Attachment E

MEMORANDUM

TO:	David Pfeiffer
CC:	Amy Goethals, JWA Bhavesh Patel, Unison Ken Buckner, Unison
FROM:	Firelli Pitters
DATE:	October 1, 2019
SUBJECT:	Food & Beverage Pro Forma Analysis Review

Introduction & Project Summary-to-Date

To date, Unison has completed a preliminary situational analysis of the current concessions program at John Wayne Airport (JWA), reviewed JWA's program to comparable airports, assessed space requirements to serve future passenger traffic, and validated the size and the need for additional concession locations for Phase II of the concessions plan.

To maintain continuity of customer service and optimize revenues throughout a complex phasing plan, it is critical that concessions planning is performed using a holistic approach encompassing all current and future locations. The resulting program should have the appropriate balance of concession categories (i.e. casual dining, quick service, coffee, bar, specialty retail, news, and services) and be properly sized and well located for passenger needs. The solicitation strategy should be structured in a manner that creates competition, opportunities for small, local, and national concessionaires as well as excitement and interest from the industry. As such, the implementation of Phase I and II will ultimately supports the phased transition and redevelopment of the concessions program slated in Phase III and IV.

Phase I has already been awarded and features new local food concepts and much needed coffee and specialty retail concessions. The size and locations of the Phase II concession opportunities are appropriate to accommodate the immediate need for additional food and specialty retail offerings. As we move forward, the planning efforts for Phases III and IV should be performed concurrently and will need to be adjusted to identify opportunities to accurately size the concession program by returning any surplus space back to the terminal complex, ensuring the financial viability of the program for potential operators while optimizing revenue and passenger satisfaction.

As a follow up to our meeting on September 9th, Unison reviewed the preliminary Food and Beverage pro forma calculations prepared by JWA for the planned concession spaces for Phase II, as described below.

Phase II - Food & Beverage Concessions

Based on historical gross sales performance at JWA, data for similar concepts at other airports, and industry operating costs for concessionaires, we conducted a pro forma analysis for each location, independent of the assumptions that were used in the initial pro forma calculations prepared by JWA. In sum, all the Phase II locations are financially viable:

- Casual Dining/Bar – 2,300 SF
- Casual Dining/Bar – 2,300 SF
- Quick Service Restaurant (QSR) – 850 SF
- Wine Bar – 1,722 SF

A summary of our assumptions used in the analysis are described below.

Phase II offers four distinct food & beverage locations that can be offered as individual packages. In the previous solicitation, Respondents were able to propose on one or more locations but could be awarded up to a maximum of two locations. Based on the pro forma analysis of each location, this leasing approach is viable for Phase II.

As shown in Table 1, per our industry research we believe that initial capital investment estimates of $750 per square foot for the Casual Dining and QSR locations, and $500 per square foot for the Wine Bar location provide for a more realistic assessment of actual investment costs. Our analysis of food and beverage sales trending at JWA and sales performance of similar units at other airports resulted in the subsequent Sales per Enplanement projections shown in Table 1, which we believe are realistic (and potentially conservative). The resulting revenue generated via a tiered percentage rent structure of 12 – 16% of gross sales (16 – 20% for the Wine Bar space based on sales primarily deriving from alcohol sales) is in line with industry standards. Assuming a 10-year term and the assumptions described above and below in Table 1, the Internal Rate of Return (IRR), which takes into account the estimated annual cash flow and capital investment, produced for each space/package demonstrates viability and creates business opportunities for the concessions industry.

Table 1 – Summary of Assumptions Used for Food & Beverage Pro Forma Analysis[i]

Suggested RFP Package Concept Square Feet	FB-P1 Casual Dining 2,300	FB-P2 Casual Dining 2,300	FB-P3 Quick Service 850	FB-P4 Wine Bar 1,722
Initial Capital Investment	$750/SF	$750/SF	$750/SF	$500/SF
Estimated $/EP for 1st Year	$0.72	$0.72	$0.26	$0.40
Operating Expenses	91.1%	91.1%	85.6%	86.7%
-1st Year MAG	$100/SF	$100/SF	$100/SF	$100/SF
-% Rent	12-16%	12-16%	12-16%	16-20%
Estimated IRR	10.9%	10.9%	24.9%	24.9%
Length of Term	10 years	10 years	10 years	10 years

Next Step

As a next step, Unison will conduct a separate exercise and review the Specialty Retail pro forma analysis initially prepared by JWA. Similarly, we will review historical sales information, data for similar concepts at other airports, and industry operating costs for specialty retail concessionaires. Our findings will be presented to JWA in a separate memorandum.

[i] Internal Rate of Return (IRR) is comprised of the estimated capital investment and annual cash flow but does include interest or taxes.