

ATTRITION MEASUREMENT CONTINUING TO DEVELOP MEANINGFUL TRENDS

OVERALL ATTRITION PUSHES UP IN “16”

“No Longer Using the System” continues to climb; Residential Net Attrition up third Yr in a row

TRG Associates continues to accumulate annual Attrition results from small on up to large national security companies. The 2016 Report publishes the results for the sixteenth straight year of this Study and includes results for over \$331 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 2016 Study and reflect those trends in a graphical profile for each category.

All the Regions and Customer Source categories increased in dollars of RMR over 2015. It is worth noting that the Gross and Net Attrition increased for each category also. Most notably, the smaller companies increased in Net Attrition for the first time to exceed 7.5%.

The Residential Net Attrition percentage pushed up in 2016 for the Study Participants (11.03% in 2015 up to 11.50% in 2016) which is the third year in a row it has trended upwards.

On the Commercial side, Net Attrition increased slightly from its 2015 mark of 10.05% up to 10.32% Net Attrition in 2016.

The smaller companies (3-50 RMR) experienced an increase in both the Gross and Net Attrition (6.55% Gross and 5.83% Net in 2015 versus 8.32% and 7.64% in 2016 respectively) while the 500+ company size category rose slightly again in 2016 (10.79% Net Attrition in 2015 rising to 11.17% Net Attrition in 2016.)

Many of this studies 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 2016.

As the mid-market size companies/branches (201-500 of RMR) went up in overall RMR size, we also saw an increase in Gross Attrition and Net Attrition (Gross Attrition of 9.57% and Net Attrition of 8.10% in 2015 versus 10.66% and 8.93% in 2016.) Of note, the spread between Gross and Net Attrition actually increased to 1.73% over the previous year's delta which continues to reflect

the strong management focus to maintain the customer base on a net basis as these metrics track.

As for Reasons for Attrition, Moved is down for the fourth year in a row (33.6% in 2015 to 32.5% in 2016) as it settles into consistently trending downwards while other Reasons continue to increase.

The Financial Difficulties category within Reasons for Attrition jumped from 7.9% to 8.7% as that Reason continues to approach its 2013 high of 9.3%. It is important to note that the majority of this increase was driven by the commercial sector of the companies that reported by segment of their markets this year.

No Longer Using the System jumped in 2016 (10.8% in 2015 versus 12.0% in 2016) while Lost to Competition decreased for the second year in a row from 16.0% to 14.9%. Although Lost to Competition decreased year over year, it is still high enough to indicate that large number of customers that are trading security providers which TRG expects to continue as the industry continues to experience further consolidation and the impact of takeovers by the Cable providers.

PI Rescinded/RMR Reduction continued its steady rise from 7.1% in 2015 to 8.5% in 2016. This category was heavily impacted by many companies reducing rates to save a customer in 2016 and the 2G to 3G transition that forced companies to reduce rates as they replaced equipment on the residential side. The Collection/Non- Payment Reason for Attrition inched down from 15.1% in 2015 to 14.8% in 2016.

All of the Customer Source categories (Dealer, Traditional, Mass Market) experienced an increase in Gross and Net Attrition. The Mass Market segment exceeded 14.0% Gross Attrition but remained sub 12.0% on the Net Attrition side.

For the eighth 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 2016. While ADT is not presently publicly reporting, we have an informed sense of the continued improvement in their attrition metrics that the new management team continues to achieve.

Based upon that information, we found that the Gross and Net Attrition including TLC results decreased again for Residential, down from 12.34% to 12.29% in 2016. TLC inclusive Commercial Net Attrition increased from 10.71% in 2015 to 11.40% in 2016. For further insight please see the 10 year Residential vs. Commercial Attrition Graph on page 18 of the 2016 PowerPoint.

We look forward to the continuation of this Attrition project, measuring 2017'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