

drkoop.com (NASDAQ: KOOP)

Initiating Coverage: ACCUMULATE

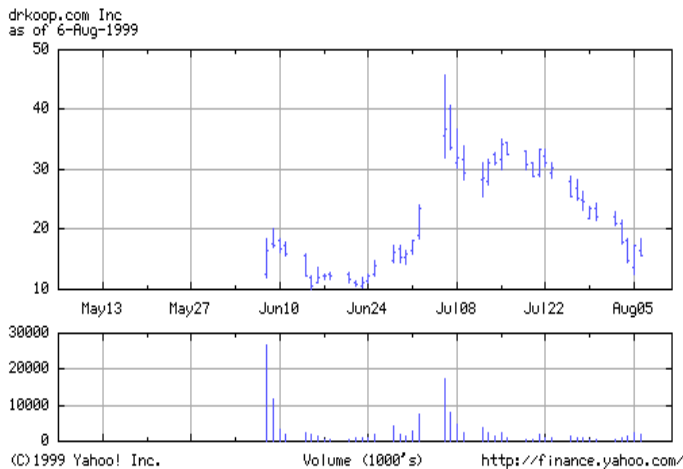
August 10, 1999

KEY CONSIDERATIONS

- Leveraging its pre-established name to catapult it to its present leadership position in the eHealth content market, drkoop.com should continue to build its brand in order to assure consumers' association of credibility and trust with the Company.
- Knowing that the key to long term profitability is loyal users, drkoop.com intends to provide ever-improving "best of breed" content and user-friendly interactive tools to help attract and keep its customers.
- The Company has been able to partner with some of the most recognized names in the Health and Internet industries. Most of KOOP's up to the minute comprehensive content is provided by such distinguished third parties as Reuters. It has also joined forces with AOL, Infoseek and other popular sites to increase its market visibility and advertiser attractiveness.
- Drkoop.com's multiple revenue streams, which it intends to build significantly over the next two years, create a high degree of diversification and profit avenues.

Price (8/10/99)	\$15 1/8
52WK High	\$45 3/4
52WK Low	\$10
P/E	N/M
P/Book	N/M
P/Sales (99E)	46.24
Market Capitalization	\$416.2M
Shares Outstanding	27.5M
Float	9.4M
Daily Volume	N/A
EPS - Primary	
1998	(.32)
1999E	(2.75)
2000E	(1.61)
Financials	
Current Ratio (mrq)	0.46
LT Debt/Equity	N/M
Total Cash (mrq)	\$2.02M

THREE-MONTH PRICE AND VOLUME GRAPH



COMPANY PROFILE

Drkoop.com has the distinct advantage of being a leading consumer-centric, Internet based healthcare network that is chaired by the distinguished former U.S. Surgeon General, Dr. C. Everett Koop. Drkoop.com provides its users with comprehensive healthcare information, services and tools that include access to medical databases, publications, news, interactive communities, and the opportunity to purchase health related products and services online. The website was launched in July 1998, and boasts being the most visited healthcare site within its first 100 days. It recently went public in June of this year.

This report was prepared by David R. Rivas, Ph.D. and Sylvia Jasaroska.

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eHEALTH INDUSTRY

From financial services to retail, the exponential growth of the Internet has inevitably changed the core of many industries. Healthcare, which is the largest sector of the economy – amounting to \$1 trillion in spending a year, seems to be next in line.

Although eHealth is still very young in its development, there are an estimated 15,000 health and medically related websites, only a few of which are presently public. Despite this overwhelming number, these sites can be categorized into three main purposes each may serve. Some sites, like Drugstore.com, only provide health related e-commerce opportunities; others, like drkoop.com, provide health related content and services; and still others, like Healthon and CareInsite, act as communication and transaction platforms between various entities within the healthcare industry. As is already occurring, we believe that as the eHealth market continues to develop there will be more and more multi-purposed sites where such categories will become blurred. The majority of health sites are privately backed companies and many others are sponsored either by health related government agencies, or by academic medical institutions. In addition, private equity capital continues to pour into this area with the involvement of such giants as Microsoft, AOL, and DuPont.

Attractiveness of Healthcare as an Internet Market

- In essence, we are all healthcare consumers, thus providing an enormous potential market.
- Although the largest economic sector, healthcare is also one of the most inefficient and technologically underinvested markets - despite its information intensity. This offers a wealth of opportunity for change and improvement in developing a technological infrastructure to help streamline many of its complicated processes and information exchanges.
- Employers and employees alike are upset over the rising costs of medical coverage and premium-hikes. There is a significant distrust and lack of communication between managed care organizations, physicians and patients. Together these factors create a population that is willing to take a more proactive role in their healthcare. The rising consumerism in healthcare and the proliferation of the Internet as a daily resource creates an excellent business opportunity for these new companies.
- According to Cyber Dialogue, more than 62 million Americans are online today, and approximately 22 million have sought health or medical information over the Internet (these numbers are expected to reach 136 and 33 million, respectively, by 2001) - 43% of all questions posed online are health related. It is estimated that these searchers spend upwards of \$150 billion in health related products off-line.
- According to Jupiter Communications, online health advertising spending will grow from \$12.3 million dollars in 1998 to \$265 million in 2002. eHealth commerce is expected to reach several hundreds of billions of dollars. Such numbers are important considering that advertising and e-commerce transactions account for most of an online health network's revenue.

COMPANY PROFILE

Drkoop.com was co-founded in 1997 by its present day Chairman of the Board and namesake, Dr. C. Everett Koop, and by Donald W. Hackett, its CEO and largest shareholder. The company was originally incorporated in Texas as Personal Medical Records in July 1997. It then changed its name to Empower Health, and as of March 1999 - just three months before it went public - it was finally reincorporated in Delaware as drkoop.com. The name changing reflects the company's shifting of focus: from only developing the Personal Medical Records (PMR) software (see Personal Medical Records section under TOOLS heading), to incorporating this one feature into a larger Internet based healthcare network that would offer consumers numerous other tools and information. Drkoop.com realized the Internet's potential as a means of improving the Healthcare industry at large. KOOP saw consumers' frustrations with the health industries inefficiencies and responded by focusing on

developing a website that would offer its users an easy-to-understand flow of highly personalized information and services to help them better manage their health.

With its strong brand name, numerous key alliances, best of breed content, and unique mix of interactive tools, drkoop.com has already established itself as the industry leader in the consumer health content market. With more than twice as many visitors than its nearest competitor, Media Metrix ranked drkoop.com as the number one health site for four months straight, from April through July. During the second quarter KOOP signed fifteen new advertising clients and seven new hospital partners - to bring the respective totals to twenty-eight and twelve. Just during the month of June, drkoop.com gained 61,000 registered users, a 19% increase from the previous month, for a total of 390,000. In addition, July saw an all time high of 12,463,000 page views. We believe that KOOP will sustain its growth and maintain its leadership position with its continued emphasis on vital advertising, distribution, and content relationship building.

CONTENT AND INTERACTIVE TOOLS

KOOP's web-design firm, Capstone Studio, captured both the "Creative Excellence" and "Best of Category", awards for its work on www.drkoop.com. Drkoop.com's award winning website is an attractively designed, user-friendly vertical healthcare portal which integrates dynamic healthcare information on a wide variety of subjects with interactive communities and tools. Drkoop.com has greatly increased its speed to market by licensing much of its content from leading medical institutions, news services, healthcare content providers and medical databases. It also produces proprietary content through its in-house editorial staff, freelancers, and exclusive relationships with well-known health advisors. Drkoop.com offers an extensive mix of interactive tools including numerous secure and anonymous online communities and hosted chat rooms, specific to various health issues. Koop also has one of the most recognized online drug interaction database tools, and it will soon offer a Personal Medical Record feature that will allow people to keep track of all their health and medical information in a secure database. Finally, the website enables e-commerce transactions via third parties that offer prescription refills, vitamin and nutritional supplement purchases, and even access to online insurance services.

In addition to having a Health Search tool that allows users to search the entire drkoop.com site (as well as other healthcare sites) for specific information, drkoop.com offers six main content categories with subtopics that can be reached from any of its 70,000 pages of content. Just to give you an idea of KOOP's comprehensive nature, the following chart outlines the content categories and subtopics:

Table 1

<i>Health News</i>	<i>Family Health</i>	<i>Health Resources</i>	<i>Health & Wellness</i>	<i>Interactive Community</i>	<i>Conditions & Concerns</i>
<ul style="list-style-type: none"> • Announcement & Recalls • Editorials • Feature Reports • Health Events • News Summary • Polls • Special Reports 	<ul style="list-style-type: none"> • Children's Health • Men's Health • Women's Health • Aging Healthy 	<ul style="list-style-type: none"> • Personal Drug Store • Drug Checker • Insurance Center • Clinical Trials • Medical Encyclopedia • Health Site Reviews • Local Resources 	<ul style="list-style-type: none"> • Fitness Center • Mental Health Center • Nutrition Center • Tackling Tobacco • Preventionaire • Prevention Center 	<ul style="list-style-type: none"> • In the Spotlight • Chat • Message boards 	<ul style="list-style-type: none"> • Displays four topical search engines to assist further investigations

Tools

- **Drug Checker.** The purpose of this tool is to help reduce the estimated 180,000 annual deaths attributable to adverse drug reactions. Multum Interactive Services provides its extensive drug interaction database to compare multiple prescriptions, over the counter drugs, and food products to identify any possible adversities. The Drug Checker is automatically used when a prescription is purchased online via drkoop.com's links.
- **Insurance Center.** Quotesmith.com, which operates the largest insurance database in America, provides its high speed health and medicare supplement insurance price comparison technology to drkoop.com. Users can apply for coverage after having compared various insurance companies.
- **Clinical Trials.** Through its relationship with Quintiles Transnational, the largest clinical trials management organization, drkoop.com allows interested users to be pre-screened for possible participation in clinical drug trials. The idea is that such online programs will greatly increase the speed and efficiency of the drug development process, while also giving hope of relief to its participants. Since its launch at the end of June, the Clinical Trials Center has attracted over 80,000 unique visitors, and is expected to start generating revenue, via referral fees, during the fourth quarter.
- **Personal Medical Record.** Expected to roll out in September, the PMR will allow users to keep track of all their basic health information; like health histories, medical tests, treatments, doctor visits and costs incurred. Individuals who keep such information in drkoop.com's database can easily access their records (or give permission to their healthcare professionals) via the Internet or a desktop. Drkoop.com has licensed data repository, encryption, and security technologies from Health Magic, a leading PMR company. Drkoop.com plans on licensing their PMR software to their Community Partner Program members and to Physicians Online.
- **My Health @ drkoop.com.** This feature will personalize and tailor email newsletters to users specific needs and interests.
- **Recipe Database.** Due out in the second half of 1999, this feature will provide a customized, searchable database of recipes meeting specific dietary requirements and restrictions
- **Personal Health Shopper.** This tool will let users set their own shopping preferences, which will allow drkoop.com to customize information and new product offerings for each user.

BUSINESS STRATEGY

Drkoop.com's broader vision is to help change healthcare into a consumer-focused, market driven industry by creating informed consumers who can better collaborate with their healthcare professionals. In order to achieve this the Company's direct objective is to establish the drkoop.com network as the most trusted and comprehensive source of consumer healthcare information and services on the Internet. Their business strategy incorporates the following key elements:

- **Establish the drkoop.com Brand** so that consumers associate the trustworthiness and credibility of Dr. C. Everett Koop with drkoop.com. It should be noted that 60% of consumers recognize Dr. Koop, and that 50% of *them* believe that he is a top authority on health issues. The company intends to enhance its brand associations through partnerships with other notable figures in the consumer healthcare field, such as ABC News Medical Correspondent Dr. Nancy Snyderman. KOOP is also involved in a major campaign to increase its brand awareness among consumers, healthcare organizations, Internet portals and other websites. It intends to allocate significant resources to further develop and build brand recognition through online advertising, strategic alliances and other marketing initiatives. We believe that KOOP's strong brand, which

is a vital ingredient to any successful Internet company, serves as a competitive advantage and barrier to entry.

- **Provide High Quality Healthcare Content** on a variety of health and medical issues that are of concern to most consumers, including topics on acute ailments, chronic illnesses, nutrition, fitness and wellness. In order to win the trust of its users this information is provided only by established sources such as Dartmouth Medical School, Reuters, and the National Institute of Health. The company believes that the quality of their information is a competitive advantage in attracting users, maintaining loyalty, and increasing page views per visit.
- **Syndicate Content Through Affiliates to Promote Traffic Growth.** The company has already entered into numerous relationships with other portals and websites where drkoop.com is the primary source of consumer healthcare content. It also has numerous affiliations with local hospitals, payor entities and local media outlets. Drkoop.com will continue to initiate such partnerships in the future.
- **Provide Consumers with Unique Features, Services and Tools.** One of the main goals of the company is to personalize drkoop.com's offerings as much as possible by tailoring the content and services to satisfy various user interests. This personalization results in more loyal users, and better, highly targeted advertising opportunities. The combination of these features will help distinguish drkoop.com from its competitors.
- **Provide an Attractive Advertising Site.** The highly targeted and interactive nature of drkoop.com is attractive for pharmaceutical, healthcare, and other online advertising companies. By identifying users interested in a particular health-related topic drkoop.com believes that it can command higher advertising rates to companies that are targeting such consumers.

RECENT PARTNERSHIPS AND STRATEGIC ALLIANCES

Drkoop.com has been very successful in attaining key strategic distribution alliances with leading Internet portals, other healthcare content sites and media companies. Some affiliates include SeniorNet, iSyndicate, weather.com, Excite, Well Street, and Salon.com. These relationships are instrumental in increasing customer traffic, brand awareness, and advertiser awareness, thus making them a significant source of potential revenue. While validating its content and its leadership position, drkoop.com's partnerships with giants like AOL and Infoseek also serve to establish a competitive advantage and barrier to entry. We believe that the company has a strong momentum and will continue to announce numerous new distribution, advertising and e-commerce partnerships in the near future.

Since its inception, drkoop.com has been following a local branding strategy via its Community Partner Program. The CPP helps leading local healthcare organizations with their online initiatives by developing co-branded websites, where drkoop.com integrates its own content into its partners site. Community Partners pay annual fees between \$50,000 and \$150,000, depending on the amount of content and service exclusivity. As of the end of the second quarter, drkoop.com had 12 partnerships, representing 95 hospitals. It is projected that it will add 21 more partners by the end of the year.

- **America Online** - As of this Fall, drkoop.com will serve as the premier health content provider on five AOL-branded sites: AOL.com, Netscape Netcenter, Digital City, and the AOL and Compuserve subscription based services. The July 6th announcement of the four-year, \$89 million deal between AOL and drkoop.com sent KOOP's price up 67% to a near high of 39 ½. In addition to recognizing the \$89 million in cash as a sales and marketing expense over the four year course, KOOP will also issue an undisclosed number of fully-vested and performance based warrants. AOL will pay drkoop.com \$8 million in licensing fees related to the PMR. Some of the key advantages for drkoop.com include:
 - being aligned with AOL's Health Channel - the most frequented of its kind

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- further broadening its exposure by having access to the 19 million members of AOL and Compuserve, and the additional 40 million unique visitors of the three websites mentioned
 - participating in extensive cross-advertising
 - leveraging AOL's 600-person sales force to generate advertising and e-commerce revenues (of which the former will be shared) while also using them to promote KOOP's future products and services
 - integrating software solutions from the Sun-Netscape alliance in order to facilitate the roll-out, power the expected increased traffic and upcoming services, as well as to further develop the functionality of the PMR

The positive strategic implications of this deal are self-evident: drkoop.com will establish its increasingly strengthened brand via its heightened market visibility; it will enormously increase its customer base; it will result in attaining more advertisers, and thus revenues; and finally, its association with the distinguished AOL will help maintain drkoop.com's position as the leading Internet health content provider.

- **Infoseek/GO Network** - In April, drkoop.com signed a three year \$57.9 million deal with the Infoseek Corporation, home of the GO Network, and with the Buena Vista Internet Group, a unit of the Walt Disney Corporation. Under this deal, drkoop.com will be the *exclusive* health content provider for ABCnews.com and three websites of the GO Network: Go.com's Health Center, ESPN.com's Training Room, and Family.com's Health Channel. The GO Network has over 24 million visitors and is the fifth most popular Internet site.

Drkoop.com will pay Infoseek the \$57.9 million in cash and warrants. In addition to guaranteeing a minimum number of page views to drkoop.com, Infoseek may not use another health content provider, where as KOOP may partner with other portals, provided that it does not dispense more than 50% of its content.

- **@Home Network** - Drkoop.com recently signed a two year \$2.25 million deal to be an anchor tenant and the premier health content provider for the leading Cable-based Internet Service Provider's Health Channel. Drkoop.com receives 50% of all advertising and commerce revenues generated on pages with drkoop.com content.
- **theglobe.com** - Drkoop.com will also be the premier health content provider for the globe.com's recently launched Health Channel. Theglobe.com is a site that fuses lifestyle, entertainment, commerce and interactive features. Together they will develop a co-branded site hosted by drkoop.com where advertising and commerce revenues will be shared.
- **Yahoo!** - In a non-paid relationship, drkoop.com syndicates Dr. Nancy Snyderman's Daily Health offering for use in Yahoo! Health. When Yahoo! visitors submit questions to Dr. Snyderman they are transferred to the drkoop.com site. In addition to providing drkoop.com advertising banners, other drkoop.com content is integrated into Yahoo! Health.
- **Physicians Online** - During a one year term of cross promotion, drkoop.com will provide content and services to Physicians Online, the largest Internet community of doctors. In exchange, drkoop.com will have access to POL's extensive database of physicians, searchable by location or medical specialty. POL will also undertake joint marketing and sales activities of the PMR to hospitals and other managed healthcare organizations, and will share in the revenues generated in return.

COMPETITION

The scope of competition for KOOP goes far beyond other websites offering healthcare content and services. It includes traditional media and healthcare providers who compete for healthcare consumers' attention through both traditional and Internet based means. This list contains hospitals, HMO's, insurance companies, as well as other healthcare entities and consumer groups such as the American Association of Retired Persons. The competition also encompasses merchants and retailers that provide healthcare goods and services, like CVS,

Walgreens and Merck-Medco, who may or may not have web initiatives. Another category of rivals for users, advertisers, e-commerce merchants and syndication partners includes other online and Internet portal companies – especially those with Health Channels. Consequently, KOOP's competition will grow in line with the Internet's involvement.

Even when we narrow the scope to the eHealth industry alone we still have 15,000 sites, many of which, however, are not consumer focused content providers. When we finally zero in on this particular segment of eHealth, we find that there are only a handful of sites that are public. Never the less, some of the qualities that we believe have and will distinguish the leaders with-in the consumer focused content niche include: strong brand recognition, high quality content and interactive tools, and key alliances. When compared to its direct competitors: mediconsult, thriveonline, OnHealth, and Intellihealth – just to name a few, drkoop.com goes far beyond meeting the requisites, and indeed has shown itself to set the standards. With the largest number of visitors in the health category, amounting to a total of 3.14 million unique users during the second quarter, Drkoop.com is by far the most popular health content site, deserving its #1 ranking given by Media Metrix. Given this background, and the enormity of the eHealth market opportunity, it can be said with confidence that drkoop.com will continue to be the prime leader in the Internet health content arena.

KOOP's content niche strategy is working very well for the moment. However, as previously mentioned, we believe that a need might develop to broaden its services to encompass health related connectivity or transactions in the future as a result of market developments. We further believe that drkoop.com – with its top of mind brand and key alliances - would be in an excellent position to successfully extend itself via mergers and or acquisitions.

The following chart provides a comparative look at some of KOOP's pure health content providing competitors:

Table 2

COMPETITIVE ATTRIBUTE COMPARISON					
Drkoop.com (KOOP) 1.049 M*		Mediconsult (MCNS) .548 M*	OnHealth (ONHN) .648 M*	Thriveonline .793 M*	InteliHealth 729 M*
Strengths	<ul style="list-style-type: none"> • brand and excellent content • numerous interactive tools, and best drug interaction database 	<ul style="list-style-type: none"> • good for those with chronic health conditions • good when have specific topic in mind 	<ul style="list-style-type: none"> • covers light and weighty materials well • good resources 	<ul style="list-style-type: none"> • very user-friendly and attractive lay-out 	<ul style="list-style-type: none"> • excellent content through affiliations with John Hopkins and Aetna
Weaknesses	<ul style="list-style-type: none"> • pages occasionally load slowly 	<ul style="list-style-type: none"> • primarily a reference library • graphically bland 	<ul style="list-style-type: none"> • a little difficult to navigate • not many key affiliations 	<ul style="list-style-type: none"> • pop-culture oriented • charge fees for extensive searches 	<ul style="list-style-type: none"> • lacks basic tools – no interaction

* Average number of unique visitors for Q2 '99 given by Media Metrix

KEY RISK FACTORS

- **Competitive Landscape.** Despite our positive predictions with regard to this factor, considering both the infancy of the eHealth industry and the vast number of competitors, there is no way of ensuring knowledge about who will be the industry leader in the future. KOOP faces competition from a growing number of websites that offer similar services, and it is possible that alliances among competitors, distributors and content providers may result in rapidly diminishing drkoop.com's market share.
- **Possible Government Regulation.** In addition to new government regulations relevant to the entire Internet (regarding user privacy, content and distribution) drkoop.com may have to be wary of both state and federal law regarding very new- and so far legally untouched- issues involving Internet based dispensation of prescription pharmaceuticals, and insurance marketing. Healthcare is one of the most heavily regulated sectors in the U.S. As of right now, drkoop.com has no related pending litigation, and as far as it knows, has not broken any health-related statutes. Given the relative novelty and highly sensitive nature of eHealth there are bound to be more laws in the future. The possibility of such laws poses a threat to many of drkoop.com's sources of revenue including referral and e-commerce fees.

MANAGEMENT

The strength of drkoop.com's management seems to lie in its diversity. The Company boasts employing leaders from the technology, healthcare, government, and marketing sectors.

C. Everett Koop – Co-founder, Chairman, and namesake of the company – has over sixty years of experience in healthcare, government, and industry. He has held numerous top-notch medical and academic positions, has received thirty-five honorary doctorates, was Director of the Office of International Health, and is the most remembered U.S. Surgeon General (1981-1989), having been the chief spokesperson during the beginning of the AIDS Crises. Dr. Koop continues to be a force with-in public health to this day. In return for using his name and likeness, Dr. Koop receives a 2% royalty fee, which may increase to 4% in the future. As of January 5, 1999 this agreement was finalized to be exclusive for five years, and subject to automatic renewal for additional three-year terms.

REVENUE MODEL

- **Advertising.** Online advertising represents an enormous revenue opportunity for drkoop.com, especially given its highly targeted nature. Advertising accounted for 46% of KOOP's first quarter revenues, 77% of second quarter revenues, and is expected to comprise the majority of revenues for the next two years. One quarter of KOOP's twenty-eight advertisers are Fortune 500 Companies, including Pfizer, Johnson & Johnson, Schering-Plough, Biogen and SmithKline Beecham. Most contracts last between six months to two years. Drkoop.com has three major types of advertising relationships: banner advertisements, anchor tenancies, and sponsorships.
- **Content Licensing.** Content licensing revenues are primarily earned via its Community Partners and comprised about 54% of KOOP's first quarter revenues. The content is usually provided by third parties, although drkoop.com usually retains redistribution and re-licensing rights.
- **E-commerce.** The Company currently does not derive any e-commerce revenues, but expects to grow this revenue stream significantly over the next two years. These expected revenues are to come from its Personal Drugstore, Personal Insurance Center, and its Clinical Trials features.

KEY FINANCIALS

Revenues. Climbing from \$403,000 to \$1,019,000, there was a 152% increase in total revenue between the first and second quarter of this year. We continue to expect dramatic increases in revenue for the next two years as a combined result of the AOL and PMR roll-outs as well as the increased awareness of the Clinical Trials feature, and the company's building of e-commerce opportunities. We expect that advertising and sponsorships will account for the majority of near-future revenue, while licensing revenue will also increase, but at a lower rate. In addition, although there have not been any e-commerce revenues recognized yet, we do expect to see some by the end of the upcoming fourth quarter.

Cost of Operations. The cost of operations will continue to increase at a rapid rate for the next two years, but at a lower rate of increase than revenues. Sales and Marketing expenses will account for the majority of the cash outflows, being that the payments to AOL and Infoseek will be recognized as such. Given the infant nature of the company and its aggressive branding strategy, Sales and Marketing will continue to increase at a faster pace than Product Development. However, Sales and Marketing expenses will begin to decrease as drkoop.com matures.

General and Administrative. As the company grows in infrastructure and staff we expect G&A costs to rise somewhat quickly over the next two years, but will remain relatively constant in the future.

Net Loss. Drkoop.com will continue to incur losses and negative EPS figures for the next two years. This is not unusual for infant Internet companies. Accounting for the expected effects of the AOL deal, we expect KOOP to move into positive earnings territory by the fourth quarter of 2001.

A RELATIVE APPROACH TO VALUATION

Many Internet start-up companies remain unprofitable for years, and their performance is highly unpredictable due to the fast changing nature of the industry. Therefore, traditional valuation methods are not practical for valuing these companies. However, the price to sales ratio is a good valuation and comparison indicator for Internet companies. Other factors such as revenues, customer base, and sector leadership are also important in truly evaluating an online business.

What further complicates a thorough valuation for drkoop.com is its extremely limited operating history. The company has only been public for just under three months, and its first year of operations had nothing to do with its present functioning as an online healthcare network, thus we can not seriously take 1997's financials into account. Furthermore, although there are hundreds of health content sites, there are not many that are public, thus further limiting what little financial comparisons we can make. For this reason we will include comparisons with transactions oriented eHealth companies (Healtheon and CareInsite - whose market strength we view as indicative of investor acknowledgement of the large opportunity with-in eHealth) as well as with other vertical portals (cNet and iVillage). We believe that such analysis helps give a much-needed broader perspective of drkoop.com's relative success.

Internet Sector. The graph to the right compares drkoop.com's short performance history to the Amex Internet Index (IIX). The comparison shows the relative volatility of KOOP, which again, is not unusual for new Internet start-ups. The enormous price jump in early July was a result of the AOL deal announcement. However, despite its decline since then, KOOP continued to significantly outperform the IIX up until the recent downwards trend of the Nasdaq's Internet sector, and especially of recent Internet IPO's. The general decline was a result of



inflationary and interest rate fears, as well as of an overcrowded IPO market. We believe that it is still too early to predict how drkoop.com will compare to the Internet Index in the long run. However, given our revenue estimates, and the potential impact of the AOL roll-out on KOOP's customer base we expect an ascent in its price in the long term, as discussed below.

Revenue Growth. As stated before, as the recent traffic generating portal deals kick in, revenues will increase dramatically over the next two years as the company grows, develops, and experiences a larger customer base.

Price to Sales Ratio. Trading at 46.24X expected 1999 revenues, drkoop.com commands a relatively lofty P/S ratio in comparison to its competitors, where the average P/S ratio of Internet companies hover around 20. We believe this loftiness is a result of KOOP's market leadership and growth expectations. If we look further into the future drkoop.com is trading at 9.05X expected 2000 revenues, leading us to believe that it has strong potential for a price increase in a longer-term outlook.

Table 3

Financial Comparison with Relevant Internet Companies					
	Price as of 8/10/99	Market Cap	Shares Outstanding	99E* Revenue (millions)	Price to Sales
Drkoop.com <i>KOOP</i>	\$15.125	416.2 M	27.5 M	\$9	46.24
Mediconsult <i>MCNS</i>	\$6.75	190 M	28.1 M	\$6	31.67
OnHealth <i>ONHN</i>	\$7.625	123.7 M	16.2 M	\$7	17.67
Healtheon <i>HLTH</i>	\$31.75	2.25 B	71 M	\$83	27.1
CareInsite <i>CARI</i>	\$29.625	2.061 B	69.6 M	\$2	1030.5
cNet <i>CNET</i>	\$34.5	2.34 B	71.2 M	\$96	21.47
iVillage <i>IVIL</i>	\$28.5	696.8 M	23.7 M	\$30	23.23

INVESTMENT OPINION

KOOP's consumer-centric strategy plays into the rising trend of consumerism in the healthcare industry, and thus has an excellent growth potential. Despite drkoop.com's short operating history, it has proven itself worthy of leading the eHealth content market. With its strong brandname, excellent content and aggressive partnership and media strategy we expect the company to continue its upward trend. Given these expectations we give KOOP a moderate buy rating.

Statement of Operations for drkoop.com								
(in millions, except per share data)								
	1997	1998	Q1 99	Q2 99	Q3 99E	Q4 99E	1999E	2000E
Revenues:								
Advertising	-	-	0.2	0.8	2.4	3.6	7.0	32.0
Content Licensing	-	-	0.2	0.2	0.5	1.0	1.9	9.6
Other	-	0.04	-	-	-	0.1	0.1	4.4
Total Revenues	-	0.04	0.4	1.0	2.9	4.7	9.0	46.0
Cost of Operations:								
Production, Content, and Product Development	0.5	4.4	1.0	2.1	2.4	5.0	10.4	21.8
Sales and Marketing	-	2.0	2.0	8.0	18.1	18.1	46.2	66.4
Total Cost of Sales	0.5	6.4	3.0	10.1	20.5	23.1	56.6	88.2
Gross Income	(0.5)	(6.4)	(2.6)	(9.1)	(17.6)	(18.4)	(47.6)	(42.2)
General and Administrative Expense	0.2	2.6	1.6	2.3	2.4	2.5	8.8	12.6
Operating Income	(0.7)	(9.0)	(4.2)	(11.4)	(20.0)	(20.9)	(56.4)	(54.8)
Nonoperating Income and Expense:								
Interest (Net)	-	-	-	0.1	0.6	0.5	1.1	1.7
Other	-	-	-	-	-	-	-	-
Pretax Income (before nonrecurring)	(0.7)	(9.0)	(4.2)	(11.3)	(19.4)	(20.4)	(55.3)	(53.1)
Provision for Income Taxes	-	-	-	-	-	-	-	-
Income Before Nonrecurring	(0.7)	(9.0)	(4.2)	(11.3)	(19.4)	(20.4)	(55.3)	(53.1)
Nonrecurring Items	-	-	(20.1)	(6.3)	-	-	(26.4)	-
NET INCOME	(0.7)	(9.0)	(24.3)	(17.6)	(19.4)	(20.4)	(81.7)	(53.1)
Weighted Average Shares - Primary	28.00	28.00	29.60	29.60	30.00	30.20	29.70	33.00
EPS - Primary	(0.03)	(0.32)	(0.82)	(0.59)	(0.65)	(0.68)	(2.75)	(1.61)
Margin Analysis								
Gross Margin	N/A	-159	-7	-9	-6	-4	-5	-1
Operating Margin	N/A	-224	-11	-11	-7	-4	-6	-1
Production Expense Margin	N/A	110	3	2	1	1	1	0
Sales and Marketing Margin	N/A	50	5	8	6	4	5	1