



Mr Chris Shaw
Clerk, Business, Innovation and Skills Committee
House of Commons
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Dear Mr Shaw

The sale and acquisition of BHS

I write further to your letter of Friday 1 July 2016, which contained a number of questions from the Committees.

In advance of the Committees' hearing on 25 May 2016, Grant Thornton UK LLP ("Grant Thornton") contacted RAL / Swiss Rock and the BHS administrators for general waivers of client confidentiality so that Mark Byers could provide the Committees with information about the work carried out for RAL and BHS. Those waivers were not granted.

Since then, documents have been put into the public domain on the Committees' websites. I understand that RAL has provided a waiver of confidentiality in relation to specific documents only¹. There has been no general waiver of confidentiality to date. As a result, I am not able to answer some of the questions raised in your letter. I am, however, able to provide the following information which I hope will assist with the Committees' inquiries while having regard to Grant Thornton's duties.

1. Subsequent to the acquisition of BHS, what, if any has been the nature of your engagement with BHS / Retail Acquisitions Ltd?

Following the acquisition, Grant Thornton provided a range of consulting services to support BHS in addressing the challenges identified in the financial due diligence report. These challenges included helping the management of BHS:

- separate BHS from Arcadia;
- develop a detailed turnaround and 3-year business plan for BHS;
- develop and maintain a detailed weekly cash flow forecast and liquidity assessment;
- engage with the Pensions Regulator ("tPR") and the pension schemes' trustees; and
- seek a solution to the pension funding situation.

We were also instructed by BHS on Project Herald and provided certain additional services to RAL, which are subject to client confidentiality.

2. Subsequent to the transaction, how much have you been paid in fees by: a) BHS and b) Retail Acquisitions Limited.

¹ The waiver granted by RAL is I understand limited to documents it has provided to the Committees. A list of the documents disclosed by RAL to the Committees was provided to Grant Thornton by the Clerk to the BIS Committee on 1 July 2016

Please specify what work the fees were in relation to.

Information on the exact amount of our fees is confidential to RAL and BHS, given that they have not provided a general waiver of confidentiality. The fees relate to the work referred to in 1 above.

3. **Did you discuss your concerns around the limitations on your ability to conduct due diligence on the pension scheme with Taveta or RAL? What was the outcome?**

(A) Did you consider circumventing any limitations by speaking directly to tPR or the trustees?

Our role was to identify and describe the financial risks of the transaction for RAL from the information to which we were given access. Grant Thornton reviewed the BHS pension schemes as part of the financial due diligence. We made clear that the pension deficit was a material issue for the buyer.

Grant Thornton did not speak to tPR or the trustees prior to the acquisition. Where a target's pension scheme is in significant deficit, we would typically expect to speak to the trustees as part of the financial due diligence, but usually with the seller / target involved in the discussions. We did request access to the trustees and tPR, and we alerted RAL to the fact that we were not granted access.

As part of a pre-acquisition due diligence exercise, consent is required from the seller and the target for the buyer's advisers to approach tPR or the trustees to discuss with them the target's pension scheme given that the details of the scheme are confidential to the target and the seller.

It is unusual for the advisers to the buyer to speak to tPR as part of the financial due diligence exercise. TPR is bound by rules of confidentiality in respect of the information it has received from the pension scheme trustees, the target or the seller.

RAL engaged with the trustees and tPR immediately following the acquisition. On 18 March 2015, a meeting was held at which (amongst other things) the pension funding solution for the schemes was discussed.

4. **Were you concerned at any point about RAL's ability to pay your fees should the deal not go through?**

(A) What assurances did you seek and obtain relating to RAL's ability to pay at the outset?

(B) Did you at any point approach Sir Philip Green or his team to ask for them to indemnify you for your costs? If so, what was the response?

(C) Is it usual to discuss your arrangements with the opposite party in a contract?

I am unable to answer question (A) about the funding of our fees on the grounds of client confidentiality.

In relation to questions (B) and (C), Grant Thornton did not approach Sir Philip Green or his team to ask for an indemnity to pay for Grant Thornton's costs.

5. **You received higher fees if the BHS transaction was successful than you would otherwise have received. Is this common practice for Grant Thornton?**

(A) What steps do you take to mitigate the risk that the higher fees for a successful transaction could lead your team to underplay the risks of going ahead with the sale?

(B) Is a success fee four times larger than the abort fee above or below average in terms of the scale of success fees?

It is common practice for Grant Thornton, and it is also accepted in the market, that there can be a difference between a fee for a completed transaction and for an aborted transaction, because of the difference in risk and responsibility.

As explained by Mark Byers in response to question 819 in his evidence to the Committees on 25 May 2016, if a deal does not complete there is no risk to Grant Thornton. However, if the transaction proceeds, we are at risk if we have not identified all the issues and the buyer sustains a loss. There is also less value to the client in the report if the transaction aborts. If the acquisition proceeds, the due diligence provides the purchaser with a guide to those issues which need to be addressed under the buyer's ownership of the business.

Our fee for the financial due diligence on this transaction was substantially based on an estimate of the likely aggregate costs at our standard hourly charge out rates of the people who were involved on the assignment.

The difference between our fee on completion and the abort fee was above average. However, underplaying the risks of a transaction in order to obtain a higher fee would clearly be unethical and would contravene our professional rules. We have rigorous processes in place to ensure that: a) the transaction fee structure is appropriate for the engagement; and b) the work is undertaken professionally, properly and comprehensively.

It would make no commercial sense for us to underplay the risks of a transaction. If the transaction completed but we had underplayed the risks to our client, the buyer, we are at risk of a claim being brought against us by the buyer, of incurring substantial costs, and of causing significant damage to the firm's reputation.

6. **With regards to your due diligence report:**

(A) You refer to a £5m break fee in respect of Marylebone House. Who would have paid this fee and who was the beneficiary?

(B) There is a £5m break clause in respect of Jersey. Who paid this fee and who was the beneficiary?

(C) Please can you provide a breakdown of:

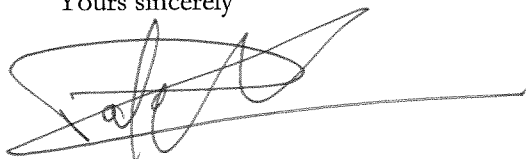
- i) The number of people who worked on the project**
- ii) Total number of hours worked**
- iii) The seniority of people working on the project.**

The Grant Thornton financial due diligence report is not in the public domain. RAL has also not waived confidentiality over our report. Consequently, I am not able to answer questions (A) and (B).

As previously confirmed by Mr Byers, the due diligence exercise was on-going for approximately four weeks. It involved a Grant Thornton team of 25 people working extremely long days and weekends. Given the timetable and scope of work, a senior team was deployed that included six Partners and four Directors across a number of work-streams.

We were instructed by RAL to perform a financial due diligence on BHS. This exercise alerted RAL to the risks that it was taking on when acquiring a distressed company but also added value for BHS management as they tried to turnaround the company. Following the acquisition, we were committed to supporting BHS management to identify and implement solutions to the challenges the business faced.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Martin', is written over a horizontal line. The signature is stylized and somewhat illegible.

Paul Martin
Partner
For Grant Thornton UK LLP