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Netivation.com Inc. (NASDAQ: NTVN)

Initiating Coverage: ACCUMULATE

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KEY CONSIDERATIONS

- Netivation.com is an Internet company that issued 2,500,000 shares of Common Stock at a price of \$10.00 per share in an initial public offering on June 25, 1999. It provides two communities which focus on political and medical issues
- We believe that Votenet is in a prime position to challenge the competition in the political market, as well as to continue to successfully promote its brand name
- Votenet intends to release an online fundraising system, not offered by competing companies, by the end of this year
- Competition from larger and more developed companies threaten the development of the Medinex community

Recent Price	\$6.25
52WK High	\$12.94
52WK Low	\$6.00
P/E	N/M
P/Book	N/M
P/Sales	295.96
Market Capitalization	\$60.62 Million
Shares Outstanding	8.66 million
Float	2.50 million
Daily Volume	N/A
EPS	
1998	(.96)
1999E	(1.8)
2000E	(1.1)

ONE-YEAR PRICE AND VOLUME GRAPH



Courtesy of BigCharts.com

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Company Profile

- **Netivation**

Netivation.com (the company) develops and operates topic specific Internet communities designed to permit persons sharing a common interest to access their suite of services and the resources of the Internet. The company fosters interaction and communication among the members of each community by providing them a comprehensive suite of Internet based products and services. The company also plans to develop a sense of loyalty within each community by offering specialized software applications to key participants that encourage their ongoing involvement within the community. It is believed that the involvement of key participants is essential for the rapid growth of each community. To date, Netivation.com has focused on the development of two communities, Votenet and Medinex. The company believes that each Internet community will provide multiple sources of revenue, including: e-commerce opportunities; Website development and hosting; the sale of advertising space; corporate sponsorships and alliances; licensing and support of physicians' office management software; and commissions from online political fundraising.

Addressing many needs of the political and healthcare markets by the development of Internet communities targeted at individuals, groups and businesses interested in these markets, the company's two current communities, Votenet and Medinex, are designed to bring together this mix of participants. At these community sites, users can quickly access and exchange relevant information. Netivation.com has developed a complementary suite of Internet based tools and services specifically for members of each community, including targeted search engine technology, Internet-based retail sales capabilities, e-mail, Website design and hosting services and discussion forums.

- **Medinex**

Medinex is a healthcare community designed for primary care physicians; healthcare conscious consumers, patients and their families, pharmaceutical and insurance companies and others involved in the healthcare market. In January 1999, the Medinex community Websites delivered 63,000 page views. Members access the Medinex community at **www.medinex.com**. From there, the community members can take advantage of Medinex's suite of Internet based tools, products and services:

- **Medinex Medical Search Engine.** Members can use Medinex's medical search engine to search healthcare related Websites, including Websites hosted within the Medinex community. To enhance the quality of searches, they employ staff members who search the Internet daily and register healthcare related sites in the Medinex medical search engine. As of August 1, 1999, the Medinex search engine contained approximately 13,500 indexed Websites. However, such a Website search engine is not exclusive to Medinex, as another such search engine is also available on Dr. Koop.
- **Medinex Health Site Certification.** To counteract the problem of inaccurate or out of date information, and to provide Medinex community members with increased comfort that the information they receive through Medinex is accurate, Netivation.com has developed a health site certification process. Participating healthcare Websites that agree to adhere to Medinex's healthcare code of ethics receive a "Medinex Seal of Approval" icon on their Website free of charge. The icon provides a link back to Medinex's code of ethics statement and further links to the Medinex community. As of August 1, 1999, there were approximately 1,040 Websites containing the Medinex icon.
- **Discussion Forums.** Medinex includes a variety of member discussion groups on healthcare topics. In February 1999, it held 30 scheduled discussion groups.

- **Premium Website Hosting Services.** Netivation.com provides physicians with premium Website publishing tools and hosting services. Netivation.com offers physicians the ability to personalize their private Medinex community Website for a monthly charge. This program will allow a physician to develop on a "turn-key" basis a sophisticated and dynamic Website presence for use by his or her patients. The company believes that the acquisition of InterLink will enhance their ability to provide these premium services.
- **Medical E-commerce.** Netivation.com has acquired The Online Medical Bookstore, a Boston-based company that sells medical books and medical supplies via the Internet. This site caters to both students and professionals, and has thus far been a primary source of the company's revenues.
- **E-mail, Website Design and Website Hosting.** Medinex plans to provide all community members with free Website based e-mail accounts and free Website publishing tools and hosting services. Th e-mail accounts tie in very closely with the forthcoming release of MedNews, a free e-mail medical news delivery service.
- **Planned Products and Services.** Products and services under development include:
- **Physician's Office Management System.** Netivation.com has contracted with a third-party software Development Company to develop a Java-based Internet physicians' office management information system via the Internet. The company intends to offer this system on a monthly subscription fee basis. The software program will provide physicians with solutions to basic and multiple medical office application needs, such as: patient account ledgers; medical records management; accounts receivable; scheduling; insurance billing; and other services and applications designed to increase office efficiency and productivity. Accordingly, medical offices will only require a standard personal computer, a Website browser and an Internet service account. The office management software is also intended to confidentially and securely store patient medical records on the Internet, allowing physicians, specialists, patients and other permitted users to access medical records online. We believe that the success of this system is critical to the success of Medinex, as it may prove to be a source of not only revenues, but also customer loyalty and name branding, as well.
- **MedNews.** It also plans to offer MedNews, a free e-mail medical news delivery service. MedNews will provide subscribers with current medical news and updates from leading medical news sources, medical organizations and journals, such as Medical Tribune News Service, New York Times Syndicate, U.S. Newswire, United Press International, Associated Press Online and Biomedical Market News letter.
- **Votenet**

Votenet is a political community designed for voters, politicians, advocacy and special interest organizations, lobbyists, students, and members of the media and others interested in public policy and the political process. In January 1999, the Votenet community Websites and services delivered 1.2 million page views. Members access the Votenet community at www.votenet.com. From there, the community members can take advantage of Votenet's suite of Internet based tools and services:

- **Governet Campaign Management Software.** Netivation.com believes that Governet is the first interactive campaign management system using the power of the Internet. Political candidates and campaigns at the federal, state and local levels can use the Governet software product to perform a range of tasks, including managing voter and contributor contact and information, and maintaining record keeping and reporting requirements. Netivation.com distributes the Governet product without charge to encourage ongoing involvement in the Votenet community. Governet competes with

existing campaign management software products, the largest of which has approximately 2,500 users according to the 1998 Campaign and Elections software buyers' guide. Netivation.com believes that most campaigns are managed using Excel and Microsoft Access or standard personal computer based business accounting packages. We believe Governet's primary competitive challenge will be to convince campaigns to switch from these manual and semi-manual methods to Internet-based technologies.

- **CapitolWatch.** Community members can subscribe for CapitolWatch, Votenet's free e-mail political news delivery service. Subscribers can customize the reports they receive each day to include: the top ten political news stories as provided by the Associated Press and selected by Netivation.com; daily voting of the U.S. House and Senate tailored to a subscriber's Senators and Representative; congressional transcripts; and "Inside the Beltway" provided by a political commentator pursuant to an informal oral relationship that may be terminated at any time. CapitolWatch is currently delivered to over 45,000 email addresses.
- **Sponsored CapitolWatch Services.** In February 1999, the company launched co-branded or personalized CapitolWatch e-mail delivery services for special interest and advocacy organizations. With these programs, special interest or advocacy organizations are able to attach advertising and personalized messages to the CapitolWatch content delivered to their members. The program also allows sponsors to develop a database of member e-mail addresses, permitting these sponsors to communicate quickly and cost-effectively with their membership base. Subscribers receive the sponsored or co-branded CapitolWatch free of charge. Netivation.com plans to receive monthly or annual sponsorship fees from the CapitolWatch sponsors. As of February 1999, they had two paying CapitolWatch sponsors. However, certain initial organizations received free sponsorships for a limited time pursuant to informal, oral arrangements.
- **Votenet's Political Search Engine.** Members can use Votenet's political search engine; a powerful context based search engine customized for political Websites, including Websites hosted within the Votenet community. This search engine allows members to research political issues and causes, locate other high quality online political resources, provide access to background data on members of U.S. Congress and all 50 state legislatures and conduct online legislation research. To enhance the quality of searches, they employ staff members who search the Internet daily and register political sites in the Votenet political search engine. Although C-Span.org and ABCNews also provide search engines, neither searches through a database of Websites as Votenet does. As of January 31, 1999, Votenet's search engine contained approximately 7,000 indexed Websites.
- **E-mail, Website Design and Website Hosting.** Votenet offers all community members a free Website-based e-mail account. As of February 22, 1999, approximately 4,000 community members had a Votenet e-mail account. Votenet also provides free Website publishing tools and Website hosting services, providing community members with a platform for contributing their talents and ideas and interacting with others with similar interests.
- **Discussion Forums.** Votenet includes a variety of member discussion groups on political topics. In February 1999, we held 15 scheduled discussion groups.
- **Custom Website Design and Hosting Services.** Votenet also offers community members the ability to create more comprehensive and robust Websites than those created with the free, basic tools provided to all members. For a fee, members are able to access through Netivation.com a Website design and technical staff to create completely customized and unique Websites. On March 9, 1999, Netivation.com entered into an agreement to acquire InterLink, an advanced Website design and hosting Services Company, to enhance these services.

- **Planned Products and Services:**

Online Fundraising. Fundraising is a critical aspect of any political campaign. Most campaigns currently raise funds through direct marketing efforts, fundraising events or personal solicitations. Further, campaign funds generally are raised by cash or check, rather than by credit cards. Netivation.com believes online fundraising will become an attractive method because of its cost effectiveness, efficiency and ability to target specific demographic groups. The company plans to establish merchant accounts on behalf of political candidates or causes wishing to use their online fundraising system. Fundraisers will have a feature on a Website page or advertisement allowing potential contributors to click a button and contribute funds through the Internet. Netivation.com expects to receive a commission for facilitating online contributions. They plan to introduce their online fundraising system commercially in the second half of 1999. The release of this system would provide Votenet with a tool not provided on any other political site. Not only could this be a significant source of revenues, but also fundamental to the growth and expansion of the community.

Industry

- **Internet Communities Industry (Netivation.com)**

- **Internet as Medium of Communication.** The Internet has emerged as a significant global communications and commerce medium, enabling millions of people to share information, create community among users with similar interests and conduct business electronically. According to an August 1998 report, International Data Corporation, or IDC, estimates that the number of Internet users will increase from approximately 100 million in 1998 to approximately 320 million by the end of 2002. Additionally, according to IDC, worldwide commerce revenue on the Internet is expected to increase from approximately \$32 billion in 1998 to more than \$400 billion in 2002. The rapid growth of the content and services on the Internet attracts more users, fueling a cycle of growth where users demand more content and services. This cycle facilitates the growth of topic specific Internet communities.

- **Commerce and Advertising.** The Internet has features and functions that are unavailable in traditional media. Online businesses can interact effectively with customers and advertisers and can target advertisements to defined audiences, specific regional populations, special interest groups or select individuals. As a result, companies from a wide variety of industries are using the Internet for commerce and advertising. For example, Jupiter Communications in its 1998 Online Advertising Report estimates that the amount of advertising dollars spent on the Internet is expected to increase from approximately \$1.9 billion in 1998 to \$7.7 billion by 2002.

- **Need for Targeted Internet Communities.** The rapid growth of the Internet and the proliferation of Websites have made it increasingly difficult for Internet users, content providers and businesses with a common interest to efficiently reach and interact with one another using general interest search engines and Internet portals. Users struggle to easily find the most relevant information, products or services related to a particular topic. Internet communities that bring together persons with a common interest increase the opportunity for advertising efficiency and the likelihood of a successful e-commerce transaction.

- **Healthcare Industry (Medinex)**

- **Healthcare Market.** A 1998 study by the Internet Strategies group of Cyber Dialogue, Inc. estimates that the market for healthcare products and services is approximately \$1 trillion. According to the U.S. Department of Commerce's Bureau of Economic

Development, healthcare services account for more than one quarter, or approximately \$460 billion, of the U.S. gross domestic product. The healthcare industry has a variety of participants, including patients, physicians, medical practice groups, hospitals and other medical care providers, government agencies, insurance companies and managed care organizations. According to a February 1999 report by IMS Health Incorporated, a pharmaceutical consulting firm, pharmaceutical companies in the U.S. spent over \$1.2 billion on direct- to-consumer advertising in 1998.

- **Quality of Information.** We believe that the healthcare industry, particularly individual physicians and small practice groups, presents a substantial opportunity for the Internet for the marketing of Internet based products and services. According to the American Medical Association, there are over 300,000 physicians in the U.S. At the same time, patients are increasingly utilizing the Internet to become better informed about healthcare. During 1998, according to a 1998 study by the Internet Strategies Group of Cyber Dialogue, over 17 million adults in the U.S. searched online for health and medical information. A June 1998 Ohio State University study reported that, although medical information proliferated on the Internet, much of that information may be inaccurate or out of date. While patients are searching the Internet for health related information, we believe that very few physicians have an Internet presence or an ability to monitor for accuracy much of the information their patients receive from the Internet. As the use of the Internet for healthcare research and information exchange increases, physicians will be required to invest in increasing this Internet presence to improve the quality of information patients access to market their services. This should benefit Medinex.
- **Targeting Smaller Organizations.** Additionally, healthcare providers rely heavily upon information to perform their roles. Physicians need easy access to patient records and office administrators require patient scheduling, accounting, insurance and billing information. Often this information needs to be shared and used by multiple users in multiple locations. For example, physicians often maintain multiple offices or they require access to patient records while "on call" at home. Netivation.com believes that patient care could be greatly enhanced by the deployment of technology to assist in the management of this information, particularly on a shared basis. The large number of participants, complexity of healthcare transactions and high cost of technology acquisition and implementation have historically impeded the adoption of technology solutions that would assist in the delivery of healthcare information, connectivity and automated work flows. These problems are particularly evident in smaller organizations.
- **Political Communities Industry (Votenet)**
 - **Political Market.** Millions of people in the U.S. are politically active. In 1996, according to the Federal Election Commission and Congressional Research Service Reports, more than 96 million people voted in elections for state and federal offices. In addition, there are millions of individual members in hundreds of various special interest and advocacy organizations such as the Sierra Club, American Association of Retired Persons, National Rifle Association, National Organization of Women. According to a March 1998 news article by The Associated Press citing the Center For Responsive Politics, businesses, interest groups and labor unions spend approximately \$1.2 billion annually to lobby the federal government.
 - **Need for Efficiency.** It is estimated that there are thousands of political campaigns in the U.S. each year, including primary elections, ballot measures, bond elections and elections for political offices ranging from local school boards to the presidency. With an estimated 250,000 political campaigns each year in the U.S., the Center for Responsive Politics estimated that more than \$2 billion was spent in 1996 on U.S. congressional and presidential races alone. Votenet also believes that significant funds are spent on state

and local campaigns. For example, according to a March 1998 news report from the California Secretary of State, five candidates running for California statewide offices in the 1998 primary elections spent more than \$10 million. In Florida, according to the Florida Department of State Division of Elections, candidates for governor in the 1998 election spent more than \$13 million. Almost all campaigns generate and use extensive voter and contributor data files and are subject to complex campaign finance reporting obligations. However, Netivation.com believes that only a small percentage of these campaigns use dedicated campaign management software to generate voter and contributor data files and manage record keeping and reporting requirements.

- **Internet and Politics.** We believe that politically active persons are using the Internet more and more. A survey conducted in April and May of 1996 by the Georgia Institute of Technology's Graphics, Visualization and Usability Center of 11,700 online participants revealed that 91.9% are registered voters and approximately 60% participated in the most recent local, legislative and national elections. More than 40% of the survey respondents reported that they are more involved in political issues since coming online.
- **Campaigning Over the Internet.** Despite politically active persons increasingly using the Internet, political campaigns and special interest organizations communicate their messages and solicit campaign contributions primarily through direct mail campaigns, fundraising events and personal solicitation. Each of these can be an expensive and inefficient means by which to reach a targeted audience. Political contributions are generally made by cash or check and few campaign contributions are raised online. For example, a 1998 article entitled "Untangling the Web: Internet use in the 1998 Election" indicated that less than one percent of the campaign contributions made in the 1998 California senate race were raised online. Moreover, political candidates and causes are searching for more effective and efficient means of communicating their message to prospective voters and voters are seeking more timely and accurate information about elected officials, candidates and legislation.

Competition

- **Medinex.** Although Medinex attempts to take advantage of the more promising and proven market, the healthcare industry, we believe that Medinex faces too many challenges in doing so. First and foremost, the largest problem being that the healthcare market has already received much attention in recent years, and is now dominated by larger, more established companies in the industry. The competition is growing and expanding even as Medinex struggles to begin marketing their name. The largest competitors to Medinex are Dr. Koop and Healthcon, which may have already cornered the market for smaller, developing companies such as Medinex.
- **Brand Name Recognition.** In an environment such as the Internet where first to market strategies can prove overwhelmingly important, as a late entry into the healthcare industry Medinex lacks brand name recognition. More importantly, the competition has already established itself at the forefront of the market. Sponsorships and alliances pose another threat to Medinex as Dr. Koop and Healthcon have already established themselves with larger names such as AOL.com, Netscape Netcenter, and ESPN.com. Without strong sponsorships or any kind of competitive advantage, we feel that Medinex will be unable to establish the Medinex brand name.
- **Brand Loyalty.** Because of the uncertainties surrounding safety and quality issues regarding the Internet, customers have shown a tendency to rely on larger, more established companies. Therefore, because nearly all of Medinex' services are also provided by either or both Dr. Koop and Healthcon, Medinex lacks a competitive advantage to challenge either company and develop brand loyalty. However, Medinex does have plans for a Physician's Office Management System, which Netivation.com

believes may provide such a competitive advantage. Because this system has not yet been released, we cannot now evaluate the actual impact it may have. Moreover, we believe that Healtheon provides similar systems, which will draw users to use their systems instead, as Healtheon has both brand name recognition and provides many more services than those offered on Medinex.

- **Analysis.** Because Medinex faces competition which is further developed and far more established than itself, as well as the fact that Medinex presents no competitive advantages or any sort of brand name recognition, we feel that Medinex will not be able to increase its market share in the online healthcare market.

Competition to Medinex			
	Medinex	Dr. Koop	Healtheon
Strengths	Website Search Engine Phys. Office Mgmt. Sys.	Brand Name Recognition Website Search Engine Strong Strategic Alliances	Brand Name Recognition Document Search Engine Provides the Most Services Strong Strategic Alliances
Weaknesses	No Brand Name Recognition No Strong Competitive Adv. Lacks Strategic Alliances		No Website Search Engine

- **Votenet.** The impact of the Internet on upcoming elections and campaigning efforts may not yet be clear, but the industry is large and promising and Votenet has established itself early as a leader in the political community market. Although the company competes with sites of greater brand name recognition, such as ABCNews.com and C-Span.org, Votenet has already logged one million hits per month. Individually neither competitor offers all of the services and products of Votenet. For example, we are not aware of any organization that offers Website development services and e-mail accounts to politicians and other politically active persons, as well as real-time congressional voting information delivered electronically to a user. We believe that the robust nature of their product and service offerings will position them to compete in the political community markets.
- **First to Market.** The impact of the Internet on upcoming elections and campaigning efforts may not yet be clear, but the industry is large and promising and Votenet has established itself early as a leader in the political community market. Although the company competes with sites of greater brand name recognition, such as ABCNews.com and C-Span.org, Votenet has already logged one million hits per month. We believe that with the recent emergence of such companies as POCO and GOP2000, Votenet possesses the advantage of having been established for nearly one year now, heading into the upcoming presidential election. It is also important to point out that although ABCNews.com has name credibility, the site does not handle politics exclusively, and thus provides less services than do either Votenet or C-Span.org.
- **Search Engine.** Although both C-Span.org and ABCNews also support search engines, neither search engine searches through a database of political Websites. The search engines provided on those two sites are, instead, document based search engines primarily providing documents created for each respective site. We feel that as the numbers of politically focused Websites grow in number, so will the effectiveness of the Votenet search engine.
- **Online Fundraising.** The greatest competitive advantage that Votenet possesses is closely tied into the impending release of their Online Fundraising System. Although the system has not yet been made available, neither C-Span.org nor ABCNews has made it known that either company will be making any attempts to provide a similar service. Should the system be released soon, Votenet will be in sole possession of this service, and be in a prime position to exploit the benefits of first to market technology. Benefits such as increased brand name recognition, brand loyalty, and exclusivity. However, we must

caution that although the potential is great, the market for online fundraising has not yet been fully explored. We do believe that by releasing this technology first, Votenet will stand to reap the greatest benefits should the market prove viable.

- Analysis.** Although Votenet is primed for growth, it is important to mention that, like Medinex, the site is also not yet being heavily advertised. However, the proposed acquisition of NetCapitol, Inc. would provide additional revenues and an existing customer base. It is also important to note that future revenues may be earned in cyclical patterns, varying with election years and election seasons. Because revenues are generated through fundraising commissions and advertising, the upcoming 2000 presidential election will prove to be a critical time for Votenet. Success during that time may launch the site forward if the legitimacy and potential of online fundraising is established and the community draws significant interest. However, should Votenet fail to draw significant traffic during that busiest of political times, it would be difficult to project greater success in the time thereafter. Many of Votenet's competitors have greater brand recognition and greater financial, marketing and other resources than they have. However, because Votenet's strengths lie in the very fact that they offer more services than their competitors, we believe that should Votenet continue to exploit those strengths by increasing traffic and advertising more heavily, Votenet will continue to grow and generate increased revenues.

Competition to Votenet			
	Votenet	ABCNews	C-Span.org
Strengths	Wide Variety of Services Online Fundraising System	Brand Name Recognition Direct Connection to ABC	Brand Name Recognition Exclusively Politics Wide Variety of Services
Weaknesses	No Brand Name Recognition	Not Exclusively Politics Provides Less Services	

Strategy

The company's objective is to build significant revenues by developing leading Internet communities for large targeted markets. The strategy to achieve this objective is to:

- Focus on Community Growth and Loyalty.** Netivation.com intends to expand their membership base and promote their members' continued involvement in the communities by providing access to useful content for members through targeted search engine and e-mail delivery programs; aggressively developing and marketing our business software applications to key participants of the community; launching new services to enhance the community; and increasing the functionality and ease-of-use of existing products and services.
- Build Multiple Revenue Sources.** The Website communities offer scalable business platforms from which the company plans to generate revenue from multiple sources. The company is positioning their business to capitalize on revenue sources such as: advertising revenues from traditional banner advertisements; e-mail based advertisements and product sponsorships; e-commerce opportunities including product sales and online campaign fundraising; software subscription and training fees for the Medinex office management software; and premium membership services, such as custom Website hosting and design.
- Build Community Brands.** The company intends to: launch an aggressive promotional campaign to increase awareness of its communities through both online and offline advertising; undertake direct mail and telemarketing campaigns to the key participants in each of the communities; and pursue additional cross-linking arrangements with Internet content providers.

- **Pursue Business Alliances and Acquisitions.** Netivation.com plans to pursue business alliances designed to mutually increase traffic and memberships. The company also intends to acquire or invest in companies that can provide synergies with our products or services.
 - **Net.Capitol, Inc.** On July 29, 1999 Netivation.com signed a letter of intent to acquire Net.Capitol.com, a developer of Internet-based products and services for public affairs and political organizations. Among the 200 clients Net. Capitol has served are the AFL-CIO, IBM, National Association of Realtors, Motorola, Inc., Association of American Medical Colleges, and both the Democratic and Republican leadership in the U.S. Senate.
 - **Novartis.** On July 21, 1999 Netivation.com signed a sponsorship agreement with Novartis, a leading worldwide pharmaceutical and healthcare company. The Novartis Foundation for Gerontological Research will serve as the sponsor for the gerontology community at Medinex.com in 1998, Novartis group sales were \$31.7 billion, of which \$17.5 billion was in healthcare, \$8.4 billion in agribusiness and \$5.8 billion in consumer health.
 - **The Online Medical Bookstore.** The Online Medical Bookstore, a Boston-based company that sells medical books and medical supplies via the internet, was acquired as an immediate source of revenue and an expansion into e-commerce for the Medinex site. The Online medical bookstore caters to, and would draw traffic from, both medical students and professionals.
 - **InterLink Services, Inc.** InterLink Services, Inc., a Spokane company that provides Web site design and hosting services, was acquired in an effort to provide Votenet and Medinex members with premium Website design services.
- **Development of Additional Communities.** Netivation.com believes that the business strategies and resources developed for these first two communities can be used in additional communities. Significant portions of the existing technology could then be applied to new communities. However, there are no immediate plans for any future communities as the company has decided to focus exclusively on the two existing communities.

Key Risk Factors

- **Internet Sector.** The future success of the company is likely to depend substantially upon the widespread adoption of the Internet as an attractive platform for commerce, advertising, communication and business applications. Most businesses, advertisers and consumers have only limited experience with the Internet as a commercial, advertising and communications medium and platform for business applications. In addition, the adoption of Internet solutions for campaign fundraising and physician's office management requires the acceptance of new ways of exchanging information and conducting business.
- **Community Development.** The company's future success should also depend on its ability to attract members to their communities to make the communities attractive to advertisers, sponsors and e-commerce partners and on the acceptance and increased use of our products and services. The failure to obtain a sufficiently large number of advertising, sponsorship and e-commerce relationships and widespread use of our products and services should have a material and adverse effect on their business, financial condition and operating results.
- **Brand Recognition.** If the company is unable to establish, strengthen and maintain its brands, the attractiveness to its members, advertisers, sponsors and e-commerce partners could decrease and the business, financial condition and operating results could be materially and adversely affected. To be successful, the company must establish, maintain and strengthen its community brands as well as the brands associated with the individual products and services offered, such as the Online Fundraising System and the Physician's Office

Management System. We believe that brand recognition will become more important in the future with the growing number of Websites.

Analysis of Financials

	1998	1999E	2000E
Revenues*	\$0.6	\$1.5	\$5
Gross Margin	NA	30%	50%
Net Income*	(\$3.629)	(\$7.200)	(\$6.050)
EPS	(\$0.96)	(\$1.8)	(\$1.1)
Shares* Outstanding	3.78	4.00	5.50

* in millions

- **Revenues.** We expect increased advertising and e-commerce revenues, with the release of Votenet's online fundraising system and the upcoming 2000 presidential election. Because the company is still developing, advertising contracts have not yet been established, although they are expected to be a major source of revenues.
- **Gross Margin.** We anticipate that the gross margin will increase as advertising revenues increase.
- **Net Income and EPS.** We expect significant operating losses and net losses because of Research and Development expenses related to the development of fund raising and physician's office mgmt. sys. and mktg. Expenses to create more brand recognition.
- **Shares Outstanding.** Shares outstanding can be expected to increase as the company grows and further efforts are made to generate capital. The company currently has no liquidity problems since it counts with the proceeds from the IPO.

Relative Approach to Valuation

	Price/Sales	Gross Margin (%)
NTVN	295.96	30
IVIL	35.18	4.28
CNET	34.31	52.56
MPTH	17.70	52.61

- **Price to Sales.** The recent price for Netivation.com is \$6.13/share. The stock is thus trading around 295.96 X 1998 revenues. The other companies listed in the above table are Internet companies that specialize in other communities; iVillage in women, Cnet in technology and Mpath in Music. The table shows that Netivation's price to sales ratio is very high relative to the other similar companies. However, we do not believe that this is a sign of overvaluation since the company is a developmental stage company, which is just now beginning to generate revenues.
- **Gross Margin.** We predict a gross margin of 30 percent in 1999, to account for the recent acquisitions of The Online Medical Bookstore and Interlink Services, Inc., which have both generated revenues this past first quarter. We estimate gross margins to increase in the future as advertising revenues increase.

- **Valuation.** Because Netivation.com is still very early in development, the company must be valued on a qualitative basis. As of now, the quantitative figures produced do not provide an adequate assessment of the company's actual value. Such qualitative valuation approach should be similar to those used in venture capital. Therefore, we believe that Netivation is a somewhat unique company with good fundamentals. It is a leader in the online political communities niche providing the most comprehensive services, including an innovative fundraising system. We believe that Netivation is an attractive long term investment. Nevertheless, it is early in its development and the uncertainty of the outcome of its various projects represents a notable risk. We therefore give Netivation an Accumulate recommendation. The performance of the company in the preparations of the 2000 election should be key for investors to further assess the risk and merits of the company.