How Steve Young, sports legend, mastered dealmaking

SUBSCRIBER CONTENT:
Jul 12, 2013, 3:00am PDT

VICKI THOMPSON

Steve Young, former 49ers star, tells the inside story of his education as a businessman

Coming up on Christmas Eve 2011, former Super Bowl MVP quarterback Steve Young found himself fighting traffic out of Silicon Valley, driving north to persuade the founder of a software company to give up control of the business he'd spent 33 years building. For Young, the negotiation to acquire Emeryville, Ca.-based library data company Innovative Interfaces from founder Jerry Kline wrote another chapter in his post-football evolution into a dealmaker. It also illustrated Young's value to private equity firm HGGC, which he co-founded in 2007. "That was the meeting to get Jerry to actually agree to let us do the work and give us exclusive rights," Young said in an exclusive interview. "That's a tough signature to get."

HGGC and Young quietly nailed the deal, notching another investment for its first, $1.1 billion fund. HGGC, based in Palo Alto, plans to begin raising its second fund of about $1 billion this fall.

In an era when private equity firms hire marquee names to outshine the competition, it's tempting to think Young's celebrity is his primary contribution at HGGC. But interviews with Young — who for the first time shared the whole story of his post-football career with Silicon Valley's heaviest hitters — tell a different story.

Yes, Young, 51, reinvented himself as a businessman by parlaying 49ers football fame into an enviable network. What separates him from other private equity celebrities — think Bono — is that Young jumped into the guts of dealmaking.

Young's ability to master a second career after dominating his first one illustrates that in business, even unlikely reinventions are possible. And while few are born with the tools needed to quarterback a team to a Super Bowl victory, Young's transformation into a private equity investor required a practical education in business that's common to any entrepreneur.

"You have to have a lot of humility because you're not great at this new thing," Young said. "You were pretty good at something else. And you have that notoriety. You have a leverage point, but it falls apart very quickly."

Digging in

Larry Sonsini, chairman at legendary Silicon Valley law firm **Wilson Sonsini Goodrich & Rosati**, first met Young when the ex-player joined the board at PowerBar in 1999. Young's mindset caught Sonsini's attention at their first board meeting.

"We were discussing the strategic direction of the company and how to expand into the protein bar market," Sonsini said. "Rather than just getting enthused, Steve asked questions like 'What part of the market do we want to address?' and 'How do we address it without sacrificing the key principles of the company?'"

Young went on to secure seats on other corporate boards, start and sell a business, and help put together a fund of funds, which invests in venture capital and other private equity firms. At HGGC, he pulls on a network built up through sports, his charitable work through the Forever Young Foundation and the deals he's bagged along the way.

Today HGGC, formerly Huntsman Gay Global Capital, is a position player in the private equity world, buying companies with about $500 million in revenue that want to go global, said firm co-founder and managing director Rich Lawson. HGGC seeks majority ownership with investments between $25 million and $100 million in companies run by owner-entrepreneurs who are ready to relinquish control.

The elephant

That profile explains part of Young's value to the firm. Executives at companies HGGC has acquired say Young downplays his celebrity, disarms and charms.

"I try to come in with as soft a presence as possible but inevitably, football is always a little bit of an elephant in the room," Young said. "Some people are put off by it. Some people are overenergized by it."

Last month, HGGC took control of MyWebGrocer, a Winooski, Vt.-based e-commerce company that helps brick-and-mortar grocers compete against online giants like **Amazon.com**. The investment came in at the upper end of HGGC's $100 million comfort zone, people familiar with the deal said.

Rich Tarrant, MyWebGrocer's founder and CEO, said he wasn't looking for a quarterback when considering raising funds.

"HGGC and Steve immediately understood our business and how to execute," Tarrant said. "They actually started an e-commerce company about the same time we did, back in '95-'96."

Proving ground

The e-commerce company Tarrant refers to, Found Inc., is where Young, beginning in 1997, got the business education he never formally pursued. (He pocketed a law degree from **Brigham Young University**, while playing for the 49ers.)

Found attracted investment from **Bain Capital**, the private equity giant co-founded by former unsuccessful 2012 Republican presidential candidate Mitt Romney.

Young at the time was already an investor in Bain, his charitable work having brought him into contact with Bob Gay, a Bain managing director and fellow member of the Mormon church. Bain brought on Lawson, then a Morgan Stanley investment banker, as CEO.

“I had to make up for lost time,” Young said of Found, where he sat as chairman.

Young learned the business ropes and aggressively built a network among Silicon Valley leaders including Frank Quattrone, the investment banker who advised and raised growth capital for many companies that drove the 1990s tech boom.

Quattrone said they met when Young pitched him on University Technology Ventures, a fund of funds started by ex-49ers that later changed names to Northgate Capital.

“He was in the process of making a transition from the pro sports world into the business world, had done his homework and was looking for ways to accelerate his business network and career,” Quattrone said of Young in an email.

Quattrone ended up recruiting Young onto the board of the **Tech Museum of Innovation**, where he says Young has greatly enhanced its signature events.

Getting started

Young’s first investing forays began before concussions forced him to retire from football in 1999. It was the mid-1990s, a dynastic period of 49ers football dominance and the beginning of the dot-com bubble. Young and some of his teammates seized the business moment.

Four-time Pro Bowl tight end Brent Jones, who went on to found Northgate with Young and former teammates Mark Harris and Thomas Vardell, said he spent months reaching out to venture capitalists before finally raising a signal on Sand Hill Road.

“You can’t necessarily do this as a Bengal, or a Brown or a Bill,” Jones said. “But here we are in the heart of Silicon Valley and the Niners have cachet, and you had guys that understood that."

Doug Leone, a general partner at **Sequoia Capital**, was among the first VCs to work with the cadre of 49ers.

"They said they could help with branding for the companies and were happy to give motivational speeches," Leone said. "If Steve or Brent wanted to give a speech and then invest, we thought it was a win-win."

Some of their early investments, which ranged from $25,000 to $100,000 per player, competed with football for their attention. The 1999 IPO of VA Linux, which at the time was the biggest initial offering ever, proved headiest, Young said.

"They're on the phone with me. We had made 700X or 800X on our money," Young said of the paper gains from the IPO. "Coach Mariucci was yelling, saying we were late for a meeting and he was going to fine us. We said, 'OK, fine!'"

The insane valuation on VA Linux ratcheted down into a solid gain even by boom standards. "It was the worst 15X money I ever made," Young said.

After Bain sold Found in 2000, Young, Lawson and Gay went on to co-found Sorenson Capital in 2001. The idea for HGGC grew out of Sorenson.

Private equity

In June, **SAP** AG announced it would acquire HGGC portfolio company Hybris in a deal worth more than $1 billion, according to people familiar with the transaction.

That comes on top of $1.8 billion in exits in 2012, the people said. That means HGGC has returned its fund and still has the potential to make money on the eight companies remaining in its original portfolio of 13.

HGGC will earn the industry average of 20 percent of profits on those exits, people familiar with the firm said. Along the way, HGGC and its partners will take the 2 percent management fee on invested capital typical of the private-equity industry.

Young has been most heavily involved in five deals that account for two-thirds of HGGC's investments, Lawson said. Those include Hybris (which was folded into an earlier acquisition called iCongo, Innovative Interfaces, Sunquest and MyWebGrocer.

"I've come to a real understanding of the enormity of what owner-entrepreneurs do in founding great businesses," Young said. "Their feats are to be appreciated the same way you would appreciate other great feats."

Greg Baumann
Editor in Chief
Silicon Valley Business Journal