

Mr Clive Betts
Chair, Housing, Communities and Local Government Committee
[REDACTED]

Copy to: Mr Ed Beale
Clerk of the Housing, Communities and Local Government Committee
[REDACTED]

20 February 2019

Dear Mr Betts

**Housing, Communities and Local Government Committee meeting on Monday
17 December 2018: High streets and town centres in 2030**

Thank you for forwarding the letter you received from Chris Wootton of Sports Direct International plc dated 4 January 2018 in respect of the above meeting.

The letter from Sports Direct makes several statements in respect of the duties of the directors of Debenhams plc that are clearly incorrect and which we would like to take the opportunity to correct. The Board of Directors of Debenhams plc is very clear as to its duties with regard to all of its stakeholders – including its shareholders. With this in mind, the Board believes it has acted, and continues to act, entirely appropriately and in accordance with its duties, including in relation to the decision to turn down the Sports Direct proposal for it to lend £40m to Debenhams, as further explained below.

The key issue with the Sports Direct proposal was that it did not address, and could have severely compromised, the wider refinancing needs of the Debenhams group. A new facility from Sports Direct at that time would be likely to have been seen as emergency funding, which the group did not require at that time. This may have also caused additional unnecessary unrest from other stakeholders, including the group's existing lenders, suppliers, other shareholders and pension trustees.

We note that Sports Direct also fails to mention in its letter that its proposal was that the £40m loan was to be secured over the assets of Debenhams. This would have enabled Sports Direct's loan to rank ahead of the loans made to Debenhams by its existing lenders.

To proceed with Sports Direct, and not to offer participation in such a loan to Debenhams' existing lenders, may have compromised the willingness of existing lenders to be constructive in the wider refinancing. Clearly, the continuing

cooperation of existing lenders will be very important to the group. The grant of security is a material issue in the context of the wider refinancing and it would not have been appropriate to have granted this to Sports Direct in the abstract given that wider refinancing context. In this regard, I enclose a copy of the announcement we made on 12 February 2019 of a secured financing Debenhams has entered into with its existing lenders.

Part of the Sports Direct proposal also required the issue to Sports Direct of new ordinary shares in Debenhams plc, which was not in the company's gift without the support of the remainder of the company's shareholders.

The Board did not simply reject the Sports Direct proposal but it endeavoured to keep the discussions with Sports Direct open (and indeed they have been ongoing). The Board believes that there are solutions which may meet both Sports Direct's requirements but also the requirements of Debenhams (both in respect of its wider refinancing and the need to manage the interests of all of its stakeholders).

To suggest to a parliamentary committee that it was a dereliction of duty by the directors of Debenhams plc to turn down Sports Direct's offer of a loan, which would have been secured over the assets of Debenhams ahead of the group's existing lenders, is pure mischief making by Sports Direct, presumably in an attempt to apply further pressure on the directors of Debenhams to act in the interests of Sports Direct rather than the interests of Debenhams' stakeholders generally.

The Sports Direct letter also suggests that the department stores of Debenhams do not compete with the department stores of House of Fraser. Data from industry analyst Kantar shows an approximate 50% overlap in fashion customers between the two brands. However, we will resist the temptation to continue that particular debate in this correspondence, as that is something for determination by the Competition and Markets Authority.

Please do not hesitate to contact me if you should have questions in respect of the above.

Yours sincerely



Paul Eardley
Company Secretary & General Counsel
For and on behalf of Debenhams plc