

Law Enforcement Industry

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Adjusted NICS Checks Down 1% in Q1.

Adjusted National Instant Criminal Background Check System (NICS) firearm background checks continued to decline through Q1, falling 1% from the year-ago quarter.

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Adjusted National Instant Criminal background checks declined 7% in March, 1% for Q1 and have declined in all but three of the past 25 months.

2020 was an unusual year for firearm sales driven by violence in many cities across the U. S., calls to defund the police, excess cash in consumer pockets from federal payments to cope with the COVID lockdowns, significant monetary stimulus from the Fed and greater time spent at home by consumers. All of these combined to generate a 60% increase in adjusted NICS checks in 2020 and an almost doubling of firearm sales (based on ATF tax data) from 2019 to 2021, to \$11.6 billion.

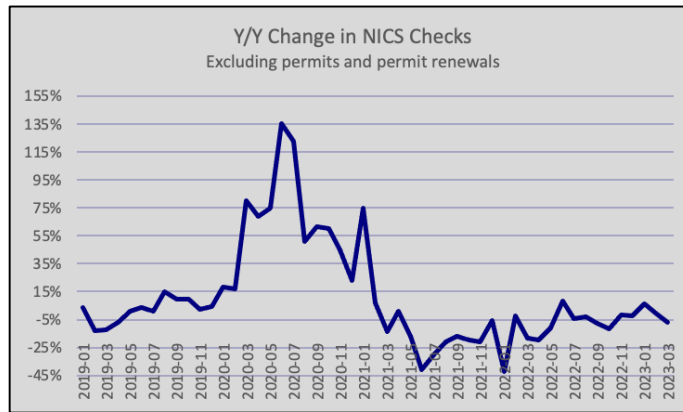
Beginning in mid-2020 the growth rate of NICS checks slowed and in early 2021 adjusted NICS checks began to decline year-over-year and have remained negative in all but three of the past 25 months. The rapid increase in interest rates by the Fed has resulted in reductions in inventory and a more cautious consumer. An evenly balanced federal legislature and a Supreme Court highly supportive of Second Amendment rights have lessened the desire by consumers to purchase firearms fearing future ownership restrictions.

During the George W. Bush presidency adjusted NICS checks grew at a 2.4% CAGR; during the Obama presidency 7.3%; during the Trump presidency 7.5%. But the Trump years include the pandemic year of 2020. Prior to that year, adjusted NICS checks had declined at a 5.8% CAGR from 2016 to 2019. Even with the declines in the past two years, an additional decline of 10% would be needed to bring adjusted NICS checks back to trend.

Suppliers of firearms, self-protection devices and law enforcement equipment experienced sharp declines in their share prices in 2022 as the reduced demand has led to significant declines in revenue and EBITDA estimates. However, our index of consumer-oriented stocks is up 12% YTD in 2023 and our index of law enforcement equipment stocks is up 5% YTD in 2023.

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 officers 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.

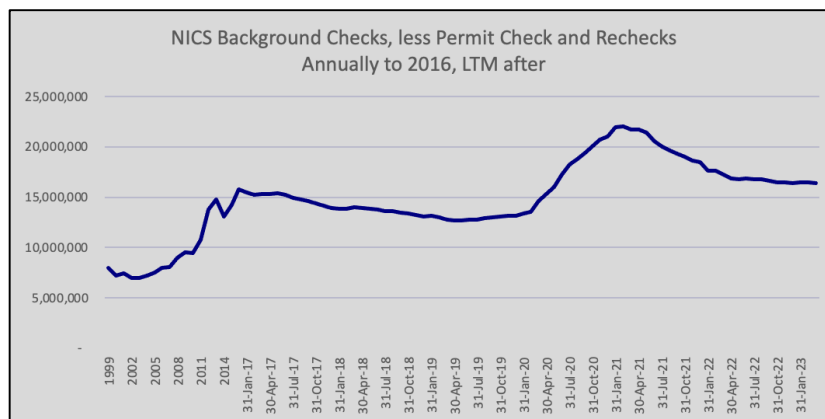
Adjusted NICS checks averaged 13.9 million per year from 2017 through early 2020 and began growing rapidly beginning March of 2020. The year-over-year growth rate peaked in June of 2020 at 136% and trailing twelve-month adjusted NICS checks peaked at 22.1 million in February 2021. Since June of 2020, 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 March 2022, trailing twelve-month adjusted NICS checks were 16.4 million, down 26% from the peak but still 18% above the average from 2017 through early 2020.



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

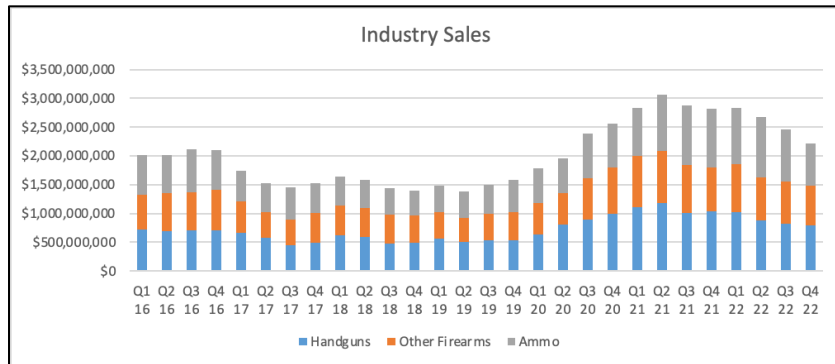
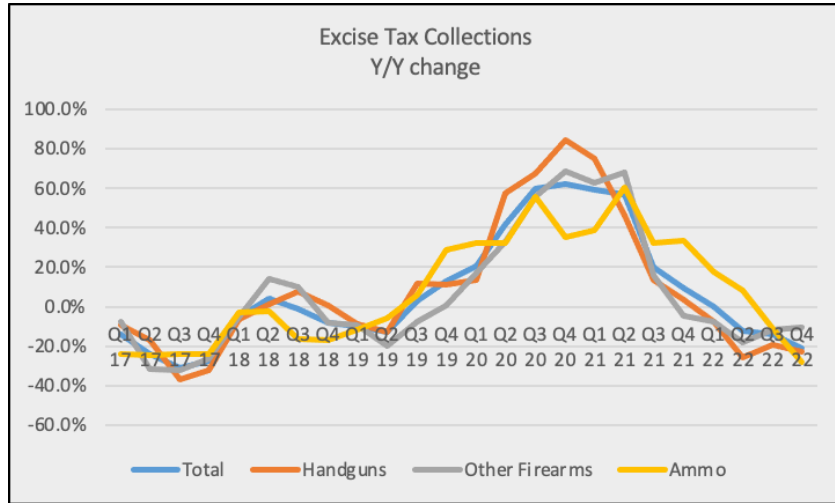
In our view, fear of additional regulations is a key driver of firearm demand. At the federal level, Republican control of the House of Representatives and the current makeup of the Supreme Court suggests little movement on additional firearm regulations. At the state level, crime has become a major issue in many states and we believe this will also inhibit additional firearm regulations. These factors 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.).

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 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 Q4 2022 fell 21% from the year-ago quarter. Handgun sales declined 23%, other firearms fell 10% and ammunition sales dropped 28.0%.



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 November. For the three months ending in March adjusted checks in the U.S. and its territories was down 1% with gains in very few states, most notably, Oregon and Maryland.

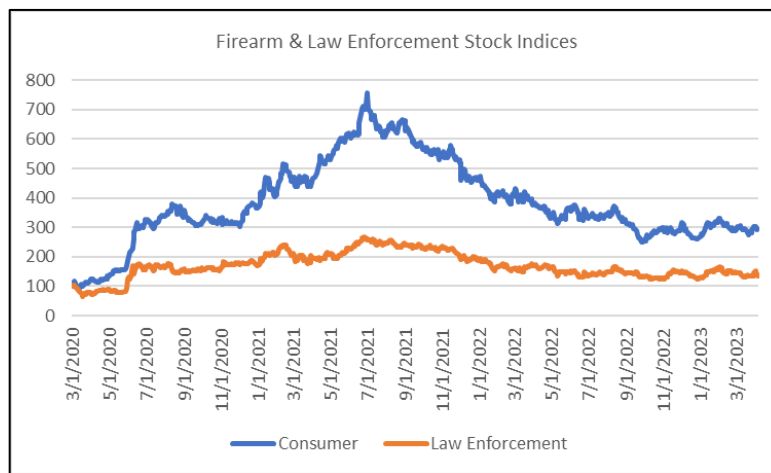
NICS Background Checks (excluding new and renewal permits)
by State and Territory

State/Territory	3 Mos. Ending Mar. 2022	3 Mos. Ending Mar. 2023	Change	Percent Change	State/Territory	3 Mos. Ending Mar. 2022	3 Mos. Ending Mar. 2023	Change	Percent Change
Oregon	82,136	136,226	54,090	66%	Kansas	47,418	45,924	(1,494)	-3%
Maryland	44,853	58,457	13,604	30%	Massachusetts	33,504	32,348	(1,156)	-3%
Washington	135,914	159,938	24,024	18%	Utah	35,475	34,224	(1,251)	-4%
Virgin Islands	158	185	27	17%	Oklahoma	87,639	84,312	(3,327)	-4%
Illinois	115,056	133,524	18,468	16%	Nebraska	6,663	6,337	(326)	-5%
New Jersey	42,926	46,800	3,874	9%	California	257,430	244,189	(13,241)	-5%
North Carolina	66,238	68,997	2,759	4%	Alaska	17,992	17,059	(933)	-5%
Georgia	104,696	107,528	2,832	3%	South Carolina	70,519	66,707	(3,812)	-5%
Colorado	112,363	114,274	1,911	2%	Kentucky	80,936	76,331	(4,605)	-6%
Ohio	144,065	146,168	2,103	1%	Texas	363,310	336,660	(26,650)	-7%
Michigan	136,649	138,459	1,810	1%	Minnesota	77,608	71,729	(5,879)	-8%
North Dakota	15,620	15,824	204	1%	Wisconsin	114,979	106,068	(8,911)	-8%
Iowa	19,862	19,906	44	0%	Arizona	109,641	99,708	(9,933)	-9%
West Virginia	43,191	43,034	(157)	0%	Idaho	41,321	37,527	(3,794)	-9%
Maine	25,385	25,275	(110)	0%	Rhode Island	7,732	6,970	(762)	-10%
Vermont	11,778	11,668	(110)	-1%	Wyoming	16,118	14,489	(1,629)	-10%
New Hampshire	30,942	30,642	(300)	-1%	Nevada	31,968	28,638	(3,330)	-10%
Totals	4,212,539	4,168,321	(44,218)	-1%	Connecticut	36,163	32,304	(3,859)	-11%
Virginia	143,572	141,917	(1,655)	-1%	Mississippi	67,636	60,348	(7,288)	-11%
New Mexico	42,907	42,233	(674)	-2%	South Dakota	19,412	17,138	(2,274)	-12%
Montana	30,753	30,087	(666)	-2%	Guam	901	795	(106)	-12%
Arkansas	52,676	51,447	(1,229)	-2%	New York	87,003	76,527	(10,476)	-12%
Alabama	129,590	126,469	(3,121)	-2%	Puerto Rico	19,929	16,983	(2,946)	-15%
Pennsylvania	219,455	213,764	(5,691)	-3%	Delaware	13,696	11,517	(2,179)	-16%
Indiana	130,625	127,190	(3,435)	-3%	Louisiana	81,853	68,109	(13,744)	-17%
Tennessee	155,317	150,912	(4,405)	-3%	District of Columbia	1,733	1,325	(408)	-24%
Missouri	135,777	131,536	(4,241)	-3%	Hawaii	9	5	(4)	-44%
Florida	311,344	301,539	(9,805)	-3%	Mariana Islands	103	51	(52)	-50%

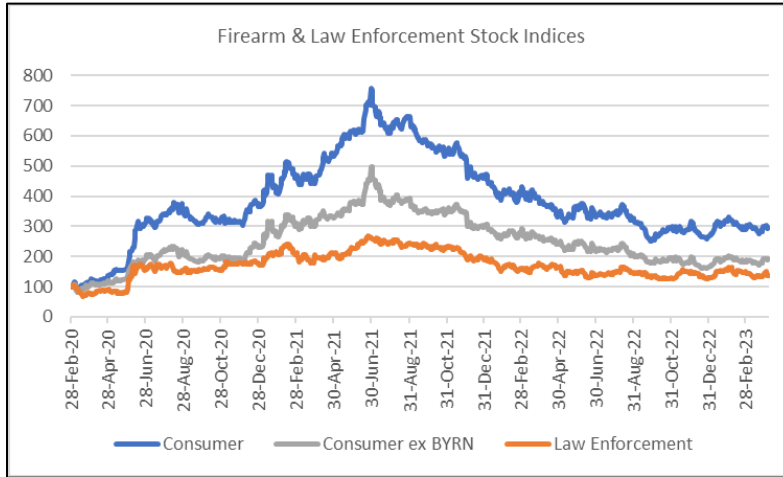
Source: "NICS Firearm Background Checks: Month and Year by State and Type," www.fbi.gov/services/cjis/nics

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.

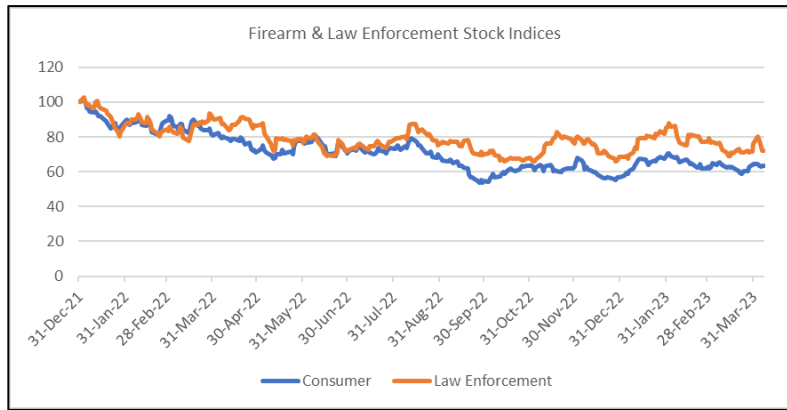
The indices are equal-weighted, chain-linked and begin in March of 2020, about the start of the pandemic. From March 2020 to their respective peaks in June 2021 the consumer index increased over 640%, much of the increase due to the increase in Byrna. Excluding Byrna from the group, the consumer index 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 49% decline for the law enforcement index from its peak. Year-to-date, the consumer index is up 12% and the law enforcement index is up 5%.



Source: FactSet



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