorado	109,194	107,096	(2,098)	-2%	Puerto Rico	18,324	16,811	(1,513)	-8%
New Hampshire	29,412	28,834	(578)	-2%	Washington	115,243	105,512	(9,731)	-8%
Louisiana	73,275	71,648	(1,627)	-2%	Wisconsin	104,015	95,216	(8,799)	-8%
Connecticut	26,543	25,949	(594)	-2%	Pennsylvania	206,924	189,286	(17,638)	-9%
Missouri	118,696	115,948	(2,748)	-2%	Texas	356,892	325,422	(31,470)	-9%
Mississippi	59,474	57,802	(1,672)	-3%	Nevada	30,383	27,587	(2,796)	-9%
Arkansas	46,664	45,343	(1,321)	-3%	Nebraska	6,111	5,401	(710)	-12%
Wyoming	15,721	15,167	(554)	-4%	Minnesota	83,141	73,437	(9,704)	-12%
Oregon	78,059	75,191	(2,868)	-4%	Michigan	133,399	114,041	(19,358)	-15%
New Mexico	40,257	38,648	(1,609)	-4%	Rhode Island	7,167	5,997	(1,170)	-16%
Virgin Islands	172	165	(7)	-4%	Massachusetts	34,053	28,214	(5,839)	-17%
Alabama	115,728	110,947	(4,781)	-4%	Guam	1,207	980	(227)	-19%
Kansas	39,980	38,272	(1,708)	-4%	Illinois	132,568	98,592	(33,976)	-26%
New Jersey	45,887	43,840	(2,047)	-4%	Delaware	12,835	9,381	(3,454)	-27%
Tennessee	145,522	138,401	(7,121)	-5%	Mariana Islands	113	75	(38)	-34%

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 61% since its peak versus a 52% decline for the law enforcement index from its peak. Year-to-date, the consumer index is down 36% and the law enforcement index is down 32%.



Source: Factset

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

	YTD Stock Change
ShotSpotter, Inc. (SSTI)	28.7%
Axon Enterprise Inc (AXON)	-7.4%
Sturm, Ruger & Company, Inc. (RGR)	-17.5%
VirTra, Inc. (VTSI)	-25.7%
Smith & Wesson Brands, Inc.(SWBI)	-36.6%
AMMO Inc (POWW)	-40.4%
Byrna Technologies Inc. (BYRN)	-47.0%
American Outdoor Brands, Inc. (AOUT)	-55.2%
Digital Ally, Inc. (DGLY)	-67.3%
Wrap Technologies, Inc. (WRAP)	-69.8%

Source: Factset

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Total	30	100%	4	13%

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