Good morning, everybody. Dennis Engelbrecht with The Family Business Institute and the CEO Roundtable Program for Contractors. Thanks for tuning in.

So, in our roundtable program, one of the big things we're looking for is lessons learned. And the best lessons learned are those learned by somebody else that we can learn from without the pain and the punishment that oftentimes comes with those lessons learned. So, I've been reading in the various industry publications and lately, there have been a couple of really big lessons learned that hopefully all of you can learn from. So, the first one is actually from a couple of years ago now, but still big enough and important enough that we should be reminded of the lesson learned. This is about a construction company called Carillion, a public company headquartered in Great Britain, did a lot of work in Canada. But in 2018, Carillion went under and it went under very quickly.

So, we're talking about a $6 billion company here. And from 2010, through 2017, they reported profits every year, usually around $200 million. Sounds like a nice bucket of profit. Well, in 2018, actually when you come back, this was late in 2017, all of a sudden, they issued guidance and they were taking a $1.3 billion write down. All right. That was the sum of all of that project over seven years, from 2010 to 2017, that was all of the profit they had made, they lost. All right. And in this case, we're just recognizing in one announcement, an entire $1.3 billion hit. So, I told you it's a public company and the capitalization of the company before this announcement was a little bit over a billion dollars. Within a week, its capitalization was down to $50 million. And then a few months later, they actually were out of business and not just the chapter 11 went into liquidation, completely went under.

So, what happened there? Well, the primary thing that happened is in taking that right down, they were recognizing project losses that in a lot of it probably should have been recognized before, but they weren't. So, once they dug deeper, they found more and more issues in that three large projects in particular, that accounted for a good portion of loss. And those projects, I think two of them were in the 300 - 400-million-pound area, and one was in the 700-million-pound area. So, three big projects that took a lot of hit.

All right. So, let's track back now just maybe three to six months, same publications, Fluor, largest construction company in the world. Well, most recently about a month ago, I think it was, they only lost $225 million last year on $15.7 billion in revenue. The good news is that $225 million loss was down from 1.5 billion the year before, on $17 billion in revenue or almost 9% loss. And now, this is Fluor. Fluor, probably, if not the most respected, certainly one of the most respected and considered profitable construction companies in the world. So, what happened? Well, again, then that $1.5 billion loss here, they had delayed their annual report because they found issues and what they found going back as approximately one half of that, about $900 million were issues of job cost projections, again, where the profits weren't predicted correctly in the past. And now, that we've really dug into it, we've come up with some greater losses in project issues than we had previously recognized. So. Again, a big hit there from profit projections.

Now, recently Granite, another billion dollar plus company is reporting some fairly substantial losses and they in their annual report, several quotes here, one, potentially misleading information given to create their financial statements. Forecasts were not always prepared to reflect the most probable outcome. Forecast sometimes reflected aggressive or optimistic projections, achievable targets, or management directives, or hope for efficiencies. All right, so three stories, all just basically news in construction, three large companies taking losses and those losses coming on them late or being sprung on them because of poor profit projections.

So, all of you are doing profit projections out here. So, the big lesson learned, obviously, number one, jobs can take losses, companies can take losses, those losses can put you under or significantly damage or hurt your company. And we're in a world in a business of risk in the construction business, but the key pieces that come from each of these stories was the lack of really disciplined and accurate project projections. So, the lesson learned for you is you need that discipline and accuracy in your business. Keep in mind, there's nothing more important that you do on a monthly basis than your job reviews, your job cost reviews, and taking a very disciplined approach to those, a disciplined approach to those projections. And as an organization, being conservative in those projections, not aggressive, not looking for hope for results.

Be careful that your management is not sending the message that your project teams are supposed to give you hope for results, versus conservative or accurate results. What happens in that case is you create a culture problem. That culture problem is the problems don't rise to the top until too late. And in construction, when the problems arise too late, they've cost you much, much, much more money than they could have or should have. So, your culture needs open, honest feedback, and you create that with the discipline and the messages that you set. So, don't let these losses from Carillion, Fluor, and Granite go without a lesson learned for you. Be strong on profit projections and project reviews. Again, Dennis Engelbrecht, Digging Deeper.