Understanding general “phases” for a private capital investment
Private Capital Investment

Why the 4 to 5 Year “ideal” investment period?

- Clients that are considering some form of external equity capital (for example venture capital, private equity, family office or sovereign wealth fund) often are confused by the discussion of ideal exit period being between 4 and 5 years.

- On the following page we provide a general map on the ‘phases” of a typical private capital investment that we have observed over 15 years of operation, and identify a key analysis point being in the 18 month to 24 month period.

- This period is critical on the optimal deal cycle because it allows sufficient time for capital to be introduced and the impact of that capital to be observed, but also factors in additional time for sustainable growth and performance enhancement before the thinking about exit strategy enters discussion.
  
  - We also note that all private capital approaches the investment task on a portfolio basis. This “insurance in multiple investments” also means that investee companies that struggle to gain traction in the 24 month to 36 month period can often be managed in different ways (by the investor) than those that are going to deliver a big potential payoff.

  - We highlight this possibility to clients that are seeking capital to ensure they factor in this risk, and structure deals accordingly to provide flexibility and “options” to protect themselves.

- Above all other factors private capital that is pursuing “expansion opportunities” will be very focused on that 18 to 24 month period – and so any business plan needs to be able to, with deep strategic and operational understanding (including of the ever moving market landscape), discuss how capital injected will translate into sensible areas of growth that will deliver Returns on Investment that meet private capital thresholds.
When private capital is assessing a business, this is really the most critical time period they are considering – what will be the growth generated by capital at or around the 18 month mark.

Given the portfolio approach of Private Capital Firms (not every deal is a winner), investments that are performing well in (1) are focused upon and worked hard across the period (2) window.

There are no fixed rules on Exit Timing, and a move to exit is often opportunistic and based on market conditions that change suddenly. Shareholder Agreements will generally, however, have some form of “liquidation trigger” right given to Private Capital at a pre agreed time.

Operational review in particular around cost base
Business plan setting
Capital injection
Reporting analysis & optimisation
Recruitment of talent

The positive impact of capital is observable
Assessment of effectiveness of overall plan vs moving market
Commencement of assessing acquisition or organic expansion opportunities

The positive impact of capital is clear with positive KPI impact across various metrics
Potential for additional capital injection or debt financing to fuel further growth
Market expansion, product expansion
Focus on performance metrics which will lead into Exit

Ideally positioning for exit in Years 4 & 5
Timing can be impacted by Market Health (Industry, Economy & Capital Markets)
KPIs performing positively and positive business landscape for coming 24 months desired factors

Visible Positive Impact From Capital
Growth Momentum & Potential Acquisitions
Run Up For Exit / Exit

1

2

3

Initial 12 months
12 to 24 months
24 to 36 months
36 to 48 months
48 to 60 months

A failure to deliver impact in Phase 1 makes it difficult to exit in Phase 3
**Contact Information**

<table>
<thead>
<tr>
<th>SYDNEY</th>
<th>BRISBANE</th>
<th>NEW YORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suite 3, Level 39  &lt;br&gt; Aurora Place  &lt;br&gt; 88 Phillip Street  &lt;br&gt; Sydney NSW 2000  &lt;br&gt; AUSTRALIA</td>
<td>123 Eagle Street  &lt;br&gt; Brisbane QLD 4000  &lt;br&gt; AUSTRALIA</td>
<td>The Seagram Building  &lt;br&gt; 375 Park Avenue  &lt;br&gt; Suite 2607  &lt;br&gt; New York City  &lt;br&gt; NY 10152 USA</td>
</tr>
</tbody>
</table>

**Initial Contacts to:**

- **Nicholas Assaf**  <br> Principal & Founder  <br> naa@lccapac.com
- **Simon Koay**  <br> Associate Director  <br> E: sxk@lccapac.com

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