Antares Capital

2025

Credit Market Outlook Survey

KEY TAKEAWAYS

- **Optimism for U.S. economic growth picks up.**
- **Revenue and earnings growth expectations favorable and improved from mid-year survey, with most expecting margins to expand.**
- **Hiring set to rise with industry demand outlook still favorable, but labor availability and cost remain a challenge.**
- **PE Sponsors expect a pickup in M&A activity over the next 12 months, with buyer appetite stronger than seller appetite. However potential headwinds include Geopolitical Risk which sponsors cited as the top risk to their portfolio and investment strategy.**
- **Organic Sales Volume Growth, Competitive Industry Pressures and Labor are top-of-mind for borrowers, but external factors such as Interest Rates, Geopolitical Risks and Tariffs are not far behind. Only 3% currently see AI disruptions as a source of risk.**
- **Industrials gain strength as a top sector of interest for private equity sponsors followed by Business Services and Healthcare.**

Antares Insights

Survey results support Antares' increasing optimism for U.S. economic growth and a robust M&A environment in 2025.

Most borrowers forecast further improvement in company operating metrics, anticipating organic revenue, EBITDA and margins to continue to grow. Furthermore, hiring is expected to increase as the demand outlook remains favorable, but some borrowers note that labor availability and cost continue to pose a challenge to hiring. This supports our belief that a resilient labor market and strong consumer consumption will continue to drive healthy economic growth in 2025.

Private equity sponsors' dealmaking sentiment continues to improve, with 80% of sponsors expecting higher rates of deployment in 2025. While sponsors cite high interest rates as a continuing impediment to M&A activity, buyer appetite remains robust with most sponsors anticipating purchasing a new portfolio company in the first half of 2025. Sponsors believe the Industrial, Business Services and Healthcare industries offer the most attractive opportunities for investment.

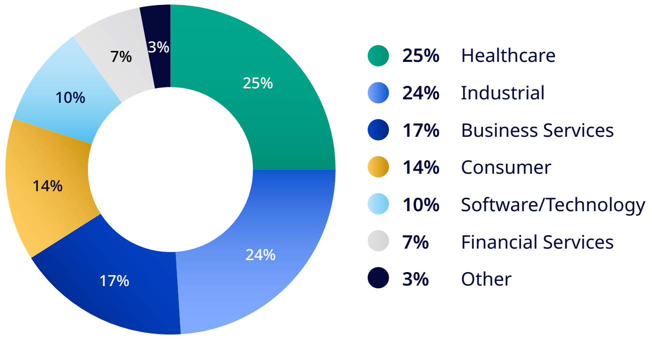
We believe that growing optimism around the economic and business environment alongside elevated levels of PE dry powder will serve to catalyze M&A activity in 2025, possibly resulting in M&A volumes posting the second-best year on record should volumes increase in line with historical post-election year bumps.

Methodology

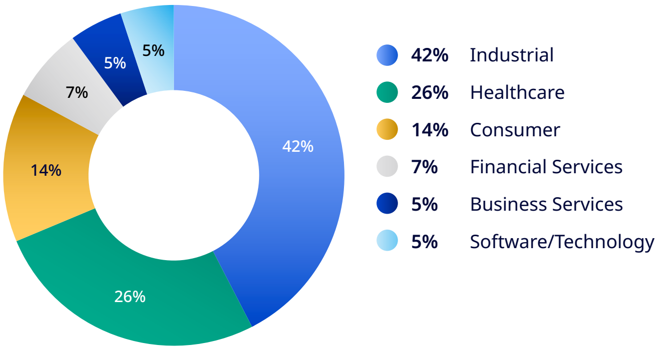
Antares conducted this survey over a two-week period between **November 12, 2024 and November 26, 2024**, via email outreach. The key takeaways are based on survey responses from a total of **80 private equity ("PE") sponsors and 59 Antares borrowers** from a diverse set of industries and business models. The survey was in market after two interest rate cuts (50bps on September 18 and 25bps on November 7th), after the U.S. Presidential election and prior to the pronouncement on imposing tariff increases for Mexico, Canada and China by President-elect Trump. The mid-year survey referenced throughout gathered sentiment on expectations for the second half of 2024 and was conducted between May 29, 2024 and June 21, 2024. Responses were received from 138 PE sponsors and 60 Antares borrowers.

About Our Borrower Respondents

Industry in Which They Operate



End Markets They Serve

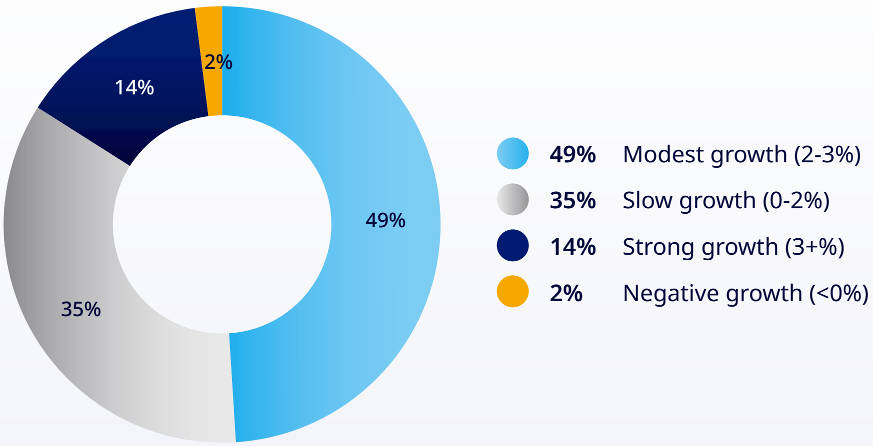


U.S. Economic Expectations

KEY TAKEAWAY: Optimism for U.S. economic growth picks up.

Most (63%) borrower respondents expect **modest or strong growth** over the next 12 months with only 35% expecting slower growth and 2% expecting negative growth. **This outlook is significantly improved versus our mid-year survey** in which 78% respondents expected slower growth and 10% expected negative growth in the second half of 2024 ("2H2024").

By how much do you anticipate the U.S. economy will grow in the next 12 months?



Organic Revenue, EBITDA & Margin Expectations

KEY TAKEAWAY: Revenue and earnings growth expectations favorable and improved, with most predicting margins will expand.

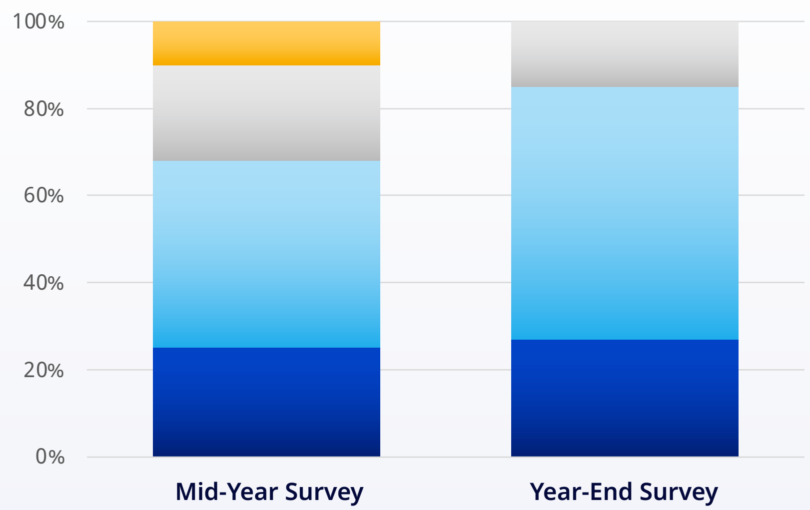
Most (85%) borrower respondents expect **healthy organic revenue growth** in 2025 with 58% expecting modest growth and 27% expecting strong growth of 10% or more. Only 15% of respondents anticipate low-to-flat growth in 2025. This is a **positive shift** from our mid-year survey in which 22% of respondents foresaw slow growth and 10% anticipated negative growth in 2H2024.

An even higher number (90%) of borrower respondents expect **healthy organic EBITDA growth** in 2025 – which correlates with responses on margin improvement. Specifically, 39% are expecting strong growth and 51% are expecting modest growth. Similar to revenue, **no respondents are expecting EBITDA to decline** in 2025 (compared to 5% of mid-year survey respondents) and only 10% are expecting low-to-flat growth, down from 22% at mid-year.

66% of borrower respondents expect **margins to grow in 2025**, 31% expect margins to remain flat, and only 3% anticipate margin pressure suggesting inflationary pressures have abated. (Note: this survey was taken prior to planned tariff increase pronouncements). This outlook is **more favorable** than at mid-year when only 27% of respondents were expecting margin improvement, with the majority (53%) expecting margins to be flat, and a substantial 20% expecting margins to decline in 2H2024.

In selecting **top challenges for 2025**, cost drivers such as **labor costs** (32%) and **tariffs** (32%) were each cited by nearly one third of respondents with lesser concern around **freight** (3%) and **raw material costs** (9%).

How do you expect your 2025 organic revenue to perform versus prior year?



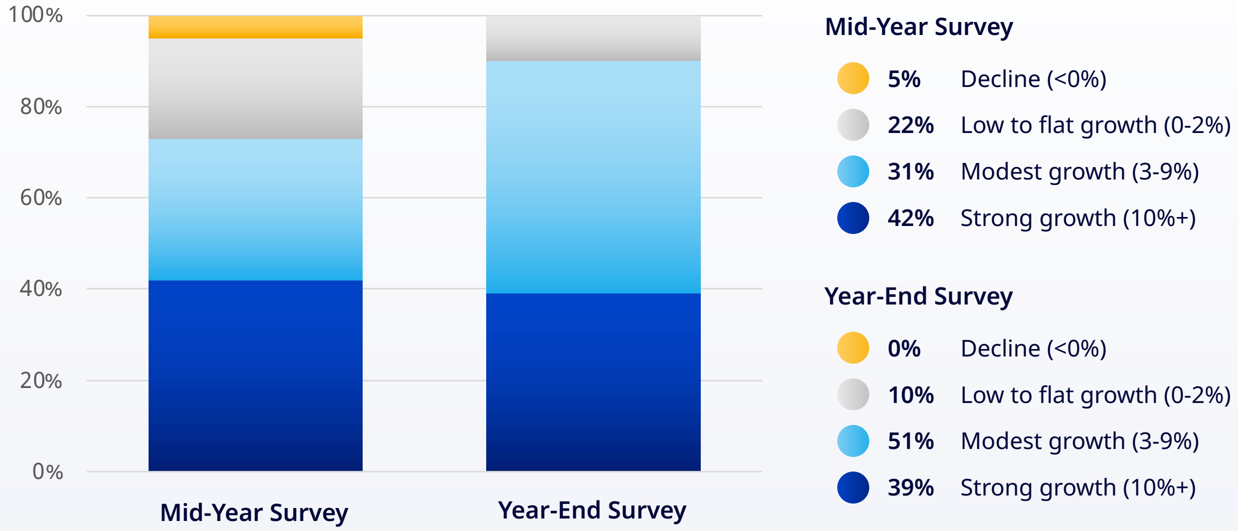
Mid-Year Survey

- **10%** Decline (<0%)
- **22%** Low to flat growth (0-2%)
- **43%** Modest growth (3-9%)
- **25%** Strong growth (10%+)

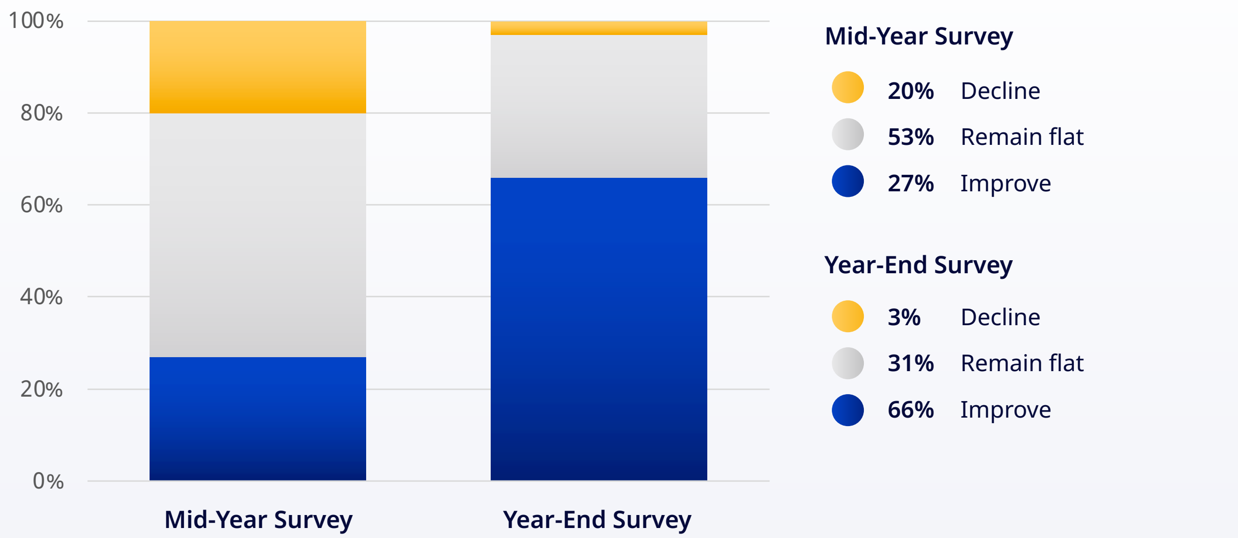
Year-End Survey

- **0%** Decline (<0%)
- **15%** Low to flat growth (0-2%)
- **58%** Modest growth (3-9%)
- **27%** Strong growth (10%+)

How do you expect your organic EBITDA to perform versus prior year?

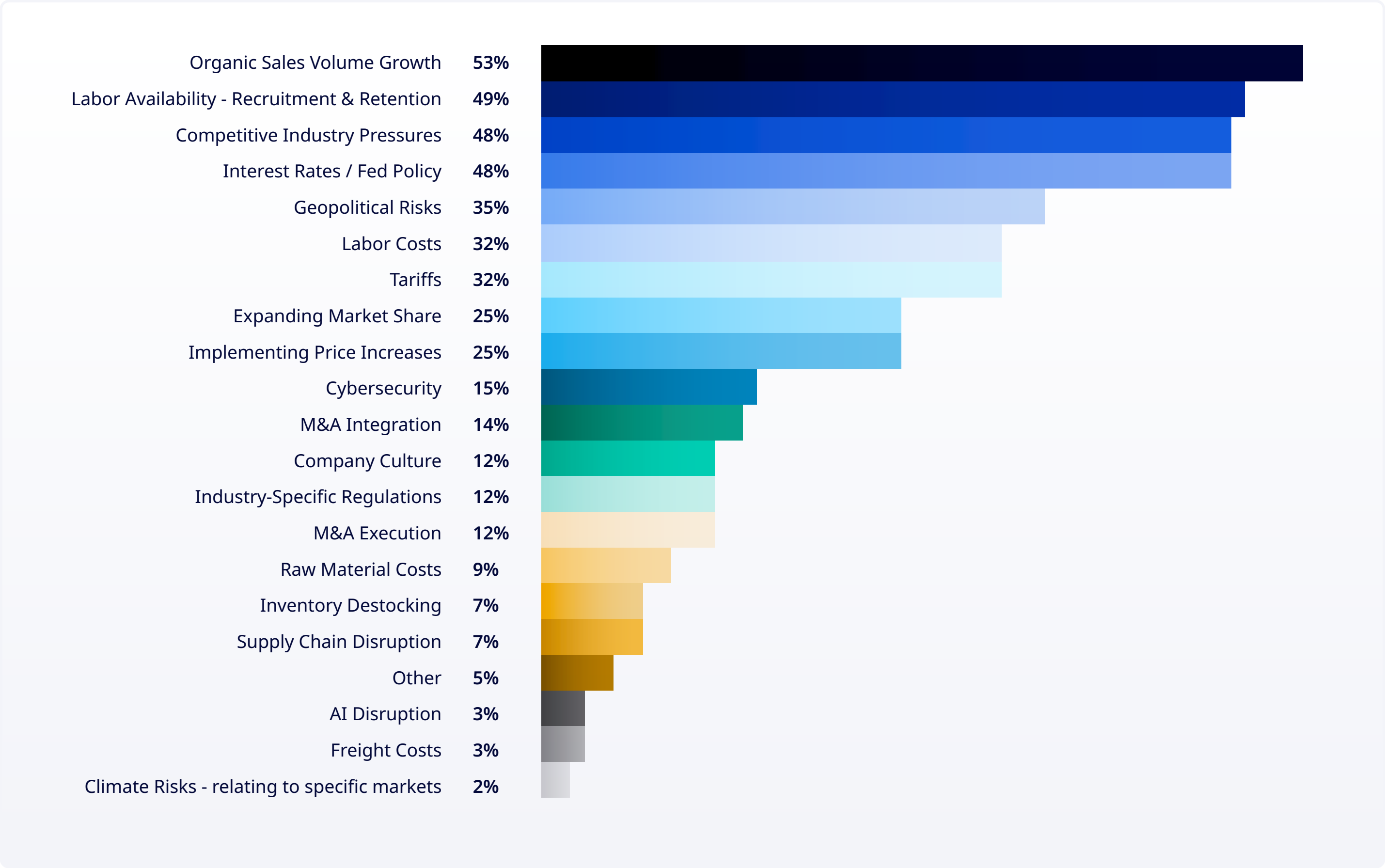


How do you expect your EBITDA margins to perform versus prior year?



Top Challenges for Borrowers for 2025

(Borrowers could select up to 5)



Top Challenges for Borrowers by Industry for 2025

80% of **Business Services** respondents selected **Interest Rates / Fed Policy**

88% of **Consumer** respondents selected **Organic Sales Volume Growth**

75% of **Financial Services** respondents selected both **Interest Rates / Fed Policy** and **Competitive Industry Pressures**

79% of **Healthcare** respondents selected **Labor Availability - Recruitment & Retention**

64% of **Industrial** respondents selected **Tariffs**

50% of **Software/Technology** respondents selected **Organic Sales Volume Growth**

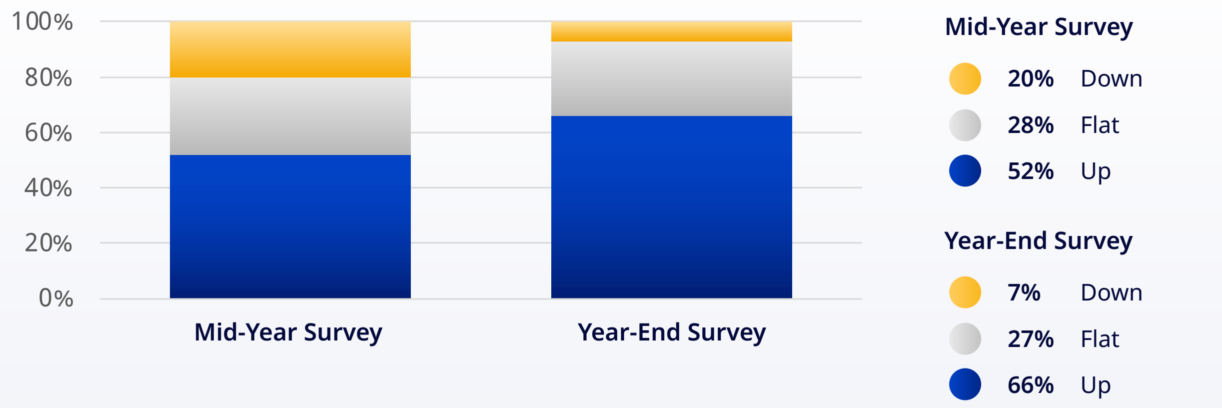
Headcount and Industry Growth Expectations

KEY TAKEAWAY: Hiring set to rise with industry demand outlook still favorable, but labor availability and cost remain a challenge.

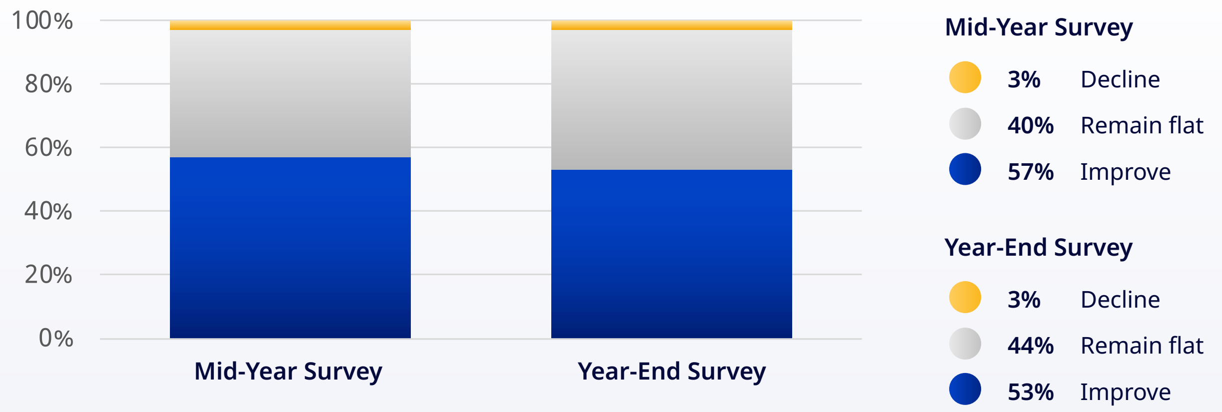
Most borrower respondents (66%) expect their **net headcount to increase in 2025** over 2024 with only 7% expecting a decline. This **compares favorably** versus our mid-year survey when 28% of survey respondents expected net headcount to remain flat and 20% expected a decline through 2H2024.

About half (49%) of borrower respondents identified "**Labor Availability – Recruitment & Retention**" as a top challenge for 2025 and 32% identified **Labor Costs** as a challenge. Similarly, 38% of PE sponsor respondents indicated "**Labor Costs, Availability, Recruitment and Retention**" as #3 in top risks to their portfolio and investment strategies in 2025.

Where do you expect net headcount to be at year-end?



In the next six months, you expect demand for your industry will:



M&A Expectations

KEY TAKEAWAY: PE sponsors expect a pickup in M&A activity over the next 12 months, but buyer appetite remains stronger than seller appetite.

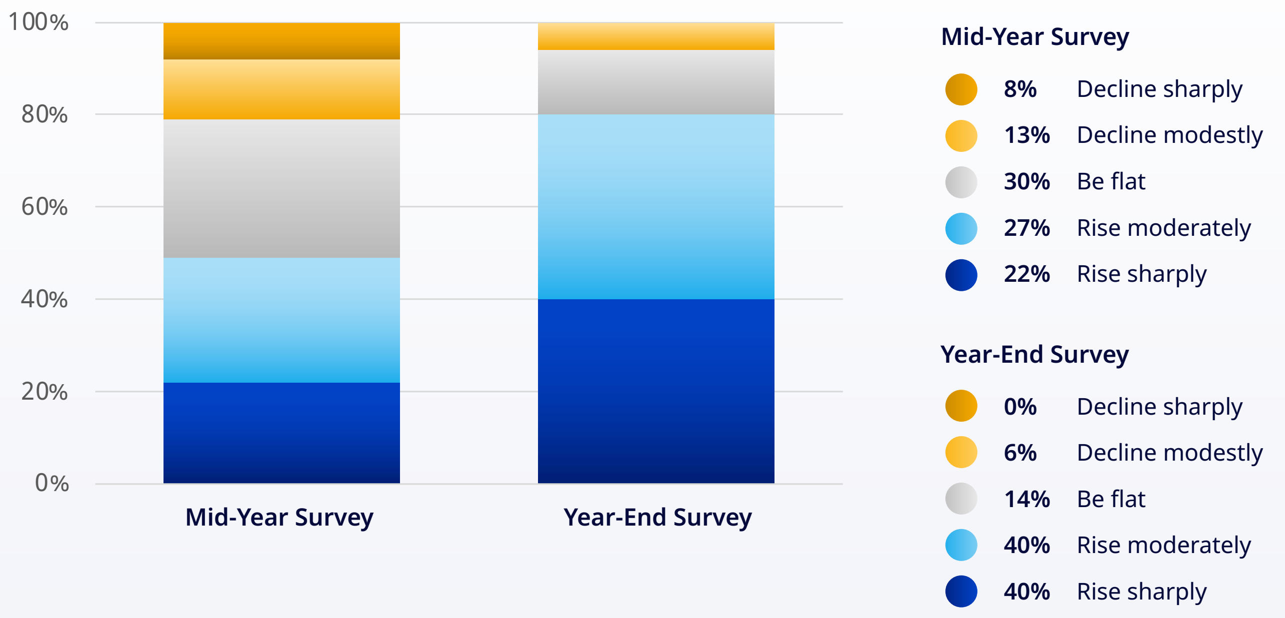
PE sponsors are anticipating **higher rates of capital deployment in 2025**. 80% (up from 49% at mid-year) of PE sponsor respondents expect their investment ($ volume) to rise in 2025 versus 2024, including 40% (up from 22% at mid-year) who anticipate it to be up 15% or more from 2024.

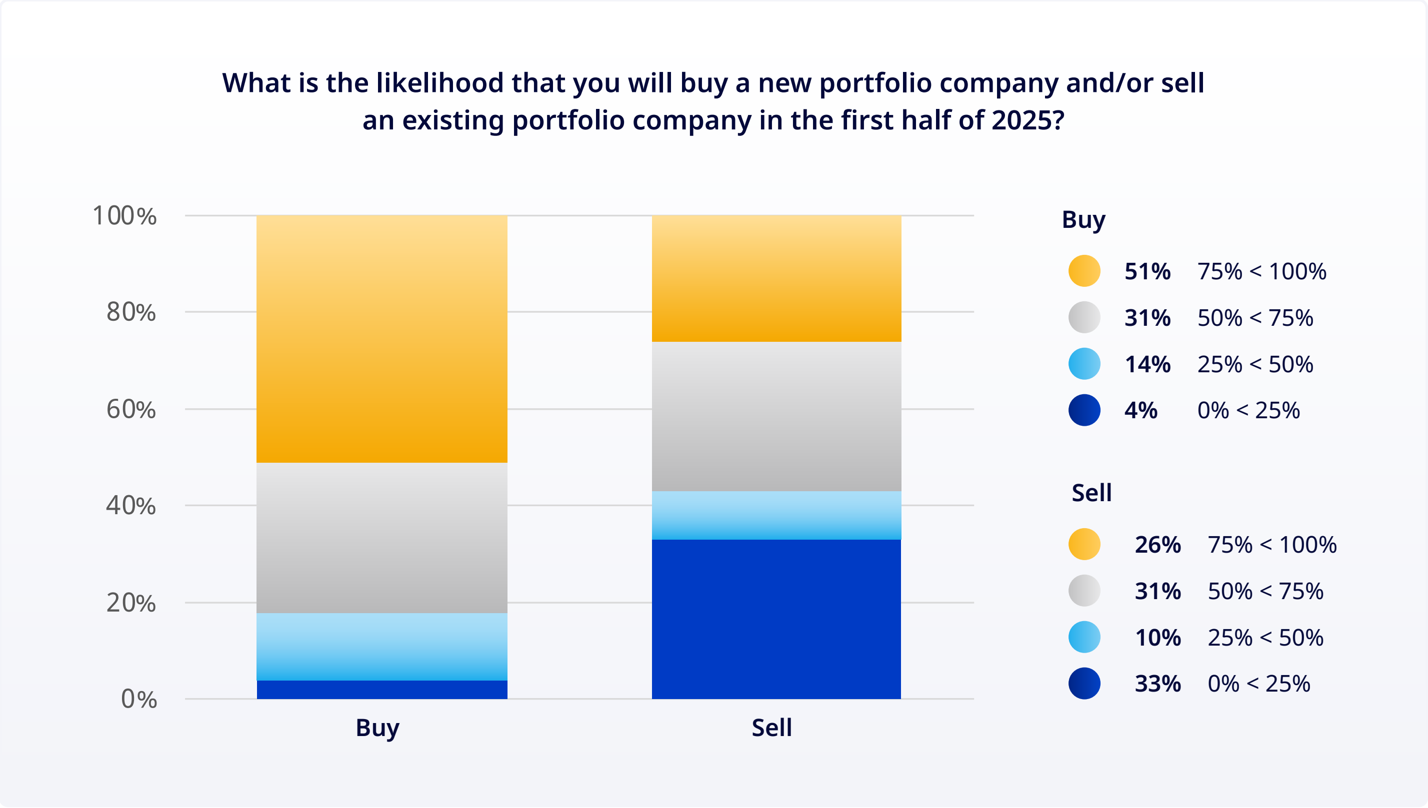
83% of PE sponsor respondents note a 50%+ likelihood they will buy a portfolio company in the first half of 2025, with 51% projecting odds at more than 75%. This projection is in line with mid-year expectations.

More than half (57%) of PE sponsors note a 50%+ likelihood they will sell a portfolio company in the first half of 2025, with 26% seeing the odds at more than 75%. This is also in line with mid-year expectations, however 33% indicate they are between a 0-25% likelihood to sell, which is up from 19% at mid-year.

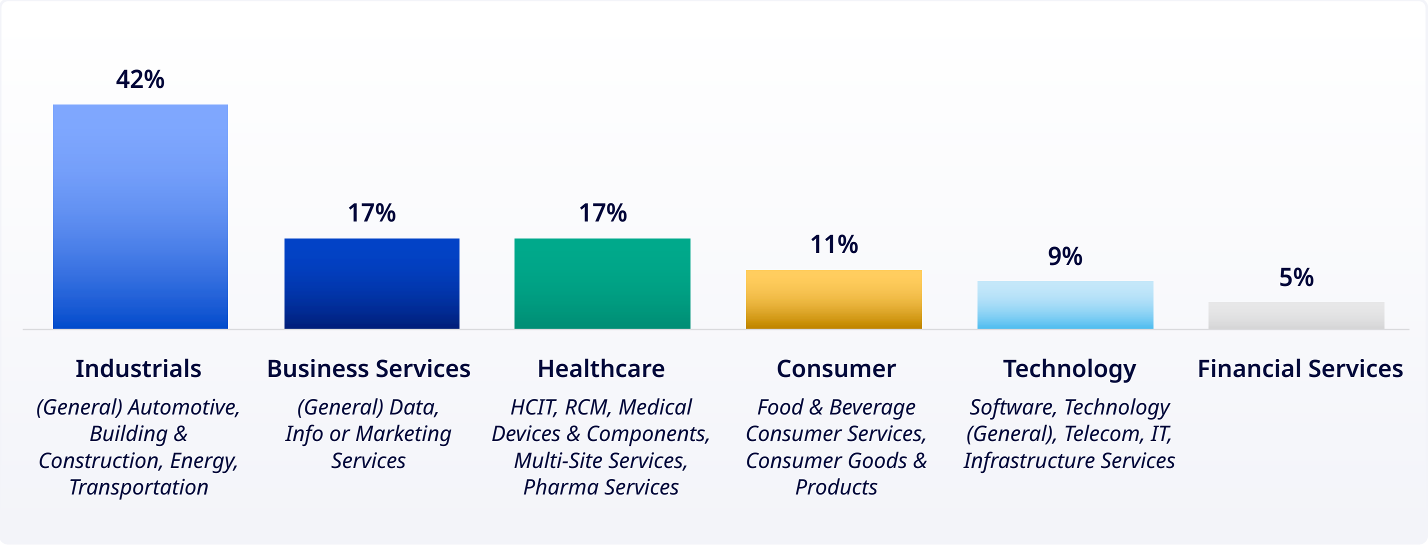
51% of borrowers indicate **high interest rates remain an impediment to M&A activity** (vs 53% at mid-year), although Antares expects this pressure will abate some in 2025 based on the SOFR curve and favorable earnings growth prospects.

Versus prior year, you anticipate your investment ($ volume) deployed for new platforms (i.e., LBOs) to:

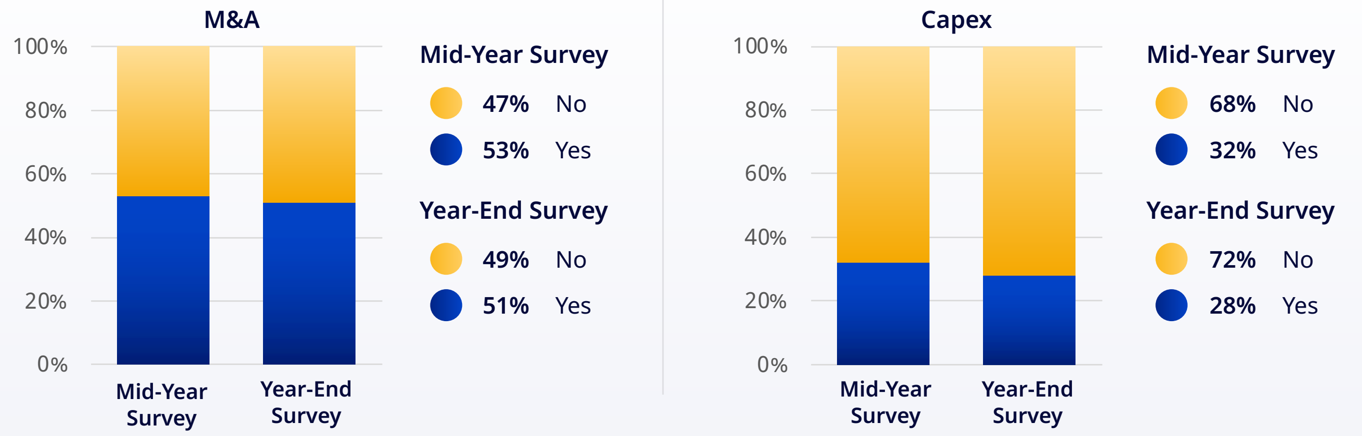




Top Sectors of Interest for PE

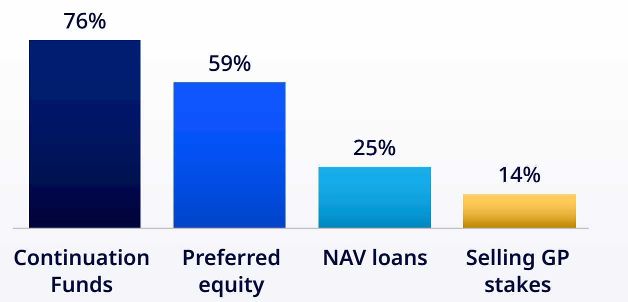


Are elevated interest expenses materially impacting your growth plans?



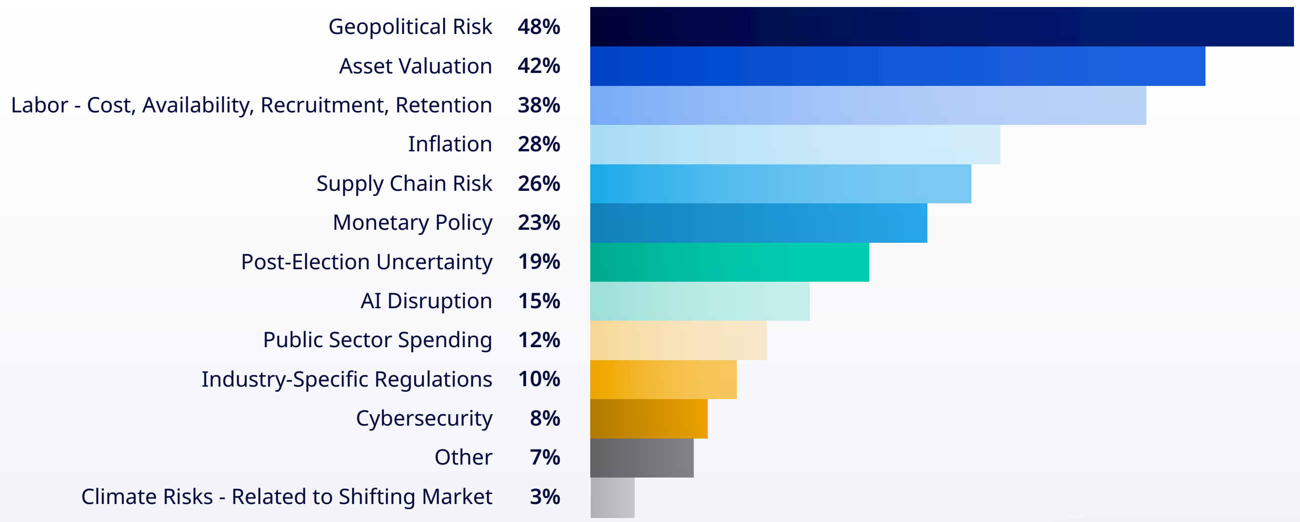
Liquidity Solutions

Compared to mid-year, **Continuation Funds remain the most popular** vehicle for PE sponsors to utilize as a liquidity solution at 76%, 59% are exploring **preferred equity**, followed by 25% exploring **NAV loans** (down from 38% at mid-year), and 14% are considering **selling GP stakes** to raise capital (down slightly from 11% at mid-year).



Private Equity Sponsors' Top Risks to Portfolio and Investment Strategy in 2025

(PE sponsors could select up to 3)



About Antares

Founded in 1996, Antares has been a leader in private credit for nearly three decades. Today, with approximately $73 billion of capital under management and administration as of September 30, 2024, Antares is an experienced and cycle-tested alternative credit manager. With one of the most seasoned teams in the industry, Antares is focused on delivering attractive risk-adjusted returns for investors and creating long term value for all of its partners. The firm maintains offices in Atlanta, Chicago, Los Angeles, New York, Toronto and London. Visit Antares at www.antares.com or follow the company on LinkedIn at https://www.linkedin.com/company/antares-capital-lp. Antares Capital is a subsidiary of Antares Holdings LP, (collectively, "Antares"). Antares Capital London Limited is an appointed representative of Langham Hall Fund Management LLP, an entity which is authorized and regulated by the Financial Conduct Authority of the UK.

Antares Capital

antares.com

@Antares Capital LP