ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

Overview of 2012 Results

Moves Are Up; Residential Net Attrition Ticks Down

TRG Associates continues to accumulate annual Attrition results from a growing number of small on up to large national security companies. The 2012 Report publishes the results for the twelfth straight year of this Study and includes results for over $263 million of Recurring Monthly Revenue (RMR) from companies across the United States, Canada and Europe. The consistency of the companies reporting continues to enhance our insight into the Attrition trends within the Security Industry. The Study seeks to provide a measurement of the Attrition results across the marketplace as to the level of Customer RMR losses (Gross Attrition) and the offsets to those losses through resigns of like customers/locations and other increases in the RMR related to the same base of customers (Net Attrition).

Residential Net Attrition percentage ticks down in 2012 for the Study Participants. With the US economy continuing to strengthen and International economies still struggling to rebound, the Average Residential/Commercial Gross Attrition figure increased from 11.18% in 2011 to 11.53% in 2012 and the Average R/C Net Attrition figure increased from 9.08 % in 2011 to 9.34% in 2012. Both metrics climbed because of the increase in Commercial Attrition while **Residential Net Attrition actually fell below 9% in 2012 (8.99% versus 9.17% in 2011) for the reporting entities.**

The Dollars of RMR are broken down by Geographic Region, Size of Company, Customer Source and Customer Type. The number of participating companies continues to grow. On a national scale, the results continue to be broken down by respective Branches in a number of cases as to geography, size, etc. which helps to identify the actual results of varied branch sizes in different geographies within larger organizations.

All of the regions grew as to actual dollars of RMR reported. We also added more large companies to the study that have in excess of $500,000 in RMR. In the US regions, we experienced a mix of increases/decreases in the Gross Attrition figures over the 2011 results. More importantly, we recorded an increase in Net Attrition in 4 of the 6 regions (5 US Regions and International) in 2012 for the second year in a row.

The smaller companies (3-50 RMR) experienced a decrease in the Gross and Net attrition for the second year in a row while the overall RMR size of that group continued to increase. At the other end of the spectrum, the larger companies (500+ RMR) experienced an increase in Gross Attrition and a more significant increase in Net Attrition from 9.02% in 2011 up to 9.50% for the 2012 Study. The mid-market companies/branches (201 - 500 of RMR) saw a dramatic decrease in both Gross Attrition and Net Attrition (Gross Attrition of 8.77% and Net Attrition of 6.63% in 2012 versus 9.46% and 7.83% respectively in 2011).

With Residential Net Attrition down to 8.99%, the most significant factor (Reasons for Attrition) that contributed to that Attrition was the impact of increased **Moves activity - up to 37% from 33.9% in 2011** – a sign that the US economy continues to strengthen as the housing market improves and job mobility rebounds. No Longer Using the System increased (11.6% in 2012 versus 7.6% in 2011) while Lost to Competition decreased slightly (11.4% in 2012 versus 13.5% in 2011) but still remains one of the leading Reasons for Attrition. Of note, the Collection/Non Payment reason for attrition decreased slightly to 18.6% versus 19.1% in 2011.

In 2011 we saw a number of participating companies reduce their RMR per customer to “save” a customer from cancellation. As another sign of a strengthening economy, the 2012 results reflect that more companies pushed thru Price Increases while “forgiving” only a portion of those increases to keep a customer – a majority of them stuck. In concert, RMR reductions were down across the board versus 2011 (9.1% in 2011 versus 4.5% in 2012).

The Dealer sourced segment experienced a decrease in Gross and Net Attrition for the fifth year in a row while the Mass Market segment experienced a decrease in Net Attrition over the 2011 results (8.69% in 2012 versus 9.14% in 2011). The Commercial segment experienced an increase in Net Attrition and Gross Attrition and exceeded the Residential Attrition rates for the first time in three years.

For the fourth year in a row, we gathered publicly available RMR and Attrition data on the two largest Publicly Held Security Companies (TLC) in the US to facilitate a broader perspective of the Attrition trends in the security industry in 2012. Based upon that information, we found that the Net Attrition results jumped from 9.5% for the participating 500+ RMR entities up to 11.66% inclusive of the TLC entities, though this was still under 2009’s results of 12.29%. We also found that there was a swap in positions as Residential Net Attrition outpaced Commercial after factoring in the TLC entities. **Inclusive of the TLC companies, Commercial Net Attrition decreased from 11.83% in 2011 to 10.38% in 2012, while Residential Net Attrition increased from 11.44% in 2011 to 12.02% in 2012.**

This Study will be updated again at the end of 2013 with the assistance of the existing participants and any new companies that would like to join the Study. Participation in the Study is open to all companies, is free and we maintain the strictest of confidentiality as to the individual company results. We wish to thank all of the participants that took the time to report their 2012 results.

Please do not hesitate to call John Brady at TRG Associates (www.trgassociates.com) or CSAA (www.csaaintl.org) for information on how to participate in this Study for 2013. The 2012 Presentation has been made available on the TRG web site and will be available on the CSAA web site within the next few weeks.