



# CUSTOMER ATTRITION

## DESCRIPTION

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- Measures the rate at which customers leave or stop buying.
- High attrition or turnover means customers are less loyal, potentially indicating issues with service or value.
- Low turnover reflects customer satisfaction and a stable base.

## WHY PRIVATE EQUITY CARES

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- High turnover signals potential instability in revenue and profit streams.
- PE firms prefer businesses with high customer retention, as it indicates long-term sustainability and lower risk.
- High turnover increases the cost of customer acquisition and reduces profitability.

## IMPACTS ON SELLER

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- **Low Turnover:** Sellers may be able to command higher multiples and a smoother transaction process.
- **Medium Turnover:** Sellers might face moderate adjustments in valuation or earnouts depending on retention improvements.
- **High Turnover:** Sellers will likely see a significant discount in valuation, and buyers will require a higher degree of risk mitigation (such as price adjustments or contingency terms).

## EXAMPLE

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Factors	Low	Medium	High
<b>Annual Retention</b>	<60% retained	60-80% retained	+80% retained
<b>Valuation Impact</b>	20-40% discount to EV	-10-20% discount to EV	+0-10% of EV
<b>Buyer's Risk Perception</b>	High	Moderate	Low

