

Spain's Gowex said it was making millions in cities around the world. It was lying

The tech star who fooled the globe

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For nearly 10 years, Spanish internet company Let's Gowex SA said it was making money by providing public wi-fi in cities around the world. Most of the contracts, it now emerges, never existed.

Instead Gowex chief Jenaro Garcia Martin used a series of tricks to fool company employees, investors and regulators. The discovery of the deceit last month crippled the company and undermined

credibility in Spain's stock market just as the country recovers from a four-year recession.

The 46-year old entrepreneur has been charged with financial crimes, including false accounting. Spain's judicial system does not require a formal plea and Garcia Martin has not given one. But testifying before Spain's High Court on July 14, he admitted manipulating the company's accounts and explained how he used a network of about 20 shell companies to generate a paper trail of fake business and fake contracts that he used to raise capital.

CONFESSION: Gowex CEO Jenaro Garcia Martin apologised "to everyone" via Twitter and said he had placed his confession with the courts. **REUTERS/JAVIER BARBANCHO**

Interviews with the former tech star, Gowex employees and regulators, as well as court documents, show how some of the dodges behind his deception were surprisingly basic.

To help cover his tracks, Garcia Martin reported fake revenues from shell companies owned by relatives and his housekeeper among others, he told the court. Former Gowex staff told Reuters that he paid taxes on profits the company never made. Once, one ex-worker said, Spanish officials wanted to check a project where Gowex claimed to have provided public wi-fi using four-wheel drive cars. Garcia Martin used the Internet in his own car to make the project seem real.

“My goal was that within two or three years, when we could make the jump to the Nasdaq, that it would all come together,” Garcia Martin told the court, according to audio and video recordings reviewed by Reuters. Garcia Martin said his falsifications were initially aimed at trying to cover up for losses incurred after making overdue payments to another firm that had sued Gowex for unpaid bills.

Now Gowex, once valued at more than \$2 billion, has filed for bankruptcy; an investigating judge is examining if it has moved funds abroad.

The rise and collapse of what was once one of Spain’s most celebrated start-ups is an exceptional chapter in Europe’s faltering attempts to claim a share of a global technology industry largely in the hands of the United States and Asia.

Gowex isn’t the biggest corporate collapse of late in Spain, a country hard-hit by Europe’s debt crisis. Several big firms have gone bust, and former executives of Pescanova SA, a fishing firm, are under investigation after the company said it had faked its accounts for years. But Gowex resonates because it had so many international investors and clients.

In addition to the criminal investigations into Garcia Martin and his wife and



HOLLOW PROMISE: Many of Gowex’s free wi-fi deals were less viable than they were made out.

REUTERS/ANDREA COMAS

€12million

Gowex’s reported deal with Buenos Aires. Nothing was signed.

Source: Buenos Aires municipality, Subterráneos de Buenos Aires SA

cousin, the court is investigating Gowex’s former chief financial officer and an external auditor who oversaw the accounts for years. Investor groups are considering class action suits to claw back some of their lost money. Stock market regulator CNMV said it had properly conducted its oversight, which does not include assessing a company’s audited accounts.

The story is also one of ambition and personal loss. Garcia Martin says his youth was marked by family tragedy which fueled his dreams. Even now, though the judge told him he could face 10 years in jail, he

believes he can become a successful global entrepreneur.

“I regret the damage that I have caused pursuing my dream,” Garcia Martin told Reuters at the end of July.

He knew he would be spending the next few years in jail, he said, but the experience of confinement would help him bounce back. “I know I have to pay for it in prison and I seek no clemency. I continue to be the master of my destiny and for this my priority is to repair this damage and this is my next great project.”

SPECTACULAR GROWTH

Garcia Martin’s professional resume is peppered with inconsistencies. A slim, energetic father of two, he wrote – on his LinkedIn page, in biographies used at conferences and in financial documents used for Gowex’s public listing and capital raising rounds – that he took a Masters in Law at Madrid’s Complutense University in 1992. Records from Madrid’s Autonoma University, however, show Garcia Martin



DISARRAY: Gowex workers outside their Madrid offices. A Gowex board member and the company lawyer said the situation at the firm was one of "misgovernment, disarray and absolute anarchy." **REUTERS/JAVIER BARBANCHO**

studied a law degree there until 1993. He says he worked in "import-export" for Smith Barney in 1993 to 1995, and almost concurrently (1992 to 1996) as a financial analyst for Prudential Securities. He also says he was a strategic consultant at Spain's telecom firm Telefonica from 1995 to 1998. The companies all declined to comment.

Co-workers say Garcia Martin spoke openly about a car accident that killed his parents and brother in 1986. The death register in Spain is confidential, but he and other family members placed a newspaper advertisement the following year to mark the accident's anniversary.

Garcia Martin says he broke 24 bones in the crash and spent weeks in a wheelchair. When he left hospital, he began supporting himself by importing cars from Germany. He says he was proud of having bought his first share in Telefonica when he was 14 and of spending hours selling music tapes at Madrid's El Rastro flea market.

On many occasions he told business contacts and employees how his accident pushed him to aim for the top.

Garcia Martin founded the firm in 1999. Known as Iber-X until 2008, it started as a telecommunications broker that provided a place for companies to buy and sell voice minutes and bandwidth capacity. For several years, the firm did relatively well, employees said. As a non-listed company, it was under no obligation to release financial statements publicly.

But Garcia Martin needed capital. According to his testimony in the July 14 court hearing, he began to misrepresent the real state of the firm's accounts when a lawsuit knocked the company into a "downward spiral". Neo Sky, a telecoms company, had sued the-then Iber-X for payment of 142,334.33 euros in telecommunications circuits rent in 2004. Garcia Martin's firm – now called Gowex – was ordered to pay compensation, which he

“I can guarantee you that the company will not disappear.

Garcia Martin
to staff

said cost it cash and customers.

Garcia Martin registered several firms and presented them, according to his court testimony, as clients in Gowex's books. Among them were two companies administered by Gowex's chief financial officer Fernando Martinez Marugan, according to filings from Spain's company registry office. The shell companies acted as fake customers on contracts that Gowex could show to lenders, investors, and government officials who signed off on subsidies.

"Basically, we started with three companies and what we do is: One company bills to Gowex, Gowex bills to another company and the third company bills to the previous one. It is a triangle," Garcia Martin told the court. "Basically, the structure enabled us to make capital increases."

By 2010, the year Gowex made its much-touted debut on Spain's alternative market, the Mercado Alternativo Bursatil (MAB), the web of shell companies had grown substantially.

The previous year Gowex had reported revenues of 35 million euros and a net

income of 2.9 million. But Spain's property bust and the growing eurozone debt crisis were hurting the wider economy. As Gowex prepared to go public, its international competitors Boingo, Towerstream and iPass turned losses.

Gowex pushed on, selling 18 percent of the company for 6 million euros. The shares jumped 20 percent on their first day of trading.

Some investors and analysts later expressed skepticism about the company's performance. In a note in March 2013, NFinance Securities analyst Pierre Schang said he was "disturbed" that Gowex was turning big profits while competitors were registering losses or much smaller profits. Schang did not answer a request to comment further.

Others questioned the firm's amateurish corporate structure, with a board composed of Garcia Martin, his wife, Florencia Mate, and CFO Marugan.

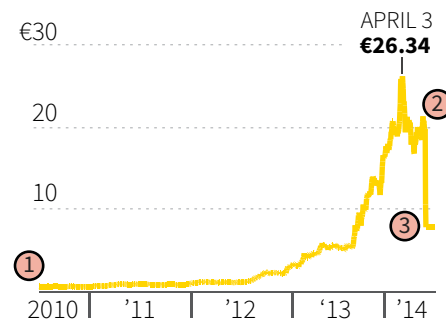
"My wife did not come to the board meetings," Garcia Martin told the court; he said he used her to sign for shell companies that he bought in Wyoming.

Mate and Marugan have both been charged in relation with the accounting deception. Florencia Mate told the High Court she was unaware of the scheme, while Marugan said he was part of it but had no other option than to execute orders because he feared Garcia Martin. Both ignored multiple requests for comment.

Despite the general economic gloom in Spain, Gowex appeared to grow fast. Its reported revenues jumped more than five-fold, profits rose 10 times to 29 million euros, and its market value skyrocketed as Garcia Martin travelled the world. He attended conferences, met investors in France, Britain, the United States and China, and won investments from funds such as JP Morgan Asset Management, Lazard Asset Management, Santander Asset Management and The Vanguard Group.

Gowex share price

- ① MARCH 2010: Gowex becomes third company to list on Madrid's alternative bourse, the MAB.
- ② MARCH 2014: Says turnover jumped 60% in 2013 to 182.8 million euros.
- ③ JULY 2014: Gotham City research sets price target of 0.00 euros.



Source: Datastream, Thomson Reuters

At his court hearing, former CFO Marugan said only about 10 percent of the company's revenues were real.

UP-TO-DATE WITH TAX

In its IPO documents, Gowex said its nine biggest clients accounted for revenue of 26.3 million euros – 91 percent of the total. Six of those firms – worth a combined 24.5 million euros in revenue – were actually linked to Marugan or trustees used by Garcia Martin.

The lies continued after the listing. Garcia Martin and Marugan would

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Number of bones Garcia Martin said he broke in the 1986 crash that killed his family

Source: Garcia Martin

routinely misrepresent the size – and in one case even the existence – of business deals, they said in their court testimony.

For example, Gowex said in 2011 it had signed a 12 million euro contract to provide wi-fi in public places in Buenos Aires, including the city's underground network. While Gowex and Buenos Aires authorities did have talks over a potential deal, the transaction was never agreed and both the municipality and the Subte metro company told Reuters they never signed any deal and had no knowledge of Gowex's announcement.

Gowex also claimed to have contracts in Paris, Madrid and the Spanish cities of Gerona and Aviles. There were deals, but officials in the municipalities and public transport authorities of these four cities say that it was Gowex that paid them, either a fee in order to be allowed to promote its name on trains and buses (Paris and Madrid), or for the right to run a wi-fi service and charge for advertising on it (Gerona and Aviles).

The firm said in 2013 that it had installed 1,953 free wi-fi hotspots in New York City in what it called a landmark deal in its expansion. But the New York City Economic Development Corporation said the agreement to provide coverage in areas of the city such as Flatiron and Roosevelt Island was worth just \$245,000, a fraction of Gowex's overall reported revenue that year.

Such contracts enabled Gowex to seek bank loans and qualify for official subsidies. It used that cash to pay salaries, running costs, and taxes.

Gowex paid 10.6 million euros in taxes in 2013, or 27 percent of its reported profits. "Jenaro would always be up to date with taxes," said a person who worked with Garcia Martin for several years.

In 2006, that person said, Gowex received public money to develop a new system of Internet-connected four-wheel drive cars that would bring wi-fi to Spain's most remote villages. The vehicles would be



WASHED UP: Gowex was not unique: In 2013, fishing firm Pescanova acknowledged faking its accounts for years. This fishing boat sat in a garden next to a Pescanova factory in Baiona, northern Spain. **REUTERS/MIGUEL VIDAL**

used where other technologies were too expensive to deploy. Garcia Martin received a subsidy from the industry ministry for the project, but never assigned any money to the work.

When inspectors came to check the job, Garcia Martin had a basic connection mounted onto his own car, a Nissan Murano, and turned up in that, a former employee said. He told inspectors the car was one of three the company had developed. In fact, there were none. Garcia Martin did not answer a request for comment on this.

“MOST IMPORTANT PERSON”

In the end, it was not Spanish regulators who uncovered the deception, but activist U.S. investor Gotham City Research LLC. On July 1, Gotham City said Gowex

accounts were false and set a target price of zero on the stock.

In two days, the company’s market value dropped 870 million euros.

Immediately after the Gotham City report, Garcia Martin was defiant. He said he would sue the firm and hire a “prestigious” auditor to show the company’s accounts were accurate. He also kept pushing for more loans.

But on the morning of July 4, Gowex’s bank accounts were blocked according to a confidential document accompanying the bankruptcy filing seen by Reuters.

That morning, Garcia Martin went for a morning jog. He wrote on his Twitter account: “Gooooood morning Madrid!!! All of us are choosed (sic) as the most important person to change our World. We are the one in charge of that mission.”

In the office, he held a town hall meeting about the Gotham report, an event which was filmed by one of his employees. “I can guarantee you that the company will not disappear,” he promised. Towards the middle of his six-minute speech, he opened his backpack and pulled out metal rods that he said had been inside his body for years after the car accident that killed his family.

He waved the rods before his team. He could overcome any challenge, he said.

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