9Questions — Timothy Lyne, Antares Capital

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19 December 2022

***9Questions** is our Q&A series featuring key decision-makers in leveraged finance — get in touch if you know who we should be talking to!*

Timothy Lyne is CEO of **Antares Capital**, and one of the company's founding partners. He has held multiple senior roles at the firm, including leading its sponsor coverage and capital markets efforts.
Before Antares was spun out separately, he worked in the merchant banking group at the firm's former parent **GE Capital**. Prior to that, he was at **Heller Financial**'s corporate finance group.

Lyne explained to 9fin why Antares is still bullish on tech and healthcare investments, how ESG is rapidly gaining traction in private credit, and the firm's hiring plans for 2023.

1. Antares is one of the oldest players in middle market sponsor finance. As someone who has been there from day one, did you ever think you would end up doing multi-billion-dollar deals?

While I was confident we would be successful given the incredible team we had assembled, I never imagined we would be financing multi-billion deals.

Our average EBITDA has increased over time as companies are sold from one sponsor to another, and given our familiarity with the company we win the agency. There are currently 12 companies in the portfolio that we have financed for more than 15 years, under three or four different sponsor owners.

2. Last year, Antares racked up nearly $8bn in financing commitments for healthcare companies, and more than $6bn for tech companies. How do you view those sectors at this moment, given headwinds like rising labor costs in healthcare, the post-pandemic slowdown in software, and falling valuations in tech more broadly?

We continue to favor healthcare and technology from a lending perspective because they both tend to be less cyclical and have good secular growth prospects.
However, there certainly are issues to be wary of in various sub-sectors within each industry, and of course at the individual company level. Currently, when we evaluate our portfolio, the sub-sector trend performance in the areas where we chose to play for both industries is either stable or favorable.

In healthcare, we favor non-elective areas with low reimbursement risk. Wage inflation is a factor working to compress margins for multi-site healthcare services providers at present and is something we are monitoring, but we are starting to see some signs of improvement in labor availability. Even with some margin compression, we remain well covered from a loan to value perspective. Our healthcare portfolio remains healthy.

In the technology space, software-as-a-service is a focus, but not all are created equal. In evaluating a company, we're looking to ensure they provide a vital, sticky and non-discretionary service with barriers to switching and, ideally, with a focus on customers who themselves aren't subject to high levels of discretionary spend or cyclicality. Regarding valuations: there has been valuation compression, but from a lender's perspective there is significant cushion in loan-to-value on existing deals and leverage levels on new deals have been decreasing.

3. What sectors does Antares find most attractive at the moment, given current market conditions?

Attractive sectors include non-elective healthcare platforms, mission-critical software and technologies, as well as insurance and business services.

Like most lenders in the space, we're taking a cautious approach to capital deployment given the economic and geo-political environment. Much of our activity this year has been in support of existing borrowers who we know well and have confidence in their ability to execute their growth plans.

4. What is the biggest challenge facing private credit right now?

It's an interesting and, dare I say, exciting time for private credit. The space is expected to see double-digit AUM CAGR over the next five years, according to Preqin — largely a function of continued growth in the private equity industry.

Also, M&A activity may be somewhat subdued for a period of time. Lenders with high levels of dry powder need to maintain credit discipline, and not do unattractive deals out of desperation to put capital to work. This can be a challenge especially for newer entrants.

We feel advantaged on this front in having one of the largest middle-market portfolios in the business, generating incumbent financing opportunities where we know the credits well.

5. In the broader credit market, ESG is becoming more of a focus. Is Antares under pressure to incorporate ESG into investment decisions, and on a practical basis how do you do that in a space like private credit?

Yes, ESG has certainly come into sharper focus in recent years. From a credit perspective, we've always incorporated elements of ESG into our due diligence processes.

Areas that have always been a concern for us include guarding against unforeseen environmental liabilities, or governance issues like fraud, and worker or product safety. We believe the assessment of such factors is critical to making sound credit decisions.

What is newer for us is an increased focus on certain areas that have come to the forefront such as cybersecurity, more mindfulness around climate-related risks and greater awareness around social-related areas. We have also become more methodical and transparent in our ESG documentation. As a PRI signatory, we have developed more rigor around our policy and procedures which are continuously reviewed and refined by our ESG working group.

As far as specifically how we incorporate ESG into our investment decisions, we have developed a proprietary ESG scorecard leveraging the SASB framework which we use in underwriting. We also evaluate sponsor due diligence and will often engage independent third-party experts depending on the circumstances.
Overall, we welcome the increased focus, awareness and better decisioning that the increased ESG focus brings to the industry.

6. Across the credit markets, documentation appears to be coming into focus as credit headwinds intensify. Are there any specific provisions in credit documents that have become especially contentious in private credit lately?

Documentation terms where there is some friction include call protection, EBITDA definitions and addbacks, MFN provisions, the need for financial covenants, timing on payment of DDTL closing fees and the tightening of leakage provisions.

Not all are "contentious" in today's market, but certainly tightening from prior sponsor precedents. The triggering of MFN and reducing existing incurrence levels on amendments for existing facilities are probably the most contentious.

7. The private debt universe is vast, and can be opaque. How do you stay competitive as a lender and/or arranger when there's so little information available?

We have been in the sponsor-backed private debt space for over 25 years and believe that our strong reputation, relationships and capabilities enable us to see the vast majority of opportunities in our strike zone.

Having early visibility into the widest set of opportunities possible is one form of competitive information advantage. Another comes from having built up one of the largest middle market portfolios in the business that generates a lot of deal opportunity flow where we have an information advantage in knowing the credit very well as the incumbent lender. Experience can also be an information advantage.

We have experienced several cycles during our 26-year tenure, which only benefits our decisioning and ability to support our borrowers and PE sponsors when markets shift.

8. What is on the cards for Antares in 2023? Are you continuing to hire in this environment, or are you pulling back — and why?

Over the course of the last year, we grew the Antares team by over 45 professionals, so today we have more than 400 employees across our five offices throughout North America.

Looking to 2023, growth remains a major focus for us, specifically within our asset management business. We will continue adding to the team in 2023 to support that growth, and to ensure we are well positioned to execute on market opportunities now and well into the future.

We will be announcing appointments to two new roles that will help shape the future of the firm. Both leaders have plans to form teams in 2023 to support their efforts — one is focused on ESG, and the other on building out our broadly-syndicated loan capabilities, something we see as a natural adjacency to our core business model.

9. Tell us how Antares Capital got its name!

Funny story. We were struggling to agree on a name for the firm, and one of our founders was reading an astronomy book one evening and read that Antares is the brightest star in the constellation of Scorpius. He suggested the name to us the next morning, we all agreed on the name and then had to agree on the correct pronunciation*.

**The correct pronunciation is "An-TEAR-ease"*