Antares Capital

OF PRINCIPAL INTEREST

Antares’ Perspective on Software and AI

Artificial intelligence is evolving enterprise software, and recent market swings capture both the optimism and the uncertainty surrounding that shift. For private credit investors, the key issue isn’t whether AI will be a factor—it’s how to underwrite that transformation with rigor and discipline.

Top Five Takeaways

1. Mission Critical Software Remains a Resilient and Important Allocation

Despite AI-driven disruption headlines, Antares believes enterprise software continues to represent an attractive and resilient segment of the economy.

These businesses typically feature recurring revenue, high margins, and strong cash flow characteristics. Importantly, Antares maintains conservative loan-to-value (LTV) levels. Even under stress scenarios (e.g., a modeled 20% valuation decline), LTVs remain in a manageable range of ~40%. Historically, software investments have also demonstrated lower loss rates relative to non-software deals.

2. AI Is a Disruptor — But Not the End of Enterprise Software

AI is already impacting certain use cases, particularly those involving repetitive, automatable tasks (e.g., customer support, software development assistance). However, Antares’ view is that the long-term AI impact is likely balanced — neither total displacement nor overhyped irrelevance.

Enterprise software vendors retain key advantages:

- Established client relationships
- Proprietary data sets
- Deep workflow integration
- Vendors have access to the same underlying AI models

For complex, integrated, ROI-driven use cases, enterprise software is expected to remain critical — increasingly AI-enabled rather than replaced.

A CONVERSATION WITH FEATURED SPEAKERS

In a recent video, Antares executives outlined the firm’s approach to evaluating AI through a credit lens.

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View video

3. Three Primary Ways AI Could Impact Software Vendors

Antares identifies three main risk vectors:

1. **AI-first competitors** offering cheaper, more efficient solutions
2. **In-house development** by customers using AI tools
3. **Pricing model disruption**, including potential shifts from seat-based pricing to usage- or success-based models, and possible seat reductions due to automation

Rather than making binary bets, Antares continuously monitors these risks and evaluates both displacement potential and monetization dynamics as part of underwriting and portfolio oversight.

4. Antares' AI Risk Frameworks Drive Disciplined Underwriting

Antares has developed two internal AI risk frameworks — one for software and one for non-software companies. These structured tools are designed to:

- Surface AI-related risks that may not be immediately apparent
- Ensure consistency across deal teams
- Support risk-adjusted investment decisions

For software companies, key focus areas include displacement risk, in-house substitution risk, and pricing model evolution.

For non-software companies, the emphasis includes repetitive, human-centric business models, supply chain shifts, and competitive landscape changes. These frameworks are "living documents," regularly updated as AI evolves.

5. Experience, Diversification, and Leadership Position Antares to Navigate Change

With nearly 30 years of experience underwriting through multiple technology cycles — from the dot-com era to cloud adoption — Antares applies the same disciplined credit approach to AI-related risks.

Software exposure represents approximately 15% of Antares' total capital under management, diversified across more than 100 borrowers and primarily structured as first-lien senior secured loans with meaningful equity support. Even under modeled valuation stress, loan-to-value ratios remain within conservative parameters.

Conclusion

AI marks a significant technological shift—and reinforces the importance of disciplined underwriting. At Antares, our approach remains consistent: identify displacement risk early, structure investments conservatively, and diversify exposure across companies and sectors. Technology cycles evolve. Credit discipline does not.

ANTARES SOFTWARE PORTFOLIO

100+
deals with 50+ unique sponsors

$13.6B
in commitments

15%
of Antares' total capital under management and administration

Antares Capital

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