

Arc Two: The Other Side of the Table

The Prepared Business Premium

Thesis: Founders tend to think exit preparation is a presentation exercise. It is not. It is an economic exercise. A prepared business gives the buyer fewer reasons to discount the future, defer the price, widen the escrow, extend diligence, or convert unresolved risk into a closing condition. The premium is not paid for polish. It is paid for underwritable confidence.

01 On Paper

Two software companies came to market in the same quarter.

On paper they were difficult to tell apart. Both sat at around twelve million in ARR. Both were growing in the low twenties. Both were profitable. Both had similar customer profiles and similar retention histories. Both attracted serious interest from credible buyers.

The first founder received an offer she could explain to her family in one sentence. A strong multiple. Ninety percent payable at completion. A short escrow. A defined diligence period measured in weeks, not months.

The second founder received an offer that took her lawyer two pages to summarise. A lower headline multiple. Seventy percent at completion. Twenty percent held back in an earnout tied to two years of performance. Ten percent in escrow. Conditions attached to customer consents and a list of technical items the buyer wanted remediated before close.

The businesses were not as different as the offers suggested. The buyer's confidence was.

One business had made diligence a confirmation exercise. The other had made it a discovery exercise.

02 Beneath the Number

The prepared business premium is not a reward for being organised.

It is easy to assume preparation buys a higher multiple, that a tidy data room and a polished information memorandum lift the number a buyer is willing to write at the top of the page. Sometimes they do. More often the premium appears somewhere quieter. It is found in what the buyer decides it does not need to protect against.

It shows up as less discounting of the forward case, more money at completion and less deferred, a smaller escrow, fewer closing conditions, shorter diligence, and cleaner warranties. And, behind all of it, more competitive tension, because a well-prepared business can be shown to more buyers without each of them pricing in the cost of discovering what the seller has not yet resolved.

A founder can win the multiple and lose the transaction economics. The headline number is the part everyone remembers. The structure is where the money actually moves. For the founder, this distinction matters because nominal enterprise value and expected proceeds are not the same thing.

03 Uncertainty

A buyer is not only asking whether this is a good business. A buyer is asking a second question, quietly, all the way through. How much uncertainty must we absorb to own it, and what will that uncertainty cost us if we are wrong.

This is the thread that runs through every issue of this arc.

Founder Thesis

The advisers around the founder tend to see these issues separately: legal diligence, tax structuring, accounting quality, employment records, contract review. The buyer experiences them together, as confidence or doubt.

Weak revenue quality becomes forecast risk. Customer concentration becomes transferability risk. Incomplete IP records become ownership risk. Growth and retention weakness becomes multiple compression. Founder dependency becomes retention risk, and retention risk becomes an earnout. Weak forward evidence becomes underwriting doubt. Technical debt becomes a remediation budget. Structural defects become closing conditions.

They are not eight separate problems. They are one economic problem, expressed eight ways. Each is a place where what the founder does not know, or cannot prove, transfers to the buyer. And the buyer does not need to punish the seller to protect itself. It only needs to satisfy its own investment committee, its own board, its own model.

04 Terms

Uncertainty does not stay abstract. It converts into terms.

It converts into price, where weaker evidence drags the forward case down. It converts into structure, where the buyer shifts value into earnout, escrow, holdback, or other conditional mechanisms. It converts into process, where every surprise in diligence hands leverage back to the buyer. And it converts into the size of the buyer universe itself, because the more institutional the acquirer, the less ambiguity it is permitted to carry.

Structure is the conversion founders underestimate most, because it is the one they value wrongly.

The instinct is to count an earnout as deferred money. It is safer to count it as contingent value. SRS Acquiom's private-target M&A data, excluding life sciences, shows earnouts paying about twenty-one cents on the dollar across deals with earnouts. Even where some earnout is achieved, only about half of the maximum earnout dollars are ever paid. A founder who treats twenty percent of deferred consideration as equivalent to completion cash is valuing it with a certainty the market does not support.

Which is the real point. Preparation that moves consideration from earnout to completion is not a drafting improvement. It is value, converted from conditional to certain, and kept.

05 Benchmark

There is a trap on the other side of this, and it is worth naming.

A prepared business is not the same as an above-average one, and founders confuse the two. KeyBanc's 2025 private-company SaaS survey reported expected ARR growth of twenty percent, with net retention remaining above one hundred percent. Buyer expectations had moved beyond recovery. A buyer could once again ask whether a business was merely stable, or genuinely compounding. So a buyer looking at a software business growing at twenty percent with modestly positive net retention is not necessarily looking at a premium asset. It is looking at something close to the benchmark.

A benchmark result earns a place in the buyer's model. A premium result changes the model.

The change comes from evidence the average peer cannot show. Cohort behaviour that proves expansion is real and repeatable. Revenue that does not depend on three relationships. Contracts that survive a change of control. Systems documented well enough to hand over. A layer of management beneath the founder. The premium is not claimed in the negotiation. It is built into the business long before anyone asks for it.

FOUNDER THESIS

*Every unknown becomes a buyer assumption.
Every buyer assumption becomes a discount.*

Founder Thesis

06 Two Years

There is a reason this work cannot be done at the end.

You can clean a data room in a few weeks. You cannot, in the eight weeks before an information memorandum goes out, build a year of cohort evidence, move customer relationships off the founder, remediate technical debt the buyer will otherwise price, resolve a shareholder issue that should have been settled years ago, or grow a second layer of management that did not exist. These are not documents to be assembled. They are conditions to be created, and they take time the timetable of a live process does not allow.

That is what the prepared business premium really is. Not the absence of problems, but the presence of time used well, so that the risks are known, sequenced, costed, and already being managed before the buyer ever goes looking for them.

The first founder did not receive the better offer because she negotiated harder.

She received it because, by the time the buyer arrived, there was less left to doubt. That was the premium.

NEXT ISSUE

Arc Three begins with **The Acquirable Company**: the difference between a business that performs for its founder and a business a buyer can own.



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 how buyers will price their business, where value may be lost, and what can be done before a transaction begins.

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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** *The Liability Inside Your Code*
- Issue 13** *The Deal That Falls Over on the Seller's Side*
- Issue 14** *The Prepared Business Premium*