

**iVillage Inc. (NASDAQ: IVIL)****Update: Lower than expected 3Q Loss; striving to remain the leading women's network****Rating: MODERATE BUY**

January 28, 2001

**KEY CONSIDERATIONS**

- iVillage reported a lower-than-expected Q3 2000 loss while the company was expected to post far greater losses and less revenue as fears about online advertising spending loom over Internet companies
- Backed by a \$66 million investment, iVillage.com has teamed up with supermarket chain Tesco to launch an online community for women in the UK in December 2000
- Yahoo! Internet Life, the nation's leading consumer lifestyle magazine covering the Internet, rates iVillage.com the best women's network
- Two biggest competitors, Oxygen Media and Women.com, had substantial layoffs in December 2000; the entire industry is faced with revising cost structures
- iVillage launched Lamaze.com, the definitive site for childbirth education in October 2000

Recent Price	\$1.44
52WK High	\$27.31
52WK Low	\$0.63
P/E	N/A
P/Book	0.39
P/Sales	0.55
Market Capitalization	\$42.72M
Shares Outstanding	29.71M
Float	16.60M
<b>EPS</b>	<b>(\$)</b>
1997A	(-1.26)
1998A	(-2.59)
1999A	(-4.83)
2000E	(-2.45)
2001E	(-1.05)
Current Ratio	2.66
Quick Ratio	2.34
Total Debt to Equity	0.00
LT Debt	0.00

**ONE-YEAR PRICE AND VOLUME GRAPH****COMPANY PROFILE**

Established in 1995 and headquartered in New York City, iVillage Inc. is the leading online women's network 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.com provides advertisers and merchants with targeted access to women using

the Internet.

This report was prepared by Yenling Chen and Priya Mehrotra.

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## THE COMPANY

On October 25, 2000, iVillage.com has launched Lamaze.com, the definitive site for childbirth education. Lamaze.com was created to serve the needs of women from the time they begin thinking about having a baby through the first year of their newborn's life. The site offers rich content, personalized tools, expert advice and community support to provide women with an understanding of the natural childbirth process. Lamaze.com is the first Web property created following iVillage's purchase of the Lamaze Publishing Company in August 1999, which is now known as iVillage Integrated Media Inc. In addition to reaching out to new and expectant parents, the site provides useful materials for childbirth educators, maternity nurses, OB/GYNs, and pediatricians. Currently, iVillage estimates that its Lamaze Publishing Company, Inc. subsidiary reaches more than 75% of all women giving birth in the United States through its magazines, videos and Newborn Channel satellite television network.

Following the phenomenal success of iVillage.com, the no. 1 site for women in the US, iVillage announced on December 4, 2000 that it has formed a 50/50 joint venture with UK supermarket chain Tesco (OTC: TSCDY) for a UK version of the Web site. The iVillage UK web site will generate its revenue primarily through advertising and sponsorship, just like the US site. Tesco has contributed 12 million pounds (\$18M) in funding, and another 17 million pounds' (\$25.5M) worth of advertising. In return, Tesco will appear on iVillage.com as an anchor tenant, fulfilling online grocery orders.

*iVillage.co.uk* will provide clear, reliable information and a safe, monitored community to help women find answers and make important decisions. Advice is available across a wide range of subjects: from changing career, to voting in the next election, or having a baby. Content is divided into channels including Computers & Internet, Diet & Fitness, Food, Horoscopes & Astrology, Pregnancy & Baby, Relationships, Work & Career, and News & Politics. iVillage.co.uk will enable members to speak with one another 24 hours a day on topics relevant to the iVillage UK channels. Each community board will feature a community leader to moderate discussions and monitor the boards.

During 3Q 2000 iVillage has primarily derived its revenues from the sale of sponsorship and advertising contracts. Sponsorship and advertising revenues constituted 92% of total revenues for each of the three and nine months ended September 30, 2000. This compares to 92% and 94% for the comparable periods during the prior year, respectively. Included in sponsorship and advertising revenues are barter transactions which accounted for approximately 5% of total revenues for each of the three and nine months ended September 30, 2000, compared to 9% and 13% for the comparable periods in 1999, respectively.

## INDUSTRY OUTLOOK AND COMPETITION

In December 2000, iVillage's two biggest competitors, Women.com and Oxygen Media, had substantial layoffs. Women.com has had no layoffs since it was founded in 1992, however, it eliminated about 25% of its staff in December 2000 due to the net loss reported in 3Q 2000. Women.com's 3Q 2000 revenue was \$8.8 million, a drop from \$12.3 million in the second quarter. Its net loss was \$18.5 million, compared with a loss of \$10.3 million for the same quarter last year. Oxygen has failed to surpass Women.com and iVillage in popularity, and has also had difficulty getting its cable channel carried by operators. The company announced a handful of layoffs earlier this year. In December 2000, it again announced to lay off 10% of its workforce. The entire industry is faced with revising cost structures. Instead of announcing layoffs like its competitors, iVillage has and will continue to reduce its costs through several expense reduction initiatives targeted at certain expenses, including without limitation, reduced advertising, targeted staff reductions primarily through attrition, reduced Company employee benefit plan costs as well as other initiatives.

Furthermore, the competition in this industry has continued to expand, and we believe that iVillage's greatest competitive advantage in the United States is being the first women's network to go public and trying to maintain its lead in the very important online women market. However, with the launch of the UK site, iVillage also faces competition in the UK from several homegrown women's sites. Many have their own partners, either brick-and-mortar retailers or UK media giants. *Handbag.com*, which iVillage considers its biggest competitor, is a joint venture between Hollinger Telegraph New Media -- backed by Hollinger International, owners of the UK's Daily Telegraph -- and Boots, the ubiquitous British drugstore chain. The Web site claims some 320,000 unique visitors. A second competitor, *CharlotteStreet.com*, is

backed by Associated Newspapers, owners of the popular Evening Standard and Daily Mail. IPC, the publishers of fashion magazine Marie Claire and other women's titles, is behind *Beme.com*, yet another site for British women. 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. However, several UK women's sites, including CharlotteStreet.com and Beme.com, are still struggling. In our opinion, there is no significant threat to iVillage's development in UK. We expect iVillage to become the lead in the UK online women market as well.

## **STRATEGIES FOR GROWTH, ALLIANCES, and STRATEGIC PARTNERSHIPS**

iVillage's objective is to continue to be the leading online women's network. Its growth strategy is based upon building strong brand recognition, aggressively growing membership and usage, enhancing and expanding the network, pursuing strategic acquisitions and alliances, and increasing sponsor and advertising revenues. In the past few months, it has created agreements with EXP.com, Trellix, e-Commerce solutions, and Dynamic Logic. These alliances are important to iVillage's business growth because they allow the company to increase its traffic, market share and revenues.

- *EXP.com*: EXP.com, Inc. is the leading online marketplace for expert advice and services. Under the terms of the one-year strategic partnership, EXP is providing iVillage with experts and service providers in topics within the Business, Technology, and Personal Interests areas. EXP's highly qualified experts provide an excellent resource for iVillage users searching for one-on-one advice or additional information.
- *Trellix*: Trellix Corporation is the leading software and services provider for easy-to-create Web sites. Through this partnership, Trellix provides iVillage users with a Web site building tool that allows the creation of dynamic and complex Web sites free of charge. With the iVillage Web Site Builder, members can easily create and customize their own Web sites from dozens of different templates, including personal topics such as hobbies or family trees; online photo albums to share with friends and relatives; and specific vertical businesses, clubs, schools and organizations. In addition, iVillage offers a Web Site Resource Center where site builders can get useful ideas on improving or marketing their sites, and interact with other site builders through message boards and chats.
- *e-Commerce Solutions*: e-Commerce Solutions (ECS) is a leading e-commerce application service provider. ECS and iVillage together will manage a new performance-based e-commerce application that will enable iVillage to proactively monitor sales for its commerce partners. In addition, ECS will handle a portion of the e-commerce operations for the iVillage Web site, allowing iVillage continued concentration on its core media competencies, while remaining active on an e-commerce platform.
- *Dynamic Logic*: Dynamic Logic is a leading online research firm. This alliance focuses on measuring the effectiveness of online advertising. Using Dynamic Logic's patent-pending Ad Index product, iVillage will offer sponsors metrics on the branding effectiveness of sponsorship and advertising campaigns on the iVillage Network. Verizon Long Distance is the first customer with the foresight in utilizing this service to evaluate the effectiveness of its iVillage.com marketing efforts. This is another example of iVillage taking a proactive role in proving the effectiveness and impact of advertising on the site. In addition, this agreement provides iVillage with an additional source of revenue and offers partners quality research that addresses a key marketing question: to what extent does online advertising have branding value beyond the click?

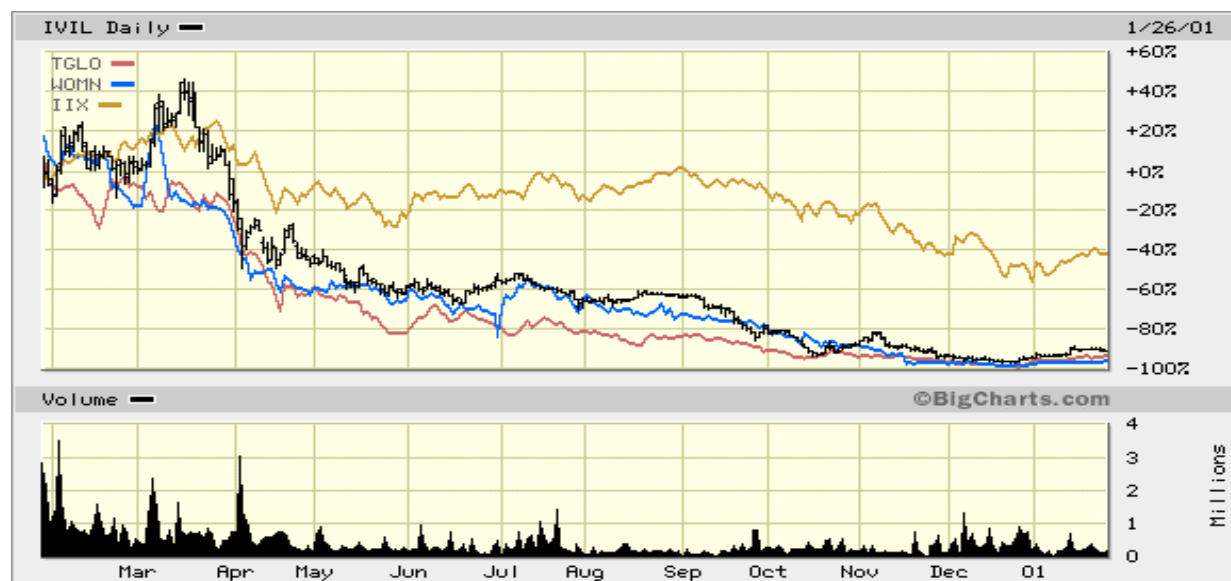
As a result, Yahoo! Internet Life, the nation's leading consumer lifestyle magazine covering the Internet, rated iVillage.com as the Best Women's Network on the Web in December 2000. We believe that these strategies have helped to make iVillage one of the most recognized brand names in the online women's network industry.

## KEY RISK FACTORS

Given tough Internet advertising market, iVillage faces risks associated with the inability to achieve the following:

- Attract a larger audience to its online network
- Increase awareness of its brand
- Strengthen user loyalty
- Offer compelling content
- Maintain its current, and develop new, strategic relationships
- Attract a large number of advertisers from a variety of industries
- Respond effectively to competitive pressures
- Continue to develop and upgrade its technology
- Attract, retain and motivate qualified personnel

## INVESTMENT OPINION



iVillage has had poor stock performance over the past few months. iVillage is down from its 52-week high of \$27.31, dropping over 50% since March, 2000. However, in December 2000, its stock price has been up to over \$1 from its 52-week low of \$0.63. This improved performance is a sign for future price increase. The chart above shows that iVillage mostly follows the trends of the Internet industry, and has about the average or slightly better returns within the web communities sector.

The current P/S ratio of iVillage, at 0.69, is average compared to P/S for others including, Yahoo (20.4), StarMedia Network (4.8), SportsLine.com (2.3), Theglobe.com (0.61), and Women.com (0.59). iVillage is slightly higher than Women.com, the company that is the most similar in terms of business model. Women.com is another women-communities web site, unlike Yahoo, StarMedia Network, SportsLine.com, and Theglobe.com, whose targeted customers are not just women. Therefore, it should be noted that there is a wide range P/S ratios for specialized portals like iVillage. Therefore, although iVillage is within the average ranges, it is difficult to value iVillage on the basis of P/S alone.

iVillage's 3Q00 gross margin, 64.4%, is slightly higher than the Industry's (48.84%) and the sector's (55.17%). We believe that gross margin will continue to grow for the 4Q00 and the next fiscal year, even though the combination of dot-com meltdowns, tumbling markets, and economic slowdown makes fourth quarter exceedingly difficult for iVillage. With its success in the launch of the UK web site and new strategic partnerships, we expect iVillage to make an upward movement from its presently low stock price. We, therefore, give the stock a **Moderate Buy** rating.

**iVillage Statement of Operations**

(in thousands of dollars)

	<b>1998A</b>	<b>1999A</b>	<b>1Q00A</b>	<b>2Q00A</b>	<b>3Q00E</b>	<b>4Q00E</b>	<b>2000E</b>	<b>2001E</b>
<b>Revenues</b>	15,012	44,561	20,762	19,392	20,191	19,691	80,000	176,000
Cost of Revenue	12,403	21,768	9,238	6,992	7,196	6,574	30,000	15,840
<b>Gross Profit</b>	2,609	22,793	11,524	12,400	12,995	13,081	50,000	160,160
Operating Expenses:								
Product development and Technology	2,118	6,081	1,889	2,059	2,217	2,505	8,670	10,000
Sales and Marketing	28,523	66,845	16,813	13,806	12,930	12,011	55,560	105,600
General and Administrative	10,612	17,879	7,126	6,456	4,896	3,902	22,380	31,680
Depreciation & Amortization	5,683	29,312	12,583	11,291	10,767	10,309	44,950	65,120
Impairment of goodwill	--	--	--	--	98,056	--	98,056	--
<b>Total Operating Expenses</b>	46,936	120,117	38,411	33,612	30,810	28,727	131,560	212,400
<b>Income (loss) from operations</b>	<b>-44,327</b>	<b>-97,324</b>	<b>-26,887</b>	<b>-21,212</b>	<b>-17,815</b>	<b>-15,646</b>	<b>-81,560</b>	<b>-52,240</b>
Interest income (expense), net	591	4,085	1,558	1,322	1,315	1,250	5,445	7,450
Other income (expense), net	--	238	161	-8,117	400	256	-7,300	250
<b>Net Income (loss)</b>	<b>-43,654</b>	<b>-93,001</b>	<b>-25,168</b>	<b>-28,007</b>	<b>-16,100</b>	<b>-14,140</b>	<b>-83,415</b>	<b>-44,540</b>
EPS	<b>-2.59</b>	<b>-4.83</b>	<b>-0.75</b>	<b>-0.94</b>	<b>-0.55</b>	<b>-0.45</b>	<b>-2.45</b>	<b>-1.05</b>
Weighted Average Shares of Common Stock Outstanding	17114.67	20149.90	35849.33	22565.96	32390.91	34768.89	33289.80	49752.38
<b>Margin Analysis (%age of revenue)</b>								
Gross Margin	17.4%	51.2%	55.5%	63.9%	64.4%	66.4%	62.5%	91.0%
Sales & Marketing	190.0%	150.0%	81.0%	71.2%	64.0%	61.0%	69.5%	60.0%
General & Administrative	70.7%	40.1%	34.3%	33.3%	24.2%	19.8%	28.0%	18.0%
Depreciation & Amortization	37.9%	65.8%	60.6%	58.2%	53.3%	52.4%	56.2%	37.0%
Operating Margin	<b>-295.3%</b>	<b>-218.4%</b>	<b>-129.5%</b>	<b>-109.4%</b>	<b>-88.2%</b>	<b>-79.5%</b>	<b>-102.0%</b>	<b>-29.7%</b>
Net Margian	<b>-290.8%</b>	<b>-208.7%</b>	<b>-121.2%</b>	<b>-144.4%</b>	<b>-79.7%</b>	<b>-71.8%</b>	<b>-104.3%</b>	<b>-25.3%</b>
<b>Growth</b>								
Total Revenues	149.4%	196.8%		-6.6%	4.1%	-2.5%	79.5%	120.0%
Gross Profit	433.5%	773.6%		7.6%	4.8%	0.7%	119.4%	220.3%
Operating Expense	117.6%	155.9%		-12.5%	-8.3%	-6.8%	9.5%	61.4%
Operating Income	<b>-110.2%</b>	119.6%		<b>-21.1%</b>	<b>-16.0%</b>	<b>-12.2%</b>	<b>-16.2%</b>	<b>-35.9%</b>
Net Income	51.2%	113.0%		11.3%	<b>-42.5%</b>	<b>-12.2%</b>	<b>-10.3%</b>	<b>-46.6%</b>