

# Founder Thesis

Technology M&A

Arc Two: The Other Side of the Table

## You're Not Selling History

**Thesis:** A founder enters a sale process with the story of what she has built. A buyer enters with a model of what it expects to receive. Those are not the same document. One is biography. The other is underwriting. The multiple is usually set by the second.

### 01 Trajectory

She had prepared for six months. The presentation told a five-year growth story. Revenue had expanded from four million dollars to eighteen million. Net dollar retention had improved in each of the last three years. Gross margins were above seventy-five percent. The business had reached profitability in the most recent period. Every metric she had been trained to respect was moving in the right direction.

The buyer was a principal at a North American strategic acquirer that had completed eleven technology acquisitions in the prior four years. He listened carefully and asked good questions about the customer base, the renewal cycle, and the sales motion. He seemed genuinely interested. She left the meeting thinking the process had gone well.

Three weeks later, the offer arrived.

The valuation was lower than her advisor had projected. Lower than the comparable transactions she had studied. Lower than any number she had thought possible for a business of that quality.

She asked why.

There was a single word in the supporting analysis. It was not margin. It was not churn. It was not competitive position or market size or the calibre of the management team.

The word was trajectory.

### 02 Deceleration

To the founder, the numbers told a story of scale.

Four million. Seven million. Eleven million. Fifteen million. Eighteen million. Every year was larger than the last. The business had more than quadrupled in five years. By any reasonable measure, the trajectory was up and to the right.

The buyer read the same numbers differently.

Seventy-five percent growth in year one. Then fifty-seven. Then thirty-six. Then twenty. The company was larger. But the curve was bending down. Four consecutive years of decelerating growth, in a market that was still expanding. The most recent year, her best in absolute terms, was also the year the deceleration was most visible.

A founder interprets history as achievement. A buyer interprets history as evidence.

The buyer was not asking what the business had done. He was asking what he could underwrite. And the evidence, read the way a buyer reads it, did not point to acceleration. It pointed to a business whose growth rate had been declining for four years. Twenty percent growth is not, in isolation, a weak number. KeyBanc's 2024 survey of private SaaS companies found expected ARR growth of roughly nineteen percent. Her business was not an outlier. It was close to the benchmark. And a benchmark result, for a North American strategic acquirer with a capital allocation process, rarely commands a premium multiple.

The offer followed the curve.

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## 03 Growth Outweighs Margin

In software, few variables move the multiple more visibly than growth trajectory.

Bessemer Venture Partners' Rule of X research found that a one percentage-point increase in growth rate has 2.3 times the positive impact on valuation multiple compared to one-percentage increase in free cash flow margin. That is not a marginal difference. It is a structural one.

Founders who spend the year before a sale tightening the P&L and improving margins are doing valuable work. But if the growth curve is bending down, they may be improving the metric the buyer weights second.

The buyer is not reading the income statement to understand what you earned. The buyer is reading it to understand what it will receive. Margin improvement is useful evidence. But it is secondary evidence. What the buyer is pricing is the trajectory of the top line and what it says about the next three years.

History is the proof set. It is not the product.

## 04 Already in the Base

There is a second question behind the first.

A buyer who sees decelerating top-line growth does not stop there. It looks for evidence that the future is already embedded in the existing customer base: revenue expanding inside existing relationships, rather than being replaced by continuous new acquisition effort. Net revenue retention measures this directly. It is not just a retention metric. It is a forward signal. It tells the buyer whether the business compounds or whether it runs on a treadmill.

ChartMogul's analysis of retention data found that in the first half of 2024, companies with net revenue retention at or above one hundred percent grew at forty-eight percent year over year. That is double the growth rate of companies below one hundred percent NRR. The difference is not explained by effort alone. It is explained by what was already happening inside the existing base.

What buyers look for, in sequence, is this: the shape of growth, the source of growth, the durability of growth, and the transferability of growth.

The shape is the trajectory line. The source is whether expansion comes from existing customers or from new acquisition effort. The durability is whether the cohort data shows a business that compounds or one that churns and refills. The transferability is whether the growth motion will survive the transaction: whether it lives in the product and the platform, or in the founder and the relationships she has built.

Each of these questions has a historical answer. The buyer reads that history not as a record of what was achieved, but as evidence for what it can believe about the next three years. History that answers these questions well is worth considerably more than history that does not address them at all.

Growth that depends only on new logos is fragile. Growth that depends only on the founder is not transferable.

## 05 Not Your Peer Group

This is where Australian founders are most frequently surprised.

The Australian founder is often benchmarking achievement. The North American buyer is benchmarking allocation.

The buyer was not comparing her business with other Australian software companies. It was comparing it with every other use of capital available to the group: a domestic acquisition, an internal product build, a tuck-in acquisition of a vertical software platform, or the decision to redeploy the capital elsewhere. The history may be genuinely impressive by any Australian benchmark. The offer is set in the buyer's context, not the founder's.

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*A North American buyer carries a comparative set built from prior diligence processes, internal capital allocation decisions, and a portfolio of acquisition outcomes. The Australian founder's revenue history is one data point in that set. What the buyer brings to the table is a model of the future it is willing to underwrite. The question the founder rarely asks before entering a process is whether the evidence she has assembled actually answers the questions that model requires.*

The implication is specific. It is not that Australian businesses are undervalued by North American buyers. It is that the evidence founders assemble for a domestic audience does not always speak to the questions an international acquirer is asking. Local market leadership and strong customer relationships may receive less credit than the founder expects, not because they are worthless, but because they do not directly answer the buyer's forward question.

The business the buyer prices is the business it expects to own after the transaction closes. That business lives in the future, not the past.

## 06 Forward Case

She prepared the right presentation for the wrong question.

The question she answered was: What have we built? The question the buyer was asking was: What am I receiving? They are not the same question. The first has a historical answer. The second has a forward one. And the multiple, in every transaction, is set in response to the second.

A presentation built around history is not dishonest. It is incomplete. The diligence process will surface the revenue trajectory, the cohort retention, the growth rate by year, the expansion map inside the customer base. What the presentation should do is translate that data forward. Not what the business earned last year, but what the combined entity will produce in the next three years.

The forward case is not merely a projection. It is an evidence structure.

It shows the buyer the shape of growth inside the existing customer base: cohort-level retention, expansion by customer segment, and the proportion of growth coming from existing accounts rather than new logos.

It documents the source of growth: product-led versus sales-led contribution, pricing power, module expansion, churn reasons, and what they reveal about customer fit.

It demonstrates durability: customer concentration trends, multi-year contract coverage, and the leading indicators that make the next twelve months visible before they arrive.

And it addresses transferability: whether the commercial relationships, renewal motion, and product expansion logic are embedded in the platform, or still dependent on the founder.

A buyer that can build its own forward case from the seller's evidence is far less likely to discount it than one that must build it from assumptions. The evidence structure does not need to argue with the buyer. It needs to make the buyer's model work.

## 07 Before the Process

The problem with the presentation she brought is that it could not have been built in the weeks before the first meeting. The evidence that answers a buyer's forward questions takes time to accumulate. Cohort data requires cohorts. Expansion revenue requires an expansion motion that has been running long enough to demonstrate durability. A pipeline that makes the next twelve months credible requires tracking and rigour that a buyer can verify.

Preparation does not create value by polishing the past. It creates value by changing what the buyer can believe about the future.

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Founders who begin this work eighteen to twenty-four months before a process have time to shift the evidence set: to arrest deceleration or demonstrate an inflection, to build the NRR story through deliberate customer success investment, to reduce the concentration risks that compress a multiple, and to document the transferability of the relationships and capabilities the buyer is purchasing.

The point is not to explain the future more persuasively. It is to make the future more evidential.

The founders who negotiate from strength are not the ones with the longest track record. They are the ones who converted history into evidence, and evidence into a forward case, before the buyer built its own model.

In a transaction, history earns the meeting. The future earns the multiple.

## NEXT ISSUE

Issue 12, *Technical Debt Is Financial Debt*, turns to the engineering layer of the transaction: why buyers treat technical debt not as a product problem, but as a claim on future cash flow.



**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*