

ATTRITION MEASUREMENT CONTINUING TO DEVELOP MEANINGFUL TRENDS

2013 ATTRITION SPIKES UPWARD VERSUS 2012

Lost to Competition is Up; Residential Net Attrition Rises to 3 Yr. High

TRG Associates continues to accumulate annual Attrition results from a growing number of small on up to large national security companies. The 2013 Report publishes the results for the thirteenth straight year of this Study and includes results for over \$289 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 up 1.5% in 2013 for the Study Participants (8.99% in 2012 as opposed to 10.51% in 2013).

The Average Residential/Commercial Gross Attrition figure increased from 11.53% in 2012 to 12.25% in 2013 and the Average R/C Net Attrition figure increased from 9.34% in 2012 to 10.37% in 2013.

All of the Regions grew as to actual dollars of RMR reported (up \$25,398,135 in total dollars reported from 2012).

In the all regions, we experienced increases in the Gross Attrition figures over the 2012 results except the 51-100 RMR group. We recorded an increase in Net Attrition across the board as well except for this same category. (5.92% in 2012 versus 3.73% in 2013).

The smaller companies (3-50 RMR) experienced an increase in the Gross and Net Attrition for the first time in a while (5.63% gross and 3.54% Net in 2012 versus 6.82% and 5.53% in 2013 respectively) as the overall RMR size of that group decreased. (\$316,903 in 2012 to \$275,858 in 2013)

At the other end of the spectrum, the larger companies (500+ RMR) experienced an increase in Gross Attrition (11.7% in 2012 to 12.48% in 2013) and an increase in Net Attrition from 9.50% in 2012 up to 10.57% for the 2013 Study. The RMR size of this pool grew \$25 million.

As the mid-market companies/branches (201 - 500 of RMR) grew in size, we saw an increase in Gross Attrition and Net Attrition (Gross Attrition of 8.77% and Net Attrition of 6.63% in 2012 versus 9.27% and 7.73% respectively in 2013).

As for Reasons for Attrition, Moved is down as a Reason (37.0% in 2012 to 35.6% in 2013.) but is still higher than 2010 and 2011 were.

No Longer Using the System decreased (10.4% in 2013 versus 11.6% in 2012) while Lost to Competition increased significantly (14.3% in 2013 versus 11.4% in 2012) and remains one of the leading Reasons for Attrition. Clearly the larger companies in the industry are still losing customers to the mid-sized and smaller security industry players as customers seek to maintain their security with another provider. Of note, the Collection/Non Payment reason for attrition decreased to 16.1% versus 18.6% in 2012.

The Dealer sourced segment experienced an increase in Gross and Net Attrition for the first time in five years while the Mass Market segment also experienced an increase in Net Attrition over the 2012 results (10.74% in 2013 versus 8.69% in 2012). The Commercial segment experienced an increase in Net Attrition and Gross Attrition for the third year in a row and fell back below the Residential segment after eclipsing it in 2012.

Another sign of the steady economy in 2013 was that the Sold/Out of Business category was reduced to 3.1% from 5.2% in 2012 and 6.8% in 2011.

For the fifth 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 2013.

Based upon that information, we found that the Net Attrition results jumped from 9.5% for the participating 500+ RMR entities up to 12.53% inclusive of the TLC entities. Residential Net Attrition outpaced Commercial after factoring in the TLC entities. Inclusive of the TLC companies, Commercial Net Attrition increased from 10.38% in 2012 to 11.68% in 2013, while Residential Net Attrition increased from 12.02% in 2012 to 12.82% in 2013.