

Law Enforcement Industry

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Adjusted NICS Checks Continue to Decline.

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Adjusted National Instant Criminal Background Check System (NICS) firearm background checks continued to decline in October, down 11% from a year ago. NICS checks excluding new permits and permit renewals, a proxy for firearm purchases, are on track to decline 12% 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.

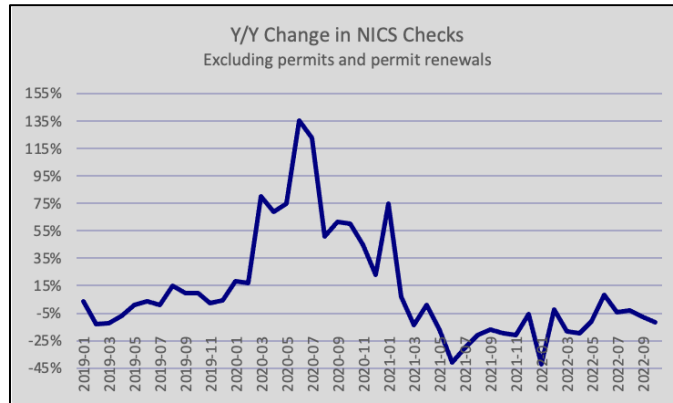
Adjusted NICS checks averaged 13.9 million per year from 2017 through early 2020 and began growing rapidly beginning March of 2020. The year-over-year growth rate peaked in June of 2020 at 136% and trailing twelve-month adjusted NICS checks peaked at 22.1 million in February 2021. Since June of 2020, 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 October 2022, trailing twelve-month adjusted NICS checks were 16.5 million, down 25% from the peak but still 19% 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, 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 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 16.3 million, down 12% 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.

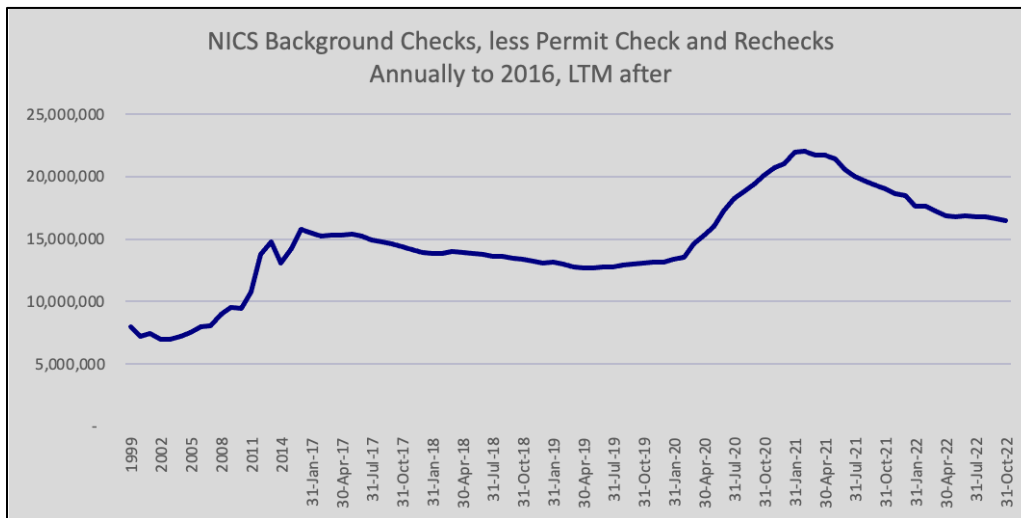
The National Instant Criminal Background Check System (NICS) provides a proxy for firearm sales. The Brady Handgun Violence Prevention Act of 1993 requires the FBI to check whether prospective firearms or explosives buyers' names and birth years match entries in federal databases of 1) criminal histories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



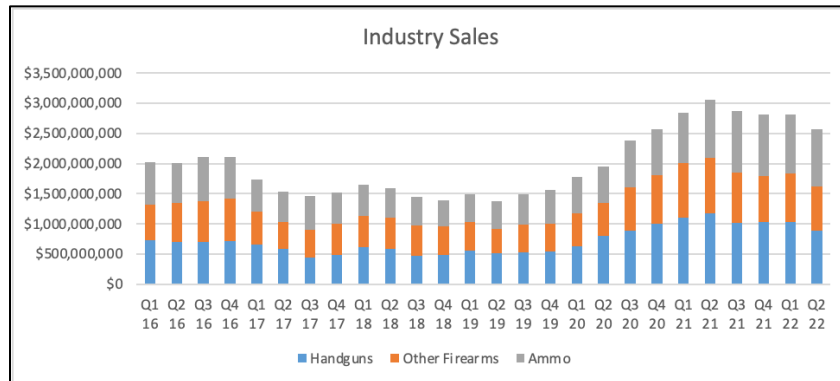
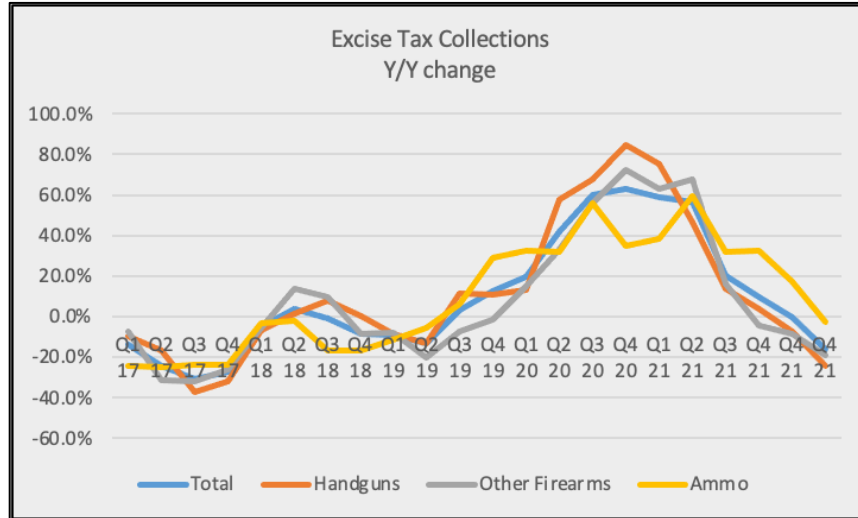
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

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 16.5 million, down 12% 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 October. 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, September and October.

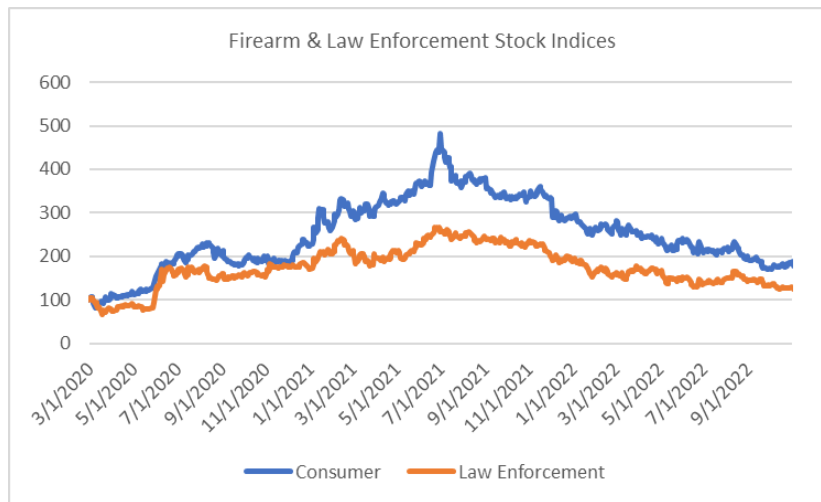
**NICS Background Checks (excluding new and renewal permits)
by State and Territory**

State/Territory	3 Mos. Ending Oct. 2021	3 Mos. Ending Oct. 2022	Change	Percent Change	State/Territory	3 Mos. Ending Oct. 2021	3 Mos. Ending Oct. 2022	Change	Percent Change
Hawaii	4	10	6	150%	USA & Territories	4,106,536	3,742,113	(364,423)	-9%
District of Columbia	1,193	1,626	433	36%	New Mexico	40,732	37,094	(3,638)	-9%
Maryland	44,208	51,018	6,810	15%	California	262,084	238,429	(23,655)	-9%
Alaska	20,578	22,727	2,149	10%	New York	94,400	85,051	(9,349)	-10%
Georgia	94,473	98,111	3,638	4%	North Carolina	65,809	59,224	(6,585)	-10%
New Jersey	44,245	43,806	(439)	-1%	Wyoming	16,540	14,873	(1,667)	-10%
Virgin Islands	157	155	(2)	-1%	Kansas	42,882	38,296	(4,586)	-11%
Oregon	81,559	79,756	(1,803)	-2%	Kentucky	73,497	65,510	(7,987)	-11%
Ohio	128,937	124,767	(4,170)	-3%	South Carolina	65,172	58,060	(7,112)	-11%
North Dakota	17,535	16,831	(704)	-4%	Pennsylvania	216,466	191,979	(24,487)	-11%
Indiana	120,328	115,428	(4,900)	-4%	Connecticut	29,321	25,997	(3,324)	-11%
New Hampshire	30,561	28,884	(1,677)	-5%	Idaho	42,933	38,054	(4,879)	-11%
Virginia	138,814	130,713	(8,101)	-6%	Wisconsin	112,590	98,423	(14,167)	-13%
Arizona	99,644	93,723	(5,921)	-6%	Texas	370,020	322,738	(47,282)	-13%
Iowa	18,374	17,279	(1,095)	-6%	Washington	120,238	104,741	(15,497)	-13%
Utah	33,772	31,755	(2,017)	-6%	Puerto Rico	19,073	16,614	(2,459)	-13%
Oklahoma	80,164	75,181	(4,983)	-6%	Mississippi	62,321	54,173	(8,148)	-13%
Missouri	126,282	118,377	(7,905)	-6%	Nevada	30,474	26,412	(4,062)	-13%
West Virginia	40,565	37,994	(2,571)	-6%	Illinois	114,540	98,504	(16,036)	-14%
Louisiana	77,111	71,591	(5,520)	-7%	South Dakota	22,561	19,250	(3,311)	-15%
Tennessee	148,569	137,880	(10,689)	-7%	Minnesota	91,876	76,892	(14,984)	-16%
Alabama	118,084	109,254	(8,830)	-7%	Michigan	140,089	115,985	(24,104)	-17%
Montana	35,032	32,367	(2,665)	-8%	Nebraska	7,050	5,818	(1,232)	-17%
Vermont	11,943	10,984	(959)	-8%	Rhode Island	7,177	5,909	(1,268)	-18%
Arkansas	50,719	46,453	(4,266)	-8%	Massachusetts	33,561	27,516	(6,045)	-18%
Florida	303,082	277,356	(25,726)	-8%	Guam	1,205	955	(250)	-21%
Maine	30,936	28,300	(2,636)	-9%	Mariana Islands	116	90	(26)	-22%
Colorado	113,628	103,604	(10,024)	-9%	Delaware	13,312	9,596	(3,716)	-28%

*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 42% and the law enforcement index is down 21%.



Source: Factset

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

	YTD Stock Change
Axon Enterprise Inc (AXON)	19.3%
ShotSpotter, Inc. (SSTI)	12.2%
Sturm, Ruger & Company, Inc. (RGR)	-19.6%
VirTra, Inc. (VTSI)	-32.4%
Smith & Wesson Brands, Inc.(SWBI)	-34.9%
Byrna Technologies Inc. (BYRN)	-38.6%
Wrap Technologies, Inc. (WRAP)	-40.7%
American Outdoor Brands, Inc. (AOUT)	-55.8%
AMMO Inc (POWW)	-61.1%
Digital Ally, Inc. (DGLY)	-68.0%

Source: Factset

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