

Attachment D



December 10, 2020

VIA EMAIL CHARLENE.REYNOLDS@PHOENIX.GOV

City of Phoenix Aviation Department

2485 East Buckeye Road

Phoenix, AZ 85034

Attn: Charlene Reynolds

[Tel. (602) 273-8880 / Mobile (602) 317-1314]

VIA EMAIL AVIATION.BUSINESS@PHOENIX.GOV & EXPRESS DELIVERY

City of Phoenix Aviation Department, Business & Properties Division

2485 East Buckeye Road

Phoenix, AZ 85034

Attn: Terminal Concessions

[Telephone: (602) 273-4085]

Subject: Extension of Leases 143718, 143719, 145872, 145873 and 147350

Dear Ms. Reynolds:

Stellar Partners, Inc. ("Stellar"), on behalf of itself and Stellar Retail Group PHX LLC and its partners, Casa Unlimited Enterprise, Inc. and LAM Holdings LLC, respectfully requests the extension of the term of the above-referenced leases for three additional years, for the reasons stated below, and expresses its continued appreciation for the steps proactively taken by the City of Phoenix in this challenging period.

As you are aware, the airport industry and its affiliated businesses are going through a very difficult period. Due to the COVID-19 virus, airports, airlines and airport concessionaires have suffered insurmountable losses with no forecastable end in sight. Recent articles and information indicate that traffic will not return to 2019 levels until possibly 2024/25. Consequently, Stellar and our ACDBE and small business partners, have been burdened with lost business, reduced staff and significant financial obligations while implementing COVID-19-related investment in training, equipping and investing in the safe operation of our businesses in a way that protects our associates, our customers and the airport staff that frequent our stores. Here are some highlights:

- **Year over year Phoenix Sky Harbor revenues are down over 55% since the pandemic started (April to November).** Based on this lack of revenue, many joint ventures and small business subtenants don't have enough accumulated cash reserves to offset the severe shortfall of cash from operations. This will therefore require capital calls or additional borrowing, which means both the ACDBE's and Prime's amount of debt will actually increase. The fact that many Primes are large entities operating in several countries makes no difference as COVID-19 is a global pandemic resulting in airport concessions around the world bleeding cash; having a global footprint makes matters worse.

- **Our small business partner's outstanding debt currently exceeds approximately \$2.9 million and the remaining unamortized value of our investments at PHX exceeds \$10.4 million.** It is realistic to anticipate that ACDBE and small business partners will not be able to pay for the current debt service from the initial buildout and subsequent reinvestments in the Phoenix stores. Further, this inability to pay current debt service will result in outstanding debt at the end of the current concessions contracts. Primes are taking on a significant amount of debt on their own to stay alive which ultimately allows them to continue to provide infrastructure support to the joint ventures they have with ACDBE partners.

In airport retail concessions, the basic economic model is that large sums of money are invested in designing and constructing the stores to attract customers and meet brand standards. Once open, the stores revenues remaining after all operating expenses (e.g., rental obligations, wages and salaries, utilities and maintenance, and costs of goods) are paid, goes to service debt obligations. When performing well, the debt can be repaid and the operators can make a profit. Unfortunately, the impact of COVID-19 on customer travel and new workplace conditions have significantly interrupted this equation. With no traffic/customers, cash inflows have been significantly reduced or evaporated all together.

As much as we are grateful for the relief granted in 2020, in order to recover past and, most likely, continued loses, Stellar on behalf of itself and our small business partners, respectfully requests a continuation of:

- Minimum Annual Guarantee (MAG) abatement for the calendar year 2021. This would effectively mean a continuation of percentage rent only, which will allow us to bring cash into the business.
- An extension of term for each of each of our above-referenced leases. Additional term will allow time to finance and repay any loans and debt.

We feel these actions are necessary in order to allow Stellar and its partners to bring back our workforce and to fulfill our financial obligations.

We express our continued appreciation for the steps proactively taken by the City of Phoenix in this challenging period.

Thank you in advance for your continuing support.

Sincerely,

DocuSigned by:

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Stellar Partners, Inc.
For itself & Stellar Retail Group PHX LLC
And on Behalf of Its Partners

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