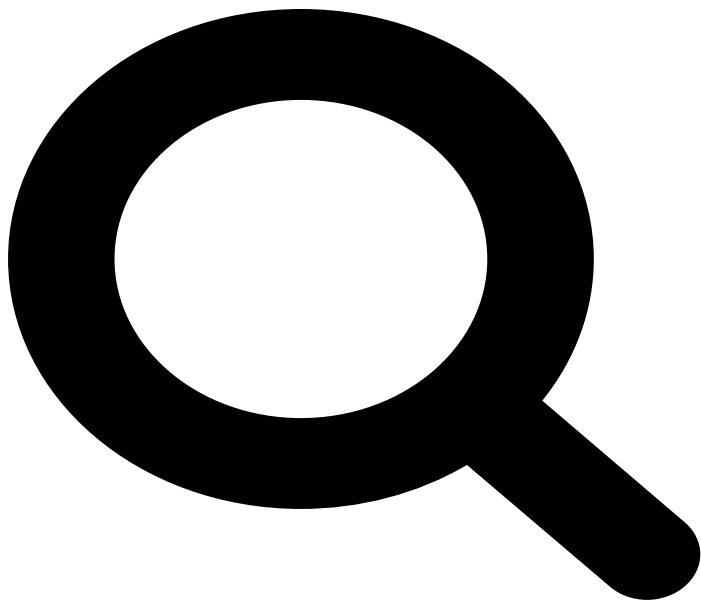


I ALSO SAY AGUR BEN-HUR AND GERO ART BONAPARTE

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Euskaltel has long been **the flagship of large business projects promoted by the Government of the Basque Country**. In a practically monopolistic context in the world of telecommunications in Spain, the Basque Government in the early 1990s began to wire a large part of the territory of the Basque Autonomous Community with fiber optics (the Euskalmet network) and created a telecommunications operator (Euskaltel), to provide the Basque Country with its own solvency and capacity. The objective was to **place the Basque Country at the forefront of telecommunications services**, a cornerstone of business and social competitiveness today. Many millions of euros were invested in this great

business project, always classified as a *pcountry-project* due to its driving and determining effect on Basque competitiveness, and the highest level involvement of the country's savings banks. Basque (controlled at that time pre-crisis from the Basque administration). Fundamental was also the **complicity of all the Basque local and regional administrations** that became the first clients of the new company. Euskadi put nothing less than **a lehendakari in the presidency of the company to symbolize its strategic importance**.

Over the years, the savings banks (already merged around Kutxabank), as well as the Government itself decided to give **entry into the shareholding to some investment groups (Trilantic and Investindustrial) to reinforce the competitive leadership of the company**, which was beginning to show some signs of weakness. The company was valued at 475 million euros and these investors took 48.10 percent in December 2012, disbursing some 228 million. The Government also decided to withdraw completely from the company to accentuate its private nature.

On July 1, 2015, the company will go public with just over 63 percent of the capital and, overall, **both funds will completely abandon the capital of the Basque firm. Barely two and a half years later, the company is now valued at more than triple** (according to various sources, between 1,600 and 1,900 million) and the Public Offering places Euskaltel's market capitalization at between 1,100 and 1,400 million Euros, therefore, the estimated income for these funds will be between 622 and 773 million (and including the income from the IPO and the previously distributed extraordinary dividend). It is easy to calculate the net profit for these investors: between 394.35 and 545.17 million euros. To complete the puzzle, it should be noted that, according to company sources, Euskaltel has committed between 39.1 and 54.3 million in the incentive plan for senior management, made up of some 24 professionals. The company plans to pay a part of it in shares, the equivalent of about 12.5 million (which they will not be able to sell in a year and a half) and the rest in money. In addition, the staff will receive free shares for about 3.5 million.

In short, for 20 years Basque society has been investing significant amounts of money in the construction of this business project for which the Basque financial institutions and the bulk of the administrations have opted to hire their services preferentially. Later, in difficult years for the company, it proceeded to its capitalization with the incorporation of external investors with whom a meteoric outflow of capital was negotiated at the time, which has provided them with returns of an overwhelming dimension. For its part, the management team (and to a much lesser extent the rest of the squad) will also see their effort and good work compensated in this last stage with a sweet distribution of incentives.

From the point of view of investor opportunism, an example to follow that could be studied in

business schools around the world. From the point of view of Basque society, a clear embarrassment and the **feeling of having been cheated in a very subtle but effective way**. Everyone's effort for so many years is taken by a few (investors and managers). Being merciless, this would be the summary in a few words.

The surprise and our greatest concern comes more from the apparent **lack of assumption of responsibility on the part of the institutions that involved Basque society in an exciting project** whose privatization process has finally turned out to be a tremendous fiasco for public coffers. The signs of overacting indignation on the part of qualified spokespersons for the Basque Government do not fail to produce a certain blush and a lot of concern. From this process (which is not the first of this nature in Euskadi) we must draw a few lessons for the future. Appealing to the morality of the directors (who surely have nothing to envy to that of the government) so that they do not receive the incentives or of the investors (whose ethical approach in any case should have been assessed before admitting them as partners) is a unintelligent position and, in any case, not very practical.

If a government wants to become an entrepreneur, it must have excellent skills in the matter. If not, it runs the terrible risk of being used in the most grotesque way by any self-respecting investment fund. A minimum mea culpa along these lines would be greatly appreciated. To learn, knowing how to recognize mistakes and own limitations is a good methodology. [The industrial policy in the coming years will involve investing in driving projects](#) similar to what Euskaltel represented. This country cannot miss out on growth opportunities, but this unpleasant episode, which only overshadows a brilliant strategic vision, shows that it is necessary to equip itself with the best possible investment office and **invest part of the budget in intelligence and, with all the respect, a little bit also in humility.**

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