

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**iVillage, Inc. (NASDAQ: IVIL)**

Initiating Coverage: Hold

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KEY CONSIDERATIONS:

- iVillage faces fierce competition. In the future, competition is likely to be stronger and key metrics indicate that the company might be currently overvalued.

- We believe that iVillage.com appeals to advertisers, consumers and merchants because it combines the following attributes to create a powerful environment for advertising and commerce

1. a highly-targeted and attractive demographic user group;
2. a high degree of member involvement; and
3. an interactive sponsorship model that integrates advertising and e-commerce into the content of each of the sites.

- Women are one of the principal driving forces behind the growth of the Internet. As of January 1998, women made up 45% of the online population. Women also represent an attractive demographic group for advertisers and businesses, controlling or influencing over \$2.4 trillion of the \$3.0 trillion in annual consumer spending in the United States. iVillage is continuing to attract women to its site by its aggressive e-commerce expansion - recently iVillage launched iMaternity .com which attracts expectant mothers.

Recent Price	\$35
52WK High	\$130
52WK Low	\$25.5
P/E	N/A
P/Book	5.86
P/Sales	26.78
Market Cap	\$852.92m
Shares Outstanding	24.37m
Float	3.7m
EPS	(\$)
1997	(-1.26)
1998	(-2.59)
1999	(-3.50)
2000	(-3.45)
Financials	
Current Ratio	6.99
Quick Ratio	6.9
Total Debt to Equity	0.00
LT Debt	0.00

PRICE GRAPH (Courtesy of Bloomberg.com)**COMPANY DESCRIPTION**

iVillage Inc. is a leading online women's network and one of the most demographically targeted online communities on the World Wide Web. iVillage, provides an easy-to-use, comprehensive destination tailored to the interests and needs of women aged 25 through 54. It provides advertisers and merchants with targeted access to women using the Web.

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iVillage's network currently consists of over 12 channels covering the leading topics of interest to women online, such as family, health, work, money, food, relationships, shopping and travel. iVillage offers a mix of hard information and gentle advice on everything from finding a man to removing wrinkles, filing a tax return and adopting children. It facilitates channel usage by providing common features and functionality within each channel, including experts, chats, message boards and services.

PRODUCTS

- Membership services group
- Personal home pages
- Chat rooms and message boards
- Free e-mail accounts
- Easy-to-access information and expert help that may be of interest especially to women including health and beauty, a pregnancy calendar, recipes etc. For example if a woman learns she has a disease she can (i) quickly access other members who lived through their experience and can provide both guidance and emotional relief (ii) access Healthwise Knowledgebase, a medical database, to research the topic (iii) select and purchase books on the topic.
- Instant Messaging Service
- Community resources

SOURCES OF REVENUES

Advertising

iVillage has derived a significant amount of its revenues to date from the sales of sponsorships and advertisements. iVillage had advertising revenue of \$6 million during the quarter ended March 30, 1999 compared with \$2.1 million a year earlier. In particular, Banner advertisement serves as a source of revenue. Banners are prominently displayed at the top of pages throughout the iVillage.com network. iVillage has recently created a discrete sales force to concentrate on banner advertising, which is sold primarily through agencies. iVillage currently has alliances and revenue sharing agreements with companies such as Amazon.com, Inc., N2K Inc. and 1-800-Flowers.

E-Commerce

iVillage has identified the opportunity to generate new e-commerce revenues by selling products and services that (i) are relevant to its members, (ii) fit with a current content area or provide an opportunity for future development and (iii) are appropriate for the Internet. iVillage also generates commerce revenues through revenue sharing agreements with leading merchants from which. iVillage collects a fixed fee and a share of sales from its members. E-commerce accounted for \$2.1 million in revenue for the quarter ended March 30, 1999 compared with \$520,000 in e-commerce sales in the year-earlier. The company's e-commerce sales come from its Baby Web site, which sells goods such as baby strollers, and its Astrology.net site, which sells customized astrological charts.

BUSINESS STRATEGY

iVillage's objective is to continue to be the leading online women's network. The strategy includes:

Building strong brand recognition

iVillage believes that building brand recognition of iVillage.com is critical to attracting and expanding its global Internet user base. iVillage's market leadership position has been driven by partnership and distribution agreements with other leading Internet-based companies. iVillage believes aggressive brand-building will become increasingly important to sustain its leadership position and has begun to allocate some of its branding expenditures toward offline branding on television and radio, through direct media spending and through strategic alliances with traditional media partners. iVillage believes that it can build offline brand awareness and attract traffic by leveraging on the reach of traditional media partners.

iVillage also plans to build brand recognition and develop new e-commerce opportunities through the marketing and packaging of its content. For example, in order to capture offline audiences, iVillage currently runs a syndicated column with Copley News Services based upon its content and has arranged to publish four books under the Parent Soup brand.

Aggressively growing membership and usage

iVillage intends to grow its membership base and increase member usage through member promotions, interactive services, community building and relationships with national women's organizations. iVillage now offers additional members-only services, such as personal home pages, instant messaging and multi-player games. Portions of its programming are transmitted only to member-only areas. Once the user has visited iVillage.com, iVillage's mission is to convert that user to a member. We believe that with these offers iVillage is well on its way to accomplishing this goal.

Enhancing and expanding the network

iVillage intends to offer additional functionality such as personalized home pages and to expand the network by developing additional channels and to expand the content of its existing channels. iVillage intends to develop these additional channels with sponsors and media partners in order to maintain low development costs while creating high utility for users.

Pursuing strategic acquisitions and alliances

iVillage plans to bolster its traffic, market share and revenues through strategic acquisitions that offer opportunities to increase market share in iVillage's content categories, offer high traffic or are sites categorized by high retention statistics. iVillage also intends to form alliances with larger companies to leverage their brands, while incorporating content that is consistent with the network. iVillage may also expand its revenue opportunities through alliances with other retailers, online service and content providers, e-commerce providers and advertisers.

Increasing sponsor and advertising revenues

iVillage views its relationships with its sponsors and advertisers as critical to its success. iVillage has been a pioneer in developing innovative sponsorship advertising relationships with leading brand marketers which go beyond traditional banner advertising to support broad marketing objectives, including branding, awareness, product introductions, online research and editorial integration. iVillage plans to continue to seek additional sponsorship arrangements, which have longer-term contracts and higher dollar values than typical banner deals, and independence from page views as the sole measurement basis. In addition, iVillage intends to continue to attract banner advertising and has recently created a discrete sales force to concentrate on this area of

the business, which is sold primarily through agencies. iVillage has recently increased the size of its sales force to concentrate on increasing iVillage's advertising and sponsorship relationships with leading brand marketers.

ALLIANCES

iVillage has built a strong brand through cross marketing arrangements with several companies to provide both online and offline advertising.

iVillage pursues strategic relationships to increase its access to online customers, build brand recognition and expand iVillage's online presence. iVillage has pursued strategic alliances to reach both online and offline customers. iVillage's principal strategic alliances and relationships include the following:

Alliances	Acquisitions	Description	Length of time	Market Value of acquisition/alliance
	FamilyPoint.com	Family networking Web site	-	\$26m
	Lamaze publishing Company	Multi-media organization providing education for expectant mothers	-	\$86.7m
	Online Psychological Services Inc	Online health community	-	\$25m
IMaternity .com		Maternity clothing and products		\$15.5m
	Ibaby.com	Baby clothing and gifts	-	\$11m
	Astrology.net	Internet content provider	-	\$21m
	Netpulse.com	Upscale health and fitness website	-	
IParty		Shopping channel		
NBC		Broadcasting Company(advertising and promotion spots)	Until 2001	4,889,030 shares of Series E convertible Preferred Stock
AOL		Internet Service Provider(Ivillage's channels carried)	Expires Dec 31, 2000	
AT&T		Telecommunications provider	2yrs (beginning October 1998)	iVillage promotes and markets AT&T telecommunication services In return, AT&T displays a text link for iVillage.com on the AT&T WorldNet Service and promotes and markets iVillage.com through AT&T television, mass media marketing or other mass media.

In addition, iVillage created Armchair Millionaire through an alliance with Intuit Inc. and created the Book Club Channel, which provides content and offers selected books for sale through an agreement with Amazon.com

COMPETITION

The number of Web sites competing for the attention and spending of members, users and advertisers has increased and is expected to continue to increase. With no barriers to entry, iVillage expects competition to intensify.

iVillage competes for members, users and advertisers with the following types of companies:

- online services or Web sites targeted at women, such as women.com, homearts.com, Microsoft Corporation's womencentral.msn.com, condenet.com and Oxygen Media's Web sites. Women.com partnership with Hearst's HomeArts.com gives it a very significant competitive advantage when it comes to delivering numerous women's magazines as well as a stake in the women-oriented Lifetime cable channel.
- Web retrieval and other Web "portal" companies, such as Excite, Inc., Infoseek Corporation, Lycos, Inc., Yahoo! Inc, etc. Many of which have longer operating histories, have significantly greater financial, technical and marketing resources, greater name recognition and larger existing customer base. Such competitors can advertise more extensively and aggressively, hence making themselves more attractive to potential employees, partners, commerce companies, advertisers and third party content providers.
- Publishers and distributors of traditional media, such as television, magazines and radio. Disney, CBS and NBC have already made important acquisitions of or investments in Internet companies.

iVillage's response to competition is the strategy that the primary competitive factors in creating community on the Internet are functionality, brand recognition, member affinity and loyalty, demographic focus, variety of value-added services, ease-of-use, quality of service, reliability and critical mass.

Company	Strengths	Weaknesses
iVillage	Number 1 women's Network Competent customer service First of it's kind to go public Aggressive promotion	Targets one particular segment as opposed to whole internet market Not profitable
Yahoo!	Great name recognition Very user friendly	No high-speed connection Weak e-commerce
Excite	At Home's cable reach Ability to deliver local content	Needs to exploit At home's high speed
Lycos	Access to USA's TV audience Tripod (it's subsidiary) gets repeat users	Not considered a first rate engine
Infoseek	Disney's marketing machine	Weak e-commerce
Women.com	Aggressive promotion Alliances with magazine chains Good user interface	Still private. Limited funds
Oxygen Media	Paul Allen's investments Backing of Oprah Winfrey Cable deals / cable launch	Low quality content
Womencentral.msn.com	Backed by Microsoft Alliance with Women.com	Fewer channels

The above table compares iVillage with its main competitors. We believe that iVillage's greatest competitive advantage is being the first women's network to go public and trying to maintain its lead in the very important online women market. However, as the above table shows, competition is strong and should increase, and this increases the uncertainty of its future performance.

RISK FACTORS

- iVillage is a new company with limited operating history, therefore, it could have difficulty in achieving the following :
 - respond effectively to competitive pressures.
 - increase awareness of its brand
 - attract, retain and motivate qualified personnel

- Possible government regulation, including future taxation of internet commerce
- Risk of changing technology - this is characterized by rapidly changing technology. Difficulty might be encountered while developing, introducing and marketing new products

FINANCIALS

	1997	1Q98	2Q98	3Q98	4Q98	1998	1999E	2000E
Revenues	\$6,019	\$2,200	\$2,638	\$4,288	\$5,886	\$15,012	\$38,000	\$75,000
Production, Product and Technology	\$7,606	\$2,657	\$3,766	\$3,985	\$4,113	\$14,521	\$30,400	\$48,750
Sales and Marketing	\$8,771	\$4,870	\$7,184	\$7,877	\$8,592	\$28,523	\$45,600	\$52,500
General and Administrative	\$7,841	\$2,145	\$2,061	\$3,606	\$2,800	\$10,612	\$22,800	\$33,750
Depreciation and Amortization	\$2,886	\$1,120	\$1,538	\$1,386	\$1,639	\$5,683	\$30,400	\$45,000
Total Operating Expenses	\$27,104	\$10,792	\$14,549	\$16,854	\$17,144	\$59,339	\$129,200	\$180,000
Loss from Operations	(\$21,085)	(\$8,592)	(\$11,911)	(\$12,566)	(\$11,258)	(\$44,327)	-91200	-105000
EPS	-1.26	-0.51	-1.85	-0.72	-0.66	-2.59	-3.5	-3.45
Primary Wght.Share Out.	16734.13	16847.06	6438.378	17452.78	17057.58	17114.67	26057.14	30434.78
<u>Margin Analysis</u>								
COGS Margin	126.4%	120.8%	142.8%	92.9%	69.9%	96.7%	80%	65%
S&M Margin	145.7%	221.4%	272.3%	183.7%	146.0%	190.0%	120%	70%
G&A Margin	130.3%	97.5%	78.1%	84.1%	47.6%	70.7%	60%	45%
D&A Margin	47.9%	50.9%	58.3%	32.3%	27.8%	37.9%	80%	60%
Operating Margin	-350.3%	-390.5%	-451.5%	-293.1%	-191.3%	-295.3%	-240.0%	-140.0%
<u>Growth</u>								
Total Revenues		-0.07%	19.9%	62.5%	37.3%	149.41%	153%	97%

Revenue. In our income statement increasing revenues reflect increasing sponsorship and advertising revenues also due to increasing traffic. The enhancement of content on iVillage's Web sites, the development of iVillage's e-commerce strategy, primarily through its investment in iBaby are all contributing factors. Sponsorship and advertising revenues accounted for approximately 74% of revenues for the 6 months ended June 30, 1999. iVillage is aggressively pursuing its e-commerce strategy. We expect revenues to grow further as more traffic is anticipated. Also, as iVillage develops, the alliance with Astrology.net and acquisition of a minority interest in iBaby should further contribute to the revenues growth.

Operating Expenses

Production, Content and Product. Production, content and product expenses consist primarily of salaries, payroll taxes and benefits and expenditures related to editorial content, community management and support personnel, technology, software development and operations expenses, and product costs related to merchandise sales. As iVillage expands, we expect that the figure will also increase. Production, content and product expenses decreased as a percentage of revenues, because of the rapid growth in revenues relative to the growth in iVillage's cost structure. Significant investments in technology and content development are required to remain competitive and, therefore, it is expected that production, content and product expenses will continue to increase in absolute dollars for the foreseeable future. With more e-commerce transactions expected, we expect that product cost will also be increased. With competition becoming more fierce from its rivals - women.com and womencentral.msn.com, we expect that iVillage will need to channel a significant portion of finance into R&D in order to remain No. 1.

Sales and marketing. Sales and marketing expenses consist primarily of costs of distribution agreements, salaries, payroll taxes and benefits for sales and marketing personnel, commissions, advertising and other marketing related expenses. The dollar increase in sales and marketing expenses so far was primarily due to expanded distribution agreements, increases in advertising expenses related to iVillage's branding campaign and the hiring of additional sales personnel. As iVillage seeks to aggressively promote itself and become a brand, we expect these expenses to increase, even though not as fast as its revenues.

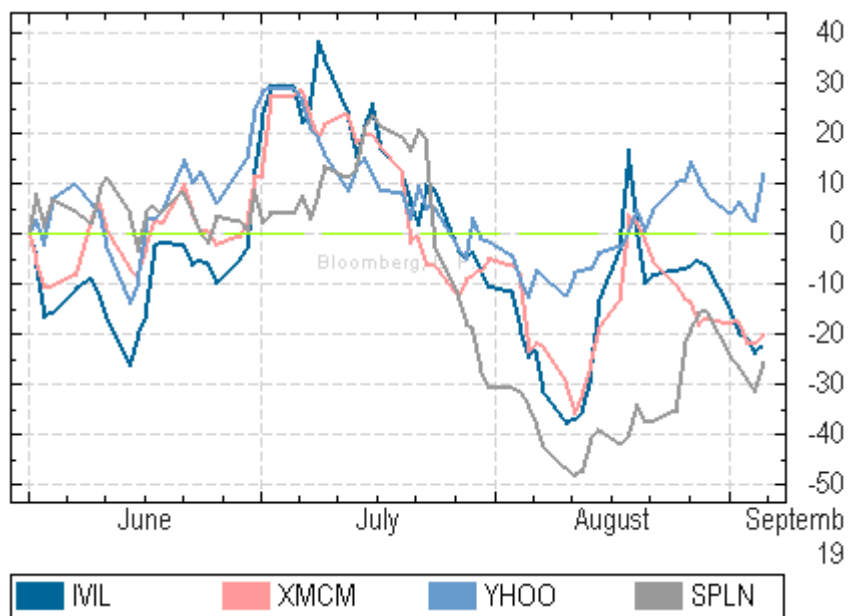
General and Administrative. General and administrative expenses consist primarily of depreciation and amortization, salaries, payroll taxes and benefits and related costs for general corporate functions, including executive management, finance, facilities, legal and fees for other professional services. Thus far, general and administrative expenses have decreased as a percentage of total revenues, because of the disproportionate growth in revenues relative to the growth of general and administrative expenses. We expect iVillage to incur additional general and administrative expenses in absolute dollars as iVillage continues to hire personnel and incurs expenses related to the growth of the business and its operations as a public company. We believe that if iVillage wants to stay competitive, it is imperative that they attract talented and skilled employees. Therefore, we expect General and administrative margins to stay near 50% over the next two years.

Income Taxes. For tax reporting purposes, iVillage has operating loss carryforwards available to offset future taxable income. iVillage's federal net operating loss carryforwards expire beginning 2012.

Depreciation and Amortization. We expect this expense to be important in the future due to the contributions of the amortization of goodwill from the company's acquisitions.

A RELATIVE APPROACH TO VALUATION

Relative Performance of various Portals



Price Performance

The above graph shows that during iVillage's lifetime as a publicly traded entity, the internet sector has been moving mostly downward, due to overvaluation and inflationary fears, and

iVillage has gone down to the current P/S levels which are more in line with the P/S levels of its competitors. The company's stock is correlated to the sector.

Stock	Recent Price	Market Value	Q/Q Growth%	P/S	Gross Margin	Key Metric	Price(million)/ Millions of page views per month
IVIL	35	852.85	10%	26.78	30.45%	102 million page views per month	8.36
SEEK	31	1,939.2	-2%	13.53	67.66%	1,350 million page views per month	1.4
LCOS	44.75	3,904.8	15%	28.51	79.76%	1,800 million page views per month	2.2
YHOO	155	40,144	13%	110.13	85.02%	7,050 million page views per month	5.69
SPLN	24.5	557.35	19%	12.48	48.53%	264 million page views per month	2.1
STRM	44	2,517.7	-51%	70.5	60%	60 million page views per month	41.96
TGLO	10.62	281.88	14%	14.81	58.38%	10.2 million visitors per month	27.6
XMCM	37.62	682.14	26%	26.9	55.8%	6.9 million members	Lower than 100

Price to Sales Ratio

As shown in the table above, iVillage is trading with a P/S ratio close to 26.28 which is close to the average P/S for web communities, that is, the average P/S of TGLO and XMCM. Furthermore, iVillage's P/S of 26.78 is similar to that of the average portal. (e.g LYCOS, but not YHOO) which is around 28.

More importantly, it should be noted that there is a wide range for P/S for specialized portals like iVillage. For example, for the sports portal, SPLN, the P/S is 12.48 and for the Latin portal, STRM, the P/S is 70.5. Therefore, although iVillage is within the average ranges, it is difficult to value iVillage on the basis of P/S alone.

Price(market cap)/monthly page views

As shown in the table above, iVillage has a price to monthly page view ratio of 8.5, which is above average, relative to those of its competitors. We believe that this higher ratio is difficult to justify even though iVillage is a first mover that offers an accurately targeted audience to the advertisers of its various channels. The competition with women.com, the other women portals and other portals in general is likely to become stronger. Therefore, we do not expect stock price appreciation in the short term and thus give the stock a short-term hold/sell rating. However, because iVillage is the leading portal focused on such a large and important demographic group, and is likely to remain a leader in this area, we believe that it should naturally benefit from the future increase in usage and users of the Internet. We thus give iVillage a long-term accumulate recommendation, as we expect it to be a reasonable long-term investment for investors with at least a 2 year time horizon after it bottoms out in the short term.