

Bite the bullet: Continued conflict will support revenue, but subsiding fears will limit growth

IBISWorld Industry Report 33299a Guns & Ammunition Manufacturing in the US

October 2012

Nima Samadi

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About this Industry

Industry Definition

This industry manufactures small arms (including shotguns, rifles, revolvers, pistols, machine guns and

grenade launchers), small arms ammunition, other ammunition and ordnance and accessories.

Main Activities

The primary activities of this industry are

Machine guns manufacturing

Shotguns manufacturing

Rifles manufacturing

Revolvers manufacturing

Pistols manufacturing

Gun magazines manufacturing

Small arms ammunition manufacturing

Ammunition (except small arms) manufacturing

Grenades manufacturing

Mines manufacturing

The major products and services in this industry are

Small arms

Small arms ammunition

Other ammunition

Other ordnance and accessories

Similar Industries

32592 Explosives Manufacturing in the US

Manufacturers of blasting caps, detonating caps and safety fuses.

33641b Space Vehicle & Missile Manufacturing in the US

Guided missiles are similar to the industry's ordnance products, such as mortars, rocket launchers and howitzers.

Additional Resources

For additional information on this industry

www.atf.gov

Bureau of Alcohol, Tobacco, Firearms and Explosives

www.nra.org

National Rifle Association

www.nssf.org

National Shooting Sports Foundation

Industry at a Glance

Guns & Ammunition Manufacturing in 2012

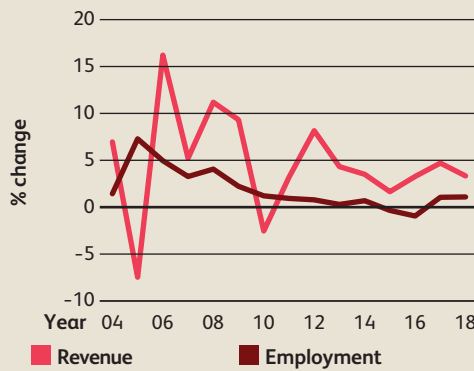
Key Statistics Snapshot

Revenue	Annual Growth 07-12	Annual Growth 12-17
\$11.7bn	5.7%	3.5%
Profit	Exports	Businesses
\$992.8m	\$4.4bn	465

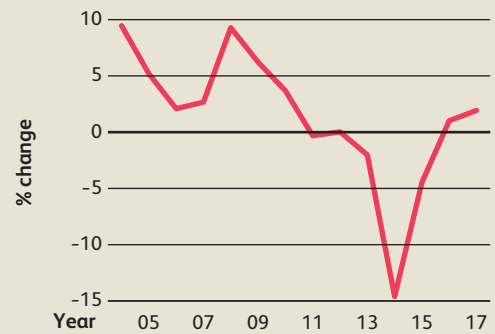
Market Share
 Alliant Techsystems Inc. **12.7%**
 Freedom Group Inc. **6.4%**

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Revenue vs. employment growth

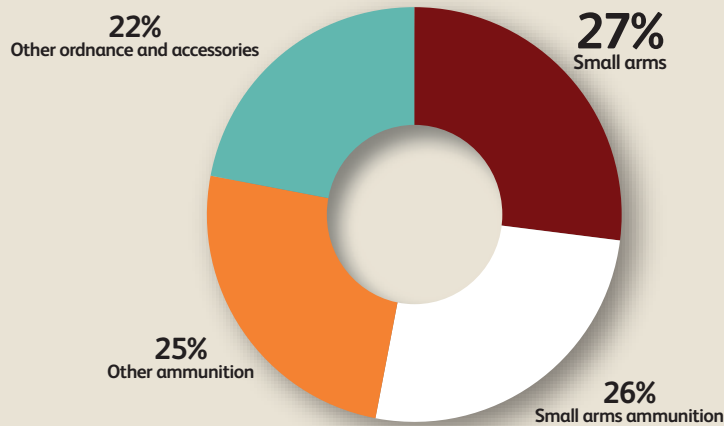


Federal funding for defense



SOURCE: WWW.IBISWORLD.COM

Products and services segmentation (2012)



SOURCE: WWW.IBISWORLD.COM

Key External Drivers
 Federal funding for defense
 Trade-weighted index
 Local and state government investment
 World price of steel
 Crime rate

p. 4

Industry Structure

Life Cycle Stage	Growth	Regulation Level	Medium
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	Medium	Barriers to Entry	Medium
Industry Assistance	Medium	Industry Globalization	High
Concentration Level	Low	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 33

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Guns and Ammunition Manufacturing industry has grown strongly during the five years to 2012. The industry was in decline until the start of the decade, when the 9/11 terrorist attacks renewed demand for industry products. In addition, political uncertainties combined with a foundering economy contributed to unprecedented industry growth during the five years to 2012. Over the period, revenue is expected to grow at a rate of 5.7% per year on average, with revenue increasing 8.2% in 2012 to \$11.7 billion.

state and local law enforcement agencies also grew during the five years to 2012, due to the sustained threat of terrorism. Meanwhile, civilian gun sales spiked due to concerns about potential law changes by the Obama administration and fears over a possible increase in crime due to the poor economy.

With demand for industry products surging over the past five years, domestic manufacturers have been unable to completely satisfy domestic demand, so consumers have increasingly relied on imports to fill that gap. In fact, over the five years to 2012, imports grew at an average rate of 3.6% per year to \$2.8 billion. The United Kingdom and Germany, in particular, have benefited from the United States' renewed love of guns. This trend is expected to continue in the future, with net exports declining from about \$1.6 billion in 2012 to \$1.3 billion in 2017. Despite the industry growth that occurred from 2007 to 2012, growth is expected to moderate over the next five years due to subsiding fears about potential rising crime rates and gun law changes. During the five years to 2017, revenue is projected to grow at a rate of 3.5% per year on average to \$13.9 billion.

Growth will let up slightly, as fears about rising crime and stricter laws subside

During the past five years, the wars in Iraq and Afghanistan ushered in a substantial increase in the amount of military spending by the government, resulting in an increase in purchases of the industry's military-related products. Enduring conflicts in these regions and US troop surges caused the amount of revenue earned from the sales of these products to grow. The budgets of federal,

Key External Drivers

Federal funding for defense

The US government and, specifically, its Department of Defense are major purchasers of industry products. As the amount of expenditure allocated for these items increases, sales and revenue typically grow as well. Government funding for defense is influenced by fears of terrorism. As the fear of terrorism increases, the government increases funding of federal, state and local law enforcement agencies to protect against or respond to these threats. This factor results in more gun and ammunition purchases. Consumers also increase their purchases of firearms

and ammunition due to fears about their own safety. This driver is expected to decrease during 2013.

Trade-weighted index

The trade-weighted index (TWI) measures the strength of the US dollar relative to the currencies of countries with which it trades. Because exports account for a moderate portion of industry revenue and imports account for a growing portion of domestic demand, the TWI can significantly affect sales volumes. This driver is expected to increase during 2013, indicating a potential threat to the industry.

Industry Performance

Key External Drivers continued

Local and state government investment

Growth in government spending on state and local agencies generally coincides with increased funding of law enforcement. When law enforcement funding increases, gun and ammunition purchases grow as well. This driver is expected to decrease slowly during 2013.

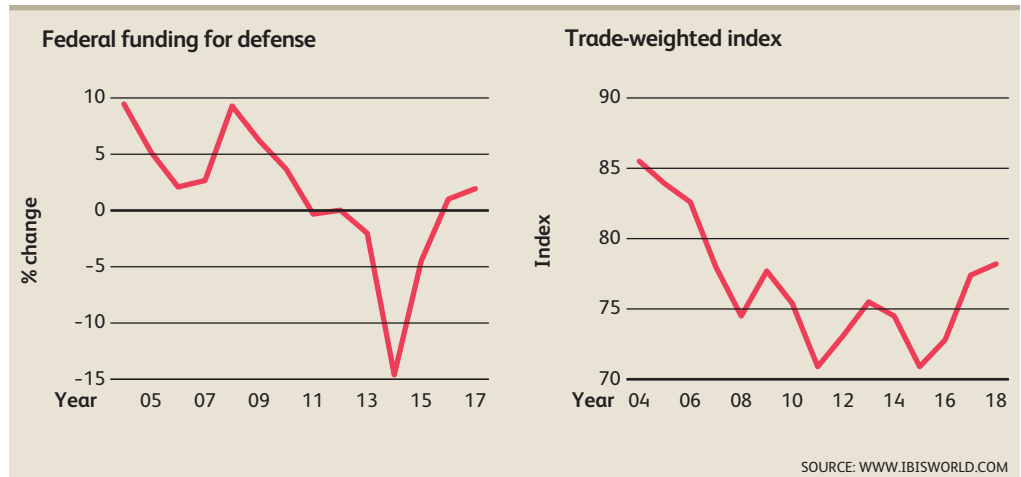
World price of steel

Purchases of raw materials, such as steel, form a large component of the average firm's cost structure. The ability for manufacturers to pass on price increases depends upon the specific product being

manufactured. Demand is usually sufficient to overcome any price increases imposed; therefore, revenue typically increases when steel prices rise. This driver is expected to increase during 2013 and is a potential opportunity for the industry.

Crime rate

As the crime rate or the fear of it increases, people purchase more guns and ammunition for self-protection. Therefore, a rising crime rate positively affects the industry. This driver is expected to decrease slowly during 2013.



Current Performance

The Guns and Ammunition Manufacturing industry has experienced strong growth over the past five years. Despite the economic fallout generated by the global financial crisis, guns and ammunition have proved to be items that many people believe they cannot live without.

The industry experienced revenue growth during the recession from 2007 through 2009, but revenue dipped 2.5% in 2010 to \$10.5 billion as consumers' recessionary fears about rising crime and more restrictive gun control laws subsided. The industry experienced

aggressive growth during the five years to 2012, though, due to the United States' involvement in sustained military conflicts abroad. Other driving factors include an increased need for local, state and federal law enforcement because of the threat of terrorism and heightened consumer demand due to uncertainty regarding federal gun law changes. As a result of these factors, revenue is expected to grow at an average annual rate of 5.7% to \$11.7 billion in the five years to 2012, with an increase of 8.2% expected to occur from 2011 to 2012.

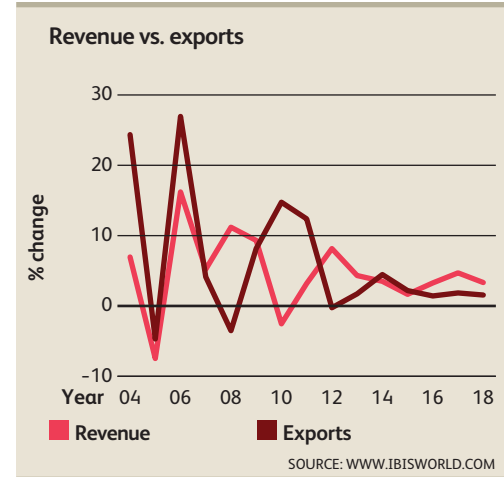
Industry Performance

War and government expenditure

Prior to the 9/11 terrorist attacks and the ensuing US military deployment, most manufacturers of warfare products were in a state of decline. The wars in Iraq and Afghanistan ushered in a substantial increase in military spending by the government, resulting in additional purchases of the industry's products. Enduring conflicts within these regions and US troop surges have caused the amount of industry revenue earned from the sale of guns and ammunition to increase.

Federal, government and local law enforcement agencies' budgets also grew during the past five years due to the sustained risk of terrorism. The responsibilities of federal, state and local departments have expanded to include terrorist attack prevention and response preparedness. Along with increased responsibilities, these agencies also received greater funding, some of which was parlayed into gun and ammunition purchases. In 2009 and 2010, law enforcement agencies also received additional funding from the stimulus package.

Government spending habits are relatively distanced from the effects of



declining consumer and business sentiment, though recessionary pressures indirectly influence the government's capacity to spend. For instance, the recession caused unemployment to rise substantially, decreasing government tax and income tax revenue. This factor will eventually reduce military and law enforcement spending, though the government has maintained its elevated level of funding for these departments and services during the past five years.

Private-sector demand

While most Americans have cut back on their purchases of cars, clothing and other luxuries, purchases of firearms and ammunition have managed to remain stable or even grow during the past few years.

Although gun and ammunition sales rates are driven by a number of factors, the recent spike is mainly attributable to fears about the possibility of tougher gun-control legislation from the Obama administration. With another presidential election looming in November, gun enthusiasts are working themselves into a frenzy over what another four years under the Obama administration may hold for gun laws.

As a result, they are purchasing firearms and ammunition at record rates. The number of FBI National Instant Criminal Background Checks (NICS) have risen every year since 2002 and hit an all-time high in 2011, indicating that consumer interest in gun ownership has not begun to wane. From 2008 to 2011, the number of background checks has risen at an average annual rate of 9.0% per year and over the first nine months of 2012, the number of background checks rose 12.5% compared to the same period in 2011.

Fears about increasing crime and civil disorder due to the economic downturn have also

Industry Performance

Private-sector demand continued

influenced civilian gun purchases. While crime has not risen during the past five years, guns sales have

still grown, ostensibly providing people with a sense of security during uncertain times.

International trade

Domestic consumers have increasingly turned to imports to satisfy their rapidly growing demand for guns and ammunition. With demand for industry products surging during the past five years, domestic manufacturers have struggled to keep up. The United States is a net exporter of industry products, though the gap between industry imports and exports has been closing. In 2012, the industry will export about \$1.6 billion more than it imports. The industry gets a large portion of its firearm imports from Austria and Italy, due to the popularity of the Glock and Beretta brands, respectively. Germany and the United Kingdom are the most popular sources of imports of ammunition and ordnance products. Over the five years to 2012, imports are expected to grow at an average rate of 3.6% per year to \$2.8 billion.

Over the period, exports are also expected to grow at a faster pace than imports. Canada, the United Kingdom and Australia purchase the majority of the industry's firearm exports, accounting for

Consumers are increasingly looking to imports to satisfy demand for guns

about 39.0% of total exports in 2012. Canada is a large buyer of US exports in this industry due to the North American Free Trade Agreement (NAFTA) and its geographic proximity to the United States. Israel, the United Kingdom and Japan are the United States' largest customers for ammunition and ordnance products. Industry exports are expected to grow at a rate of 6.1% per year on average to \$4.4 billion over the five years to 2012.

Overall, profitability has increased due to rising demand for guns and ammunition; however, the increasing level of import penetration into the US market has tempered this growth. The rising presence of imports limits the extent that domestic producers can increase prices and profit margins.

Consolidation

Mergers and acquisitions are rampant within the industry. Within the five years to 2012, private-equity firm Cerberus went on an acquisition spree for weapons manufacturers prior to gun and ammunition conglomerate Freedom Group's initial public offering. Gun manufacturers Smith & Wesson, and Sturm, Ruger & Company Inc. have also acquired a number of companies over the past few years to expand the breadth of products they offer. The trend toward consolidation indicates that major players are realizing the benefits of

economies of scale and are attempting to gain a competitive advantage through acquisition and growth.

In 2012, IBISWorld estimates that 69 people on average are employed per industry establishment, earning \$61,379 each. From 2007 to 2012, the number of establishments is expected to grow at an average annual rate of 1.6% to 510, with the number of employees increasing at an average annual rate of 1.8% to 35,165. Over this period, wages are estimated to increase at an average annual rate of 4.2% to \$2.2 billion.

Industry Performance

Industry Outlook

The Guns and Ammunition Manufacturing industry's trajectory over the next five years will largely depend on the United States' continued involvement in foreign conflicts and perceptions about the future of firearms legislation. While revenue surged during the five years to 2012, it is forecast to move more in line with historical growth rates from 2012 to 2017. Revenue is expected to increase 4.3% in 2013 to \$12.2 billion. From 2012 to 2017, IBISWorld forecasts that revenue will grow at an annualized rate of 3.5% per year to \$13.9 billion.

Lower government spending domestically and abroad have, and will continue to, dampen industry demand. Federal, state and local law enforcement agencies are projected to cut back on spending as stimulus funding dries up and budgetary constraints return. Military spending abroad is also forecast to decline over the next five years as the US

As the US withdraws from the Middle East, military spending will slow

continues to wind down combat operations in Iraq and Afghanistan. On the other hand, the threat of terrorism will likely persist for years to come, resulting in continued funding of federal, state and local law enforcement to expand terrorism prevention and response capabilities.

After record growth in civilian small arms and ammunition sales during the past few years, demand is expected to moderate over the next five years. As the economy continues to recover, fears about increased crime due to the recession and concerns about changes to gun laws will begin to subside, causing this segment's uncharacteristically fast growth rate to slow.

International trade, establishments and employment

The Guns and Ammunition Manufacturing industry faces challenges ahead, many of which are part of long-term trends within the industry. Domestic producers have dealt with rising import competition for years; some have moved production offshore to emerging economies with cheaper labor or acquired foreign weapons manufacturers. Import competition will continue in the future, with imports satisfying a growing portion of domestic demand. Over the five years to 2017, imports are forecast to grow at a rate of 5.4% per year to \$3.6 billion. Exports are forecast to grow at an average annual rate of 2.3% in the same period to \$5.0 billion. Despite import and export growth, imports are forecast to far outpace exports in the future. Profitability is projected to decline slightly over the next five years as demand and revenue growth slows to a

more moderate pace and the industry is forced to compete with foreign imports.

IBISWorld projects the number of establishments will grow, however, because of sustained demand for guns and ammunition. Market share is also expected to shift in favor of the industry's larger participants, though mostly through acquisitions. These operators have sizable manufacturing facilities with lower production costs, enabling them to capture an increasing portion of the market at the expense of smaller players. Over the next five years, the number of establishments is projected to grow 1.0% per year on average to 535, while employment is forecast to grow 0.1% per year on average to 35,426 people. As a result, the average number of employees per establishment is forecast to decline from 69 in 2012 to 66 in 2017, while the average wage will increase from \$61,379 in 2012 to \$71,267 in 2017.

Industry Performance

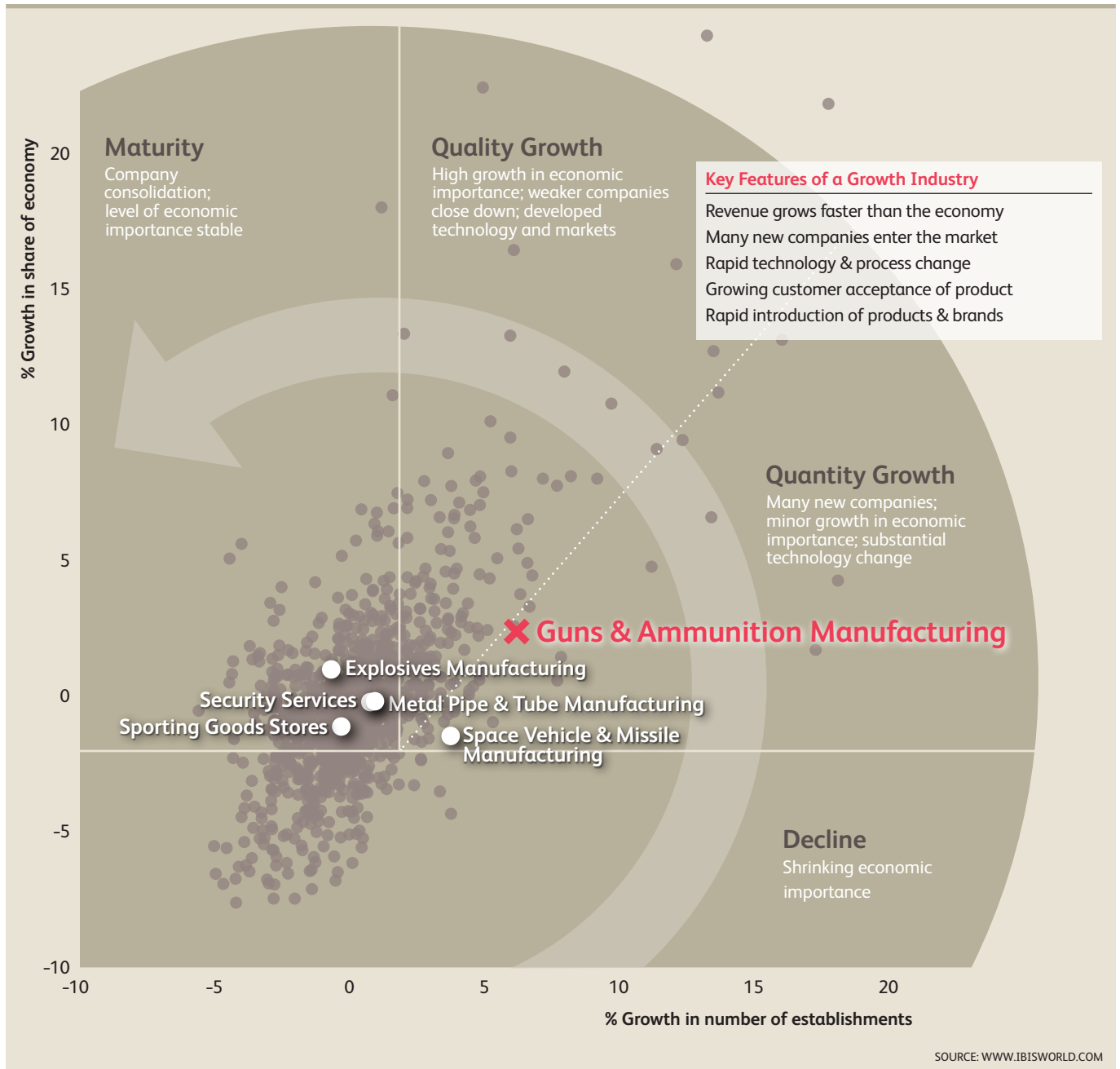
Life Cycle Stage

Revenue is outpacing GDP growth

Industry firms are undergoing consolidation

Import growth is occurring

Innovation is improving existing products rather than creating new markets



Industry Performance

Industry Life Cycle

This industry is **Growing**

After years of maturity, the industry has entered a new phase of growth. Due to a number of factors, including a resurgence of demand from the military and civilian sectors, industry revenue has surged over the last five years and it is expected to continue growing over the next five years. From 2007 to 2017, industry value added (IVA), which measures an industry's contribution to GDP, is expected to grow at an annual rate of 4.6% per year, compared with GDP growth over the same period of 1.8%. Over the past five years and next five years, revenue growth is expected to far outpace GDP growth.

Over the past five years, significant players have engaged in a multitude of mergers and acquisitions, including Freedom Group's recent acquisition spree and both Smith & Wesson's and Sturm, Ruger & Company's acquisitions

of small companies to expand their product lines. Large players within this industry have observed the spike in demand and have been scrambling to expand their product lines to accommodate growing customer bases. IBISWorld estimates the number of firms will grow at an average rate of 1.3% per year over the five years to 2012. With demand for industry products rising so quickly, consumers have increasingly been relying on imports to satisfy domestic demand. Imports have grown from \$2.3 billion in 2007 to \$2.8 billion in 2012.

While the industry is constantly innovating existing products, its core products and major markets have essentially been established and its participants are mostly focused on winning market share from competing countries and companies.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
 Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

- 45111 **Sporting Goods Stores in the US**
This industry sells hunting rifles, other firearms, and ammunition.

- 56161 **Security Services in the US**
The industry purchases firearms and ammunition.

KEY SELLING INDUSTRIES

- 32592 **Explosives Manufacturing in the US**
Smokeless powder is utilized in the manufacture of small arms ammunition.

- 33121 **Metal Pipe & Tube Manufacturing in the US**
Iron and steel pipes and tubes are used in the manufacture of gun barrels.

- 33142 **Copper Rolling, Drawing & Extruding in the US**
Copper and copper-base alloy shapes and forms (except castings, forgings, and fabricated metal products) are used in the manufacturing of small arms ammunition.

- 33152 **Nonferrous Metal Foundry Products Manufacturing in the US**
Small arms ammunition manufacturers use in their manufacturing processes aluminum and aluminum-base alloy castings (rough and semifinished).

Products & Services

The Guns and Ammunition manufacturing industry can be broken down into four distinct product segments: small arms, small arms ammunition, ammunition (excluding small arms), and other ordinance and accessories.

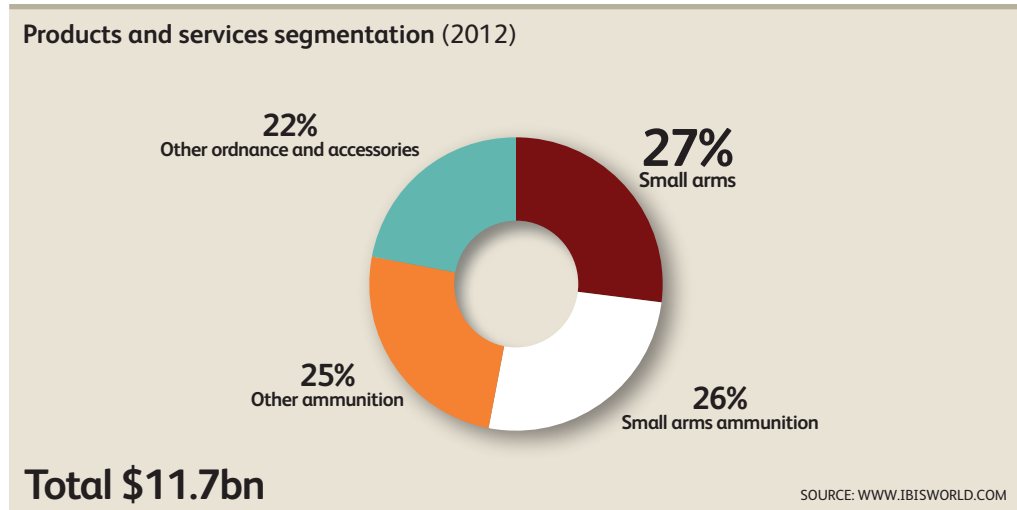
Small arms

Small arms manufacturers produce ammunition carts, gun barrels, machine gun belts, gun clips, gun

cylinders and clips, firearms, gun magazines, machine guns, pistols, recoil mechanisms, revolvers, rifles, shotguns and submachine guns. Over the five years to 2012, revenue from this segment is expected to grow at a rate of 4.9% per year.

Ammunition

The ammunition segment (including small arms and other) includes



Products & Markets

Products & Services continued

ammunition, ammunition loading and assembly plants, arming and fusing devices, bomb loading and assembly plants, bomb cluster adaptors, bombs, canisters, bomb caps, depth charges, ammunition detonators, grenades, mines, missile warheads and mortar shells. Small arms ammunition revenue is expected to grow at rate of 14.8% per year, while ammunition sales excluding small arms are expected to grow at a rate of 12.6% per year over the five years to 2012.

Ordnance

Ordnance manufacturing involves more

explosive weaponry and includes aircraft and anti-aircraft artillery, antitank rocket, cannons, field artillery, gun turrets, howitzers, mortars, naval artillery, rocket projectors, tampions, line throwing guns, tank artillery, torpedo tubes, flamethrowers and gun turrets. This segment is expected to grow at a rate of 7.2% per year over the five years to 2012.

Ammunition producers are generally distinct from manufacturers of small arms, although the geographic distribution of producers is similar. In general, an increase in the sale of firearms results in complementary purchases of ammunition.

Demand Determinants

With unemployment levels rising over the course of 2009 and maintaining into 2012, both consumer confidence and disposable income levels have fallen. Declining incomes have generally reduced consumers' ability to purchase big-ticket luxury items. If consumers doubt their ability to maintain their current income levels into the future due to economic uncertainty, they will reduce their consumption. However, this has not been observed within the Guns and Ammunition Manufacturing industry. People have increased their gun and ammunition purchases despite rising unemployment and declining income.

The federal and state governments are the largest purchasers of small arms, ammunition and ordnance products. US involvement in military engagements increases demand for these industry products. For example, the escalation of military hostilities in Iraq and Afghanistan resulted in additional defense spending and a jump in demand for the industry's warfare products. For

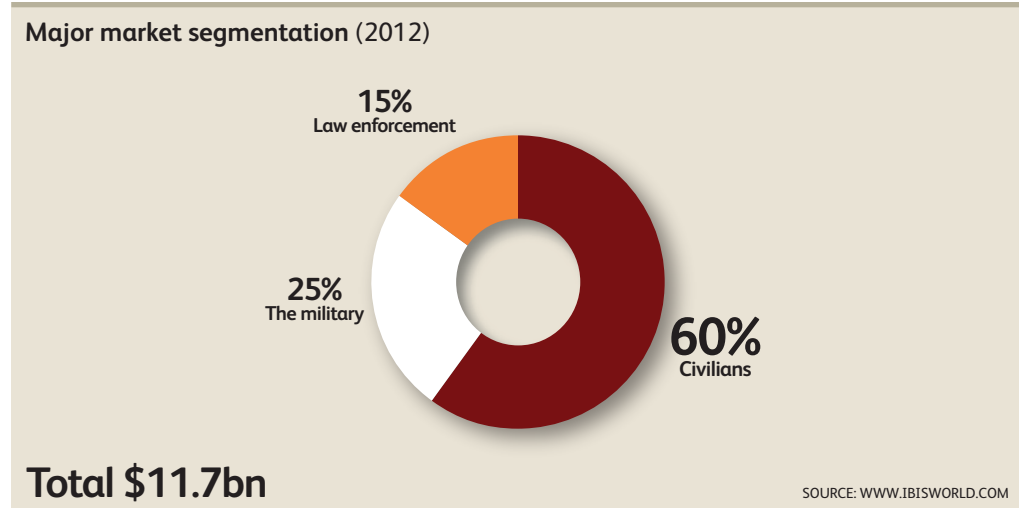
companies manufacturing firearms and ammunition for hunting purposes, seasonality also affects demand. Firearms and ammunition sales experience a jump in demand during the core fall hunting season (September to December).

Crime rates and perceptions of safety also influence gun and ammunition purchases. When crime rates go up, people tend to purchase more firearms and ammunition for protection. Even without an actual rise in crime rates, gun purchases can increase when people anticipate an increase in crime. In times of high unemployment, people expected crime to increase (though there is no actual connection between the two), which results in an increase in industry sales.

The level of industry imports also affects demand for domestically produced industry products. Imports have been on the rise for the last decade, with the United States importing \$456.0 million more industry products in 2012 than it did in 2007.

Products & Markets

Major Markets



Civilian

The three major markets for industry purchases are civilians, military and law enforcement. Civilians constitute the largest market for guns and ammunition purchases. Guns and ammunition purchases by civilians are made through gun stores, sporting goods stores and some large retail stores like Walmart. This market segment has experienced surprisingly strong growth over the last five years. Despite the fact that most Americans have cut back on their purchases of luxury items, purchases of firearms and ammunition have surged. The spike in sales is attributable to fears surrounding the possibility of the Obama administration enacting tougher gun control legislation. Another factor influencing civilian gun purchases has been fears about increasing crime and civil disorder due to the economic downturn. Although there is no evidence of any such link, guns still provide people with a sense of security during times of uncertainty. The civilian market makes up 60.0% of industry revenue.

Military

The second-largest market for industry products is the military. There are

certain companies, such as Alliant Techsystems, that produce guns and ammunition, ordnance and accessories primarily for military customers. The military market also purchases about 10.0% of the firearms designed for the consumer market by mainstream companies, such as Smith & Wesson and Sturm, Ruger & Company. Over the past five years, revenue from the military market segment has increased, though not at the blazing rate of the civilian market. The wars in Iraq and Afghanistan ushered in a substantial increase in the amount of military spending by the government, resulting in additional purchases of the industry's related products. The military market makes up 25.0% of industry revenue.

Law enforcement

Law enforcement is the third-largest market for industry products. This market purchases industry products directly from manufacturers and wholesalers, in addition to retail stores. Historically this segment has had steady revenue growth, though as of late law enforcement agencies have received additional funding in response to the

Products & Markets

Major Markets continued

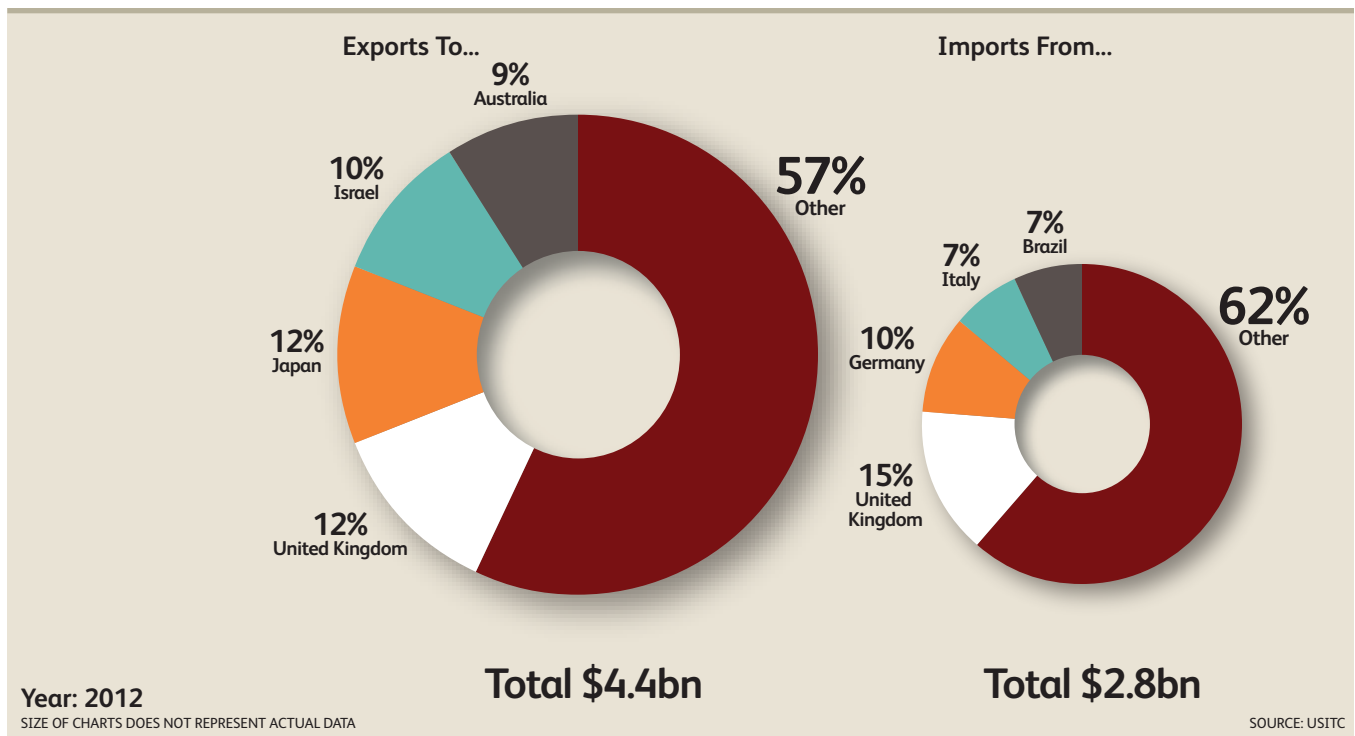
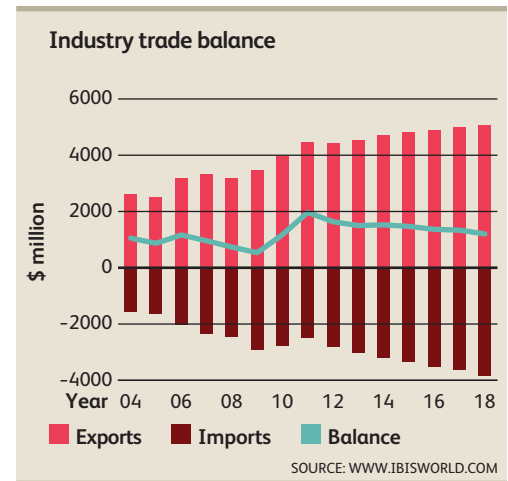
increased threat of terrorism and from the stimulus package. This has translated into more arms and ammunition

purchases from this market segment. The law enforcement market makes up 15.0% of industry revenue.

International Trade

Level & Trend
Exports in the industry are **High and Increasing**
Imports in the industry are **Medium and Increasing**

Domestic consumers have increasingly turned to imports to satisfy their rapidly growing demand for guns and ammunition. With demand for industry products surging over the last five years, domestic manufacturers have struggled to keep up with growing demand. Many customers have turned to imports to satisfy their needs. The United States is a net exporter of industry products. In 2007, the industry exported nearly \$1.0 billion more than it imported, though that number is expected to rise to over \$1.6 billion in 2012. The industry gets a large portion of its firearm imports from Austria and Italy, due to the popularity of



Products & Markets

International Trade continued

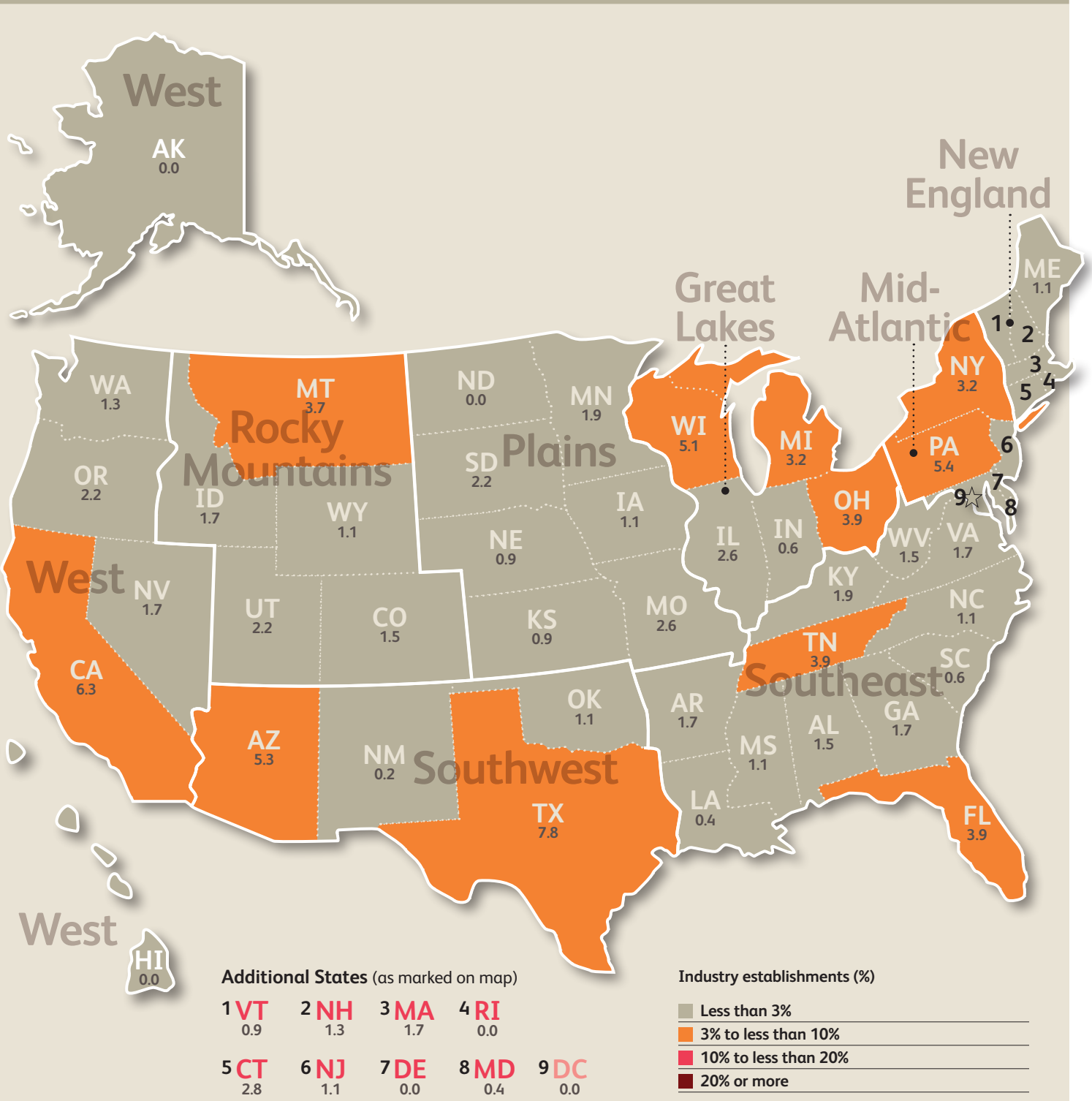
the Glock and Beretta brands. Germany and the United Kingdom are the most popular sources of imports of ammunition and ordnance products. Over the five years to 2012, imports are expected to grow at a rate of 3.6% per year to \$2.8 billion. The top import origins for the industry as a whole include United Kingdom, Germany, Italy and Brazil.

Over the five years to 2012 exports are also expected to grow strongly due to rising international demand for domestically produced products. The majority of the industry's firearm exports are purchased

by Canada, United Kingdom and Australia, who together will purchase about 39.0% of total exports in 2012. Canada is a large purchaser of US exports in this industry due to its geographic proximity to the United States and NAFTA. Israel, United Kingdom and Japan are the United States' largest customers for ammunition and ordnance products. Industry exports are expected to grow at a rate of 6.1% per year to \$4.4 over the five years to 2012. The top export destinations for the industry as a whole include United Kingdom, Japan, Israel and Australia.

Products & Markets

Business Locations 2012



Products & Markets

Business Locations

The location of manufacturing establishments is generally influenced by their proximity to major markets, as well as material and supply industries. Manufacturing establishments also tend to be highly correlated with population density. IBISWorld estimates that in 2012 the industry will be concentrated in the Southeast, Great Lakes and West regions of the United States, due to their proximity to major supply industries as well as population centers. These regions combined will account for 51.0% of industry establishments.

IBISWorld forecasts that in 2012, the Southeast region will account for an estimated 21.0% of industry establishments. This is the most populous region in the United States. The high percentage of establishments in this region indicates manufacturers' desire to be near their customer base and lower transportation costs.

The Great Lakes region will account for an estimated 15.4% of industry establishments in 2012. The Great Lakes region is a manufacturing hub in the United States, with many large manufacturing industries located there. This region also has a large presence of steel and other metal refineries. During the last two decades of the 20th century, Ohio became the second leading steel producer. Industry products require various metal inputs.

The Southwest region will account for 14.4% of industry establishments in 2012.



This is mostly due to Texas, which housed 7.8% of industry establishments (most in the United States). This region also has easy access to the Gulf of Mexico for shipping exports.

Among ammunition manufacturers, California, Pennsylvania, South Dakota and Missouri have a high concentration of establishments. Wisconsin, Texas, Pennsylvania, Montana, Connecticut and Arizona have the most gun manufacturing establishments, while California, Ohio, Texas and Wisconsin have a high proportion of establishments servicing the ordnance and other accessories segment.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Low**

The Guns and Ammunition Manufacturing industry consists of a large number of small to medium firms. The wide variety of products produced in this industry and the diverse buying markets make it difficult for individual firms to grab a large portion of industry market share.

Over time, the industry's concentration has been increasing. Within the last five years, major players such as the Freedom Group have undergone acquisition sprees. Smith & Wesson and Sturm, Ruger & Company have also acquired small gun manufacturers to expand their product lines. The recent increase in acquisitions indicates that companies are making a concerted effort to increase profitability

by claiming larger portions of market share. From the beginning of 2007 to the end of 2012, revenue per manufacturing plant has increased from \$18.8 million to \$22.9 million. Over the same period, companies and their manufacturing plants have both increased.

At the product level, the global small arms industry is becoming simultaneously more concentrated and more dispersed. Consolidation is accelerating, reflecting broader trends in the larger defense industry. At the same time, the global small arms market appears to be fragmenting as more companies develop the capacity to produce small arms. The result is more suppliers, and more products, chasing a growing base of consumers.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Having a loyal customer base

There is a distinct competitive advantage in cultivating and maintaining strong long-term customer relationship.

Access to high quality inputs

Companies within this industry group must be able to source a variety of raw materials, both from within the United States and overseas.

Effective quality control

In providing high-quality products and services, firms must maintain detailed and extensive quality assurance programs.

Having a good technical knowledge of the product

Having a good technical knowledge of the product is a key success factor within this industry group because firms must provide strong engineering, design and technical support to clients.

Establishment of brand names

Strong brand recognition is considered to be a major basis of competition.

Control of distribution arrangements

The cultivation, maintenance and control of downstream distribution channels are a distinct advantage.

Cost Structure Benchmarks

The Guns and Ammunition Manufacturing industry has been making the gradual shift toward higher levels of capital investment in manufacturing automation with the goal of creating more efficient and profitable enterprises.

Profit

Industry profit is based on earnings before interest and taxes recorded by industry operators. Profit will vary between players depending on the size of the manufacturing facility that they

Competitive Landscape

Cost Structure Benchmarks continued

operate, with larger operators generally benefiting from economies of scale. IBISWorld estimates that in 2012, the industry will obtain profit equivalent to 8.6% of an average firm's revenue.

Overall, industry profitability has increased due to rising demand for industry products. However, growth has been moderated by the increasing level of import penetration into the US market. Imports have grown over the last five years. The rising presence of imports limits the extent to which domestic producers can increase prices and profit margins.

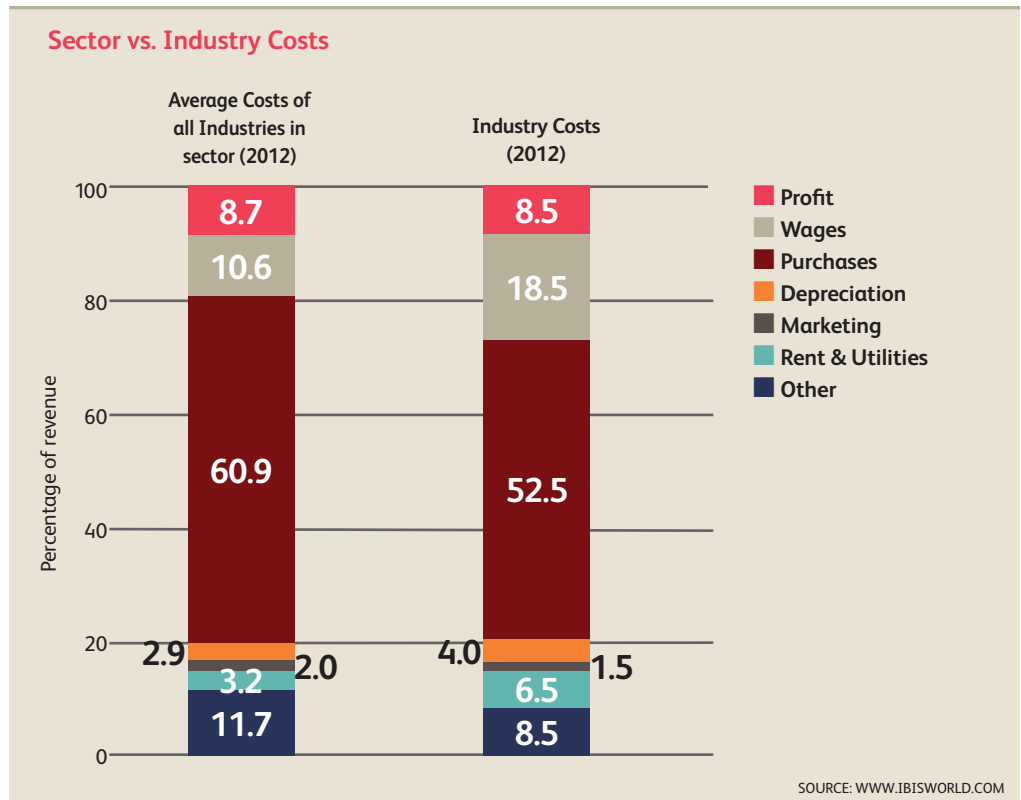
Purchases

One of the largest expenses of the average firms cost structure is purchases. These mainly consist of the cost of raw materials that are used during the manufacturing process. Commonly used manufacturing inputs include metals

such as steel, copper tubing, aluminum and iron castings. Fluctuations in the prices of these materials not only affect firms' profitability, but also their revenue.

In many cases, companies are able to pass a significant portion of raw material price increases through to customers in the form of product price increases or surcharges. This causes increases of raw material prices to translate into higher firm revenue. Most firms enter into fixed-price contracts, so short-term fluctuations in raw material prices have little impact on profitability. However, the persistent higher raw material prices experienced during the last five years have placed increasing upward pressure on the cost structure of industry participants.

The increasing price of raw materials has contributed to growth in purchases costs for firms in this industry. The main reason for the increase in raw material



Competitive Landscape

Cost Structure Benchmarks continued

costs over the past five years has been China's increasing demand for raw materials. Raw materials were on the rise before the recession, fell when its impact was the greatest, and have been slowly creeping their way back up since then.

Across product segments, manufacturing costs associated with raw material expenditure fluctuate due to the differences in the size and density of the product being manufactured. The complexity, quality and quantity of raw materials used are also factors influencing cost. Shortages and changes in the price of raw materials are common (availability and cost are influenced by, among other factors, political stability in exporting nations). In 2012, purchases are estimated to account for 52.5% of an average firm's revenue.

Wages

The industry has a high level of capital intensity compared to other industries. Despite this, labor costs are high relative to other manufacturing industries. Over

2012, labor costs are forecast to total about \$2.2 billion. IBISWorld estimates that in 2012, wage costs incurred by the industry will account for 18.5% of an average firm's revenue.

Depreciation

The cost of depreciation will invariably fluctuate between operators depending on their size and the amount of capital expenses involved. The cost of new plant and equipment used to manufacture industry products is significant and periodic product innovation necessitates regular investment in new capital. In 2012, depreciation is estimated to account for 4.0% of an average firm's revenue.

Other

Other expenditure includes communications, legal, accounting; while advertising and marketing expenses make up 1.5% of revenue. In 2012, other expenses are expected to equal about 8.5% of industry revenue.

Basis of Competition

Level & Trend
Competition in
this industry is
High and the trend
is **Increasing**

There is an assortment of competitive factors that encourage competition within Guns and Ammunition Manufacturing industry. Factors like medium barriers to entry increase the threat of competition from firms outside the industry, while low levels of product differentiation encourage direct competition among industry players on the basis of price.

While players in this industry compete primarily based on product pricing, other factors such as product innovation and branding are also important for some product segments. Price competition is particularly evident in product segments where the pace of product development has virtually ground to a halt. This is the case for the majority of industry products. However, price competition

occurs while maintaining a standard level of product quality.

There are also other competitive differentiation strategies used within the industry. These include service quality, brand recognition, effective and timely distribution and technical support. The introduction of new and improved product designs and the acquisition of product lines at different price points is a key to maintaining and increasing product and market share. In technologically advanced segments, research and development (R&D) is important in developing new products and ensuring products are up-to-date and evolving. Product image, performance, quality and innovation are the primary competitive factors in the firearms industry, with price and

Competitive Landscape

Basis of Competition continued

customer service also being important. Price, service, quality and product innovation are the primary competitive factors in the ammunition industry. Products manufactured and developed

in the industry have a high R&D component. As a result, technical excellence rather than price can be more important to remaining competitive in this industry.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Medium and Steady**

While there are few explicit barriers to entry, there are some factors that may deter entry. A significant financial investment is required to acquire, maintain and update plant and equipment. This cost may deter some firms from entering the industry. Machinery operators also need to be trained, but these costs are relatively insignificant. The rising level of unemployment in the United States has lowered some of the difficulty in obtaining a workforce with the required skills.

R&D is necessary for product innovation. In order to effectively compete, an entrant should be committed to spending a significant amount on R&D. Additionally, many incumbent firms in this industry have developed strong relationships with upstream suppliers and downstream markets, making it difficult for other firms to break in. This may be a deterrent to some firms entering the industry.

For certain product segments, establishing a brand for their product represents a barrier to entry. This may require funds to be spent on advertising in order to establish a market presence. Firms are likely to experience difficulty

Barriers to Entry checklist

Barriers to Entry checklist	Level
Competition	High
Concentration	Low
Life Cycle Stage	Growth
Capital Intensity	Medium
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	Medium

SOURCE: WWW.IBISWORLD.COM

entering the industry as a result of the customer loyalty that the more prominent industry participants have, including Remington, Smith & Wesson and Ruger.

Guns and ammunition manufacturers must overcome the need for specialized labor and machinery, and high research and development costs. New entrants must have higher research and development budgets. In addition, the hazardous nature of the products (small arms, ordnance, ammunition) increases a firm's costs as they need to adhere to additional regulation. To the extent that these regulatory costs increase industry participation costs, they pose a barrier to entry.

Competitive Landscape

Industry Globalization

Level & Trend
Globalization in this industry is **High** and the trend is **Increasing**

Globalization is on the rise within the Guns and Ammunition Manufacturing industry. Although the level of foreign ownership in domestic firms is low, some US-based firms have begun investing in and purchasing foreign weapons and ammunition manufacturers. Domestic consumers have also increasingly turned to imports to satisfy their rapidly growing demand for guns and ammunition. In the beginning of 2007, imports accounted for about 29.8% of domestic demand. By the end of 2012, imports will account for 27.9% for domestic demand. With demand for industry products surging over the last five years, domestic manufacturers have struggled to keep up with growing demand. The United States is a net exporter of industry products. In 2007, the industry exported nearly \$1.0 billion more than it imported, though that number is expected to rise to \$1.6 billion in 2012.

The industry gets a large portion of its firearm imports from Austria and Italy, due to the popularity of the Glock and Beretta brands. Germany and the United

Kingdom are the most popular sources of imports of ammunition and ordnance products. Over the five years to 2012, imports are expected to grow at a rate of 3.6% per year. The top import origins for the industry as a whole include United Kingdom, Germany, Italy and Brazil.

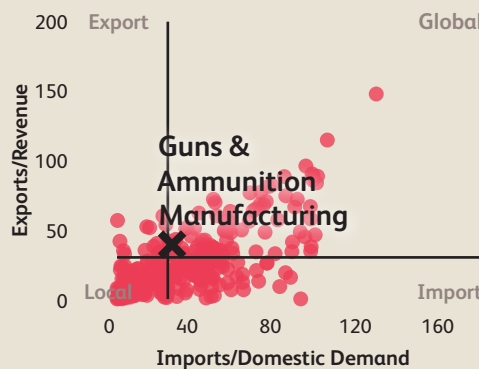
Over the five years to 2012 exports are also expected grow at faster rate than imports due to rising international demand for domestically manufactured products. The majority of the industry's firearm exports are purchased by Canada, United Kingdom and Australia, who together will purchase about 39% of total exports in 2012. Canada is a large purchaser of US exports in this industry due to NAFTA and its geographic proximity to the United States. Israel, United Kingdom and Japan are the United States' largest customers for ammunition and ordnance products. Industry exports are expected to grow at a rate of 6.1% per year over the five years to 2012. The top export destinations for the industry as a whole include United Kingdom, Japan, Israel, and Australia.

International trade is a major determinant of an industry's level of globalization.

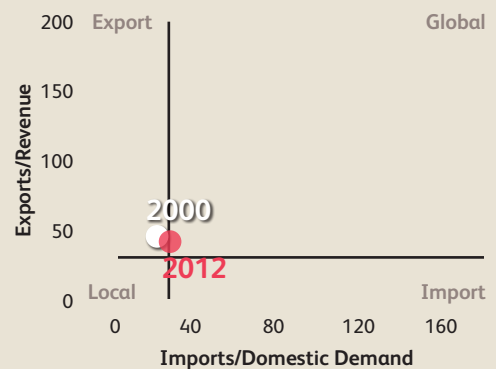
Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries.

Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.

Trade Globalization



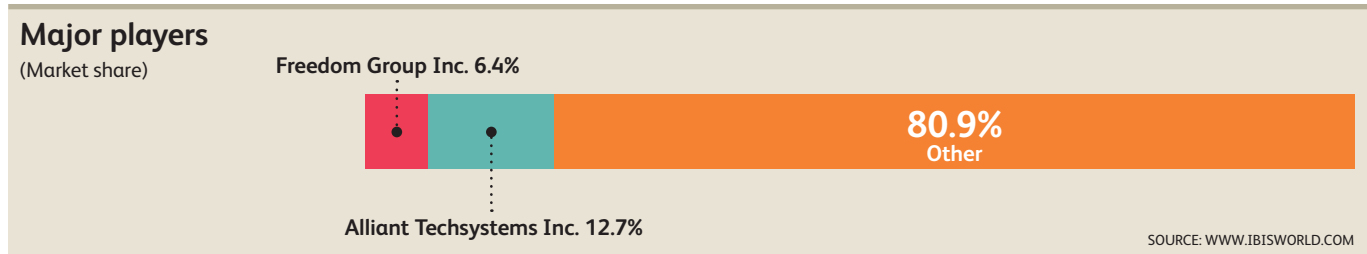
Going Global: Guns & Ammunition Manufacturing 2000-2012



SOURCE: WWW.IBISWORLD.COM

Major Companies

Alliant Techsystems Inc. | Freedom Group Inc. | Other Companies



Player Performance

Alliant Techsystems Inc.
Market share: 12.7%

Alliant Techsystems Inc. (ATK) is a Minneapolis-based aerospace and defense company with about 14,500 employees and operations in 22 states. ATK is a former subsidiary of Honeywell Inc. ATK conducts its business in three operating segments: ATK Armament Systems, ATK Mission Systems and ATK Space Systems. The business segment that pertains to the Guns and Ammunition manufacturing industry is ATK Armament Systems.

ATK Armament Systems develops and produces military ammunition and gun systems, commercial products, tactical accessories and propellants and energetics. It also operates the US army ammunition plants in Independence, MO and Radford, VA.

ATK manufactures a variety of small-caliber training and tactical ammunition rounds. ATK has a production contract to

supply the army's small-caliber ammunition needs. ATK has also reached agreement with the US army on a four-year supply contract as the primary supplier of small-caliber ammunition to the Department of Defense.

In addition, ATK develops and manufactures a family of medium-caliber chain-gun systems that provides armament solutions for US and allied combat vehicles, helicopters and naval vessels. These products are used on the Bradley Fighting Vehicle, Light Armored Vehicle, Expeditionary Fighting Vehicle and Apache helicopter. ATK supplies more than 15,000 medium-caliber gun systems to the US military and 20 allied nations, including Poland, Finland, Denmark, the Netherlands, Switzerland, Norway and the Czech Republic.

Besides ammunition and gun systems, ATK Armament Systems manufactures

Alliant Techsystems Inc. (US armament systems segment) – financial performance

Year*	Revenue (\$ million)	(% change)	Net Income (\$ million)	(% change)
2007-08	1,270.0	15.7	120.1	24.1
2008-09	1,279.9	0.8	147.6	22.9
2009-10	1,515.4	18.4	144.6	-2.0
2010-11	1,553.4	2.5	182.1	25.9
2011-12	1,359.3	-12.5	212.6	16.7
2012-13**	1,483.7	9.2	261.7	23.1

*Year end March; **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

solid extruded propellant for more than 25 types of military ammunition and rocket systems. Major production programs include propellant for medium-caliber and tank ammunition, artillery charge systems, and air and ground launched rockets.

About 65.0% of ATK's sales are to US government customers, with the remaining 35.0% of sales coming from commercial and other foreign customers. ATK's total sales equaled \$4.6 billion in fiscal 2012, with ATK Armament System's portion equaling \$1.6 billion.

Financial performance

Over the five years to fiscal 2013, ATK Armament Systems US sales are expected to grow at a rate of 3.2% per year to \$1.5 billion, with revenue forecast

to grow 9.2% in fiscal 2013. Fiscal 2012 revenue fell 12.5% based on declines in small-caliber systems sales, primarily due to lower international and modernization sales volume, as well as declines in integrated weapon systems which were driven by lower volumes across multiple medium-caliber gun and ammunition programs.

In contrast, internationally, segment revenue grew in fiscal 2009 and 2010 due to rises in small-caliber systems sales as demand rose for small-caliber ammunition; non-standard ammunition and weapon sales; and facility modernization project sales. Revenue grew 2.5% to \$1.8 billion in fiscal 2011, with segment income growing 25.9%. Segment revenue also increased 18.4% in fiscal 2010.

Alliant Techsystems Inc. (armament systems segment) – financial performance

Year*	Revenue (\$ million)	(% change)	EBIT (\$ million)	(% change)
2007-08	1,476.7	15.7	139.6	24.0
2008-09	1,488.3	0.8	171.6	22.9
2009-10	1,762.1	18.4	168.1	-2.0
2010-11	1,806.3	2.5	211.7	25.9
2011-12	1,580.6	-12.5	247.2	16.8
2012-13**	1,725.2	9.1	304.3	23.1

*Year end March; **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance

Freedom Group Inc.

Market share: 6.4 %

Industry Brand Names

Remington
Bushmaster
Dakota Arms
Parker Gunmakers
Marlin Firearms

Freedom Group Inc. (US segment) – financial performance

Year	Revenue (\$ million)	(% change)	Net Income (\$ million)	(% change)
2007	338.7	562.8	-7.8	N/C
2008	625.2	84.6	-25.4	225.6
2009	760.0	21.6	48.4	N/C
2010	667.7	-12.1	-6.8	N/C
2011	708.3	6.1	-6.1	-10.3
2012*	745.3	5.2	N/A	N/C

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Freedom Group is a Remington, NC-based manufacturer of guns, ammunition and other firearm-related accessories. It is one of the leading firearms, ammunition and related products companies in the world, with top commercial market positions across all of the major product categories in the United States, the largest firearms and ammunition market globally. It is America's oldest and largest manufacturer of firearms and ammunition with a history dating back to 1816. It serves the hunting, shooting sports, law enforcement and military end markets under some of the most globally recognized brands, including Remington, Marlin, Bushmaster and DPMS. Freedom group is the only major US manufacturer

of both firearms and ammunition. It has nine manufacturing facilities with more than 3,000 employees and delivers products throughout the United States and to more than 80 countries. The Freedom group claims to be the largest manufacturer of commercial firearms, with number one market share in domestic shotgun sales, commercial AR-style rifle sales. They also boast more caliber offerings than any other manufacturer, top market share in lever action sales, rimfire rifles and bolt action rifles. Freedom group sells more than two billion rounds of ammunition products annually.

In 2009, Freedom Group added Dakota Arms, S&K, Marnes and Advanced Armament to its already

Freedom Group Inc. – financial performance

Year	Revenue (\$ million)	(% change)	Net Income (\$ million)	(% change)
2007	384.9	562.5	-8.9	N/C
2008	722.5	87.7	-29.4	230.3
2009	848.7	17.5	54.0	N/C
2010	744.3	-12.3	-7.6	N/C
2011	775.0	4.1	-6.7	-11.8
2012*	812.5	4.8	N/A	N/C

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

diverse portfolio of companies. In October 2009, Cerberus Capital Management took Freedom Group public with a \$200.0 million initial public offering.

Financial performance

Over the five years to 2012, Freedom Group revenue is expected to grow an average of 16.1% per year to \$812.5 million, largely due to acquisitions. Over that same period, US-specific revenue is

expected to grow an average of 17.1% per year to \$745.3 million.

Revenue is forecast to grow in 2012 at a muted rate of 4.8% to \$812.5 million. Revenue rose in 2011 (4.1% to \$775.0 million) mostly due to increased shotgun and handgun sales, offset by decreased ammunition sales. Purchases from the consumer segment are expected to experience the most significant declines as fears about potential changes in gun laws abate.

Other Companies

Smith & Wesson

Estimated market share: 4.6%

Springfield, MA-based Smith & Wesson is one of the world's leading manufacturers of firearms. Horace Smith and Daniel B. Wesson founded the company in 1852. The company manufactures an array of pistols, revolvers, tactical rifles, hunting rifles, black powder firearms, handcuffs and firearm-related products and accessories for sale to a variety of customers, including gun enthusiasts, collectors, hunters, sportsmen, competitive shooters, protection-focused individuals, law enforcement and security agencies, officers and military agencies in the United States and throughout the world. It is the largest manufacturer of handguns and handcuffs in the United

States, and is the largest US exporter of handguns. It manufactures these products at its Springfield headquarters and at facilities in Houlton, ME and Rochester, NH. In 2007, it acquired the Thompson/Center Arms Company.

Over the five years to fiscal 2013, Smith & Wesson revenue is expected to increase 12.6% per year, with revenue forecast to grow 30.2% to \$417.4 million in fiscal 2013. In fiscal 2012, revenue grew 20.4% on the back of high sales of polymer handguns and modern sporting rifles. However, in fiscal 2011, revenue fell 4.4% to \$342.2 million, with the company posting a net loss of \$82.8 million. This was due to lower order levels from their firearm business as ordering returned to more normal levels after a strong rise in consumer

Smith & Wesson – financial performance

Year*	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2007-08	295.9	25.1	9.1	-30.0
2008-09	335.0	13.2	-64.2	N/C
2009-10	357.9	6.8	32.5	N/C
2010-11	342.2	-4.4	-82.8	N/C
2011-12	412.0	20.4	16.1	N/C
2012-13**	536.6	30.2	N/A	N/C

*Year end April; **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Other Companies continued

demand that occurred after the November 2008 presidential election. That said, fiscal 2010 was a strong year for the company and revenue increased 21.3%. Growth in revenue was driven by increased firearm sales of tactical rifles and new Walther products.

Sturm, Ruger & Company Inc.

Estimated market share: 3.9%

Sturm, Ruger & Company Inc. is a Southport, CT-based designer and manufacturer of firearms. The company has been in the business since 1949 and offers products in four industry product categories including rifles, shotguns, pistols and revolvers. Sturm, Ruger & Company's firearms are sold through a select number of independent wholesale distributors, principally to the commercial sporting market. About 99.0% of the company's total sales were from the firearms segment, and about 1.0% came from investment castings. Sturm, Ruger & Company's design and manufacturing operations are located in

the United States and most product content is domestic. The company has 1,164 full-time employees.

Over the five years to 2012, revenue is expected to grow at an average rate of 23.9% per year, with revenue forecast to grow 39.0% to \$457.1 million in 2012. In 2011, revenue increased 28.8% due to strong demand for the new products the company launched in 2011, including the new LC9 pistol, the SR1911 pistol, the SR40c pistol, the Gunsite Scout rifle, the Single-Ten revolver, and the SP-101 double-action revolver chambered in 22LR.

In 2010, revenue declined 5.8% to \$255.2 million as demand waned compared to the strong growth it experienced in the prior year. Firearms sales decreased 5.9% with unit shipments also falling 2.5% in 2010. A shift in product mix toward firearms with lower unit sales prices resulted in the relatively lower percentage decrease in unit shipments compared to the percentage decrease in sales.

Sturm, Ruger & Company Inc. – financial performance

Year	Revenue		Net Income	
	(\$ million)	(% change)	(\$ million)	(% change)
2007	156.5	-6.6	10.3	836.4
2008	181.5	16.0	8.7	-15.5
2009	271.0	49.3	27.5	216.1
2010	255.2	-5.8	28.3	2.9
2011	328.8	28.8	40.0	41.3
2012*	457.1	39	N/A	N/C

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

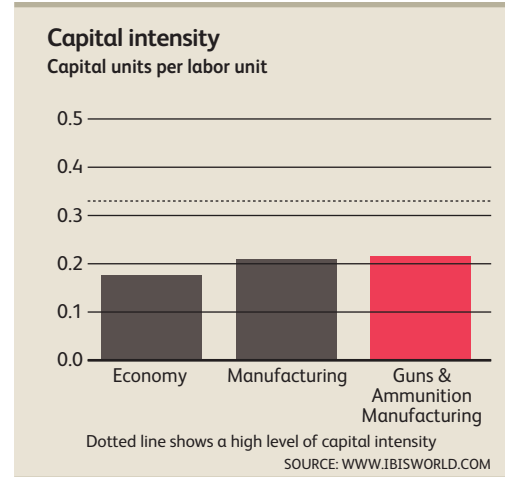
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
 Regulation & Policy | Industry Assistance

Capital Intensity

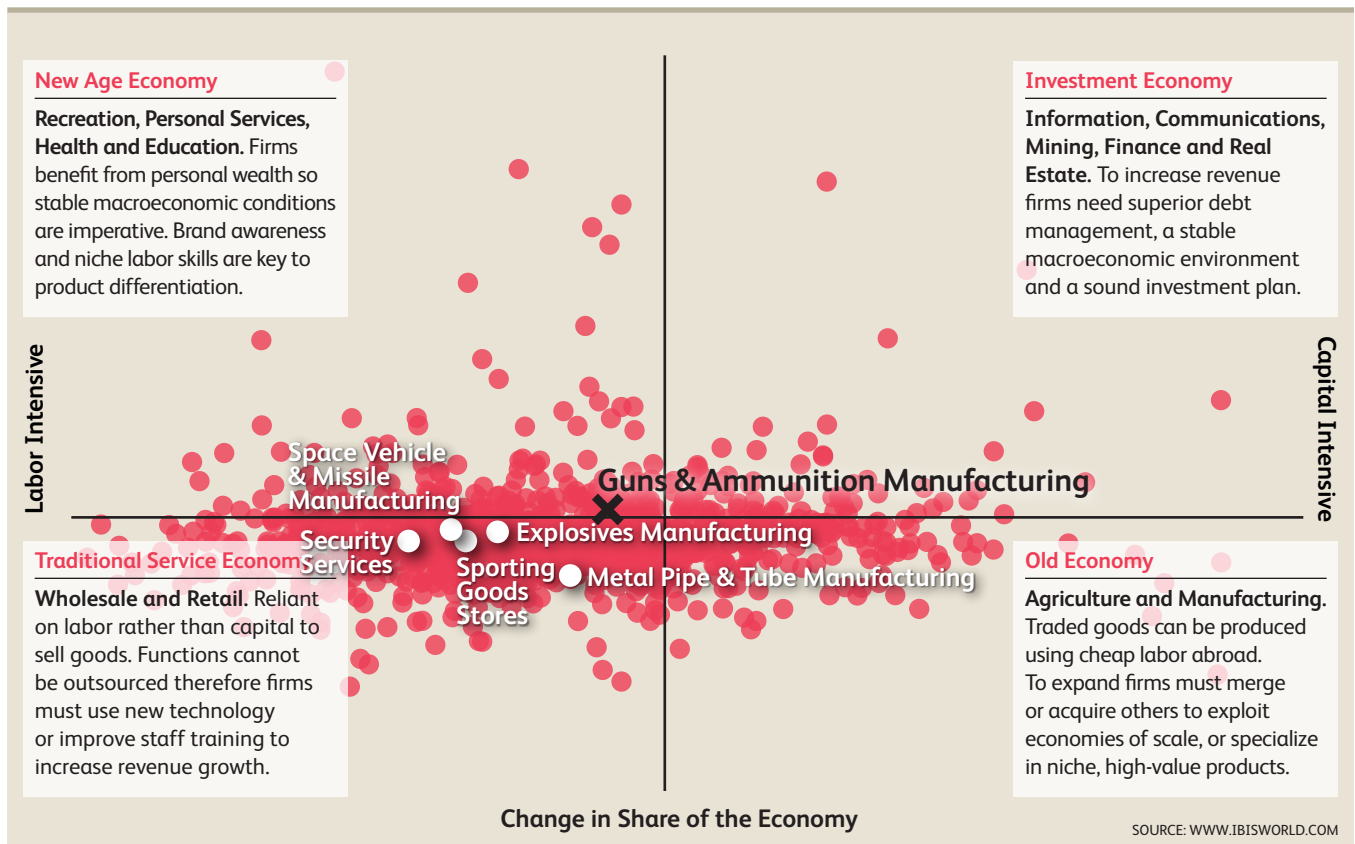
Level
 The level of capital intensity is **Medium**

The Guns and Ammunition Manufacturing industry requires a substantial amount of capital investment. The cost of new plant and equipment is significant and product innovation necessitates periodic investment in new technology. On the other hand, a substantial amount of skilled labor is also needed to manufacture industry products. In 2012, IBISWorld estimates that the industry will spend nearly five times as much on labor than it will on capital investment. The purchase and assembly requirements of ammunition and firearms manufacturers demand a higher-than-average level of labor input. The industry has trended toward mechanization over the last five



years, although wages and employment have increased between 2007 and 2012. Manufacturers can

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

lower production costs by making one-time or periodic (depending on the rate of technology change)

investments in equipment, though demand for a higher output has increased employment and wages.

Technology & Systems

Level

The level of
Technology Change
is **Medium**

Product development is essential to maintaining market share and market-leader status. This requires R&D. Applied research is directed at particular objectives (e.g. searching for new or alternative materials for a product) and the ability to expand businesses across product lines or geographic markets. In general, the introduction of computer technologies has lowered the industry's labor intensity but raised the minimum skills required.

Product technology

The functional design of small arms has remained relatively stable with incremental improvements in metallurgy, ammunition and manufacturing technologies. Recent product development initiatives have focused on improving the products capability and safety. Recent technological developments have included enhancements to the overall lethality of military small arms through increased accuracy, penetration and rate of fire.

Firms in this industry focus on product development and introducing new products that satisfy the need for specialized, high-performance firearms. For example, providing new products such as lightweight and soft recoiling

auto-loading weapons with advanced operating systems enhance product viability. Additionally, providing specialized, high-performance ammunition that offers hunters' better on-game performance at all ranges also enhances product and brand viability.

Manufacturing technology

Although the types and extent of technology within this industry varies across product segments, there are some common technological issues. For instance, there are intensive manufacturing operations that use computer numerically controlled machinery to manufacture products.

Companies in the industry make use of automated handling and assembly technology (including robotics) to perform repetitive tasks, thus promoting manufacturing efficiencies. While being relatively expensive to set up and install, once the machinery is working, an increase in the total output of parts produced reduces the unit cost as fixed costs are spread across the company.

Much of the technology in use is in the public domain, but there are some proprietary processes used in the manufacturing of goods produced by this industry that are patented.

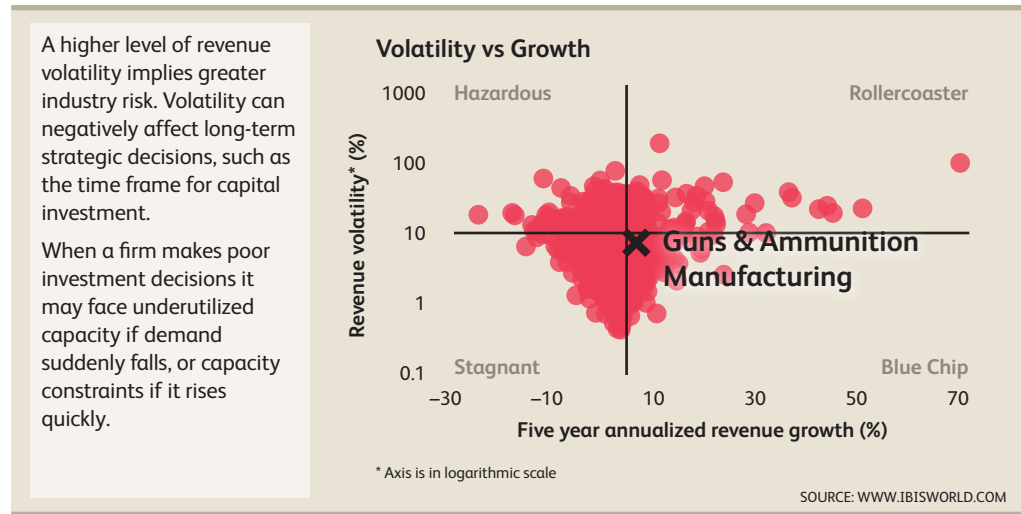
Operating Conditions

Revenue Volatility

Level
The level of Volatility is **Medium**

This industry has a moderate level of volatility as represented by the 6.1% average annual fluctuation in industry revenue in the last five years. Volatility has increased in response to surging demand for industry products, though this industry has exhibited a moderate

level of volatility in most years since 2000. Firms are also subject to the volatility associated with changes in the price of purchased inputs, such as zinc, steel and other input materials. These associated costs are passed on to consumers.



Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Steady**

Firms are subject to various federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations impose limitations on the discharge of materials into the environment and require firms to obtain and operate in compliance with government regulations. As a result of government regulation in this industry, most companies have developed extensive environmental, health and safety policies and procedures that include the proper handling, storage and disposal of hazardous materials. Although manufacturers design their equipment and manufacturing process to comply with these standards, the regulations have nonetheless increased the price of the equipment as well as the cost of production. The higher costs associated with these environmental

regulations are one of the reasons that companies are now looking to manufacture in countries with fewer environmental regulations.

The industry's products have their own set of regulations. These are design standards, which specify dimensions, tolerances or other physical characteristics of products; and performance standards, which provide a voluntary method of rating products. Government control and regulation regarding the manufacture and trade of firearms and ammunition is much more stringent. Numerous reports, including the "Annual Firearms Manufacturing and Exportation Report," must be completed by manufacturers within this industry.

In addition, there are an assortment of laws and regulations governing arms exports that industry participants must

Operating Conditions

Regulation & Policy continued

abide by. Such laws and regulations include the Arms Export Control Act of 1976 (as amended), which establishes procedures for sales and transfers of military equipment and related services, and the Foreign Assistance Act of 1961, which provides for economic and military assistance to foreign governments. Other laws and regulations include the Legislation of Foreign Relations Through 2005 (which includes Arms Export Control Act, Foreign Assistance Act, Gun Control Act, National Firearms Act and several other pieces of legislation); the International Traffic in Arms Regulations (ITAR), which establishes the rules of operation used to control the import and export of defense articles and services; and the Export Administration Regulations, which are rules for the export of dual use (both civil and military) goods and technology.

Specific regulations

The manufacture, sale and purchase of firearms are subject to extensive federal, state and local governmental regulation. The basic federal laws are the National Firearms Act, the Federal Firearms Act, and the Gun Control Act of 1968. These laws generally prohibit the private ownership of fully automatic weapons and place certain restrictions on the interstate sale of firearms unless certain licenses are obtained. From time to time, congressional committees review proposed bills relating to the regulation of firearms. These proposed bills generally seek either to restrict or ban the sale and, in some cases, the ownership of various types of firearms. Several states currently have laws in effect similar to the aforementioned legislation.

Until November 30, 1998, the Brady Law mandated a nationwide five-day waiting period and background check prior to the purchase of a handgun. As of November 30, 1998, the National Instant Check System, which applies to both

handguns and long guns, replaced the five-day waiting period. On September 13, 1994, the Crime Bill banned so-called "assault weapons." This ban expired by operation of law on September 13, 2004. Various states and cities have adopted or proposed their own version of the ban.

Bills have been introduced in Congress to establish, and to consider the feasibility of establishing, a nationwide database recording so-called "ballistic images" of ammunition fired from new guns. Should such a mandatory database be established, the cost to firms in these industries and their customers could be significant, depending on the type of firearms and ballistic information included in the database. To date, only two states have established such registries.

Some states are considering mandating certain design features on safety grounds, most of which would be applicable only to handguns. IBISWorld expects that hunter safety issues may affect sales of firearms, ammunition and other shooting-related products. In the northeastern United States, for example, some communities permit deer hunters to use only shotguns (which have a shorter average range than rifles) to minimize the possibility of shooting accidents in more densely populated areas.

Bills have been introduced in Congress in the past several years that may potentially affect the manufacture and sale of handgun ammunition, including bills to regulate the manufacture, import and sale of any projectile that is capable of penetrating body armor, to impose a tax and import controls on bullets designed to penetrate bullet-proof vests. There have also been bills introduced that seek to prohibit the manufacture, transfer or importation of .25-caliber, .32-caliber and 9-millimeter handgun ammunition, to increase the tax on handgun ammunition, to impose a

Operating Conditions

Regulation & Policy continued

special occupational tax and registration requirements on manufacturers of handgun ammunition, and to drastically

increase the tax on certain handgun ammunition, such as 9-millimeter, .25-caliber and .32-caliber bullets.

Industry Assistance

Level & Trend

The level of Industry Assistance is **Medium** and the trend is **Steady**

Tariffs

There are numerous tariffs levied on products made within the industry. The majority of industry products imported into the United States incur a normal trade relations (NTR) duty of between 0% and 4.3%. A non-NTR duty rate of between 27.5% and 45% applies to all imports of products from a small number of countries that do not enjoy NTR duty status, such as Cuba, North Korea, Iran, Iraq and Libya. In some cases, free trade importation agreements are in place.

To export their products, US-based firms must register with the Bureau of Industry and Security (BIS) which is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of most commercial items into and out of the United States. These regulations do not control all goods, services and technologies as other US government agencies regulate more specialized exports, such as the Department of Defense.

As of October 1, 2005, any pistol, revolver or firearm that was manufactured, produced or imported by a person who manufactures, produces or imports less than an aggregate of 50 such articles during the calendar year is exempt from Federal Firearms and Ammunition Excise Tax.

Industry associations

Industry associations that represent firms in this industry include the National Association of Manufacturers (NAM), the Sporting Arms & Ammunition Manufacturers Association (SAAMA), the National Rifle Association (NRA) and the National Association of Firearms Retailers (NAFR). These associations represent the interests of firms in this industry by facilitating technology councils and conferences and providing networking opportunities, industry information, resources, regulatory information, education and standards advice.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand	Crime Rate
2003	7,300.3	4,965.0	413	392	27,222	2,110.3	1,300.5	1,454.1	6,490.5	4,074
2004	7,808.3	5,407.1	420	396	27,612	2,624.3	1,571.5	1,486.0	6,755.5	3,986
2005	7,225.0	4,807.9	430	402	29,624	2,501.0	1,633.5	1,601.7	6,357.5	3,911
2006	8,396.1	5,225.2	451	422	31,092	3,174.9	2,009.4	1,731.3	7,230.6	3,818
2007	8,834.1	5,653.8	470	435	32,109	3,306.1	2,347.2	1,755.7	7,875.2	3,731
2008	9,822.6	6,384.7	480	443	33,412	3,190.0	2,454.6	1,918.8	9,087.2	3,669
2009	10,737.8	7,086.9	485	445	34,156	3,450.6	2,914.3	2,094.8	10,201.5	3,466
2010	10,465.0	6,655.8	490	450	34,569	3,959.5	2,783.1	2,022.3	9,288.6	3,346
2011	10,798.9	6,831.7	501	458	34,892	4,449.8	2,480.7	2,106.7	8,829.8	3,335
2012	11,679.7	7,408.4	510	465	35,165	4,438.5	2,803.2	2,158.4	10,044.4	3,309
2013	12,184.8	7,783.2	516	468	35,268	4,514.9	3,016.1	2,212.9	10,686.0	3,266
2014	12,612.0	8,170.9	520	470	35,512	4,716.6	3,192.0	2,339.1	11,087.4	3,207
2015	12,820.7	8,162.9	525	473	35,389	4,819.7	3,348.5	2,325.8	11,349.5	3,162
2016	13,240.6	8,461.6	530	475	35,056	4,888.3	3,522.7	2,443.9	11,875.0	3,127
2017	13,863.4	8,825.4	535	478	35,426	4,978.8	3,641.5	2,524.7	12,526.1	3,099
Sector Rank	112/195	60/195	119/195	108/195	97/195	58/183	102/183	81/195	131/183	N/A
Economy Rank	461/706	306/706	603/705	574/705	487/706	70/226	112/226	421/706	153/226	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Crime rate (%)
2004	7.0	8.9	1.7	1.0	1.4	24.4	20.8	2.2	4.1	-2.2
2005	-7.5	-11.1	2.4	1.5	7.3	-4.7	3.9	7.8	-5.9	-1.9
2006	16.2	8.7	4.9	5.0	5.0	26.9	23.0	8.1	13.7	-2.4
2007	5.2	8.2	4.2	3.1	3.3	4.1	16.8	1.4	8.9	-2.3
2008	11.2	12.9	2.1	1.8	4.1	-3.5	4.6	9.3	15.4	-1.7
2009	9.3	11.0	1.0	0.5	2.2	8.2	18.7	9.2	12.3	-5.5
2010	-2.5	-6.1	1.0	1.1	1.2	14.7	-4.5	-3.5	-8.9	-3.5
2011	3.2	2.6	2.2	1.8	0.9	12.4	-10.9	4.2	-4.9	-0.3
2012	8.2	8.4	1.8	1.5	0.8	-0.3	13.0	2.5	13.8	-0.8
2013	4.3	5.1	1.2	0.6	0.3	1.7	7.6	2.5	6.4	-1.3
2014	3.5	5.0	0.8	0.4	0.7	4.5	5.8	5.7	3.8	-1.8
2015	1.7	-0.1	1.0	0.6	-0.3	2.2	4.9	-0.6	2.4	-1.4
2016	3.3	3.7	1.0	0.4	-0.9	1.4	5.2	5.1	4.6	-1.1
2017	4.7	4.3	0.9	0.6	1.1	1.9	3.4	3.3	5.5	-0.9
Sector Rank	7/195	19/195	45/195	39/195	107/195	136/183	19/183	63/195	4/183	N/A
Economy Rank	33/706	73/706	221/705	205/705	449/706	158/226	30/226	267/706	9/226	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2003	68.01	20.04	28.91	268.18	19.92	65.91	53,416.35	0.04
2004	69.25	23.26	33.61	282.79	19.03	65.74	53,817.18	0.04
2005	66.55	25.69	34.62	243.89	22.17	68.89	54,067.65	0.04
2006	62.23	27.79	37.81	270.04	20.62	68.94	55,683.13	0.04
2007	64.00	29.80	37.42	275.13	19.87	68.32	54,679.37	0.04
2008	65.00	27.01	32.48	293.98	19.53	69.61	57,428.47	0.05
2009	66.00	28.57	32.14	314.38	19.51	70.42	61,330.37	0.06
2010	63.60	29.96	37.84	302.73	19.32	70.55	58,500.39	0.05
2011	63.26	28.09	41.21	309.50	19.51	69.64	60,377.74	0.05
2012	63.43	27.91	38.00	332.14	18.48	68.95	61,379.21	0.05
2013	63.88	28.22	37.05	345.49	18.16	68.35	62,745.26	0.06
2014	64.79	28.79	37.40	355.15	18.55	68.29	65,867.88	0.06
2015	63.67	29.50	37.59	362.28	18.14	67.41	65,720.99	0.05
2016	63.91	29.66	36.92	377.70	18.46	66.14	69,714.17	0.05
2017	63.66	29.07	35.91	391.33	18.21	66.22	71,266.87	N/A
Sector Rank	5/195	80/183	26/183	112/195	48/195	63/195	41/195	60/195
Economy Rank	49/706	91/226	34/226	275/706	334/706	93/705	173/706	306/706

Figures are inflation-adjusted 2012 dollars. Rank refers to 2012 data.

SOURCE: WWW.IBISWORLD.COM

Jargon & Glossary

Industry Jargon

AMMUNITION Primers that are fired from guns, explosive military items like grenades and bombs and any materials that are thrown in fight.

ORDNANCE Ammunition, explosives and similar warfare devices.

TAMPION Wooden plug, or a metal, canvas, rubber or plastic cover for the muzzle of a gun.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOR INTENSITY An indicator of how much capital is used in production as opposed to labor. Level is stated as High, Medium or Low. High is a ratio of less than \$3 of wage costs for every \$1 of depreciation; Medium is \$3 – \$8 of wage costs to \$1 of depreciation; Low is greater than \$8 of wage costs for every \$1 of depreciation.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using 2012 as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND The use of goods and services within the US; the sum of imports and domestic production minus exports.

EARNINGS BEFORE INTEREST AND TAX (EBIT) IBISWorld uses EBIT as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding tax and interest.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70% of revenue; Medium is 40–70% of revenue; Low is less than 40%.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0–5%; Medium is 5–20%; High is over 20%. Imports/Domestic Demand: Low is 0–5%; Medium is 5–35%; and High is over 35%.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than $\pm 20\%$; High Volatility is between $\pm 10\%$ and $\pm 20\%$; Moderate Volatility is between $\pm 3\%$ and $\pm 10\%$; and Low Volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees of the establishment.

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