

Sweat Equity And The Celebrity PE X-Factor

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After building careers in the public spotlight, a select - but growing - number of celebrities are exploring the quiet, button-down world of private investing.

From actors and musicians to sports stars and politicians, these celebrity investors are often lending their names and expertise along with their money to help build start-ups and make deals for private equity firms - but not without some bumps along the way.

Start-Ups Seeking Star Power

Although seeding start-ups doesn't represent a huge financial risk for ultra-wealthy celebrities, some are investing more than money. They're often acting as beta testers, making design decisions and contributing their sweat along with equity in hopes their start-up will be a hit.

"I liked everything that we were doing, but I wanted a different design for the search queries that came back," said former rap star MC Hammer, describing WireDoo Inc., a search company he co-founded and backed.

Hammer, whose real name is Stanley Kirk Burrell, arranged a lunch with WireDoo staff and Jason Putorti, the lead designer of personal finance website Mint.com and creator of design marketplace Elegant.ly, among others. The discussion evolved, with Putorti ultimately asking Hammer advice on his new venture. "I get excited about a product and then I just try to be helpful," said Hammer.

Although the start-ups scoring celebrity cash are as different as the celebrities who fund them, they do have some common themes and there's a reason why it's happening now. Unlike semiconductor companies and life science start-ups, consumer Internet, social and mobile enterprises (the main sectors being funded by celebrity investors) primarily rely on a good user experience and on achieving critical mass to be successful - two areas of expertise that often overlap with celebrities' background. And thanks to lower computing costs and faster development tools, companies can be built more cheaply and quickly than ever before, and don't require huge amounts of capital before hitting critical mass. That dynamic, combined with the rise of social networking, is a potent cocktail for enabling start-ups to leverage celebrity followers to gain early traction.

Case in point: Actor Ashton Kutcher, with a Twitter following of 8 million, has become a marketing force. He's invested in nearly two dozen start-ups during the past few years, ranging from location check-in service Foursquare Inc. to website Q&A site provider Optimizely Inc.

But it's not just his money or marketing prowess that entrepreneurs like - although the founders of flirting service LikeALittle Inc. concede they do have a life-size cardboard cut-out of Kutcher in their headquarters. Entrepreneurs interviewed say the former biochemical engineering student-turned actor is fairly technical and brings product advice to the table. "He signed up for beta (testing) and created slashtags. He really impressed me," said Rich Skrenta, founder and chief executive of search site Blekko Inc., one of Kutcher's seed investments. "Some investors ride trends and momentum and then there's others that roll up their sleeves and use the product. He's definitely the latter."

Although their fame precedes some celebrity investors - Blekko's Skrenta actually admits he was initially hesitant to meet Kutcher because he thought he was "a Hollywood guy" - that's not always the case.

Bump Technologies Inc. founder David Lieb said he first met MC Hammer two years ago. Although he said he grew up listening to his songs, he didn't recognize him among the group invited to watch the San Francisco Giants in the viewing box of SV Angel founder Ron Conway. "People were wearing hoodies and then there was this one well dressed guy. He stood out. He was talking about technologies, so I figured he was an investor," said Lieb, adding he had a pretty in-depth chat before deciding to try using Bump's data sharing application with the investor. He "bumped" his phone against Hammer's to swap contact information and only then did he realize the investor's identity. "I looked down and it said 'Do you want to connect with MC Hammer?'"

Since becoming an investor, Lieb said Hammer has helped shape a number of products and provides a different perspective than the one he typically gets from users or other backers, which include Andreessen Horowitz, Sequoia Capital, Sherpalo Ventures and SV Angel. Said Lieb: "Hammer's a start-up guy."

Red Carpet Buyout Names

While the curriculum vitae of most buyout managing directors may include stints at investment banks, advisory or even law firms, a handful are better known for winning Super Bowl trophies, Grammys or platinum records.

Even before hanging up his helmet as quarterback for the San Francisco 49ers, Steve Young was an investor in several VC funds, and he bridged the gap into private equity investing shortly after leaving the field. Before co-founding Huntsman Gay Global Capital, Young was a founding member of fund-of-funds Northgate Capital and buyout firm Sorenson Capital.

Steve Kramer, North American president of e-commerce business Hybris AG, a Huntsman Gay portfolio company, said both Young and Huntsman Gay Managing Director Richard Lawson Jr. impressed him because of their previous work building e-commerce company Found Inc. in the 1990s, a business Kramer described as "10 years ahead of its

time." Young serves on the Hybris' board, and guides discussions on "everything from sales and marketing strategies to product vision," said Kramer.

Young leverages his part-time job - as co-host of the Monday Night Football pre-game show on ESPN - by meeting with limited partners, portfolio companies, business owners, bankers and media while on the road. On a recent week in November, Young and Lawson flew to Madison, Wis., and met with limited partners prior to the Green Bay Packers game against the Minnesota Vikings, where they hosted a number of industry professionals in a private box. The pair were on a red-eye flight and back at their desks by Tuesday morning. "These are people who know how to cultivate their public; they're goodwill ambassadors," said one limited partner adviser.

No one personifies that goodwill ambassador label more strongly than Bono, the lead singer of Irish rock band U2, and managing director and co-founder of Elevation Partners. The crooner, aka Paul Hewson, is known as much for his efforts to combat AIDS and poverty in impoverished countries as for his Grammy-award winning music. The star also took an integral role in securing a number of deals for Elevation, including its early stake in Facebook Inc. and Bioware Corp., said a source familiar with the firm. "His ability to close deals is unbelievable. His speech is pretty darn effective," this person said.

The Price Of Fame

Still, having a celebrity investor isn't without risk. When they fumble, they do so in the public spotlight and the fallout can be ugly. For example, when Kutcher recently tweeted his dismay that Penn State coach Joe Paterno was being fired - not realizing it was because of Paterno's alleged mishandling of a sexual assault case involving a former assistant coach - it unleashed a storm of criticism. The founder of one of the start-ups he invested in declined to comment for this article, saying he wanted to distance himself and his start-up from Kutcher until the controversy quieted down.

Reality TV star Kim Kardashian, whose over-the-top wedding ended with a divorce filing 72 days later, angered fans and prompted some to question whether it was a money-making publicity stunt. Shoedazzle.com Inc., which raised \$60 million from investors, counts Kardashian not only as an investor but also a fashion adviser. The company didn't respond to a request for comment.

Divorces and ill-thought-out tweeting aside, high-profile names playing in the private equity world have to ensure that their interests are aligned with those of other investors and limited partners, said one LP adviser. "The other activities of the celebrity could have an impact on the perception of the fund," said this person. For example, in 2010 U2 made headlines when its tour was being sponsored by Blackberry - at a time when Elevation was heavily invested in one of the smartphone maker's competitors, Palm Inc. The firm sold its stake in July of that year to Hewlett-Packard Co. for \$1.2 billion.

Beyond the Palm-Blackberry dilemma, having a competing career - U2 was on tour most of 2010 and 2011 - can raise

questions among LPs as to what role the person plays in the firm. "The original plan was that he [Bono] would source deals, but I just don't see how much of that he really did," said one Elevation backer. "He's out touring and saving the world, so you have to wonder how much time he really has to sourcing deals. He's just one guy."

Meanwhile, Young downplays the impact his fame has on Huntsman Gay's business, but acknowledges that it is helpful in the branding process. "On the marketplace, I think notoriety is fine," said Young. "But the proof is in the pudding. You have to return dollars to limited partners and do right by the companies you work with."