

Arc Two: The Other Side of the Table

The Risk You Are

Thesis: A founder prepares for a transaction by building the case for her business. She assembles the financial model, tightens the narrative, rehearses the management presentation. What she rarely prepares for is the assessment running beside it: not whether the business is impressive, but whether it can survive the removal of its most important person. The answer is usually set long before the first buyer meeting.

01 One Sentence

The term sheet arrived on a Tuesday.

She had spent four months preparing for the process. The materials were thorough. Revenue quality had been reviewed. Customer contracts were tidy. IP ownership had been confirmed. Her advisor had walked her through comparable transactions in her category, and the multiple range they discussed was between six and eight times ARR. She was comfortable with the analysis. She had done the work.

The multiple in the letter was five point two.

There were two sentences of explanation. Her name appeared in both of them. Not her company's name. Her name.

The buyer's team had spent four weeks studying the business. What they had concluded, in two sentences, was that the business and the founder were the same thing. That sameness was not a strength. It was the reason the premium disappeared.

02 Two Founders, One Conversation

Place two founders side by side, each about to enter a process.

Both run software companies with eight million in ARR. Both have been the primary commercial relationship for most of their customers for most of the time those customers have been on the platform. Both are technically strong and deeply credible in their markets. Both have advisors who have told them they are ready.

A buyer prices them differently.

The first founder has spent the past two years doing something deliberate. She has introduced her customers, account by account, to a customer success function that now owns the renewal relationship. Her head of sales runs the new business pipeline without her in the room. Three of her five largest accounts have never had a material conversation with her directly. When a buyer's team models what happens to revenue in the twelve months after close, her name does not appear in the forecast. The business continues. The founder departs. The numbers hold.

The second founder has done none of this. Not because she is incapable, or uncommitted. Because she has been building a business, and being central to it has always been part of how she builds. Her customers trust her. Her team follows her. Her product decisions are made by her. She is, in every meaningful sense, the reason the business works.

A buyer can see this in diligence without asking a single question directly. It shows in the CRM. It shows in who customers email when something goes wrong. It shows in the org chart, in the distribution of decision rights, in the pattern of who attends what meetings.

The earnout structure waiting in the second founder's term sheet is not evidence of a difficult buyer. It is evidence of a visible risk.

FOUNDER THESIS

03 What the Structure Tells You

In M&A, price is only the headline. Structure is where the buyer writes down what it is afraid of. When a buyer is confident in what it is acquiring, it pays for it upfront. When it is not, it defers.

In the United States, earnouts have become increasingly common in private-company M&A. SRS Acquiom data shows earnout provisions rising from roughly one-fifth of non-life-sciences deals in 2021 and 2022 to nearly one-third by 2023. In many Australian mid-market software transactions, the structure often tends toward seventy to eighty percent paid at close, with the remaining twenty to thirty percent deferred and subject to performance conditions. The figures do not map precisely onto Australian deals — the market involves smaller companies, fewer competing bidders, and buyers who are crossing time zones as well as borders. But the structural logic is the same.

The deferred amount is not a bonus. It is a hedge.

The buyer is not withholding payment because the business is unattractive. It is pricing the uncertainty they cannot eliminate at close. And the most common source of that uncertainty, in a small to mid-sized technology company, is the person selling it.

There is one number that should change how every founder reads an earnout offer. In US private-company transactions, the average earnout pays only twenty-one cents for every dollar placed at risk. Even when an earnout pays, roughly half the maximum is never received. The rest disappears into shifted metrics, disputed wording, and the daily reality of trying to hit targets inside someone else's organisation.

These are US statistics. Australian deals are smaller and the dynamics differ. But the direction is the same. Deferred consideration, wherever it appears, is conditional consideration. And conditional means not guaranteed.

Then the buyer asks the next question: how long must the founder stay?

Australian founders often assume they will stay with the business for approximately twelve months after close. North American acquirers — including the most systematic acquirers of Australian software businesses, among them Constellation Software and Descartes Systems Group — plan for two to four years. Not as a preference. As a condition of the economics.

Founder retention after acquisition is fragile. Buyers know this. They also know that the founder often carries the customer memory, the product instinct, and the informal authority that never appears in the information memorandum. So they do not treat the founder's continued presence as a courtesy. They build it into the price.

The gap between what founders expect and what buyers design is not a misunderstanding. It is the deal.

04 The Other Table

The earnout is not the buyer sharing upside with you. It is the buyer buying insurance against you.

The distinction matters because one is a reward, and the other is a discount you are being asked to finance yourself. A founder often reads the earnout as confidence: if the business performs, she receives the rest. A buyer reads it differently: if the founder proves less essential than feared, the price can rise after the risk has passed.

That is the second table in the transaction. The founder thinks she is sitting at the first table, where the parties negotiate value. The buyer is also sitting at the second, where it negotiates uncertainty.

05 Before the Letter

The valuation multiples Australian founders read about — ten times revenue, four times EBITDA, the figures that circulate in the business press — are drawn from US market transactions, for companies that are larger, operating in a deeper domestic market, and selling to buyers who face genuine competitive tension. The median EV/revenue multiple for listed cloud-computing companies reached 5.1 times in Q4 2023, nearly thirty percent below its pre-pandemic level, before applying any adjustment for geography, scale, liquidity, or company-specific risk.

FOUNDER THESIS

An Australian software company doing eight million in revenue is not that company. The buyer applies a geographic discount, a scale discount, and a market depth discount. None of these adjustments are presented as line items. They are embedded in the offer.

For many Australian technology founders, North American buyers remain the most likely route to a premium outcome. Domestic buyers apply more conservative multiples, and the strategic rationale is often weaker. But the founder who enters a North American process expecting US multiples to translate without adjustment is carrying assumptions the buyer does not share.

Founder risk can be addressed. But it cannot be addressed in the weeks before an information memorandum is distributed. It is the accumulated output of decisions made at the organisational level over years: whether customer relationships are held by an account team or by the founder personally, whether product decisions are made by a function or by the founder alone, whether the business would continue to operate coherently if the founder were removed from it on a given Tuesday.

A founder who identifies the gap twenty-four months before a process begins has the one thing a term sheet will never give her: time. By the time the letter arrives, time has been converted into structure. Customer relationships can be transitioned deliberately. Decision-making architecture can be built. A business that demonstrably operates without its founder changes the conversation before it begins — not because the multiple formula changes, but because the buyer's assessment of the risk variable changes.

The founder who reads about it in a term sheet has not been surprised by a hard negotiator. She has been shown the output of an assessment that was completed before the first meeting was scheduled.

In a transaction process, the buyer is not only asking what the business is worth. It is asking how much of it leaves when the founder does.

NEXT ISSUE

Issue 11 asks what buyers are really buying when they buy a software business: not the last three years, not the current revenue, but a version of the next five years.



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.

Hani Iskander is Founding Partner. He has founded technology companies in Australia and the United States, led the Asia Pacific region for a NASDAQ-listed software company, and spent four decades at the intersection of technology and capital markets.

web: cube.capital email: hello@cube.capital

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*