HOTMAIL: Free E-mail for Sale (B)

Discussions with Microsoft continued for two months through to the end of 1997. During that time Microsoft representatives would fly down to Silicon Valley and Bhatia and Smith were flown up to Redmond, Washington to meet Bill Gates in person. Gates peppered the Hotmail entrepreneurs with strategy questions, just as the VCs had done when they first pitched the idea. The discussions continued and the amounts were raised with each meeting. The final price was in the currency of Microsoft shares. Hotmail owners got 2,769,148 shares, which were worth $400 million when the deal was announced on the last day in 1997. Bhatia’s share was $75 million.

At the time Hotmail had 9.5 million subscribers and 50-60 advertisers supporting the site. In comparison, Four11, which was sold to Yahoo for $93 million, only had 1 million subscribers in October of 1997. Lycos bought WhoWhere and its 10.6 million subscribers for $133 million in August of 1998. Only iName and USA.net had not been bought yet.

1 Po Bronson, “What’s the Big Idea?”, Stanford Magazine, September/October 1999