

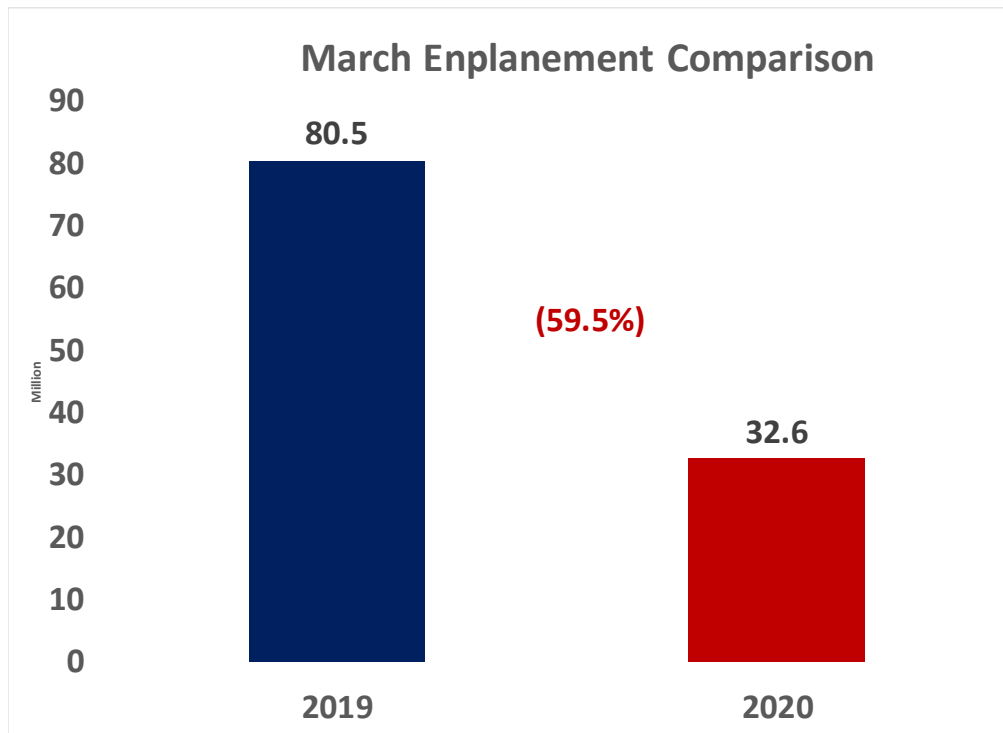
April 28, 2020

Dear Industry Colleagues:

RE: FINANCIAL IMPACT OF COVID-19 ON AIRPORT CONCESSIONS

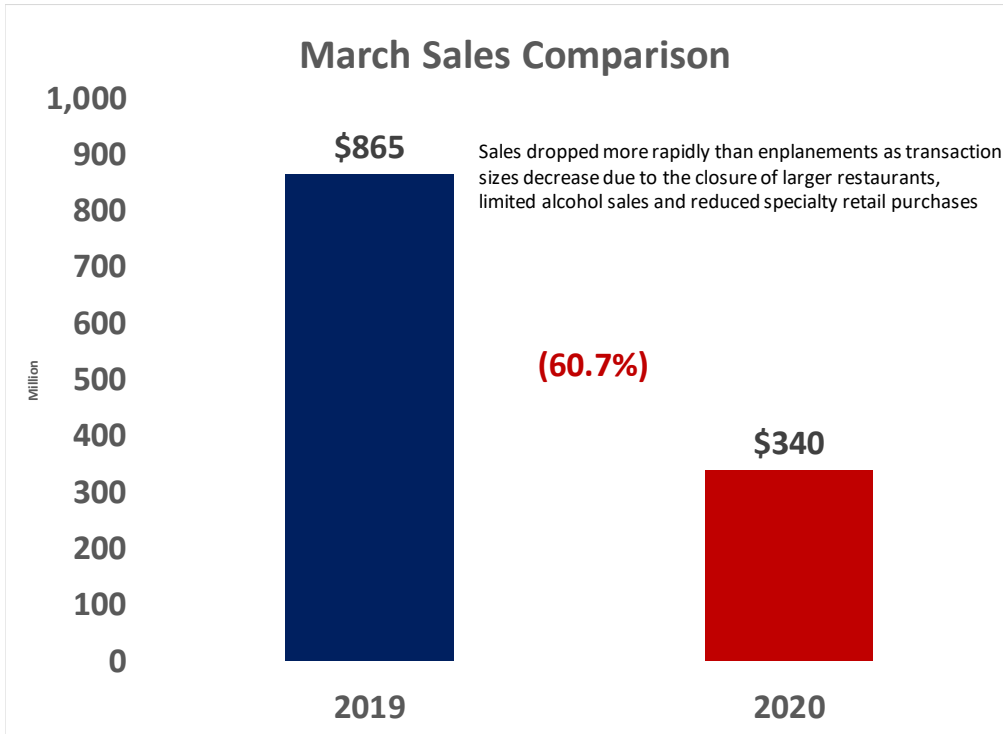
As the global impact of the Covid-19 Pandemic continues to unfold, the impact on the specific global aviation industry has been realized with devastating results. And while the Pandemic has sweeping global consequences, the day-to-day experience of living through this crisis is deeply personal. Unlike a crisis which impacts a smaller group of people and most of us witness from afar by watching the nightly news, we are each experiencing this unprecedented crisis firsthand. Each of us undoubtedly knows someone who has tested positive and struggled to overcome the virus’s ill effects. Or worse yet, we may know someone who has succumbed to the virus. While we grapple with the personal impact, we are called to focus on the threat this virus poses for our businesses, employees and industry.

The virus has brought the business of ARRA Members to its knees in a matter of days. To recap, in January, travel statistics were on pace to set global records. In February, the virus quickly spread from the Asian markets to Europe and the Middle East. The first week of March began normally in the U.S. and Canada; but then, overnight passenger numbers began to drop 5%-8% daily. On March 31st, traffic had slowed to a near halt as evidenced by TSA’s security screenings totaling a mere 3% of the prior year’s counts for the same date. Interesting to note, during the 2008 recession, sales dipped by a mere 10%.



Source: BTS, TSA and Airport Statistical Releases

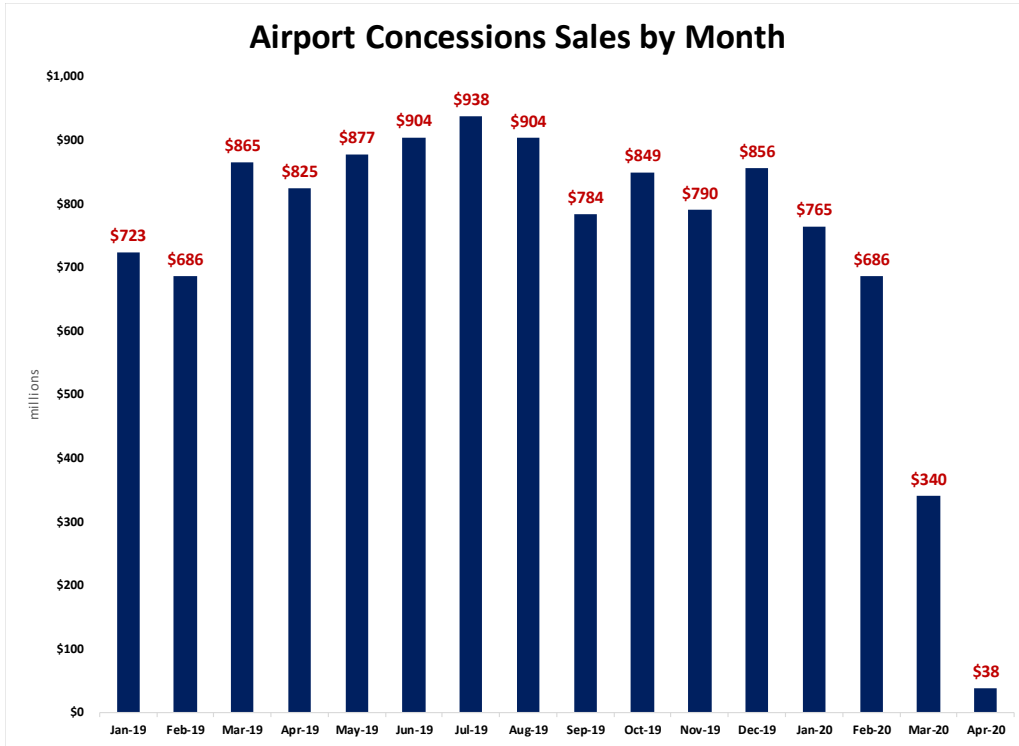
Aviation restaurant and retail operators witnessed a sales decline in a corresponding fashion with an initial positive outlook in the early days of March; and then, sales plummeted into a free fall.



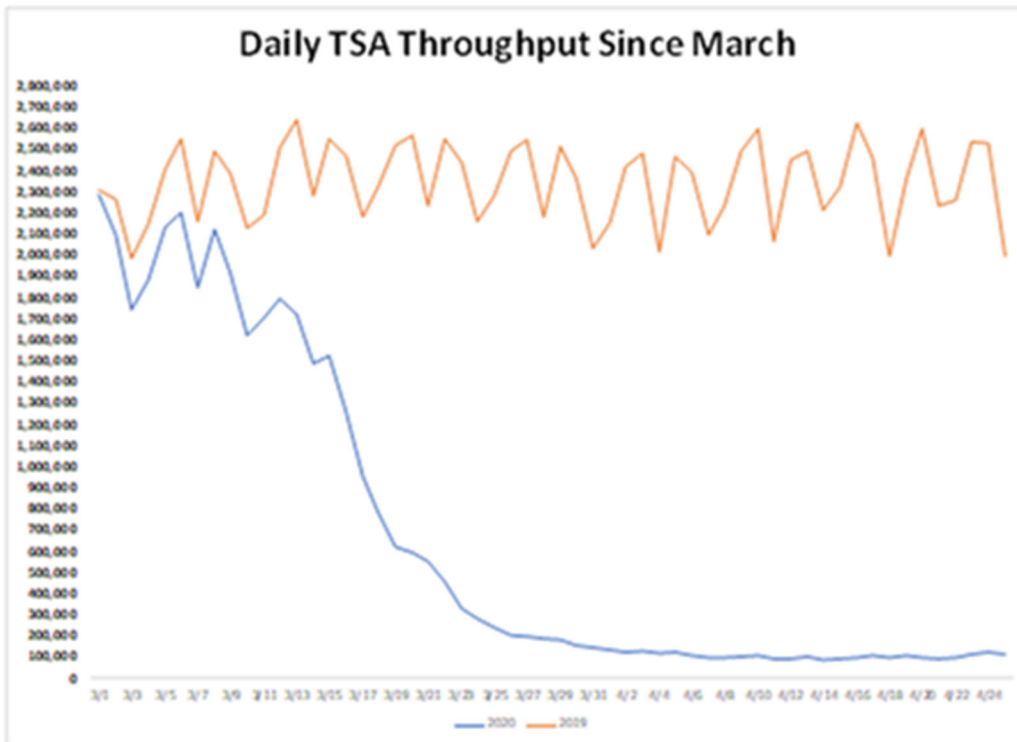
Source: ARRA Members

As sales were falling, ARRA Members wondered where was the bottom? It quickly became clear. The bottom would be just a few percentage points above zero—so for all practical purposes, a near total loss of sales.

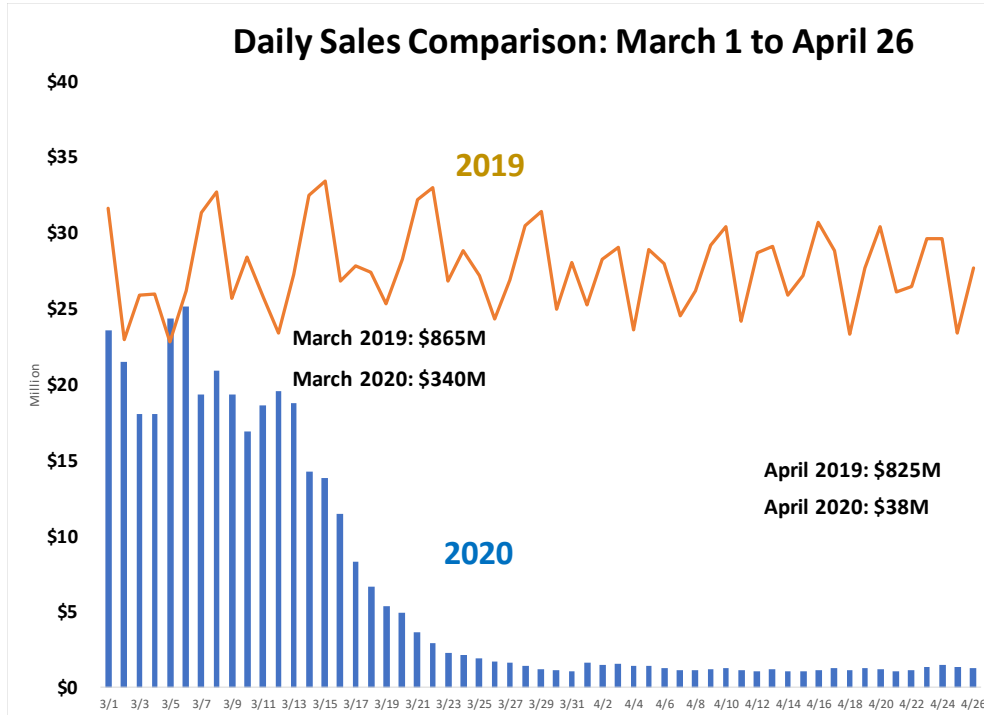
While we watched sales plummet, ARRA Members worked tirelessly to refine and roll out cleaning and disinfecting procedures to specifically address the virus. Then, we pivoted to figure out a way to manage the business in light of the daily decrease in passenger numbers. But schedules had already been posted or bid on. Food, products and merchandise had been purchased and procured. Rent was paid in advance.



Source: ARRA Members



Source: TSA



Source: ARRA Members

March P&L Statements for Large and Small F&B and Retail Operations

F&B: \$10M	March Fcst	Actual	Difference	F&B: \$2M	March Fcst	Actual	Difference
Sales	\$10,000	\$4,000	(\$6,000)	Sales	\$2,000	\$800	(\$1,200)
COGS	\$2,530	\$1,120	(\$1,410)	COGS	\$520	\$241	(\$279)
Total Labor	\$3,103	\$1,639	(\$1,464)	Total Labor	\$656	\$353	(\$303)
Total Rent & Occupancy	\$1,780	\$1,446	(\$334)	Total Rent & Occupancy	\$340	\$277	(\$63)
Royalties	\$350	\$140	(\$210)	Royalties	\$70	\$28	(\$42)
Operating costs	\$653	\$415	(\$238)	Operating costs	\$161	\$113	(\$48)
Total Costs	\$8,416	\$4,760	(\$3,656)	Total Costs	\$1,747	\$1,013	(\$734)
EBITDA	\$1,584	(\$760)	(\$2,344)	EBITDA	\$253	(\$213)	(\$466)
Annual Financing	\$1,126	\$1,126	\$0	Annual Financing	\$225	\$225	\$0
Pre-Tax Cash Flow	\$458	(\$1,886)	(\$2,344)	Pre-Tax Cash Flow	\$28	(\$438)	(\$466)

Retail: \$10M	March Fcst	Actual	Difference	Retail: \$2M	March Fcst	Actual	Difference
Sales	\$10,000	\$4,000	(\$6,000)	Sales	\$2,000	\$800	(\$1,200)
COGS	\$3,920	\$1,593	(\$2,327)	COGS	\$788	\$321	(\$467)
Total Labor	\$2,249	\$1,312	(\$937)	Total Labor	\$516	\$265	(\$252)
Total Rent & Occupancy	\$1,850	\$1,498	(\$352)	Total Rent & Occupancy	\$340	\$277	(\$63)
Royalties	\$0	\$0	\$0	Royalties	\$0	\$0	\$0
Operating costs	\$596	\$360	(\$236)	Operating costs	\$149	\$105	(\$44)
Total Costs	\$8,615	\$4,763	(\$3,852)	Total Costs	\$1,793	\$967	(\$826)
EBITDA	\$1,385	(\$763)	(\$2,148)	EBITDA	\$207	(\$167)	(\$374)
Annual Financing	\$901	\$901	\$0	Annual Financing	\$180	\$180	\$0
Pre-Tax Cash Flow	\$484	(\$1,664)	(\$2,148)	Pre-Tax Cash Flow	\$27	(\$348)	(\$374)

Source: ARRA Members

As March was coming to an end, operators focused on how much cash they had on hand. With sales slowing to a trickle, there was no cash coming in. Each business grappled with how to make payroll, pay vendors and sort rent payments for April. Businesses reluctantly furloughed employees and negotiated with distributors about payment terms. Our Members turned off utilities and tried to sort their contracted parking costs and metro expenses along with a myriad of other details, including badging and securing closed units. Each of these efforts leading to a simple question: how long can the business last at its reduced operating levels?

Annualized P&L Statements Based on April Performance

F&B: \$10M	April Fcst	Actual	Difference	F&B: \$2M	April Fcst	Actual	Difference
Sales	\$10,000	\$400	(\$9,600)	Sales	\$2,000	\$80	(\$1,920)
COGS	\$2,530	\$116	(\$2,414)	COGS	\$520	\$25	(\$495)
Total Labor	\$3,103	\$447	(\$2,655)	Total Labor	\$656	\$175	(\$481)
Total Rent & Occupancy	\$1,780	\$1,428	(\$352)	Total Rent & Occupancy	\$340	\$273	(\$67)
Royalties	\$350	\$14	(\$336)	Royalties	\$70	\$3	(\$67)
Operating costs	\$653	\$243	(\$410)	Operating costs	\$161	\$79	(\$82)
Total Costs	\$8,416	\$2,248	(\$6,167)	Total Costs	\$1,747	\$556	(\$1,191)
EBITDA	\$1,584	(\$1,848)	(\$3,433)	EBITDA	\$253	(\$476)	(\$729)
Annual Financing	\$1,126	\$1,126	\$0	Annual Financing	\$225	\$225	\$0
Pre-Tax Cash Flow	\$458	(\$2,975)	(\$3,433)	Pre-Tax Cash Flow	\$28	(\$701)	(\$729)

Retail: \$10M	April Fcst	Actual	Difference	Retail: \$2M	April Fcst	Actual	Difference
Sales	\$10,000	\$400	(\$9,600)	Sales	\$2,000	\$80	(\$1,920)
COGS	\$3,920	\$160	(\$3,760)	COGS	\$788	\$32	(\$756)
Total Labor	\$2,249	\$321	(\$1,928)	Total Labor	\$516	\$175	(\$341)
Total Rent & Occupancy	\$1,850	\$1,480	(\$370)	Total Rent & Occupancy	\$340	\$273	(\$67)
Royalties	\$0	\$0	\$0	Royalties	\$0	\$0	\$0
Operating costs	\$596	\$193	(\$403)	Operating costs	\$149	\$74	(\$75)
Total Costs	\$8,615	\$2,154	(\$6,461)	Total Costs	\$1,793	\$554	(\$1,239)
EBITDA	\$1,385	(\$1,754)	(\$3,139)	EBITDA	\$207	(\$474)	(\$681)
Annual Financing	\$901	\$901	\$0	Annual Financing	\$180	\$180	\$0
Pre-Tax Cash Flow	\$484	(\$2,655)	(\$3,139)	Pre-Tax Cash Flow	\$27	(\$655)	(\$681)

Source: ARRA Members

Each of our Members, regardless of size or category of operation, has the very same financial challenge: how can it survive this Pandemic long enough to contribute to the once flourishing aviation industry in the future? Each of the businesses can scale back expenses to a bare minimum, in effect, going into hibernation. They can skinny down the expenses and forecast just how long they can last without sales.

There are two very significant barriers to their successful hibernation, though:

1. Capital and Debt: The concessions industry is heavily debt laden. The general capital commitment to a contract, expressed on a square footage basis, is only financially successful when sales potential aligns with capital invested. The capital required to build airport concessions has skyrocketed in recent years with major cities hitting \$1,000+ a square foot for airport concession construction. Principal and interest payments for an operation are typically 10-12% of the sales of a business.

We can only hope lending institutions see a prosperous future in aviation and are willing to extend loans, either putting off payments or granting interest only payments. This is but one important part of the survival challenges our airport restaurant and retail operators face.

Annualized P&L Statements and Deferred Capital Financing

F&B: \$10M			F&B: \$2M		
	April Trend	Defer Principal		April Trend	Defer Principal
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$116	\$116	COGS	\$25	\$25
Total Labor	\$447	\$447	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,428	\$1,428	Total Rent & Occupancy	\$273	\$273
Royalties	\$14	\$14	Royalties	\$3	\$3
Operating costs	\$243	\$243	Operating costs	\$79	\$79
Total Costs	\$2,248	\$2,248	Total Costs	\$556	\$556
EBITDA	(\$1,848)	(\$1,848)	EBITDA	(\$476)	(\$476)
Annual Financing	\$1,126	\$296	Annual Financing	\$225	\$59
Pre-Tax Cash Flow	(\$2,975)	(\$2,144)	Pre-Tax Cash Flow	(\$701)	(\$535)

Retail: \$10M			Retail: \$2M		
	April Trend	Defer Principal		April Trend	Defer Principal
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$160	\$160	COGS	\$32	\$32
Total Labor	\$321	\$321	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,480	\$1,480	Total Rent & Occupancy	\$273	\$273
Royalties	\$0	\$0	Royalties	\$0	\$0
Operating costs	\$193	\$193	Operating costs	\$74	\$74
Total Costs	\$2,154	\$2,154	Total Costs	\$554	\$554
EBITDA	(\$1,754)	(\$1,754)	EBITDA	(\$474)	(\$474)
Annual Financing	\$901	\$237	Annual Financing	\$180	\$47
Pre-Tax Cash Flow	(\$2,655)	(\$1,991)	Pre-Tax Cash Flow	(\$655)	(\$522)

Source: ARRA Members

- Minimum Annual Guarantees and Rent: Without passengers, payment of these costs is not feasible. Rent can be 15%-20% of sales during normal circumstances. Rent is transformed from a normal expense to an insurmountable mountain when passengers disappear. The financial deficit numbers grow geometrically, and there is no way to survive. The negative impact of minimum rent without passengers, and thus revenues, is more damaging to our companies than having to pay the mortgage on the build out.

If operators are required to pay rent with no sales for any period, ALL operators will eventually fail. The only differentiating factor will be the exact moment when each company drains its cash resources.

Annualized P&L Statements Based on Rent Relief

F&B: \$10M	April Trend	Rent Relief	F&B: \$2M	April Trend	Rent Relief
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$116	\$116	COGS	\$25	\$25
Total Labor	\$447	\$447	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,428		Total Rent & Occupancy	\$273	
Royalties	\$14	\$14	Royalties	\$3	\$3
Operating costs	\$243	\$243	Operating costs	\$79	\$79
Total Costs	\$2,248	\$820	Total Costs	\$556	\$282
EBITDA	▼ (\$1,848)	▼ (\$420)	EBITDA	▼ (\$476)	▼ (\$202)
Annual Financing	\$1,126	\$1,126	Annual Financing	\$225	\$225
Pre-Tax Cash Flow	▼ (\$2,975)	▼ (\$1,546)	Pre-Tax Cash Flow	▼ (\$701)	▼ (\$427)
Retail: \$10M	April Trend	Rent Relief	Retail: \$2M	April Trend	Rent Relief
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$160	\$160	COGS	\$32	\$32
Total Labor	\$321	\$321	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,480		Total Rent & Occupancy	\$273	
Royalties	\$0	\$0	Royalties	\$0	\$0
Operating costs	\$193	\$193	Operating costs	\$74	\$74
Total Costs	\$2,154	\$674	Total Costs	\$554	\$281
EBITDA	▼ (\$1,754)	▼ (\$274)	EBITDA	▼ (\$474)	▼ (\$201)
Annual Financing	\$901	\$901	Annual Financing	\$180	\$180
Pre-Tax Cash Flow	▼ (\$2,655)	▼ (\$1,175)	Pre-Tax Cash Flow	▼ (\$655)	▼ (\$381)

Source: ARRA Members

Annualized P&L Statements with Rent and Financing Relief

F&B: \$10M	April Trend	Rent & Principal	F&B: \$2M	April Trend	Rent & Principal
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$116	\$116	COGS	\$25	\$25
Total Labor	\$447	\$447	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,428		Total Rent & Occupancy	\$273	
Royalties	\$14	\$14	Royalties	\$3	\$3
Operating costs	\$243	\$243	Operating costs	\$79	\$79
Total Costs	\$2,248	\$820	Total Costs	\$556	\$282
EBITDA	(\$1,848)	(\$420)	EBITDA	(\$476)	(\$202)
Annual Financing	\$1,126	\$296	Annual Financing	\$225	\$59
Pre-Tax Cash Flow	(\$2,975)	(\$716)	Pre-Tax Cash Flow	(\$701)	(\$261)

Retail: \$10M	April Trend	Rent & Principal	Retail: \$2M	April Trend	Rent & Principal
Sales	\$400	\$400	Sales	\$80	\$80
COGS	\$160	\$160	COGS	\$32	\$32
Total Labor	\$321	\$321	Total Labor	\$175	\$175
Total Rent & Occupancy	\$1,480		Total Rent & Occupancy	\$273	
Royalties	\$0	\$0	Royalties	\$0	\$0
Operating costs	\$193	\$193	Operating costs	\$74	\$74
Total Costs	\$2,154	\$674	Total Costs	\$554	\$281
EBITDA	(\$1,754)	(\$274)	EBITDA	(\$474)	(\$201)
Annual Financing	\$901	\$237	Annual Financing	\$180	\$47
Pre-Tax Cash Flow	(\$2,655)	(\$511)	Pre-Tax Cash Flow	(\$655)	(\$248)

Source: ARRA Members

ARRA Members, aviation restaurant and retail operators, have asked for extended rent abatement as we look to survive this COVID-19 Pandemic. What they seek has been termed “rent relief” in some circles. The federal stimulus packages provided to businesses offer low interest loans, grants and employee wages. The concessionaires are not asking their airport partners for support with loans, grants or wages.

Our hope is that the financial information contained within this document reinforces a stark reality: there is no way for our businesses to survive if we are forced to pay rent without passengers, and thus, sales.

Without abatement, businesses both small and large, will not survive this Pandemic. Our industry is relatively small. The frontline managers and employees, design & construction teams, merchandisers and marketers, culinary teams are in a highly specialized business and possess a unique set of skills and experiences.

ARRA Members chose a business path which contributes mightily to the travel experience—an experience which is critical to the economic viability of the United States. Our member companies and employees only want to be a part of the recovery of American aviation. In order to achieve that goal, we ask for our airport partners to support rent abatement and engage in a meaningful conversation designed to collaboratively create a new future for our industry.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rob Wigington', written in a cursive style.

Rob Wigington
Executive Director
Airport Restaurant & Retail Association