**TBP 163 Edited\_Transcription**

[Daniel Hill] (0:05 - 29:29)

Welcome to the Blueprint Podcast. In these episodes, I'm going to share with you my life's work boiled down into simple blueprints that I used to build a 10 million pound portfolio and retire with financial independence at the age of 35. You can listen to these podcasts in any order, and I guarantee you that when you execute them in practice, you will see that success and failure are both very predictable.

Let's get into the next blueprint. Whilst most people look at property entrepreneurs, people in business, active investors, and think that they're making loads of money running around and the roads are paved with gold, the reality is more deals go wrong than actually go right. What we want to do is a lot of people have been burned in recent years with the ups and downs with the property market, COVID, pandemic, et cetera, and other people have been going out there and absolutely creaming it.

What we want to do is identify what is the difference between those that have deals that go really well and those that have deals that go really bad. In this podcast, we're going to talk about the due diligence blueprint. For those of you that are into this side of things, this might be more for steals and tempos that are into the detail.

Other more excitable dynamos and blaze perhaps aren't necessarily gravitating towards it. However, my recommendation would be in this podcast, the blueprint that we use to de-risk our deals is how we've been doing business and property deals for 20 years. Any losses, issues, injury we've occurred have been very minor and quickly recovered.

And how having done hundreds of deals worth tens of millions of pounds, we're still going forward. We're still making money despite the challenges with deals and the market. In this podcast, we're going to look at the due diligence blueprint that whether you're buying a business, you're doing a joint venture, or you're doing some property deals, how do you de-risk it to stop you from losing your share?

So in recent years, lots of people have got burned in the property industry. There's been some pretty spectacular big names go down. Some through fault of the market, some through fault of their own, some a combination of both.

And what we want to do is look at regardless of how things play out, how do we prevent getting caught in the storm? And then when we do hit an issue, how do we have a backstop so we don't lose our shirt? At the minute, things are full tilt over this way.

It is full summer, full championship season, deals, deals, deals, marketing, marketing and sales and events, and taking everything to the next level. The only way we can do that is by ensuring that everything behind the scenes is locked, loaded, risk depraved, and allows us to press forward. What you're going to need to understand this is basically quite a logical mindset.

And the overarching sentiment of all of this is a lot of people get caught out because things are exciting and sexy. The reality is, regardless of how exciting and sexy it is, we want to hope for the best, but expect the worst. And if you can have this mindset and just try and have that good vibe or rather that word of wisdom over your shoulder that's watching what you're doing and sort of advising you in a different mindset to how you would be, perhaps someone like me or somebody who's one of your more wise, established investors, have that wisdom, that age, that maturity, those battle scars that have been felt previously, talking to you in these scenarios, and it'll de-risk your deals. So what we're going to look at is a six-step blueprint.

And the majority of this is about prevention. So how do you avoid doing the deals? If more deals go wrong than go right, how do we reduce that?

And then a couple of points to finish of how, when they do go wrong, how do we avoid losing our shirt? And then I've got five top tips, which I think will just lock it into your mindset and allow you to go to the next level. So when we're talking about due diligence, due diligence is basically research, it's investigation, it's appraisal of a person, a business, a deal that enables you to basically appraise the risk, manage the risk, and then make an educated, informed decision whether to go forward or not with that opportunity.

I'm going to kick things off with people due diligence. So if you're looking at going in business with someone, or maybe they're looking to invest in money with you, you're looking to invest in money with them. Perhaps you're looking at doing a joint venture, or maybe even you're buying a product or a service or a deal from somebody.

People due diligence is a really good place to start. And again, when I'm thinking about logically, some of this will be new to you because it's professional expertise, but a lot of it will sound logical. But you know what they say about common sense?

The difficult thing about common sense is it's not that common. And if you're not doing these things, this is where you're exposing yourself to risk. So people DD, the basic ones, the first one would be character references.

So looking at somebody's profile, looking at people they've worked with, speaking to previous joint venture partners, business partners, clients, doing some research. The internet is a pretty transparent place nowadays when I'm doing joint ventures or buying a company off somebody. I'll go into the depths of the internet, looking for newspaper articles, bankruptcy notices, social media posts, forum threads, anything I can to find that sort of qualitative, reputational feedback on somebody.

Dig as deep as you can, ask people what they think and try and get a gauge in their reputation. And then second to that is more like formalities. So again, depends in what situation this is.

But you're looking at things like credit ratings. You're looking at balance sheets. So credit rating, you can get a credit check on someone.

Have they ever been bankrupt? What's their credit score? What liabilities do they have outstanding?

Any charges that are registered against their name? Credit check is a really good way. If those of you that do credit checks often, you'll get pages and pages of their financial history, can read a lot into that.

Balance sheet. You get basically an asset and liabilities balance sheet, or you'll get an alley. So like an asset and liabilities balance sheet would be a spreadsheet that somebody's put together.

These are the assets I own. This is the money I spend. You want to be able to qualify it.

So ideally, it would be supported with either registry accounts or land registry documents, which you can obviously then check for on company's house or on land reg for charges against those mortgage charges, private debt to see how they stack up or an alley. So like an asset liabilities, income and expenditure document. You would have seen them before.

They're used by mortgage companies nowadays, and it provides an indication and overview as to who they are and what they've got. If somebody is really trying to screw you, some of these are going to be very easy to doctor a spreadsheet, a word document, an email. Others are going to be significantly less easy to doctor.

Things like credit ratings, filed accounts, land registry charges, etc. Things like that. And then you want to audit it.

Look at their company, look at their company accounts, look at their filed accounts, audit them as individuals. Anything you can do to get confidence. Just assume that they're lying to you and press, put the pressure on it.

This might seem like quite an intimidating thing to do, but in reality, the right people will respect you for it. You know, someone's going to business with you and they have to prove that they're, you know, in order for you to lend them money, that they're credible, their assets are where they need to be. It might seem overkill.

It might seem like a sledgehammer cracking an egg. But if you want to protect that downside, I guarantee you this is the way to do it. And it'll also govern an increased level of credibility, trust, professionalism in the relationship.

The second would be business DD. So if you're looking to do business for somebody or you're looking to perhaps buy a company of somebody, doing a business deal or looking at a business specifically, supplier, somebody you're going to give credit to, someone you're going to partner with, somebody you're going to sell products or services to or buy from, similar sort of process. You can do a credit rating for a company.

You've also then got their filed accounts. You want to be looking at their P&L and their balance sheet. You want to be looking at previous years as well as the most recent filed and then current management accounts.

And if you can read into that, fantastic. If you can't, get somebody who can. When you can, when you understand how to read them, there'll be, if there's any major discrepancies, they will jump out very quickly.

And then obviously there's always going to be discrepancies and differences. And if they're very comprehensively answered and articulated, that can provide confidence. If they don't have an answer or it sounds strange or odd, this is the sort of red flags that we're looking for.

And then for businesses, it's all about credibility. If you go on Companies House, when were they formed? How long have they been trading?

Have they submitted all of their accounts on time? How many directors have been in and out of the business? Are there any notices served on the company?

You can find a lot of that just on either Company Check or Companies House without doing too much work. Online reviews, reputation, forums, again, reading around Google, TripAdvisor, Trusted Pilot, and Facebook, Instagram, portals, forums, request people's feedback, clients that they've worked with. This might sound labour intensive, laborious, but the aim of the game is if you want to We've had 20 years track record, touch wood, now I need to touch wood a lot of times talking about this, but 20 years track record of doing successful deals.

We spend not only time but tens if not hundreds of thousands of pounds a year on professional fees, due diligence, going through this process. So there's no such thing as a free lunch or a quick buck. You want to spend time on these things.

Then if you're looking at a deal, so let's say you're buying a package deal off someone, you're buying a deal online, you're just buying it off Rightmove. If you're doing a property deal, what sort of due diligence would you do on that? Well, luckily, in the UK, property conveyancing is one of the most comprehensive processes around the world of how to do it.

The downside is it obviously takes a while to buy property, but you've got the due diligence element, you've got the legal elements to rely on. What you're less likely to do is figure out whether you're paying the right price and or you're doing a good deal. So you want to do your own due diligence.

One half is going to be looking at your internal due diligence. So is it actually a deal? And here internally, we would look at things like comparable purchase prices, comparable sale prices, comparable standards and properties, comparable rents.

And it's a basic desktop valuation. There's no secret code. The Zoopla valuation is not going to give you much more than an indication.

But going on Rightmove and looking at properties sold in the last six months, looking at all properties within a quarter of a mile, looking at properties 50 grand more expensive, 50 grand less expensive, comparing rents, that qualitative desk research you can do, just thinking logically again, hope for the best, expect the worst. If this goes well, what's it going to look like? Also, if it goes bad, what's it going to look like?

If we're developing a block of 50 or 100 apartments, we're stacking on the basis that the worst case, they're going to be worth 90 grand. Best case, they're going to be worth 120. And if you stack it on the worst case, you're not going to end up sucking your thumb or crying into your beer when the market turns.

You get devalued. You've been overoptimistic and you've wasted two or three years of your life. The other thing is then conveyancing.

So you've got your due diligence and also we'd be looking at mastering the market. You really want to understand the local market. I remember I used to buy in Lincoln back in the day, 10 years ago, and there would be some streets, some streets you would absolutely not want to buy on, but three streets down was the best street in the area.

You really want to master the market and understand that and either earn your stripes and learn that stuff internally or leverage the expertise and experience of somebody who has. And then from a due diligence point of view for the property, it's just going out there and paying the legal fees. You should be getting searches, should be getting a home buyer's report, structural survey, mortgage valuation.

The title should be reviewed by the solicitor. If you buy an auction, ideally still do that. The due diligence process is there.

I wouldn't say it's expensive, but it's time consuming for a reason. There's obvious risks that you don't want to come a cropper with. The next one would be a company deal.

So if you're going to sell a company or you're going to buy a company, what you're likely to see in the due diligence process is a due diligence questionnaire. So due diligence questionnaire can be four pages, six pages, eight pages long, and it articulates exactly what they want to see for the business. And you're legally bound to answer them or you're legally bound by the information that's provided.

Equally, they will be legally bound by the information that they send over. And it's asking about things like claims, liabilities, insurance policies, leases, contractual obligations, credit terms, credit arrangement, debt charges, bankruptcy, insurance claims, et cetera, et cetera. So a huge questionnaire.

Due diligence questionnaire would be one for a company deal. The professional one would be, you want to get the professionals into the business and get them to do some of it. So the main ones we would look at normally are finance.

So we would get our accountancy firm to complete a financial due diligence questionnaire. An audit, they'd be looking at the P&L, the difference between the management accounts and the filed accounts, difference between margins, revenues. They do a full appraisal and a report, which we can just read, which appraises the finances.

Operationally, we would then want probably one of our internal consultants who's tees up operation to be looking at their tech stack, their processes, blueprints, operations, manuals, any compliance, third-party audits that have been completed. You can do this in-house or you can have a third-party company complete it for you. And then obviously legals, going through the legal process of warranties, insurances, claims, is it an asset purchase?

Is it a share purchase? And that due diligence process is comprehensive. It needs to be detailed.

If you're buying something blind, like you're buying something cheap, but you're also probably buying something quite risky, there's always a reason that people are selling and there's always skeletons in the closet. What we want to figure out is what is that reason? What are those risks?

And then build a risk profile and contingency plan around it. And then finally is whatever it is you're doing with a company deal, make sure you've seen it. A lot can be misinterpreted, misconstrued, misrepresented in data rooms, documents, photos, videos.

If you're buying a portfolio, a business with a load of property, go and have a look at the property. Get one of your teams, go and have a look at the property. If you're buying an office full of team members, whether you go in and they know who you are or you're going in undercover, mystery shopper, under the premise of a surveyor, an insurance company reviewer, whatever, get in there, feel the business, feel the offices, feel the culture, feel the team, feel the stock.

Go in there and really get a feel for it. Because getting that deal done is going to be 1% of your relationship with this deal. And it's probably going to be the last...

Completing on that deal is going to be the last sexy, exciting bit for a while. You've then got the responsibility that comes with buying a property, doing a development, buying a company, having a child. You're going to have that curve to go through.

Don't jump into the deep end without your goggles on and your eyes open. Jumping in quickly with two very exciting opportunities for you. The first is after the success of last year's VIP WhatsApp groups through the month of July 2023, we have reopened them for a limited period.

Each group is capped at 20 people, gives you the unique opportunity to network with other high-performing entrepreneurs in the UK. You'll get VIP discounts to our summer training events. And every week, you'll be invited to a private one-to-one mentoring Zoom call where I'll be supporting you personally on your businesses, investments, and wealth creation to get you up to being a seven-figure entrepreneur with six-figure income.

If you want to join, message VIPACCESS to the number that's in the show notes. The second is our annual three-day events are now live. If you've liked our free content through these podcasts, imagine how good our paid training is.

If you want to learn the entire property entrepreneur blueprint from start to finish in a five-star resort with some of the UK's leading property entrepreneurs over three days, go to www.donttalktotenants.co.uk and see which of the two dates is going to be best for you. Back to the podcast. The fifth is then risk profiling.

So what we want to do is nothing's risk-free. Everything has risk. And what we've got to do is differentiate between what are the risks?

Are they high, medium, low? Are they manageable risks? And then can we mitigate against the risks?

And what you want to do here is first off is read the risks. Most of the risks you're going to take on are written down. They are detailed in insurance policies.

They're detailed in the title deeds. They're detailed in your shareholders agreement, your purchase agreement, the lease agreement that you're buying. Most of the details, most of the risks you're taking on, you can see.

If this business goes bust or this company goes bust, the money in the bank is only guaranteed up to 85 grand. It's a risk. You need to know that that's the case.

If you have an ongoing liability to service a lease that's valid for 20 years and it's only done four, there's 16 years worth of ongoing obligations there. When you're doing a deal, property deal, joint venture, private investment in or out, company acquisition, most of the deals are just written down. They're there in the documents.

You need to have the patience, the time and the appetite and a highlighter to sit there and just color them in. Say, right, these are the risks. This is what we need to be aware of.

This is what we're liable for. This is what we're not liable for. When you're buying a deal, you're going to get a thing called deal heat.

You're going to get excited. Your blood's going to start pumping. You're dreaming this promised land of what it's going to be like when you make your extra 100 grand, million, 10 million pound a year.

The reality is if this goes well, you've already dreamt that dream. But what happens if it goes bad? Have you already considered the nightmare?

When you go into a deal, you really want to understand the upside and the downside. And then in the risk appraisal, you want to find out what they're not telling you. So in those agreements, data rooms, questionnaires, there's information that they're not telling you.

And this is what we actually use this to our advantage when we're selling companies, because we try and give them absolutely everything. Because my mantra is the things that they're looking for is what we're not showing them. So we give them absolutely everything.

They're going to find a packet of dog biscuits or a stationary invoice for £25 that wasn't paid in 2006. If you give them everything, it diffuses the situation. But when we're buying stuff, I'm looking for what are they not telling us?

What structure issues have they hidden? What's going on behind that stud wall that's got a solid wall behind it? In this due diligence process, this deal seems too good to be true.

What is it that we're missing? Hope for the best, expect the worst, but look for what they're not showing you. Look for what's missing.

Look for what doesn't quite add up. So hopefully you get the impression of due diligence really is it's research, it's investigation, it's understanding the risks, managing them and then mitigating them. The final two points are about cure or backstop.

A cure would be if it does go wrong, what is the cure or backstop? If it does go wrong, how do we de-risk it? So there are risks, there's always risks.

If you want to make loads of money, there's always going to be risks. How do you de-risk it? How do you remove the risk, manage the process and make sure that you don't lose your shirt?

Well, the easiest thing to do here, which you're going to be able to do on most deals is a plan A, B and C. And I'm going to tell you in a moment what A, B and C actually stands for, but plan A, B and C. So plan A is what you're going to buy on, but when you're doing a deal and we are taking on risk because we want to do good deals, buying cash unconditionally without planning, maybe without even seeing if you're buying an auction and you've only just seen the legal pack, which I've done all of those and continue to do.

You can only do that with conviction if you've got a plan A, B and C. So when A doesn't work, like it doesn't always work, what is plan B? When that doesn't work, what is plan C?

And the aim of the game is that even if this thing falls down and you sell the bricks, you're still not going to lose money. Rule one is do not lose money. So plan A, B and C.

And what is your plan A, B and C? And then the second is your backstop. So it's all well and good doing deals with people, lending people money, selling people companies, buying companies off people, doing installment contracts, whatever you want to do.

What happens when it goes wrong? And you want to plan the postmortem before the actual death. And if you understand that this could go wrong, what security do you have when it does?

So if it is a loan repayment, or you're selling a property on installment contracts, or you're selling a business on deferred payments, when that deferred payment or installment contract doesn't come in, or repayment doesn't come in, what do you then do? Now, if you're going to get a high risk, you're probably going to have a high return. If it's unsecured, it's done on a beer mat, it's loan shark money, you're getting 20%, 25%, 30% return on investment.

But the downside is you could lose it all. So you could be well out of pocket. Or if you're going for low risk, which might be 5% or 10% or 15% return on investment, it's going to be quite low risk.

So it should be secured, it should be guaranteed, it should have a backstop. And you're going to be somewhere on that spectrum. If you're looking at the due diligence and you're concerned and the risk doesn't meet the reward, or having now understood the risk and the reward, because you've done your due diligence properly, it doesn't make you comfortable, we then look to mitigate or manage the risk.

So we de-risk it. The way that we do this is through securities. So what security do we have?

Do we have a joint venture? Sorry, do we have a personal guarantee in the joint venture contract? Do we have charges over an asset?

Do we have a second charge on a building? Do we have charge over the shares of the company? So if they don't pay you, you can take the company back.

What types of security can you get? So if the proverbial does hit the fan, you can then take that security. We don't want to be relying on good faith.

We don't want to do deals on trust. We want to do deals based on risk and reward. And understanding high risk is high reward, low risk is low reward.

And in the middle, there's a slider and a spectrum. And we move that up to de-risk and mitigate the risk as much as we can. So when you're approaching due diligence, hopefully this has given you a vibe for it.

You just want to think logically, strategically, and you just want to get the confidence that you're going into it with your eyes open. That doesn't mean there's going to be no risk. It doesn't mean there's not going to be any issues.

It means you're aware of them and you've protected the downside. Five top tips to enable you to go and do this. So the first, I talked about ABC.

So ABC in doing deals sounds for assume nothing, believe nobody, and check everything. So assume nothing, believe no one, and check or confirm everything. If you do that in a deal, you are unlikely to get caught short.

But the reality is you've assumed things in the past, or you believed what somebody told you, or you didn't check a detail. And one of these three, only one of these three things is needed to screw you over. The likelihood is you've probably already fallen victim to more than one, or you're guilty of more than one.

The second is when we talk about risk appraisal, you want to talk yourself out of deals rather than talk yourself into them. Now, when you're young, you've got nothing to risk, nothing to lose. You'll take massive risks with a small amount of money, dangerous territory.

But you do it. We all do it. As you progress in your journey and you end up with lots of capital and lots of assets, you want to take low risk with loads of money.

It's just the way the journey works. But what you want to do is, if you want to do deals that make money, is spend your life talking yourself out of doing deals rather than talking yourself into them. If you talk yourself into it, it's likely to go wrong.

If you talk yourself out of it, it's likely to go right. The third is, and this never ceases to amaze me how accurate it is. If it seems too good to be true, it's not true.

Like if it seems too good to be true, you look at the deal and it's 100% ROI. It's a 10-year lease on a guaranteed 8% cash flow with an only upward review of a minimum 5% index-linked inflationary increase every 12 months. If it seems too good to be true, it's not true.

Either it's not true, it's a load of rubbish, it's never going to happen, or it's riddled with contingencies or elements of risk or things you haven't considered, like you're overpaying for the building in the first place. So they're actually just feeding you a bit to make it interesting on the way out. Or it seems too good to be true because it's not.

It's fraud, it's fake, it's high risk, it doesn't actually exist, it's quite likely to go bust. If it seems too good to be true, it's not true. Sometimes, number four is, sometimes the best deals you do are the ones you don't do.

So sometimes the best deals are the ones you don't do. If you look back over the deals you've done, there may be deals that you wish you hadn't have done, but also there's probably deals you said no to and you thought, I'm really glad I didn't do that deal in hindsight. So life is not about doing deals.

Most property investors are out there running around doing deals that don't make money. Don't be another one of them. Sometimes the best deals are the ones that you don't do.

And then finally is good or bad. So whatever it feels like when you go through this process, good or bad, trust your gut. If your gut is saying this is a good deal and you want to go forward with it and you've done all your work and it's good and you've done the due diligence, happy days.

Equally, if you've done the due diligence and it seems fine, but your gut is saying, she's not telling me the truth or he's not telling me the truth or what they've told me there seems a bit fishy, that doesn't make sense. If it seems too good to be true, sorry, whether it's good or it's bad, whatever your gut's saying, whether it's good or it's bad, trust your gut and go with that decision. Hopefully that's given you an insight into the due diligence process.

It's not the sexy, exciting, let's go make a million quid stuff. But the reality is, this is the devil in the detail that will make you make that 50, 100K, million pound that you're setting out to do. Don't do deals that don't make money, figure out what the risks are, manage them, mitigate them and do your due diligence.

Hope you enjoyed this blueprint and I look forward to seeing you on the next one. I hope you enjoyed this blueprint podcast episode. If you're not already subscribed, sharing these, this is my lifetime's work and every Tuesday I'm giving you one blueprint away for free.

These things are unique, they're proven, they've enabled me to build over a 10 million pound portfolio in a few short years and over the last 20 years, start, systemize, scale and sell over 40 different companies. If you like them, share them, subscribe, make sure you don't miss a single episode and tune in every Tuesday for a brand new episode and then follow me daily on Instagram for free content, post twice a day, completely free of charge. Success and failure are both very predictable.

I'll see you on the next episode.