**PEP 137 Edited\_Transcription**

[Daniel Hill] (0:00 - 31:27)

How to buy a £1 million business for a pound. WhatsApp sold to Facebook for £18.2 billion when it was actually losing something like £300 million a year. It was just a crazy, crazy strategic acquisition.

I've used this model to buy over 20 different companies, valued over £13 million. These blueprints are basically my life's work boiled down to the absolute basics. And I guarantee if you put them into practice, execution is everything.

It enables you to level up as an entrepreneur. Welcome to the official Property Entrepreneur podcast with myself, Daniel Hill. We are now rated in the top 10 of all business entrepreneurship podcasts in the UK.

Last year, we were rated the seventh most popular property podcast. And every month by downloads, we are rated in the top 5% of most popular podcasts in the entire world. Thank you all for your support for sharing and subscribing to these podcasts.

This is literally my life's work broken down into simple blueprints for you to execute everything that you want, be it wealth, health, or life by design. Success and failure are both very predictable. Let's get into it.

How to buy a £1 million business for a pound. What we're going to look at in this podcast is the M&A blueprint of how to do no money down deals. So you can go and actually start acquiring companies as well as, or instead of actually just buying them, but you don't have to spend six or seven figures, you could actually do it for as low as £1.

I've used this model to buy over 20 different companies valued over £13 million. And there's lots of different varieties, lots of different terms, lots of different structures. But I'm going to make this as simple as possible for you in this podcast.

So one thing to think about here before we go into it is I want you to start leveling up your thinking because when you go into M&A, now you do need to know what you're doing in business. This is an advanced strategy. It's for those who've already started systemized and scaled businesses.

You do get to a point where it's actually quicker and more effective and lower risk and potentially cheaper to actually go out and buy businesses, buy revenue, buy market share, buy growth than it is to actually build it. The other thing is when you start to move into buying companies is it enables you to level up as an entrepreneur because rather than thinking about the emotional elements of being an entrepreneur, so the team, the recruitment, the culture, being involved in these businesses every day, what it enables you to do is start to see businesses as the same way you would a property. So when you buy a property, you think of it as an asset.

If you give it to perhaps a letting agent to manage it, it would be quite arm's length. You don't know the tenant, you don't get involved with the day to day, you don't deal with the actual run-ins of the property, but because it's an asset, you actually own it. What we're talking about here is doing the same with businesses.

When you start to buy companies and start to accumulate and acquire other teams, other cultures, other brands, just by default, you don't have that initial emotional connection to it. You don't have that paternal early entrepreneur connection that you would have had you started it yourself, got it going and be quite protective, quite engaged, quite sort of controlling of it. So this will really level up not only your ability to grow, but also your mindset as to how you run and in this case, own a business.

And that's what we call moving from the operator to the owner. You go from operating the business, whether you're an MD or whatever, you're operating the business to actually owning businesses. And when we were doing this, I did a roll-up of about 10 different companies, or we exited with 10 different companies.

And there was team members that I'd never met. There was offices in cities that I'd never been to. And it's a very different, higher level approach to buying businesses.

What we're going to look at in this podcast is how to buy companies no money down, whether they're six figure or seven figure, you really can acquire them for as little as one pound if you know how to do these deals. So what is M&A? What does it actually mean?

Well, M&A stands for mergers and acquisitions. Mergers being buying two companies and vertically or horizontally, putting them together, merging them together. And or even just in the same market share, just merging them to become a bigger business.

And acquisitions is just to buy companies. Mergers and acquisitions is what M&A stands for. And it's basically the art of, in the same way you would build a portfolio of properties, going out there and building a portfolio of businesses.

So what I'm going to give you is three steps to get you to the point of basically doing a deal because everyone wants to know what's my business worth? How much do I have to pay? How do I negotiate?

And then I'm going to give you three ways where you can buy it, pretty much no money down. There may be some costs for legal fees, but again, even these could be funded by the capital that's in the business. You could do a short term bridge or use working capital or a loan to actually fund those acquisition costs.

But then it's quite often that we'll end up with what's called a WCR, working capital requirement, actually in the business. So it may be that you get that cash back at the point when you complete. So what we're looking at here is buying a business, excluding the legal costs, which may be 2000, they may be 20,000, depending on the side of the business.

You may need to bridge that, pay that yourself. But if we're going to go and buy a six figure or seven figure business that's making tens of thousands, if not hundreds of thousands of pounds in profit, how do we buy that and acquire it without having to spend millions of pounds on the purchase price? Well, the first thing to appreciate and to look at, and the first step is the purchase price.

What are we going to actually pay for this business? And there's lots of different rules of thumb, lots of different sectors, industries use different mechanisms. If you're using PLCs or you're doing large agglomerations or roll-ups or floating on different markets, you may use different considerations.

For ease of simplicity here, we're going to use EBITDA. And this is the basic logic, whether it's EBITDA or it's net profit, we're basically using the logic in our heads of how much is the business making a year and how many times that year's profit are we going to spend on acquiring the business. So a good rule of thumb, and I'm talking here about small businesses into the sort of low seven figures, six and seven figures, small businesses, maybe teams of like five up to say 20.

And we're going to look at acquiring in that space. You can use revenue multipliers for certain industries, but let's just say whatever the multiplier is, whether it's revenue EBITDA, we're going to use a three to six times multiple. The reason I would use personally, in my experience, a three times as the minimum is if you can't get a three times profit for it, you may as well just hold it because every year is going to give you that plus that three-year sale price stays on the balance sheet.

Unless you have to sell it or you're motivated to sell it, there is a logic that if it's less than three times, you may as well potentially keep it. Six times would be towards the higher end of the range. Again, this is just in my experience.

So there's always varieties to this. If it's a strategic acquisition, if it's a revenue base, if it's a land grab from a competitor, there's loads of strategic reasons why these might be through the roof or might be completely different. But a general rule of thumb, as an example, would be three to six times.

Six is towards the higher end of what I normally see for businesses that are doing six and seven figure profits. And we're going to have that as the top end of the range. And let's say the business is making a half million pound a year profit.

That gives you a range of one and a half million pounds up to three million pounds. And you'll appreciate there's a huge difference in those price points. Now, one element might be, it depends who the buyers are.

If it's a strategic acquisition, something like WhatsApp sold to Facebook for 18.2 billion when it was actually losing something like 300 million pound a year. The logic was it was a strategic acquisition. Just from buying it, Facebook share price only needed to go up.

I think it was about one and a half percent to basically double the return on their investment. It was just a crazy, crazy strategic acquisition. You could say the most recently about Elon Musk's acquisition of Twitter doesn't really apply to this metric here.

When we're looking at that range, there may be a reason why someone would pay the higher range, in which case, fantastic. It was a highly demanded business, highly niche, really strategic. People will pay the higher end of the range.

Let's just say it's a normal business in a normal market. The difference between the three and the six times would probably be step two, which is price versus terms. If it was three times, one and a half million, three times 500, one and a half million, that would be basically that you would expect the money to be pretty much cash up front, paid within 30, 60, 90 days, no earn out, no deferred payment.

You get the lower price, but you get your cash all up front. Towards the higher ends, perhaps five, six times profit, nearly double the price, you would get a much higher price, but less favorable terms. If this was paid within 30 days, the other end might be paid over three years in installments over 36 months with a deferred element, a payment or performance mechanism in there to make it goes up or down or sideways and left.

You can see the extremes there. You've got the price versus the terms, and it just gives you a nice range to work with. The other consideration in this as potentially either a buyer or a seller is if you're going to go towards the higher rate, which might be more preferable for a buyer because they've got more preferable terms, they can service it out of the ongoing profitability of the business.

If you're going to go towards the higher level of the range, whether you're the buyer or the seller, it's all going to be about the security of sale. So what is the security of sale? If it's the fact that you're going to buy this business for £3 million, you're going to put nothing up front, it's all going to be paid monthly.

If the new incoming buyer runs the company into the ground, if the market changes, if some sort of regulation or reform comes in or a claim, some sort of legislation, and the business from no control of your own was to collapse, what security do you then have over that deferred, delayed installment payment? And that'll be the third consideration is if you are going for the shorter end of the range, 90 days completion, the risk and security of sale is a lot lower because you only have three months to wait to get all your money. If you're going to wait for three years, you're probably going to want either security over some of the assets, security over the company's share value, security over the buyer's estate, personal guarantee, some sort of mechanism in there so that once you hand it over, the security of you getting your money isn't reliant on the incoming buyer's performance, ongoing management, the market as a whole. So that's the final consideration with the offer.

So let's say you've got the deal to a point where you've got the range 1.5 to 3 times, then it's a case of looking at how do we structure the deal. And I'm going to park that mechanism for a moment about the valuation because it depends a lot about the price and the terms you can negotiate and move more to a more traditional structure that we would see when we're doing a no money down acquisition and genuinely looking to buy or sell a seven-figure million pound business for a pound or even in some cases zero plus your legal fees. So what we're looking at here is how do we actually finance that?

Let's say we're going to sell it for if it was ranged between 1.5 and 3 million, how could we actually fund that transaction? Well, what we would look for as a normal rule of thumb is a minimum of, or at least when we're opening negotiations, we would be looking for a minimum of 50% money upfront so the seller can leave with the cash. And then the other 50% paid on some sort of deferred performance mechanism installment payment on the way out.

So what can we use to actually get? If the installment payment, the deferred payment is actually going to be paid by the business itself, so you're acquiring the business and you're going to use the profits of the company to pay down the installments, which means cashflow wise, it's going to be quite tight, but balance sheet wise, it's going up and up and up and your net wealth is increasing from a business that you've bought using none of your own money and didn't have to build, the appeal is significant. Jumping in with a quick opportunity that may be of interest to some listeners.

So if you've not already listened to the Living Off the Steam podcast, episode 96, and the 10 Layers of Wealth, episode 125, I would highly recommend going and listening to them. They've been by far two of the highest download episodes we've ever done. In there, I talk about start to finish, the model that you want to use if you genuinely want to become not only financially independent, but build, maintain and manage generational wealth.

Off the back of those two podcasts, we've had a number of inquiries from people who want to actually have that structure in place for themselves. So for the first time ever outside of the board, which is our top level training program, which costs £30,000 a year plus VAT, for 12 people, I'm going to take them through this process over a six week period, where by the end of it, you will have this in place, set up, and you'll have clear, absolute clarity on your wealth strategy, your financial management, and how to take all of this to the next level.

This absolutely isn't for everybody. I would recommend that it's only really suitable for high network individuals who are already making over £100,000 a year. The investment for it is £5,000 plus VAT, and it'll take six weeks to complete, starting from the end of March.

If that's of interest to you, and you meet those criteria, just drop me a message on private message through Instagram. My handle is property entrepreneur underscore, or call or email the office through the website at www.property-entrepreneur.co.uk and we can send you an application form. Back to the podcast.

How do we raise then, if that's going to be paid by the business, 50% or whatever you can negotiate, 60%, 70%, maybe even 80%, 90%, 100%, if that's going to be paid for by the business, how do we raise the upfront consideration? There's three main ways that we see this done. Let's say for rule of thumb, we're going to do 50-50, half, we're going to buy it for £2 million, £1 million upfront, £1 million on deferred, how do we structure the deal?

Well, there's three main ways that we see it work. The first is vendor finance. You may have things in the business or on the balance sheet that belong to the, in theory, belong to the business, but actually they would be of more benefit to the owner than they would to you as an incoming buyer.

Let's say your balance sheet has £1 million worth of debt on it, which is previous clients or maybe the business has got director's loans on it, or it's got cash that is lent out to the director's other portfolios, properties, businesses. What you can do is within the sale, you can agree to actually leverage some or all of that debt to go towards the upfront consideration. The same applies with cash in the business.

Let's say the business has X amount of cash in the business or cash owed to the business from clients. From the point of completion, as long as that money is not required to service costs of sale or overheads ongoing for the business, rather at the point of purchase, the point of sale, that money that's owed to come in is actually to service or has actually already been serviced by the costs and the overheads that were paid before the point of sale. Actually, that revenue that's yet to come in, it could be owned by the business, but the seller could be entitled to that retained earning.

Whether it's the balance sheet, it's the debt, it's the assets that are on the balance sheet, we can use some of that towards the upfront payment. That would be in some consideration a vendor finance option. The other thing would be for the vendor just to lend it.

Let's say the is going to be paid on over 12 months from the first 12 months profit, 80% of it, so it's all of the money after corporation tax at the time of recording, is going to be paid towards the upfront money. The vendor could actually also offer some additional debt against that upfront consideration. The vendor could say, right, you're going to pay that money off of the proceeds of the business.

You owe me a million pounds over the next, let's say round numbers, 20 months, that would be 50,000 pounds a month. Let's say the business is making 80,000 pounds a month in profit, then you would use that to pay off the deferred consideration. The vendor might also choose, depending on the security that's offered, let's say that there was a high asset base in the company, which meant it was secure, or it was being acquired by a larger company that had a huge balance sheet, or a private buyer was buying it who had a significant portfolio of unencumbered assets.

The vendor doesn't need the money right now. What you could do is the deferred could be serviced out of the first 20 months profit, and the buyer could pay the vendor for the other million just on perhaps an interest-only basis for two years. The vendor would provide a loan, a paper note, a loan note, a paper exercise, and the interest would just be serviced for the first two years.

Then after the deferred elements paid off, you then roll onto the vendor finance element, but you would have a different security over the vendor finance element than you would perhaps the deferred. The deferred might be over the shares, the vendor finance might be over a third-party company balance sheet or portfolio of assets. That would be the first option, which is vendor finance, using stuff that's already owned by the vendor, including the payment due, to finance the purchase.

The second would be asset-backed finance, and this would be going to a third party, not relying on the vendor for the finance, but looking at the assets that are owned by the business and then going out and raising debt. Let's say, for example, there's plant or machinery or buildings that are in the property. If you can agree within the purchase price that actually the value of some of those assets can be leveraged against to raise debt, you could raise debt against the assets of the business.

A third party might lend against plant, against machinery, against any buildings that are the owned by the business. Now, there will be a consideration here about figuring out the correct net asset amount. If there was a property in there that's unencumbered, worth a million pound, it might be that that is half of what you're buying.

You're paying two million pounds, and half of that is the asset, which is worth a million and is unencumbered, and the other half is the profitability, is the goodwill, is the ongoing opco, the operations. You would then raise finance, raise debt against that unleveraged asset to pay for the upfront consideration, and then the rest would be paid on the deferred. It's basically using asset-backed finance against anything you can in the business to raise the capital.

Other assets in the business that you can raise money against that are more commonplace or are more specific to this would be things like debt financing or some sort of invoice factoring mechanism, where if you know that the business is owed X amount of money over the next 3, 6, 12 months with creditors, you could actually use that invoice factoring to pull that capital forward, raise that money, and then use that to pay the upfront.

That would be the second is using asset-backed debt, so using debt that's based on the assets of the business. Then the third option, these are all sort of LBO options, leveraged buyout options, where you wouldn't have to buy that company for 2 million cash. You might buy it for your legal fees plus zero.

The third option would be traditional debt. You go to a lender, and it's not uncommon to be able to raise 50% of, well, it depends what the profitability is, but as long as the multiplier of either profitability or the percentage of revenue or what's called the serviceability amount, the percentage of the serviceability of the loan, you could then raise debt against the business's ongoing profitability, use that to then pay the upfront consideration, and then from completion, the ongoing profitability of the business would obviously service any terms of the deferment, and then there may be surplus required to finance the upfront, the debt that's raised for the upfront consideration.

One consideration in this when you're doing LBOs, this is basically one type of M&A acquisition where you can buy businesses with none of your own money, but use the business to raise the debt, the capital, leverage the assets to buy it, would be that you need to understand before you go into it what the terms of these debts are going to be. You also need to understand that what you'll achieve here is you might buy a business that's making 250 to 500,000 pound a year profit, maybe more, 2 million pounds, maybe making, yeah, say 500,000 pound a year profit. You got to appreciate that from the P&L side, profit and loss post-completion, it might still look quite lucrative on paper.

It's kicking out 20, 30, 50,000 pound a month, great. But in practice, a lot of that cash flow will be then used to pay down the debt. So the cash flow, the P&L will look great, assuming it's a profitable business.

The cash flow will be tight, it will look tight because you're using the cash to pay down the business, but the balance sheet will just go up and up and up. And every month that you stay in business, you'll be paying down the debt, reducing the exposure and creditors that are due and also increasing your net wealth. So basically you're acquiring a business for next to nothing, running it as it is, hopefully it's servicing its own management team.

And then every month your net wealth is increasing because it's paying off that balance sheet, the asset value is going up. And then eventually after 12, 24, 36 months, whatever you agree, you've then got a business that's making 200, 250, 500,000 pound a year. And you've paid off all the balance sheets that's now on the balance sheet.

It's now worth 2 million pound. You're 2 million pound better off than you were. Plus it is kicking out 250 grand, half a million pound a year.

And you never had to build it. You never had to invest in it. You didn't take the risk of acquiring the revenue.

You've just acquired it using M&A strategy, no money down, million pound business, a pound or less plus your legals. And then you're operating in a completely different league. To manage expectations, this is not for the faint of heart.

The biggest challenge you're going to have in M&A is dealing with people. This will be the buyers, it will be the sellers, it will be the team, it will be the culture, it will be the client. Nobody, regardless of how much they advocate, actually likes change.

You're going to have a lot of indigestion, a lot of friction pulling these businesses together. However, if you get it right, it can be highly, highly lucrative. A couple of considerations here where you can make good money but not actually have to buy the business.

There's three options. The first would be you could just broker it. We earn hundreds of thousands of pounds a year just brokering businesses for other people.

We don't own it. We don't have to run it. We have no responsibilities or risks of the ongoing operation.

But we take a brokerage fee for taking the seller, finding a buyer, putting them together, and that is in the six and multiple six figures. The first alternative is you don't even need to get involved in it. You don't need to own it.

You don't need to lease it. You don't need to run it. You could just broker it and sell it.

The second would be you could control it. You could use an option agreement. You could agree, let's say that it's worth four times.

You can do it three times multiplier or four times multiplier, four times EBIT, or one times revenue, whatever you agree. You could go around and get a few of these and get maybe three, five, 10 different businesses, get them all agreed to sell it three times, put an option agreement on all of them, which you pay a pound for, option agreement for 24 months, you've got control of the business, or rather you've got the option but not the obligation to buy the business for a pound. You take those three businesses, five businesses, 10 businesses, you take those businesses for a pound, put an option agreement on them, and then you go to somebody and say, look, you add all that revenue up and whilst one might be doing, let's say doing a hundred grand each, and that's worth three times multiplier, if together they're doing a million pounds, that might be worth five or six times. And then what you do is actually using option controlled, option agreements, do an option controlled rollup, sell basically the option agreement, sell it for a million pounds, two million pounds, exercise the options to buy the companies, and then somebody else would actually do the M&A element. And again, you're brokering it, but another level and your margin might be 50% of the end sale price, which could be 500,000 pounds rather than 200,000 pounds as a broker fee.

That would be another way to do it. And then the third way would be to back to back it. So to take the business, you know somebody else is out buying, you can do this on an option agreement as well, but you can agree to buy it yourself, make it an assignable contract, exchange contracts, have a buyer ready, and then basically just put them back to back and make a margin through that.

Not hugely dissimilar to be fair to the option agreement, but if a seller didn't want to do an option agreement, you could agree to buy it, back to back it with somebody else, and just assign the contracts in the middle. Few top tips to finish is the first is in order to do this, the seller has to be motivated to a degree. Ideally off market, or they haven't had a huge amount of interest previously, maybe they've had some offers and they've just fallen through.

There has to be a motivation there. If you're dealing with a business that everyone wants to buy, a Tesla, a unique bespoke niche, really specialized company that's got 20 year contracts with Rolls Royce, Bombardier, BAA, someone like that, and everyone wants to buy it, you're not going to be able to cut these sort of deals. These deals are for like having a competitive edge over a business that may or may not have other interested parties, and you can have a decent control over it.

That's a real key consideration. The second, as I sort of talked about, is just beware of leveraged buyouts is when you're taking on these debts, whether you're doing it against invoice factoring, or you're doing it against balance sheet, or you're doing it against plan and machinery, or you're doing it against the profitability of the company, just make sure you're aware of the risks that are entitled in that. If you can raise it secured only on the strength of the business and the balance sheet and the track record, fantastic.

Your liability is then limited to that company. But as soon as you have to start offering cross-company charges or personal guarantees, it is going to expose you more within this strategy. So just be really careful in this and make sure you know what you're doing and you're not going to catch a cold.

And then finally is, and one of the considerations is if you're going to raise the debt before completion, so what we've done in the past is agreed a debt facility of the company now before it sells on the basis that it's got the existing owner who's been there five years, 10 years, it's got five years profitability management accounts, just less nervousness from the lender. It's not an M&A product or a corporate finance product, it's more of a business development product. If you're going to do that before sale, it's just a really important consideration to make sure that you are getting terms agreed that means that the debt can be allocated to the incoming buyer.

So at the point of sale, they can't call the loan back in because that's going to be a real difficult position. And then finally is hope for the best, expect the worst. Mergers and acquisitions, buying companies sounds very sexy, very exciting.

Without a doubt, it is a way to acquire significant revenues, profits and wealth, but really hope for the best and expect the worst. When you're doing your modeling, your planning, your margins, your debt serviceability, use this as an opportunity, but appreciate even when you've cut your teeth, it's not going to be about its challenges. So keep an eye on that, don't lose sight of it and start to consider M&A as when the time is right, your strategy and your way to level up what you're doing.

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