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THINK BIG PARTNERSHIP OPINION
February 3rd, 2018

"IS CARILLION'S DEMISE, AS DEVASTATING AS IT IS FOR ALL STAKEHOLDERS, SENDING SOME WRONG MESSAGES"

Was Richard Howson and his executive team fully aware of the extent of potential losses in their business as early as the blame culture vultures would have it? Greg Clark, Business Secretary, has the Receiver fast-tracking a review of directors' conduct. The FCA is examining the timing and content of Management's announcements to the City; and the FRC is investigating KPMG's role as Auditor. The inquiries will report their findings in due course on executive conduct, adherence to stock exchange rules and compliance with accounting standards- while shareholders dividends and executive bonuses continued to be paid. But now political wings are accusing Public Private Partnerships and the letting of Public Support Services contracts to the private sector- to be a universal threat to the public purse. It does concern me that the fall-out from Carillion is seemingly hitting the whole services sector, including shares at Capita, Mitie, Serco and Interserve. Each company's woes need their own analysis.

Carillion's woes had nothing to do with PFI and Support Services to Government contracts. It was that old dog- "*construction risk*", and accounting accurately for it on uncompleted projects. The truth is Carillion had uncovered massive losses on three UK major construction projects, was owed £200m on a mega project in Qatar and apparently hadn't assessed the worst-case scenarios (until KPMG did post-audit due diligence on these construction projects) nor, as is alleged, announce them in a timely fashion. And these huge losses were being incurred against the backdrop of an over-leveraged balance sheet, for the type of business Carillion was in, after a string of questionable acquisitions over years, most of which pre-dated the recent Executive Management's tenure.

While predicting accurately the final financial outcome for large on-going projects is renowned to be difficult in the industry, and even harder to audit- the Hedge Fund Managers did pick up all the warning signs of problems at Carillion, at an early date. These included disproportionate growth in trade receivables, poor cash flow performance, funding of dividends from disposal proceeds, high debt levels and pension fund deficits and aggressive payment terms with suppliers. The writing was on the wall. This had all the hallmarks of an under-capitalised contractor with loss making projects, and too much debt, running out of cash.

The message in December 2016, when Think Big Partnership published its 350-page industry report *(UK Construction Consolidation 2017-2022)* was that only bigger firms with stronger balance sheets can wield supply base power with public and private clients, to secure sustainable higher margins which are needed to stabilise the industry and stop its vicious cycle.

Carillion is an example of how employees, pensioners, and supply chain companies bear the brunt from the demise of an overly indebted, poorly run contracting company. It is hoped that it serves to convince the industry to now consider a new strategy of consolidation on a par with our European competitors. The supply chain will always be populated by specialists, but if the main contractor supply base is consolidated around leading participants who have the leadership, expertise, and financial strength required- then SMEs in the supply chain are less likely to suffer collateral damage from insolvencies like Carillion, and peoples' jobs and livelihoods will be better protected.

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