

Neoprobe Corporation

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www.neoprobe.com

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Richard J. Wayman, CFA
rwayman@researchstock.com

Benefits of Marketing Alliance and Improved Operating Efficiencies Boost 3Q00 Sales 52% and EPS to \$0.02 from a net loss of \$0.15.

Current Data		EPS	FY: Dec	P/E
Current Price	\$ 0.69	1999	\$ (0.34)	-2.0
52-Week Range	3.50-28	2000E	\$ 0.04	18.4
Shares Out (Mill)	26.2	2001E	\$ 0.08	8.7
Ave Volume LTM	170,300	Valuation		LTM
Market Capitalization	\$ 18.1	P/E (Next FY)	18.4	3.5-0.3
LTD/Total Capital (est.)	6.5%	P/B	8.0	32-9
Institutional Holdings	21.0%	Price/Sales	1.9	9.1-1.2
Insider Holdings	3%	Operating Data		LTM
Book Value (est.)	\$ 0.09	Sales Growth	51.7%	41.8%
30Yr Bond	5.85%	EBITDA Margin	5.4%	47.1%
Oil/Barrel	\$ 33.94	Net Inc. Growth	114%	103.7%

Source: Baseline, Big Charts, and researchstock.com



Key Investment Points

- Quarter and YTD operating results grew significantly due to the marketing alliance with Ethicon EndoSurgery, Inc. (a subsidiary of Johnson & Johnson) and streamlined operations.
- Company remains relatively debt-free.
- Only publicly-traded pure-play in this sector.
- Our 12-18 month target price range is \$1.25.

Company Description

Dublin, Ohio-based Neoprobe is dedicated to improving the diagnosis and treatment of cancer by the innovative use of gamma guided surgery. Neoprobe's main product is a gamma detection device used for a surgical procedure called intraoperative lymphatic mapping ("ILM") of the sentinel node. ILM is a minimally invasive technique for evaluating the potential spread of cancer to lymph nodes. Surgeons are using lymphatic mapping as a standard of care for patients with malignant melanoma and investigating its use with breast cancer. The company is developing strategic partnerships to commercialize products worldwide that are based on its proprietary radioimmuno-guided surgery technology (RIGS®).

3Q00 Results

3Q00 results were in-line with our expectations. Operating results continued to improve as the result of the Company's streamlined operations and the relationship with Ethicon EndoSurgery ("EES"). Revenues for the quarter increased 66% to \$2.3 million and EPS was \$0.02 versus a loss per share of \$0.15 in 3Q99. Revenue growth is attributable to the EES contract that was implemented in October 1999. As shown in Table 1, operating margins increased significantly as the result of cost reductions implemented during the last 18 months. While NEOP continues to spend significantly on R&D, part of the investment is reimbursed by EES, as per the marketing agreement.

	3Q99	3Q00	Change	YTD99	YTD00	Change
Unit Sales	1.40	2.13	52%	5.23	6.24	19%
Lic.Revs	0.00	0.20	na	0.00	0.65	na
Total	1.40	2.33	66%	5.23	6.89	32%
Gross Margin	66.5%	51.5%	-23%	33.4%	51.0%	53%
Marketing	1.62	0.04	-97%	3.88	0.21	-95%
G&A	1.08	0.56	-48%	2.89	1.80	-38%
R&D	0.08	0.06	-23%	0.89	0.44	-51%
Operating Inc.	-1.85	0.43	123%	-4.66	0.95	120%
Net Interest	-0.01	0.04	-470%	-0.01	0.11	-2280%
Pre-Tax Inc.	-1.681	0.53	-132%	-4.419	0.613	114%
Net Income	-3.537	0.504	-114%	-8.128	0.353	104%
EPS	\$ (0.15)	\$ 0.02	113%	\$ (0.35)	\$ 0.01	na

Source: Company data.

Financial Condition

NEOP's financial condition continues to improve. While a detailed balance sheet was not available, we think that debt levels remained relatively close to 2Q00 levels while equity increased to \$2.2 million from \$1.7 million at 2Q00 and a negative \$0.5 million at 3Q99.

Outlook

We reiterate our EPS forecast of \$0.04 in FY2000 and \$0.08 in 2001. The stock price has increased 26% since our initial report, but we continue to view this stock as undervalued. While a more detailed discussion of our earnings model can be found in our initial report (dated October 16, 2000), we will summarize the key points below and our EPS model is presented in Table 2.

- We kept our quarterly unit sales forecast is relatively flat with 2Q00 results because we think this is a good approximation of volume at this early stage of the marketing arrangement with EES. While we expect some pricing pressure in 2001, we think this could be offset by increased volume;
- The gross margin on units sold is constant at 45% (which approximates the average margin during 1H00);
- NEOP's residual marketing costs increase 3% annually;
- G&A grows at a 3.5% rate quarter over quarter; and

- Taxes are estimated at 4% of operating income and approximate the impact of the Alternative Minimum Tax and local taxes that are not offset by NOL tax credits.

Table 2: Annual Income Statement & Forecast						
(\$Million, except per share data)						
	1996	1997	1998	1999	2000	2001
Unit Sales	1.17	5.13	5.83	9.25	8.74	10.40
Lic Fees	0.00	0.00	0.00	0.20	0.85	0.80
Total Revenues	1.17	5.13	5.83	9.45	9.59	11.20
Cost of Goods Sold	0.68	1.58	1.40	4.51	4.89	6.05
Gross Margin	0.49	3.55	4.43	4.94	4.71	5.15
SG&A	7.75	11.16	11.36	8.21	2.65	2.81
R&D	16.08	19.66	14.37	1.31	0.52	0.50
Operating Income	-23.34	-27.27	-28.47	-5.06	1.54	1.85
Interest Expense	0.00	0.00	0.60	0.10	0.17	0.18
Other Income/Exp.	2.37	4.02	0.03	0.16	0.12	0.15
PreTax Income	-20.97	-23.25	-28.03	-4.17	1.81	2.15
Income Taxes	0.00	0.00	0.00	0.00	0.05	0.09
Net Income	-20.97	-23.25	-28.03	-4.17	1.75	2.06
Stock Convresion	0.00	0.00	0.00	-3.72	-0.76	0.00
Net to Comm SH	-20.97	-23.25	-28.03	-7.90	0.99	2.06
EPS-Diluted	N/A	\$ (1.02)	\$ (1.23)	\$ (0.34)	\$ 0.04	\$ 0.08
Ave. Shares Out.		22.7	22.8	23.0	26.3	26.1
Effect. Tax Rate		0.0%	0.0%	0.0%	2.9%	4.0%
Growth Rates						
Revenues	22.0%	337.9%	13.7%	58.5%	-5.4%	19.0%
Operating Income	102.6%	16.8%	4.4%	-82.2%	-130.5%	19.8%
Net Income	94.9%	10.9%	20.6%	-71.8%	-112.5%	108.5%
EPS		N/A	20.0%	-72.0%	-110.9%	110.7%
Margin Analysis						
Gross (ex-Lic. Fees)	42.2%	69.3%	75.9%	51.2%	44.1%	41.8%
Operating	-1993.4%	-531.7%	-488.1%	-54.7%	17.6%	17.7%
Net	-1790.8%	-453.3%	-480.6%	-45.1%	20.0%	19.8%
Boldfaced data are estimates						

The shares continue to look undervalued, as shown in the peer group comparison in Table 3.

Company	Symbol	Price	Market Cap.(MM)	LTM Return	P/B	P/S	Calendar P/E		
							1999	2000	2001
TRIPATH IMAGING	TPTH	\$ 8.00	228.7	38%	5.9	7.6	-7.0	-21.6	66.7
CELSION	CLN	\$ 2.00	121.4	165%	105.3	-	na	na	na
FISCHER IMAGING	FIMG	\$ 3.25	26.2	236%	1.0	0.5	-5.1	na	na
VISTA MEDICAL TECH	VMTI	\$ 1.38	26.8	132%	7.5	4.1	-2.1	na	na
PHOTOELECTRON	PHX	\$ 4.31	33.8	21%	-	30.2	-4.4	na	na
MATRITECH	NMPS	\$ 5.06	127.1	84%	39.9	105.2	-17.5	na	na
CHROMAVISION MED	CVSN	\$ 4.19	81.7	-70%	7.9	88.5	-6.6	-5.7	-8.2
VYSIS	VYSI	\$ 6.25	63.1	113%	5.6	2.7	-5.7	na	na
IGEN INT'L	IGEN	\$17.75	280.5	-33%	-	10.8	-12.3	-9.6	-10.9
average			109.9	76%	24.7	31.2	-7.6	-12.3	15.9
NEOPROBE CORP.	NEOP	\$ 0.69	18.1	0%	8.0	1.9	-2.0	18.4	8.7
	JNJ	\$93.56	130082.9	-8%	6.9	4.5	28.2	31.6	27.5

Source: Baseline, Company data, and researchstock.com.

With no change in our EPS and valuation expectations, our 12 – 18 month target price remains \$1.25 (Table 4 illustrates our methodology). A technical analysis indicates that the shares are currently trading at a key resistance level. If the shares breakout above \$1.00, the next resistance level appears to be \$1.25.

Price to:	LTM Range		Forecast Multiple	2001 Estimate	Range
	Absolute	Average			
Sales	9.3	4.8	5.0	\$ 0.43	\$ 2.15
	1.2	1.6	1.5		\$ 0.64
Book	32.4	-154.5	15.0	\$ 0.14	\$ 2.11
	-93.7	-22.0	5.0		\$ 0.70
EPS	-1.1	-6.0	20.0	\$ 0.08	\$ 1.58
	-4.1	-2.2	5.0		\$ 0.40

Average High	\$ 1.95
Low	\$ 0.58
Average	\$ 1.26

Risk Consideration

Investors need to consider the following risks before investing:

The Company currently sells just one product (the ILM technology) with a growing number of attachments and supplies.

While other uses are under development, the units are only widely used on the diagnosis and treatment of two primary types of cancer: melanoma and breast cancer. While the Company believes that its technology has significant advantages over other methods, broad-based

acceptance will not occur until physicians outside major cancer centers and teaching hospitals adopt the ILM approach.

NEOP is highly dependent on EES, the company's exclusive distributor. EES is a subsidiary of Johnson & Johnson. EES has agreed to purchase a minimum quantity of NEOP products during the first three years (until late 2002) of the first five-year term of the agreement. However, there can be no assurances that EES will purchase product from NEOP in excess of the minimum or that such purchases will generate sufficient cash flow to finance NEOP's operations over the long term.

The Company has outsourced its manufacturing needs and is dependent on one supplier. While we think it was a good decision to outsource manufacturing, this does result in the risk that the supplier may devote resources to other clients and not meet the needs of NEOP.

The shares are not very liquid and thus subject to volatility. Average daily volume for the last 50 days has been about 102,00 shares versus the average of 170,300 during the last 12 months.

The Company is not widely followed by Wall Street analysts (we are initiating coverage with this report). Consequently, it is possible that valuations differential could persist due to a lack of analyst support.

This report contains "forward looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence upon third party vendors; year 2000 issues; and other risks discussed in the Company's periodic report filings, including interim reports, with the Securities and Exchange Commission. By making these forward looking statements, researchstock.com, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

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