

Arc Two: The Other Side of the Table

## Your Customers Don't Belong to You

**Thesis:** A founder measures the strength of a customer relationship by how long it has lasted and how well it has been managed. A buyer measures it by whether it survives a change of ownership. Those are not the same measurement, and the gap between them is not a negotiating variable. It is a valuation input. Revenue that cannot be confirmed as transferable is never priced as though it will be.

### 01 A Different Category

The deal had been going well. Not provisionally well. Well in a way that had started to feel like confirmation.

The headline valuation had been agreed in principle. The management presentation had gone better than most. Questions from the buyer's team had been sharp but fair, and the founder had answered them with the kind of fluency that comes from having built the same business for eleven years. Her revenue was strong. Her retention was high. Her three largest accounts had been with her for more than five years, and she knew their procurement teams by first name. Diligence, in her reading of the process, was largely administrative.

Then, in the third week, something quiet happened.

A workstream she had not been asked to attend produced a revision to the way the buyer was treating her revenue schedule. The headline number did not change. But three lines on the ARR schedule moved column. They had been sitting in contracted recurring revenue. They were now sitting in revenue subject to transfer. The buyer's model had not rejected them. It had reclassified them. And a reclassified dollar, in a buyer's model, is worth less than a contracted one.

No one had called it a problem. It was simply a different category.

### 02 Reconstruction and Survivability

The previous issue in this series was about reconstruction. A buyer, it argued, does not take a founder's revenue number at face value. She rebuilds it, decomposing the figure into its constituent streams, each weighted by what a sophisticated acquirer is actually willing to price. That issue asked whether the revenue was what the founder said it was.

This issue asks a harder question: whether the revenue remains what it is after the founder is gone.

**The first is composition. The second is survivability.** The distinction matters because the buyer's concern has shifted. She is no longer asking what the revenue contains. She is asking whether it travels. **A buyer does not price revenue only for what it is. A buyer prices it for whether it transfers.**

Buyers have a term for this. They call it the transfer test: a question applied, account by account, across the revenue base. What survives when ownership changes? Most accounts pass without comment. Some do not. The ones that fail are rarely the ones a founder would have named.

The accounts a founder experiences as most secure are often the accounts a buyer examines most carefully. Long tenure can hide informal concessions. Personal rapport can hide founder dependence. Large contracts can hide exit rights neither party has ever had reason to trigger. The feeling of security inside the business is, in certain cases, exactly what prevents the business from testing whether that revenue truly belongs to the company or to the conditions surrounding it.

# FOUNDER THESIS

## 03 The Transfer Test

In enterprise software agreements, a change-of-control clause is often sitting where the founder has never had reason to look. Some of those clauses give the customer the right to terminate. Others trigger a renegotiation window, a billing pause, or a consent requirement that must be satisfied before the agreement continues to its next period. The agreements were signed, the software delivered, the relationships maintained. The clause sat dormant in a paragraph neither party had needed. In diligence, it becomes the paragraph the buyer's legal team reads first.

The second test leaves no paper trail. It lives in how the business has been run.

In many founder-led technology companies, the commercial relationship with a major account belongs, in practice, to the founder personally. She negotiated the last renewal. She was in the room when the product was first proposed and has remained the client's point of contact at every inflection point since. The client trusts the company, in part, because the company and its founder are, to them, the same thing.

This is where the distinction that matters most in the transfer test appears. A buyer is comfortable when a customer is embedded in the product. The switching cost is high because the software is integral to a workflow, the data lives in the system, and migration carries a cost no competitor's pitch is reasonably worth bearing. That is durable stickiness. It belongs to the company. A buyer gets nervous when a customer is embedded in the founder. When the renewal decision lives not in a workflow dependency but in a personal relationship that was never transferred to a team, a process, or a documented account structure.

**Buyers call it founder-held revenue.** It is not the same as company revenue, and it is not priced as though it is.

*The buyer is not asking whether your customers are happy.  
The buyer is asking whether they are yours.*

## 04 The Ownership Question

**The contract may belong to the company. The decision to stay may not.**

Every customer relationship that has lasted long enough has a side agreement nobody wrote down. A pricing exception made three years ago that quietly became the standard rate. A service-level commitment mentioned in an email and later treated as policy. A feature request added to the development backlog with the implicit understanding that it would be delivered before the next renewal. None of this is unusual. It is the natural product of a relationship managed with judgment rather than process. The problem is not that these understandings exist. The problem is that they do not travel. A new owner inherits the contract. She does not inherit the institutional memory of what the contract was understood to mean. What the founder treats as context, the buyer treats as an undisclosed obligation.

And then there is the architecture of the revenue base itself. If the three accounts that moved column represented more than half of annual recurring revenue (and they did) then every fragility identified in those accounts becomes a fragility at scale. Contractual exit rights in a five-percent account are a manageable concern. The same rights in a twenty-five-percent account are a structural problem. Concentration does not simply amplify the risk of losing a customer. It amplifies the cost of every test that customer fails.

## 05 Before the Buyer Runs It

In a well-prepared business, the transfer test has been run internally before a buyer runs it externally. Customer contracts have been reviewed for the clauses that activate on a sale. Key account relationships have been distributed across a commercial team rather than held personally by the founder. Undocumented commercial understandings have been identified and either formalised or resolved. Concentration risk has been addressed, or at minimum disclosed with context that a buyer can work with.

# FOUNDER THESIS

That work cannot be done in diligence. By diligence, the test is already running. The founder can only observe the results.

*Revenue does not become fragile when diligence begins. Diligence is only when fragility becomes visible.*

The question the reclassification was answering was not whether the revenue was real. It was never in doubt that the customers existed, that the contracts had been signed, that the relationships had been maintained with genuine care for more than five years.

The question was whether any of that belonged to the company, or whether it had always depended on a set of conditions that would not survive her exit.

*The buyer is not asking whether your customers are happy. The buyer is asking whether they are yours.*

By the time a founder recognises the question, the buyer has already priced the answer.



**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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**Founder Thesis** began with Arc One, *The Prepared Founder Premium* (Issues 01–05).

*The Other Side of the Table* is Arc Two.

**Issue 06** *The Revenue Your Buyer Won't Pay For*

**Issue 07** *Your Customers Don't Belong to You*

**Issue 08** *Who Actually Owns Your Software?*

**Issue 09** *The Number That Decides Your Multiple*

**Issue 10** *The Risk You Are*

**Issue 11** *You're Not Selling History*

**Issue 12** *Technical Debt Is Financial Debt*

**Issue 13** *The Deal That Falls Over on the Seller's Side*

**Issue 14** *The Prepared Business Premium*