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The Business Interview - Jason Bak, Finavera

Renewables firm Finavera has undergone a massive transformation from struggling microcap to serious player bankrolled to the tune of €475m by General Electric. Ken Griffin reports

Winds of change blow for Finavera

Finavera chief executive Jason Bak, 35, openly admits that, even before the current financial crisis, the company had been struggling to raise the finance necessary to meet its development goals.



Jason Bak: There's still maybe five to eight years of development in wave energy before the banks will come into the space. In the current climate, banks are reluctant to enter any space let alone any risky new technology

"In November 2007, we went out to the markets to raise C\$24m (€15m) and we failed," he said. "We saw a downturn in the market – nothing compared to last November, but it was the thin edge of what was coming. The market told us that it wouldn't be there for continual capital raising."

Whereas many companies would simply give up after such a blow, Bak and his colleagues regrouped and decided to look for "big brothers" – larger joint venture partners that were prepared to meet the Irish-Canadian company's capital needs, a process that eventually led them to GE.

"We have a big brother behind us now which has a huge balance sheet. GE is the third-largest company in the world and this form of partnership allows microcap companies like ours to thrive in this environment."

Under their partnership deal, GE has agreed to finance four proposed wind farms in the Canadian province of British Columbia. The projects, if they secure regulatory approval, will have a total output of 295 megawatts (MW).

Although GE will get the lion's share of the proceeds from the wind farms, Bak said Finavera would still get a satisfactory return.

"We will get a significant portion based on the risk we took. We take all the risk, do all the grunt work and they come in and sign the cheque," he said.

The GE deal couldn't have come at a better time for Finavera: investors are willing to fund only the most established players while the company's US wave energy plans have been hit by a series of setbacks.

"We built a test wave plant off Oregon and our device essentially blew up and sank. It didn't literally blow up but it might as well have. We had the equivalent of an O-ring failure in the space shuttle – a small valve failed and sank the device."

Then late last year, California's Public Utilities Commission (CPUC) rejected its plans to develop a wave power project off the state's coast, arguing that the technology was pre-commercial and the resulting power was too expensive.

As a result of these events, Finavera looks set to spin off its wave energy division into a separate entity, in recognition of the experimental nature of the technology.

"My feeling is that no wave technology is at the stage you can call commercial because you can't get bank finance and you can't see a return on your dollars," said Bak. "There's still maybe five to eight years of development in wave energy before the banks will come into the space. In the current climate, banks are reluctant to enter any space let alone any risky new technology. So our focus will be on wind energy and making investors money."

Bak said the company believed that, because of the current financial turmoil, wind and wave energy were now attracting different types of investors.

"Both are equally valid but the time horizons are different and in this market, you have to realise that. If you want to see a return in three years, invest in wind energy. If you can wait five to eight years, go for wave energy," he said. "The split is designed to give investors a choice of what they want to invest in rather than the hybrid opportunity we currently offer."

Bak also said Finavera was attempting to maximise the investment returns for its shareholders through the sale of selected assets. It recently sold its undeveloped 75MW Ghost

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Pine wind project in Alberta, Canada for C\$4.5m (€2.6m).

"When you develop projects, you see a spread of rates of return and we will sell off some of the lower investment return projects but keep the cream of the crop," he said, "That's not to say that what we are selling is bad, but it is for a different type of developer, which would have a larger balance sheet and a whole bunch of cash."

Bak said, however, that Finavera would retain a broad portfolio of assets, including its projects in Canada and Ireland.

"A lot of Canadians, like myself, tend to diversify across several geographies. This strategy has helped us well over the past five years. There's been times where North America has been more bearish on wind than Europe and vice-versa," he said. "It also protects us from regulatory issues such as in Ireland, for instance, where there was a moratorium on wind but we could still develop in British Columbia."

Finavera is currently working on 175MW of Irish wind projects, all of which are in Co Galway, but Bak declined to comment on whether it had secured a "big brother", similar to GE, for those schemes.

"At the moment, I can't say. We have signed a memorandum of understanding with a leading Irish group and I am starting to work with them on establishing the terms of a relationship. At the moment, the outcome is unknown."

Bak added, however, that he hoped the ultimate outcome would be a GE-style deal, where Finavera would do the development work and a larger partner would provide the finance.

"I think shareholders will be happy with this as they're not being diluted. Due to the market turmoil, we are a C\$15m (€8m) company. Last year, we were a C\$120m (€71m) firm. To dilute our shareholders at these prices would be ridiculous. We have to maintain shareholder value."

Curriculum Vitae

Jason Bak

Age: 35

Family: Married with one son

Education: BSc in Applied Physics, Simon Fraser University, British Columbia

Career: 2003-present, chief executive, Finavera Renewables; 2001-2003, vice president for corporate development, Tournigan Gold; 2001, head of corporate affairs for Strongbow Exploration

Hobbies: Snowboarding

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