ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

ATTRITION IMPROVES IN “17” OVER “16” FOR RESIDENTIAL

PERS ATTRITION REPORTED FOR THE FIRST TIME

“No Longer Using the System” climbs again; Commercial Net Attrition inches up third Yr in a row

TRG Associates continues to accumulate annual Attrition results from small on up to large national security companies. The 2017 Report publishes the results for the seventeenth straight year of this Study and includes results for over $366 million of Recurring Monthly Revenue (RMR) from companies across the United States, Canada and Europe. 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).

We continue to reflect the attrition trends over the past decade for the industry as we publish the 2017 Study and reflect those trends in a graphical profile for each category.

All the Regions and Customer Source categories (except Dealer) increased in dollars of RMR over 2016. It is worth noting that the Gross and Net Attrition increased for the Traditional and Dealer segment while Mass Market (includes some DIY) decreased. Most notably, the Net Attrition came down for all Company sizes (RMR breakout) versus the 2016 results.

The Residential Net Attrition percentage pushed down in 2017 for the Study Participants (11.50% in 2016 down to 11.13% in 2017) which is the first year in over four years that the upward trend was reversed.

On the Commercial side, Net Attrition increased slightly from its 2016 mark of 10.32% up to 10.36% Net Attrition in 2017. The same measurement for 2015 was 10.05%.

The smaller companies (3-50 RMR) experienced a decrease in both the Gross and Net Attrition (8.32% Gross and 7.64% Net in 2016 versus 7.67% and 6.30% in 2017 respectively) while the 500+ company size category decreased also in 2017 (11.17% Net Attrition in 2016 moving down to 10.96% Net Attrition in 2017.)

Many of this study’s larger participants continue to refine their attrition measurement tracking by breaking out their branches and reporting on them separately. This speaks to the amount of RMR in the 201 to 500 and 500+ size RMR categories rising in 2017 for the third year in a row.

As the mid-market size companies/branches (201-500 of RMR) went up in overall RMR size, we saw a decrease in Gross Attrition and Net Attrition (Gross Attrition of 10.66% and Net Attrition of 8.93% in 2016 versus 10.48% and 8.74% in 2017.) Of note, the spread between Gross and Net

Attrition increased to 2.43% over the previous year's delta (1.89%) which continues to reflect the strong management focus of the reporting companies to maintain their customer base on a net basis as these metrics reflect.

As for Reasons for Attrition, "Moved" is up after three years of reductions (32.5% in 2016 to 34.9% in 2017) and "Collections/Non-Payment" came down for the second year in a row (14.8% in 2016 down to 10.9% in 2017).

The "Financial Difficulties" category within Reasons for Attrition jumped down from 8.7% to 4.2% but if you combine "Sold/Out of Business" (8.5%) and "Financial Difficulties" (4.2%) there is actually only a slight reduction of the combined categories from 13.0% in 2016 down to 12.7% in 2017. We would suggest looking at these categories on a combined basis to assess the Trend as a good deal of this activity is being driven by the commercial segments of the participants and the categories are so close in the commercial world.

"No Longer Using the System" jumped in 2017 (12.0% in 2016 versus 14.8% in 2017) while "Lost to Competition" decreased for the third year in a row from 14.9% to 12.9%. Although "Lost to Competition" decreased year over year, it is still high enough to indicate that a large number of customers are trading security providers which TRG expects to continue as the industry continues to experience further consolidation, the impact of the Cable MSO's and new technology entrants such as Ring and Amazon.

"PI Rescinded/RMR Reduction" continued its steady rise from 8.5% in 2016 to 9.0% in 2017. This category was heavily impacted by many companies reducing rates again to save a customer in 2017 and the 2G to 3G transition that forced companies to reduce rates as they replaced equipment on the residential side. Some companies even expanded their "Reasons" categories to include the tracking of the impact of the early 2G/3G transition to 4G thus we have included some of the separately tracked results and will be expanding our "Reasons for Attrition" to include this new category in the 2018 Study template.

As to the Customer Source categories (Dealer, Traditional, Mass Market) that reflect the attrition related to the original investment model that was used to originate the respective customers, they experienced mixed results. The Mass Market segment (includes some DIY) reversed it's upward trend by dropping to 13.84% Gross Attrition while going below 11.0% on the Net Attrition side for the first time in five years. It would seem that this customer base is maturing and beginning to reflect the stability of older customers while the DIY segment is serving as a stabilizing influence. The Dealer category rose above 14.0% for the first time as this segment of the market experiences significant creation pressures and much higher attrition as has been discussed in industry reports over 2017 and 2018.

For the ninth year in a row, we gathered publicly available RMR and Attrition data on the largest Publicly Held Security Companies (TLC) in the US to facilitate a broader perspective of the Attrition trends in the security industry in 2017. The ADT management team continues to expand its commercial/integration footprint which will contribute to the continued improvement of their overall attrition metrics in this category.

Based upon that information, we found that the Gross and Net Attrition including TLC results increased for Residential, up from 12.29% to 12.68% in 2017. TLC inclusive Commercial Net Attrition decreased from 11.40% in 2016 down to 11.26% in 2017. For further insight please see the 10 year Residential vs. Commercial Net Attrition Graph on page 20 of the 2017 PowerPoint.

PERS

For the first time in the history of the Study, we have been able to gather some Attrition information on PERS (Personal Emergency Response Systems) companies in the United States. The 2017 results reflect unit/subscriber data made available from a variety of different sized PERS participants in the industry based upon information from public documents, interviews with respective management and transactional memorandums. This information does not reflect the corresponding RMR of these subscribers given the complexity of the varied ARPU related to In Home, Cellular and Mobile (MPERS) units deployed in the market.

The PERS market continues to grow as the Elderly population in the US continues to expand, grows older and has increased incidents of complex health conditions. PERS penetration in the market remains low and the elderly want to remain independent. This Study reports on the Attrition profile from data that covers 1.707M subscribers and translates to approximately $42.5M in PERS RMR using $24.90 as an average ARPU.

The Monthly Attrition rate of the participants comes to 2.714% and 32.57% on an annualized basis. The data reflects a range for the varied participants from a low of 25% to a high of 38% on an annualized basis.

The “Reasons for PERS Attrition” are often divided into Uncontrollable and Controllable with the largest Reason – “Death/Assisted Living” deemed Uncontrollable due to a life altering event occurring and exceeds 50% of the Attrition (51.2%). As to the Controllable Reasons – “Not Using/No Longer Need” is the largest of the Reasons (16.4%) and reflects the ongoing industry challenge to convince the elderly that they need the technology and 24/7 monitoring to help keep them independent and in their homes. Unlike the “No Longer Using the System” reason related to security – this “No Longer Need” reason reflects those that feel they are over the health crisis that initially caused them to purchase the PERS device/service in the first place and don’t need the service anymore.

“Competition” at 8.40% suggests that there is more customer switching of providers than previously thought given the short tenure of a PERS subscriber on average.

Enhanced, easier to use Mobile technologies should help to increase the tenure of the PERS subscriber over time and help reduce this metric which is so important given the impact it has on the economics of the subscriber over its corresponding revenue stream versus the cost to create that same subscriber at the outset.

We look forward to the continuation of this Attrition project, measuring 2018’s results and beyond. If you would like to start or continue participating in the project, please go to trgassociates.com and download our Attrition template to use for free or send us your own Attrition findings/questions to rbrady@trgassociates.com and/or jbrady@trgassociates.com.