ATTRITION MEASUREMENT
CONTINUING TO DEVELOP MEANINGFUL TRENDS

ATTRITION REVERSES COURSE – MOVES DOWN IN 2022

"Out of Business/Financial Difficulties Up; Res/Comm – Net Attrition Down

TRG Associates continues to accumulate annual Attrition results from small on up to large national security companies. The 2022 Report publishes the results for the twenty second straight year of this Study and includes results for over $843 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 2022 Study and reflect those trends in a graphical profile for each category.

The Residential Net Attrition percentage reversed its 2021 upward trend in 2022 for the Study Participants (Down to 11.76% in 2022 versus 12.95% in 2021) as some of the participants in the Dealer and Mass Market segments experienced reduced attrition versus their 2021 results.

Commercial Gross Attrition and Net Attrition reduced to new lows in 2022 – down to 11.44% and 9.07% respectively versus 11.55% and 10.02% in 2021. The addition of some new participants to the study who focus on Integrated Systems and other larger commercial segments that historically experience a more imbedded, consistent provision of security services influenced this reduction.

All the Region categories increased in dollars of RMR over 2021 except the Southwest and West. It is worth noting that Net Attrition decreased for each Region except the Midwest.

Many of these studies larger and mid-sized participants continue to refine their attrition measurement tracking by accumulating the gross attrition, resigns and other aspects of the RMR changes by branch and reporting on them separately. The 2022 Study results were further influenced by a continuing effort by many of the participants to report and track attrition by residential and commercial segments of their customer base at the branch level. In addition, we saw new participants whose business is dominated by other channels within the life safety provision of services – including Integrated systems. Also, some participants broke out segments of their residential business to segregate the attrition results related to Homeowner Associations and other large channels of the residential marketplace.

Another important tracking refinement that influences the results for 2022 is where several "troubled companies" were absorbed into other organizations in 2022. Most of those "absorbed companies" had a higher attrition history and have been cataloged by the Buyer's as "acquisitions" that have a similar economic investment characteristic as a Traditional sourced subscriber given the economic impact of normal Holdback attrition protection. The accounting for the "acquired RMR" and a refinement of tracking attrition at the branch and channel levels has contributed to the significant swing within the Customer Source breakdown between Dealer, Traditional and Mass Market.

When we reviewed the attrition results of some of these channels and "acquisitions" as reported by the participant's – we concurred with the classification and the attrition results bear out the classification decisions – Dealer and Mass Market attrition went down while Traditional Gross and Net Attrition increased slightly over 2021 (Traditional Net Attrition in 2022 – 10.54% versus 2021 – 9.87%). Had we classified some of these channels into their original account origin source, the results would have masked the existing source results in each case.

The significant efforts that a number of participants put into tracking attrition at the branch and channel level also influenced our distribution of the RMR and attrition results by RMR company/branch size. Each category dramatically increased as to participants and RMR. Each category's attrition decreased versus 2021 results except the 201,000 to 500,000 RMR category which jumped from Net Attrition in 2021 of 8.34% to 9.83% in 2022.

Each of the smaller "Co Size" categories experienced significant decreases in Gross and Net Attrition. The growth in smaller company/branch participants and the decrease in attrition, points to the historical reality that attrition is more controllable within smaller subscriber bases where the branch or company management team can be closer to the subscriber base. We also see a higher % of resign against Gross Attrition which improves the Gross to Net attrition performance for these smaller companies/branches/channels.

The 500+ RMR company size category net attrition decreased in 2022 (12.10% Net Attrition in 2021 decreasing to 11.26% in 2022.) The International segment helped influence this reduction as its Net Attrition decreased to 10.42% in 2022 versus 11.02% in 2021. We also have reflected some history of the Attrition comparative for this company category as we recant the Gross and Net Attrition from 2010 on $137M of RMR – Gross of 11.41% and Net of 8.68% in 2010 - versus 2022 on $769M of RMR at Gross of 13.67% and Net of 11.26%.

This extended period of comparison of "like attrition results" speaks to the "controllable nature" of one of the key subscriber dynamics in our industry and the perceived importance of the provision of our "life safety services" to the residential and commercial marketplace across the nation.

REASONS FOR ATTRITION

As for Reasons for Attrition, Moved is substantively unchanged versus 2021 (40.08% in 2022 to 40.57% in 2021) as it settles into a range but is still the most significant Reason for Attrition. A newer Reason remains under control – 2G/3G /4G Transition (1.22% for 2022 versus 1.71% in 2021). Several companies continued to track this Reason carefully and to offer a number of creative sales and service alternatives to resign their older customers as they worked to transition these customers onto 4G equipment during the AT&T and Verizon platform sunsets in 2022.

The Financial Difficulties category, combined with the Sold/Out of Business category within Reasons jumped again from 11.96% in 2021 to 13.57% in 2022 as small business continued to experience some challenges amid an "interest rate driven recession".

No Longer Using the System declined slightly in 2022 (14.3% in 2022 versus 14.97% in 2021) while Lost to Competition moved back up from 11.36% in 2021 to 12.29% in 2022. Although Lost to Competition remains in a similar range year over year, we gained further evidence thru our participants anecdotal review of the Reasons that many customers continue to trade security providers on the Cable side, and some continued impact from the DIYs in the market. For the first time we began to see small business' installing a SimpliSafe system. TRG expects this trend to continue as the industry continues to experience further consolidation and customers seek to remain "secured" but through DIY/MIY offerings.

We also have seen some of these "transient customers" return to a professional monitoring solution as their homes and family's needs evolve.

PI Rescinded/RMR Reduction remained consistent in the 2% range. We did see a more consistent application of price increases in 2022 across our participants – they ranged from 1% to 3% or flat dollar increases of $1.00 to $4.00 of RMR. These Price Increases did not see a significant "give back" as the Reason's % reflects.

The Collection/Non-Payment Reason for Attrition inched down from 12.34% in 2021 to 11.68% in 2022 which belies some of the realities that our troubled economy has been experiencing. Clearly this result continues to confirm the importance of security to subscribers in difficult economic times even when their "disposable income" is being diminished through inflation and higher interest rates.

PERS ATTRITION

For the sixth year in a row, we were able to gather an Attrition Profile from some of the PERS participants and tracked a slight increase in that metric from a Monthly Average of 2.49% in 2021 (Annualized 29.9%) up to 2.55% in 2022 (Annualized 30.6%). We were also able to gather the Reasons for Attrition as set forth in the Presentation. Death/Assisted Living as a Reason was up versus 2022 and still the dominate Reason for a loss of PERS subscribers.

Collection/Non Payment was down to 12.7% from 17.6% in 2021 while Refuse to Use rose again to 18.57% from 16.8% in 2021. The PERS industry continues to evolve to a Mobile product offering versus In Home/Landline applications which has allowed the PERS industry to offer lighter, two way voice, GPS based systems that now include Fall Detection. Clearly the product has not gotten "prettier" or more stylish but has diminished in size. These product evolutions have not yet been able to reduce the challenge of lowering the elderly's "refuse to use" notion that the industry has been working to reverse for years.

We look forward to the continuation of this Attrition project, measuring 2023'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