Airport Food and Beverage Operations

Traditional Airport Agreements

- Concession payment in lieu of rent payment
- Typically X% of food and XX% of liquor
- Concessionaire makes initial investment in facilities, possible refresh during the contract depending on the length

Positives

- MAG provides certainty of income for the airport
- Concessionaire has the risk of reduced passenger traffic
- Essentially no airport investment or capital tied up in remodeling

Negatives

- Limited visibility of operator costs
- Limited ability to direct the operation if unhappy with the concessionaire’s performance
- Likely no upside if the unit performs well

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<u>Restaurant Management Agreement</u>

- Airport hires a management company to operate restaurant and negotiates a management fee
- Typically X% of sales and X% of net income goes to the management company
- Owner (airport) makes the investment in facilities

Positives

- Potential to make increased income
- Increased ability to control the passenger experience
- Full knowledge of operating revenue and costs

Negatives

- Increased level of risk due to no MAG
- Capital investment tied up in facilities until recovered

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Where are Restaurant Management Agreements common today?

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DSM's Experience

- Contracted with Aero Service Group in July 2017
- Put approx. $1.8M into all restaurants July through December
- Aero managed the concept development, design and construction (included in management fee)
- Agreement terms – Aero receives 8% of gross revenue and 40% of net income

At 2 years in –

- Much higher quality of food, customer experience
- Prices are lower in many cases and the employees are better compensated
- Agreement terms on maintenance responsibilities could be more clear
- Still getting all Airport employees on board

Food and Beverage—Gross vs. Net