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**iVillage Inc (NASDAQ: IVIL)**

**Initiating Coverage: ACCUMULATE**

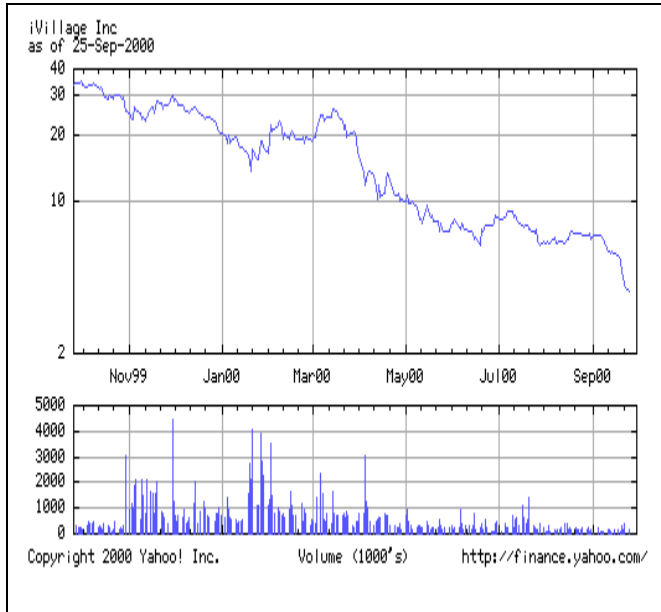
September 18, 2000

**KEY CONSIDERATIONS**

- The attractiveness of iVillage.com to advertisers, consumers and merchants can be attributed to the following:
  1. A large, growing user base with a highly attractive demographic profile; a high degree of member involvement within the network, through polls, message boards, chats and personalized interactive services, allowing advertisers to reach women when they are actively seeking communication and focused on a goal
  2. An interactive sponsorship model that provides advertising and commerce opportunities throughout iVillage.coms
  3. A single consistent brand
  4. Highly targeted and appealing demographic user base
- The impact of recent alliances, acquisitions and divestitures on iVillage.com's business and financial condition. In particular to be noticed is Lamaze Publishing Company, Inc. that reaches more than 75% of all women giving birth in the United States through its magazines, videos and Newborn Channel, its satellite television network which broadcasts in over 900 hospitals in the United States.
- The Sale of iBaby commerce assets to Babygear.com in an effort to focus attention on company's profitability and the build up of a stronger media based revenue model.

Recent Price	\$6.13
52WK Low	\$5.25
52WK High	\$38.88
P/E	N/A
P/Book	0.76
P/Sales	2.42
Market Capitalization	\$206.07M
Shares Outstanding	29.70 M
Float	16.60 M
Avg. Daily Volume (3-month Average)	0.28 M
<b>EPS</b>	
1998A	\$2.59
1999A	\$5.58
2000E	\$3.22
Current Ratio	2.63
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$77.8 M

**ONE-YEAR PRICE AND VOLUME GRAPH**



iVillage Inc., The Women's Network, is the leading online destination targeted at women and one of the most demographically focused communities on the Internet. iVillage.com is an easy-to-use, comprehensive network of web sites tailored to the interests and needs of women aged 25 through 54. As an online media company, iVillage provide advertisers and merchants with targeted access to women using the Internet. The Company's network of sites consists of 17 content specific channels and several shopping areas. The channels cover the topics of deepest interest to women, such as family, health, work, money, food, computers, relationships, shopping, travel, pets and astrology. iVillage facilitates network use across channels by providing common features, positioning and functionality within each channel and across the network, resulting in a consistent and strongly branded environment.

This report was prepared by Mithun Vora, David Rivas, Ph.D. and Priya Mehrotra.

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## **Products and Services**

- 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.
- Instant Messaging Service
- Community resources
- E-commerce
- Content licensing and syndication
- Satellite television through the Newborn Channel
- Print media
- Direct marketing
- Video production
- Sampling

## **Management**

On April 26, 2000, iVillage Inc. announced that Craig Monaghan, the Company's CFO since June 1998, has resigned to become CFO of Autonation, Inc. Scott Levine, Vice President, Controller & Chief Accounting Officer at iVillage, will serve as interim CFO while a search is conducted.

On July 27, 2000, iVillage Inc announced that Doug McCormick, President of iVillage, had been elevated to Chief Executive Officer, effective August 1<sup>st</sup>, 2000. Candice Carpenter, current CEO, will serve as Chairman of the Board. Ms. Carpenter will continue to be involved in the company's long-term strategic direction including developing global partnerships, building corporate alliances and leveraging the brand into other media. Mr. McCormick will take over the full management and operations of the company.

## **Sources of Revenues**

Revenues from continuing operations were \$19.4 million and \$37.5 million for the three and six months ended June 30, 2000, respectively, which represents an increase of 202% and 235%, respectively, when compared with the corresponding periods in 1999. The increase in revenues was primarily due to our ability to generate significantly higher sponsorship and advertising revenues during the 2000 period and the acquisition of Lamaze Publishing in the third quarter of 1999.

**Advertising:** Sponsorship, advertising and other revenues were \$17.7 million and \$34.3 million for the three and six months ended June 30, 2000, respectively, compared to \$6.0 million and \$10.7 million for the corresponding periods in 1999. The increase in sponsorship, advertising and other revenues was primarily due to an increase in the number of impressions sold, an increase in the number of sponsors advertising on our Web sites during the 2000 period, and from the acquisition of Lamaze Publishing. Sponsorship, advertising and other revenues accounted for approximately 91% and 92% of total revenues for the three and six months ended June 30, 2000, respectively. Although no one advertiser accounted for greater than 10% of the Company's total revenues for the three or six months ended June 30, 2000, the five largest advertisers accounted for 26% and 23% of total revenues, respectively. The five largest advertisers accounted for 35% and 29% of total revenues for the three and six months ended June 30, 1999, respectively.

**Barter:** Sponsorship and advertising revenues also include barter revenues, which represent exchanges by iVillage of advertising space on their web sites for reciprocal advertising space or traffic on other websites. Typically, these barter transactions have no impact on the Company's cash flows and results of operations. Barter transactions enable iVillage to continue to build strong brand recognition as part of their overall business strategy without expending cash resources. Included in sponsorship and advertising revenues are

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barter transactions, which accounted for approximately 5% of total revenues for the three and six months ended June 30, 2000, respectively, compared to 13% and 15% for the comparable periods in 1999, respectively

**E-Commerce:** iVillage generates commerce revenues by selling products or services that have a high degree of relevance to their members and fit within a content area or provide an opportunity for future content development. 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. The Company also generates commerce revenues through revenue sharing agreements with leading merchants from which it collects a fixed fee and a share of sales from its members. Commerce revenues from continuing operations accounted for \$.6 million, or 3% of total revenues, for the three months ended June 30, 2000, and \$1.1 million, or 3% of total revenues, for the six months ended June 30, 2000, compared to \$.4 million and \$.5 million, or 7% and 5% of total revenues for the comparable three and six month periods in 1999, respectively. Astrology.com and iMaternity.com brings iVillage a referral and commerce site that is appealing to their core demographic of women, represents one of the best customer acquisition tools as demonstrated by strong performance in online media, and a vehicle to drive repeat visits to iVillage through the use of daily horoscopes and maternity products and information. Astrology.com has also created an interactive commerce system that provides instantaneous, digital astrology reports.

**Licensing:** Included in revenues are fees received from the licensing of portions of iVillage's content, which accounted for approximately 6% of total revenues for the three and six months ended June 30, 2000, respectively. iVillage did not recognize any licensing fee revenue for the comparable periods in 1999.

### **Business Strategy**

The objective of iVillage is to be the premier online destination targeted at women. iVillage has pursued acquisitions which, among other things, give iVillage new vehicles to reach and capture their target audience, provide new solutions for advertisers and add to their ability to grow iVillage's overall business. Key elements of iVillage's strategy are as follows:

#### BUILD STRONG BRAND RECOGNITION

iVillage believes that building brand recognition of iVillage.com is critical to attracting and expanding their 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 their leadership position and have begun to allocate some of the branding expenditures toward offline branding on television and radio, through direct media spending and through strategic alliances with traditional media partners. On August 2, 1999, iVillage announced a \$40 million marketing campaign, \$28.5 million of that was incremental to iVillage's existing plan, intended to establish iVillage.com as the brand leader and strengthen their competitive position. iVillage believes that they can build offline brand awareness and attract traffic by leveraging the reach of traditional media partners. iVillage also plans to build brand recognition and develop new commerce opportunities through the marketing and packaging of their content. For example, iVillage licensed portions of its online content to PlanetRx.com. In addition, iVillage currently runs syndicated columns with Copley News Services based upon iVillage's content and has published three books under the Parent Soup brand. iVillage is contemplating publishing additional books on a variety of topics in order to reach offline audiences. Lamaze Publishing also presents attractive opportunities for advertisers to have access to the majority of U.S. parents and prospective parents through one single source.

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### AGGRESSIVELY GROW MEMBERSHIP

iVillage intends to grow their membership base and increase member usage through member promotions, interactive services, community building and relationships with national women's organizations. The Company also plans to offer additional member-only services and to transition selected sections of their programming to member-only areas.

### ENHANCE AND EXPAND THE NETWORK

iVillage intends to expand the network by developing additional channels and expanding the content of existing channels. In addition, 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. iVillage's acquisitions of OnLine Psychological Services, Inc. ("OnLine Psych"), Lamaze Publishing and Family Point Inc. in 1999 allows iVillage to expand their network through a strong brand, expert content, and audio and video content which increases iVillage's online content to women.

### PURSUE STRATEGIC ACQUISITIONS AND ALLIANCES

iVillage plans to continue to bolster its traffic, market share and revenues through strategic acquisitions that offer opportunities to increase market share in their content categories, offer high traffic or are sites categorized by high retention statistics. In 1999, iVillage made a number of strategic acquisitions to further this goal. These include:

- OnLine Psych, one of the largest online health communities focused on mental health
- Lamaze Publishing, a multimedia provider of education information to expectant and new mothers
- Family Point, a leading online meeting place for families, friends and groups with similar interests

iVillage also intends to form alliances with larger companies to leverage their brands, while incorporating content that is consistent with the network. On February 15, 2000, iVillage announced a venture with Unilever plc where both parties formed an independently managed company to provide women with an unbiased, comprehensive website for their total beauty needs. Unilever and iVillage plan to provide an aggregate \$200 million in cash, intellectual property, marketing and other resources. Unilever will provide capital as well as sponsorship and promotional initiatives. iVillage will provide its Beauty channel, capital, intellectual property, services and promotion.

### INCREASE SPONSOR AND ADVERTISING REVENUES

iVillage views relationships with their sponsors and advertisers as critical to their 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 brand promotion, awareness, product introductions, online research and the integration of advertising with editorial content. 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. Through their acquisition of Lamaze Publishing, iVillage also offers advertising opportunities in addition to their network over multiple platforms such as satellite television, video and print.

### GENERATE E-COMMERCE REVENUES

iVillage intends to identify new commerce, revenue and acquisition opportunities that enhance iVillage.com by offering transaction services in categories that:

- have high degree of relevance to iVillage.com members
- are appropriate for the Internet
- fit with or complement a current iVillage.com content site

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iVillage also generates e-commerce revenues through agreements with leading merchants interested in targeting iVillage.com members. These merchants receive exposure through banner advertising, special content and promotional offers in exchange for which iVillage generally collects a fixed fee and a share of revenue from sales to iVillage.com users. In addition to enhancing user retention, these retailing opportunities can be used to identify valuable purchasing trends that can be used in future advertising and commerce.

## **Industry**

### GROWTH OF THE INTERNET AND ONLINE COMMERCE

The Internet has emerged as a significant global communications medium, enabling millions of people to share information and conduct business electronically, and providing advertisers and businesses with an attractive means of marketing and selling their products and services. International Data Corporation estimates the number of users accessing the web will increase from approximately 142 million at the end of 1998 to approximately 502 million by the end of 2003. According to International Data Corporation, the amount of commerce conducted over the web will top \$1 trillion by 2003. Forrester Research, a research firm that analyzes the future of technological change and its impact, estimates that the amount spent on online advertising in the United States is expected to increase from approximately \$2.8 billion in 1999 to approximately \$22.2 billion by 2004. iVillage's page views have grown to a monthly average of 166 million for the quarter ended June 30, 2000.

### WOMEN'S INCREASING USE OF THE INTERNET AND THEIR IMPORTANCE IN THE ECONOMY

Women represent an attractive demographic group for advertisers and businesses. According to Jupiter Communications, a new media research firm that specializes in online research and analysis, 48% of the Internet audience was female as of January 1999. This trend is important to advertisers because women are estimated to have disproportionate control or influence over consumer spending in the United States. For example, according to a November 1997 Advertising Age article, women controlled or influenced 80% of all purchase decisions. Although women are underrepresented in the online spending category, accounting for only 30% of online sales in 1998, according to Jupiter Communications, this gap is expected to narrow over the next several years and grow to approximately 48% by 2002.

## **Competition**

The market for members, visitors and Internet advertising is new and rapidly evolving, and competition for members, visitors and advertisers is intense and is expected to increase significantly in the future. With no substantial barriers to entry, iVillage expects that competition will continue to intensify.

iVillage believes 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

Other companies or sites, which are primarily focused on targeting women online, include Women.com Networks, Oxygen.com and condenet.com, as well as web sites targeted to categories such as health. iVillage also competes with e-commerce companies targeting children less than three years of age such as eToys, Inc. and its wholly-owned subsidiary, BabyCenter, Inc.

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In addition, iVillage could face competition in the future from traditional media companies, a number of which, including Disney, CBS and NBC, have recently made significant acquisitions of or investments in Internet companies. Further, there can be no assurance that competitors and potential competitors will not develop communities that are equal or superior to iVillage's or that achieve greater market acceptance than their community.

iVillage also competes with traditional forms of media, such as newspapers, magazines, radio and television, for advertisers and advertising revenues. iVillage believes that the principal competitive factors in attracting advertisers are the amount of traffic on their web sites; brand recognition; the demographics of our members and visitors; the companies ability to offer targeted audiences; and the overall cost-effectiveness of the advertising medium offered by iVillage.

Many of iVillage's current and potential competitors, including developers of web directories and search engines and traditional media companies such as Excite, Inc., Infoseek Corporation, Lycos, Inc., Yahoo! Inc, etc., have longer operating histories, significantly greater financial, technical and marketing resources, greater name recognition, and larger existing customer bases. These competitors are able to undertake more extensive marketing campaigns for their brands and services, adopt more aggressive advertising pricing policies and make more attractive offers to potential employees, distribution partners, commerce companies, advertisers and third-party content providers.

Several major publishing companies produce products that are directly competitive with our magazines. Time Warner, Gruner and Jahr and Primedia all publish various pre- and post-natal publications. Disney Publishing and Children's Television Workshop also publish general parenting magazines. All of these publishers have substantially greater marketing, research and financial resources than iVillage.

While iVillage's Lamaze Publishing instructional videos and the Newborn Channel currently have no direct competitors, advertisers in this marketplace are heavy users of daytime network television and cable television networks targeted to young parents. The broadcasting companies that provide such opportunities have invested substantial amounts in programming, sales and marketing and are much better known to advertisers than Lamaze Publishing and the Newborn Channel.

COMPANY NAME	STRENGTHS	WILLAGEAKNESSES
<b>iVillage.com</b>	# 1 Women's Network First of its kind to go public Competent Customer service and high member involvement Aggressive Promotion	Not Profitable Targets only one demographic user group thereby limiting reach
<b>Yahoo!</b>	Strong brand recognition Strong track record and large financial and technical resources Strong Alliances	Relatively weak e-commerce
<b>Terra Lycos</b>	Repeat customers for its subsidiary 'Tripod' Access to USA's TV audience	Not a first rate engine Weak e-commerce
<b>Infoseek</b>	Large marketing resources Brand recognition as 'Disney's marketing machine'	Weak e-commerce Weak market share as engine
<b>Oxygen Media</b>	Oxygen's investors include ABC, AOL, Europ@web, Harpo (Oprah Winfrey), LVMH, and VulcanVentures.	Poor product development Low content quality Privately owned.
<b>Women.com Networks</b>	Strong alliances with Magazine chains. (Hearst magazines own 47% of Women.com networks) Aggressive promotions Well developed user interface	Weak market share
<b>Lifetime</b>	Strong Brand name Large subscriber base Good content quality	Lack of demographic focus. Inadequate Marketing efforts
<b>Womencentral.msn.com</b>	Backing of Microsoft Alliances with women.com	Fewer Channels

As can be seen from the above table iVillage faces strong competition in the fast changing Internet industry. It is in our opinion that iVillage has competitive advantages in being the first most highly targeted women's network to go public and efforts to cater to the high growth potential in the online women's marketplace. As shown by the above table there can be no assurance that iVillage will be able to compete successfully against current or future competitors or that competitive pressure faced by iVillage will not have a material adverse effect on their business, results of operations and financial condition.

## Alliances

iVillage pursues strategic relationships to increase their access to online customers, build brand recognition and expand their online presence. Historically, iVillage has pursued strategic alliances to reach online customers but now they have begun to shift their focus to building offline brand recognition and to increasing access to offline customers.

- iVillage acquired Online Psychological Services Inc for a reported \$25 million. Onlinepsych.com is a one of the largest online health communities focused on mental health

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- Acquired Lamaze Publishing Company for an indicated purchase price of \$86.7 million. Lamaze Publishing is a leading multi-media organization providing educational information to the expectant and new mother-parenting sector
  - Acquired Familypoint.com, one of the leading online meeting place services for families, friends and groups with similar interests for approximately \$26 million. Through FamilyPoint.com, consumers can become members of multiple, private and secure family groups or clubs free of charge and easily adds new members through e-mail
  - iVillage formed a strategic relationship with PlanetRx.com, a leading Internet healthcare destination, to create an online resource for the purchase of prescriptions, over-the-counter medications and vitamins. The terms of the deal include a three-year sponsorship agreement and a two and a half-year content license agreement in which PlanetRx.com will pay iVillage an aggregate \$22.5 million to be the exclusive online retailer for iVillage. In addition, iVillage made a \$7.5 million equity investment in PlanetRx.com
  - iVillage formed strategic alliances with 8 well known retailers to launch its e-commerce retail program "Shopping solutions." The sponsorship agreement totaled \$36.1 million and terms vary in length upto 3 years. Gap.com, Garden.com, Macys.com, Nordstrom.com, Gloss.com, Petopia.com, PlanetRx.com and Tavolo.com are the prominent retailers to have entered this partnership
  - Unilever and iVillage plan to provide \$200 million in cash, intellectual property, marketing and other resources to form an independently-managed company to provide women with a highly focused community, an array of interactive, customized online services, beauty and personal care products, and personalized product recommendations. Unilever will provide capital as well as sponsorship and promotional initiatives. iVillage will provide its Beauty Channel, technology and promotional consideration
  - iVillage formed a strategic alliance with NBC to capture promotional and advertising spots in return for 4,889,030 shares of Series E convertible Preferred Stock. The contract is valid until 2001
  - iVillage formed an alliance with telecommunication provider AT&T where 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. Contract ends October 2000
  - iVillage announced the launch of iVillage UK, a joint venture with Britain's largest retailer, Tesco PLC. The iVillage UK launch is part of iVillage's previously announced strategy to build a global brand, increase asset value, develop substantial future earning streams, and maintain brand control, all without delaying the company's path to profitability

### **Divestiture**

- In June 2000, the Company decided to discontinue the operations of its iBaby Inc. subsidiary. The Company recorded a loss on disposal of approximately \$7.3million, which includes an estimated loss on sale of assets of \$4.2 million and loss from operations during the phase-out period of \$3.1 million. Under the Asset Purchase Agreement dated July 6, 2000, the Company received a convertible promissory note of approximately \$9.9 million, subject to post closing adjustments. The note matures on January 6, 2003 and the conversion rate, conversion timing, and the method of repayment are contingent upon Babygear.com consummating additional financing



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## Key Risk Factors

- Limited operating history and difficulties encountered in new and rapidly evolving markets. These risks include iVillage's ability to attract a larger audience for their online networks, increase brand awareness, attract advertisers from a variety of industries and maintain current and develop new strategic alliances
- iVillage lacks significant revenues and have recent and anticipated continuous losses because their strategy includes acquisitions of other businesses, acquisition expenses and any cash used to make these acquisitions will reduce available cash
- Inability to integrate operation from recent and future acquisitions due to the potential disruption of ongoing business, expenses associated with the transactions, the impairment of relationships with employees and customers as a result of any integration of new management personnel and the difficulty of maintaining uniform standards, controls, procedures and policies
- Government regulations and legal uncertainties could add additional costs to doing business in the Internet
- iVillage may not be able to attract sufficient amount of traffic and advertising if their channels are not carried by AOL
- Inability to respond to the rapid technological changes in the Internet industry

## Explanation of Financials

Revenues: Revenues from continuing operations were \$19.4 million for the three months ended June 30, 2000. The increase in revenues was primarily due to iVillage's ability to generate significantly higher sponsorship and advertising revenues during the 2000 period and the acquisition of Lamaze Publishing in the third quarter of 1999. Commerce revenues accounted for 3% of total revenues for the quarter end June 30, 2000 and did not include sales from iBaby.

The company signed 5 sponsorship deals over \$1 million each and added more than 30 new blue chip companies as sponsors, some of them being Bell Atlantic, Clairol, Mc Donald's, Oil of Olay etc, thereby validating its sponsorship model and providing security to a volatile internet advertising market. Revenue growth rates have been estimated to drop for 3rd Quarter, 2000 due to change in top management for which we have understandable concern. Departure of key executives may indicate internal conflicts for which we express a lower than normal sequential growth rate. It is important to point out that 4<sup>th</sup> quarter estimates are difficult to forecast because of 99 growth rates of 80% for the same quarter. Membership grew to 5.3 million and pageviews totaled 166 million in Q2. In our opinion both membership and pageviews are the building blocks for revenue growth, which will help further attract and retain blue chip sponsors. The sale of iBaby commerce assets on 6<sup>th</sup> July to Babygear.com is a positive move in our opinion as it will help eliminate unrelated risk and allow iVillage to concentrate on higher gross margin sponsorship and advertisement based revenue model. Commerce revenues were flat and are expected to be flat for the future. The company has declared that it will no longer breakout commerce revenues in their media revenue model. Commerce revenues can be expected to be 7% to 8% of total revenues in the foreseeable future. Growth rates will be subsequently lower for 2001 due to law of large numbers but we still expect revenues to grow at 62% for the fiscal year 2001.

Gross Margin: iVillage has reported solid gross profits for the quarter ended June 30, 2000 with a sequential growth of 7%. This can be largely attributed to the sale of iBaby Inc's e-commerce business and increased sponsorship arrangement with various blue chip companies. iVillage strong results also reflect the companies increased focus on profitability and development of a solid media based revenue model. Cost of revenues has been decreasing with better recruiting and the commission based model to the increasing number of

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affiliates. Significant increases in advertising, sponsorship and licensing arrangements have also contributed to decreases in the cost of revenues. It is in our opinion that the company will continue to generate stronger gross margins in the vicinity of 70% for the year ending Dec 2001 mainly because of a strong advertising revenue mode and decreasing cost of revenues.

Product Development & Technology Margin: Product development and technology expenses consist primarily of salaries, payroll taxes and benefits, related expenditures for support technology, software development and operations personnel, and an allocation of facility expenses, which is based on the number of personnel. With the companies technology infrastructure being fairly well established we expect product development expenses to increase moderately over the next two quarters and also for the following year 2001, as additional personnel costs related to creating and testing new channel concepts and tools used throughout the network of Web sites will need to keep innovating in the highly competitive internet information industry. Hence we believe it will grow by 7% for the year ended December 2001

Sales and Marketing Margin: Sales and marketing expenses consist primarily of costs related to distribution agreements, salaries, payroll taxes and benefits for sales and marketing personnel, commissions, advertising and other marketing-related expenses, and an allocation of facility expenses, which is based on the number of personnel. The dollar increase in sales and marketing expenses is primarily attributable to iVillage's aggressive advertising campaign on the Internet and television, including pursuant to their agreement with the National Broadcasting Company, Inc. ("NBC"). Sales and Marketing expenses have fallen by \$3million for quarter ended June 30, 2000 as compared to the quarter ended March 2000. Despite the lower spending, iVillage was able to increase traffic and thereby sponsorship to their site showing effectiveness of their marketing campaign. We expect sales and marketing expenses as a percentage of revenues to decrease to 44% for the year ending 2001 due to an effective marketing strategy and increased sponsorship based revenues.

General and Administrative Margin: General and administrative expenses consist primarily of salaries, payroll taxes and benefits and related costs for general corporate overhead, including executive management, finance, allocated facilities, and legal and other professional fees. The increase in dollar terms for general and administrative expenses was primarily due to an increase in salaries and benefits, recruiting costs, expenses incurred for international endeavors, allocation of costs associated with the Company's new office space, and the acquisition of Lamaze Publishing in August 1999. General and administrative expenses decreased as a percentage of total revenues as a result of the growth in advertising and sponsorship revenues. In our opinion this margin will fall close to 20% of total revenues for the year ending 2001 as total revenues will increase and personnel and infrastructure will be well established.

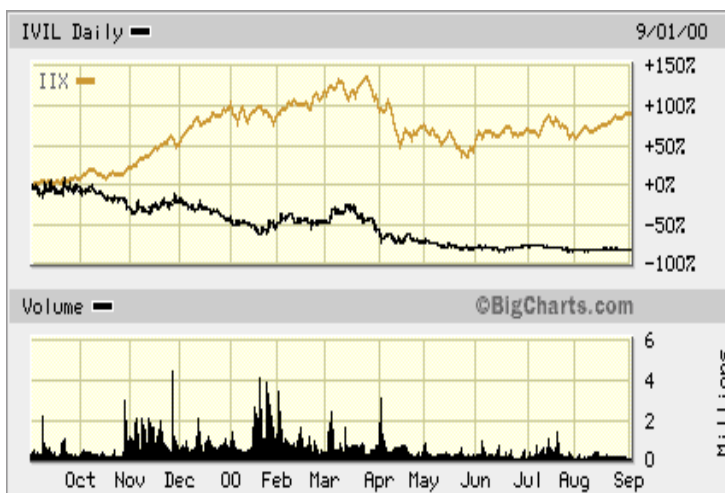
Cash: As of June 30, 2000, iVillage had approximately \$77.8 million in cash, cash equivalents and restricted cash. iVillage's capital requirements depend on:

- Market acceptance of its services
- The amount of resources the company devotes to investments in the iVillage.com network, including the acquisition of other entities
- The resources devoted to marketing
- The resources devoted to selling iVillage's services and brand promotions

In the management and our opinion we believe that existing cash balances are sufficient to enable iVillage to meet obligations for at least the next twelve months. We anticipate that iVillage will continue to evaluate possible investments in businesses, products and technologies, and continue to expand sales and marketing programs, any of which could reduce their liquidity.

## Valuation

The Internet sector is a very volatile market and companies within the sector have had even more volatile price histories. A historical price comparison between the Internet Index (IIX) and iVillage (IVIL) shows the volatile relationship between the two. The Internet Index and iVillage have moved in opposite directions since October 1999. The IIX has been gaining ground whereas iVillage stock price has seen a downward trend. The stock price did rally back up to a high of \$27 after the company posted extremely strong results at



the end of the 1<sup>st</sup> quarter of 2000. In the last 200 days the average price has been a modest \$14.25 and currently stands at \$6.94. This downward trend can be contributed to the corporation's lack of profitability and high spending. The price can be seen to consolidating between \$ range as the companies revenue model is showing signs of stability. With higher gross margins and lower Sales and Marketing spending company there are reasons to be positive but not overly optimistic. With revenue model looking intact there is reason to believe that the company will grow but only moderately.

The sector seems to be leveling off from being overvalued and fundamentals factors being the only basis on which to determine the value of a company.

### Comparative Analysis

<b>Stock</b>	<b>Price</b>	<b>Market Capitalization</b>	<b>Monthly PVs(Millions)</b>	<b>Price to Sales</b>	<b>Price/Monthly PV (Millions)</b>	<b>Gross Margin</b>
iVillage	\$6.94	\$206.07	166	2.92	1.241	61.34%
Yahoo	\$113.94	\$62590.36	20,400	80.71	3.068	84.85%
Women.com	\$3.38	\$157.92	155	2.99	1.018	30.36%
Lycos	\$74.63	\$8238.97	4,440	27.40	1.855	81.85%
<b>Average</b>		<b>\$17798.33</b>	<b>209.37</b>	<b>28.51</b>	<b>1.795</b>	<b>64.60%</b>

**Price to Sales Ratio:** As per the above table, the P/S levels of iVillage show that they are well below the sector average of 19.50. This can be attributed to large numbers of acquisition that have taken place in 1999 as well as early 2000 as well as the divestiture of iBaby. With revenues growing at an average of 70% annually and high gross margins of 61.34%, we believe that iVillage has a strong revenue model, which deserves recognition. There is nothing to justify iVillage's low valuation except for the fact that market sentiments are low and lack of profitability is the key concern.

**Key Metric Ratio:** iVillage.com's traffic grew 11%, to 166 million average monthly page views during the second quarter of 2000 compared to average monthly page views of 149 million in the first quarter 2000. Based on a custom Media Metrics report, reach has grown to 10.2% from 9.6% at the end of Q1 2000. As shown in the above table iVillage has a price to monthly pageview ratio of 1.241, which is close significantly close to competitors average. Excluding Yahoo, iVillage's price to key metric ratio is closer to the competition average of 1.371. It is equally important to recognize that iVillage is the first portal of its kind and targets a very specific demographic audience group as compared to many of its competitors. The closest competitor

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Women.com has an even lower price to key metric ratio of 1.018. This goes to suggest that the company is fairly valued and with unique visitors growing at a strong pace we should expect this ratio to go higher.

**Conclusion:** The Company's focus on profitability with the development of a strong media based revenue model continues to attract strong blue chip sponsors. Traffic as well as membership continues to grow at a healthy rate and we believe that it is a key to iVillage's ability to attract more blue chip sponsors. With large number of sponsors as well as iVillage's expansion into UK, we feel the company is on track for operating profitability in 2001. Relative to its competition iVillage is posting strong performances. The most direct competitor Women.com had revenues down 14% sequentially for quarter ending June 30, 2000 and also higher sales and marketing expenses as compared to iVillage (89% for women, 71% for iVillage).

Based on the key ratios explanation and management changes it is difficult to be enthusiastic at this juncture. Nevertheless, we believe that iVillage's business model has a strong media based focus and is improving. We believe that the stock represents a fairly reasonable value at current levels and revenues are expected to grow moderately with membership and reach growing at a moderate level as well. Hence it is in our opinion to give iVillage a rating of ACCUMULATE.

Income Statement	1997			1998			1999			2000E			1999			2000		
Revenues																		
Sponsorship, Advertising & other	6019	12451	35179	76985	129247	4690	5994	8209	16286	17561	17647	18706	23072					
Commerce, net		2561	9382	8802	9728	1774	2114	2516	2978	3201	1745	1850	2006					
Total Revenues	6019	15012	44561	85787	138975	6464	8108	10725	19264	20762	19392	20556	25078					
Cost of Revenues	5531	12403	22171	31206	46187	5306	4210	5808	6847	9238	6992	7288	7688					
Gross Margin	488	2609	22390	54581	92788	1158	3898	4917	12417	11524	12400	13268	17389					
Operating Expenses				0														
Product Development & Technology	2076	2118	5677	8261	9728	1281	1353	1488	1555	1889	2059	2056	2257					
Sales and Marketing	8770	28523	49379	48402	51421	7782	7852	14808	18937	13521	10991	11100	12790					
Sales and Marketing - NBC Expenses	0	0	17466	11107	9728	3106	4466	4605	5289	3292	2815	2500	2500					
General and Administrative	7841	10613	17880	26520	27795	4025	3847	4238	5770	7126	6456	6167	6771					
Depreciation & Amortization	2886	5683	29312	49374	51000	2854	4665	9250	12543	12583	11291	12500	13000					
Total Operating Expenses	21573	46937	119714	143663	149673	19048	22183	34389	44094	38411	33612	34322	37318					
Loss from Operations	(21085)	(44328)	(97324)	(89081)	(56884)	(17890)	(18285)	(29472)	(31677)	(26887)	(21212)	(21054)	(19928)					
Interest Income(Expense) net	(216)	591	4085	4751	2433	330	1182	937	1636	1558	1322	987	884					
Other Income(Expense) net	0	(504)	238	(7956)		0	0	129	109	161	(8117)		0					
Minority Interest	0	587	0	(3200)		0	0	0	0	0	0	(2200)	(1000)					
Net Loss	(21301)	(43654)	(93001)	(95486)	(54451)	(17560)	(17103)	(28406)	(29932)	(25168)	(28007)	(22267)	(20044)					
Fully Diluted EPS	(1.26)	(2.59)	(5.58)	(3.22)	(1.83)	(0.96)	(0.72)	(1.12)	(1.04)	(0.85)	(0.94)	(0.75)	(0.67)					
Shares Outstanding	16734	17114	20851	29700	29800	18295	23728	25430	28660	29630	29691	29700	29700					
<b>Margin Analysis</b>																		
Gross Margin	8.11%	17.38%	50.25%	63.62%	66.77%	17.91%	48.08%	45.85%	64.46%	55.51%	63.94%	64.55%	69.34%					
Cost of Revenues	91.89%	82.62%	49.75%	36.38%	33.23%	82.09%	51.92%	54.15%	35.54%	44.49%	36.06%	35.45%	30.66%					
Product Development & Technology	34.49%	14.11%	12.74%	9.63%	7.00%	19.82%	16.69%	13.87%	8.07%	9.10%	10.62%	10.00%	9.00%					
Sales and Marketing	145.71%	190.00%	110.81%	56.42%	37.00%	120.39%	96.84%	138.07%	98.30%	65.12%	56.68%	54.00%	51.00%					
Sales and Marketing -NBC Expenses	0.00%	0.00%	39.20%	12.95%	7.00%	48.05%	55.08%	42.94%	27.46%	15.86%	14.52%	12.16%	9.97%					
General and Administrative	130.27%	70.70%	40.12%	30.91%	20.00%	62.27%	47.45%	39.52%	29.95%	34.32%	33.29%	30.00%	27.00%					
Operating Margin	-350.31%	-295.28%	-218.41%	-103.84%	-40.93%	-276.76%	-225.52%	-274.80%	-164.44%	-129.50%	-109.39%	-102.43%	-79.47%					
Net Margin	-353.90%	-290.79%	-208.70%	-111.31%	-39.18%	-271.66%	-210.94%	-264.86%	-155.38%	-121.22%	-144.43%	-108.33%	-79.93%					
<b>Growth</b>																		
Total Revenue	N/A	149.41%	196.84%	92.52%	62.00%	N/A	25.43%	32.28%	79.62%	7.78%	-6.60%	6.00%	22.00%					
Cost of Revenues	N/A	124.25%	78.76%	40.75%	48.01%	N/A	-20.66%	37.96%	17.89%	34.92%	-24.31%	4.23%	5.50%					
Gross Profit	N/A	434.63%	758.18%	143.78%	70.00%	N/A	236.61%	26.14%	152.53%	-7.19%	7.60%	7.00%	31.06%					
Operating Expense	N/A	117.57%	155.05%	20.01%	4.18%	N/A	16.46%	55.02%	28.22%	-12.89%	-12.49%	-5.00%	8.73%					
Operating Income (Loss)	N/A	110.23%	119.55%	-8.47%	-36.14%	N/A	2.21%	61.18%	7.48%	-15.12%	-21.11%	-0.74%	-5.35%					
Net Income	N/A	104.94%	113.04%	2.67%	-48.79%	N/A	-2.60%	66.09%	5.37%	-15.92%	11.28%	-20.49%	-9.98%					
Fully Diluted EPS	N/A	105.56%	115.41%	-42.37%	-100.00%	N/A	-24.90%	54.97%	-6.50%	-18.67%	11.05%	-20.52%	-9.98%					