When it Comes to Exits, Cheque Size Matters

Investors tend to care most about return rate over time, and liquidation preference determines the order of payouts.

Written by Dr Brian Russell

Everyone loves an exit headline: Company X sells for Y hundred million dollars.

What's worth remembering is that an exit is viewed through a few different lenses by different shareholders:

Founders and employees focus on cheque size — the dollars that will change life style and payoff a mortgage. Investors focus on efficiency and speed of return, often summarized as MOIC (Multiple on Invested Capital) and IRR (Internal Rate of Return). And the capital table "cap table" rules determine who gets paid first and how proceeds flow.

When you understand all three, you can make calmer, smarter decisions—earlier.

The exit math that matters isn't the headline

The headline is the company value. The founder outcome is what remains after the payout rules and ownership are applied.

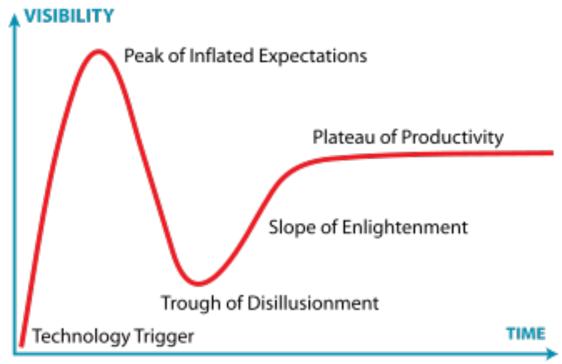
A simple way to think about it is:

Founder/employee cheque size = (Exit value − obligations − investor preference payouts) × ordinary ownership

That's why ownership and structure matter alongside valuation. They shape what actually converts into cash at the finish line.

Timing matters because markets move in waves

Valuation and dilution are only part of the story. A third variable is the market cycle.



Source: https://en.wikipedia.org/wiki/Gartner_hype_cycle

Most categories move through a hype curve: an early excitement phase, a period where the category proves itself, and then a phase where pricing becomes more anchored to business fundamentals (like revenue or profit).

The strongest strategic exits often happen when you catch a double tailwind:

- a technology wave (a new capability becomes possible), and
- a market wave (buyers urgently want that capability in their sector)

In those moments, acquirers often price on strategic value rather than just current revenue.

Here's a practical mental model for strategic value: most billion dollar companies are in stable markets that are not growing too fast, so increasing revenue is often only possible by taking market share, if your product can shift a meaningful slice of a billion-dollar market share over the next five years, an acquirer may value you based on a portion of that future impact. You can think of it as something like a fraction (for example, 20%) of the acquirer's 5-year discounted cash flow (DCF) value from that market share shift. DCF (Discounted Cash Flow) is a standard method that estimates the value today of cash flows expected in the future, adjusted for risk and time.

That's how strategic prices can land in the hundreds of millions even when a startup's revenue is still in the low millions. The buyer isn't only buying today's income statement; they're buying positioning in a market transition.

A founder may sell early with a valuation of $30m, 30% ownership and receive a $10m cheque. Alternative in 5 years time sell for $200m, 5% ownership and receive the same $10m cheque, the risk is higher and it took another 5 years of their life.

Early revenue is about signal, not just funding operations

In many venture-backed startups, early revenue plays a role that is bigger than paying for expenses. It's a market signal that reduces uncertainty.

Early sales help prove:

- product–market fit (customers genuinely want it),
- scalability (the solution repeats across customers), and
- distribution pull (buyers can be reached efficiently)

This signal strengthens strategic value because it turns a story into evidence.

Ownership and dilution: keep the long game visible

Ownership changes over time as companies raise capital and grant equity to hire and retain talent.

Two common sources of dilution are:

- capital dilution: selling equity to raise money, and
- option pool dilution: reserving equity for employees (often called an "option pool")

The key watch-out is that dilution compounds, because each round reduces the ownership base from which future dilution is applied. This doesn't mean "don't raise." It means "raise with increasing valuation so exit cheque increases over time." This is a valuable feedback mechanism to founders so they use capital efficiently, too much spending and too slow revenue growth drives values lower and dilution will start to reduce the cheque size.

A useful habit is to maintain a simple ownership forecast: where founders, employees, and investors might land after each round and each option pool update, under a few plausible fundraising paths.

Liquidation preference: understand payout order early

Liquidation preference is a term in many venture financings that specifies how proceeds are paid out in an exit. Typically, preferred shareholders (often investors) receive proceeds before ordinary shareholders (often founders and employees). A liquidation preference of 1x means all the investment money is paid back, then the investors still get their percentage along side other shareholders. This really hurts if a company sells for close to the value of total capital raised.

A practical way to model it:

If the company has raised $R and investors have a 1× (one times) liquidation preference, then in many cases investors are entitled to receive up to roughly $R first (before ordinary shareholders participate), depending on the exact terms.

Two term features to watch closely (and define clearly in your model):

- Multiple preferences: preference greater than 1× (for example, 1.5× or 2×)
- Participating preferred: investors receive their preference and may also share in remaining proceeds (structure-dependent)

This is not about avoiding standard terms; it's about ensuring the team can predict outcomes across a range of exit values, especially if the exit value is in the same neighbourhood as total capital raised.

A practical "before you sign" checklist

Before accepting a term sheet or celebrating a valuation, it helps to run a simple scenario set:

1. What is a realistic exit range if things go well?
2. What ownership do founders and employees likely have at exit $1m, $10m or $100m?
3. What does the liquidation preference stack look like under those paths?
4. How does timing affect investor IRR (Internal Rate of Return), which is the annualized rate of return accounting for time?

This turns exits into an engineered outcome rather than a hope-based outcome.

Two positive notes founders can use to their advantage

Not every business is built for acquisition. Some are better suited to a dividend play: building a durable, cash-generating company that returns money to owners over time (via dividends or buybacks) rather than relying on a single liquidity event.

And if acquisition is your path, remember that founders usually know the obvious buyers also called "natural acquirers". An experienced investment banker can often expand the buyer universe by identifying adjacent acquirers and alternative strategic angles—creating competitive tension and sometimes surfacing buyers you wouldn't naturally meet.

The goal isn't to predict the future perfectly. It's to make the exit path legible early: cheque size for founders, return rate for investors, and payout order for everyone. When those are visible, fundraising and exit decisions become much easier to make with confidence.