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Steve Young Is an Athlete Who's Actually Good at Finance

The next time you see him on ESPN, remember: He's probably thinking about private equity.

Photographer: Nathanael Turner for Bloomberg Businessweek

by **Alex Sherman**
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From

Before a *Monday Night Football* **game in Minneapolis in October, Steve Young seems to be doing the typical** work of an ex-quarterback. Still fit and even boyish-looking at 55, Young is roaming a patch of sideline, chatting and taking pictures with a group of men, all of whom look thrilled to be near the San Francisco 49ers legend. Then Young ducks over to a nearby ESPN set, where he talks about the Vikings' offense for an audience of several million viewers. Then back to the same gaggle of men. The process repeats: glad-handing, TV hit, glad-handing.

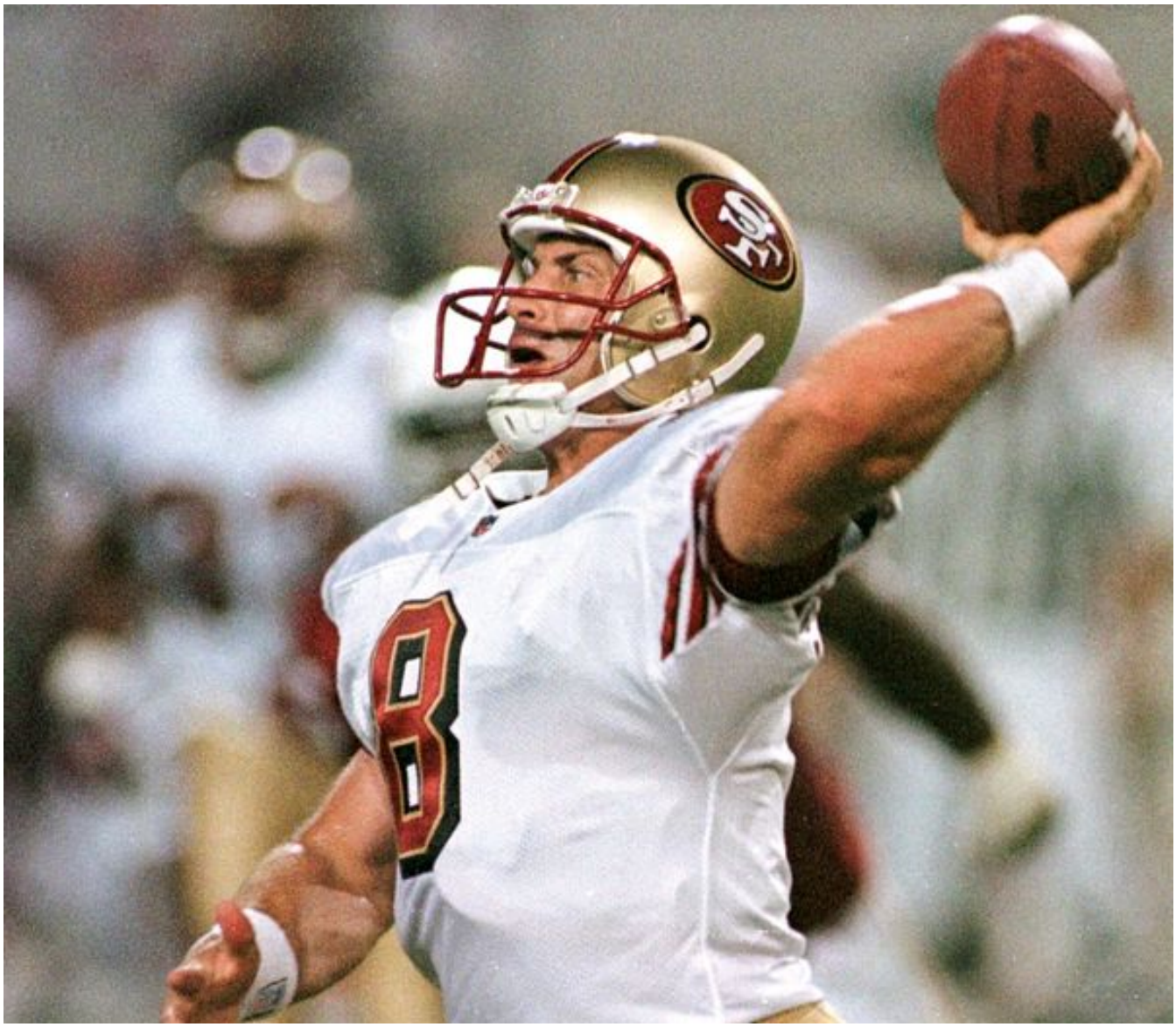
Soon enough, though, it's clear that Young is paying a lot more attention to one of these tasks than the other. The moment the ESPN cameras are off, he bolts to the group on the sideline. And once he's there, talk rarely turns to football. Young is schmoozing people connected to the private equity firm, HGGC, that he co-founded a decade ago. The firm has a niche within a niche—it specializes in acquiring majority stakes of enterprise software companies worth $300 million to $500 million—and it uses *Monday Night Football* games as marketing events. When the season begins, Young and his partners buy a luxury suite for virtually every Monday matchup. Young, HGGC Chief Executive Officer Rich Lawson, and a handful of others from the firm travel from NFL city to NFL city, meeting with portfolio companies, acquisition targets, and customers.

In Minneapolis, the guest of honor is a company HGGC acquired in April. Called FPX, it makes a cloud-based price-quoting system, and its executives have invited potential clients, including UnitedHealth, the $153 billion health-care behemoth headquartered nearby. After the group leaves the sideline for HGGC's luxury box, Young gives a younger colleague some pointers on how to pitch FPX's software.

Lots of professional athletes retire and attempt a second career in finance. Many fail. Others hang on as front-office window dressing, celebrity their only value. Young turns out to be the rare ex-jock who's actually good at private equity—doing original research to find takeover targets, learning how to model deals in Microsoft Excel, and helping to manage the companies after acquisition. HGGC has generated an average annual yield of 66 percent over the last three years, according to a firm presentation obtained by Bloomberg News.

Young says he may have quit ESPN years ago if not for his private equity partners, who like him to keep a high profile. When he works a *Monday Night* game for the network, he spends no more than an hour or two at the stadium preparing his commentary, he says; the rest of the time, he's holed up in HGGC's suite, cramming for deals. Once the game starts, he barely watches the action. A couple of transactions, he notes, have even been agreed to with handshakes in the suites.

"My wife hates football, and my kids don't really care," Young says. "I see myself as a deal guy first. I've put football behind me. Roger Staubach once told me—and I'll never forget it: 'When you retire, run. Never look back.' "



In 1999, against the Arizona Cardinals.
Source: Courtesy 49ers

There's a moment in Young's recently published autobiography, *QB: My Life Behind the Spiral*, **when he's at** college and calls his dad to say he needs a loan for a car. He's a varsity quarterback for Brigham Young University and wants to get around campus in style. His father has a more economical idea: He'll drive cross-country to deliver Young his Oldsmobile, with more than 200,000 miles on the odometer. Young responds: "Oh, c'mon, Dad. No way!"

Young was about 21 when he theoretically said this. It's hard to imagine a 21-year-old speaking that way—like a character from *The Andy Griffith Show*. And yet Young really may have chirped these Mayberry-ish words. His preferred drink is milk. As a practicing Mormon, he won't touch alcohol and doesn't believe in sex before marriage. Young's aw-shucks attitude helps him professionally. He thinks before he speaks and doesn't answer in platitudes, which makes him not only an excellent football commentator but also an endearing dealmaker, especially when everyone else around the negotiating table tends toward the mercenary.

Young's father, LeGrande "Grit" Young, grew up poor and worked his way through law school at the University of Utah as a janitor, getting four hours of sleep a night. He got a job with Anaconda Copper Mining as an in-house labor lawyer, and eventually, in 1970, after getting a transfer to the New York office, moved his family from Utah to Greenwich, Conn. Steve was entering the third grade. He grew up surrounded by some of the country's wealthiest bankers and investors and studied his father's approach to the law. Grit usually wore nice clothes to work, but not when he had a meeting with the mining company's labor organizers. "I used to watch my father wear frayed shirts to relate to the union workers," Steve says. "It definitely taught me some things about negotiation."

In Greenwich, Grit kept his four sons and one daughter grounded by lying about his salary, claiming he made only $6 a day. If Steve or his siblings wanted new cleats or a baseball glove, Grit would say, "I'd love to, but, you know, I only make so much. " All the Young children took part-time jobs. All of them were also gifted athletes, but Grit told them to focus on grades and education. "Steve dreamed a lot about football," says Grit, now 80, from his house in Las Sendas, Ariz. "He had Staubach's poster on his bedroom wall. But sports are a dream. You have to be educated. You need to get skills when football falls apart." Football never fell apart for Steve, though. As he excelled at each level of the game, Grit was bewildered. "Starting in high school, I was just flabbergasted. Then he succeeds in college—I couldn't believe it. And then as a professional athlete. ... Honestly, Steve's personality is probably a better fit for law or business."

"What are you going to do when you graduate? You play until you're in your 30s. Then what? There's a whole 'nother life you're going to have"

An unusually agile runner, Steve developed his distinctive left-handed passing game at BYU, finishing second in voting for the 1983 Heisman Trophy, awarded to the nation's most outstanding college player. He went pro by signing a bizarre $42 million, 43-year contract with the Los Angeles Express of the short-lived United States Football League. The agreement, structured as an annuity in part because of the team's shaky finances, technically made Steve the highest-paid player in all of professional sports. But Grit still wasn't convinced football was a viable career. "I saw him in the offseasons, and he was just goofing off with his friends back in Provo," he says. "I said, 'You've got to get some skills to succeed in business, or in life. Why don't you go to law school?' "

Steve did so after switching to the NFL. (He got only $3.5 million from his USFL contract.) After a stint with Tampa Bay, he signed with San Francisco. During the season, he apprenticed as a quarterback under Joe Montana, and over the course of seven offseasons, he pursued a law degree at BYU. (His great-great-great-grandfather was Brigham Young himself.)

Young eventually got the starting job, and in 1992 he won the first of his two Most Valuable Player awards. He says, "There was one day when I turned to my dad and said, 'Guess what? The plan and the dream merged!' And he said, 'No, it didn't. What are you going to do when you graduate? You play until you're in your 30s. Then what? There's a whole 'nother life you're going to have.' "

Young won three Super Bowls with San Francisco during his law school years—two as a backup to Montana and one as a starter, in 1995. "When he graduated from law school, I was really proud of him," Grit says. "It's hard to equate that exactly with how I felt after he won the Super Bowl. But for me, when he graduated—that was the height of my expectations."

On Sept. 27, 1999, while playing against the Arizona Cardinals on *Monday Night Football*, **Young dropped back to** pass. Cornerback Aeneas Williams blitzed. None of the 49ers' linemen laid a hand on Williams as he left his feet at full speed to hit Young, who slammed his head into another player's thigh and then the ground. Young remained very still for a very long time, and he never played again. It was his seventh official concussion. (Young says he's never experienced lingering symptoms from head injuries.)

Seventy-eight percent of former NFL players go bankrupt or come under financial stress just two years after they retire, according to a 2009 report in *Sports Illustrated* that cataloged profligacy, poor investments, fraud, and other causes. Young was better positioned than most. He'd been lucky to play in the 1990s for San Francisco—a boomtown, with entrepreneurial activity everywhere. His first taste of the corporate world came when he joined the board of directors at PowerBar, the energy bar company. There he met Larry Sonsini, whose law firm, Wilson Sonsini Goodrich & Rosati, is a mainstay of Silicon Valley mergers and acquisitions, and Warren Hellman, a co-founder of private equity firm Hellman & Friedman. They helped Young figure out that he could put his law degree to use through investing without having to take the bar or become a practicing attorney.

After retiring from the NFL, Young got a job at Northgate Capital, a so-called fund of funds—an investment company that places clients' money with other investment companies, charging a fee along the way. Young got bored. "A fund of funds is a tollbooth," he says. He didn't want to just fundraise—the cliché of the ex-jock in finance who shakes hands, solicits checks, and leaves the investing to others. Young wanted something more competitive, and so did a rising Morgan Stanley banker named Rich Lawson.

At HGGC's offices in Palo Alto.
Source: Courtesy Winni Wintermeyer/HGGC

While Young spent the 1990s winning titles and getting concussed, Lawson was learning about the burgeoning technology industry as an investment banker. Bain Capital, the private equity firm co-founded by Mitt Romney, asked Lawson to run one of its investments, a dot-com called Found. Bain also asked Young, who had been an early investor in the firm, to serve as Found's chairman. Young and Lawson formed an odd-couple bond. Lawson is always slickly dressed and would be an easy fit in any corporate boardroom. Young grew up never tying his shoelaces. "He's like a brother to me," says Lawson, now 45.

In 2001, Young left Northgate. He, Lawson, and a Bain executive named Bob Gay helped co-found a private equity firm called Sorenson Capital. Lawson taught Young corporate finance, showing him how to model company cash flows. "Those first years with Rich, it was just him, all day long, with Excel spreadsheets," Young says. "I didn't fall out of law school with modeling skills." The sense that he was learning genuine finance technique made Young more comfortable using his celebrity. He could get business owners to call him back, while Lawson was still a relative unknown in Silicon Valley. "We complemented each other," Lawson says. The two came to specialize in enterprise software—applications, usually subscription-based, that companies rely on to manage their essential operations. But they could afford only to invest in lower-midmarket companies. In 2007 they saw an opportunity to move up a notch.

Gay, a Mormon, had gone on a three-year volunteer trip to Ghana; while he was there, he co-founded a U.S.-based private equity firm with a fellow church member, the industrialist Jon Huntsman Sr., that they called Huntsman Gay Global Capital. Young and Lawson flew to Ghana to persuade Gay to bring them aboard the new venture. With Lawson and Gay in the front seat of a dilapidated car and Young in the back taking notes, the trio negotiated terms. In an unexpected turn, Huntsman wasn't able to access millions of his own money that he'd planned to invest, and Gay later took a reduced role. Lawson became CEO, and he and Young rebranded the firm as HGGC. "Maybe we should have changed the name to something else," Young says. "HGGC sort of sounds like an acronym for nothing."

NFL Legend Steve Young on ESPN Job and Mentoring

Young and Lawson set up shop in Palo Alto. The HGGC offices are filled with autographed 49ers jerseys and footballs, and one of Young's MVP trophies sits by the reception desk. After Young began commentating for *Monday Night Football* in 2009, the firm built him a studio in the office so he could do remote TV appearances during the week with minimal disruption to his investing work. He regularly travels to such places as Abu Dhabi, Dubai, Beijing, and Seoul to raise money.

When an enterprise software company decides to sell a stake to private equity, HGGC must compete against dozens of larger buyout firms. To differentiate themselves, Young and Lawson invest only in companies where management stays on after the sale. That cuts against private equity's reputation for replacing executives and firing employees. As an investor, Young's earnestness is sincere and strategic. Some businesses really don't want to sell, and not many funds play in this "partnership only" game, where a business owner can trust that she won't be steamrollered or removed by a new majority shareholder.

Buying companies is only half the work of private equity. Young's upbringing is on display when selling them, too. Sonsini, the PowerBar mentor, describes a deal to sell one of HGGC's companies, Hybris, in 2013. One potential buyer, Adobe Systems, offered $75 million more than another, SAP. At most private equity firms, there would hardly be any discussion about whom to sell to. But Hybris executives wanted to operate independently within a larger company and were attracted to how SAP had marketed an earlier acquisition, SuccessFactors, as "SuccessFactors—an SAP company." Young pushed Hybris to sell to SAP, despite the lower offer. "Steve was calling the meetings. He was on the phone with me and my team, asking complex, detailed questions about how you make distinctions about price, deal certainty, deal execution, and fiduciary duty," says Sonsini, who was a consultant on the transaction. "At that point in time, he was just starting to do big deals, but those types of questions in the middle of negotiations you usually only get from experienced investors."

Hybris put HGGC on the map in the private equity world as a legitimate player, not just a pigskin tosser's retirement lark. SAP ended up paying $1.4 billion for Hybris, and Young's firm earned more than five times its initial investment, taking home more than $1 billion in cash.

The firm last month closed a $1.8 billion fund, its third, after raising funds of $1.1 billion and $1.3 billion. Young invests tens of millions of his own wealth in each fund. (He didn't respond to a question about his net worth.) "We could have raised a lot more money," Lawson says. "Other funds that started around the same time as us—they're huge now. We're competing against their junior funds. Steve and I are competing against a bunch of 28- to 32-year-olds for business. And that's an advantage for us."

Young says his celebrity cuts both ways; some people don't take him seriously. "I think it's a net neutral," he says. "Maybe I'll get someone to return a phone call. But the other half of the time, it's like, 'What in the heck's going on here?' "

"I was definitely skeptical," says Drew Smith, vice president for alternative assets at Advantus Capital Management, which invests with HGGC. "Celebrity, that's not what we do here. I've had talks with athletes before, and you do some digging and you realize they don't really show up. Steve shows up." Young also tries to bring other ex-athletes into the game. At HGGC's annual meeting last May, the attendees included Junior Bryant, a former 49er, and Brooks Laich, who played 764 games in the NHL. Both are interested in finance. "The door's open," Young says. "It's an educational forum. Come and learn. We're not talking about becoming a deals partner, we're talking about seeing how sophisticated investors act and talk."

On a Friday in January, Young is working in his office, considering an investment. Physically, there's zero giveaway that he ever played quarterback—at any level of the game. In a suit, he could easily be just another finance guy who voraciously cycles or swims. For lunch, he grabs a hot dog and a cookie, then heads toward his minivan. He'll eat on the drive to San Francisco, where he'll pitch another deal.

(Update: After publication, Steve Young sent this comment to Bloomberg Businessweek*: "I participated in this story to encourage athletes to think about their futures because I want to inspire them to think this way. I have worked hard to build an expertise in two different fields, and I am proud of that. I have built one over the course of 35 years as a football player and analyst. The other, in private equity, I've established over 18 years. I'm focused on being excellent at both—and without sacrificing one for the other. Staying connected to the game and working for ESPN are very meaningful to me. In no way did I intend to suggest otherwise.")*

Pursuits