

The 8 Levers That Determine What a Buyer Will Pay

ARR tells a buyer what your business earns.

These eight levers determine what they are prepared to pay for it.

Thesis: *The multiple a buyer applies to your revenue is not set in negotiation. It is set in preparation, by a specific set of structural signals that most founders have never been told to optimise for.*

In 1986, Professor Hazel Markus and her colleague Paula Nurius published a paper in the American Psychologist that changed how psychologists think about human motivation. Their insight was simple: people do not pursue goals in the abstract. They pursue a specific vision of their future self, the person they believe they are becoming. The goals that stick are the ones attached to that vision. The ones that fade are the ones that float free of it.

What Markus and Nurius called the "possible self" is a useful frame for understanding why software founders consistently prepare for the wrong sale.

The founder who has built a \$20 million ARR business has a very clear picture of what that business is. She knows the product. She knows the customers. She knows the growth rate and the pipeline and the team. When she thinks about preparing for a sale, she prepares the version of that story she already knows how to tell, the version organised around the metrics she has been tracking for years.

The buyer sitting across the table from her is constructing a different story altogether. Not about what the business is. About what it will be worth acquiring, owning, and integrating without her in it.

Those two stories use some of the same words. They reach different conclusions.

"The founder knows the business. The buyer is underwriting the future. They are not the same conversation."

01 The Conversation That Has Already Happened

Before a buyer makes an offer, a conversation takes place that most founders never hear. It happens in the acquirer's offices, between the deal team and the investment committee, sometime after the first few meetings and well before a term sheet is issued. The question on the table is not "how fast is it growing?" That question was answered in the teaser. The question on the table is: "why is it growing, and will it continue growing without the people who are currently selling it?"

The answer to that question is constructed from a specific set of signals. Most of them are not visible in a standard management dashboard. They require a different kind of reading: cohort-level examination of renewal behaviour, contract-by-contract review of pricing and commitment terms, a structural assessment of which relationships sit with the founder versus the organisation, an analysis of how much professional services are embedded in what the vendor presents as a software margin.

These signals have names. Buyers call them valuation levers. And the list of levers a sophisticated acquirer actually underwrites is substantially different from the list most founders spend their preparation energy on.

02 The Two Lists

The table below maps both sets of levers. The left column contains what sophisticated acquirers are actually underwriting. The right column contains what most founders spend the majority of their preparation energy on. These are not wrong things to care about. They are simply insufficient. Treating them as primary creates a preparation effort that is oriented toward a conversation the buyer is not planning to have.

WHAT BUYERS ACTUALLY UNDERWRITE	WHAT MOST FOUNDERS FOCUS ON
Revenue Retention Quality <i>Net and gross renewal rates, cohort by cohort</i>	ARR Growth Rate <i>The headline metric buyers review first, but underwrite last</i>
Gross Margin Narrative <i>What the margin means stripped of services noise</i>	Revenue Scale <i>Absolute size creates credibility; it does not determine what multiple it commands</i>
Customer Concentration <i>Is concentration a risk or a strategy with evidence?</i>	Profitability and EBITDA Margin <i>Operational efficiency matters, but margin quality depends on how services costs are classified</i>
Pricing Power Evidence <i>Can you demonstrate the right to raise prices?</i>	Product Roadmap <i>Features matter; whether the business can sell and retain customers without the founder matters more</i>
IP and Contract Posture <i>Portability, assignment clarity, ownership of co-created value</i>	Pipeline Volume <i>Not a valuation lever unless the pipeline is repeatable, referenceable, and founder-independent</i>
Leadership Independence <i>Does the business perform without the founder in the room?</i>	Team and Headcount <i>Organisational depth is assumed; what buyers actually examine is who leaves when the founder does</i>
Implementation Burden <i>How much services does the product require to work?</i>	Customer Count and Logo Quality <i>Brand-name logos create confidence; concentration analysis often tells a different story</i>
Data Integrity <i>Cohort analysis, unit economics, churn visibility</i>	

03 Why the Gap Exists

The gap between these two lists is not a failure of intelligence. It is a failure of perspective. The metrics in the right column are the ones founders know best: revenue growth, scale, profitability, the pipeline, the product, the team, and the quality of the customer base. These are the instruments on the dashboard of a company being run. They are real and they matter.

But a buyer is not buying a company being run. A buyer is buying a company being transferred. The questions change. The instruments that matter change with them.

Consider what revenue retention quality actually means to a buyer. It is not simply a number. It is a hypothesis test. A gross renewal rate of ninety-two percent and a net revenue retention rate of a hundred and eight percent, presented at the cohort level with full customer attribution, tells a buyer something specific: that the product creates value customers recognise, that the commercial relationship is structured to capture that value over time, and that neither of those things depends on a single relationship or a single exceptional year. That is a fundamentally different asset from a business that presents the same headline numbers without the cohort-level evidence to support them.

The data on this point is not ambiguous. Analysis of public SaaS companies conducted by Software Equity Group shows that companies with net revenue retention below ninety percent achieve a median sale multiple of 1.2 times revenue. Companies with net revenue retention above one hundred and twenty percent achieve a median of 11.7 times. Two businesses. Identical ARR. A tenfold difference in multiple, determined entirely by the structural quality of the revenue, not its size (Software Equity Group, 2025 Annual SaaS Report, p. 30).

Or consider leadership independence. The founder who can demonstrate that her senior leadership team has operated autonomously across a complete sales cycle, made significant commercial decisions without escalation, and retained customers through a period when she was not present. That founder is presenting a transferable business. The founder who has not yet created that evidence is presenting a business that looks excellent from the outside and carries a key-person risk that every buyer's legal team will find, name, and price.

Customer concentration follows the same logic. Industry data is consistent on this point: when a single customer represents more than fifteen to twenty percent of ARR, buyers apply a direct discount to the multiple, introduce earnout structures to protect against post-sale customer loss, or exit the process entirely. The rule of thumb used by most institutional buyers is that no single customer should represent more than ten percent of revenue. A founder who knows this and acts on it twenty-four months out has time to change the story. A founder who discovers it during diligence does not.

“ARR growth tells a buyer how fast the business is moving. Revenue retention quality tells them whether it will keep moving without the founder driving it.”

04 What This Means for the 24-Month Window

The levers in the left column share a common characteristic: none of them can be manufactured quickly. Revenue retention quality improves through sustained customer success investment, not through reporting adjustments made in the final months before a process. Customer concentration improves through deliberate sales strategy executed over time, not through a single large new logo landed six weeks before signing. Leadership independence improves through structured role transition and genuine delegation, not through an organisational chart that renames existing responsibilities.

This is why the twenty-four month window matters structurally, not just strategically. At twenty-four months, the levers that move multiples are still available. At six months, most of them are not. Not because the work cannot begin, but because the work cannot yet be verified. A buyer examining two years of clean retention cohorts is examining evidence. A buyer examining six months of recent improvement is examining intention, and they will price it accordingly.

The founders who achieve the best outcomes are not the ones who told the best story about their business. They are the ones who spent the time to make the story true at the level a buyer actually reads.

Next issue: *the twelve categories of silent discount that buyers apply before any offer is made, and before most founders realise it is happening.*



Cube Capital advises founders and boards of Australian software and technology companies on exit preparation and cross-border M&A transactions. The firm works exclusively on the sell side, retained by founders who want an independent view of what their business is worth and what it would take to make it worth more.

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