

# MERGERS & ACQUISITIONS

## HGGC's Final Close of Second Fund Illustrates Strength of Succession Plan

Founders still with the firm are Rich Lawson, Greg Benson and former San Francisco 49ers quarterback Steve Young



By Allison Collins March 4, 2015

Palo Alto, California private equity firm **HGGC** has closed its fund with \$1.33 billion in capital commitments.

The firm surpassed its initial \$1 billion target for the fund, which had a first close in spring 2014 with about \$500 million to support the firm's acquisitions of Serena Software and Auto Alert, and then a second close in December at around \$1 billion, according to HGGC CEO Rich Lawson.

The fund closed at its hard cap of \$1.25 billion, and got to \$1.33 billion through about \$80 million in GP commitments from HGGC employees, Lawson says. "We are the largest investor in ourselves, which is sort of a Warren Buffett kind of model," Lawson says.

HGGC prides itself on conducting mid-90s private equity transactions – meaning it buys a majority stake in a business and then asks that business' founders or management team to re-invest equity for a minority stake in the company. "Most firms don't want that – they want to buy 100 percent of the company because they think they know better than everyone else," Lawson says.

"We don't distinguish between a seller that is a founder, a management team or a sponsor so long as they believe it is too early to sell 100 percent, but they are willing to sell us control and we can all get comfortable on why it is the second, not the seventh, inning," Lawson says.

That is one of the reasons the firm has had such success in broad auctions, and generally, according to Lawson. "We have won broad processes when we were not the highest bidder."

For its second fund -- the first fund since two HGGC cofounders, Jon Huntsman and Robert Gay, left the firm -- HGGC had to turn down money to keep it in the \$1 billion range, according to Lawson. Investors include about seven of the top 10 investors in the firm's previous fund, plus new investors such as PKA AIP, which announced a \$125 million commitment to HGGC in September. PKA AIP also co-invested in the Serena Software deal.

Staying at around \$1 billion works for the firm because its model is people-intensive. HGGC pairs two of four partners (Lawson, former San Francisco 49ers quarterback Steve Young, former Bain exec Greg Benson and former Citigroup Inc. (NYSE: C) CFO Gary Crittenden) up with each company. The \$1 billion fund size, coupled with the firm's targeted middle-market investment size and hold periods, mean that raising a larger fund that would need to do more deals does not work for the firm's current business model.

Generally, the firm raises employees internally, according to Lawson. "If we promoted two more people

internally, then we could add a few more deals, and a fund might get a little larger – but we'd still be doing the same size deals," Lawson says.

HGGC plans to make 10 platform investments from the fund, and has already made four of them: AutoAlert, which provides cloud-based data and analytics services to the automotive market; Pearl Holding Group, an insurance-services company; Serena Software, an information technology business; and Survey Sampling International, which provides data and technology services for consumer and business-to-business research.

With the new fund, HGGC now has more than \$2.4 billion in capital commitments. For more with HGGC, watch our video interview with Lawson.

Evercore served as global placement agent for the fund, and Kirkland & Ellis LLP provided legal advice.

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