

drkoop.com (NASDAQ: KOOP)

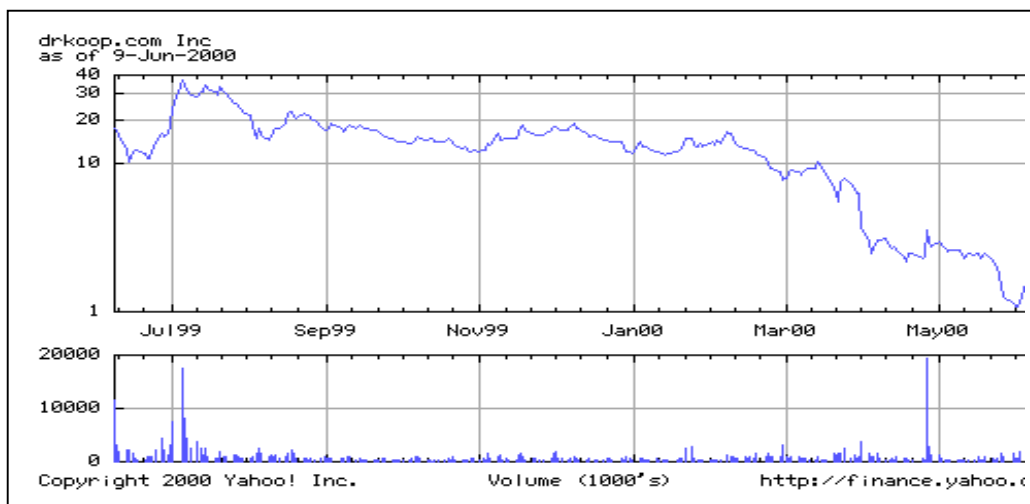
Update Report: Disappointing Results- Hold

May 29, 2000

Highlights

- Drkoop.com reported disappointing first quarter results, with net loss per share increased to \$(0.80).
- With a \$8 million net cash position, cash resources at drkoop.com could be drained in four months at a cash burn rate of approximately \$2million per month.
- The company has successfully restructured its agreements with American Online and the GO Network, cutting its cash obligations to these companies by \$100 million. In exchange, AOL gets 3.5 million common shares of drkoop.com, making it the third largest shareholder of the company by a 10% ownership. Go will retain rights to its initial warrants and will be issued another 820,000 warrants at an undisclosed price.
- Traffic at drkoop.com continued to experience strong growth. Page view increased 30% to 64.2 million. This was largely due to the expanded offering and increased usage of drkoop.com's interactive tools.
- We believe drkoop.com still has some valuable assets, including a strong brand name, well-developed interactive tools, and a strong and growing customer base. It is possible for AOL to consider purchasing the impoverished company. Another type of logical buyers could be any women oriented companies like iVillage, since most visitors to health sites are women.

Recent Price (05/30/00)	\$1.25
52WK Low	\$1.03
52WK High	\$45.75
P/E	N/M
P/Book	0.54
P/Sales	2.75
Market Capitalization	\$38.94M
Shares Outstanding	31.15M
Float	13.10M
Daily Volume (3-month Average)	1.16M
EPS	
1998	\$ -0.32
1999A	\$ -2.70
2000E	Under Review
Current Ratio (MRQ)	3.03
Total Debt/Equity	0.02
LT Debt/Equity	0.01
Total Cash (MRQ)	\$1.17M



This report was prepared by Ling Tang and David R. Rivas, Ph.D.

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Summary

Drkoop.com (Nasdaq: KOOP) announced first quarter results. Revenues for the quarter totaled \$4.7 million, representing a significant decrease from the fourth quarter. At the same time, operation expense hiked 43.6%, which led the loss per share further down to \$(0.80). On a more positive note, the traffic continue to grow at drkoop.com, and the company has issued amendments to its agreements with AOL and GO, which would successfully reduce future cash outlay by \$100 million. We believe the rearrangements of capital liabilities represents a step forward as the company seeks out potential "strategic alliances" or acquiros.

After suffering heavily from its costly portal deals, drkoop.com was advised to employ a more capital-sparing growth strategy in order to revise its financial outlook. The company has hired an investment bank to explore strategic alternatives. The management also stated that it would disclose more details on the quarter and on the financial outlook by mid-May. We thus suspend our numbers and maintain our HOLD rating.

First Quarter Financial Results

- Drkoop.com (Nasdaq: KOOP) reported first quarter revenue of \$4.7 million, which represents a 7.0% decline from fourth-quarter revenue of 5.1 million last year. The biggest issue, according to the management, was disappointing direct-to-customer (DTC) advertising revenue, particularly from AOL, which was responsible for much of DTC advertising sales for drkoop.com.
- Advertising and sponsorship revenues of 3.9 million stand for a 9.3% decrease from fourth-quarter advertising revenue of 4.3 million. Content subscription and software licensing revenues increased slightly from 0.79 million to 0.83 million, and, for the very first time, drkoop.com reported e-commerce revenues of \$5,000.
- Operating expenses were \$29.8 million for the first quarter, representing a 43.6% increase from 20.75 million of the previous quarter. Sales and marketing expense totaled \$19.4 million, comparing to \$16.92 million of the fourth quarter last year. The large increase in sales and marketing expense can be partially attributed to the fact that the company had been devoted to bringing ad serving and sales capabilities back in-house. Production, content and product development expenses also rose significantly from \$3.8 million to \$5.8 million due to drkoop.com's efforts to develop and expand its tool set, a function that was previously outsourced to Health Magic.
- Net loss for the quarter was \$24.8 million, brining the net loss per share to \$(0.80), a 23% change from \$(0.65) of previous quarter.