HOUSE OF COMMONS

Business and Trade Committee

Oral evidence: Private equity and the retail sector, HC 416

Tuesday 19 December 2023

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Watch the meeting

Members present: Liam Byrne (Chair); Liam Byrne; Jonathan Gullis; Ian Lavery; Andy McDonald; Charlotte Nichols; Mark Pawsey.

Questions 50-106

Witnesses

II: Michael Gleeson, Chief Financial Officer, Asda, Mohsin Issa CBE, Co-owner, Asda, Helen Selby, General Counsel and Company Secretary, Asda and Hayley Tatum, Chief People and Corporate Affairs Officer, Asda.

Examination of witnesses

Witnesses: Mohsin Issa, Michael Gleeson, Hayley Tatum and Helen Selby.

Chair: Welcome to the second panel of our hearings on private equity and the retail sector, with a specific focus on Asda. Thank you so much for joining us.

Mr Issa, I am really grateful to you for coming back to the Committee to give evidence. We have invited you back because I am worried: I am a new Chair of the Business and Trade Committee, and when I read the transcript of your evidence to the Committee at your last appearance I was concerned about it. Your business employs 140,000 people in the UK. It was bought in one of the biggest leveraged buy-outs in recent British corporate history. You have a very large but very unclear amount of debt at the group level—somewhere between £4 billion and £7.5 billion—the cost of which is set to rise, potentially quite sharply, as interest rates stay higher for longer. I do not think there is currently a chief executive in place, and some of the information to the Committee was a little patchy in the past.

We are concerned and we are looking for some reassurances. My colleagues have some questions that they would like to put to you. We are going to put on the screen our understanding of your corporate structure, so that we can focus our questions a little more sharply. Perhaps I can start with Mr Lavery.

Q50 **Ian Lavery:** I have a question for Mr Issa. Welcome back to the Committee, and thanks for coming back. When the acquisition of Asda occurred in 2021, alongside that came a debt of more than £4 billion added to Asda's books, which I've got to say is quite staggering. Since then, the borrowing conditions have deteriorated, leading to Asda's downgrading not once but twice by the credit rating agencies in the last two years. Is it fair to say, Mr Issa, that you have had a really difficult time since the acquisition?

Mohsin Issa: Thank you very much for your question. Since the acquisition we have chosen to invest for our customers. The customer is at the heart of everything that we do. We have given two pay rises in the two years that we have had ownership of the business, of 8% and 10% respectively, amassing to £264.8 million. We also put £60 million into our logistics workers and, on top of that, we invested £140 million into cost of living pressures and into pricing. We did that to establish long-term credentials for us, investing in the customer and doing what is right for our customer for the long term. Obviously, we sacrificed profits at 25% in order for us to look after the customer and our colleagues.

Q51 **Ian Lavery:** Thanks for that information, but the question was: have you had a really difficult time since the acquisition because of the fact that Asda has been downgraded twice by the credit agency since 2021, plus the fact that you transferred £4 billion of debt on to the books of Asda? That was the question; it was not really about what has happened with the workforce.

Mohsin Issa: In answer to your question, what I would say is that we chose to invest, which is why we were downgraded. Michael will give you a bit more detail; it is not only about that but also about us not having convenience estate, which is widely documented by the rating agencies in terms of the resilience of the business—we just have big boxes. Hopefully, you will have seen us address that as part of the Co-op acquisition and the EG acquisition as well—having a convenience platform.

Q52 **Ian Lavery:** Mr Gleeson, what were the strategic goals in acquiring Asda through a leveraged buy-out in 2021?

Michael Gleeson: When Asda was acquired in 2021, the opportunity ahead that the owners will have identified—Mohsin will speak to this more—is that over the previous 10 years or so in the industry in the UK there had not been a huge amount of investment in growth. In Asda's case, we have had 650 big stores for 10-plus years; we have absolutely no convenience business. It is an area where some of our competitors like Tesco and JS have grown very strongly: they have opened a lot of convenience over the last 10 years, into an area that we just have not participated in. That has impacted our market share in the UK.

As TDR and Mohsin acquired the business, I think the opportunity that was seen ahead of them was reflecting on an industry that has not really had significant amounts of investment in the last 10 years, certainly in the big four, and in Asda's case a company that had not gotten into that convenience space and had that opportunity ahead of it. I think that as they thought about it, they thought about growth, and I think their actions since their acquisition reflect how they thought about it and how they talked about growth.

I think they think about it for the long term. I joined in the last six months, and as I look at what they have done in the last 24 months, I see they have been able to take a long-term perspective. The business used to make a cash profit of just short of £1.2 billion in 2021. It made the decision in the cost of living crisis to try to protect customers, for as long as it possibly could, from some of the worst excesses of pretty much unprecedented inbound inflation. We actively invested in just essentials or the entry price-point range. We invested in a loyalty scheme. We went from being a lower-quartile player for colleagues under Walmart to being a top-quartile player, and the biggest of the traditional big four. TDR and Mohsin were able to make that decision by taking a longer-term perspective and being willing to sacrifice in the short term—temporarily—some reduction in profit.

The second thing is that they decided in that period to act on the lack of investment over the previous 10 years. In 2022, for £438 million, they acquired the Co-op fuel and grocery business, which has since been fully paid for in cash—it was half paid for in cash at the time. We took out a loan at the time and have paid that back in the meantime. We have subsequently acquired the UK operations of EG Group, so have built a very substantial convenience business from nothing in the last two years. By the end of Q1 next year, we will have 500 branded Asda Expresses; a few months ago, we had three.

What we have done over the last two years is enable the business to take a longer-term view on current trading, do the right thing for customers and colleagues and, at the same time, address a strategic weakness. We had lost market share as a result of not participating in convenience, but we have addressed that through the Co-op and EG UK acquisitions.

Q53 **Ian Lavery:** It seems to me—I am not sure what my colleagues on the Committee think—that the business here isn't really the Asda stores, but it is the financial mechanisms that are making the money. As a consequence, the workforce are secondary in the thoughts of this huge financial structure. It is amazing, and I'm sure Asda is not the only company that uses this hidden, secret type of structure. It was pointed out before that the orange squares on the board indicate that the company is registered in Jersey, and nobody can really find out exactly what is happening. In a letter to the Committee on 13 September this year, Mr Issa, you said that a gap in operating expenses contained in the accounts of Asda's parent company, Bellis Finco plc, comprise "all the other overhead costs" that "Asda incurs to run its business". The gap reportedly totals around £1.7 billion. Mr Issa, what are those costs?

Mohsin Issa: First, I assure you that there is no gap in the accounts. These are clean accounts signed off by our auditors. There is absolutely no gap whatsoever in the accounts. The £1.7 billion is operating expenses associated with running our stores. Michael will add some context.

Q54 **Ian Lavery:** Sorry to interrupt, but there appears to be a similar gap in operating expenses for Asda Stores Ltd accounts in the year 2022, totalling £1.9 billion. Again, I am just asking you to acknowledge the gap, and if that is the case, what are the costs? If there is any gap, what is this finance?

Michael Gleeson: I will try to shine some light on this. First, as Mohsin says, there is no gap. Under company law and the accounting standards in the UK, which are very sophisticated, every company, whether it is it a plc or private, is required to show in the notes to its accounts the total amount it spends on wages, depreciation and the costs of goods sold. That is what it is required to do and that is what we set out in the breakdown in the notes to the accounts. We are not required, nor is any other company, to add any further detail on top of that.

The difference you are referring to is that when you add up wages, depreciation and cost of goods sold—the cost of the product that we actually sell—they are £1.8 billion different to the total operating costs of the company. Asda is a very big company, as you say. Turnover in total in those years before the recent acquisitions will have been around £25 billion.

That £1.8 billion difference between the three big numbers that we separately disclose and the total comprises things like business rates. We paid business rates in 2022 of around £325 million. It will also comprise property maintenance and cleaning, which will be a bigger number than that again. It comprises energy and utility costs, which will be yet a bigger number again. So just the three of those will add up to about £1.1 billion of that £1.8 billion.

Then, on top of that we have marketing costs and the cost of implementing our new IT system, as we separate from Walmart, which will also be in the £1.8 billion. We will have insurance. All the costs of running a business of our scale and size that are not wages, the costs of the products we sell or depreciation are what is in that £1.8 billion.

Q55 **Ian Lavery:** Can I move quickly to the fact that when Asda was bought out, it sold and leased back its warehouse network for around about £1.7 billion? Since then, the liabilities have increased from just over £2 billion in 2019 to £3.2 billion—that's a huge increase—in your 2022 accounts. The interest payments related to leases have increased by almost three times in the same period. How have the liabilities impacted on the business?

Michael Gleeson: The disposal of warehouse was one of the ways, at acquisition, used by TDR and Mohsin and Zuber, the buyers of the business—it was one of the components of the financing package for that acquisition. At the time, the financing comprised of loans and equity investment, including Walmart retaining an investment, and it included an intention to sell warehouses and also, at the time, to sell—

Chair: Sorry, Mr Gleeson, but I'm struggling to hear you. Would you mind trying to speak into the microphone for us? Thank you.

Michael Gleeson: Sorry. At the time, the acquisition cost in total included debt, it included equity, it included Walmart investing in equity as well, and it also included an intention to sell the warehouses and, at the time, to sell the petrol filling stations. It was subsequently decided not to sell the petrol filling stations. We did sell the warehouses as part of the original financing of the deal and, as you say, that raised at the time just short of £1.7 billion.

Q56 **Mark Pawsey:** Was that sale and leaseback originally intended at the point the business was acquired?

Michael Gleeson: It was.

Mark Pawsey: It was part of the original plan.

Michael Gleeson: It was part of the original acquisition package, yes.

Q57 **Chair:** This is obviously a very complicated structure, and three quarters of the business is reporting its accounts in Jersey, which just adds a layer of opacity. We were surprised at the range of forecasts on the debt levels of the group. Can you tell us what the debt level is at Asda Group level, which is shown in the box marked A1?

Michael Gleeson: Yes. The debt in the group is predominantly held at Bellis Acquisition Company PLC. Asda Group Ltd and the companies below it, including Asda Stores and McLagan, are the operating companies in the structure.

Q58 **Chair:** How much debt is at Bellis Acquisition?

Michael Gleeson: There will be very little debt. There will be no external debt; it will be intercompany receivables. There will be no external debt at that level. The debt is held predominantly at Bellis Acquisition level, so there is gross £3.7 billion held at Bellis Acquisition Company plc, and that is all secured. There is £500 million held at Bellis Finco plc.

Bellis Finco plc incorporates all of the external debt held by the group. We report to our investors quarterly at that level. We have a full set of accounts and investor calls, Q&As, every quarter at that level. We file publicly available accounts for Bellis Finco plc. All the operating companies are below Finco plc, they are consolidated into that plc and all the external debt is held there.

Q59 **Chair:** Then you have a parallel, and what almost looks like a shadow borrowing structure, in Bellis Phantom Holdco Ltd. What is the level of debt there?

Michael Gleeson: Bellis Phantom Holdco Ltd is actually a holding company that has investments in the three companies beneath it: Phantom Investments 1 Ltd, Investments 2 and Investments 3. They hold three companies called Jaja, which is a credit card provider, Wagestream, and Bud Financial. There is a total investment of over just over £100 million in those companies.

Q60 **Chair:** So there isn't a net debt position at Bellis Phantom Holdco Ltd?

Michael Gleeson: No. The investment in that company was financed, as was pointed out earlier, by us selling the warehouses for £1.675 billion, so just short of £1.7 billion. That paid back a bridging loan of around £1 billion that we look out on the warehouses at the time of the acquisition. That left just short of £700 million, which is held in Bellis Select Warehouse Holdings Ltd. That money was kept there, and just over £100 million of it was used to invest in Bellis Phantom Holdco Ltd and those three companies underneath it. We are not full owners of those three; we are part owners of each of those three companies.

Q61 **Liam Byrne:** So are there additional debts at Bellis Topco Ltd, or the companies between Bellis Topco Ltd and Bellis Midco and Bellis Phantom?

Michael Gleeson: No, there is no debt. Bellis Topco 2 Ltd is where Walmart has its shareholding, and Bellis Topco Ltd is where TDR and Mohsin and Zuber hold their equity investment.

Q62 **Chair:** There is no net debt at the Bellis Topco Ltd level?

Michael Gleeson: There is an equity investment of £200 million in Bellis Topco Ltd, and then there is a shareholder loan of £580 million in Bellis Topco Ltd.

Q63 **Chair:** Okay. From those numbers we are looking at an overall debt level or borrowing level of about £4.7 billion?

Michael Gleeson: £4.2 billion—the £3.7 billion plus the £500 million.

Chair: Okay. The £500 million is at the Topco level.

Michael Gleeson: £3.7 billion at Bellis Acquisition and £500 million at Bellis Finco level equals £4.2 billion. That is unsecured; £3.7 billion is secured. Then the £580 million is a shareholder loan at the top level, rather than an external loan.

Q64 **Chair:** Going into next year, what kind of increased provision do you have to make for higher interest rates?

Michael Gleeson: The first thing I should say is that 95%—actually, it is more than 95%—of the £4.2 billion is fixed, so the interest rate on that debt is fixed. The £3.7 billion—

Q65 **Chair:** How long is that fixed?

Michael Gleeson: Most of the £3.7 billion is fixed until February 2026. A component of it is hedged and fixed until February 2024. Of the £3.7 billion, £700 million will float at the end of February 2024. The £500 million in Bellis Finco is also fixed, and it matures in February 2027.

Q66 **Chair:** Presumably the debt that is going to float in February next year may entail some very significant additional costs.

Michael Gleeson: It will certainly increase when it floats. To the extent that in the meantime we haven't paid down any of it, yes, it will. It is a term loan, rather than a bond. To the extent that we haven't paid down any of that debt, interest will increase.

Q67 **Chair:** Okay. Do you have an order of magnitude?

Michael Gleeson: It will probably increase by about £30 million. If on £740 million it were to increase by 4% to 5%, it would be around £30 million.

Q68 **Chair:** At this stage, should the Committee be concerned about the capital and debt structure of the business?

Michael Gleeson: How I think about it is that the company is cash generative. I said earlier in the session that in 2021, when we acquired the Co-op fuel business, we paid for that half out of cash generated by the company since acquisition a year earlier. We took out a £200 million two-year bridging loan, which we repaid after one year. That £200 million was basically paid from cash generated in 2023.

We have been able to do that while at the same time taking the active decision to protect customers from some of the impacts of the level of inbound inflation. We reduced profit temporarily in 2022 by 25%, but even while we did that we were still able to pay down debt. That and the long-term focus on growth shows the company's cash generation ability. The company has reduced its leverage since the end of last year from 4.2 times—in other words, its debt relative to the income it generates was 4.2 times—to 3.8 times, so it is generating cash.

Q69 **Chair:** Let me put the same question to Mr Issa. Do you think the Committee should be concerned in any way about the leverage that the group in its entirety has taken on?

Mohsin Issa: No. What I would say in addition to Michael's comments is that the leverage at the start of the year was 4.2 times. At September, quarter end, it came down to 3.8 times, and on this trajectory it will go down even further by the end of this year. At the same time, we are investing in colleague pay and customer pricing, loyalty and so on, so the business is highly cash generative.

Q70 **Chair:** One final point. Mr Gleeson, you said that there is no debt under Phantom Holdco. Pana Finance, which is owned by Phantom Investments, recorded £192 million of debt in its 2022 accounts. Is that correct?

Michael Gleeson: I will have to confirm that for you, Chair. There is no external debt held at Phantom Holdco Ltd.

Q71 **Chair:** But there may be intercompany debt?

Michael Gleeson: There may be intercompany debt, yes.

Chair: Okay. We will clarify that.

Q72 **Charlotte Nichols:** We have heard you trying to reassure the Committee about the financial position of Asda and the levels of risk in terms of the leveraging. There is one thing that I find quite interesting when looking at this structure. You talk about transparency and reassurance, but part of your corporate structure is based in a Jersey tax haven and it is named Phantom. The dictionary definition of "phantom" is: not real, illusory, a figment of the imagination, deception, a lie, a thing that merely resembles another thing. Just from a basic PR point of view, do you think it is sensible to have a corporate structure in which four different parts of it have got a word with that definition in it, regardless of the actual financial position? Do you think that is a sensible way to structure a business and to give Committees like ours the confidence that it is being run properly? Mr Issa?

Mohsin Issa: Absolutely we can give you the confidence that it is run properly. A structure like this is not uncommon for a large corporation like Asda. All of these companies are UK tax registered. They file and pay tax in the UK. They file under UK tax legislation as well.

Q73 **Charlotte Nichols:** But they are based in Jersey, which is presumably to avoid UK tax.

Mohsin Issa: They pay full UK tax.

Michael Gleeson: Every company in that structure, including those registered in Jersey, is registered for corporation tax in the UK—in England and Wales—and pays corporation tax in England and Wales.

Q74 **Charlotte Nichols:** You therefore register them in Jersey for transparency purposes, not for the purposes of avoiding tax if you are paying the full tax in the UK. They are presumably registered in Jersey for a reason; I am just interested to know what that reason is, if it is not to not pay tax, as you have just said.

Michael Gleeson: There is no operational benefit and no operational impact on those businesses being registered in Jersey for Asda. There is no corporation tax benefit of those companies registered in Jersey to Asda. Every company is fully registered for corporation tax in the UK.

Q75 **Charlotte Nichols:** So why are they registered in Jersey?

Michael Gleeson: As is not uncommon in structures like this, companies are registered in Jersey, which can facilitate, in the longer term, the movement of subsequent corporate restructuring more easily than it can happen in England and Wales. If in the future, in the longer run, the group was going to sell a particular part of the company, it might want to separate that. That could give rise to a stamp duty exposure of 0.5% in the UK. It can go up to an election process internally; it just takes a bit of time to structure that in a way such that that stamp duty is not payable in England and Wales either. It just takes some time. It is quicker to do it in Jersey. It gives future flexibility in the long run in the event of a future sale of the business around stamp duty. There is no corporation tax benefit.

Q76 **Charlotte Nichols:** Mr Issa, you do not believe that it is bad PR, when you are asking us to trust the business, to have a section of your investment structure named something that is synonymous with lies, deception and deceit—phantom.

Mohsin Issa: I can assure you that we are absolutely transparent. We are great custodians of this iconic British brand.

Q77 **Mark Pawsey:** May I ask Helen Selby what she thinks of the use of the term "phantom" in the names of these businesses? Did you advise that? Would you advise that?

Helen Selby: The Phantom entities were set up at shareholder level. I do not know what is behind the name. I read nothing into it. Just as "bellis" to the casual observer seems slightly odd, yet bellis was used because it is Latin for "daisy", which was the name of the project.

Q78 **Mark Pawsey:** But Helen, Charlotte has just given you the dictionary definition of the word "phantom". Is that not an extraordinary name to have in a holding company?

Helen Selby: I see it as a word. I do not look beyond that.

Q79 **Mark Pawsey:** Would you have chosen it?

Helen Selby: I wouldn't not choose it.

Q80 **Mark Pawsey:** So you are quite comfortable with it.

Helen Selby: Yes, because there is nothing being hidden in these businesses at all. As Michael has said, it is completely transparent.

Mark Pawsey: It is an extraordinary choice of name in a holding company.

Q81 **Charlotte Nichols:** I want to come to a point that was raised in our previous evidence session by the national officer from the GMB about the sweating of the asset since the takeover, the intensification of workload and what that has meant in terms of declining headcount in stores and the experience of members the union represents. Mr Issa, you mentioned the customer experience in your comments today. I have two questions. First, with the majority of Asda and EG Group debt maturing in 2026, and given the issue of how you manage those financial risks at a time when interest rates are expected to remain high, how can you ensure the increased cost of borrowing will not be passed on to consumers?

Mohsin Issa: As we have demonstrated, at a difficult time when the cost of living crisis was intense, we absolutely invested in the customer. Our conviction is that we are here for the long haul. We want to retain this business. It is about growth and how we grow the business. We have added convenience to it. We have increased colleague pay. We are not about sweating assets at all. Our customer experience—the CSI—is improving as we speak and we are absolutely focused on delivering value for our customers and ensuring it is a better shopping experience.

Q82 **Charlotte Nichols:** Do you dispute the GMB's assertion that the headcount has reduced in stores over the period since you took over the business?

Mohsin Issa: We were at 140,000 colleagues and we are at 151,000 colleagues now.

Hayley Tatum: As Mohsin just said, there are 151,000 colleagues in our business. We are growing from a jobs perspective. The convenience stores that we have already started to open at a high pace provide new employment opportunities. We are building our online business as well. This year, we have added an extra 62 vans to that operation; that creates literally hundreds of new driver opportunities across the UK. Inside our stores, we have just put more money back into payroll to have more colleagues at the shelf edge to help our customers. An additional £6.5 million has been put in in the last quarter of this year and that is annualised at £21 million of more wages to serve our customers every day. In my experience—I have sat on this board in this particular position for 12 years, 10 years under Walmart and the last two under the current ownership—is that investment in colleagues and in hours to serve the customer has increased and not decreased.

Charlotte Nichols: Finally before I hand back to the Chair, you have spoken there about the significant period of time in which you have been employed by the company and changes that may or may not have happened during that period. One of the things that I am quite concerned about after a recent report from one of my fellow Cheshire MPs is a change from head office about MPs being allowed in stores to take part in collections for food banks. We know that there is a cost of living crisis. This is something that MPs and councillors have been doing in Asda stores up and down the country for a very long time. It is obviously not party political; it is a charity fundraising drive, yet an edict has come from head office that says that that is no longer allowed in one of our local stores. Do you believe that is appropriate when you are talking about Asda's help to colleagues and Asda's place within the community? You have mentioned the cost of living crisis. Do you think that is appropriate?

Hayley Tatum: I do not recognise the case that you have presented. We will certainly go back and investigate that specific case if you or your colleague can give me more details.

What I would say is, from a company perspective, the community is incredibly high on the agenda. Across all our large store estate, we have community champions who are employed full time to work in the local community—the neighbourhood that the store services—to make sure that we are really giving those grassroots charities and support groups space and the use of our facilities to have their meetings.

Just this last quarter, our corporate giving was £750,000 just through those local small networks—not our national charities; we do a huge amount in that space as well. We have raised over £9 million and counting so far this year for those national charities and, at a local level, the relationships we have with The Trussell Trust and FareShare are alive and well. We have done a big collaboration for the King's birthday Coronation declaration, which was made in November, about giving an extra million meals to communities at this time of year. Our cafes are open, as you will probably know, with special support. Our over-60s customers can participate in our £1 for winter warmers. We do a huge amount in this space, so I am surprised to hear that.

Q83 **Charlotte Nichols:** This is all very positive, but it was a community champion who claimed to one of our local MPs in Cheshire that they had been told by Asda head office that MPs and councillors should not be allowed to carry out food bank collections in store. I have the email from the community champion in question about that edict. She says that she was contacted after such an event took place in the store by Asda head office and got in "hot water" because of that. You are saying that that is not appropriate, and that that is not Asda head office policy.

Hayley Tatum: I do not recognise it, but I am very interested to take the email and follow up afterwards.

Q84 **Ian Lavery:** The *Financial Times* described the capital and ownership structure of Asda as "a complex structure that involves offshore vehicles and financial engineering." That is what we have been discussing most of the morning; I think we would all agree that that is a fairly accurate description.

Mr Issa, when you met the Committee last time, you struggled really to explain to the Committee why the structure is so complex and so complicated. What is the difficulty?

Mohsin Issa: The structure is not complicated. It has—

Chair: It looks pretty complicated to us.

Mohsin Issa: I suppose, outside in, it does look complicated. However, this is not uncommon—for a business of our scale and size to have a structure like this.

Q85 **Chair:** This is common for a supermarket?

Mohsin Issa: I would say it is common for a supermarket of our size, yes.

Q86 **Ian Lavery:** Is the description by the *Financial Times* inaccurate? Is it wrong?

Mohsin Issa: I couldn't possibly comment.

Q87 **Ian Lavery:** I want to know why you say you cannot possibly comment. It is quite simple. I will read it again. The *Financial Times* described the capital and ownership structure of Asda as "a complex structure that involves offshore vehicles and financial engineering." Do you agree or disagree with that?

Mohsin Issa: I disagree with that.

Ian Lavery: So they are wrong?

Mohsin Issa: I disagree with that comment.

Michael Gleeson: Hopefully, we have tried to explain why that structure is build-appropriate and how we have arrived at that structure. The operating companies are at ASDA Group Ltd and below. Bellis Acquisition Company 3 is the company that paid Walmart for the acquisition of Asda, and then each of the companies above Bellis Acquisition Company 3 Ltd is where the financing came in. It came in from different sources and, for each of those different sources, if it was secured finance, the loans and the bonds came in through Bellis Acquisition Company; the unsecured came through Bellis Finco. Up until there, that is where all the external debt is held.

That is what we report against every single quarter to hundreds of investors on Q&A calls. We produce full UK-registered PLC accounts—200-plus pages of accounts, as you would expect for a company this important and of this size. The companies above Bellis Finco are the companies where the Walmart shareholding came in, where the TDR and Issa brothers shareholding came in, and originally also where the bridge loans were held for the warehouse sale and they were proposed to be held for the forecourts, which did not go ahead.

That is the source of all the companies. They existed at the time of the acquisition to bring in the various forms of financing that would be used to acquire Asda for Walmart. In the transactions that happen broadly between them after that, our interest is paid up from Asda Group Ltd into Bellis Acquisition Company and then into Bellis Finco to pay the interest on that debt.

I understand there are a lot of companies there, but they are there for that purpose: to receive the different forms of financing that all have different types of security, are all different in their own right and are kept separate. Asda Group pays up the interest to the relevant company, which then pays the external company. Those are the transactions that happen in those companies.

Q88 **Ian Lavery:** I have to say that I agree with the *Financial Times* that it really is complex. Others will make up their own mind, I'm sure. Just how on earth would you expect the creditors, the workers on the shopfloor and the customers to understand the health of your business and that of the wider group structure if it is as complex as is being discussed?

Michael Gleeson: We produce the full set of accounts, just like a public company would produce its full set of accounts, at Bellis Finco PLC—it is a plc. We produce a full set of accounts at Bellis Finco PLC—

Q89 **Ian Lavery:** Do you think somebody at Asda, working tirelessly on the tills or stacking shelves during this Christmas period, will know who Bellis is?

Michael Gleeson: I think Bellis is well known as the owner of Asda—

Ian Lavery: Do you think somebody who is on the tills this afternoon will understand who Bellis is, or who Phantom Investments Ltd, Phantom Investments 2 Ltd and Phantom Investments 3 Ltd are? Do you think they will understand that?

Michael Gleeson: It is not something we try to hide.

Ian Lavery: I am not saying you are trying to hide it. I am just asking if you think people will understand it.

Michael Gleeson: It is the company within which all the operations of Asda Group—

Ian Lavery: You have explained that, but do you think the creditors, workers and customers will understand it or not?

Michael Gleeson: I think it is no different from any other company—any other plc—

Ian Lavery: I understand that, but I am just asking you a simple question, really. I am just asking if you think people will understand that.

Michael Gleeson: I think that we provide all the information you would and should expect us to provide to the accounts of the holding company, which holds all the transactions of Asda. That is true of Bellis. It is a publicly available document, and it is comprehensive.

Q90 **Chair:** Some of the challenge it creates is around some of the transactions. In 2021, an intercompany payment of £2.1 billion was sent from Asda Group Ltd via the Jersey-registered Bellis Acquisition Companies 3 and 2 to another UK-registered company, which in turn received £1.7 billion, so £400 million goes missing somewhere. Why, for example, was it necessary to route a payment like that through companies based in Jersey, where there isn't the accounting transparency?

Michael Gleeson: The first thing I will say is that they are ultimately going up, as you say, to UK-registered companies. The structure, as you can see in the chart in front of you, goes from Asda through to Bellis 3, to Bellis 2, into Acquisition plc and into Bellis Finco. As I said, Bellis Finco is where all the debt is held.

The first thing I should say for the Committee, to be clear, is that since acquisition there have been no external dividends paid to shareholders—none. Even if there had been dividends paid, it operates within the rules of the documents applying to the debt raised in Bellis Finco Ltd. Those debt documents will place restrictions on the dividends that can be paid out of Bellis Finco. You can only pay dividends up to the Topco if you pay them out of Bellis Finco. That is the only source of cash; it would have to come up through that route. There are restrictions in the documents, preventing or limiting the amount of dividends that could be paid even if we chose to pay it. But there haven't been any dividends. You can see that in the accounts for both '21 and '22, where we specifically, as required, say there have been no dividends paid out of Finco—so no dividends paid. And even if we wanted to pay dividends, if the company at any stage choose to pay dividends, it is subject to restrictions in the debt documents around leverage ratios: you can only pay dividends once leverage ratios have reached a certain amount. For example, that is a restriction that does include sale and leaseback debt. It must be below three before dividends can be paid. We're at—

Mohsin Issa: 3.8.

Michael Gleeson: Sorry, it must not exceed 4.9 before we can pay, and we are at three on the secured debt. So there are restrictions on what we can pay.

Chair: Let me just bring in Mr McDonald, because I think the question is "Why?"

Q91 **Andy McDonald:** Exactly that. With the blue boxes, we can see what the accounts are for them. We can't see that for the brown bits. That is in your gift. You don't have to, because this is registered in Jersey, but will you? Will you produce the accounts to this Committee for those corporate entities?

Michael Gleeson: What you can see is the cash coming—sorry, the dividend coming—

Andy McDonald: No, that was not my question. I said, "Will you produce the accounts for the companies in the brown boxes to this Committee?"

Michael Gleeson: They are registered in—

Andy McDonald: I know where they're registered. I am just asking—you can say no, because you don't have to, but I'm just asking you the question.

Michael Gleeson: There is nothing for us to hide. We will be—

Andy McDonald: Well, if there is nothing for you to hide, why don't you produce the accounts?

Michael Gleeson: We can produce the accounts privately for the Committee. There is nothing for us to hide in those accounts.

Q92 **Andy McDonald:** Thank you. That is really helpful.

Now, the web that we see there is not the totality of the story, because sitting outside that are other entities under the control of Mr Issa, including the EG Group. What is that? Is that a trading relationship, or is it just a means by which money is being given or lent between EG and these entities here? What's going on?

Mohsin Issa: Absolutely not. Helen will tell you the governance that we have between Asda and EG.

Helen Selby: Yes, certainly. EG Group, as we know, has the same shareholders as Asda. Asda acquired EG UK in October of this year. But as executive members of Asda, we act solely in the interests of Asda, and we do that for a number of reasons. One of those reasons, which Michael spoke to, is Asda's capital structure. That carries covenants. In those covenants, if we take services or enter into any relationship with EG prior to us purchasing it, that has to be at arm's length and on market terms, and it has to be properly documented.

That is one layer of governance. The next layer of governance is that as directors and officers, we have to act in the best interests of Asda.

Q93 **Andy McDonald:** But is there borrowing between the two? That is what I am trying to understand. Is money changing hands? Is money being loaned from one entity to the other in that relationship—

Helen Selby: Those two entities were managed and kept completely separate until we acquired EG UK in October this year.

Q94 **Andy McDonald:** Ah, so they are now brought together. Within those elements, is money changing hands by reference to loans and debts within the structure?

Michael Gleeson: No. We bought part of the EG Group earlier this year. The EG Group is a global group with operations in the US, Australia and Europe bigger than its operations in the UK. We have bought most of the UK operations. We have not bought any of the international operations; we have bought the UK operations. They are now part of Asda. That is why we referred earlier, for example, to the 151,000 colleagues that work for Asda today. We acquired the UK operations of the EG Group, and they are now owned by Asda.

Q95 **Andy McDonald:** So they sit there, in terms of financial relationships, as separate identities within the group and there is no question— The allegation or suspicion, of course, is that money is being taken from Peter to pay Paul. You are saying to me unequivocally that that is a misunderstanding and a misrepresentation of the reality.

Michael Gleeson: Absolutely.

Q96 **Mark Pawsey:** Mr Issa, it was known for a long time that Walmart were trying to dispose of Asda. There was an aborted merger with Sainsbury's, so it has been on the market for some time. I am just wondering what it was about Asda that attracted you. And what made you think that the Issa brothers, who up until that point had really only managed petrol stations, were able to make a success of operating one of the big four supermarkets? Why Asda for you, and why you for Asda?

Mohsin Issa: Thank you for your question. As you say, Walmart ran an extensive sales process and extinguished all avenues. They chose ourselves—and TDR eventually, as our partners—to sell the business to. I think it was our track record. If I speak from the beginning—2001—myself and Zuber started from one petrol station. We cleaned the restrooms, I stocked the shelves and I manned the tills. But when you look at what that business was in 2001—pretty much kiosk-style, Cokes and smokes; you wouldn't buy any food, it would be distress purchases, etc—we had this vision of actually modernising that and investing in that. We were the first to bring a Subway to a convenience store on a forecourt. We were the first to have the Starbucks franchise in drive-through. So it was our vision around addressing multiple missions in one convenient destination. What was a sleepy, tired industry where you would just go for gas, we managed to—

Q97 **Mark Pawsey:** So was it the fact that Asda had not gone into the convenience sector that led you to say, "We can replicate what we have done with petrol stations with a supermarket"?

Mohsin Issa: The vision we had for Asda—the investment thesis—our sweet spot in terms of acquisitions was to try and acquire from conglomerates where it was non-core. For Asda, the world's largest retailer, the UK was a small part of a very, very large business that they operate in. The fact is that they did not get up for Asda every day; we actually get up for Asda every day. That is what we do. The other thing is that when you address 85% of the UK adult population in any form in the year, that means that you have got access to 18 million customers a week and the ability to build an ecosystem around that and address the multiple missions. Bearing in mind that what we achieved in little convenience stores was to have three or four food outlets etc, suddenly we were presented with these big boxes which were baggy space, and we feel that is a real opportunity for us to deliver on our missions.

Mark Pawsey: But you will accept that the concern here is that this was a massive leap from a big petrol station operation to running a rather different type of business. One of the concerns we have is that in doing so it did require you to take on very substantial amounts of debt. That might have made sense in 2020-21, when interest rates were low, but we are in a different era for interest rates. Are you satisfied that you have the skills and the background to accommodate the impact of higher interest rates? I know that Mr Gleeson has told us that some of them do not mature until February 2026, but of course, whatever happens, the interest rates in February 2026 are going to be rather higher than the rate at which you took out that early debt. Are you satisfied that you have the retail skills to make a success of the additional cost burden that you are going to have to face?

Mohsin Issa: Absolutely. In my just over two-year tenure in my seat in Asda, I have been able to build a very experienced management team alongside me.

Q98 **Mark Pawsey:** But you haven't got a CEO.

Mohsin Issa: No, but I would say that I am actually best qualified to take this job, as we sit here today, with the separation of the IT system out of Walmart. I have done that in many jurisdictions: I have done it out of Woolworths in Australia; I have done it out of Kroger in the US. When you are doing the IT separation, that is a significant project. I have done them projects in various jurisdictions. The search for the CEO continues and, as and when we find a suitable candidate, I will absolutely hand it over.

Q99 **Mark Pawsey:** Why do you think you are finding it difficult to recruit a CEO?

Mohsin Issa: I don't think we are finding it difficult. We are just trying to find the right candidate. I want to make sure that we give the right platform to the individual. Again, Hayley can tell you about the extensive search that we are carrying out.

Q100 **Mark Pawsey:** How long have you been looking, Mr Issa? How long have you been seeking to recruit a CEO?

Hayley Tatum: Do you want me to answer? We have been working with our wider shareholder group for the last 18 months, looking for—

Q101 **Mark Pawsey:** Isn't that a long time? Wouldn't you have expected somebody to have come forward by now? Why do you think the right candidate has not come forward?

Hayley Tatum: We have met several candidates, but as Mohsin has described, we are continually changing the business, so as we continue that change, we are identifying other experiences that are going to be very important in our future that those candidates will need to have.

Mark Pawsey: So the job description is changing over time.

Hayley Tatum: Exactly that.

Q102 **Mark Pawsey:** You'll never get anybody in that case, will you?

Hayley Tatum: I think we will, because we are clearer now about the vision on where we are going. As Mohsin and Michael have described, we are also going through a big technology separation, so we want to see that through. That concludes at the back end of next year. We want to get that done so that we can hand the business in a good state, knowing where we are going—good vision. We have brought the convenience business in. As Helen said, that deal concluded at the end of October. We have pulled all these strands together and got a business going in the right direction. I think that that is the point at which Mohsin was going to—

Q103 **Mark Pawsey:** I don't know how much you heard of our earlier section on private equity more broadly, but private equity has an interest in running a business for a short period of time, improving it and then exiting. Are you ready for your partners to exit?

Mohsin Issa: I can speak for myself, and when we made this investment it was absolutely a long-term commitment. We are here for the long haul, and my partners—

Mark Pawsey: But your private equity partners may not be. What are you going to do when they go?

Mohsin Issa: They have not mentioned any—

Mark Pawsey: Of course they haven't! But it is a business model of private equity, as we heard in our previous session.

Mohsin Issa: But what you should ascertain about the Asda business is that there is a minority owned by private equity. I, Zuber and our family hold 45%. Walmart, the largest retailer globally, owns 10%. Private equity owns the rest—the 45%—so they are a minority.

Mark Pawsey: So you are not worried about the fact that at some point they may want to cash in and go?

Mohsin Issa: That is the private equity model. At some point they will want to go, as and when. But from all the conversations I have had with them, they are long-term conviction investors, besides us.

Q104 **Chair:** They haven't given you a timeframe for their exit?

Mohsin Issa: Absolutely not.

Q105 **Chair:** Is TDR Capital basically running the business day to day?

Mohsin Issa: No. What TDR Capital do for us is governance. They are pretty much hands-off. They don't have any employees or any analysts sitting in the business today. We use some of their data capability. They have world-class data capability. We use their wealth of network expertise, and we use some of their procurement facilities around the group's portfolio companies as well. But as a day-to-day operations team, it is the executive management team that we have built that has the day-to-day running of the business.

Q106 **Chair:** Let me conclude where I started. We have a range of leverage ratios. Fitch has placed a net leverage ratio for Asda at 6 times EBITDA. That was in November 2023. Media commentators have put estimates at somewhere between 4 and 7 times. You have told us today that you are heading towards 3.8 times. I think that was your last trading update. Why do analysts find it so difficult to estimate the net debt at the group as a whole, and why are they finding it so difficult to estimate the leverage ratios?

Michael Gleeson: Can I answer that? I understand the question. When we report at Bellis Finco level—as I said, we do that quarterly, and we do it on investment calls—we talk about leverage ex-lease liabilities. That is how the debt documents are constructed. The covenants within the debt documents are all constructed around the external debt, the loans, the bonds, and the ratio of those to EBITDA after rent, rather than a debt number that includes capitalised leases. When Fitch and Moody's talk about leverage ratios, they will capitalise leases, because that is how they look at debt generally across all businesses. But the actual loan documents, and what investors have lent us the money on, are ex-leases. That explains the difference between the 3.8 broadly, and the 6 number that you referred to as well.

Chair: I think that concludes our session. Thank you very much for the evidence that you provided. We very much look forward to the accounts, so that we can have a look at those ahead of our session with TDR Capital. As you know, they are coming to see us in January. I think we remain concerned that this business is quite opaque. It has been quite difficult to get some of the answers that we have discussed. You are a hugely significant employer, with over 150,000 colleagues. So the session with TDR Capital is important, and so is the analysis of the accounts ahead of that. For now, thank you very much indeed. Please pass on our thanks to the colleagues in your workforce who do such a brilliant job day to day. With that, I wish you a very happy Christmas. That concludes our session.