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Dear Martin

Thank you for your letter dated 9 June 2016. I am writing in direct response to a number of requests in that letter which follow hereafter.

1. *"...it would be helpful if you could provide any further information regarding your statement that Retail Acquisitions Ltd took £17 million out of BHS and only paid £10 million in to the company..."*

Please see the attached analysis in attachment 1 and attachment 2 showing the breakdown of the amounts charged in fees, salaries and otherwise by RAL to BHS and the inter-company balance between RAL and BHS respectively. This shows the total £17m taken out of BHS either in salaries, fees, charges or expenses and the balance of inter-company loans. Please note that BHS are only able to identify those payments it directly made to Dominic Chappell or Dominic Chappell's companies; it is not able to identify any payments made by RAL or other third parties to Dominic Chappell or Dominic Chappell's companies.

In summary:

- Salaries paid to RAL people £2.6m
 - MSA charges paid to RAL as per the RAL Management Services Agreement £1.4m
 - Fees taken by RAL for property transactions £1.4m
 - Fees taken by RAL for financing transactions £2.4m
 - Fees taken by RAL or Dominic Chappell companies from the initial £7m inter-company loan £2.8m
- Subtotal £11m**
- Balance of original BHS £7m inter-company loan (see below) outstanding £3.5m
 - Balance of original RAL £5m ACE loan (see below) repaid by BHS outstanding £2.5m
- Subtotal £6m**
- **Total £17m**

RAL invested £10m in BHS through a share subscription, £5m via a RAL loan with ACE (Allied Commercial Enterprises) (see below) and £5m via a RAL receipt from Arcadia (see below). Dominic Chappell did not invest any personal money into BHS.

Dominic Chappell knew the extent of the fees both he, his companies and RAL earned and the extent of the inter-company balance outstanding between RAL and BHS at the Joint Select Committee meeting on the 8th June and there was no reason for him to say otherwise. Aidan Treacy had already prepared this analysis for him a number of weeks ago.

2. *"Please could you explain the reasons for your departure."*

I formally terminated my consultancy agreement with BHS notifying Darren Topp on the 22 March 2016. I did not believe the assertions made by Dominic Chappell regarding future funding that formed a crucial part of the CVA proposal and which was due to be voted on by unsecured creditors on the 23rd March 2016.

At a meeting of the BHS Board and advisors on the 21st of March 2016, Dominic Chappell was supposed to bring evidence to show that (i) the Asset Backed Lending Facility with Gordon Brothers for £60m was in a final and workable state ahead of its signing; (ii) Dominic Chappell was also supposed to show documentary evidence in support of a number of property transactions that were to bring in to BHS net funding of £30m.

The documentary evidence in no way showed that either source of funding was committed. I elected that evening to terminate my consultancy agreement with BHS the next morning, as I could not be associated with a CVA proposal that I did not believe in due to a lack of cash funding. I duly terminated my consultancy agreement with BHS notifying Darren Topp the next morning, who fully understood and appreciated the reasons why I was terminating the agreement.

Dominic Chappell lied to the Joint Select Committee on the 8th June by saying that “we fired the FD”.

3. *In response to the comment made by Dominic Chappell that “He (Michael Hitchcock) is a man of many words and very little delivery” I will make the following comments. It is based on two specific references to ‘landlords’ and ‘Wells Fargo’.*

‘Landlords’ – one of the critical pillars of the turnaround plan was property, which specifically required the exit from a number of loss making stores and the reduction in rent from the landlords of all other stores. Despite Dominic Chappell taking over the business in March 2015 with a supposed ‘crack’ team of experts in both property and corporate finance, when I arrived in the business in July not one property had been exited and not one rent reduction had been achieved. Following previous experience of working with landlords in other retailers, landlords do not like to be surprised by enforced rent reductions via a CVA process or otherwise; they prefer to be engaged in discussions ahead of such a course of action.

I met a large number of landlords with a view to getting them to understand the turnaround plan and for them to see how they played their part in it. Every landlord I met understood the turnaround plan and saw merit in its content. They did not however, show financial support for the turnaround plan by agreeing to periodic reduced rents or allowing BHS to exit stores. No single landlord wanted to commit to a lowering of rents without all other landlords agreeing to do the same. The only way to reset both the BHS property portfolio and the BHS rent bill was to undertake a property led CVA. I raised this proposal in the autumn of 2015 with a view that a CVA would be launched ahead of the December 2015 rent quarter.

RAL and their associates were clear that this was not going to happen in the short-term. It became evident that the reason for this was ‘Project Herald’. This was a RAL led project to look into moving the valuable and profitable assets and trade of both BHS International and BHS Digital out of the BHS Group and directly into the RAL Group. This activity was being done outside of the knowledge of the BHS Executives and their Operating Board. At the point the CEO and I become aware of RAL’s intention, RAL had incurred £0.3m in fees on behalf of BHS.

Project Herald was never going to work with BHS in such a precarious cash position. Suppliers were already demanding increasingly unfavourable credit terms and the ability to attract external finance was severely limited. To move assets outside the BHS Group at this time would have feasibly cost the business up to £75m in negative cash flow as all suppliers would have demanded cash with orders to secure any future stock. Despite the CEO and I appearing to have quashed the RAL initiative, unbeknown to them, RAL continued to work on the initiative behind their backs eventually incurring in excess of £0.5m in fees.

Following a weaker Christmas trading period than expected/required, albeit better than some of its major competitors over the same period, it finally became evident to RAL and their associates that the need for cash was greater than ever and they agreed to launch the CVA process previously proposed. The CVA process was led entirely by Darren Topp and me, which was ultimately successful, whilst RAL were left to secure the property sales and financing raise which were so crucial to the turnaround in the event of a successful CVA vote.

The extent of work carried out by me to effect a resetting of both the BHS store portfolio and the store rent bill, does not support the assertion by Dominic Chappell that “He (Michael Hitchcock) is a man of many words and very little delivery”

‘Wells Fargo’ – on joining the business it was evident to me that one of the valuable assets that Arcadia had left on the balance sheet was stock. This was a valuable asset because it was largely owned outright by BHS due to the reduced credit terms under which BHS were trading with their suppliers. Having previously arranged an Asset Backed stock Lending facility (ABL) with Wells Fargo Capital Finance (UK) Limited for another retailer, I asked if they would be open to providing an ABL facility for BHS.

Over a period of time, Wells Fargo Capital Finance (UK) Limited performed some limited due diligence on the stock and other assets of BHS and proposed a draft ABL term sheet for a £50m ABL facility at a lending rate of 5% for three years. This term sheet was draft for discussion purposes and subject to credit committee approval. Because of my historical working relationship with Wells Fargo Capital Finance (UK) Limited previously, they were happy to progress the lending application to their parent in the USA.

Wells Fargo Capital Finance (UK) Limited conducted a review and risk assessment of RAL and Dominic Chappell. That risk assessment concluded that Wells Fargo Capital Finance (UK) Limited were not prepared to provide an ABL to BHS due to a number of factors, including the trading performance at the time, the pension deficit and the lack of equity participation by Dominic Chappell and RAL.

The extent of work carried out by myself to affect an ABL facility secured against BHS stock, does not support the assertion by Dominic Chappell that “He (Michael Hitchcock) is a man of many words and very little delivery”. In fact, it was Dominic Chappell himself in part who ultimately curtailed BHS’s ability to raise a credible and operational lending facility, at rates far more commercial than anything the ‘crack’ team Dominic Chappell has brought into BHS on transaction had achieved to date.

4. *“We would particularly welcome your views.... including the claim that RAL produced tens of millions of pounds for the company.”*

Darren Topp made reference in his evidence at the meeting last week to Dominic Chappell bringing a ‘crack’ team of experts on property and corporate finance in with him when he acquired BHS. That crack team of experts delivered the following in terms of cash into BHS;

ACE – Northwest House (NWH)

BHS sold NWH to ACE for £32m in March 2015; £25m of these proceeds were paid to BHS; £7m was paid to RAL and accounted for by way of an interest free inter-company loan between BHS and RAL. Swiss Rock (Dominic Chappell company) took a £0.5m fee on this transaction.

This property sale was a pre-determined transaction ahead of the sale of BHS for the purpose of funding RAL with £7m and therefore is not attributable to RAL.

ACE – Marylebone House (MBH)

My understanding is that Arcadia/Green family sold MBH to a third party having committed to leave the asset in the business as part of the transaction in March 2015; Arcadia/Green family changed their mind at the last minute and put up NWH as an alternative asset but elected to give RAL a share in the upside of any future sale of MBH. This 'upside' ended up being represented by a £6.5m fee payable by Arcadia to RAL and a £3.5m soft loan from Arcadia to RAL in June 2015. This combined £10m was then used to subscribe to the second tranche of £5m shares in BHS, offer up a short term loan (one month) to BHS for £1.5m and pay down the inter-company balance between RAL and BHS. BHS used the £10m to pay down the debt with HSBC, a condition of the 'Framework Agreement' under which the £10m referenced above was provided to RAL.

This property transaction was a pre-determined transaction ahead of the sale of BHS for the purpose of funding BHS and therefore is not attributable to RAL.

Carlisle store sale

The sale of the Carlisle store was already taking place at the time of the sale of BHS and was supposed to be sold on transaction; due to an administrative error in the process, the sale ended up taking place in February 2016.

This property transaction was a pre-determined transaction ahead of the sale of BHS for the purpose of funding BHS and therefore is not attributable to RAL.

Colchester store sale

The sale of the Colchester store was already taking place at the time of the sale of BHS; the sale ended up taking place in June 2016.

This property transaction was a pre-determined transaction ahead of the sale of BHS for the purpose of funding BHS and therefore is not attributable to RAL.

Third Party – Liverpool store

During November 2015, a sale of the Liverpool store to a third party was achieved for £17m (ex VAT).

None of these ex VAT proceeds came into BHS as the Liverpool store was part of the secured asset pool for the HSBC Noah I lending facility and therefore were used to pay down the secured debt with HSBC.

BHS Store Purchase – Darlington

During December 2015 BHS purchased the Darlington store in which it was a tenant, from the administrator for £2.4m. I stated my objection to this purchase at the time, as we did not have sufficient cash resources in the business to be buying property assets.

This was a £2.4m cash outflow from BHS at a time when cash forecasts clearly showed a short term future cash flow shortfall in March 2016.

Sports Direct – Southampton store

During February 2016, a sale of the Southampton store to Sports Direct was achieved for £7m (ex VAT).

None of these ex VAT proceeds came into BHS as the Southampton store was part of the secured asset pool for the HSBC Noah I lending facility and therefore were used to pay down the secured debt with HSBC.

Sports Direct – Sunderland store

During March/April of 2016, a sale of the Sunderland store to Sports Direct was achieved for £2.4m (inc VAT) to BHS; RAL instructed the lawyers to move £0.4m of this amount into their own RAL account for fees. Upon a challenge the £0.4m was remitted back to BHS.

None of these ex VAT proceeds came into BHS as the Sunderland store was part of the secured asset pool for the Grovepoint facility and therefore were used to pay down the secured debt with Grovepoint.

Lancer – Oxford Street store

Despite numerous assertions and statements to the Board of BHS by RAL over a number of months, that a deal to sell Oxford Street had been done for anywhere between £70-90m, it was eventually sold for net proceeds of £50m (ex VAT) in April 2016 to Lancer (landlord). The £10m of VAT attached to the sale was crucial to provide a short term cash lift for the business. However, £600k was directed straight to RAL from the client account at Olswang, without the appropriate Board approval. This was claimed to represent 1% of the sale proceeds due to RAL as a fee for completing the transaction.

None of these ex VAT proceeds came into BHS as the Oxford Street store was part of the secured asset pool for the Grovepoint facility and therefore were used to pay down the secured debt with Grovepoint. RAL took a £0.6m fee on this transaction from BHS.

Lease Surrender – Basingstoke store

BHS surrendered the lease on the Basingstoke store in December 2015, securing a rent free period until May 2016, thereby saving £100k in rent and received a lease surrender of £1m in May 2016.

These proceeds were received only after BHS had filed for Administration and therefore brought no benefit on a going concern basis to BHS.

ACE – Atherstone

RAL borrowed £5m from ACE pre transaction in March 2015 in order to subscribe to £5m of shares in BHS. This loan was secured against the Atherstone warehouse owned by BHS. This loan, along with £2.2m in interest/fees, was repaid by BHS by August 2015 upon the sale and leaseback of the Atherstone warehouse for £15m to a known RAL acquaintance.

The total terms of this loan amounted to a repayment to ACE of £7.2m; the implied APR on this loan is c132%. RAL took a £0.2m fee on this transaction from BHS.

The net proceeds retained in the BHS business as a result of the Atherstone sale and leaseback transaction was £8.4m.

“Wonga” ACE loan

In June 2015, a short term (ended up being for 3 months) £25m loan facility was provided by ACE secured on the Oxford Street store and drawn by BHS. RAL arranged this facility at short notice due to a restricted cash position in BHS ahead of the June quarter rent payment date.

The total terms of this loan amounted to a repayment to ACE of £31m; the implied APR on this loan is c107%. RAL took a £0.6m fee on this transaction from BHS.

Grovepoint loan

To replace the ‘Wonga’ ACE loan and replace it with a more commercial loan at more commercial rates and to overcome a restricted cash position in BHS ahead of the September rent quarter, RAL arranged a

£62m one-year loan with Grovepoint in September 2015, secured against a pool of stores which had value including the Oxford Street store.

The total terms of this loan amounted to a repayment to Grovepoint of £73m; the implied APR on this loan is c19%. RAL took a £1.6m fee on this transaction from BHS.

Gordon Brothers loan facility

To overcome a cash shortfall in BHS at the end of February 2016, RAL approached Arcadia to release their own fixed and floating security on the Bristol Cribbs Causeway store to allow BHS to secure a £9.4m loan from Gordon Brothers. Arcadia supported BHS by giving up their security and RAL secured a 60-day loan facility.

The implied APR on this loan is c38%. RAL took a £0.2m fee on this transaction from BHS.

The summary drawn from the above analysis shows that the net property proceeds achieved by RAL and received for the benefit of BHS was £6m; the total net financing achieved by RAL, secured against valuable property on BHS balance sheet and incurring an implied APR ranging from 132% down to 19% and received for the benefit of BHS was £77m.

I would therefore challenge the statement made by Dominic Chappell, “*that RAL produced tens of millions of pounds for the company*” by suggesting that RAL produced less than ten million in net property proceeds for BHS since ownership and produced tens of millions of pounds of debt for BHS at punitive interest rates. This is all the while that RAL were extracting fees from BHS that were directly attributable to these transactions.

I trust that the responses above answer the questions asked by the members of the Joint Select Committee but please do not hesitate to contact me if you require further clarification or have additional questions you would like answered.

Yours sincerely

[By email]

Michael Hitchcock

Attachment 1 – Detail of the breakdown of the amounts charged in fees, salaries and otherwise by RAL to BHS

Ideally in chronological order – £m	RAL
RAL ACE Loan I was originally 5.0m : fee to ACE 1.0m : the loan was latterly secured against Atherstone distribution centre : the loan was used to subscribe to 5m shares in BHS Group : 1.2m was later reclassified in from BHS ACE Loan note I : repayment of loan from sale of Atherstone	
BHS sale of NWH to ACE generated 32.0m : 7.0m was loaned to RAL : 25.0m remained in the BHS business : BHS pay Swiss Rock (Dominic Chappell) fees 0.6m	0.6
RAL Inter-company Loan from BHS of 7.0m : RAL paid Grant Thornton 1.2m, Olswang 1.2m, RAL shareholders other than Dominic Chappell, 1.6m, and Swiss Rock (Dominic Chappell) 1.2m : RAL ACE loan I part repayment 1.0m : BHS ACE loan note repayment 0.8m	2.8
BHS ACE Loan Note I was for 4.4m : 0.8m was repaid from the RAL loan of 7.0m : the loan note was issued in respect of ACE fees on the RAL ACE Loan I and/or in lieu of 2 year's rent on NWH : 1.2m was reclassified into RAL ACE Loan I : repayment of loan note in September 2015 : <i>although not shown as a payment to RAL, it could be argued that benefit passed to RAL and not BHS in setting up the loan note</i>	
RAL received 6.5m and 3.5m for obligations under the SPA/Framework Agreement with Arcadia : 5.0m was used to subscribe to 5m shares in BHS Group Ltd : 3.5m was used to pay down the RAL inter-company loan with BHS : 1.5m was used to provide a loan to BHS : BHS used the 10.0m to pay down the BHS HSBC Noah loans and reduce the LTV%	
BHS ACE Loan II 25.0m : interest/term fee was 6.0m : 5.9m used to reduce LTV% on Noah II : fees to others 0.1m : BHS used 1.5m to repay the RAL loan above : an additional 0.6m was subsequently taken in fees by RAL as an offset against inter-company : 16.9m remained in the BHS business	0.6
Atherstone sold for 15.0m to RAL acquaintance : 6.2m used to repay RAL ACE Loan I : 0.4m paid in fees to agent : balance of 8.4m remained in the BHS business : 0.2m was subsequently taken in fees by RAL as an offset against inter-company	0.2
Grovepoint Loan was 62.4m : interest is 9.0m : fee to Grovepoint 1.2m : 27.4m was used to repay BHS ACE Loan II, 25.0m principal and 2.4m interest : 2.4m was used to repay BHS ACE Loan note I : fee to RAL 0.8m : balance of 30.7m remained in the BHS business : to date 52m has been repaid with (ex VAT) proceeds from Oxford Str. (50.0m) and Sunderland (2.0m) : implied amount still owing 19.4m : an additional 0.8m was subsequently taken in fees by RAL as an offset against inter-company	0.8 0.8
BHS ACE Loan note II was created for 3.6m : represented the balance of 6.0m interest/term fee (mitigation payment to buy out share of upside on any future sale of Oxford Street) on the BHS ACE Loan II following a repayment of 2.4m as part of the 27.4m total repaid : repaid in full by end December 2015	
Gordon Brothers Loan 9.4m : 0.2m was paid in fees to Gordon Brothers : 0.1m was paid in first period interest : 9.1m was retained in the business : 0.2m was taken in fees by RAL by an offset against inter-company	0.2
Sale of Oxford Street 50.0m : all proceeds were paid to Grovepoint as security holder of Oxford Street against the original 62.4m loan : 0.6m was taken in fees by RAL: 0.3m was taken in other fees	0.6
Sale of Sunderland 2.0m : all proceeds were paid to Grovepoint as security holder of Sunderland against the original 62.4m loan	
RAL payments other than fees for transactions : RAL people were paid 2.6m in payroll between March 2015 and Feb 2016 : RAL were paid 1.4m in MSA (Management Services Agreement) charges over the same period	2.6 1.4
TOTALS	10.6

- The most recent intercompany balance between RAL and BHS is c£6m; **therefore, RAL owe BHS c£6m**
- Across all transactions, it would suggest that RAL have directly taken c£11m out of the business in fees, charges and payroll; this is set against £10.0m invested in the form of share subscription....**Net cash withdrawal c£1m subject to repayment of the Intercompany loan, c£7m otherwise**

Attachment 2 – Detail of the breakdown of the inter-company balance between RAL and BHS

£m	Dr/(Cr)
Loan – ref North West House sale	7.0
Fees – paid by BHS on behalf of Swiss Rock	0.6
RAL ACE Loan – repaid by BHS	6.2
BHS ACE Loan Note – repayment by RAL	(0.7)
BHS ACE Loan Note – reclassification to RAL ACE Loan	(1.1)
BHS HSBC Debt – paid down by RAL following receipt of 3.5m from Arcadia	(3.5)
RAL Fees – ACE Loan II 25m	(0.6)
RAL Fees – Atherstone sale	(0.2)
RAL Fees – Grovepoint Loan	(0.8)
RAL Fees – Gordon Brothers Loan	(0.2)
RAL Fees – Management Services Agreement (MSA)	(0.7)
Net balance owing to BHS from RAL	6.0