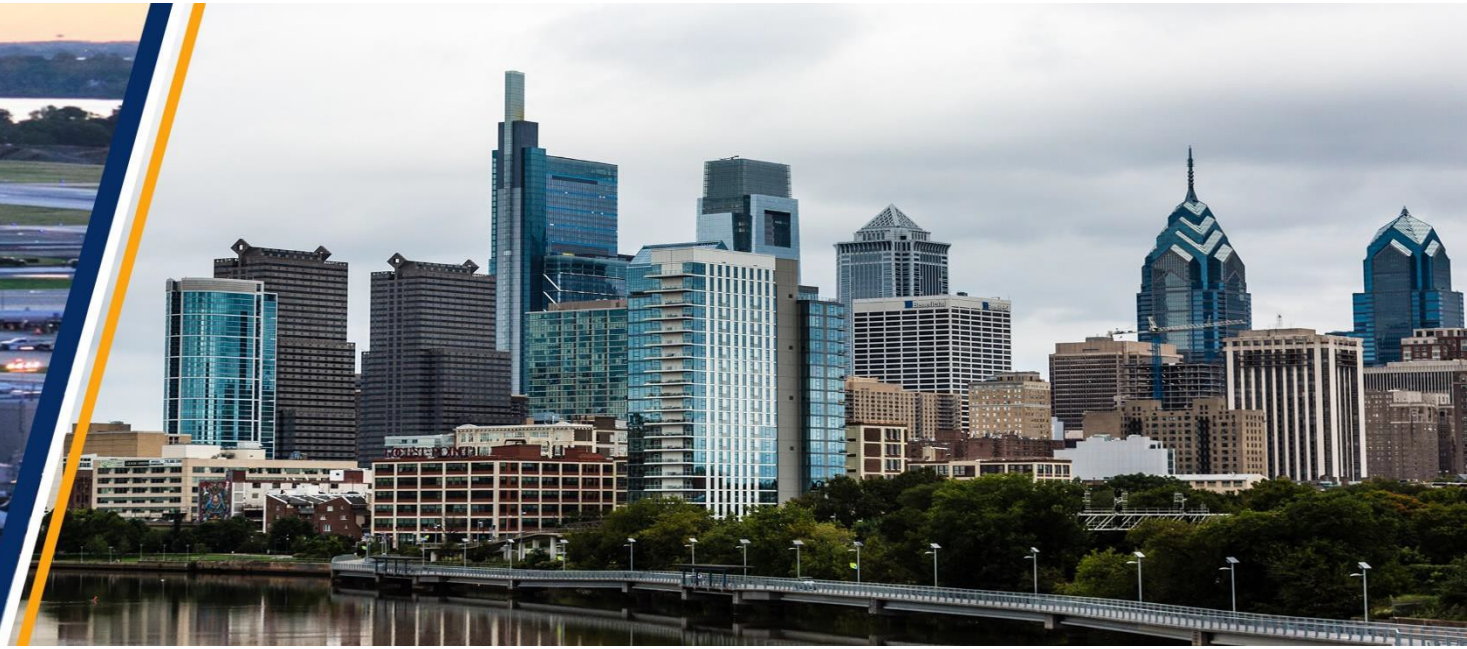
# Cargo and Concessions

- Welcome! The session will begin soon.
- You are all muted, but feel free to use the 'Chat' function to network before we begin.
- If you have a question, please put it in the 'Chat'.
- After the Forum, you will receive access to all Forum presentations and the attendee lists from each session.

PHL PHILADELPHIA INTERNATIONAL AIRPORT

# PHL Business Opportunity Forum
# Concessions and Cargo Breakout Session



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City of Philadelphia

Department of Commerce – Division of Aviation

*October 2020*

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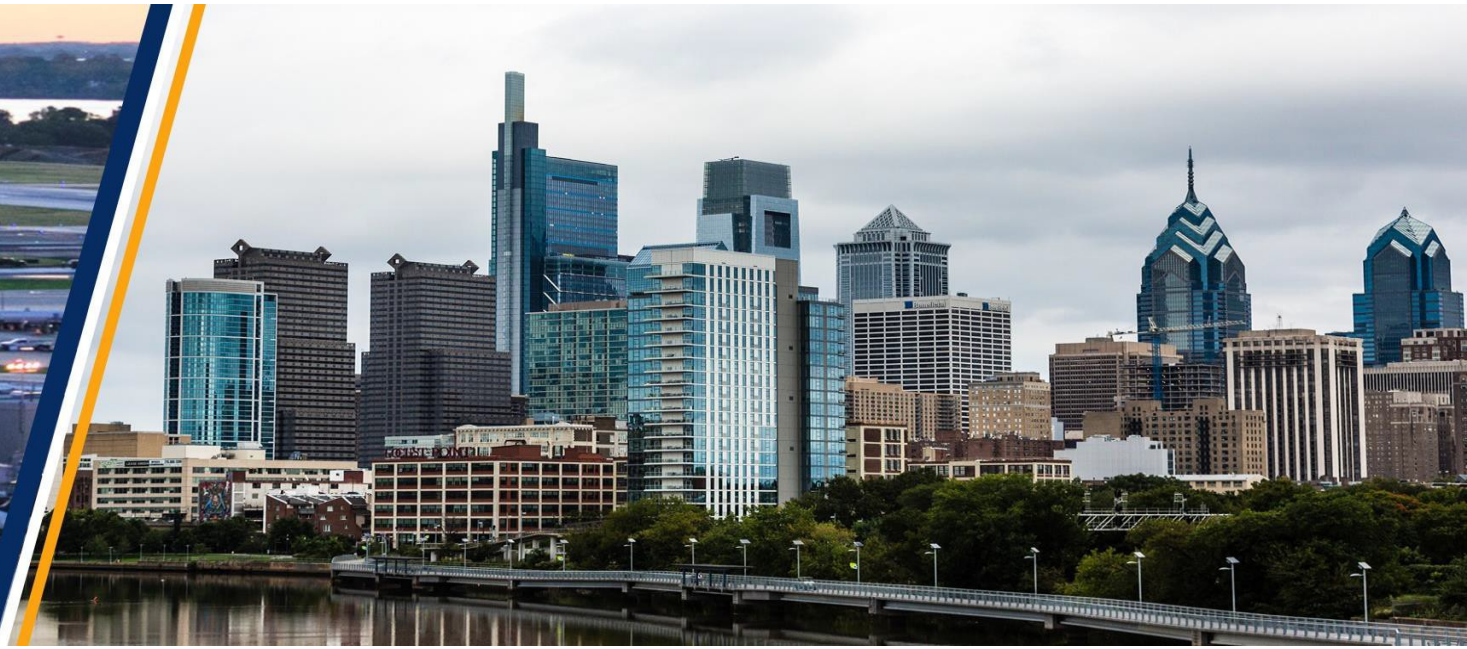
# PHL Concessions Update



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# About this Panel

**Objective:** At this workshop, gain insight into: the science behind the key revenue generating models for the airport, use cases in cargo and concessions (food/beverage/retail, advertising, ground transportation), projections on future trends and opportunities, and information on PHL's diversity goals and attainments in this arena.

**Presenters:**

Adam Mitchell - Deputy Chief Revenue Officer
Cobi Duncan - Office of Business Diversity
Stephanie Wear - Director of Air Service Development and Cargo Services
Dave Nisula, PE, PMP - Program Director for Buildings, Infrastructure & Advanced Facilities

# Chief Revenue Officer's Portfolio:

## Aeronautical Revenue:

- Air Service Development (Passenger & Cargo Services)
- Aviation Operations & Leasing

## Non-Aeronautical Revenue:

- Dining, Retail, Passenger Amenities
- Advertising, Wi-Fi, Network Programming
- Ground Transportation Services
- Commercial Real Estate

## Marketing & Guest Experience:

- Brand Partnerships
- Art, Exhibitions & Entertainment

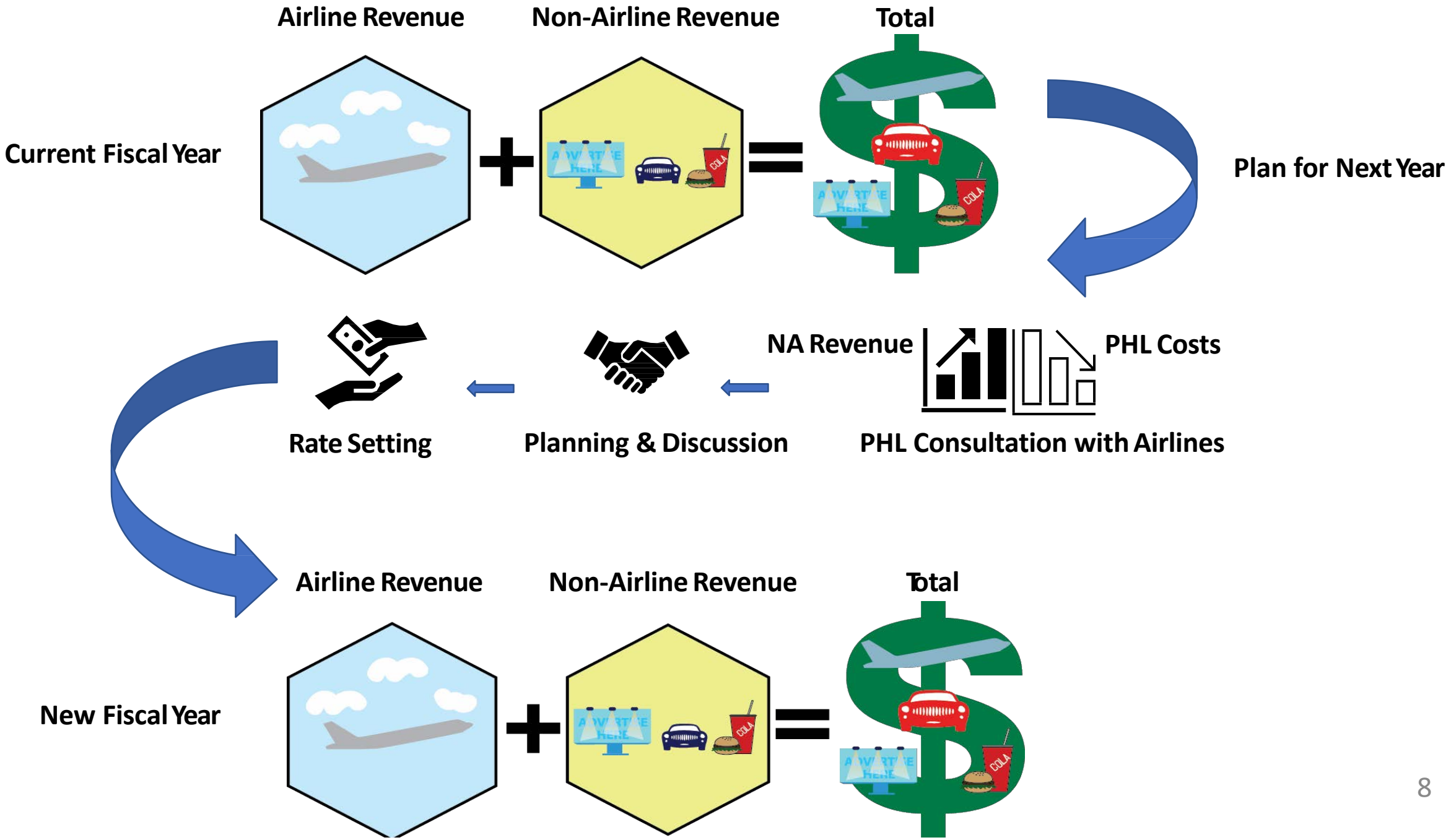
Opportunities can be found at https://www.phl.org/business/business- opportunities

# Airport Revenue 101

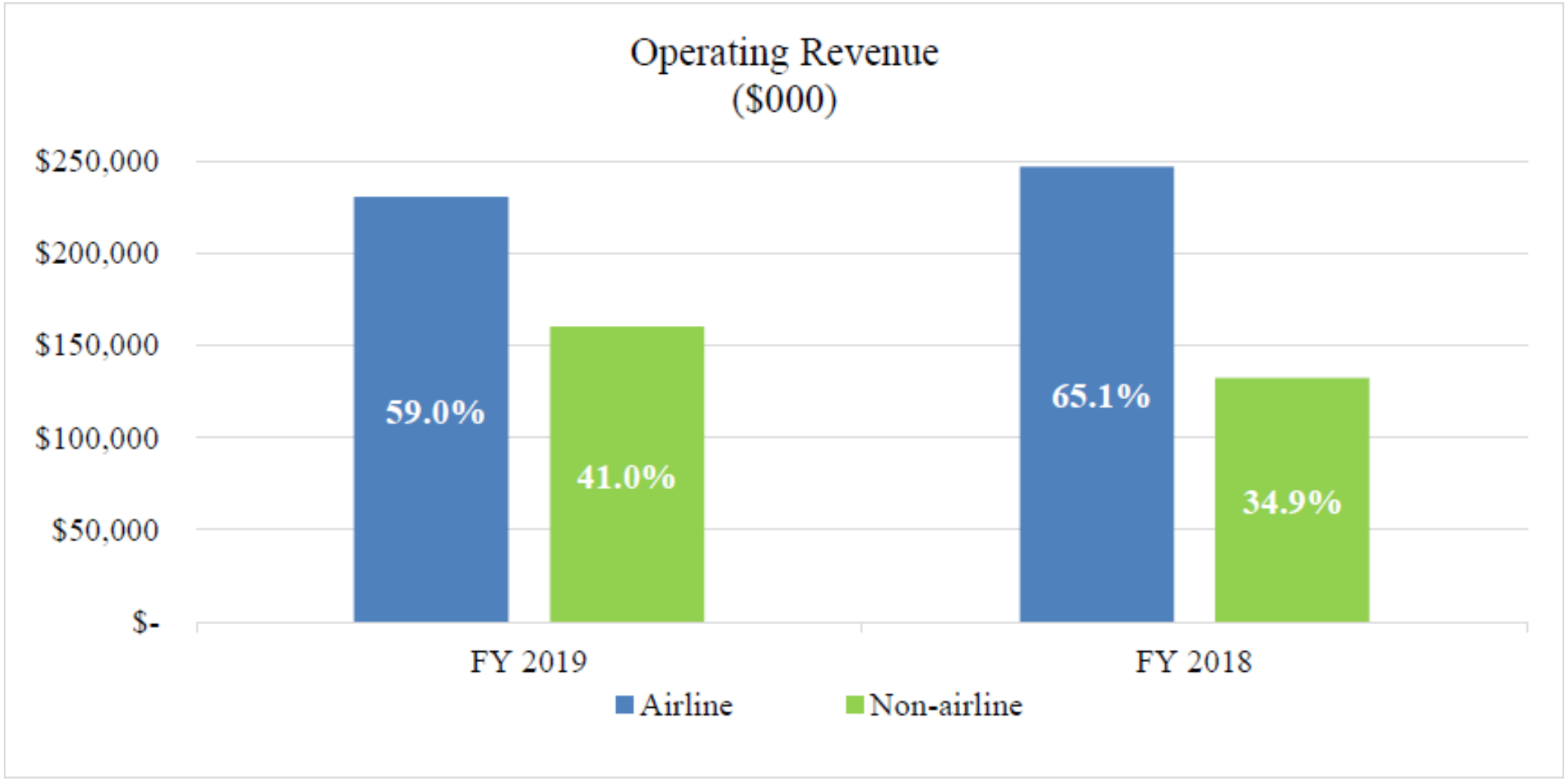
- Airport Sponsors are legally required to be **self sustaining**
- Section 511(a)(9) of the **Airport and Airway Improvement Act** of 1982
- Section 112(a) of the **FAA Authorization Act** of 1994
- Airports must maintain **fee and rental structures** to be as financially self-sustaining as possible under airport-specific circumstances and market conditions
- Federal obligation generally does not permit airports to establish fees for the use of the airfield that exceed the airport's capital and operating costs for the airfield

# Airport Revenue 101

- Other self sustainability principles are regulated per FAA guidance
- PHL has a **residual agreement** with its air carrier partners
- PHL applies excess **nonaeronautical revenue** to the airfield costs to reduce air carrier fees; in exchange, the air carriers agree to fund any gaps if the nonaeronautical revenue is insufficient to cover airport capital and operating costs
- Rate setting and financial management is **consultative** between the airport and air carriers, and air carrier rate structures are implemented with the agreement of the signatory carriers

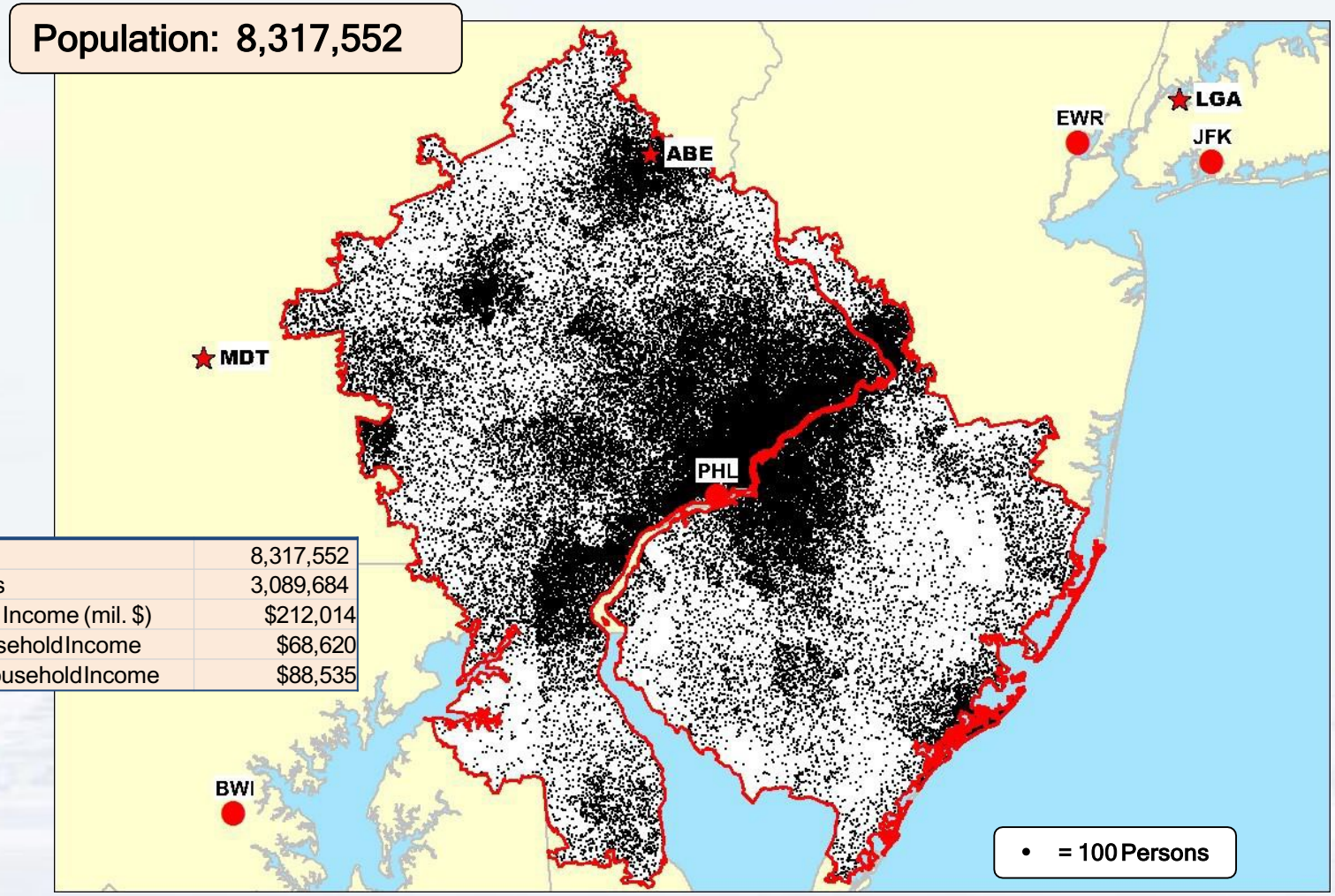

Airline Revenue
Non-Airline Revenue
Total
Current Fiscal Year
Plan for Next Year
NA Revenue
PHL Costs
Rate Setting
Planning & Discussion
PHL Consultation with Airlines
Airline Revenue
Non-Airline Revenue
Total
New Fiscal Year

# Airport Revenue 101



# Our Primary Catchment Area:

## 8.3+ Million Residents with Average Household Income over $69K




| | |
|---|---|
| Population | 8,317,552 |
| Households | 3,089,684 |
| Household Income (mil. $) | $212,014 |
| Mean Household Income | $68,620 |
| Median Household Income | $88,535 |

*Note: PHL's Primary Catchment Area includes all locations where PHL is the closest major airport based on driving time.*
*Source: U.S. Bureau of the Census, 2017 American Community Survey (5-Year).*

# Where We Were Pre-COVID-19

- CY 2018: Ranked **20th** in the U.S. in total passengers and **18th** in total cargo weight

- CY 2019: American Airlines' **5th** busiest hub and primary transatlantic gateway

  - Scheduled to launch AA's inaugural nonstop service to Africa

  - Awarded Best Overall Concessions Program and Best Locally Inspired Restaurant (Bud & Marilyn's) by Airport Experience News

  - Served 16.1 million enplaned passengers in FY19, which represents a 5.5% increase from FY18

  - Double-digit YoY growth in cargo activity for FY18 (13.8%) and FY19 (12.9%)

# Where We Are: Response & Recovery

- During the first eight months of FY20, total PHL passenger traffic increased by 4.5%

- As a result of the COVID-19 pandemic, beginning in March 2020, total passenger volume is expected to be approximately **23.8 million** for FY20, a **reduction of 26%** YoY from the FY19 passenger volume of **32.2 million.** Anticipate a slow, progressive recovery of passengers reaching 62% - 83% percent of FY19 levels by FY23

- Consumers will have an affordability and rationale reset with increased preference for safety, control, and customization

- Opportunities in health and wellness, grab & go/packaged foods, self care amenities, digital/touchless experiences, telemedicine, and more

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PNE NORTHEAST PHILADELPHIA AIRPORT
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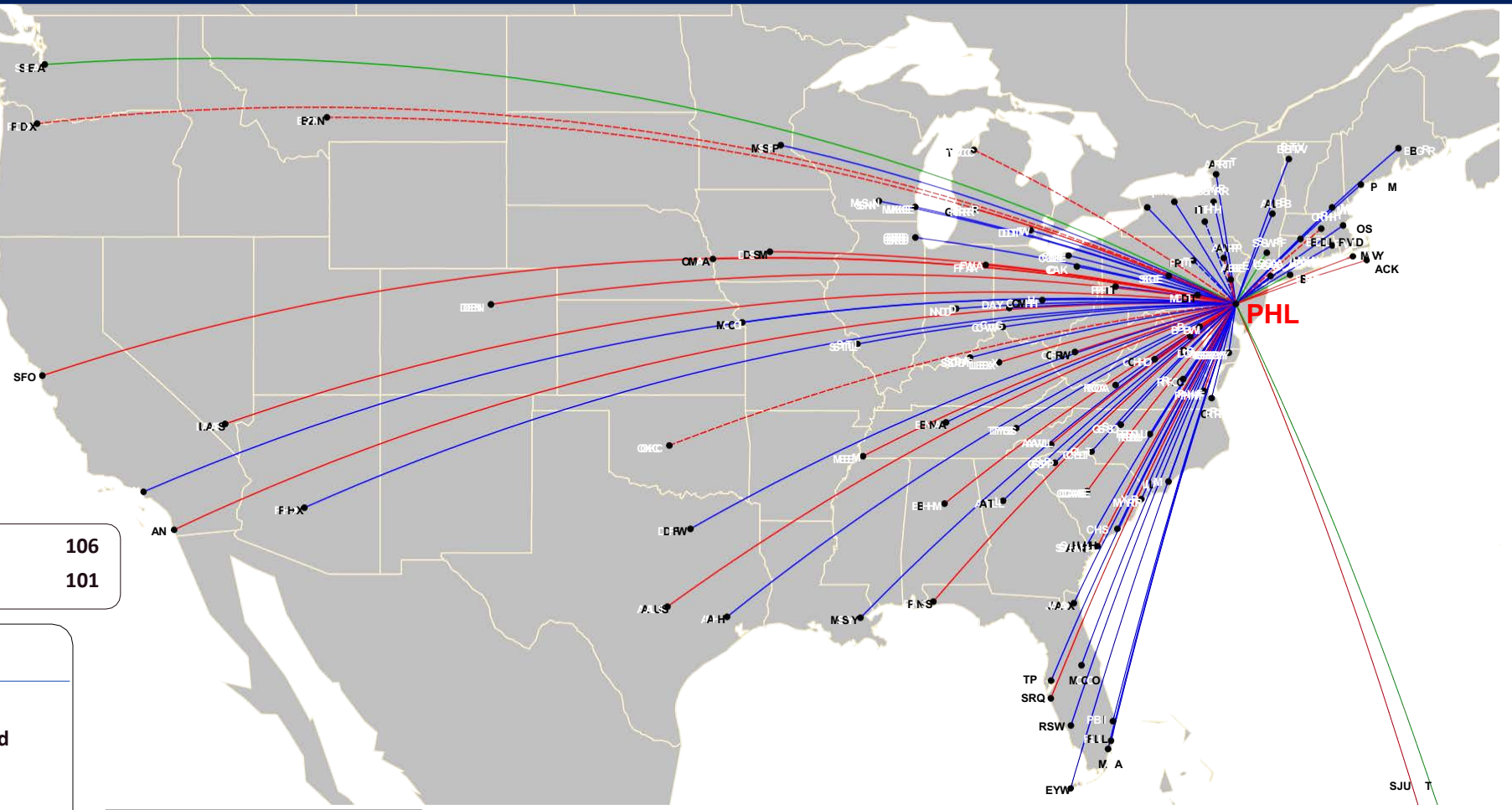
# CHANGES TO AMERICAN SERVICE AT PHL SINCE COVID-19




| | |
|---|---|
| **Planned Average Seats Per Aircraft:** | **106** |
| **Current Average Seats Per Aircraft:** | **101** |

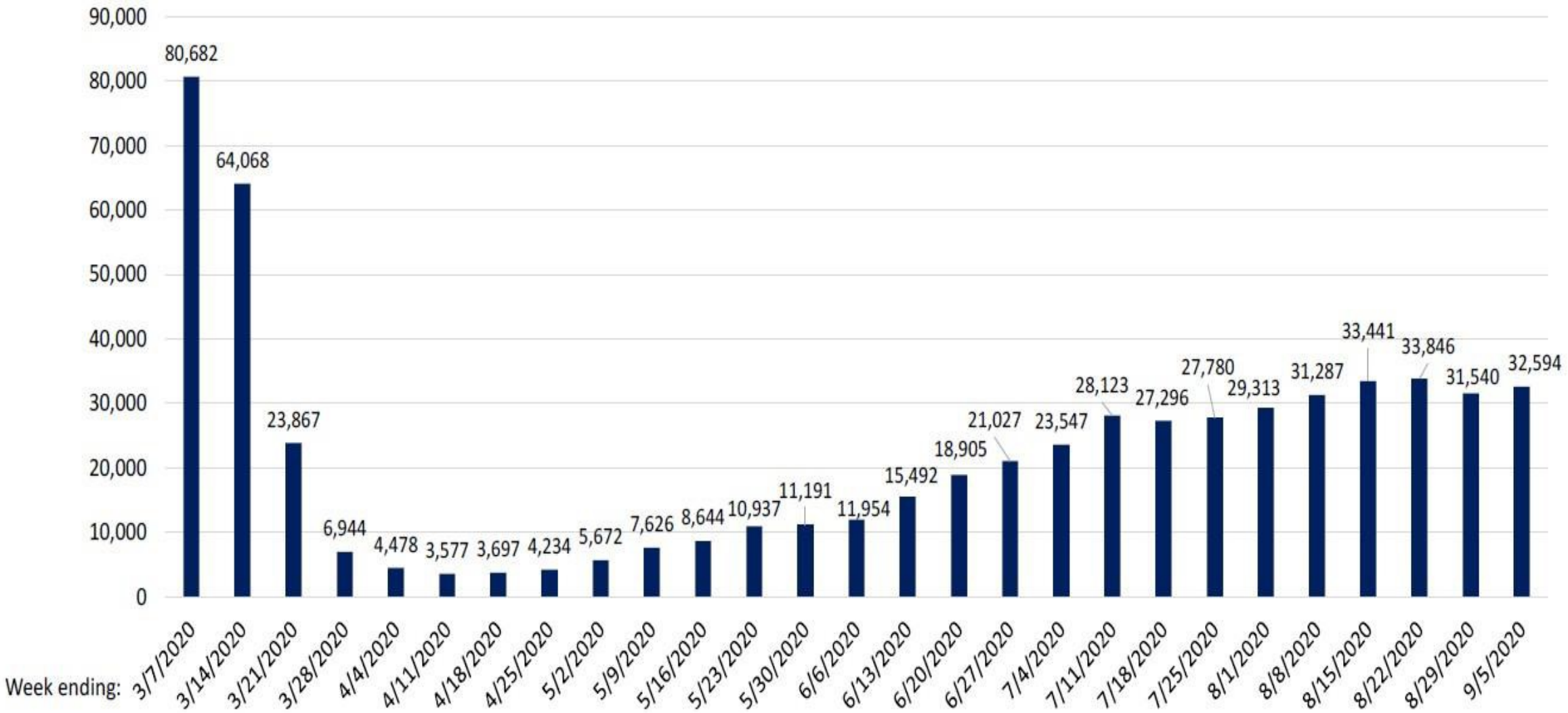
**Flight Status**

- **Service Never Cut**
- **Suspended and Restored**
- **Service Cut**
- **Discontinued After July**
- **Reinstated After July**

Routes discontinued after July: HVN, IPT, ITH
Routes reinstated after July: ISP, SEA, STT, SWF

Note: Includes domestic capacity only.
Source: Cirium Schedules, Originally planned July 2020 and current July 2020.

## Total Average Daily Passengers at the Airport – March 1, 2020 through September 5, 2020




Note: Includes enplaned plus deplaned passengers.
Source: Campbell Hill Aviation Group.

# Where We Are: Response & Recovery

- PHL implemented a relief program in Q4 of FY20 to address the pandemic impact.

- We deferred three months of eligible payments for airlines and concessionaires; waived $19M in Minimum Annual Guarantee obligations for Food, Beverage, & Retail operators; and reduced program effective rent from 18% to 6.8%:

    - **Food & Beverage - 5%**
    - **News & Gift - 15%**
    - **Specialty Retail (Tech) - 5%**
    - **Duty Free - N/A**

- Implemented a contingency concessions program to provide optimized service levels adjusted to fluctuating airline capacity and airport passenger volume

# Where We Are Going:

Nonstop Pride

Nonstop Customers

Nonstop Engagement

Nonstop Safety

Nonstop Convenience

Nonstop Control

Nonstop Determination

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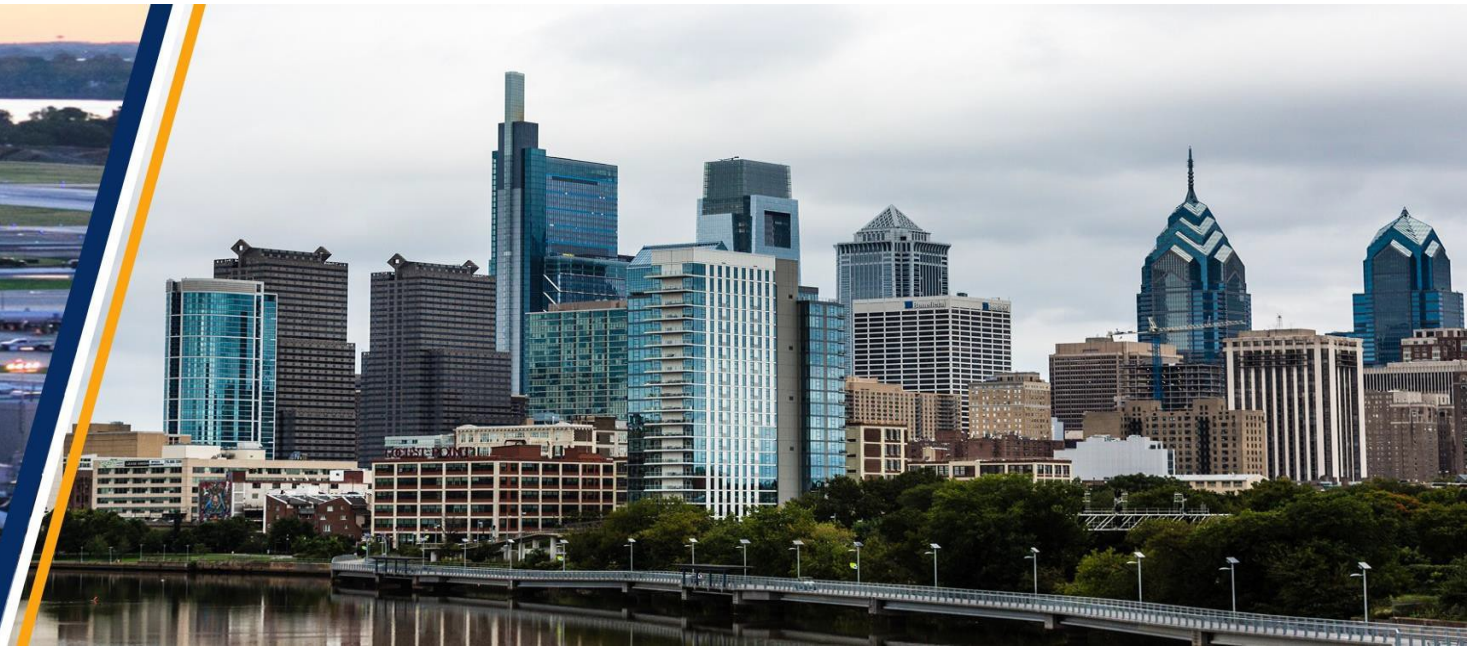
# Office of Business Diversity Update



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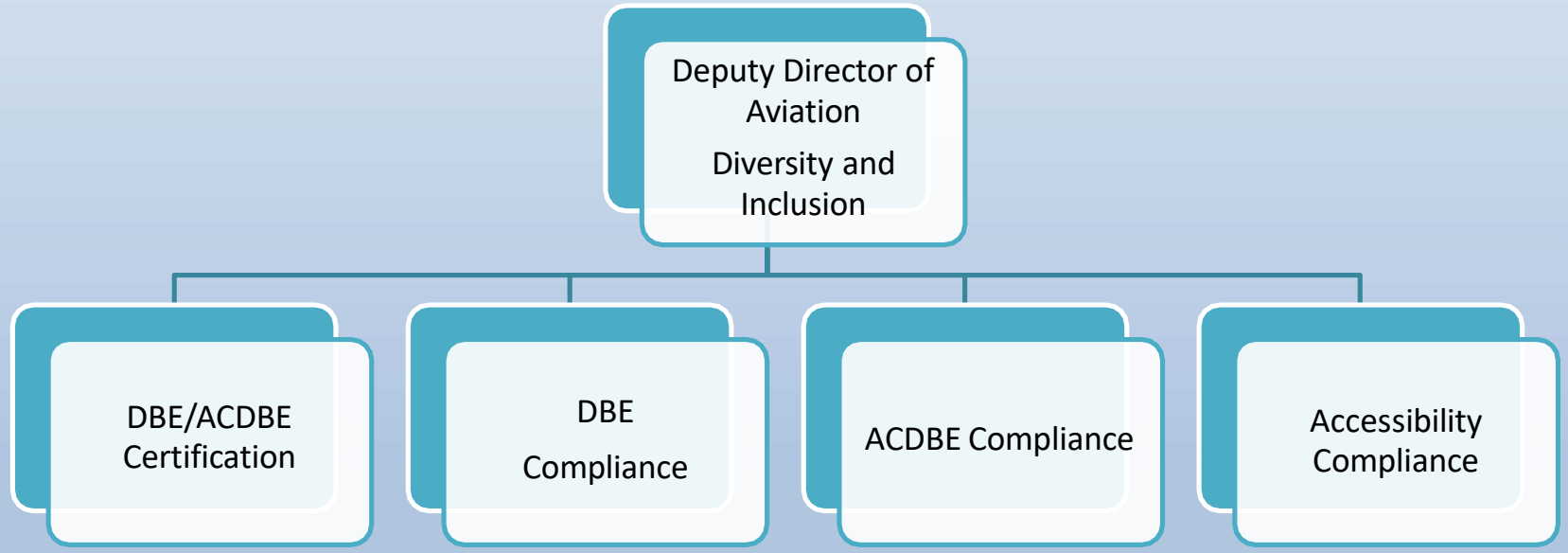
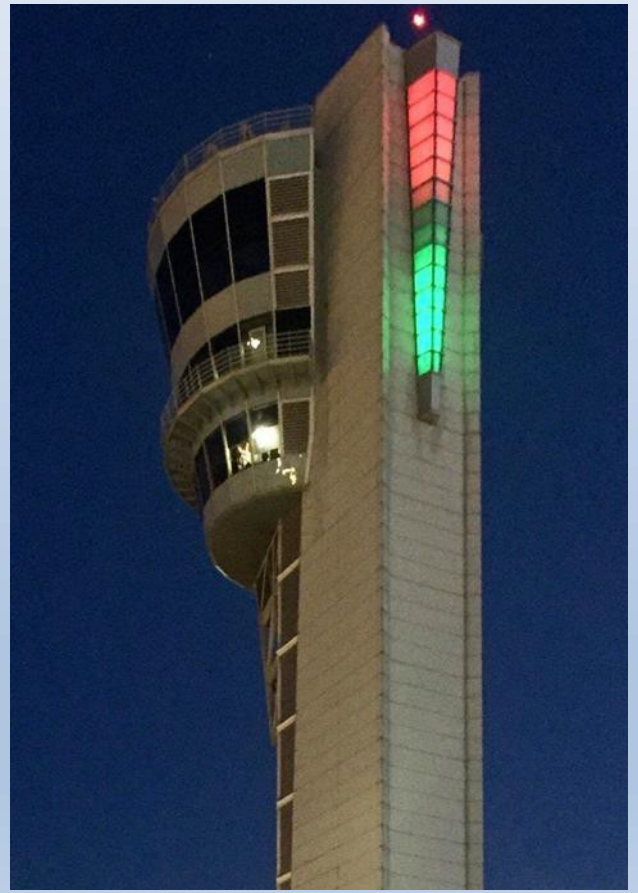
# Overview of PHL Office of Business Diversity & Inclusion



# PHL Concessions Diversity Goals and Attainment



- PHL's Current Non-Car Rental Goal is **19.14%**
- 2019 Attainment was **33.5%**
  - MarketPlace and PHL Concessions
  - Hotel
  - Advertising
  - Cable Television
  - Passenger Services
- 72 ACDBEs participated
- Marketplace PHL's achievement for concession sales was **38.8%**.
- Concession Manager achievement was **30%** (ACDBE JV partner participation).

*PHL's Proposed Non-Car Rental Goal of **21.03%** submitted to FAA for approval on October 1, 2020.*

# ACDBE Certification

- ✓ To be counted at PHL, must be certified as an ACDBE by the Pennsylvania Unified Certification Program (PAUCP)
  - ✓ *51% owned/controlled by socially/economically disadvantaged individual(s).*
- ✓ Certification takes approximately 90 days AFTER a completed application is received.
- ✓ Be sure to identify all NAICS codes in which your firm can be certified.

**https://www.dotsbe.pa.gov/PAUCPWeb/paucp/viewHome.do**

# ACDBE Joint Ventures

- ACDBEs often participate in airport opportunities as a joint venture (JV) partner.
- JV agreements must be reviewed by:
  - Parties to the agreement, MarketPlace, and PHL.
- Approval by PHL required before the lease can be signed.
- Major areas of focus in JV reviews:
  - Capital to be contributed by each participant
  - Accounting methods and distribution of profits/losses
  - Management of the joint venture's business
- Administrative matters.

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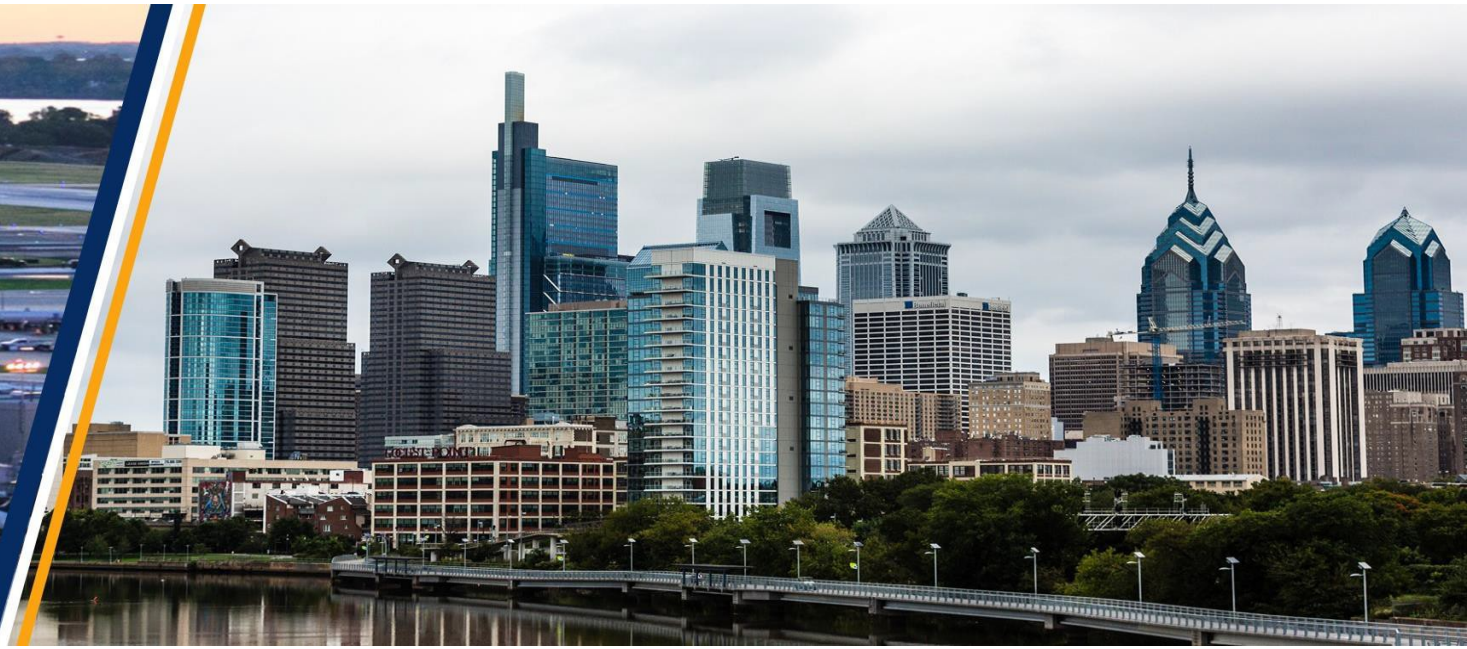
# PHL Cargo Update



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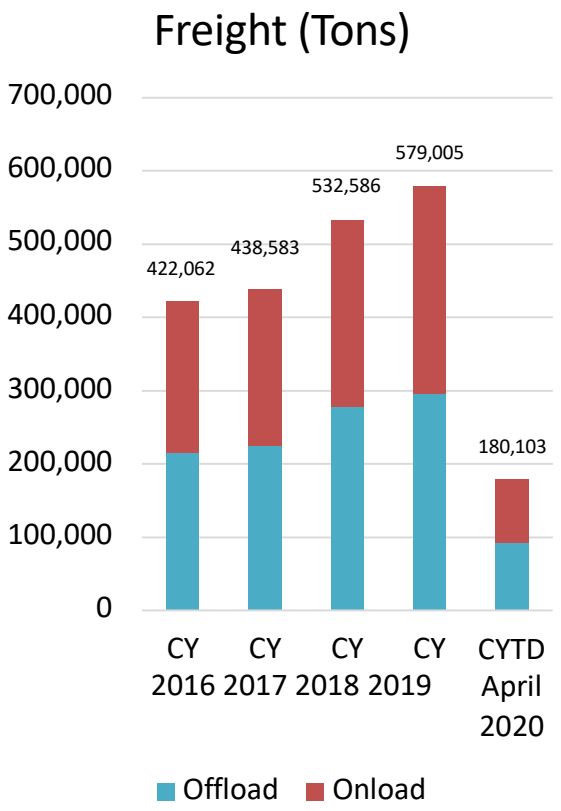
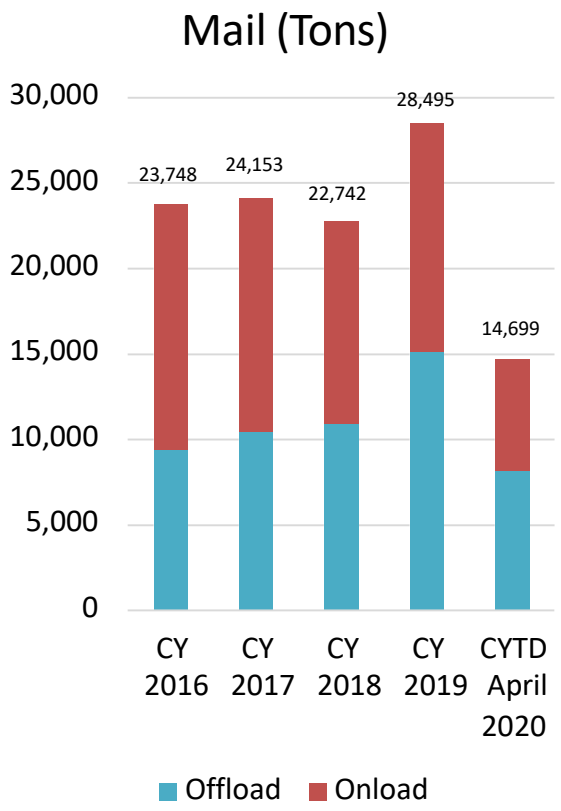
## Airport Cargo Mission

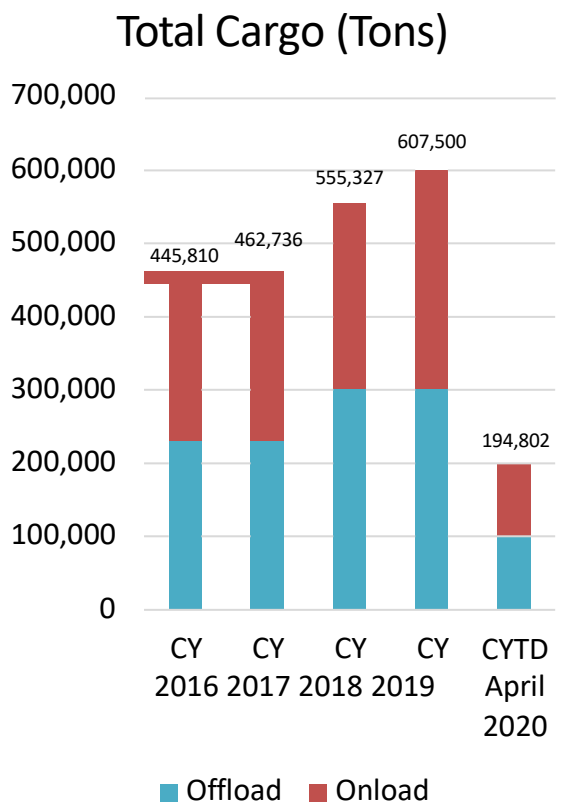
Increase cargo activity at PHL by identifying short term opportunities that drive cargo within the existing facilities while establishing relationships with key stakeholders and developing a long-term strategy for the expanded cargo facilities that increases revenue to the airport and benefits the economic development of the region.

## Challenges and Potential

# PHL Cargo by the Numbers




**Total cargo continues to grow in 2020 and is up 2.7% for the period CYTD July 2020 compared to prior year**

# PHL Air Cargo Profile

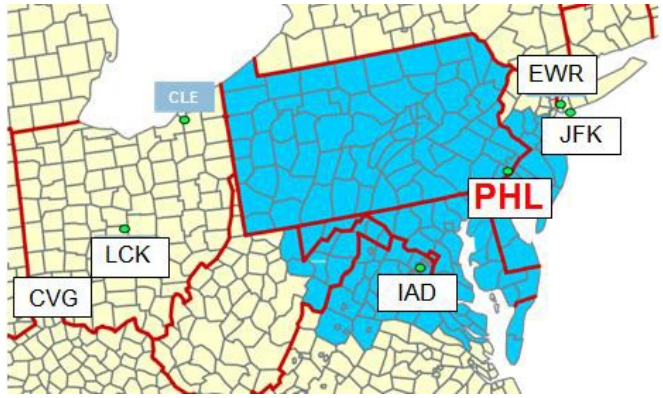
PHL's core catchment area encompasses all or parts of 6 states

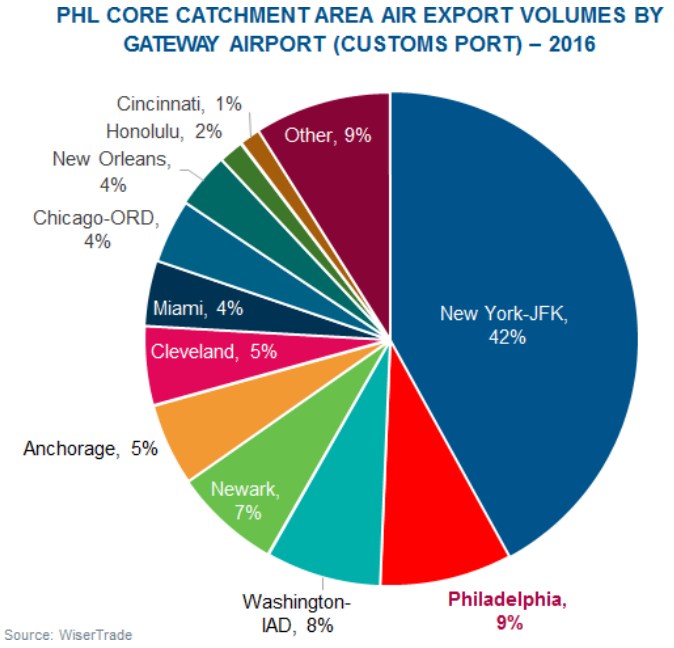
PHL captures only **9% of the catchment area market share**

- **Nearly 60% of the share passed us by**, and was captured by neighboring airports **JFK, EWR and IAD**
- Cargo facility limitations place PHL at a competitive disadvantage

Air Cargo Development Initiative at PHL

- Approximately **1.5 million SF** (including an additional **1M SF in new development** potential) can be made available for air cargo operations
- Comparatively, JFK air cargo facility: 4.0 million SF



# *Recent Cargo Highlights*

**$53 billion** in air export volume in the Mid-Atlantic catchment area

PHL gets 9% of that volume. Potential to capture more

- Cargo up 2.7% in 2020
- Air mail up 123%
- AA flying first cargo only flights since 1984 from PHL
- Titan Airlines flying medical supplies to Italy
- Portuguese carrier Hi Fly operating from China to PHL
- BA flying 2x week cargo only flights

# *Challenges and Potential*

| | | |
|---|---|---|
| 01 | **GEOGRAPHY** | PHL Cargo City currently underperforms compared to other major air cargo gateways such as JFK, IAD and EWR |
| 02 | **RECAPTURE** | Additional capacity at PHL would immediately attract existing cargo business currently generated by the regional economy but served by other airports. |
| 03 | **STRENGTH** | The Mid-Atlantic region, comprising 29% of domestic air exports, is one of the strongest in the U.S. for high value, cargo verticals including pharmaceuticals and electronics |
| 04 | **OPPORTUNITY** | PHL only captures 9% of the estimated **$53 billion** in air export volume within its Mid-Atlantic catchment area. |
| 05 | **VALUE** | The economic impact associated with increased cargo capacity at PHL would potentially yield a **1%-2% increase** in the gross metropolitan product (GMP), resulting **in $5 - $10 billion** of additional annual economic output throughout the tri-state region. |
| 06 | **IMPACT** | An expanded PHL cargo gateway could produce **$870 million** in annual economic impact and **over 6,000 jobs with $350 million** in earnings. |

# Perception Study

# SWOT Analysis

## STRENGTHS

S

- Central Location - MidAtlantic
- Strong Regional Economy – High Value Commodities
- AA & UPS Hubs with frequent service to Europe
- Easier Access than JFK, EWR
- PHL Airport Committed to Cargo Development

## WEAKNESSES

W

- Easy Truck Access to Other Major Gateways (JFK, EWR)
- High Leakage - PHL Only Captures 9% of Exports
- Limited Trans-Pacific Capacity
- Inadequate Infrastructure
- Limited Contact with the Airport in the Past

## OPPORTUNITIES

O

- Leverage Synergies between Airport & PhilaPort
- Work Closer with State & Local Economic Development Entities
- Create PHL Cargo Association
- 150 New Acres for Cargo Development

## THREATS

T

- Highway Congestion
- Competition from Allentown & Atlantic City
- Delay in Restoring Belly Capacity
- Forwarder Consolidation Policies & Relationship at Other Airports
- Access to Capital & Reduced Passenger Revenues

Baggage Claim
Ground Transportation
P Parking E F
Ticketing/Check-In F
Center City Train
TERMINAL E

**Strategy**

# Objectives

Generate revenues through increased cargo activity

**REVENUE**

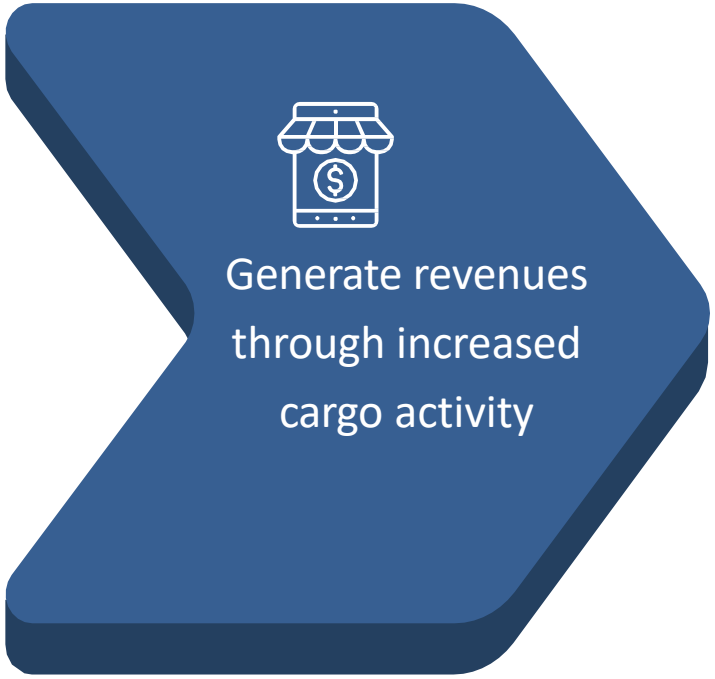
Enhance the reputation of PHL as the airport of choice for speed, efficiency, & quality

**REPUTATION**

Leverage relationships with stakeholders to facilitate economic development of the region

**RELATIONSHIPS**

# *Revenue Objectives & Strategies*




1. Define opportunities for short-term growth
2. Develop and implement a long-term plan
3. Attract new operators to the PHL
4. Optimize existing facilities for increased tonnage
5. Leverage state of the art technological solutions
6. Bring partners together within the supply chain to drive growth

# *Reputation Objectives & Strategies*

1. Define and promote PHL cargo value proposition
2. Enable business partners by providing flexible, innovative, creative solutions
3. Keep PHL top of mind during decision making process
4. Pursue industry certifications
5. Be one of the first airports in the US to have an ACCS
6. Become a Foreign Trade Zone

# *Relationships Objectives & Strategies*

1. Publicize existence and capabilities of PHL cargo team and airport commitment to cargo
2. Work with current carriers to leverage connections with regional cargo community
3. Participate in regional economic development groups, associations, chambers etc
4. Work with Port to market the region for intermodal cargo
5. Develop relationships with foreign airports that specialize in priority commodities
6. Promote ability to act as neutral third party in promoting development

# West Cargo Development & Enabling Projects

# Cargo Area Expansion

## PHL West Cargo Expansion:

**With the potential of 2.0M of additional square feet, this project will rival other major U.S. air cargo gateways:**

| | | |
|---|---|---|
| JFK | 4.0M | sqft |
| ORD | 3.8M | sqft |
| MIA | 3.4M | sqft |
| LAX | 2.1M | sqft |

# West Cargo Environmental Assessment

**PUBLIC NOTICE OF DRAFT ENVIRONMENTAL ASSESSMENT AVAILABILITY**

**Delaware County**

**DRAFT ENVIRONMENTAL ASSESSMENT FOR PHILADELPHIA INTERNATIONAL AIRPORT (PHL) – WEST CARGO REDEVELOPMENT AND EXPANSION PLAN**

The City of Philadelphia Division of Aviation (DOA) announces the availability for review of a Draft Environmental Assessment (DEA) for the proposed West Cargo Redevelopment and Expansion Plan (th proposed action) at the Philadelphia International Airport (PHL).

The DEA has been prepared in accordance with the following Federal and State Statutes and Regulations:

- Federal National Environmental Policy Act (NEPA) of 1969, as amended
- Federal Aviation Administration (FAA) Order 1050.1F
- FAA Order 5040.4B, National Historic Preservation Act's (NHPA) Section 106
- Executive Order 11988 – Floodplain Management
- Executive Order 11990 – Protection of Wetlands
- Sections 401 and 404 of Clean Water Act (including Section 33 U.S.C. 1344)
- Section 10 of the Rivers and Harbors Act of 1899 (33 U.S.C. 403)
- Section 4(f) of the US Department of Transportation Act
- Clean Air Act as amended, 42 U.S.C
- Endangered Species Act (ESA), 16 U.S.C
- Executive order 13653, preparing the United States for the impacts of Climate Change 78 Federal Register 66817
- Coastal Zone Management Act, 16 U.S.C. [including Section 307(c)]
- Magnuson-Stevens Fishery Conservation and Management Act [Essential Fish Habitat (EFH) evaluation]

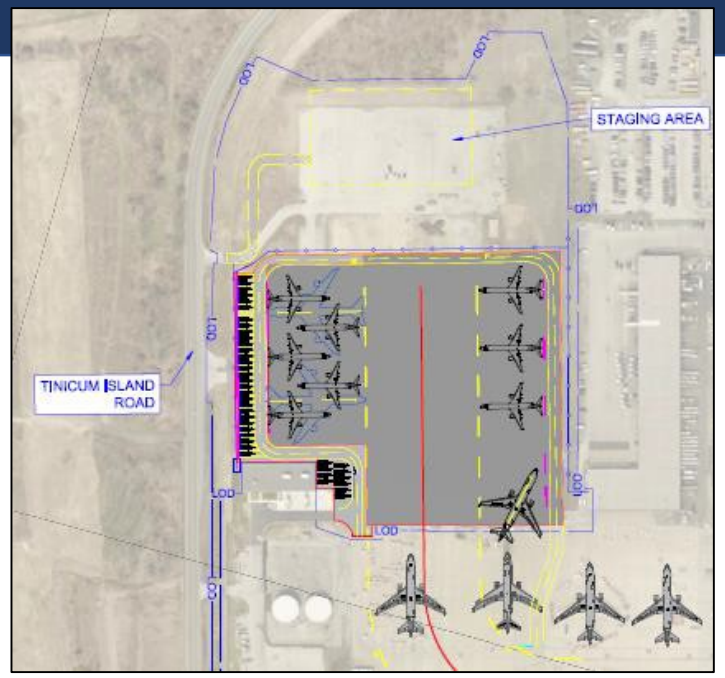
The purpose of the proposed action is to meet the current and future needs of air cargo at PHL and improve airport safety. FAA forecast growth projections show that air cargo would be expected to increase by a minimum of 104% through 2035 and the current facility is not be able to accommodate this. In support of this prediction, there has been an increase of 9% in cargo operations in 2020 and thi trend is expected to continue. The upgrade of existing facilities and the addition of new infrastructure are needed to accommodate this growth in a safe and efficient manner. The proposed action addresse this purpose and need.

The DEA identifies, documents, and evaluates the environmental, social, and economic consequences the proposed action in accordance with its authorized project purpose and need.

- EA is in process
- Inclusive of redevelopment of existing Cargo City and incorporation of recently acquired lands
- 30-day Public Comment Period 9/9/2020 through 10/8/2020
- Completion of Process (FONSI) anticipated in Late October 2020

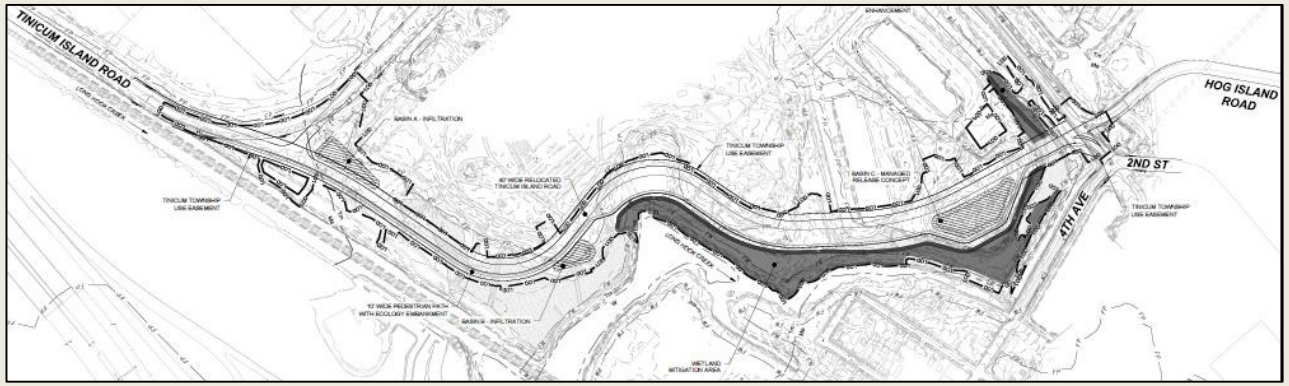
# RON Development

- Development of Remain Overnight Parking Apron in the former location of Building C11 (USPS Bldg)
- NTP Anticipated in October 2020.
- Opens up the possibility for Development of Cargo Facility North of RON.



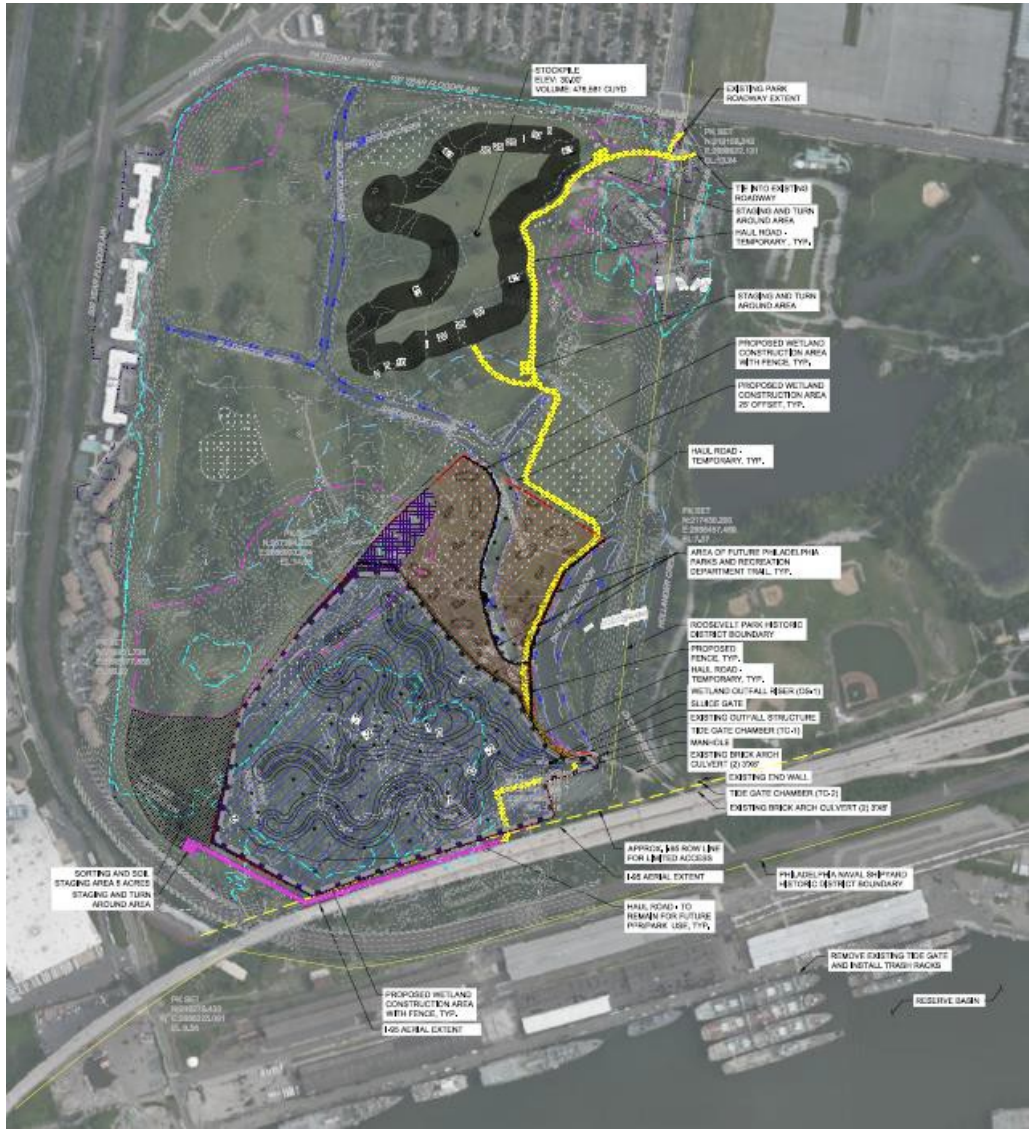

# *Tinicum Island Road Relocation*

- Relocation of approximately 1 mile of the existing Tinicum Island Road to allow the airport to integrate recently acquired land into the airport property for Cargo Expansion
- Scope includes road construction and wetlands mitigation related to the impacts of this specific project.



# Wetland Mitigation Development @ FDR Park

- Approximately 45-Acre Wetlands Mitigation Development located at FDR Park to mitigate wetlands and waterways impacts related to the Airports West Cargo Expansion Program.
- Work is in collaboration with Philadelphia Parks and Recreation and is consistent with the recently released Master Plan for the Park.



# *Enabling Projects and Environmental Permitting Efforts underway…Setting the Stage for Development*

| Project | Current Status | Anticipated Completion |
|---|---|---|
| West Cargo Development EA (NEPA Process) | In Public Review Period, closes 10/8/2020 | Anticipated 10/31/2020 |
| RON Development | Awaiting Conformed Contract, Construction Expected to start 10/15/2020 | Anticipated 5/2022 |
| Relocation of Tinicum Island Road | In Design (@ 90% Design), conducting permitting efforts; Anticipated Advertisement for Construction 3Q/2021 | Anticipated 9/2023 |
| Wetlands Mitigation Development @ FDR Park | In Design, progressing towards 60% Design; Anticipated Advertisement for Construction 3Q/2021 | Anticipated 10/2023 |
| 30% Design for Stormwater/General Site Development for Cargo Development Concept | 100% Concept Design Package under review, needed to support permitting for Tinicum Island Road and Wetlands @ FDR | Anticipated 10/31/2020 |

# Closing Questions and Answers

- Questions and Answers
  - Please put your questions in the ‘Chat’

- Closing
  - When instructed, close out of this session and use the link you used for the opening session to get back to the Closing Session
  - If you can’t find that link see the ‘Chat’ when instructed and click the link provided