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General Aviation Trends in the European Market Memorandum Report

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August 3, 1989

TO: Frank Stanek/Tony Young
FROM: Harrison A. Price
SUBJECT: Progress Memorandum re: Sea World

Observations on Present Operation

We visited the San Diego park last Sunday with a group of Malaysian money people who are quite prominent.

We found the park to be dirty and the entry attendant was extremely rude to our group. Maybe operations could be showing the strain of tight finances. Rest benches were universally filthy. These are cosmetic and operating problems. It is enough of a sample to point out that a new buyer will have to shape things up in a hurry as might be expected.

Projected Attendance Gain

1996 Sea World projection is a total attendance gain to 17,390. The budget for 1989 is 14,237,000. Our projection for 1989 is 13.8 million based on a reported cumulative shortfall of 287K under budget through July. The projected gain in attendance in the pro forma requires annual growth of 3.4 percent (17.4 + 13.8 for seven years.). In the very mature attraction business this rate of gain would be obtainable only with aggressive reinvestment which we will comment on later in this memo.
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Programmed Per Capita 1989-1996

Budgeted per capita in 1989 is $27.33. It increases regularly each year to $38.30. That is an annual gain in per cap of 4.9 percent per year. Our estimate of current per caps through July is as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>1989 Per Cap ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>29.00</td>
</tr>
<tr>
<td>Ohio</td>
<td>24.80</td>
</tr>
<tr>
<td>Florida</td>
<td>31.50</td>
</tr>
<tr>
<td>Texas</td>
<td>24.00</td>
</tr>
<tr>
<td>Cypress</td>
<td>20.90</td>
</tr>
<tr>
<td>Boardwalk and Baseball</td>
<td>26.80</td>
</tr>
</tbody>
</table>

Weighting by projected attendance gives a $27.54 result for present overall per capita as follows:

<table>
<thead>
<tr>
<th>Present Per Cap ($)</th>
<th>Projected Attendance (Million)</th>
<th>Weighting</th>
<th>Weighted Per Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>29.0 X 3.603</td>
<td>= 104.5</td>
<td></td>
</tr>
<tr>
<td>Ohio</td>
<td>24.8 X 1.144</td>
<td>= 28.4</td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td>31.5 X 4.200</td>
<td>= 132.3</td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td>24.0 X 2.841</td>
<td>= 68.2</td>
<td></td>
</tr>
<tr>
<td>Cypress</td>
<td>20.9 X 1.163</td>
<td>= 24.3</td>
<td></td>
</tr>
<tr>
<td>BWB</td>
<td>26.8 X 1.286</td>
<td>= 34.5</td>
<td></td>
</tr>
</tbody>
</table>

14.237 X 392.2 = $27.54

Thus, through July, the combined operations are actually running 0.8 percent ahead of 1989 budgeted per cap (overall) of $27.33 and 3.1 percent ahead of last year per cap of $26.70.

The long term annual gain in per capita of 4.9 percent through 1996 programmed by Sea World should be obtainable with an aggressive effort in merchandise and food service. Sea World has produced a decent result in these two categories over the years but there is an upside available for an aggressive operator. Overall merchandise per capita in 1988 was $5.53, food service $5.65. We believe that San Diego is currently generating $6.25 for merchandise and $7.50 for food with its "Summer Nights" program showing that an upside is available. We would accept the 4.9 percent compounded gain as a rationale and aggressive target.
Programmed Capital Reinvestment

Programmed annual reinvestment averages $21.7 million in all parks for the eight years 1989-1996. This is 5.3 percent of net fixed assets as of May 1989. We believe that the amount of programmed reinvestment is inadequate to get the attendance gain shown. We believe you should allocate more like nine percent of fixed assets to achieve these attendance projections, an annual amount of about $36 million.

This is particularly true because the original parks (Florida, California, Ohio) which are currently bringing in 68 percent of revenues, were more or less in back burner status during the acquisition and construction binge of the last three years. Reinvestment in these three parks during 1988 was only $6.7 million and there is catching up to do.

Replication Abroad

The only major sea life park in Europe, the Dolfinarium in Harderwijk near Amsterdam, draws 500,000. It hit 1.0 million at its peak 20 years ago but has been milked. It is land locked at 10 acres.

Anheuser Busch has announced in Spain and Marine World is working on a project near Paris. However, the continent is open for a Sea World project.

The Orient has many aquariums but only one good sea life park in Hong Kong which draws about 2.0 million; a third of it in a water park. Japan has 14 aquariums drawing over 500,000, only two above one million (Toba Aquarium 1.8 million, Sunshine Aquarium in Tokyo 1.4 million). Sea World would have potentials in Japan, Singapore, and elsewhere in the Orient. The field is open for Sea World in the Orient. Buenos Aires and Rio de Janeiro would be possibilities in South America.

Other Sea Life parks outside of the continental U.S.:  
  Vancouver Aquarium 895,000 attendance  
  Honolulu 750,000 attendance

The conclusion follows that there are real opportunities for Sea World abroad with five prime projects a rational long term goal.
Top Management Considerations

1. Background

The following comments reflect our opinions on the general situation. From the opening gun in 1976; when HBJ took over, Sea World suffered from leadership at the top. The person in charge, from the start, was a very capable financial expert. He had eighteen years of experience in bottom lines, mergers and acquisitions. He was a personable, charming, hard working executive, but HBJ never brought in a professional experienced, marine park operator at the helm, that knew the business. First it was Hillebrecht, then Snyder, another financial expert from the publishing world and now Evanson, again a bean counter and instant expert. Marine parks are something of a unique type of recreation business. They deal in live aquatic animal shows and exhibits, and they are a different breed than a theme park, arena or circus, much less a publishing company. What they have done is something like putting a marine park operator in charge of a publishing company. That wouldn't work either.

Up until 1976, Sea World had maintained a good balance and productive operating team. Millay, overall boss and promotion, De Motte, finance, Powell, operations, animal shows and exhibits, and, after Magic Mountain, Schultz for marketing. When Hillebrecht came in, he and De Motte competed for control--De Motte lost and departed. The erosion began. Our sources tell us that the marketing and entertainment departments combined to methodically persuade Mr. Jovanovich, who wanted to be in show biz, to shift away from live animals, and go "show-biz" with live entertainment. This proved to be high cost, labor intensive and put the park in competition with theme park activities with City Streets, Muscle Beach, and Chinese acrobats. Sea World previously had an exclusive concept that no one could imitate or replicate. (The resulting erosion in operating profit 1984 to 1988 is 18.6 percent to 15.9 percent.)

In 1985, when Hillebrecht and Powell were axed, Jovanovich said he would take over the day-to-day operations of all parks. He stopped the use of corporate functions (purchasing, personnel, animal acquisitions, etc.) and had all parks operate independently and compete with each other, each responsible for its own bottom line. This total concept proved unworkable and he then decided to make ALL decisions, large and small. He would consult with no one in any discipline. Then he purchased the
other parks; Cypress Gardens, Circus World (a la Boardwalk and Baseball), the Sea World Wyndham Hotel, his jet fleet, the Shamu blimp and so on.

He proceeded to oversize and overbuild the Texas park in spite of Hillebrecht's, Powell's and HPC's protests to the contrary. He vowed to build the park 100 percent complete from the start, a new concept in park design and marketing. Don't phase it for future exhibits and attractions, or meter out the funds over succeeding years but put in all $200 million all at once. It took no genius to figure the outcome. Now heavily leveraged, there is not much left in the total activity for normal maintenance/development programs and the building of new exhibits. If there is nothing new to see in the exhibits and attractions, price resistance will emerge and repeat rates drop. The cash crunch has also caused cut backs in marketing collars, up to 30 percent less than last year. In San Diego, the TV budget in the Los Angeles market may not be equal to previous years.

Bob Gault, in San Diego, has tried a new wrinkle in his already successful "Summer Nights" program, giving an extra free "Summer Nights Party Pass" with each paid day admission. It is good until September 4th. This has kicked attendance up 9 percent over all time record '87 attendance numbers and per caps. San Diego park is having a spectacular 8.5 to 9 hour in-park stay with the "Summer Nights" program and per caps are up to $7.50 for food and $6.25 for merchandise. (We are told that San Diego is the only park up over '89 projection.)

2. Thoughts on Top Management

Whoever gets the Sea World six park package will want to seriously consider Bob Gault to head up the Sea World Parks as Chief Executive. He has 25 years of experience and performance in all three parks (San Diego, Ohio, Florida) with an exemplary record. At the age of 45, he is a seasoned operations executive with background and experience in every discipline needed in a marine park operation.

Gault's performance, bottom line results and attendance records are very good. As head of Ohio from 1979 to 1985, he weathered the pull out of auto workers in that depressed market. He learned to operate tightly--working discounts without giving away the farm, and ultimately coming out OK. He headed up Florida Park as the #2 attraction in Florida to Disney, giving them some strong competition.
HARRISON PRICE COMPANY

With an operations background, he has been heavily involved in marketing programs in all parks and has been creative and innovative in his performance. He initiated the "Summer Nights" program in Ohio, it was next taken to Florida and then to San Diego. This year he has come up with the idea to give a pass to return to Sea World's Summer Nights with every paid admission (includes special shows and fire works). It is currently averaging 1,400-1,500 passes per night, creating record attendance and per caps.

Whoever buys Sea World should consider him as the overall executive to head up the Sea World group of parks. In our opinion, he is the most qualified person to direct and coordinate the parks within the operation. He has the proper credentials, background and experience.

3. Departed Key Executives

JAN SCHULTZ - former San Diego President for approximately one year. Veteran marketing executive terminated by Chairman "for negligence in monitoring animal behavior procedures and training personnel." Supposedly excessive accidents, incidents and injuries prevailed during his watch. A shake up in his department followed his departure. My sources tell me that he is a prime example of the need for an operations person, not a marketing person heading a large organization of this kind. He tended to put too much attention on glitz, forgetting the fact that animals have made the park successful. He has an excellent record as a marketing person, but needs to be controlled and kept out of daily operations I am told.

His departure from Sea World is without serious consequence to damage to marketing programs. Lack of funding for advertising budgets appears to be more of a problem. In San Diego for example, advertising in the Los Angeles market has been cut, causing a serious void. Advertising responsibilities are now being covered by Tom Olsen formerly with Sea World Texas. The advertising agency (DMTB&B) handles media buy and creative. Dan Le Blanc is an excellent public relations person, young, but a real comer with a promising future. Sales are being covered by two veterans. Mary Anne Flowers local and Los Angeles territories, Denny Miller from Orlando works the outside, travel and tour and special events.
Jackie (O'Conner) Hill, former head of Public Relations is now Vice President, Communications, in affect an administrative assistant to Bob Gault. She covers guest relations programs, employee relations, newsletter and incentive programs. She also handles sign shop, print shop and complaints and does a commendable job.

FRANK TODD - former Vice President. Father of the Penguin Encounter and all penguin acquisition and breeding programs. Considered as one of the most talented bird specialists in the world. "Difficult to work with - abrasive, and single-minded. Does not get along with Ed Asper, Senior Vice President, Zoological Director, HBJ parks, a serious conflict." Currently bringing suit against HBJ for wrongful termination. Todd was succeeded in San Diego by Frank Twohy, Curator of Birds, a long time understudy and dedicated bird scientist. "Twohy lacks Todd's flamboyance and creative ability, but is hard working and loyal." He is also, fortunately, supported by a good staff and a veteran of several trips to Antarctica. He is well liked and respected by all.

Todd is a prolific writer and author of books, articles and papers, which were unfortunately never published by publisher-owner, HBJ. The important bird-penguin area is covered in the other parks by Stan Searles in Ohio and Ed Asper in Orlando. Todd could be available for employment by the new owner. Could be a significant and valuable draft choice for the new owner if kept under control.

DR. LANNY CORNELL - former Vice President, Zoological Director in charge of animal behavior departments, animal health and procurement. Lanny is an excellent veterinarian and animal person but weak in people skills.

Cornell was ousted in the shake-up in the animal behavior department in San Diego, along with Dave Butcher, the training department head. His departmental responsibilities are now covered by Dr. Jim McBain, who he hired and has confidence in. Jim Antrim, Vice President and animal specialist, and Tom Goff, Curator of Mammals, remain in charge of the department, having spent many years under Cornell, and are highly qualified.

Cornell has had problems with the environmental and animal protection groups in the past, and his departure might help quiet down these groups for now. Antrim, Goff and Dr. McBain have taken over this area with good records and results.
BOB LA PORTA - former Vice President of Entertainment. Responsibilities taken over by Don Ludwig, long time understudy to La Porta. Ludwig actually directed most all activities of the department over the years. No real perceived difference in productivity and activities of the department. "La Porta was seldom seen out of his office, had poor leadership qualities and a laid back style." Ludwig has been the recognized leader of the entertainment department and should carry on with continued strength and leadership as Vice President of Entertainment. He reports directly to Bob Gault, President.

John Binkowski and Ken McCabe, former prolific members of the corporate entertainment group have resigned to form their own company in Florida. They are now available as contractors to all Sea World parks as writers, producers. They are good.

DAVID BUTCHER - former Vice President, Animal Behavior. Veteran trainer, having spent much time in all parks. Responsible for animal behavior people in all parks. "Should not be a candidate for rehire."

Butcher's responsibilities have been taken over by another long time veteran of the training wars, Mike Scarpuzzi from Ohio. Mike is an excellent trainer, a fine administrator and well respected by everyone. He has taken charge of a troubled, disorganized area and changed it to a viable, safety conscious, productive department. Bottom line - the animal behavior division is back on track and doing well.

FRANK POWELL - 18 years at Sea World, well-liked, well-rounded, knowledgeable--65 years old. He knows all the talent in this business. He could be very useful in planning out new projects abroad and in operational and technical consulting areas important to a new owner. We have used him twice as a sub-contractor in which he supplied concept consulting and we got good work--quickly and directly. He could be very useful in animal acquisition, creating new attractions, advising on takeover strategies.

Our conclusion is that Sea World is in good shape vis-a-vis its in-house potential leadership notwithstanding the Jovanovich-induced turnover. One strong recommendation--eliminate all of the publishing people in top management roles that Sea World leaves in place.
What To Do About Sea World Texas

Some observations in this problem area:

1. San Antonio needs to catch up with Sea World Texas.
   a. not enough hotel rooms
   b. poor air service
   c. depressed economy
   d. low income area
   e. large Hispanic population.

2. There is a need to penetrate Dallas/Ft. Worth and Houston markets which requires investment spending in these markets.

3. The convention business should be targeted with special events--spouses and kids programs.

4. The park should probably operate on weekends only in off season to cut operating costs and overhead.

5. Live entertainment should be cut to reduce overhead.

7. Hotel and restaurants on adjacent property are needed.

8. Market the park as "best entertainment complex in Texas" instead of "we're going to make you smile," which is the present promotional theme.

9. Provide a comfortable transportation system in park. It is one mile from one end to the other. Trams could traverse perimeter road with modifications and stations.

10. Expand resident and "Summer Nights" pass program to increase in-park revenues.
11. Implement aggressive **discount** promotions with soft drinks, grocery chains, fast food, etc., etc.


**Other Comments**

1. **A PLACE TO MEET** (former Atlantis Restaurant)

Closed to the public by the Chairman due to poor earnings, it should be a viable profit center to the buyer of Sea World, with 1,000 seats and banquet facilities - 25,000 sq. ft. - a beautiful location on Mission Bay. It needs a good operator and a new approach.

2. **THE SAN DIEGO SEA WORLD MARINA**

A first class marina operation with 200 slips, and a part of the park operation. It should be noted that a beautiful hotel (Red Lion Inns) was planned on the land between the Atlantis Restaurant and Sea World Marina. It was just about ready to be built when Jovanovich killed it. Additional land for parking from the City is an ongoing request to be reckoned with.

3. **SEA WORLD RESEARCH INSTITUTE/HUBBS MARINE RESEARCH CENTER**

"Hubbs" was actually formed a year before Sea World was opened in 1964. It is a center of world renown for marine research. Its board and members comprise world leaders in marine research, academia, industry, as well as leaders from the San Diego community. Sea World has annually made a financial contribution to Hubbs, but equally important, is the in-kind contribution of its facilities. In effect, the world’s largest wet lab, that provides a first class research facility for mammals, fishes and birds.

The close association, or relationship between the Institute and Sea World (keeping the IRS regulations on self dealing in mind) has been a decided plus to Sea World. It has added credibility, prestige, and world-wide, not to mention local, acclaim and recognition to Sea World. The latest example is the selection
of Hubbs research group in Alaska to head-up the oil spill clean up operation for sea otter habitats.

The non-profit Sea World Research Institute has given the profit-making, commercial giant, Sea World, an image of great creditability and respectability.

The Institute association also helps to take away the "amusement park" image that the public often automatically attributes to Sea World.

The days of roller skating penguins and whales with sunglasses and hats has long gone. The animal protection and environmental groups are very strong and must be dealt with. Sea World's recognition as an expert in animal husbandry and research activities through the Institute is a hedge in this area.

Reference to your contractual agreements, in getting this information we have talked to no one now in Sea World.