# Lead Left Interview – Jason Block & Fred Buffone

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**This week we chat with Jason Block, partner and chief investment officer and Fred Buffone, principal, of Freedom 3 Capital. F3C provides tailored junior capital solutions to middle market companies by providing a combination of junior capital securities to generate current income and capital appreciation.**

***The Lead Left: Jason, congratulations on your success in building your firm. You've brought on a great friend of ours and the market, Fred Buffone.***

**Jason Block:** Thanks, Randy. Fred has been a great addition. He didn't realize how helpful he would be in driving our fundraising, but it's worked out very well.

***TLL: Bring us back to the beginning. How did you get Freedom 3 up and running?***

**JB:** I started F3C four years ago, after having gotten back from London with ICG. Two different businesses exist in the mezz space – credit asset management and the investment business. These are distinctly different. We prefer the investment business rather than building AUM. We like working through a company's inflection points to provide transitional capital.

What's critical is forming real relationships with management teams. Over twenty years we're generated better returns for our investors and had more fun when we have a focused strategy. We need to be a junior capital partner, not just someone who provides junior capital. Building these deep relationships is the foundation of F3C.

***TLL: How do you feel about your timing in the business cycle to be doing this?***

**JB:** Mezzanine debt is where the capital markets aren't. Some mezz is sold by a book and a meeting. That's not the mezz we play in – that's a capital markets product. And there has always been lots of other products infringing on mezz over the last 20 year – second-lien, unitranche and originally stretch senior. But there are always good companies that need a flexible partner in all market conditions.

***TLL: How do you sell yourselves as a financing partner?***

**JB:** We want to create a capital structure that works for the business plan, not the other way around. Some lenders say, "Here's our model, you need to work with that." That's not us. I learned early in my career that mezzanine can be the blank in Scrabble. Just listen to what is important to the management team and build a sound capital structure to meet their needs on a blank sheet of paper.

***TLL: I like that. Fred, tell us about the fundraising effort.***

**Fred Buffone:** When Jason started the business back in April 2013 we were fortunate to get a handful of investors from family offices and insurance companies. Turns out we've given out more co-investments than we've invested. As an example, we invited partners to invest $71 million in our first portfolio company when we had raised less than $25 mm in total at the time. Of the six original co-investors we brought in, four ended up becoming paying clients, and one became a joint venture partner. We now manage over $250 million across 3 Funds and separately managed accounts. The best part is that our existing investors keep growing with us and our first Fund has returned a significant amount of capital.

***TLL: And what kind of yield do you seek from your investments?***

**JB:** Our premise is that we want to return 1.5 – 2 times our money as a base case. Compare that to equity returns of 2-3x. Our overall returns come from a combination of OID, cash plus PIK interest, call protection and equity upside. Depending on how long our investments lasts, we can target gross returns of 15-20%. But for us the money multiple is actually more important.

**FB:** As Jason mentioned earlier, we listen to what the borrower needs. In the end, we try to build a portfolio with a current yield of 10-11%. Right now we're averaging ~10.5% plus a small PIK component. The rest of our return comes from some form of equity participation.

***TLL: For how many deals do you get some kind of equity upside?***

**JB:** About 80% carry equity participation – including warrants and bought-in equity. It is almost 50/50 when we get free equity attached vs purchased equity.

***TLL: I assume these are smaller borrowers.***

**JB:** Not really. Our median EBITDA is just over $30 million with an average investment of $40 million. We have eleven investments right now. We look for great companies first. And we try to be incredibly thorough, analyzing every aspect of a prospective investment. We try to really understand the industry, the company *and* the people involved before we make a decision. We might analyze more than 30 opportunities before we select one. When it comes to making an investment, we invest more than just money, we invest ourselves.

Small companies tend not to have deep management teams. We need our portfolio companies to have scale and depth of their management team. Hence why the size of our average portfolio company is larger than most people expect.

***TLL: How do you source deals?***

**JB:** You have to do the table setting and build your brand with marketing and face to face meetings. It is important to keep your name top of mind to people. But in reality, all of us have been doing this for a long time. The most junior members of our team have 9 years of experience and our partners average over 20.

Roughly 80% of our investments are in companies without a PE fund owner. We built up a lot of relationships over the years and people know we help companies solve challenging capital structure issues. We're collaborative; and over time we have become a trusted advisor. Ultimately, we invest in people, not organizations, so listening and working with those people helps created lots of opportunities.

**FB:** We don't have to be everything to everyone. We are not trying to make too many investments in a year. Our ideal number of investments closed per year would be three or four. Two would be ok; five would be great.

**To be continued the week of September 11**

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