

Spain's Gowex wifi scandal bruises small firms

July 7 2014, by Elodie Cuzin



People walk past a kiosk with an advertisement for wifi provider Gowex in Madrid, on July 3, 2014

Startling revelations of at least four years of [false accounting by Spanish free wifi provider Let's Gowex](#) threatened Monday to inflict broad damage on the reputation of small and medium-sized firms seeking investor cash.

Gowex, which offers wifi services in world capitals including Paris and

New York, said Sunday it was filing for bankruptcy after chief executive Jenaro Garcia Martin admitted making up the numbers it submitted to Madrid's junior market, the Alternative Equity Market.

On Monday, four of the 23 listed companies on the junior market—carbon fibre-based manufacturer Carbures, energy group Ebioss and telecommunications firms Ibercom, and Eurona—issued statements reminding investors that they plan to switch their listing to the main Madrid stock market, which has more exacting entry requirements.

By early afternoon on the junior market, the price of Ebioss shares had plummeted 16.33 percent, Ibercom had plunged 13.53 percent, and Carbures had tumbled 12.7 percent. There was no trade in Eurona.

"There is a reputational risk," said independent financial adviser Alberto Roldan.

Spain had a "long history" of corporate scandals from the decade-long property boom that imploded in 2008 to poorly managed bad loan-ridden banks and alleged fraudulent accounting at fisheries group Pescanova, he said.

Reputational risk

"Those most affected are companies with a small capitalisation that have a specific market for listing, the Alternative Equity Market," Roldan said.

"This has generated a reputational risk that by experience I can say is very hard to recover, to clean up—very difficult," he said.

The Alternative Equity Market has underscored that its regulations are in line with those of similar markets in the region.

The Gowex scandal should not put in doubt the market's "essential" role in raising funds for small and medium-sized companies, the market said in a statement on Sunday.



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Spain's [stock market](#) regulator, the CNMV, stressed that its role in the affair was limited to surveillance of possible market abuse and compliance with the junior market's rules.

Spanish equity research group Link Analysis urged the authorities to act swiftly, warning that investor distrust may spread without discrimination to all companies listed on the Alternative Equity Market.

"It is of vital importance that the authorities act quickly to find those

responsible and adopt necessary measures to ensure it cannot happen again," Link Analysis said in a report.

Gowex said Sunday that its board members had revoked the chief executive's powers and accepted his resignation.

"The board, confronted by the expectation that the company would not be able to cope with its maturing current debt payments, agreed to file a voluntary request for bankruptcy," it said.

Gooooood morning Madrid!!!!

In fact, Gowex's demise was sparked by an investigation by a US firm, rather than a probe by the Spanish authorities.

On July 1, US firm Gotham City Research issued a highly critical report on Gowex that sparked a two-day, 60-percent plunge in its shares to 7.92 euros at which point the stock was suspended from trade.

Gotham City Research called Gowex a "charade", said its revenues were far lower than the company had reported, and described its shares as worthless.

In its 93-page report, Gotham City said Gowex's actual revenues were "at most" 10 percent of those reported.

About 90 percent of Gowex's telecommunications revenues came from undisclosed related parties, Gotham City said.

"We have evidence Gowex's largest customer was really itself," the report said.

The European professional investors association ASINVER filed a suit

Friday against Gowex with the Spanish public prosecutor alleging false accounting.

On Sunday, Garcia Martin announced on Twitter that he had made a "voluntary confession in court".

"I am willing to face the consequences and cooperate with justice," the former wealth management manager added.

The posting followed an earlier Twitter message in which he said he was "wholeheartedly sorry" and apologised to "everyone".

Just a day before, even as Gotham City's allegations reverberated through the market, Garcia Martin had Tweeted: "Gooooood morning Madrid!!!! Perfect morning to go out for a run."

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