Introduction
RAL has considered the first report of the Work and Pensions Committee and fourth report of the Business, Innovation and Skills Committee relating to BHS. As far as this concerns RAL, it wishes to comment on some of the matters set out in the report. This is not intended to be a complete or comprehensive reply to every matter raised.

There were a series of complex agreements and transactions that were all undertaken in good faith and with the overall objective of turning around and restructuring this loss making business.

BHS had been a heavily loss making business for several years and, if RAL did not purchase BHS, it would have folded and ceased trading.

Pension
RAL’s initial bid was predicated on the basis that BHS would be debt free and that any exposure to the pension would be extremely limited and be covered by contributions from its day to day trade.

Expert advice was taken by RAL prior to purchase concerning the pension. It was stated by all, including Arcadia and Sir Phillip Green (SPG), that the pension was in the process of being sorted and was not something that the new owners and managers of BHS would be liable for, provided BHS continued to make the annual contributions for the yearly shortfall and continued engaging with the pension trustees.

It was known and agreed that there was a £10m annual contribution. RAL knew that BHS would pay £5m each year for the next 3 years and there was an agreement for a £5m contribution for 3 years from Arcadia/SPG/Taveta. RAL paid these contributions on time.

It was a condition of the purchase negotiations not to engage directly with the Pension Regulator (tPR), or the Pension Protection Fund (PPF), but RAL, together with its advisors, met and discussed the position with the pension Trustees. RAL was aware that there were delicate but advanced negotiations that included an agreed £10m annual contribution from BHS and an estimated shortfall that would be covered by the previous owners of between £50m - £75m.

The deficit had been incurred prior to RAL’s ownership. The ‘moral hazard’ was a matter for the previous owners. RAL was focussed on turning around and restructuring the business to provide further increased stable cash flows, which would, in turn, benefit the pension fund.

Immediately after acquisition, RAL and BHS directors met with tPR. They assured tPR representatives that everything necessary would be provided and there was a completely open book as far as finances were concerned. Unfortunately tPR issued a s.72 notice and the notice had to be disclosed to potential financiers. It substantially reduced the possibility of Trade Credit Insurance (TCI) and funding and there was also little possibility of securing a CEO with substantial retail experience because of the personal risk to them despite several candidates being approached and shortlisted.
RAL believed that its approach to the tPR was correct and proportional. RAL did not fully appreciate the severity of the detrimental effect of the service of the s.72 Notice. In hindsight, RAL, should have insisted on prior approaching tPR and obtaining clearance for its purchase.

It became clear that SPG/Taveta and tPR were entrenched and little could be done by RAL/BHS whilst that position remained.

**Purchase by RAL**
The negotiations regarding terms of purchase changed constantly and, at the last minute, there was a switch from all of the debt being written off from the balance sheet in the sum of £240m, to £200m being written off, with £40m remaining on the balance sheet secured by a Qualifying Floating Charge (QFC). SPG stated that this QFC would not be called upon against BHS, but would be “his” contribution to the pension fund to cover what was stated to be his “moral hazard” of up to £40m. Regrettably, SPG/Arcadia called in this debt under their QFC thus frustrating last minute negotiations to sell BHS as a going concern.

It was initially agreed that there would be a £10m cash payment to RAL at completion upon the sale by the Green family companies of Marylebone House (MH). Following exchange of contracts by RAL to a third party buyer, SPG changed the deal to a financial contribution (which became £8.5m), together with a 50% uplift for any onward sale (that was apparently then being negotiated by SPG) above £45m. The suggestion at the time was that an onward sale would achieve between £53m - £55m and RAL would see the immediate benefit of this onward sale.

In order for the sale of MH to proceed, BHS needed to surrender its Lease. It did so, but SPG reneged on his promise to sell MH to RAL and to pay the initial share of proceeds to RAL of £8.5m as per his hand written completion statement dated 11 March 2015 (“Final Statement”). Therefore, RAL was short of funds into BHS so that it could settle all of the professional fees and obligations that it had accumulated prior to and at the time of purchase. This required money being borrowed, originally on a short term basis from ACE and BHS.

**RAL services**
RAL provided substantial and valuable services to BHS which were documented in a detailed Management Services Agreement (MSA) negotiated between it and BHS. RAL had the entire management team responsible for:

1. Bringing down the running costs;
2. Sale/surrender of properties to save money and raise cash;
3. Delivering outcomes in excess of the current valuations for such sales/surrenders;
4. Delivering rent reductions (including delivery of the CVA);
5. Streamline of head offices;
6. Raising funds;
7. Moving the business forward
8. Separating out the expensive and unwanted Arcadia management.

The RAL team consisted of a team of at least 10 people, plus a number of professional advisors. Under the terms of the MSA, RAL was paid according to results in a number of instances and, in every case where there were specific payments made, they were within the terms of the MSA and provided a vast benefit to BHS.

RAL raised substantial money and procured substantial savings for BHS in its reconstruction of the business. For example, RAL introduced the buyer and negotiated
the enhanced value for one of the BHS assets that was already in the process of being sold – North West House (NWH). The original value in the books and records of BHS was approximately £25m. RAL increased the eventual sale price to £32m which was paid on completion of the acquisition by RAL.

Funding
RAL was promised assistance by SPG/Taveta/Arcadia in procuring TCI, which had been removed many months before following very poor results and the knowledge within the industry that BHS was up for sale and may be close to insolvency. A guarantee by Arcadia would have meant that BHS would be credit worthy and suppliers would be able to supply goods to it without demanding payment in advance for the goods. Without TCI, no substantial retail business can survive. Because of the failure of SPG/Arcadia to reinstate TCI that had been in place before for BHS, as assured by SPG to RAL and BHS, BHS was required to have a cash reserve of £30m so that suppliers would provide it with their goods.

RAL had an additional and unplanned cash flow shortage due to additional funds required for suppliers, which resulted in a crisis that necessitated funds at short notice with limited security which attracted high interest. This would not have been necessary if SPG/Arcadia had delivered on its promise.

RAL initiated discussions with Bank of China for a trade finance facility which needed $10m placed on deposit with them. This would have provided TCI to support BHS. It failed because the service of the s.72 Notice from tPR and the obligation upon RAL to inform Bank of China of this.

The detail of the Report confirms that RAL successfully raised substantial funding to support the turnaround of the business.

It was originally in the business projections that the sale of the Oxford Street store would complete by September 2015. RAL realised that Oxford Street could not be sold for the right price (at the time the BHS valuation suggested that it would be between £25m - £30m), although it was recorded in the asset register as much less. The later sale at £50m was therefore of enormous and crucial benefit to BHS.

RAL sought and obtained financing with Grovepoint in the sum of £63m. This financing was at a sensible commercial rate and also permitted sufficient cash flow so that the sale of Oxford Street at a higher level could be completed by RAL.

It should be noted that Grant Thornton were asked by RAL to give proposals to assist in fund raising. Grant Thornton were of the opinion that fund raising would be extremely challenging, expensive and take several months. Nevertheless, RAL delivered the financing required.

Trading position
Both Arcadia and the existing BHS management believed that trade initiatives amounting to £23m improvement in profit would and could be achieved as part of the turnaround.

As noted in the Report the main elements of the trading initiatives was a forecast increase in sales of 1% and increase in gross margins of 1%. RAL’s due diligence carried out by the retail sector specialists within Grant Thornton identified the vulnerabilities of this plan. Ultimately, the trade initiatives were not achieved. Indeed, the trade forecasts provided by the retail team were continually incorrect and, for example, were minus £30m on forecast in the period December 2015 – March 2016.
RAL oversaw significant cost savings as part of the CVA restructure which was forecasted to deliver approximately £20m per annum and to replace the failure of the trade initiatives. However, the continued shortfall in trading after the CVA was launched and forecast of continued shortfalls throughout summer 2016 was a key factor in the demise of BHS.

**CVA.**

Mr Hitchcock, BHS Interim CFO and Mr Sherwood, BHS Property Director met with a large number of landlords, who were all unwilling to reduce the rents to commercial and market rates. In the event, the executive board run by RAL determined that a CVA was the only way and this work was undertaken together with KPMG and other professionals at a fee of approximately £2m. The CVA was hugely successful and would have been responsible for reducing the annual rent and rates bill of BHS by approximately £30m, in excess of the £27m estimated saving in the Turnaround plan.

RAL was criticised in the Report for not commencing the CVA process earlier. The CVA was always viewed as a last resort. It is an admission of insolvency and had an additional negative impact on trade credit and also triggered a number of defaults, including the movement of the pensions into the Pensions Protection Fund (PPF), and the crystallisation of the higher level pension’s deficit, whereas RAL had invested considerable sums in developing Project Vera which was designed to keep the pension scheme out of the PPF.

**Payments to RAL**

In relation to the fees of RAL, it was paying for all of the senior management services. It is incorrect that a total of £6m of fees was taken by RAL for arranging loans and property transactions. The correct amount was £1.9m, a substantial element of which was utilised to reduce the loan from BHS.

**£1.5m transfer**

RAL accepts that the movement of £1.5m in April 2016 was unusual. A number of payments were required to professionals to allow BHS to continue with substantial transactions that would have resulted in many millions of pounds to be paid to BHS. These payments were ratified by the BHS board. Certain parties within BHS (notably Darren Topp, CEO) did not want to make the payments, despite expert advice that there was no personal liability in these payments being made and the clear benefit to BHS. Dominic Chappell therefore arranged for the transfer of £1.5m to another account from where transfers to the professionals could be made to settle their outstanding fees as they were refusing to continue working for the benefit of BHS unless paid. The email from Dominic Chappell to the BHS board is attached, dated 19 April, the same day as the transfer.