

ATTRITION MEASUREMENT CONTINUING TO DEVELOP MEANINGFUL TRENDS

ATTRITION STUDY PARTICIPATION ECLIPSES \$780M OF RMR

GROSS ATTRITION DOWN – NET ATTRITION RESULTS MIXED

“3G/4G Attrition Influences Results – Industry Strong in the Midst of Pandemic”

TRG Associates continues to accumulate annual Attrition results from small on up to large national security companies. The 2021 Report publishes the results for the twenty first straight year of this Study and includes results for over \$780 million of Recurring Monthly Revenue (RMR) from companies across the United States, Canada and Europe/Asia. 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 2021 Study and reflect those trends in a graphical profile for each category.

All the Region categories increased in dollars of RMR over 2020 as the International region bounced back. It is worth noting that the Gross Attrition decreased for each category except the Northeast Region. The Net Attrition saw mixed results – Northeast, Southeast and West climbed while the remaining Regions Net Attrition decreased.

The Company size category saw decreases in the smaller companies (\$3,000-\$50,000 and \$101,000-\$200,000 of RMR) in participation as we continued to see the impact of industry consolidation of smaller companies into the larger participants. There are still a wide range of smaller, new entrants to the industry that we are working to include in the study in 2022. Clearly, the smaller companies were impacted by the 3G/4G transition as their Net Attrition increased.

The mid-sized companies experienced lower Net Attrition or remained somewhat consistent with 2020's results. The Net Attrition for the +500 RMR companies increased but the Gross Attrition actually decreased which was a trend across most of the categories – the gap between Gross Attrition and Net Attrition narrowed which speaks to the efforts by the respective management teams that benefitted from the Pandemic impact as residential subscribers worked from home and businesses shuttered but maintained and in cases, expanded and utilized their systems even more in 2021 - Gross Attrition decreased to 13.57% while Net Attrition rose from 11.70% in 2020 to 12.10% in 2021.

Resigns continued to be a large factor in helping to narrow the gap between Gross Attrition and Net Attrition – a number of our participant's significantly improved their resign efforts and the

corresponding resign of existing protected homes and businesses helped a great deal to close the gap between Gross and Net and help reduce Attrition overall.

Within the Customer Source results, the Dealer and Mass Market groups grew in participation while the Traditional segment decreased – again a result of companies being consolidated into larger participants and some troubled entities being disseminated into smaller mid-sized companies. In each category, the Gross Attrition decreased while the Net Attrition for Traditional went down to 9.87% and Dealer and Mass Market rose.

The Residential Net Attrition percentage rose from 12.12% in 2020 to 12.95% while the Commercial Gross Attrition and Net Attrition decreased – 10.20% in 2020 down to 10.02% in 2021. In both cases the range between the Gross and Net Attrition narrowed.

As you will see when we discuss Reasons For Attrition – the 3G/4G transition did have an impact and in fact, as we see early results from companies in the 1st and 2nd Quarter of 2022 – that trend continued as the AT&T Sunset approached in February 2022 and then was extended into April 22.

The 500+ RMR company size category rose in 2021 (11.70% Net Attrition in 2020 rising to 12.10% Net Attrition in 2021) although the International participant's actually saw their Net Attrition reduce from 13.54% in 2020 down to 11.02% in 2021 as they worked thru the Pandemic impact of 2020 and returned to a quieter subscriber period in 2021.

Many of this studies larger participants continued to refine their attrition measurement tracking by breaking out their branches and reporting on them separately but the impact of the consolidation in the marketplace during 2021 is reflected by the decrease in the 101-200 RMR category. This consolidation also is reflected as a number of larger participants were on the “Acquiror” side of the consolidation.

The Traditional Source (customers make an investment in all or a significant portion of the installation costs of the system) was the only Source category that experienced a decrease in Net Attrition over 2020's results.

We also continue to present some history of the Gross and Net Attrition experienced over the years as far back as 2009. Despite the significant growth in the reported RMR included in our Study over the years – the Attrition bandwidth thru all the economic and marketplace challenges of the past years – Great Depression II, impact of the Cable companies and Pandemic to name a few – one of the most important subscriber/revenue metrics remains within a very manageable and predictable range.

REASONS FOR ATTRITION

As for Reasons for Attrition, not surprisingly, “Moved” rose to its highest level (40.57%) in years as we saw the continued impact of the transition to a Work From Home (WFH) marketplace in 2020. The “3G/4G” Reason also grew to 1.71% as companies continued to work thru the Sunset and transition to 4G technology. This Reason grew from an initial measurement of 0.4% in 2017 up to 1.5% in 2018. We expect this Reason to grow in 2022 as the industry works to get to the

more challenging customers to transition as the Sunset approached and are forced to “clean up” their subscriber data bases and thus experience increased imbedded attrition.

The “Financial Difficulties” category, combined with “Sold/Out of Business” category within Reasons actually came down from a combined 14% in 2020 to almost 12% in 2021 which was also surprising given the business shut down environment that we were still within in 2021. One could surmise that while business was shuttered, they maintained their security systems given the rise in crime, especially with in the major urban cities.

“No Longer Using the System” did jump from 12.84% in 2020 up to 14.97% in 2021 while “Lost to Competition” also jumped from 12.84% in 2020 to 14.97% in 2021 – clearly subscribers were more focused on maintaining their security versus shopping for another provider. TRG expects both of these trends to continue as the industry continues to experience further consolidation, but customers seek to remain “secured” in this WFH world where people have established a formal office environment (from the bedroom to a new add on office) security seems more important to those who are at home all day.

Companies continued to execute Price Increases and were more successful in “keeping” those increases (Rescind fell from 4.55% down to 2.12% within the Reasons for Attrition).

The “Collection/Non-Payment” Reason for Attrition rose from 10.6 % in 2020 to 12.34% in 2021 which we believe will be an issue in 2022 as inflation continues to impact the residential marketplace. Actually, 2022 will have the opportunity to demonstrate how vital subscribers rely on life safety systems even during a very high inflation economy

PERS ATTRITION

For the fifth year in a row, we were fortunate to gather an Attrition Profile from some of the PERS participants and tracked an increase in that metric from a Monthly Average of 2.38% in 2020 (Annualized 28.58%) up to 2.49% in 2021 (Annualized 29.90%). We also were able to gather some more discerning Reasons for Attrition as presented on pages 25 and 26 of the Presentation. “Death/Assisted Living” as a Reason was down versus 2020 but only because we were able to gather more results related to Buyer’s Remorse earlier in the sale/shipping cycle where a number of orders are often cancelled by the alternative member of the family as the caregiver tries to order the system for the ‘Loved One’ and another member of the family/subscriber reverses the decision to accept the “life safety” offering as they aren’t “old enough yet”.

We look forward to the continuation of this Attrition project, measuring 2022’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