

May 20, 2009

**FOR FORMATION**

To: The Board of Governors of Exhibition Place  
From: Dianne Young, Chief Executive Officer  
Subject: **CNEA Commercial Relationships – Inflationary Increases**

Summary:

The attached report from the General Manager of the CNEA (Appendix A) and the Confidential Attachment 1 to the report which involves security of the property belonging to the CNEA which should not be disclosed in order to protect the economic interests and competitive and legal position of the Association, provides information with respect to the CNE's ancillary sources of income and actions taken by the CNEA to increase revenues from its commercial customers.

Financial Implications:

There is no financial implications arising from this report.

Decision History:

At its meeting of April 23, 2009, the Board of Directors of the CNEA received this report for information.

Issue Background:

At its meeting of September 14, 2007, the Finance and Audit Committee of the Board of Governors considered and recommended for approval the 2008 Operating Budget, and further requested that the CNEA report its commercial relationships with respect to rental and concession agreements reflect an inflationary increase, where possible, and undertake the necessary steps to achieve this.

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Dianne Young, Chief Executive Officer



April 20, 2009

To: The Finance & Executive Committees and Board of Directors  
Canadian National Exhibition Association

From: David Bednar, General Manager

Subject: **Inflationary Increases - CNEA Commercial Relationships**

Reason for Confidentiality:

The Confidential Attachment to this report is confidential as it involves security of property belonging to the Canadian National Exhibition, and it is recommended that this information not be disclosed in order to protect the economic interests and competitive and legal position of the Association.

Summary:

This report provides background and information regarding the CNE's ancillary sources of income and actions taken by the CNEA to increase revenues from its commercial customers. These revenue sources include those from commercial vendors (also known as exhibitors), Food Building vendors, concessionaires (outdoor games and food) and midway provider, North American Midway Entertainment (NAME). Research has shown that as many as a third of our visitors attend the fair for midway or shopping activities and that, on average, 80% of our attendees visit the Food Building each year. Ancillary revenues comprise a significant portion of our annual operating budget.

The sources of revenue which are the subject of this report fall divide into two distinct categories depending on the way the fees are calculated: fixed rental fees (per square foot or by booth) and license or concession fees based on percentages of income. The CNE has derived increased revenues from its Commercial and Food Building exhibitors as a result of rental rate increases, whereas revenue increases from outdoor concessions and the midway have come by way of unit price increases and increased sales over the years.

As explained in more detail below, the CNEA considers each area individually. The following charts show summary information by area. The first row shows the changes in rates as approved by the CNEA board of directors. The second row shows the change from year to year in actual income earned in these categories (the confidential attachment contains the dollar amounts to support the percentage calculations). As a general note, it should be remembered that the CNE had a very good year in 2004, did not do as well in 2005 and 2006, then rebounded in 2007 and 2008.

*COMMERCIAL VENDORS (EXHIBITORS) FIXED RATES - % INCREASE FROM PREVIOUS YEAR*

|  | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|
|--|------|------|------|------|

|                       |    |     |                 |                 |
|-----------------------|----|-----|-----------------|-----------------|
| Rate Change           | 0% | +3% | 0% <sup>1</sup> | 0% <sup>2</sup> |
| Actual Revenue Change | 0% | +2% | +1%             | +2%             |

<sup>1</sup> At Home Pavilion corner premium was added

<sup>2</sup> Warehouse Outlet was increased by 10%, and Arts, Crafts and Hobbies was increased by 6%

*FOOD BUILDING FIXED RATES - % INCREASE FROM PREVIOUS YEAR*

|                       | 2005 | 2006 | 2007 | 2008  |
|-----------------------|------|------|------|-------|
| Rate change           | 0%   | 0%   | 0%   | 0%    |
| Actual Revenue change | 0%   | 2.5% | 1%   | -3.5% |

*MIDWAY CONCESSIONS AND NAME - % INCREASE FROM PREVIOUS YEAR*

|                       | 2005* | 2006* | 2007 | 2008 |
|-----------------------|-------|-------|------|------|
| Rate change           | 0%    | 0%    | 0%   | 0%   |
| Actual Revenue change | -7%   | -7%   | 11%  | 15%  |

\* 2005 and 2006 were years in which the CNE did not meet attendance projections

As well as providing historical data and review procedures for these commercial relationships, this report and confidential attachment substantiate that, allowing for the normal fluctuations of a seasonal event, our commercial relationships continue to grow and adapt in terms of presentation, customer service, and reasonable income increases.

Financial Impact:

There is no financial impact as a result of this report, although the actions taken as described in this report influence the annual operating budgets of the CNEA.

Decision History:

At its meetings of September 14, 2007, the Finance & Audit Committee of the Board of Governors considered the 2008 Operating Budget Report and recommended that the CNEA commercial relationships, with respect to rental and concession agreements reflect an inflationary increase, where possible, and that the CNEA undertake the necessary steps to achieve this.

Issue Background:

It is generally acknowledged within the fair sector that commercial relationships constitute a major customer base, second only to the fairgoer. It is often said that the "first" customer buys a ticket to the fair, whereas the "second" customer rents a booth or signs a concession agreement. This notion holds especially true in the shopping culture of Toronto. The CNE has more commercial exhibitors than any other fair in Canada, if not in North America. Our food and

game concessions, and midway activities are also extensive. Research conducted at the CNE over the years has shown that as many as 33% of our visitors attend the fair specifically for these activities and that, on average, 80% of our attendees visit the Food Building each year.

Comments:

The sources of revenue which are the subject of this report fall divide into two distinct categories depending on the way the fees are calculated: 1) fixed rental fees (per square foot or by booth); and 2) license or concession fees based on percentages of income.

- Fixed fees are levied on commercial and Food Building exhibitors
- Except for the mobile vendors, percentage-based rates charged on outdoor food and games concessions
- Percentage-based rates levied on the sole ride provider, NAME

Whereas fixed rental fees have increased over the years, percentage-based rates have remained the same since the early 1990's. Therefore, the CNE has derived increased revenues from its Commercial and Food Building exhibitors as a result of rental rate increases. On the other hand, revenue increases from outdoor concessions and the midway have come either by way of unit price increases (initiated by licence holders) or through increased sales.

The CNEA has made diligent attempts to increase these ancillary sources of revenue. At the same time, we are sensitive to the operational risks facing our partners. As with primary sources of income, such as attendance and parking, these revenues are heavily influenced by a myriad of factors such as programming, marketing, social trends, and, of course, the weather.

As explained in more detail below, the CNEA has considered each area individually rather than applying general fee adjustments.

***Commercial Vendors (Exhibitors) (fixed):***

Since we require of all our participating exhibitors that they staff their booths all 18 days from morning to night (minimum 12 hours per day), the CNE is often viewed by exhibitors as a very long and expensive show. When comparing CNE rates to other shows/fairs, and taking into consideration the additional costs of admission and parking passes, CNE rates are near the top of the scale (see also – “Rental Rate Increases – 2009 CNE”, dated November 17, 2008).

***% INCREASE FROM PREVIOUS YEAR***

|                       | <b>2005</b> | <b>2006</b> | <b>2007</b>     | <b>2008</b>     |
|-----------------------|-------------|-------------|-----------------|-----------------|
| Rate Change           | 0%          | +3%         | 0% <sup>1</sup> | 0% <sup>2</sup> |
| Actual Revenue Change | 0%          | +2%         | +1%             | +2%             |

<sup>1</sup> At Home Pavilion corner premium was added

<sup>2</sup> Warehouse Outlet was increased by 10%, and Arts, Crafts and Hobbies was increased by 6%

- In 2005 a number of exhibitors were asked to clean-up their presentation, which required a substantial investment of funds on their part. Our intention was to eradicate the look and feel

of a “flea market”. An increased rental rate at this time would have been detrimental to the intent of this improvement program.

- In 2006, rental rates were increased by 3% in all retail pavilions.
- 2007 rates remained at 2006 levels but a corner premium rate was added to the Bare/Bulk space rates used in the At Home & Shoppers pavilions.
- 2008 rates in all pavilions except two (Warehouse/Extension and Art’s Crafts & Hobbies) were again held at the 2006 rates. Rates in the Warehouse were increased by 10% and in the Art’s Crafts & Hobbies by 6%.
- In 2008, due to the move of the Farm pavilion to the BLC, Sportzone was cancelled and the Warehouse Extension was proposed as a revenue replacement resulting in a minor loss, some of which was made up through the sale of additional outdoor retail.
- For 2009, there is a general increase of 2%, except for increases of 5% in the Warehouse Outlet / Extension (WH) and in Heritage Court (HC).

We plan to continue to review all rental rates annually and propose increases or adjustments between pavilions whenever it is appropriate to do so.

***Food Building (fixed):***

Although there are many other fairs with pavilions or buildings dedicated to food service, it is important to note that the size, scope and popularity of our Food Building make it unique. CNE staff have visited many large fairs across North America and have never seen a comparable venue, whether the comparison might be on the basis of the variety of types of food offered, the size of the building, or the number of “deals” made available to the fairgoer.

*% INCREASE FROM PREVIOUS YEAR*

|                       | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|-----------------------|-------------|-------------|-------------|-------------|
| Rate change           | 0%          | 0%          | 0%          | 0%          |
| Actual Revenue change | 0%          | 2.5%        | 1%          | -3.5%       |

Research on site has repeatedly indicated that 80% of CNE fairgoers visit the Food Building despite complaints from any attendees that the building “isn’t what it used to be”. On-site research, which was conducted at the 2003 CNE clearly indicated that CNE fairgoers considered the Food Building to be an attraction, not merely a food service venue. For these and other reasons, we have tended to give the vendors in the Food Building somewhat special treatment.

Historically, we have offered incentives for early renewal of contracts and for three-year commitments. These incentives were seen to be necessary to ensure a proper mix of vendors and hold popular vendors in the building. 2008 marked the final year of a three-year contract period, which promoted a re-examination of rates. There is no longer any incentive for early renewal. Three year contracts, which have historically been favoured by the majority of vendors, are still available, but no longer carry a financial incentive. For 2009 and beyond, three years of rate increases have been approved (3% in 2009, 2% in 2010, and 2% in 2011), but the CNEA has effectively reserved the option of higher rate increases for new contracts within that three-year period. In prior three-year periods (e.g. 2006-2008), one-year contracts were subject to annual rate increases which were higher than contracts signed for the full three years.

Looking to the future, the CNE will continue to focus on the variety of food offered, ongoing Food Day promotions, and building cleanliness and appearance issues. Rates will continue to undergo regular reviews on a three-year basis or more frequently if needed.

***Midway Concessions and NAME (%):***

The CNE's midway layout has two main components: 1) an area designated for NAME and 2), an "independent" area situated in separate locations on each side of the NAME area. This area is commonly called the "Horse Palace line" and the "Princes' Blvd. line"; together they are referred to as the "Independent Lines". The NAME area includes rides, games and food, whereas the Independent Lines are usually restricted to game and food concessions. The Independents all book their locations directly with the CNE.

***% INCREASE FROM PREVIOUS YEAR***

|                       | <b>2005*</b> | <b>2006*</b> | <b>2007</b> | <b>2008</b> |
|-----------------------|--------------|--------------|-------------|-------------|
| Rate change           | 0%           | 0%           | 0%          | 0%          |
| Actual Revenue change | -7%          | -7%          | 11%         | 15%         |

\* 2005 and 2006 were years in which the CNE did not meet attendance projections

All of these concessions, including NAME's, are subject to detailed scrutiny and annual review. For many years, the CNE has kept individual records for each concession, including photo(s), revenue records, and notes on operation and product quality. While percentage rates for these concessions have been stable, we do examine each concession individually as well as with regard to the mix of games and food in the overall lay-out. All of this is done with a view to generating increased revenues while providing an enjoyable experience for our customers.

The construction of the BMO Field Stadium and ongoing implementation of Exhibition Place's Design Concept has prompted a major review of the midway layout and the role of the Independents within that layout. In anticipation of future changes on site, the CNE is working with Exhibition Place to provide in-ground servicing to allow for a "permanent" layout site for the midway. It will be flexible enough for the midway to change from year-to-year, but will help to improve the appearance and functionality of the site by removing electrical, water and drain service from the surface. These changes will have a beneficial affect on concession and ride revenues.

After the 2007 CNE, we met with each one of the Independent operators to give them general information about impending changes and to inform each of them of specific improvements we expected to see in their applications for the 2008 CNE. In addition, new operators were brought into the mix in 2008. While we are still assessing the results of all locations, the one new operator is worthy of special note. He was granted concession licenses for only two locations, both of which exceeded expectations in terms of appearance and staffing. Not surprisingly, these games also earned revenues that exceeded surrounding locations, most days by a significant margin, making them the first and third highest revenue generating games on the Independent Lines in 2008.

The CNE will continue the review process of Independent operators in order to raise the standard for games on this portion of the midway. This, in conjunction with our new contract with NAME, will result in an improved midway presentation and experience for our customers, which will increase our revenues.

It is likely that current percentage rates will remain as they now are and that ongoing increases in revenue will derive from improved concession operations and normal price increases to the customer by the operators. A recent survey conducted with fairs across Canada showed that the concession rates charged at the CNE are within the upper tier of rates charged in other parts of the country. All individual concession licenses will continue to be carefully reviewed each year. We have just completed the first year of a new contract with NAME and are pleased with the results. The contract is for a five year term with the option to renew for an additional five years. For both Independent operators and NAME, percentage rates are as follows:

|   |      |
|---|------|
| Food Concessions  | 21 % |
| Merchandise/Skill Games<br>(excluding games where money is the prize) | 23%  |
| Game Concessions<br>(where money is the prize)                        | 45%  |
| Arcade Concessions:   | 25 % |
| Merchandise Booths:   | 25 % |

Respectfully submitted,

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General Manager

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