Antares Capital

Five *in* Five

What started as a promising year with high hopes for robust deal activity has evolved into a more cautious environment, as economic uncertainty and shifting capital flows temper the pace of M&A activity. In this conversation with Antares Capital's Chief Executive Officer, Timothy Lyne talks about the one thing the current climate reveals: the resilience—and rising relevance—of direct lenders.

1 How is broad economic uncertainty, beyond just tariffs, impacting business confidence and shaping demand for direct lenders?

As I said during a recent panel at the Milken Institute Global Conference, it is not just the tariffs. It is the turmoil. While tariffs or sector-specific pressures matter, it is the broader, more persistent uncertainty that is casting a long shadow over business confidence. CEOs are delaying expansion plans and pausing large capital expenditure projects. Add-on acquisitions have slowed. And recession fears are prompting many to favor cash preservation over growth investments right now.

Yet, within this cautionary climate lies an important nuance: deals are still closing, and direct lenders are often at the center of them. When deals do move forward, private equity sponsors want direct lenders. Why? Certainty. In a market where little feels certain, that is a premium.

2 How are shifting dynamics in the private credit landscape affecting deal flow and lender behavior in the middle market?

The key word here is dynamic. Through April, we saw deal flow in the upper middle market slow considerably while the core and lower middle markets remained active, albeit increasingly competitive. Some firms that migrated up-market on the back of mega-fundraisings began to dip back into smaller deals. This has occasionally created distortions: looser documentation terms, flexible EBITDA definitions, and pricing that doesn't always reflect risk.

That said, if the anemic new issuance in the broadly syndicated loan market that began post Liberation Day continues, direct lenders who can move up market will likely find attractive opportunities.

No matter where the deal flow is taking place, this dynamic environment is where we think experienced direct lenders have a distinct edge. Strong market positioning and deep familiarity with the segment allow seasoned players to remain selective and disciplined. We see nearly every middle market deal at Antares—but close just 4%. It's about quality, discipline, and strategic fit.

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> ***Timothy Lyne***
> *Chief Executive Officer*

3 What does the rise in debt-to-equity conversions reveal about lender behavior and sponsor dynamics in today's slowing economic environment?

The effects of this economic slowdown are visible but not yet alarming. Our internal watchlists remain moderately elevated with idiosyncratic areas of stress, but there are no indications of broad-based distress. There has been a modest uptick in debt-to-equity conversions when sponsors are unwilling to invest more capital, but experienced lenders expect this type of uptick and are equipped to take ownership and work closely with management teams to address issues in order to maximize recoveries.

4 As you look ahead, what do you see in 2026 and beyond?

Despite the current slowdown in M&A, the pent-up need to do deals is building. A recent valuation snapshot from Lincoln International, our third-party valuation firm, revealed that 60% of the companies being valued for direct lenders were acquired in 2021 or 2022. In fact, according to Pitchbook, there are ~3,800 U.S. PE-backed companies held for 5-12 years that will be looking for an exit, especially as pressure builds to return capital to LP's who otherwise will be loath to participate in future PE fundraising rounds. That sets the stage for a wave of exits in 2026 and 2027, assuming performance holds.

Also, for direct lenders, the opportunity isn't limited to traditional deal flow. We see a fast-emerging frontier is the credit secondaries market. Much like private equity secondaries, these transactions provide liquidity to LPs or GPs seeking to rebalance portfolios. For lenders who know the assets well, it isa natural—and highly strategic—extension of what we already do.

We believe that the credit secondaries market could grow 20% annually over the next few years, and we are preparing for that.

5 Summarize the "big picture" for direct lending.

Uncertainty has dented deal activity in 2025, but direct lending's value proposition, including speed and certainty of execution, tends to shine best when markets are volatile. Meanwhile, the longer term outlook remains quite bright, with direct lending continuing to grow and evolve to meet the needs of both borrowers and investors.

In a time of uncertainty, steady hands are not just reassuring – they are essential.

ABOUT *Antares Capital*

Founded in 1996, Antares has been a leader in private credit for nearly three decades. Today with approximately $80 billion* of capital under management and administration as of December 31, 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 **www.linkedin.com/company/antares-capital-lp**.

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