

REVENUE ADVERTISING

- Program Update and Contract Modification

Executive Management Committee - January 2021

File No. 2020-0811



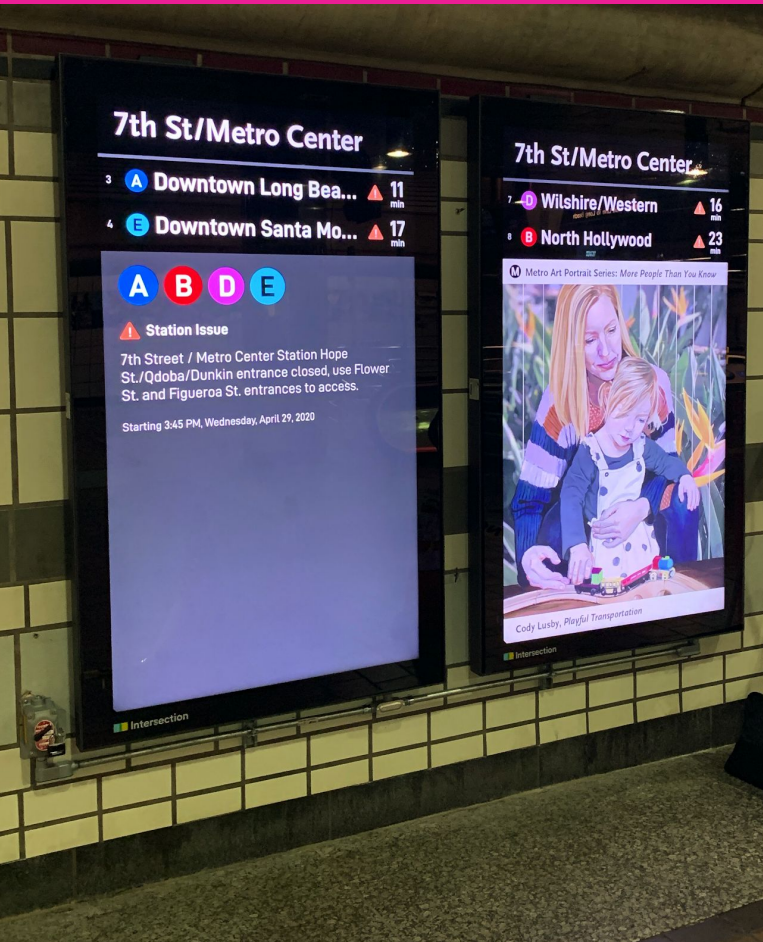
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CONTRACT HISTORY

May 2020 Board approved contract modification in response to COVID impact. Vendors pay Metro 55% revenue share of gross sales rather than minimum annual payment (MAG) from May 2020 - December 2020.

Jan 2018 Board approved the current advertising contracts awarding Outfront / bus inventory and Intersection / rail inventory. Combined contracts will generate \$305M revenue over 10 years with \$20M capital expenditure (CapEx) investment for digital advertising and information.

2020 RECAP - REVENUE & CAPITAL EXPENDITURES



\$13.7M Revenues paid to Metro for CY2020

\$8.5M Jan-Apr (MAG)

\$5.2M May-Dec (55% Rev Share)

Pandemic caused disruption in global supply chain, pausing/halting equipment orders

- **IMPACT** - Intersection could not procure large volume order, delaying rollout to E Line
- Small batch orders: Video walls, additional flats screens @ 7th/Metro, and maintenance

2020 RECAP - COVID-19 CONTINUED IMPACT

Pandemic recession conditions persist → impacting regional advertising business

Altered Work - Telecommuting and working remotely removing the need to commute

- **IMPACT – Loss of customer impressions (Less people riding the Metro system and less people on the streets equal fewer eyeballs viewing advertising)**

Pandemic Recession - Most businesses are facing financial hardship and cut ad budget

- **IMPACT – Ad buys still not returning (entertainment, local attractions)**
- **IMPACT – Ad brokers independently securing credit to weather pandemic (Outfront secured \$500M, Intersection in process)**



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2021 FORECAST - REVENUE & CAPITAL EXPENDITURES

\$12.6M Projected revenue payments for CY2021

- Metro will receive 55% Revenue Share for entire year

E Line Deployment

- Onschedule to install 34 screens (\$1M+ investment) beginning Summer 2021 and complete Fall 2021

Agency Share of Voice (SOV)

- Increase SOV from 10% to 20% to communicate agency priorities and implement Board motions (Art Program, Customer Experience, Eat, Shop, Play)



FINANCIAL IMPACT - METRO FISCAL YEARS

Advertising Revenue - FY21 Payment Summary

(Entire fiscal year earning 55% revenue share of gross sales)

	Planned (MAG)	Actuals & Projected (RevShare)	Difference	Difference (%)
BUS	\$23,500,000	\$8,772,818		
RAIL	\$3,209,000	\$1,398,957		
TOTAL	\$26,709,000	\$10,171,775	\$(16,537,225)	-62%

Advertising Revenue - FY22 Payment Summary

(Q1 and Q2 earning 55% revenue share of gross sales, Q3 and Q4 earning MAG payment)

	Planned (MAG)	Projected & Planned (RevShare+MAG)	Difference	Difference (%)
BUS	\$23,500,000	\$17,499,996		
RAIL	\$4,028,508	\$3,145,218		
RAIL	\$4,028,508	\$2,757,906		
TOTAL	\$27,528,508	\$20,645,214	\$(6,883,294)	-25%
TOTAL	\$27,528,508	\$20,257,902	\$(7,270,606)	-26%



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CONTRACT MODIFICATION - RECOMMENDATION & JUSTIFICATION

Temporary Modifications

- Extend minimum annual guarantee (MAG) easement and continue to receive 55% revenue share of gross sales for January-December 2021 (12 months)
- Revise Letter of Credit removing tie to MAG amount for 2021 (technicality)

Permanent Modifications

- Align with AP: Allow contractors to submit payment by the 80th day upon invoice
- ~~● Contingent on approval of Commercial Sponsorship Policy:
Remove station activation restrictions of maximum 90 days occupancy and repeat buyer so staff do not have to modify this contract once again~~

Justification

- Provide short term financial easement in order to preserve a long-term revenue source for Metro (\$305M over 10 years into 2028, \$20M CapEx investment)
- Prevent contract cancellation and need to begin new procurement